

Creating Value in Early Stage Assets

Speculative Buy

Price: 0.31p

Target Price: 0.5p

Sector: Specialty Finance

Share Price Performance



Source: London Stock Exchange

Legendary Investments has cleaned up its portfolio and raised new funding to support both existing and possible new investments, along with its working capital needs. Like all early-stage or 'venture' investment vehicles, sorting the 'wood-from-the-chaff' is a process best left to the experienced. LEG's management brings exactly this, having demonstrated the ability to both create value for investors and, just as importantly, to recognise when is the time to cut failing opportunities. Now trading at a discount to Beaufort's estimated 'sum-of-parts' and with one of its investments seemingly offering the relatively near-term potential to create significant additional investor value, we have taken a closer look at this opportunity. Following this, our Speculative Buy recommendation on the shares is repeated, while also revising the target price to 0.5p/share.

- Legendary has recently completed two important steps. It has rationalised its portfolio while also raising new funding in support of existing investment's needs plus working capital, as well as providing necessary facility to take advantage of several new investment opportunities identified by management which are currently under review.
- The disposal of its participations in AIM-quoted Sula Iron & Gold plc and Oracle Coalfields plc for some £25,000, re-confirms management's intention to focus on its core investments.
- LEG's portfolio now consists of just two quoted minerals resources vehicles: Amedeo Resources plc and Medgold Resources Corp, along with three private equity investments: Bosques Energeticos EBE S.A. de C.V., Virtualstock Holdings Ltd (for which the outlook is building significantly) and a recently acquired participation in Manas Resources LLC.
- Value, in particular, has been created by Virtualstock, in terms of its software-as-a-service offering that provides next generation solutions to optimise supply chain efficiencies and visibility to a varied range of supplier, retailers and customer service groups. Its client list for this highly 'sticky' offering already includes several of the UK's blue-chip retailers. Very significantly also, the suite of products that centre on its 'The Edge' platform, is now being trialled by the UK's largest NHS Trust hospital, which may be joined by other UK trusts and, ultimately have the potential to create a standardised product for incorporation across the entire UK health service. Prospectively this could offer quite dramatic cost savings for this mission critical service. The Company's potential has already been recognised by one well-known entrepreneur buying-in on the basis of a £58m valuation. Beaufort's more detailed review of Virtualstock (overleaf), considers its recent exceptional progress while confirming our significant upward valuation revision.
- Patience and tenacity have also been rewarded at Bosques whose first and second generation pongamia seeds have successfully germinated and produced saplings, Amedeo meanwhile has completed the physical build of its first jack up rig and the 2015 sampling programme carried out by Manas Resources on its Sultan Sary Project in Kyrgyzstan has produced good results.
- Beaufort has undertaken a valuation of the individual parts of LEG's portfolio while taking existing cash/near cash as face value to derive a valuation of 0.5p/share for LEG, before awarding additional value for the Group's proactive selection and management of its assets.

Key Data

Market:	London (AIM)
TIDM:	LEG.L
1 Year Hi/Low:	0.449p – 0.07p
Existing Shares:	2,795m
Market Cap:	£8.66m
ISIN:	GB0001514032
SEDOL:	0151403
Co. Website:	leginvest.co.uk

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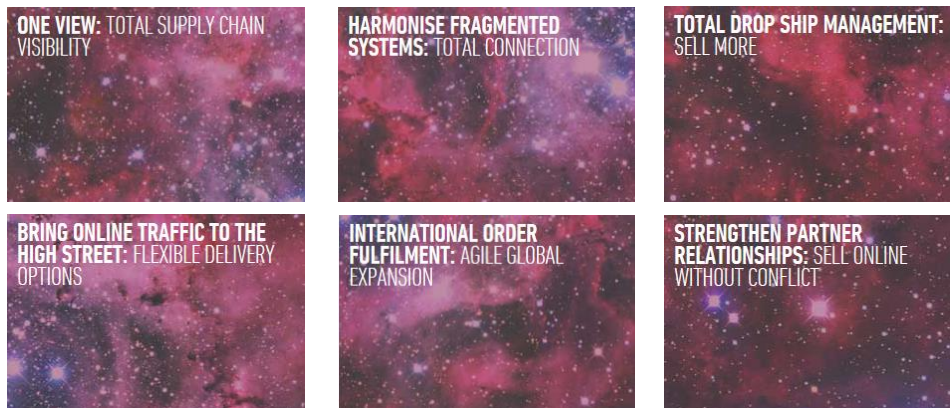
Legendary Investments plc - Investments Portfolio

