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RESEARCH

RiverFort Global Opportunities

24th May 2021

A stock for all seasons – income generating venture debt portfolio complemented by equity upside from convertibles, warrants and high impact pre-IPO investments

RiverFort Global Opportunities (RGO) is an AIM listed investment company which invests via venture debt instruments in small cap companies across a range of sectors and stock exchanges. Returns are generated for shareholders via a mix of interest and fee income on venture debt instruments, along with equity upside from direct equity investments, warrants and conversion rights. More recently, RGO has been looking for further upside potential by investing in high impact growth companies, at the pre-IPO stage, with a particular bias towards the technology sector.

■ Venture debt portfolio provides stability & upside potential

RGO provides capital in the form of venture debt and/or equity-linked debt instruments such as convertible loans. Unlike conventional debt financing methods, venture debt generally does not require collateral because growth companies generally do not own substantial tangible assets that can be used as such. Investors are compensated for this by receiving equity warrants in the company to balance the higher-risk nature of the debt instruments. This form of financing provides RGO with both downside protection and equity upside potential, along with a stream of income coming from debt interest and arrangement fees. The company typically receives warrants which can significantly increase the level of investment return.

■ Focus on high impact pre-IPO investments provides further upside

Recognising the high valuation multiples currently being achieved in public markets, RGO has been increasingly looking to make investments in companies operating in fast growing industries, such as technology, at the pre-IPO stage of their development. This is to benefit from valuation increases associated with subsequent sales or IPOs. Two such investments have been made to date, in digital assets and crypto technology company, Pluto Digital Assets and Artificial Intelligence (AI) based cyber-security business, Smarttech247. Both companies are planning to go public in the coming months, providing likely near-term valuation uplifts along with long-term growth potential.

■ Significant upside remains despite share price rise

We believe that RGO's current market valuation is completely backed by its existing assets, with minimal value being attributed to its warrant portfolio (including warrants in Kodal Minerals, Pires Investments, Canadian Overseas Petroleum, and Invinity Energy Systems); and the potential upside from the upcoming IPOs of Pluto Digital and Smarttech247. RGO has the potential for significant additional value accretion from: the potential for these two companies to go on and grow their operations and valuations; and the opportunities to exercise and crystallise gains on the warrant portfolio. RGO also offers income attractions, with a dividend yield of 3.53% implied for 2020. We initiate coverage with a stance of **Speculative Buy**.

SPECULATIVE BUY



Key data

EPIC	RGO
Share price	2.05p
52 week high/low	2.25p/0.725p
Listing	AIM
Shares issued	775,404,187 post placing
Market Cap	£15.9m post placing
Sector	Investment

12 month share price chart



Analyst details - Richard Gill, CFA

richard.gill@alignresearch.co.uk

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Corporate Background

RiverFort Global Opportunities (RGO) has been around as a listed entity since 1994, going through several name and strategy changes since then. The key recent development came in January 2018 when the then named Paternoster Resources entered into an advisory arrangement with RiverFort Global Capital, the specialist provider of capital to junior companies. This arrangement gave RGO the opportunity to invest in transactions arranged by RiverFort alongside other co-investors. At the same time, £850,000 was raised from private and institutional investors at an adjusted price of 1.0p per share to provide it with additional investment funds.

Management then quickly took steps to revise its strategy and to de-risk the portfolio. The existing focus on the provision of capital to junior listed companies was widened to include investments that provided both income generation and downside protection, as well as warrants to provide further upside potential. At the same time, a review of the company's cost structure reduced annual administration expenses with all outstanding option arrangements also being cancelled. This strategy soon bore fruit, with losses after tax for the first half of 2018 reduced to £97,482 compared to a loss of £793,959 for the same period in 2017. In June 2018 a further £4.5 million was raised at the equivalent of 1p per share, with the funding being oversubscribed, and in October 2018 another £500,000 was raised.

