TMT Investments: navigating the tech investment landscape

By John Foster, 24th July 2024

Related Topics: The technology sector, TMT Investments [LON:TMT], Venture Capital Trusts (VCTs)

Venture Capital – especially in early-stage privately-owned technology businesses – is a minefield, with very high chances of failure. Even large, established technology companies that have a core position in the global IT industry, such as CrowdStrike NASDAQ:CRWD found out last week, can have their values shredded in an instant, with CrowdStrike having USD8bn wiped off its value due to a faulty update. Moreso smaller emergent companies.

However, on the flip side, huge returns can be generated should one of these startups metamorphosise into a 'unicorn' – a company that goes from virtually zero valuation to billions. But you don't find mythical creatures every day, and many of them will eventually turn out to be donkeys. However, **Alexander Selegenev, executive director of TMT Investments** LON:TMT, which has 4 unicorns under its belt, writes in the article below how the investment company hunts for elusive early-stage startup tech unicorns.

Investing in earlier-stage private tech companies is typically the domain of venture capital firms, whose investors are mainly large institutional and pension funds. These investments require capital to be tied up for a minimum of five years.

In contrast, investors seeking liquidity can obtain exposure to private tech companies via closed-ended investment trusts or companies quoted on the London Stock Exchange.
In London, as well as our firm, TMT Investments, which invests globally, there is also **Augmentum Fintech** [LON:AUGM], which is (and there's a clue in the name) focused on fintech; and **Molten Ventures** LON:GROW, targeting UK and European tech firms. Our portfolio includes over fifty tech companies globally, mostly headquartered in the USA, UK, or continental Europe.

Turbulent years for VC Investors

The past few years have been turbulent for investors in the quoted venture capital sector. The tech and online sector's growth during Covid-19 in 2020 and 2021 led to a boom in tech valuations, with share prices of quoted venture capital companies soaring.
However, in 2022, the investment flows reversed as investors adopted a more cautious approach. I believe that the surplus of capital seen during this period made many tech companies lazy and giddy with success, and what happened next was a flushing-out of poor performers, which post-Covid, kicked in with a vengeance.

However, by 2023 things were returning to a back-to-normal scenario, with investors prioritising profitable companies, or those with clear paths to profitability. The promise of a 'dream and a team' has given way to a tougher operating environment. Higher interest rates and selective financing have widened the gap between winners and losers, I think.
Now, we are seeing a clear differentiation between successful companies with strong business models and those falling behind. Companies that adapted well and managed their finances prospered, while those that didn't have struggled or been written off and we've found that investors are ready to back private tech companies with growing revenues and paths to profitability.

In our own investment company, we invested in **Praktika**, an AI/avatar-led language learning software. Praktika was revalued 12x in May 2024 after raising USD35.5m in a recent Series A funding round this year. We spotted Praktika's potential early, investing around USD400,000 in December 2023. This 12x revaluation of a portfolio company in five months is the fastest in TMT's 13-year history.

In 2023, ten of TMT's 50+ portfolio companies raised financing at higher valuations. These companies operate in established sectors like payments, education, accounting software, and laundry services. They compete successfully by adding significant value through technology, better service, or consolidation. As Ian McInally, director of research for the broker Cavendish, wrote: “Numerous TMT portfolio companies, including 3S Money, 1Fit, Collectly, SonicJobs, Mobilo, Synder, Educate Online, Laundryheap, Whizz, and AgendaPro, completed capital raises at increased valuations during 2023, validating their progress.”

TMT Investments top holdings

Our five largest holdings are Bolt, Backblaze, 3S Money, PandaDoc, and Scentbird and together they account for 64% of TMT’s portfolio value at the end of 2023. Each have offered double-digit annual revenue growth rates. These are well-capitalised companies that have high cash reserves and strong market presence, that are either already profitable, or close to profitability.

Bolt, an Estonian mobility company that offers ride-hailing, micromobility rental, food and grocery delivery, and carsharing services, is one of our favourite holdings with a 35% of portfolio value, and expects to be profitable within 12-months and ready for an IPO in 2025. Bolt operates in over 600 cities across 45 countries, with three million drivers, including 100,000 in the UK. Bolt has a focus on Africa from where it gets 50 million of its 150 million customers. “Out of all the African countries, we’ve so far only launched in seven […] over the next 10 years, Africa remains a massive opportunity for us,” Markus Villig, CEO of Bolt, has recently said.

We adopt a conservative approach to portfolio valuation, writing down underperforming investments significantly and mainly revaluing upwards based on quoted market prices and recent fundraising activity. We haven’t revalued our holding in Bolt since 2022 when we reduced its fair value by 33%, in line with Uber’s share price drop at the time. But Uber’s share price has tripled since then and reached all-time highs.

Another success story, **Backblaze**, a specialized cloud storage platform quoted on Nasdaq, represented 12.8% of our portfolio value at the end of 2023. Backblaze boasted a strong set of 2023 financial results, and nearly doubled its share price earlier this year. Its share price has trailed back since then, affected by market volatility.

Backblaze continues to post strong performance, as shown in its 1Q 2024 performance. “We had a record start to 2024, with dramatically improved financial metrics year over year, including 1Q24 revenue growth of 28% compared to 20%, and adjusted EBITDA margin of 6% versus -12%,” said Gleb Budman, CEO of Backblaze, in its Q1 2024 filing.

Finally, another portfolio highlight, **3S Money,** provides global business accounts and payment solutions in more than 65 currencies, and is our third-largest holding at 8.4% of portfolio value. . It recorded double-digit revenue growth, obtained regulatory permissions in Luxembourg, Dubai, and Singapore, and became EBITDA positive in 2023.

With TMT’s shares recently trading at USD3.19, TMT’s discount to its NAV (net asset value) has widened to 52%, compared to 47% for Molten Ventures and 32% for Augmentum Fintech. I believe that TMT’s shares offer an undervalued and smart way into the private tech sector, backed by a savvy investment team that has delivered USD105m of cash proceeds from portfolio companies compared to $30.6m of losses since we joined AIM in 2010. Come join us on our unicorn hunt!