Investment Name	Ticker	Activity	LEG Participation	Acquisition Cost (GBP=£)	Beaufort's Estimated Valuation (GBP=£)
Bosques Energeticos EBE S.A. de C.V.		Mexican biodiesel feed crop operator which aims to become the leading global producer	Ordinary shares equivalent to 40% of total equity	£83k <i>(First invested Nov. 2010)</i>	£750k
Amedeo Resources plc	AIM:AMED	AIM-quoted investment company whose investment policy is to invest primarily in the resources and energy and related sectors	192,307 ordinary shares	£125k <i>(First invested Jan. 2013)</i>	£50k
Manas Resources LLC		Kyrgyz gold exploration company with a licence in the Sultan Sary Area	5.5% equity participation plus option on additional 4.45% at nominal value	£100k <i>(First invested July 2012 in a coal asset and converted to equity in the gold company in Oct. 2015)</i>	£100k
Medgold Resources Corp	TSX-V:MED	TSX-V listed gold exploration licence and project development company with a particular focus on Italy, Spain and Portugal.	312,500 ordinary shares	£50k <i>(First invested July 2011)</i>	£19k
Virtualstock Holdings Ltd		British technology company providing next generation software solutions to optimise supply chain efficiency and visibility to world class enterprises	Ordinary shares equivalent to 7.1% of total equity	£544k <i>(First invested Oct. 2012)</i>	£12.5m
Cash/near-cash					£1.0m
Total				£902k	£14.4m

Source: LEG, LSE, TSX-v, Beaufort Research

Virtualstock Holdings – It's all about the Data!




One of Legendary's minority private equity investments that may have been under the radar of many shareholders to date is a company called Virtualstock Holdings Limited ('Virtualstock'). Possibly, the first time it really grabbed their attention was back on 5th October last year, when LEG released an RNS stating that the founder of moonpig.com, Mr Nick Jenkins, has purchased a small stake in Virtualstock from the two founders which valued the Company at £58m. The release went on to detail the fact that Virtualstock had made significant progress since last being valued in April 2014's funding round at £25m on the basis of its 'continuing substantial potential'. As a result, a value of just over £4m was placed on Legendary's 7.1% holding (post exercise of warrants and options) that was originally acquired back in October 2012. To date Legendary has invested just £544k.



Source: Virtualstock

So what exactly does Virtualstock do? It's a British technology company providing next generation software solutions to optimise supply chain efficiencies and visibility to a varied range of supplier, retailers and customer service software groups. Its USP is found in its key product, 'The Edge', which incorporates 'Python' as an open-source platform with its own powerful programming language, to rapidly add functionality within service orientated architecture. It supplies a complete end-to-end 'drop ship' solution when incorporated with its family of product and order management systems. It provides customers with complete visibility and total control of the entire order life cycle, providing visibility at every step of the process, thereby pre-empting and notifying any un-foreseen delays. As a solution, the user is able to remain in complete control throughout its product's journey, being tracked and traced right to the customers' door. The secret within Edge's algorithms is found in its seemingly unique ability to displace established, unwieldy systems providers that find themselves too rigid in structure to implement rapid, affordable solutions. It facilitates a new process of data flow between any network of systems or platforms, permitting elementary and controlled management of all data without interrupting or interfering with legacy installations. With this, users are able to coherently unify their online and offline worlds; inventories are optimised, orders are intelligently fulfilled from the most efficient location within the supply chain (be it prioritised by timing, cost or a combination of other criteria), leaving the consumers' expectations of a consistent experience exceeded. Seemingly Virtualstock provides the optimum, unique solution required by customer-facing businesses in order to weed out in-built cost and stock-control inefficiencies. In fact, if it is genuinely able to deliver 'what it says on the tin', The Edge could even become the envy of some of the world's preeminent enterprise solutions groups like, for example, SAP.

