On-Market BookBuilds Pty Ltd
ABN 31 140 632 024
AFSL 421 535
Level 31, Tower 2
200 Barangaroo Ave
Sydney, NSW, 2000
OMB@onmarket.com.au
+61 2 8598 8559

17 February 2020

Committee Secretary
Senate Standing Committee on Economics
Department of the Senate, Parliament House, CANBERRA ACT 2600
By email: [redacted]

Dear Sir/Madam

Inquiry into Australian Business Growth Fund Bill 2019 ("BGF bill") – Titomic Ltd Submission

We refer to Titomic Ltd's submission to the Senate Committee dated 17 February 2020 (and made publicly available on the Senate Committee's website yesterday afternoon in support of the Australian Business Growth Fund (ABGF).

We are pleased that Titomic ("TTT") has lodged a submission to the Senate Committee as it illustrates that there is a healthy private market funding scale-up businesses, how the proposed Australian Business Growth Fund (***BGF***) will crowd out the private sector of larger-revenue businesses, and the damage that the BGF will do in its current form to reduce SMEs access to equity.

1	TTT would **not have been eligible** to receive investment from BGF for any of its equity raisings
2	TTT has raised **$25.5m by issuing ordinary shares** (permanent equity) to private-sector investors
3	if TTT had sufficient revenue (it did not) to get BGF funding, BGF **would have crowded out** pvt sector
4	we closed TTT's IPO public offer after **only 86 minutes, oversubscribed, with 107 new investors**
5	today's market equity valuation of TTT is >$100 million (despite **negative** cash flow of >$21 million)
6	current valuation proof that private sector investors **are patient**, with confidence in TTT's potential
7	if the BGF 'cherry-picks' less-risky, higher revenue companies, then '**adverse stock selection**' due to leaving only **"BGF rejects" will inhibit the private-sector**'s capacity to help companies like TTT
8	likely effect, in its current form, **the BGF will make it harder for companies like TTT to raise equity**

Titomic is a great Australian business. We were fortunate to be asked to assist Titomic on its IPO by its lead manager.

Cont. next page.

Titomic Limited Equity Capital Raisings

IPO Equity Raising (Permanent Capital)
In August 2017, Titomic Ltd raised $6.5m from the private sector by issuing ordinary shares (permanent equity capital that cannot be redeemed) as part of its IPO. Titomic would not have been eligible to receive funds from the ABGF, because it:

- had zero revenue at the time (failing to meet the BGF's minimum $2 million revenue test); and
- did not have 3 years of revenue growth; and
- was not profitable (having $1.3m of current year losses). [source: p72 TTT prospectus]

Titomic did not satisfy any of the 3 threshold qualifying tests for the ABGF (let alone be selected from those that did). At that time that did, however, **raise $6.5m from the private sector, at a pre-money equity valuation of $16.2 million**, issuing new investors 28.7% equity, a minority stake.

I am surprised at Titomic's statement that it could not raise more funds at the time of the IPO. We had to close the offer after only 86 minutes, because the total allocation made available to the public via OnMarket had been significantly oversubscribed. In that 86 minutes, 107 private sector investors had subscribed for the shares.

2nd Equity Raising (Permanent Capital)
In April 2018, Titomic Ltd raised a further $12m of equity (again via the issue of ordinary shares, which are permanent capital, and cannot be 'redeemed' by investors) via an oversubscribed placement. Again, at this time, Titomic would not have been eligible to receive funds from the ABGF, because it:

- had $267,859 of revenue (being 85% less than the BGF's minimum $2 million revenue test) ; and
- did not have 3 years of revenue growth; and
- was not profitable (having $3.8m of current year losses). [source: ASX filings]

Titomic still did not satisfy any of the 3 threshold qualifying tests for the BGF (let alone be selected from those that did). At the time that, however, it raised **another $12m from the private sector, at an increased pre-money equity valuation of $141.6m**. Titomic issued new investors with 7.8% equity, a minority stake, in exchange for $12m that otherwise would not have been received, even with an ABGF.

3rd Equity Raising (Permanent Capital)
In July 2019, Titomic Ltd raised a further $7m of equity (again via the issue of ordinary shares, which are permanent capital, and cannot be 'redeemed' by investors) via another oversubscribed placement. Again, at this time, Titomic would not have been eligible to receive funds from the ABGF, because it:

- had $1.47m of revenue (being 85% less than the BGF's minimum $2 million revenue test); and
- did not have 3 years of revenue growth; and
- was not profitable (having $7.5m of current year losses). [source: ASX filings]

That is, Titomic still did not satisfy any of the 3 threshold qualifying tests for the ABGF (let alone be selected from those that did), at the time that it was able **to raise $7m from the private sector, at an increased pre-money equity valuation of $209.3m**. Titomic issued new investors 3.2% equity, a minority stake, in exchange for $7m that otherwise would not have been received, even with an ABGF.

Total Equity raised from private-sectors investors (via public market)
Titomic has raised **a total of $25.5m in ordinary shares** (permanent equity capital) from the private sector. The private sector has provided $25.5m of equity capital to Titomic, in exchange for 36.3% of the company, despite the company never turning a profit and having revenues last year of $1.47m (less than the minimum required for an investment by BGF).

Even today, Titomic would still not be eligible for investment by the ABGF, because:
- It still fails the minimum revenue criteria of the ABGF
- It still fails the revenue growth over 3 years criteria of the ABGF
- It is still unprofitable.

Patient Capital
Titomic has spent at least $21 million raised from the private sector (via public market). At 31 December 2020, it had reduced its cash balance to $4.5 million. Despite its financial position, the market currently values Titomic at **$106.5m (market capitalisation).**

This strongly refutes any suggestion that the market does not provide 'patient capital'.

Clearly, its current shareholders believe its future growth potential (the market is most certainly not valuing it on its current or previous financial performance). All of the total $25.5m of equity capital raised referred to above has been in ordinary shares (permanent, non-redeemable capital – available to finance the company's growth). **It is by definition, patient. It is also a minority position (39.7%).**

Negative Consequences of ABGF
It is our professional opinion that:
- if private sector investors are crowded out from investing in companies with $3m-$100m because the ABGF 'cherry-picks' the best SMEs (as the ABGF is in a position to offer more concessional terms due to concessional taxpayer-funded financing, as well as concessional bank funding via the manipulation of APRA ratios that enable the banks to borrow 72.75% of their investment in the ABGF),
  then the result will be
- that the private sector will be unwilling to take the risk financing companies like Titomic (which do not meet the ABGF's investment selection criteria).

That is, the consequences of the market distortion caused by the ABGF will be to substantially lessen the availability of equity finance to SMEs.

Conclusion
We hope that this provides a compelling illustration of how wrong the Ombudsman and Treasury are in making unsubstantiated allegations of market failure. As we have previously discussed, we continue to be supportive of the ABGF taking the form of an underwriting fund, available to all Australians, rather than one that uses its concessional funding (regulatory and directly from the taxpayer) to cherry-pick SMEs that can already obtain equity finance.

Yours sincerely

[redacted]

Ben Bucknell
CEO and co-founder
OnMarket BookBuilds