Given the company's access to RiverFort Global Capital's proprietary deal pipeline and its co-investing activities with Riverfort Global Opportunities PCC Ltd (an Experienced Investor Fund regulated by the Gibraltar Financial Services Agency), in November 2018 the decision was made to change its name to RiverFort Global Opportunities. Around the same time RGO also expanded its investing policy to include the healthcare and technology sectors. Further, in February 2020, after seeing an increasing number of attractive investment opportunities in both the property and specialist industrial sectors, the company further expanded its areas of investment focus.



RIVERFORT

Current Investment Strategy

As of today, RGO can invest in a number of sectors including natural resources, energy (including power generation and transmission), healthcare, technology and financial services sectors. By geography, investments anywhere in the world are considered but with a particular focus on Africa, South America, Australasia and Central and Eastern Europe. Where appropriate, the company is prepared to take an active role in its investments. The main focus is on investments of c.\$3 million to \$10 million on a syndicated basis.

In terms of investment instruments, RGO mainly invests in the form of venture debt (including preference equity, mezzanine debt, convertible debt, term debt and bridging debt). This provides investors with both downside protection and equity upside potential, along with a predictable stream of income coming from debt interest and arrangement fees. Also providing equity upside, when making its investments, RGO seeks warrants which can significantly increase the level of investment return. **In reaction to buoyant equity markets, in the past few months RGO has also been focusing on pre-IPO growth opportunities with near-term IPO potential. This provides additional significant equity upside potential opportunities, balanced by the stable income generating debt side of the business. This is a business model which we believe to be unique on AIM in terms of offering this kind of investment exposure.**

Current Portfolio

Venture Debt

As at 30th September 2020, the last reported balance sheet date, RGO held venture debt instruments to the value of just over £4.3 million. Investments are either made directly by the company or by way of participation certificates in RiverFort Global Opportunities PCC Limited, a Gibraltar based fund. Participation certificates are a linked financial instrument that provide similar economic benefits to the holder as if they were co-investing directly in the underlying investment.

In the context of the investment portfolio as a whole, these instruments act as a stable profit and cash generator, which over the past two years or so have consistently covered administration expenses and delivered cash profits. This strategy has tended to perform well in times when funding is scarce for small growth companies, as it was following the equity markets crash in Q1 2020 due to the pandemic related sell off. Such times generally improve the investment opportunities available for RGO in terms of risk and reward.

The most recent full year results (FY2019) stated that the company had a portfolio of 17 such investments at the period end. These included loans to companies including London listed resources and energy companies Jubilee Metals, Savannah Petroleum, Infrastrata, Angus Energy and UK Oil and Gas.

During 2020, investment activity continued with the perhaps the major deal being a substantial investment in Tanzanian Gold Corporation (TanGold), completed in July. Under the deal, RGO participated for up to \$1.72 million in a \$14 million mine finance package arranged by RiverFort Global Capital for TSX and NYSE listed TanGold, which had a market capitalisation of c.\$180 million at the time. The package comprised a convertible loan of up to \$14 million to be drawn in a number of phased tranches linked to TanGold's capital expenditure plan. RGO will make a return from this funding through a combination of interest income, equity conversion upside and warrant exercise.

In December 2020, RGO advanced \$150,000 to AIM listed gold mine developer Kodal Minerals prior to completing due diligence on a proposed \$2.5 million funding package. However, with Kodal completing a £3.5 million equity placing in March 2021 the additional funding was not completed. The initial amount advanced will be repaid at the end of October this year.

Equity, Warrants and Other Investments

As at 30th September 2020, RGO had equity and other investments valued at £1.425 million. The largest holding by far is 26,149,993 shares in AIM listed **Pires Investments (PIRI)**, giving RGO a 17.48% stake. RGO also owns around 10,000,000 warrants in Pires, received as part of a fundraising in April 2020, exercisable at 4p for a period of two years from their date of issue.

Pires Investments

Pires is an investment company which has built up a portfolio of c.15 direct and indirect interests in next generation technology businesses with significant growth potential. These operate across areas such as Artificial Intelligence, Internet of Things, Cyber Security, Machine Learning, Augmented Reality and Virtual Reality, Big Data and digital assets.