Virtualstock – Product Family

	<p><i>The Edge displaces established unwieldy systems provider that are unable to implement rapid, affordable solutions to support ever-changing challenges and initiatives.</i></p>
	<p><i>Super Pim has the ability to consume any amount of data, in any format, from any source, creating one validated, centralised repository for all product data that can be leveraged across even the most complex omni-channel landscape.</i></p>
	<p><i>OMS Pro is an Order Management Systems with the functionality and flexibility to support a growing, complex and in many cases international, multi-channel supply chain.</i></p>

Source: Virtualstock

Online retail continues to expand at a remarkable pace at the expense of traditional 'bricks and mortar' retail. Larger established enterprises must operate a two-pronged customer approach both through existing high street and online. Tackling such change has created brand new challenges, with respect to controlling inventory, physical location and range without adding significantly to costs or deteriorating customer service. A global transformation is underway. Online growth in the UK, for example, by 2020 will account for 17.1% of total retail sales – up from 13.8% in 2015 – reaching as much as £62.7bn according to Verdict retail. In the US, the numbers are even more breath-taking, with Statista projecting retail

ecommerce sales growing to US\$482bn in 2018. A non-disruptive solution that accommodates both distribution channels, minimises sourcing costs and optimises availability is being urgently called for.

Of course, most buyers will already be aware that there is a myriad of different cloud-based software providers that promise similarly seamless inventory-control services capable of simplifying execution and raising operating efficiencies. So how can one be sure that Virtualstock adds significant and unique value that its peers cannot? Indeed, visitors to Virtualstock's website <<http://www.virtualstock.co.uk/>> might well consider such a question is much simpler to ask than it is to answer. Perhaps, therefore, the real proof in this sector's 'pudding', can more clearly be found by looking at expansion within, and recent additions to, its key customer base. And here the message from Virtualstock is clear. Relatively unknown outside the UK, Virtualstock has ensnared a good number of the nation's hardest retail taskmasters – nothing less than the likes of Tesco (Virtualstock revenues have expanded several-fold on the originally contracted rate over the past two years), Office Depot, Maplin etc., recent account openings such as Argos are now live and growing rapidly, while a couple of other sector leading 'household-name retailers' have recently commenced implementation. This is a client list that peers many times the size of Virtualstock would die for! More to the point, momentum remains very strong, with a full pipeline expected to translate into major contracts and execution in the current year. Such activity, of course, compounds interest to the extent that further significant retail development opportunities are expected to present themselves going forward. The Virtualstock model ensures contracted revenues are recurring and, necessarily, become very sticky. Once installed across a complete organisation, benefits accrued at the operating level are clearly significant – one existing client, Office Depot, for example, has provided testimonials that adoption of The Edge has delivered at least an 11% reduction in the cost of their supply chain. Realistically, other major retailers are enjoying a similar experience.



Source: Virtualstock

Given that the revenue model adopted by Virtualstock for its retail enterprise contracts is 'fee-for-service transactional', such that the customer is charged a set access fee with every invoice, increasing dependence can be expected to fall directly to the bottom line. Whilst various bespoke elements are incorporated during implementation of different incoming clients, The Edge's core operation is largely standardised which suggests the Company will incur few additional costs or ongoing responsibilities post facilitation.

There is, of course, another very heavily funded 'elephant' that lives in the UK's living room; a giant customer facing enterprise that is not only mission critical but also desperately seeking to improve the operating efficiencies of its traditional infrastructure. By now, you will have gathered that we are talking about the NHS. Indeed, in an independent report for the Department of Health that was published on 5th February, Lord Carter suggested that savings totalling £5bn annually could be made if hospitals streamlined their ways of working in order to tackle a ten-fold variation in the running costs identified amongst the 257 trusts (ranging through acute, mental, community and ambulance). The optimisation of regular consumables procurement alone should be larger than £1bn/year, before even considering potential savings available in temporary staffing and prescriptives. The target date for (presumably partial) realisation of Lord Carter's plan is 2020 and any company that might be able to bolt on a solution capable of harvesting even a small proportion of those potential savings without degrading quality of service will, undoubtedly, be heralded as a national champion.

This is exactly the crown that Virtualstock intends to wear. Guy's and St Thomas' Foundation, the UK's largest trust hospital, has entered into a formal agreement with Virtualstock to implement what is referred to as a 'Pathfinder Project' in Lord Carter's report. The excitement this has generated could spread rapidly. Virtualstock has already commenced discussions with several other trusts who may be interested in becoming part of the same project or, perhaps, seek to implement their own solution using the technology.

