

CHESAPEAKE CAPITAL

June Quarter 2019 | Investment Update

About Chesapeake Capital

Chesapeake Capital Limited (“**Chesapeake**” or the “**Company**”) is a Pooled Development Fund (“**PDF**”) that seeks to invest in a concentrated portfolio of generally listed companies, through the provision of new equity capital under the PDF framework so as to generate returns in excess of the S&P Small Ordinaries Accumulation Index. PDFs can only invest in companies with total assets of less than \$50m (but can retain investments if investee’s assets subsequently exceed \$50m, subject to Innovation Australia approval). The investment framework can be summarised as:

- Investments must be made by subscribing for new ordinary shares.
- Investments by a PDF must represent 10% or more of the “Issued Capital” of the investee company.
- Individual investments cannot constitute more than 30% of the PDF’s “Issued Capital.”
- In securing a variation to its Investment Plan from Innovation Australia, Chesapeake Capital Limited may “acquire less than 10 percent of the shares in an investee without first seeking approval from the Board” in the following circumstances:
 - where the PDF co-invests with another PDF, and they concurrently invest at least 10 percent of the total of all amounts paid on the shares in the investee company; and/or
 - where the PDF invests at least \$500,000 into the investee company.
- PDFs cannot invest in businesses whose primary activities are retail operations or property development.

Performance Update

As at 30 June 2019	Mar '19** Quarter	Jun '19** Quarter	FY'19**	FY'18	FY'17	FY'16
Chesapeake Capital Limited*	+17.7%	+19.7%	-6.2%	-5.6%	+9.2%	+45.7%
Small Ordinaries Accumulation Index	+12.6%	+3.7%	+1.9%	+24.2%	+7.0%	+14.4%
All Ordinaries Accumulation Index	+11.1%	+7.8%	+11.0%	+13.7%	+13.1%	+2.0%

* Initial investment capital available from late June 2015 was \$1.51m so returns have been calculated from that reference point. ** Unaudited

Overview

A tough year that one. We have not been shy in sharing our first half travails of going “over the falls” but we are pleased to report a second half recovery and we now find ourselves with unaudited Net Assets at 30 June 2019 of \$3.1m, up 19.7% for the June Quarter, with almost \$1m in cash at hand implying a capacity to make 2 new \$500,000 investments.

The troika of land mines visited upon us during the year have been written down to circa \$0.3m in carrying value (last sale/last raise) subject to audit. All 3 continue to exist and it’s for their respective Directors and/or various unassociated Advisory Firms to show some “mettle” and “resuscitative” endeavour to attempt to turn a negative into a positive for investors like us. We thought we had backed the right teams alongside the substantial capital raised by Advisers into those endeavours. They highlight the setbacks that can come with the territory when a portfolio is concentrated as the \$500,000 “minimum entry investment threshold” entails. We move forward and it feels much better to be “sitting out back in the line-up with sun on our faces”.

The **Next Science Limited** investment worked out very well and into share price strength we sold 60% of the initial \$500,000 investment such that the remaining holding constituted circa 27% being \$822,000 (on a cost basis of \$200,000) of the 30 June 2019 portfolio. A high calibre Board is at work here and it occurs to us that sales growth and product launches could give rise to significant share price growth over the next 2 years although we expect share price volatility in these early stages.

The next largest investment is **Babylon Pump and Power Limited** (17%). There was little to report during the Quarter itself, save adding that the investment is yielding circa 3.7% on our total cost with the share price finishing the year at 1.7¢ per share. However, post 30 June the final quarterly report for FY'19 highlighted unaudited revenues of \$10.3m versus guidance of \$7m and positive EBITDA for the year which met a management performance hurdle. Subsequently, the Company announced a Queensland acquisition (up front component of the consideration of \$2.3m includes \$600,000 of shares at 2.4¢ per share) and a combined FY'20 revenue target of +\$25m. The business has delivered above expectations in its first full year and the acquisition is complementary and delivers scale. We like the thematic moving forward. We subscribe to the proposition that price and value will come to align over the next 12 months with delivery where the acquisition appears unlikely to detract from analyst’s 6¢ per share valuation with the share price trading at 2.4¢ (our cost was 2.0¢).

Having invested \$500,000 into **Breaker Resources NL**, we retrieved circa \$300k in cash. The remaining investment was valued at circa \$320k at 30 June 2019 representing just over 10% of the portfolio at 30 June. Breaker delaying its resource upgrade unsurprisingly set the share price back and as a consequence it wallowed for some time. But as July emerged another round of drill results reacquainted the market with the underlying potential of this discovery with the share price lifting back into the low 40¢ region. The resource upgrade can’t be far away. With A\$ Gold now around A\$2,030 per ounce and an orebody seemingly open in all directions, perhaps a EV/ounce of \$80 to \$100 might frame the next share price target if the resource upgrade is consistent with analyst targets of 1.8m ounces (from 1.1m oz) .