Investee companies include: Low6, which offers a white-labelled mobile sports betting platform to sports teams; Getvisibility, which has developed proprietary software that uses artificial intelligence to discover, classify and protect unstructured data; and Precog, which offers a security solution that can monitor people flow. Recently, Pires made an initial investment in the digital assets sector via Pluto Digital Assets (see next page). Pires also has a direct and indirect holding in Sure Valley Ventures (“SVV”), which itself is a venture capital fund with 13 holdings focused on investing in the software technology sector.

Pires believes its investments demonstrate evidence of traction and the potential for exponential growth due to increasing global demand for development in its chosen sectors. Investments have tended to be at the seed stage of company development to help grow them towards their next funding rounds and enable rapid growth in revenues.

The last financial year (14 months to 31st December 2020) was a good one for Pires with c£1 million raised in the April 2020 placing to support its investment strategy. A return of €804,000 was achieved from the sale of Artomatix, one of the companies within the SVV portfolio, sold at a valuation c.500% ahead of the price of the original investment in the company. **Since the year end, an uplift in the value of several portfolio companies has seen Pires shares rise substantially, from c.6p to a current level of 9.8p, valuing RGO’s equity stake at c.£2.56 million.**

Warrants

A key part of the upside potential from RGO’s investments comes in the form of the warrants it actively seeks out and receives as part of agreed investment packages. To give one example of the returns potential here, in Q2 2020, the company exercised warrants it held in AIM listed alternative energy company EQTEC (EQT) with the shares received then being sold at a price 92% higher than the exercise price.

On 6th August 2020 RGO was keen to point out the potential of its warrant portfolio, announcing a short statement to that effect. As at 31st July 2020, the portfolio included warrants in 23 different companies, with nine of these positions being in the money at the time. **However, the value of the warrants is potentially much greater than currently recorded on the company’s balance sheet.**

Classified as a Level 3 asset under fair value accounting rules, the company’s warrants are valued using the Black-Scholes option pricing model. **The resulting figure is then discounted by 75% to reflect the warrants being untraded derivatives and the underlying equity securities being traded on junior markets such as AIM and the TSX.** As such, returns are only realised when the respective warrants are exercised and resulting shares sold.

Pre-IPO Opportunities

Pluto Digital Assets

Being keen to increase its exposure to the technology sector and to high growth pre-IPO stage opportunities with near-term IPO potential, in February 2021 RGO invested £300,000 for a 7.5% shareholding in digital assets technology company, Pluto Digital Assets. This was part of a £2.5 million fund raising at 3p per share, valuing Pluto at £4 million. The round was also backed by London listed crypto miner Argo Blockchain (ARB), which acquired a 25% stake for £1 million.

On 4th March 2020 RGO invested a further £700,000 as part of an additional \$40 million (c.£29 million oversubscribed fundraise at 6p per share, giving it a post raise direct stake of 4.2% in Pluto. This second fundraise valued Pluto at c.£33.2 million.

Pluto is a technology development, advisory and specialist operator in digital assets. The company provides exposure to a diversified portfolio of well-established cryptocurrencies such as Bitcoin, Ethereum and Polkadot and new high growth decentralised technologies and projects based around the Web 3.0 infrastructure including Ethereum and Polkadot ecosystems, with a particular focus on decentralized finance (DeFi).

Pluto seeks to democratise participation in cryptocurrency markets and the blockchain space, with its senior leadership team having a wealth of experience in establishing successful cryptocurrency and blockchain ventures. Some of the most notable projects they have invested in include the YOP Platform and Protocol, a DeFi project launched on the leading IDO platform Polkastarter. Pluto will generate income from its operational activities of running nodes, mining, staking, liquidity provision and via its engagement with other DeFi protocols.

Using the proceeds of the fundraisings to date, Pluto has been actively participating in new token issuances at seed pre-IDO (initial DEX offering) level, incubating projects, and holding strategic and treasury positions in digital assets. Since launch, the company has expanded its portfolio to include 16 different digital assets including BTC (Bitcoin), ETH (Ethereum), AAVE (Aave), DOT (Polkadot), KSM (Kusama), POLS (Polkastarter), LINK (Chainlink) and UMB (Umbrella Network) and, by using its access to deal flow, a number of new digital assets such as OXY (oxygen), Boson Protocol (BOSON), FCL (Trust Fractal) and VTX (Vortex DeFi) which have recently listed. Pluto has already delivered returns from its activities in digital assets such as DOT, UMB, OXY and VTX and has been progressively building out its management and operating team. Pluto is also involved in Defi Yield Farming which generates income and also in the non-fungible token (NFT) collectibles market and is currently curating a private collection, with the first pieces expected to be unveiled shortly.

