



## FINDING HIDDEN GEMS

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### FINDING HIDDEN GEMS

As investment advisors, we are always screening the global stock markets for opportunities on behalf of our clients. We define an 'opportunity' as a stock, currently undervalued or over looked by the market for some specific reason, with **upside potential of over 100%**.

### URTHECAST CORP

TICKER: UR CN  
Current Price: C\$1.02  
**1y Target:** C\$3 (194% upside)  
**4y Target:** C\$14 (1400% upside)

In just three years, UrtheCast has established itself as the **third largest provider** of earth information and imagery in the world. Images, collected via four cameras/sensors in Space, provide its customers with terabits of data and allow users of this information to make critical decisions relative to sovereign geographical strategy, environmental monitoring, precision agriculture and numerous other applications.

Historically, the Earth Observation industry has been dominated by two companies, Digital Globe and EADS, where satellite builds and rocket launches costing over \$1 billion created high barriers to entry. Using the existing infrastructure of the International Space Station, UrtheCast was able to enter the industry with a much lower-cost strategy while delivering high-quality and custom imagery to newly acquired clients. With a recent and opportunistic corporate acquisition, UrtheCast is lowering costs of space imaging and is help-

ing create a larger market available to a wider spectrum of customers.

UrtheCast's current platform of four sensors, in addition to high-specification engineering work, should **generate cash-flow of \$30 million in 2017**. However, the company has ambitious plans to build and operate two multi-satellite constellations which will be financed primarily by customers and/or firm take-or-pay contracts. The first constellation, named **UrtheDaily**, will effectively cover the globe on a daily basis generating imagery crucial for decision making of the large, agriculture-oriented multinationals such as Bayer, Monsanto and John Deere. UrtheCast is joint venturing this project with OmniEarth, a US company with whose current customers include Monsanto and Syngenta. Total capex for UrtheDaily is expected circa C\$250 million with UrtheCast's management confident of contracting the minimum commitment of C\$100 million by early 2017. The remaining capital will be raised through collaterals and, most likely, guaranteed by the Government of Canada.

**Space imaging has already demonstrated improvements to the efficiency in agriculture and irrigation.** Interestingly, these multinational corporates in the agricultural space along with other entities in the insurance industry had already committed to build a new constellation in conjunction with OmniEarth...UrtheCast's proprietary satellite solutions were the final piece of the business plan. Space imaging can help reduce irrigation costs by hundreds of millions of dollars... in the USA alone, there are 250'000 irrigation plants with an average yearly cost of \$10 bil-

lion...in addition to helping farmers solve the 40 question dilemma about fertilizers.

The Company's second constellation, **OptiSAR**, will supply is predominately sovereign state customers with high-resolution imagery regardless of atmospheric conditions, time of day and seasonal issues. Accomplished through proprietary technology, UrtheCast will be able to deliver imagery/data which is taken at night or through cloud- cover...an industry first. The 16 satellite constellation will have a capex budget of over \$1 billion and is being funded by customers who effectively pre-pay for their imagery/data...a financing practice used in the industry. UrtheCast will own the satellites and be able to sell all imagery collected which is not segregated by its government customers. **The Company has announced almost \$400 million of funding MOU's for this project and, very recently, the Kazakh Space Agency announced a large, multi-hundred million dollar funding commitment towards OptiSAR.**

We understood that DigitalGlobe has always argued that this constellation would never be built; however, UrtheCast is now proving the opposite. We believe the contract with the Kazakh Space Agency is, in fact, only a few weeks away from becoming official.

UrtheCast's business is expanding rapidly with 90% currently generated by Europe... only 20% of the entire market. Additionally, the Company has signed contracts with Brazil, India, China and a number of Middle Eastern countries. Along with high margin Earth Observation revenue there will be material cash-flow originated from the construc-

Figures in Mln USD	UrtheCast	DigitalGlobe
Revenues	27	702
Market Capitalization	83	1'691
Total Debt	28	1'110
Cash and equivalent	25	126
Net debt vs. Market Cap.	2.7%	58.1%
EBITDA Growth (ext.)	100%	15.5%

tion of both Constellations...at approximate 25% EBITDA margins.

