

CEO INVESTMENT REVIEW

For the Quarter Ended 30 June 2018

Company Overview

670 Venture Capital Limited (“670 Ventures”) is as an investment company, registered with SARS as a Venture Capital Company in terms of Section 12J of the Income Tax Act. 670 Ventures was established to provide investors with superior, risk-adjusted *after-tax* returns over the medium term. Its mandate is the management of investments in equity shares in companies which are classified as “Qualifying Companies” in terms of Section 12J, meeting the following criteria:

- is an unlisted, South African tax resident and not a controlled group company (in relation to a group of companies);
- have a gross asset value below R50 million at time of investment;
- does not invest in immovable property (other than a trade carried on as a hotel keeper);
- trades mainly in South Africa, but not in the financial services, gambling, liquor, tobacco, arms or ammunition industries.

Investment Strategy

The investment focus is on risk mitigation and capital preservation through an investment strategy that aims to deliver superior after-tax returns, uncorrelated to traditional investment markets. The strategy is to develop a portfolio comprising of a blend of investments made in:

- **High-yielding equity investments:** providing attractive dividend returns with a lower risk vs. return profile than traditional private equity instruments; and.
- **High-growth investments:** in companies founded by high impact entrepreneurs, supported by sound management and geared for growth in attractive markets.

Share Capital

The company successfully raised additional new capital by issuing 7 990 A Venture Capital Shares on 28 February 2018, for a total consideration of R 8 143 455.

Share Price Movements

The price movement of Venture Capital Shares over the review period is set out below:

	1 April 2017	31 Oct 2017 ¹	31 March 2018	30 June 2018
Price per share	R 1 000.00	R 1 018.76	R 1 022.98	R 1 014.85
Movement		1.88%	0.41%	-0.79%
Since Inception				1.49%

The Venture Capital Shares prices are calculated as follows:

	31 March 2018	30 June 2018
Venture Capital Shares Net Asset Value (“NAV”)	R 11 016 154	R 10 903 456
Adjusted for amortised capital raising and legal costs incurred	R 154 826	R 178 735
Adjusted NAV	R 11 170 980	R 11 082 191
Number of A Venture Capital Shares issued	10 920	10 920
Adjusted NAV per A Venture Capital Share	R 1 022.98	R 1 014.85

¹ The date at which the company issued its Prospectus

Key Financial Information

An extract of the balance sheet of the company is set out below:

BALANCE SHEET	31 March 2017	31 March 2018	30 June 2018
Investments in Qualifying Companies	-	R 1 000 000	R 774 500
Deferred tax	R 3 805	-	R 43 353
Cash and cash equivalents	R 2 946 510	R 10 099 844	R 10 201 986
TOTAL ASSETS	R 2 950 315	R 11 099 844	R 11 019 839
Venture Capital Share Equity	R 2 950 214	R 11 016 154	R 10 903 456
Ordinary and Preference Share Equity	R 101	R 43 101	R 43 101
Current Liabilities	-	R 40 589	R 73 282
TOTAL EQUITY & LIABILITIES	R 2 950 315	R 11 099 844	R 11 019 839

Investment Portfolio

A table summarizing the investments portfolio is set out below:

Portfolio	Cost	Current Market value	Percentage of portfolio	Percentage shareholding
Thunderbolt Solutions	R 1 000 000	R 774 500	7.06%	4.83%
Cash & cash equivalent	R 10 201 986	R 10 201 986	92.94%	
Total Investments	R 11 201 986	R 10 976 486	100.00%	

Portfolio Review

A review of the investments, activities and results are set out below.

Thunderbolt

Founded in 1999, Thunderbolt Solutions is a leading black-owned and managed supplier of capital equipment and consumables to the Southern African graphic arts and printing industry, representing as agent a number of established principals such as Muller Martini, Agfa, Kodak and Weilburger. It has a Level 2 B-BBEE rating. Through its national coverage, it ensures superior service levels to clients. Thunderbolt's philosophy is to supply the printing industry with top-quality products and to support them with highly-trained, customer-driven, technical service and support personnel. (www.thunderbolt.co.za).

Valuation: We value Thunderbolt on a discounted cash flow basis, plus the value of investment assets and after gearing is deducted. Thunderbolt was revalued downwards by 22.55% during the quarter. The downwards valuation is due to the newly established Thunderbolt Paper business taking longer than anticipated to find traction in the market and due to the on-balance sheet gearing raised as part of the restructure of the company at the end of May 2017. We expect the downwards valuation to reverse as the gearing is repaid and as the Thunderbolt Paper business establishes itself.