Pluto has said that it is currently preparing for a stock market listing, with proposed director and Argo Blockchain CEO Peter Wall recently telling the media that the company is looking to list in the near future, although no official documentation or statement has yet been released. **With the current excitement surrounding cryptocurrencies we believe there could be a significant uplift in value on that event, especially in the midst of the recent \$86 billion IPO of crypto exchange platform Coinbase. Further reflecting the excitement over the sector at present, Pluto has been keen to point out that it managed to raise \$50 million from investors within just 50 days of incorporation.**

Smarttech247

On 10th May 2021, RGO announced an investment into Artificial Intelligence (AI) cyber-security cloud business Smarttech247. The terms of the deal saw RGO invest €1.4 million as part of a €2.5 million convertible loan which is convertible upon an IPO of the company and pays a coupon of 5%. At the same time, RGO raised £1.64 million for itself via a placing of 96,470,587 new shares at a price of 1.7p each, with the funds being used for the Smarttech247 investment and other opportunities.

Founded in 2011 by CEO Ronan Murphy, Smarttech247 is a multi-award-winning MDR (Managed Detection & Response) business and a market leader in security operations, helping its global client base to proactively defend themselves against cybercrime as they migrate to cloud based technology operations.

Using its AI based cyber-security platform. Smarttech247 offers a number of services to clients including: MDR – finding threats across a network and helping to shut them down; Penetration Testing - analysing the strength of clients' network security using vulnerability exploitation methods; Governance, Risk & Compliance – making sure that regulatory requirements are met; Incident Response – reacting to specific attack events; and Cybersecurity Awareness – training employees against hacking, malware, Phishing & other online threats.

The company's platform is widely adopted and integrated with leading cloud systems, security systems and devices and Smarttech247 is certified to ISO9001, ISO27001 and the UK government's Cyber Essentials scheme standards. As well as Ireland, Smarttech247 has offices in the UK, Romania, Poland and the US, employing over 80 people. The client base amounts to around 50, including blue-chip names such as AIG, Centrica and Sysco, with 100 partners including the likes of IBM and Microsoft.

Smarttech247 has a successful track record of revenue growth and profitability within the fast growing wider cyber security industry. **A recent report from analysts at MarketsandMarkets suggested that the global cloud security market size was worth \$34.5 billion in 2020 and forecast to grow at a CAGR of 14.7% to \$68.5 billion by 2025.** Many factors are driving the market including ongoing growth of cloud computing adoption amongst businesses, an increasing number of security breaches and cyber attacks, along with requirements to follow regulatory and data protection laws.

Further strong growth is being planned for, with Smarttech247 having an ambition to become Europe's leading cyber security company. Mid-sized firms in the UK and certain European markets are being targeted as new clients, with the company looking to win new business by providing a more cost effective and comprehensive solution compared to its competitors. Having a highly scalable platform, new clients are able to be added quickly as they adopt cloud based technologies. Average revenues per client are c.£70,000, with churn being minimised by the company building up comprehensive threat intelligence and security capability specific to their environment. To support growth, investment is being made in proprietary AI systems to automate the processes of cyber security management, in expanding the sales team and new product launches.

While no valuation for the planned IPO has yet been announced we note that investors are currently hungry for cyber security companies, which are securing high market valuations on the back of the high forecast global growth rate (see more on page 10). This was demonstrated by the recent London listing of AI cyber security firm Darktrace (DARK). The company saw significant investor interest in its IPO, raising a total of c.£190 million on its LSE IPO at a valuation of £1.7 billion. The shares have since risen to 325p, valuing the company at c.£2.2 billion.

