

Issuer: The Trendlines Group Ltd.
Security: The Trendlines Group Ltd.

Meeting details:

Date: 25 April 2018

Time: 2:00 p.m.

Venue: Marina Mandarin Singapore Libra Gemini, Level 1, 6 Raffles Boulevard, Marina Square, Singapore

Company Description

The Trendlines Group Ltd. is an innovation commercialization company specializing in incubation and seed/start-up investments. The firm seeks to engage in investing and incubating innovation-based early-stage medical and agricultural technologies. It considers investments in Israel and Singapore. The firm offers business incubation, partner and channel development, market strategies, business plans, research and development and commercialization activities, business development, finance and funding strategies, administrative services and marketing communications services to entrepreneurs. The firm seeks to invest a minimum of \$0.06 million in its portfolio companies. The firm prefers to exit its investments through merger and acquisition transactions, listing on public stock exchanges, or other dispositions of holdings. It leverages its own capital with government funding to mitigate risk in creating and developing new businesses. It is involved in all aspects of its portfolio companies from technology development to business building. The Trendlines Group Ltd. was founded in 2007 and is based in M.P. Misgav, Israel with additional offices in Tel Aviv, Israel; Beijing, China; and Singapore.

(Source: http://www.sgx.com/wps/portal/sgxweb/home/company_disclosure/stockfacts?code=42T)

Q1. In the Corporate Profile (page 3 of the annual report), it is stated that:

The Trendlines Group establishes, develops, and invests in technology-based medical and agricultural companies and projects in accordance with its mission “to improve the human condition” by discovering, incubating, and providing extensive support to its portfolio companies.

Also, in the Business Review (page 12), it states that Trendlines is a “life sciences innovation commercialization company” that invents, discovers, invests in, and incubates innovation-based medical and agricultural technologies through its four business units, namely Trendlines Medical, Trendlines Agtech, Trendlines Medical Singapore and Trendlines Labs.

- (i) **Would management help shareholders understand how the two business segments of (a) investing in innovative (third party) companies through its incubators and (b) creating and spinning off its in-house innovation from Trendlines Labs can co-exist and would not create any potential conflicts?**

The group is also a general partner for two funds, Maryland/Israel Trendlines Fund and Bayer Trendlines Ag Innovation Fund.

- (ii) **Are these funds open to other investors? What are the targeted fund sizes for the two funds?**
- (iii) **Similarly, how does the group determine if it would invest in a potential company as a principal or through the funds? Would there be any potential conflict of interests?**

Q2. As mentioned in the Chairmen’s Statement, six companies in the portfolio raised funds in 2017. These are EdenShield, ElastiMed, Fidmi Medical, Hargol FoodTech, Saturas, and Vensica Medical (page 7).

- a) **Can management provide some visibility on the valuation trends of those portfolio companies that raised funds in 2017? How many of the 6 were up-rounds?**

It was also disclosed that “[i]n June 2017, the acquirer of our Most Valuable Portfolio Company’s (“MVPC”) assets confirmed that the product under development by the MVPC was on schedule to launch in 2018”. In the year, the fair value of MVPC was increased by approximately US\$1.9 million as a result of a higher valuation ascribed to the royalties on future net sales expected to be received under the 2014 Asset Purchase Agreement (page 21).

- b) **With the revaluation of the fair value of MVPC, has the group already recognised the potential upside from the launch of the product?**
- c) **When will the first payment be expected to be received by the group?**

Q3. “Investments in the Portfolio Companies” is a key audit matter highlighted in the Independent Auditors’ Report. Key audit matters are those matters that, in the professional judgment of the Independent Auditors, were of most significance in the audit of the financial statements of the current period.

Of the group’s total assets of US\$118.3 million as at 31 December 2017, the group’s investments into portfolio companies amounted to 82% or US\$96.8 million. In addition, the valuations were designated as level 3 in the fair value hierarchy since they are valued using inputs other than quoted prices in an active market.

In Note 6 (pages 110-114 – Fair value measurement), it was shown that the four valuation methodologies used were (a) income approach, (b) market comparable approach, (c) cost approach and (d) option pricing model.

- a) **Of the 47 portfolio companies, how many were valued by each of the four valuation methodologies above?**

- b) How many of the 47 portfolio companies suffered a drop in valuation in FY2017?**
- c) Can the audit committee help shareholders understand the level of discretion and the amount of variance in the valuation process? For instance, how wide is the valuation band?**
- d) Can the audit committee also help shareholders understand their individual and collective experience in valuing early stage medical/agricultural technology companies?**