As a business opportunity, this appears almost heaven sent for Virtualstock. Just considering procurement of everyday consumables, high-value medical devices and common goods & services it is clear that there is huge price variability (>35%

in some cases), real challenges in invoice matching (18% requisition to invoice matching across the cohort of 20 hospitals surveyed) and ineffective catalogue management (500,000 items compared with Virtualstock's best practice of 6,000 to 9,000). Lord Carter's recommendations in this area are clear: implement an Adjusted Treatment Index to measure performance, develop a 'model NHS hospital' framework that describes best practice and optimises pharmacy, while maintaining or improving patient outcomes and develop in-tandem an effective and efficient approach to catalogue management. He also recognises that change must come from within the NHS itself, supported by, but not led from the centre, which is exactly why individual trusts, as opposed to the Department of Health itself, are being targeted.

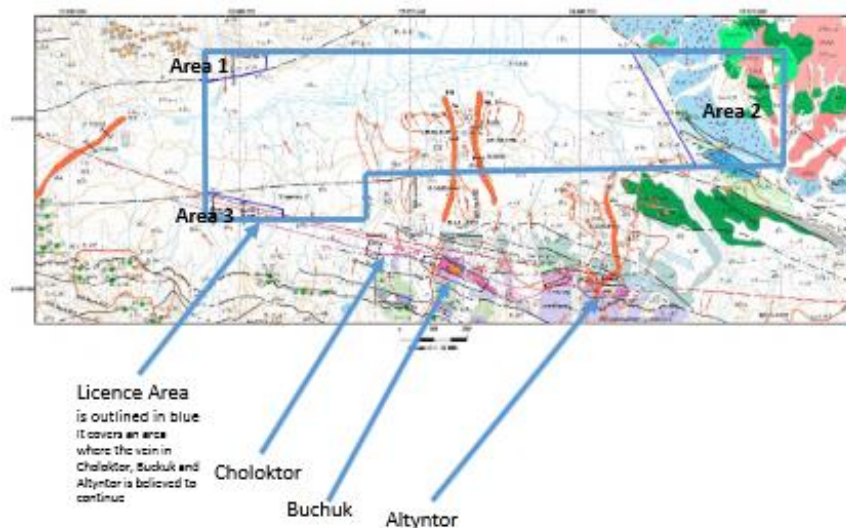
Working with the NHS's largest teaching hospital, The Edge is being configured to transform its existing Purchase-to-Pay process in order to deliver control, compliance and an optimised catalogue. The first phase enrolls the catalogues and prices of their largest suppliers, which will cover around 60% of consumables spend. This will be followed by enrolling the long tail of smaller suppliers, allowing them to incorporate their entire ranges. Requisitioners and category managers will then have rich product data, price transparency and product availability information at hand to recommend or automate most efficient purchasing decisions. The second phase will be to open up the platform for order management, which will give all stakeholders end-to-end visibility of the supply chain, order status and procurement performance. Importantly, once these have loaded their catalogues they can then be automatically exposed to any/all other NHS Trusts, seamlessly enabling the discovery of new, recommended suppliers while guaranteeing best practise.

Needless-to-say, this is potentially the big one for Virtualstock. The numbers such an omni-channel disruptive solution could accrue are potentially dramatic, irrespective of whether the final revenue model adopted is transactional, revenue or savings-based. The reputation gained in the process would also drive international adoption potentially allowing The Edge to become the go-to name for procurement.

Of course, the world is such that The Edge's success would likely spawn a host of 'me-too' copycat players determined to emulate and ride the same wave. That said, assuming Virtualstock has sufficient resources, its 12-years of acquired understanding and adoption of Open Source technologies should ensure it runs two steps ahead of the crowd for some time to come. That would certainly be sufficient to guarantee that Mr Nick Jenkins (and, of course, Legendary even more before him) got an absolute bargain!