Financials & Recent Trading

Since 2018, RGO has grown into a consistently profitable business. For the year to 31st December 2019 a profit from continuing operations of £623,690 was posted, turning round the previous year's loss of £0.73 million. This was on the back of investment income rising by 73% to £0.89 million and the previous year's net loss on changes in the fair value of investments of £0.93 million reversing into a £0.13 million gain. Net assets over the period rose by 8.6% to £7.88 million.

RGO's most recent results covered the six months to June 2020 and showed another period of profitable trading and an increase in net asset value. Total income for the period amounted to £0.77 million, with £0.51 million coming from investment income, £0.18 million from changes in the fair value of financial instruments and a £77,075 forex gain. After administration expenses of £0.188 million and a modest exchange rate loss, that resulted in a net profit of £569,165, up by 34%, with cash generated of £555,173. Net assets stood at £8.45 million at the period end, up by 7.2% since the start of the year, giving a NAV per share of 1.24p. Of this, cash resources amounted to £3.26 million, providing substantial funds for further investment in H2 and beyond.

During the period, uncertainty created by the Covid-19 pandemic initially led to RGO holding back on its level of capital deployment with the focus being on recovering cash from its investments in order to reduce the level of risk within its investment portfolio. This was managed successfully and since then investment activity has since increased. As a precursor to paying a dividend, RGO also completed a capital reorganisation during the period with included a 10 for 1 share consolidation and the cancellation of the share premium account, capital redemption reserve and deferred shares.

Q3 update

For the three months to September 2020 total investment income of £669,425 was generated, taking the total for the first nine months of the financial year to £1,439,805. Investment income of £325,000 million for Q3 added to £553,000 from gains in the fair value of financial instruments but was offset by £210,000 of net forex losses. Net asset value rose by 4.3% over the three months, and by 11.9% over nine months, standing at £8,811,519 million at the period end, amounting to 1.298p per share. By investment type the portfolio contained £4.3 million of debt and equity linked debt, £1.425 million of equity, warrants and other instruments, with just under £3 million of net cash. Driving growth was a rise in the share price of Pires Investments along with an increase in value in the rest of the equity, warrant and other investments part of the portfolio.

Q4 update

The company's most recent trading update, reported that trading continued to be positive in the last quarter of 2020. Net profits for the year as a whole are provisionally expected to be in excess of £1.3 million, more than double the £623,690 posted in 2019, with net assets at the period end expected to "exceed" £8.8 million. Results for FY2020 are expected to be announced in May.

The update also hinted at RGO's increasing focus on investing in pre-IPO opportunities. Management commented that, while investment activity had continued over recent months, the buoyant equity markets have provided greater funding competition to the company's own offerings. Evidence of this came in March when the previously proposed \$2.5 million total funding package for Kodal Minerals was not fully advanced after Kodal completed an alternative equity placing. While still actively making structured investments, RGO believes that for the rest of the year it can optimise returns by combining venture debt capital deployment with pre-IPO high impact investments that can benefit from near-term term IPOs.

Management

Philip Haydn-Slater – Non-Executive Chairman

Philip has over 35 years of experience in stockbroking and commodities with a number of well-known stock broking firms. He spent eight years as Head of Corporate Broking at WH Ireland Limited in London, where he was responsible for originating and managing equity transactions, including IPOs and secondary placings for corporate clients on AIM and other international exchanges including the Australian and Canadian stock exchanges largely in the natural resources sector. He has also worked in London and Sydney for various financial institutions including ABN Amro, Bankers Trust, James Capel & Co and Bain Securities (Deutsche Bank) Sydney. More recently, given his wealth of experience, he has acted as an independent director on the boards of a number of public and private companies.

Nicholas Lee - Investment Director

Nicholas read Engineering at St. John's College, Cambridge and began his career at Coopers & Lybrand where he qualified as a chartered accountant. He then joined Dresdner Kleinwort where he worked in their corporate finance department advising a range of companies across a number of different sectors. When he left in 2009, he was a Managing Director and Head of Investment Banking for Dresdner Kleinwort's hedge fund/alternative asset manager clients. Since then, Nicholas has been actively involved with AIM companies and is currently a director of a number of AIM listed companies including, Pires Investments plc and Immotion Group plc.

