

Thorney Technologies Ltd

ABN 66 096 782 188

12 March 2020

Dear fellow TEK shareholder,

Chairman's Update – Coronavirus Issue

Warren Buffett highlighted fear and greed as the two most powerful forces driving share market investors. His often quoted advice, first made in 1986, is that if they want to outperform the market, investors should be fearful when others are greedy and greedy when others are fearful.

At this stage in the Global Coronavirus Crash (GCC) of 2020, fear is clearly ascending. Fear about the economic impact of the coronavirus pandemic has led to a share market rout.

Now that global share markets, including Australia, are officially in bear territory it seems certain that the share market contagion will have a far greater long-term global economic impact than the coronavirus itself was ever likely to have done.

Over the 30-plus-years of my investment career, I have lived and worked through all the major market declines – most notably 1987, 2000, 2008 (the GFC) and now 2020 (the GCC).

Whilst these market declines were triggered by different factors, each ultimately followed a familiar pattern. After the initial shock there came occasional “dead cat bounces” (relief rallies) which were not sustained before an eventual final capitulation. However, from a historical perspective, the market bottom was known only in hindsight and the eventual recovery tended to take longer than anticipated.

My experience tells me that, should the GCC follow the pattern, there will be plenty of time to be greedy and begin to aggressively buy stocks. Conversely, it is not a time for aggressive selling of stocks either, especially for those who take the long-term view. History shows that in general, investors who hold onto their (quality) shares during declines eventually recover their value and more. It is only those who actually sell at lower levels who crystallise real losses.

However, all this doesn't mean investors should close their portfolio playbook, take an extended break and return to the market in a year or two years time. It is a time for investment discipline and extreme vigilance.

At Thorney Investment Group, we are remaining focused, organised and undistracted by extraneous noise and panic. We have doubled down on our due diligence, our contact with companies and our forensic assessment of the appropriate valuations which we expect to be relevant in the post pandemic bear market paradigm.

We are not overly concerned with where prices might be in a few weeks or even a few month's time, we are looking to where they will be in two or three year's time.

We are digging deeper into the inherent strengths and weakness of our portfolio companies, their business models, management, cash flow and/or cash burn, their cost base and whether they are adequately capitalised to withstand the impact on their particular sector.

Some companies will struggle. Notwithstanding government stimulus measures, it will be a difficult environment to generate revenues and raise capital for some time. Some pre-IPO companies will need to reschedule and re-price their listing plans as the market's appetite for risk reduces.

We have entered a new era.

The global share price rout has affected every sector and TEK has not been immune. At the end of February 2020, TEK's Net Tangible Assets per share (NTA) after tax stood at 33.2 cents compared to 37.0 cents a month earlier. In the absence of an (unlikely) major share market turnaround this current month we would expect TEK's NTA to be lower again at March end.

Notwithstanding these recent falls, TEK's NTA performance since inception in January 2017 remains strong as shown in the graph below.

**TEK NTA (after costs)
(January 2017 to February 2020)**



I am confident about, and am committed to, ensuring that TEK's long-term NTA growth will continue to show this strong growth over time. This is because while the short-term outlook is uncertain, the basic premise for TEK's existence remains sound. Technical change is being embraced at every level of society in a way that cannot be avoided. The coronavirus pandemic and share market rout will not stop the ongoing and increasing impact of technology on the world. Indeed it will probably accelerate it.

For example, the TEK portfolio contains three biotech companies which have an exposure to the coronavirus impact. These are Mesoblast (MSB) which has attracted strong interest in the potential of its cell-based therapies to treat and even cure the worst coronavirus cases; Micro-X (MX1) which has received increased orders for small and portable x-ray machines – chest x-rays are an essential part of the diagnosis and monitoring of the virus's impact on the lungs and Genetic Signatures (GSS) which produces testing kits.

The share prices of two of TEK's key holdings, the buy now/pay later companies Afterpay (APT) and Zip Co (Z1P) have been hit in the sell-off but we continue to believe in their business models and their management and therefore we are committed to holding them for the long term. Having said that, TEK did reduce its exposure to these two firms at considerably higher prices during 2019.

TEK's unlisted portfolio contains a range of highly promising technology companies at various stages of their life cycle in Australia, the USA and Israel. While some which were considering IPOs this year may be forced to re-evaluate, others are, for now, unaffected.

TEK's largest unlisted holding, the US relocation company Updater has been thriving since it delisted from the ASX in 2018. Updater recently reported to shareholders that its total transaction revenue for 2019 had more than trebled to \$US430 million while its revenue totalled almost \$US42 million. The company further says it has seen no immediate impact from the coronavirus and remains confident its total transaction revenue for 2020 will exceed \$US1 billion and its revenue will exceed \$US90 million.

The combination of both listed and unlisted technology companies at various stages of development makes TEK unique among Australian listed investment companies. Combined with the experience, expertise and investment track record of the Thorney Investment Group team, I believe TEK provides the best possible exposure to the technology revolution.

Viewed over the long term, the current market rout will no doubt be seen as a significant speed bump on the technology's path, but one which did not materially halt its progress. The longer term technology journey is only just beginning and TEK intends to stay along for the ride. To that end, I have been recently adding to my holding in TEK.

I encourage all TEK shareholders to do the same.

Yours sincerely,



Alex Waislitz
Chairman