UrtheCast has net-cash on its balance sheet in contrast to industry leader, **DigitalGlobe, with \$1 billion debt and a \$1.6 billion market capitalization.** Recently, DigitalGlobe stated they intend to refocus on high-end clients only requiring 31cm resolution imagery. This is most likely in response to comments from their largest customer, the US Government, announcing its intention of spreading its large annual imagery budget to other participants in the market. Interestingly, we understand that **DigitalGlobe is quietly shutting down lower resolution cameras** to the net benefit of UrtheCast and other providers of imagery.

Google (current name: Alphabet – GOOG US) bought Skybox Imaging (current name: Terra Bella) for \$500 million, is planning to invest additional \$1 billion for 13 satellites but, according to market rumors, the project is currently on hold.

Compared to competitors, UrtheCast’s technology offers:

- Geoanalytics...much of the technology used by Google, for instance, does not allow analytics to be collected and utilized
- Huge price flexibility
- With the new constellation it will be possible to generate images through clouds 4 times a day for the same coordinates
- With digitalization and cloud technology there is a massive reduction of delivery time
- **UrtheCast is a Government independent service provider**, compared to DigitalGlobe, which often has delayed imaging delivery to other customers because of conflicts of interest with US government.
- UrtheCast is a member of the PanGeo Alliance...13 satellites which are connected worldwide. The pooling of 13 satellites aggregates the possibilities of camera’s being at the right place at the right time increasing the level of service to clients.

**Our logical question to DigitalGlobe:**

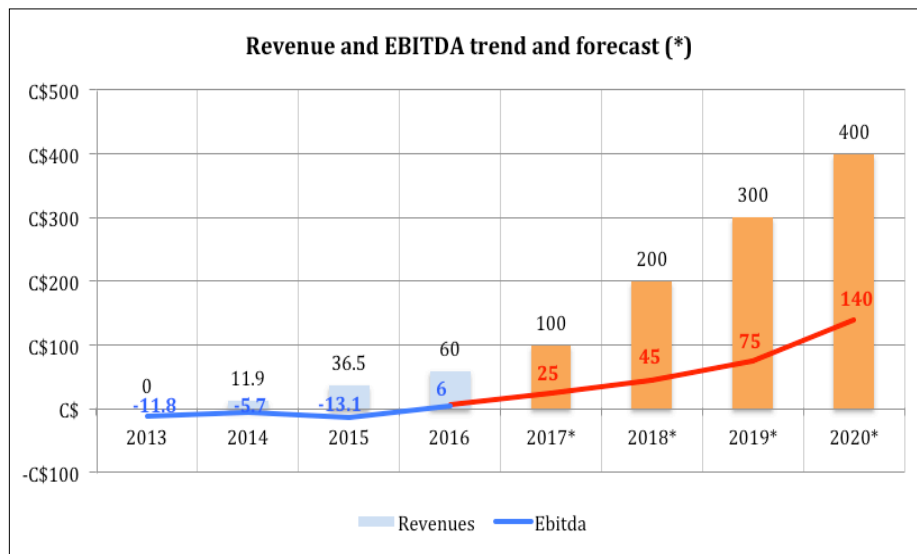
UrtheCast is going to build the biggest and most technologically advanced constellation in the next three years.

**The consequence will be the decreasing of price of space imaging and at the same time the profitability of DigitalGlobe.**

How is DigitalGlobe going to structure the use of outstanding debt?

Especially taking into account that the most important client of DigitalGlobe is the National Geospatial Intelligence Agency (50% of the revenues) officially announced that the next 10 years’ contract, of about \$700 million, is going to be split up amongst more modern and cost efficient industry players like UrtheCast.

**VALUATION**



**Payback time: 2.5 years**

- 10 times EBITDA 2017: ~ C\$250 million market cap = **133% upside potential**
- 10 times EBITDA 2020: < C\$1.4 billion market cap = **1400% upside potential**

**TECHNICAL ANALYSIS**



**Strong consolidation** at C\$1.00, supported by the real value of the company...C\$30 million cash liquidity, C\$25 million value of cameras, C\$100 million Deimos acquisition. **Book Value is estimated at C\$1.20.**

**Triggers:** The conclusion of the contract with Kazakh Space Agency in a few weeks’ time should help the breakout of the down channel at C\$1.26.

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