Andrew Nesbitt - Non-Executive Director

Andrew is a qualified mining engineer and is a consultant to RiverFort Global Capital Limited, the specialist provider of financing to the natural resources sector. He holds a BSc (Eng) Mining and an MBA and has over 20 years of experience in the natural resources sector. He has held various production and technical roles with both De Beers and Goldfields and has carried out a number of feasibility studies across the world with the leading technical consulting group SRK. In addition, Andrew is also an experienced investor, having previously worked as a partner and portfolio manager for Craton Capital Pty Limited, a global precious metals fund with over US\$400 million of assets under management.

Amanda van Dyke - Independent Non-Executive Director

Amanda van Dyke is currently a Managing Director at ARCH Emerging Markets Partners Limited. Amanda has previously worked for South River Asset Management, Dundee Securities, Ocean Equities and GMP as a mining specialist in equity sales. She has an MBA and an MA in international economics from SDA Bocconi. Amanda is also the chairman of Women in Mining (UK), sponsored by Rio Tinto, Anglo American and Glencore.

Director options award

On 12th February 2021, it was announced that directors Nicholas Lee and Philip Haydn-Slater had been incentivised with the award of a combined 33.8 million share options in RGO. We note that prior to this, no option awards had been made in recent years despite the company's growth in profits and net assets. The options had an exercise price of 1p per share and vested 50% upon grant and 50% upon the company's volume weighted average (VWA) share price being 1.5p or higher for a period of 10 consecutive days. The options have a 10 year term and represented 4.98% of the shares in issue at the time.

Key Risks

Exposure to smaller companies

RGO's focus on investments in smaller companies across a range of sectors exposes it to a number of risks which may result in loss of investment. RGO manages this exposure by investing in a broad range of companies and applying strict due diligence before making investment decisions. Should investee companies default on their loans RGO may lose the capital invested and expected interest payments. On the equity side, instruments may not perform as expected, may fall in value and, mainly being listed on junior markets, may be difficult to liquidate. Additionally, some of RGO's holdings are in unlisted investments so the company may find it difficult to liquidate these holdings unless an event such as an IPO or takeover occurs.

Currency risk

Currency risk comes from RGO investing in financial instruments and entering into transactions that are denominated in currencies other than pounds sterling. The main exposure is to US dollars and change in the value of the dollar against the pound having an adverse effect on the fair value of its investments and cashflow on translation. To manage currency risk, RGO uses foreign currency forward contracts.

Valuation

Shares in RGO currently trade at 2.05p, to capitalise the company at £15.9 million following the issue of the placing shares. This represents a premium of c.81% to the indicated NAV as at 31st December 2020 which was said to be in excess of **£8.8 million** in the recent Q4 trading update. However, as discussed below, given developments in the first few months of the current year, we see significant upside potential to this historic NAV figure across RGO's portfolio of investments.

Listed Equity

At the end of December 2020 shares in Pires Investments were trading at 6p. With a current value of 9.8p that represents additional value to RGO of **c.£1 million**. At the current share price, we believe there to be meaningful incremental upside here given the company's underlying portfolio constituents. This view is supported by the number of upward revaluations being achieved by the companies within the Sure Valley Ventures portfolio. Furthermore, Pires recently converted an initial US\$200,000 investment in the YOP platform within the digital assets sector into a £2 million investment in Pluto based on that company's last funding round. This clearly demonstrates the scope for Pires' investments to achieve rapid increases in value.

Warrants

To give just one example of the potential value in the warrant portfolio, as mentioned above, RGO owns around 10 million warrants in Pires Investments exercisable at 4p or £400,000 in total. An exercise and sale at the current price of 9.8p would result in a profit of **£580,000**. Other listed companies in which RGO owns warrants include Whitehawk Limited, Artemis Resources Limited, Tanzania Gold Corporation and Canadian Overseas Petroleum Limited. Many of the other warrants held by RGO have seen a similar increase in value to that seen by Pires.

