

Legendary Investments (LEG.L, 0.18p) – Speculative Buy

3 March 2017

Legendary this morning has announced that its 7.1%-owned investee company, Virtualstock Holdings ('VS'), has been appointed by the John Lewis Partnership, which includes 48 John Lewis shops across the UK, johnlewis.com and 349 Waitrose shops, to implement its Supply Chain Management System, The Edge. John Lewis will be utilising The Edge Platform's capabilities including its availability and order management functionality to develop the retailers' Supplier Direct Channel. VS will connect suppliers with John Lewis' systems and processes, enabling improved real-time inventory updates through a centralised system. The Edge provides a collaborative workspace enabling John Lewis and their suppliers to work together. VS has a history of deploying digital solutions to leading retailers including Tesco, Maplin, Sainsbury's Argos, Dixons Carphone and Office Depot. Selected for its ability to implement agile, scalable technologies, VS continues to provide its retail partners with the tools to optimise supply chain operations, while delivering significant cost savings.

Our view:

Another massive tick in the box. Without doubt, Virtualstock's platform offers something very special: an ideal business critical information solution without the need for costly, expensive and potentially disruptive systems integration. It can attract a customer base 'to die for', not just amongst the bluest of the UK's blue-chip retailers, but also with what certainly is one of the world's largest and most complex procurement and stock control challenges, the National Health Service. In February 2015, Virtualstock's was described as 'exemplary of best practice in employing digital technology to deliver significant cost reductions' in Lord Carter's productivity review of the NHS. VS's client portfolio now also includes the Shelford Group, which comprises ten leading NHS multi-speciality academic healthcare organisations as clients, and it is in discussions with several additional NHS Trusts. Customer endorsements like these are worth more than multi-million-dollar marketing budgets any day! Indeed, the likes of SAP, Oracle, Microsoft Dynamics, Sage etc. must be peering enviously at The Edge's highly protected functionality. Quite clearly the global opportunity for such an urgently needed system, which is largely 'off-the-shelf' but comes with a bespoke front end, is extremely large. The business model, which is both transactional and value-based, suggests not only will it enjoy excellent gross margins but the customer-base will also remain very sticky. An almost ideal scenario for any SAAS company! The news builds considerably further on Virtualstock's reputation and credibility, taking its highly scalable opportunity far beyond just the UK-based blue-chip enterprises with which it has deep relationships. Its potential had already been recognised by one well-known entrepreneur, who bought-in based on a £58m valuation. Beaufort's own subsequent detailed review of Virtualstock awarded it a much higher assessment of £176m, but yesterday's news together with the Shelford contract, suggests this still considerably understates the opportunity and, accordingly, raises the figure to £240m. Recognising that Legendary Investments' holding in Virtualstock represents the major value component of its portfolio, Beaufort is now also raising its price target on its shares to 0.7p (from 0.5p previously) while repeating its Speculative Buy recommendation.

Beaufort Securities acts as Corporate Broker to Legendary Investments