Investor Update

Q1.2020

WUNALA CAPITAL

Wunala Capital Pre-IPO Investments

Introduction

Welcome to the first investor update for Wunala Capital.

Wunala Capital was formed to invest in high-growth companies at the pre-IPO and IPO stage. We aim to find and support successful companies that are on track to go public within 6-18 months. We typically invest via structures that reduce downside risk and maximise returns, such as convertible notes or preference shares.

To develop a track record Wunala Capital will identify a number of transaction opportunities and will create single-asset entities to hold each position. We plan to create a formal unit trust fund later in the year.

Key Updates

Wunala Capital has created the first of its single-asset entities which has closed its first investment - see next tab.

We are actively engaged with a number of other companies on pre-IPO investments, especially given the IPO window appears to be currently closed as the markets try to understand the impact of the COVID-19 pandemic and the associated shutdowns of various industries.

Notable Transactions

In February, Wunala Capital made its first pre-IPO investment. Laybuy is a NZ-based buy now pay later (BNPL) company that is rapidly growing and in a market sector primed for significant growth.

Laybuy was formed by experienced retail executives in 2017 and has since become the market leader in NZ. While this is admittedly a small market, it provides a valuable testing ground for its product development as well as cash generation to invest in international growth. Of particular interest we believe Laybuy has a real opportunity to carve out a significant market share in the UK, a huge opportunity.

We also believe that unlike some other tech trends (search, social media etc.) there is little to no network effect for BNPL players. This means there is room for more than just the top 1-2 dominant firms to carve out a profitable niche, and also positions junior players as potential M&A targets should one of the giants (Afterpay, Zip, Klarna etc.) find their organic growth slowing and need to grow via acquisition.

Wunala's investment was structured as a convertible note (our preferred type) and the company is planning to list on the ASX later this year. We will monitor their progress closely and if our conviction increases will look to commit additional funds to the IPO.

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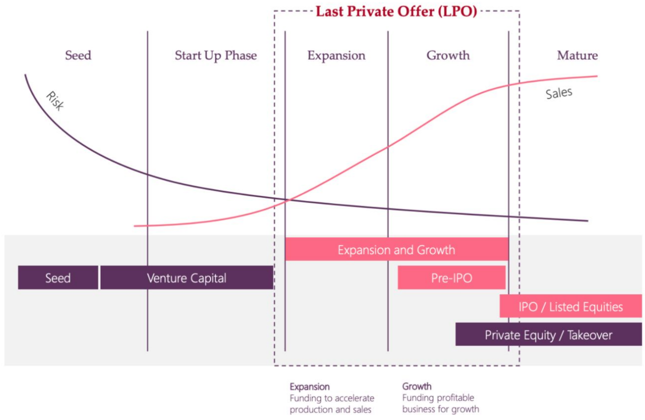
In Depth - Why Pre-IPO?

Investors have typically had only a few ways to access high growth private companies - invest in Venture Capital funds, or attempt to go direct.

Each of these approaches have their pros and cons but for both you need both a lot of money and plenty of patience. Most VC funds do not accept retail punters (i.e. mums and dads) or even wholesale/sophisticated investors, and pretty much only deal with wealthy family offices, institutions and super funds. They will also usually have 5, 7 or even 10 year lockups - meaning you have to wait at least this long before seeing your cash returned (hopefully).

Meanwhile to go direct takes even more legwork to identify, meet and analyse companies and work out where to invest. This is usually high risk and illiquid and unless you are experienced there are plenty of ways to make mistakes.

This has led to the rise of "Pre-IPO" investing which neatly straddles the divide between venture capital and the public markets:



Source: Perennial

These investments are typically in **later-stage** companies that have a product, are generating revenue, and need capital to accelerate their growth. They may also be actively thinking of an IPO or other liquidity event.

Next time - how to invest in Pre-IPO.

Commentary

The recent market sell-off in response to the emerging COVID-19 pandemic, and more importantly the implications of the wide-scale shutdowns of entire swathes of the economy, highlight the volatility that comes with investing in the public markets. Prices as recently as February were hitting all-time highs (ASX, NASDAQ etc.) before plunging over 30% in the matter of weeks.

I am reminded at these times of the investing mantra to "be brave when others are fearful". It takes courage to invest when the entire screen shows red, but history has shown that those willing to do their research, act with conviction and back their analysis generate outsized returns over the medium term. We will look very carefully at opportunities in the short term, but our strategy of investing in quality companies means that we don't need to perfectly time 'catching a falling knife' - quality and growth will deliver attractive returns over the medium term and beyond.

Thank you again for your interest and support of Wunala Capital.

Regards,

Scott Wilson
Managing Partner

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