Podium Minerals NL has broken its protracted inertia by undertaking a small rights issue to fund drilling to grow its resources base from 740,000 oz 3E PGM towards an Exploration Target of 3.1m to 5.8m ounces. The raising as anticipated to fund resource expansion through 1m ounce opening a pathway to the next target of 1.5m to 2.6m ounces down to 100 depths. Down to 200m The Exploration Target is 3.1m to 5.8m ounces. An EV/ounces of \$10 looks a bit cheap to us where an expansion in both ounces and the EV/ounces opens up considerable upside in the event that this target gets delivered.

We are currently actively considering two new IPO opportunities that fit within the investment framework.

Firstly, the **M8 Sustainable Limited (M8)** IPO, which is to raise \$16m to be capitalised at \$43m. M8 is an established, integrated and sustainable work management business underpinned by a high quality portfolio of Western Australian waste management assets. M8 will be driven by a strong and experienced Board which includes ex-Toxfree Directors Robert McKinnon and Richard Allen.

Freestyle Technology Limited ("Freestyle") is a leader in utility scale SaaS based monitoring of devices in the gas, water and utility sectors in Asia/Pacific. Freestyle is a Melbourne based infrastructure technology company, with established operations in the Australian, Japanese, Taiwanese, South Korean and Philippine markets with technology deployed to > 49,000 homes.

- Long-term contracts with 18 major utilities, municipalities or OEM customers in large and growing markets.
- Operating the largest digitally monitored networks in Taiwanese gas, South Korean water and Australian residential gas, and has licensed the largest gas meter manufacturer in Japan.
- 80% pa growth in connected devices, with ~69,000 connected / contracted household and business connection points across the gas, water, and electricity (including microgrids) sectors in Asia Pacific.
- Existing contracts provide the opportunity to connect to up to 25 million households if fully deployed.

Chaired by Alan Stockdale, former Victorian State Treasurer and Minister for IT and Multimedia, Freestyle, post an IPO of \$7m, will be capitalised at circa \$36m.

In December we shared an appetite to seek to introduce an Executive to build the business and outcomes of Chesapeake for all. For obvious reasons we put that endeavour into abeyance but now finding ourselves where we are, we propose to reopen that consideration mindful of the low cost we run things on as large shareholders.

Investments

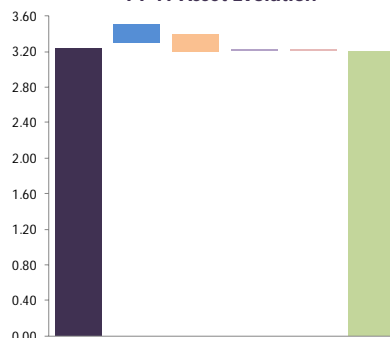
Corporate Snapshot

This snapshot reflects Chesapeake's evolution since inception with a detailed look at FY'19 and the make-up of its asset base as at 30 June 2019. The unaudited NTA was \$3.10m (22.2¢ per share) with cash of circa \$1m.

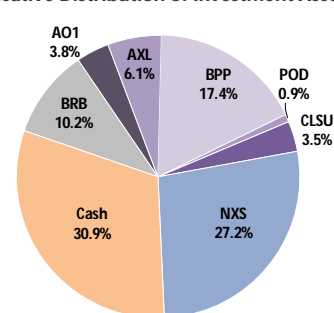
Directors	Position	Related Shareholding
James Cullen	Executive Chairman	14.9%
Aaron Constantine	Non Executive Director	19.9%
Ian Macliver	Non Executive Director	4.8%
Bernard Romanin	Non Executive Director	0.3%

As At 30 June 2019	\$'m
1 Jul 18 Opening Net Assets	3.26
New Capital (from end March)	0.19
Investment Gains	(0.36)
Operating Costs	(0.06)
Taxation Benefit	0.07
Net Tangible Assets	3.10
Shares on Issue:	14.00m
Number of Shareholders:	523

FY'19 Asset Evolution



Indicative Distribution of Investment Assets



	30 Jun '15	30 Jun '16	30 Jun '17	30 Sept '17	31 Dec '17	31 Mar '18	30 Jun '18	30 Sept '18	30 Dec '18	31 Mar '19	30 Jun '19
Net Tangible Assets (\$'m)	1.51*	2.20	3.19	3.17	2.99	3.23	3.26	2.76	2.03	2.59	3.10
NTA per Share (¢)	17.0	24.6	26.8	26.6	25.3	27.1	24.7	21.1	15.4	18.5	22.2
Change in NTA per Share (%)	N/A	11.3	-13.1	-0.6	-6.1	7.2	-8.8	-15.4	-26.4	20.1	19.7
S&P/ASX All Ordinaries Accum Index (XAOAI)	47,575	48,530	54,897	55,460	60,007	57,791	62,434	63,599	57,887	64,292	69,326
S&P/ASX Small Ords Accum Index (XSOAI)	5,352	6,122	6,552	6,841	7,776	7,560	8,140	8,230	7,102	7,997	8,296
S&P/ASX Emerging Companies Index (XEC)	1,003	1,277	1,221	1,307	1,522	1,482	1,479	1,421	1,181	1,333	1,411

* Initial net investment capital available

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