Pre-IPO Investments

We believe that each of the current pre-IPO investments have the potential to be worth more than the current market capitalisation of RGO.

Pluto Digital Assets

To date RGO has invested £1 million in Pluto Digital Assets for a 4.2% direct stake. At Pluto's last funding round valuation of c.£33.2 million that values RGO's stake at £1.394 million or a **£0.394 million** uplift on investment. With Pluto planning to go public in the short term, this provides another opportunity for a valuation uplift. As yet we do not know the kind of valuation Pluto is seeking upon listing, nor the effect of dilution on RGO's stake. Further long-term potential exists should Pluto successfully execute on its strategy. To give one example, a number of forecasters have indicated a medium-term potential for Bitcoin to achieve a price of \$250,000. If that happens, and on a comparable valuation to Aquis exchange listed Dispersion Plc, we believe RGO's stake in Pluto could be worth up to £20 million.

Smarttech247

Speaking to management, we understand Smarttech247 is looking to list its shares on the London market in the next few months. As discussed above, cyber security companies are currently being given high valuations. Darktrace for example is currently trading on a multiple of just over 15 times historic revenues, reflecting a revenue CAGR of 58.3% since 2018. Meanwhile, a recent report from investment bankers Raymond James suggested that high growth cyber security companies (those with 2021 expected revenue growth greater than 15%) are currently commanding an EV/revenue multiple of 9.9 times.

Smarttech247 is looking to substantially grow revenues and profits over the next five years. **Based on the industry multiple analysis performed by Raymond James, along with Smarttech247's internal analysis, we believe that a valuation of some €280 million for Smarttech247 could be achieved based on 12% discounted cash flow being applied to its 2020-2026 internal forecasts. On this basis, RGO's stake could be worth c.£17 million.**

Trading profits

Let's not forget the debt instruments held by RGO which provide a stable element to the business. Investment income for 2019 was £889,000 and up to the end of Q3 2020 amounted to £839,000 over nine months. With this side of the business currently seeing increased competition we assume that in 2021 the 2019 performance is matched. After c.£300,000 of annual administration expenses we believe that this part of the portfolio will continue to contribute to the profitability of the business.

We therefore believe that RGO's current share price is attributing minimal value to the potential valuation upside from the upcoming IPOs of Pluto Digital and Smarttech247 (which could be substantial), the potential for these two companies to go on and grow their operations and valuations, opportunities to exercise and crystallise gains on the warrant portfolio, or to any trading profits generated since the start of the year. There is also zero value for future opportunities that the company is likely to add to its portfolio and its ability to capitalise on them as it has clearly demonstrated that it is able to do.

Dividend

RGO also offers income attractions. On 2nd November 2020, against the background of the consistently profitable results and focus on creating value for shareholders, the decision was made to start paying a dividend. At the time, RGO stated that it was targeting a 7.5% gross yield for the 2020 financial year based on its market capitalisation at the time. With a previous day's closing price of 0.8p this implies a total dividend for the year of 0.06p, an amount already covered by H1 earnings alone. At the current share price of 1.7p a dividend yield of 3.53% is implied, which would be well above the average for any AIM listed company. An interim dividend of 0.02p per share was paid on 4th December 2020, with the expectation being for a 0.04p final dividend to be announced in the full year results and the one-third interim/two-thirds final split to be repeated in subsequent years.

Conclusion

RGO has access to an attractive pipeline and portfolio of structured investments which offer a predictable stream of fee and interest income. This provides a stable base to the business, more than covering annual administrative expenses and enabling the payment of a dividend – something rare amongst other small cap investment focused peers. On top of that, the equity linked instruments such as convertible bonds and warrants provide substantial opportunities for further value creation, as do the recent investments into high impact pre-IPO companies. Our analysis suggests that the company's current market cap is not pricing in any value to a number of these upside opportunities and we see significant further upside in the shares as a result.

We initiate coverage of RiverFort Global Opportunities with a stance of Speculative Buy.

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Align Research Limited
Cornwell Main Street
Amotherby
Malton
YO17 6UN

Tel: 0203 609 0910
E: info@alignresearch.co.uk