

February 2, 2018
Company Update

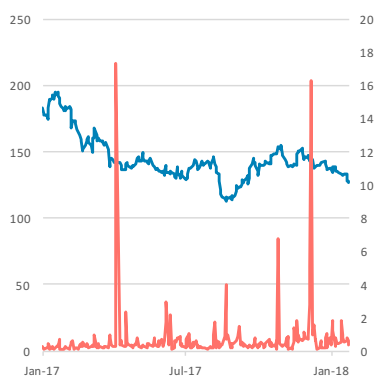
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IP Group (IPO LN)

Price (in pence)	126
Market Cap	GBP 1336.5 mln
E/V	GBP 1104.8 mln
P/B	0.91x
Our valuation (in pence)	80

IP Group (IPO LN) last share price in pence (blue, LHS) and volume (pink, mln shares)



Source: Bloomberg February 2, 2018

IP Group (IPO LN) Not Impressed

▶ “In the future”:

A recent Nature article reviewing the MinION’s sequencing of the human genome reports that the technology has promise. We knew that in 2009, when Nanopore’s valuation was less than 7% what it is now.

▶ MIRI flop:

The float of IP Group investment Mirriad Advertising has been a disappointment—which is to be expected for this money-losing agency.

▶ The echo chamber:

We continue to believe that IP Group and its group of related investors pump up valuations in order to support excessively high cash burn. A private group would without hesitation kill off these failing investments.

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Some Companies Deserve to Die

Oxford Nanopore has recently publicized the success of its MinION device in sequencing the human genome. On January 28, Nature published a report on the use of the MinION device to sequence the human genome. This was considered a triumph for the “long sequencing” method that Nanopore offers. Because the human genome is big and complicated, it is often used as a yardstick for determining the effectiveness of sequencing devices: can they move quickly enough? is the error rate too high? Is it too expensive?

Even Nature seems to think that there is promise but that the promise is “in the future”:

In summary, we provide evidence that a portable, biological nanopore sequencer could be used to sequence, assemble, and provisionally analyze structural variants and detect epigenetic marks, in point-of-care human genomics applications in the future.

[Nature](#)

The timing of the Nature article was unlikely just a coincidence; Nanopore is out seeking a new round of financing, and the GBP 1.25 bln valuation from December 2016 will be hard to beat. Supporters rapturously emailed around links to the Nature article and the Nanopore release.

Many in the scientific community remain unimpressed. We exchanged emails with a scientist who worked for many years at Nanopore, who commented:

I've seen the recent human genome stuff, it makes a nice press release. My personal opinion is that the error rate is too high (and the throughput too low) for it to play against Illumina. If they can really drive down the error rate, then it might have a larger market (but I doubt they can).

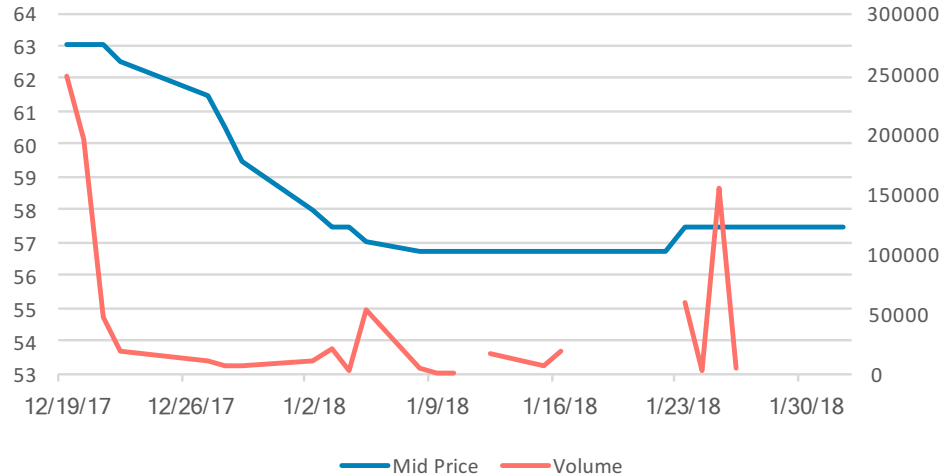
At the current price, I can't see a market large enough to cover their burn rate. I would also guess that the Minion is probably sold at a loss at the moment and that . . . there isn't the market to support it.

We do not dispute that Nanopore has good technology; we dispute the size of the market and the company's valuation.

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Mirriad Advertising

IPO Group, which held a 38.9% stake in Mirriad Advertising as of June 30, 2017, together with its subsidiary Parkwalk Advisors helped Mirriad raise GBP 26.2 mln in December and get admitted to AIM, where it trades as MIRI, at a valuation of GBP 63 mln. The IPO has been disappointing, with the shares down by 9% since the debut.



Source: Bloomberg

This company, which does in-video advertising, is losing massive amounts of money, posting losses in the most recent Interim of GBP 4.8 mln despite GBP 352,163 in revenue. Those are losses that no service company should sustain. In fact, the company has been posting losses since it launched in 2008. We believe that the only plausible reason why MIRI has attracted a GBP 63 valuation is because it must in order to attract the capital investment needed to fund its losses.

Outside of IP Group ownership, Mirriad Advertising would have had to cut the burn or else go out of business. Letting the company go out of business would trigger a write-off for IP Group. Therein lies IPO's continuing conflict of interest. It is better to burn nearly GBP 1 mln per month in investor capital than to admit that a start-up has not worked out.

Xeros

Another poor performer this year has been Xeros Technology group (XSG AIM), in which IP Group owns an 11.8% stake and Woodford owns 26%, and which is down by 7.7% since the start of the year.

Shareprophet recently wrote a critical piece on Xeros, pointing out that the

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company's revenue has grown at a glacial pace and clocked GBP 1 mln for the first half of 2017, and yet losses are rising by 30-50% and totaled GBP 15 mln for the first half. The company is trading at roughly 125x trailing REVENUE. Shareprophet attributes this to the ability of the Friends of Woodford, including IP Group, to make a market for the shares: "This is insanity and is purely due to the illiquid private nature of the shareholding structure which enables the valuation to be whatever these guys want to invest at," [wrote Shareprophet](#) on December 19, 2017. (Subscription required)

As with Mirriad, the valuation of Xeros can be whatever the related group of investors want it to be, and the incentives to accept very high valuations in order to keep companies alive would be very hard to resist for those investors. But IP Group investors need not play along.

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