Manas Resources LLP – Update on the Sultan Sary Gold Project, Kyrgyzstan

Legendary announced in October, 2015 that it had acquired a 5.5% stake in Manas Resources LLP, with an option over an additional 4.45% stake. Manas Resources LLP holds a license to explore and mine for gold in Sultan Sary, Narynskaya Oblast, Kyrgyzstan. The license area is located in the gold-rich Tien-Shan region and covers approximately 66km². Last month, it went further to announce preliminary results from the 2015 sampling programme carried out by Manas on its Sultan Sary. The Company selected 3 prospective sub-areas within the license area for an initial sampling phase in 2015. A map of the license area can be seen below:



Source: Legendary Investments

Area 2 is located in the eastern end of the license area and covers approximately 12km². In this area sampling consisted of approximately 2500 soil samples (1500 analysed) and 200 bedrock samples (103 analysed). The surveys to date have identified a number of lithochemical anomalies for follow-up across the surveyed area, including a 1km² area to the south with a number of sub-parallel zones of higher gold values. This southern area is interpreted as a WNW trending structural corridor favourable for gold mineralisation. This is supported by the results of the bedrock sampling, with samples returning assays with values up to 4 g/t Au. Five samples taken over 1km, have returned values of 0.5 g/t Au or higher (4.0 g/t; 2.0 g/t; 1.2 g/t and 2 x 0.5 g/t). The gold mineralisation in this southern area tends to occur in quartz carbonate veinlets associated with copper sulphides. The bedrock sampling results from other areas within Area 2 are waiting to be assayed.

Area 3 is located in the southwestern corner of the license area and covers approximately 1.2km². Area 3 is considered to be the most prospective part of the license area, being located on the strike along the same WNW structural corridor, from the known deposits (outside the license area) of Choloktor (3km), Buchuk (5km) and Altyntor (9km). Under the Russian/Soviet classification scheme Buchuk contains a C1 resource of 20 tonnes of gold, and Altyntor contains a C1 and C2 resource of 7 tonnes of gold. About 5 tonnes of gold has historically been mined from Buchuk, which is currently being evaluated by another company. Area 3 is almost entirely covered by Quaternary sediments, and no detailed surveys were conducted in 2015. A reconnaissance survey identified some small boulders in stream beds and gullies. A boulder sample collected close to the southern border of the license area assayed 36 g/t Au. A bedrock sample taken from about 1km outside the license area assayed 12 g/t Au. In both of these higher grade samples, the gold is associated with quartz and limonite. These results lend support to the interpretation that the mineralised Choloktor-Buchuk-Altyntor structure continues onto the license area.

Area 1 is located in the northwestern corner of the license area and covers approximately 1.4km². The distribution of bedrock in Area 1 is restricted, especially in the more prospective regions, covering less than 30% of the area. Sampling consisted of approximately 400 soil samples and 100 bedrock samples (52 analysed). Only two of the bedrock samples returned gold values significantly above background concentrations (0.5 g/t and 0.4 g/t). A number of lithochemical anomalies were outlined for follow up work which may include trenching, geophysics, and more detailed geochemical profiles.

Highlights of the programme to date include:

- **Several bedrock samples up to 4 g/t Au within a 1km² soil anomaly in Area 2**
- **Boulder sample grade of 36 g/t along structural corridor in Area 3**

The preliminary exploration results received to date have already delineated some very focused areas for follow-up work. They support the LEG's decision and efforts to exchange the coal asset for the gold asset and subsequently to continue the exploration for precious metals. Following these results, the Manas intends to conduct further work, potentially in collaboration with partners, with a view to outlining a mineral resource.

Strengths and Weaknesses

Strengths

- ✓ *Highly experienced management with record of past successful sourcing, investment and realisation*
- ✓ *Investment strategy focusses on secular trends, management quality and route to exit*
- ✓ *Minimal cost structure with directors' remuneration aligned to shareholder returns*
- ✓ *Value of portfolio exceeds current market capitalisation*

Weaknesses

- *Investment returns tend to be lumpy and irregular*
- *Valuation can become dominated by individual investments rather than portfolio*
- *Model is generally cash hungry with new investments being identified or existing participations increased*
- *Illiquid quoted investments generally valued in portfolio at discount to market price*
- *High dependence on individual managers*

Source: Beaufort

Sources: Company website, Company RNS, Bloomberg, ProQuote, London Stock Exchange, Investee, client and comparative companies' web sites, Toronto Stock Exchange (Venture)

Recommendations

During the three months to end-April 2016, the number of stocks on which Beaufort Securities has published recommendations was 342, and the recommendations were as follows: Buy - 107; Speculative Buy - 182; Hold - 53; Sell - 0.

Full definitions of the recommendations used by Beaufort Securities in its publications and their respective meanings can be found on our website [here](#).

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Company Name	Disclosure
Legendary Investments	1,7

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