SEAM

Subsequent to the June 2018 quarter end, 670 Ventures acquired a 69.9% shareholding in Seam Investment (Pty) Ltd ("Seam") for a total consideration of R1.7 million. Seam is a niche rental company owning specialised assets, which are rented to corporate clients in terms of operating rental agreements (to the exclusion of finance leases or hire purchase agreements). The operations and the portfolio of Seam will be managed by TBI Rentals, a business formed by TBI and the well-established former EOH Securities and Building Technologies rental team. Seam will grow its portfolio by acquiring assets through discounting rental agreements. It is envisaged that rental assets will include, but will not be limited to, hotel equipment, IT equipment and software, security and access control equipment, renewable energy equipment and medical equipment.

The investment should provide investors with predictable revenue streams at an above-average return on investment. The return profile is focused on high dividend returns and capital preservation, with a self-liquidating portfolio for an efficient exit.

Developments

Thunderbolt was recently awarded tenders from two large listed customers, to provide printing plates and related consumables to in excess of R25 million per annum. Thunderbolt also secured two large equipment orders. Another positive development was the global acquisition by Muller Martini (a Thunderbolt agency) of the business of Kolbus, a major competitor. As a result Thunderbolt acquired the domestic Kolbus agency. In addition, the agency for the local Japanese-based *Screen* computer to plate (CTP) devices was also acquired. Despite some setbacks, the newly-established Thunderbolt Paper business has established itself in its home market of Gauteng, Durban and Cape Town. It submitted a major paper tender to supply the Government Printing Works - if successful, this could catapult the Thunderbolt Paper business forward.

Seam: 670 Ventures committed to invest up to a maximum of R7 million. Seam is currently reviewing a number of rental opportunities for which they will require capital.

Tax Treatment: The 2018 Taxation Laws Amendment Bill has proposed certain amendments to Section 12J which are intended to address perceived abuse of this tax incentive. The South Africa Venture Capital and Private Equity Association (SAVCA), along with our attorneys, have made representations to Treasury with positive comments that does not compromise the industry's ability to invest. Even if Section 12J is amended, as proposed, there should be no adverse impact on 670 Ventures or its investors.

Investment Pipeline and Future Direction

During the period under review, a number of opportunities were pursued and many discarded. The investment pipeline remains strong and a number of transactions are being investigated, the most important of which is Thunderbolt Supply Co, specialising in supplying customers with the right of use of graphics/printing equipment as well as concomitant consumables over a specific term. In addition, a focus will be in growing Seam organically, to diversify its portfolio and risk profile, whilst maximizing yield.

The strategy to build a blend of assets that have high growth potential, with high dividend-yielding lower risk investments, continues.

Yours Faithfully

Wynand Marais
Chief Executive Officer

Disclosure

This document is proprietary to TBI Investment Managers (Pty) Ltd (TIM). It is for information only and may not be distributed or used by any person without the express written consent of TIM. It does not address the circumstances of any particular person or entity and is not a recommendation or advice in relation to any transaction or investment. Proper advice should be sought from a registered independent financial adviser before any decision or step is taken by an individual or entity in respect of the information provided in this document. We have taken care to ensure that the information included in this document is accurate and not misleading, but do not guarantee its accuracy, relevancy or completeness or that it will not change. TIM, its directors, officers and employees shall not be responsible and disclaim all liability for the loss, damages or expenses which may be suffered by any person or entity as a direct or indirect result of that party relying on or failing to act on any of the information provided. The investment value of the financial product mentioned in this document is not guaranteed. TIM and 670 Ventures are licensed financial services providers.

Alternative Thinking

670 Venture Capital Limited | www.tbi.co.za | Tel: +27 21 948 0322

Executive Directors: AWC Marais, OJ Goosen, RJ Hamman | Non-Executive Directors: I Groenewald; GC Swanepoel (Chairman); MJ van der Mescht; MM du Preez
3rd Floor, FedGroup Place, 35 Willie van Schoor Avenue, Bellville, 7530 | PO Box 21168, Parow, 7499 | Reg. No: 2006/021343/07
670 Venture Capital (Pty) Ltd is a licensed financial services provider | FSP number 46653 | VCC-0032