



CUBEWEALTH

PROCURE SPACE ETF REPORT

JUNE 8TH, 2020

UFO ETF

BY THE NUMBERS

TICKER: UFO

PRICE: \$21.89



PROCUREMENT

ETFs

UFO seeks results that correspond generally to the performance, before the fund's fees and expenses, of an equity index called the "S-Network Space Index".

The fund invests, under normal circumstances, at least 80% of its net assets in companies of the underlying index that receive at least 50% of their revenues or profits from space-related businesses.

The underlying index is designed to serve as an equity benchmark for a globally traded portfolio of companies that are engaged in space-related business, such as those utilizing satellite technology.

The fund is non-diversified and was created in April 2019.

0.5%

DIVIDEND
YIELD

-17%

YTD
RETURN

0.75%

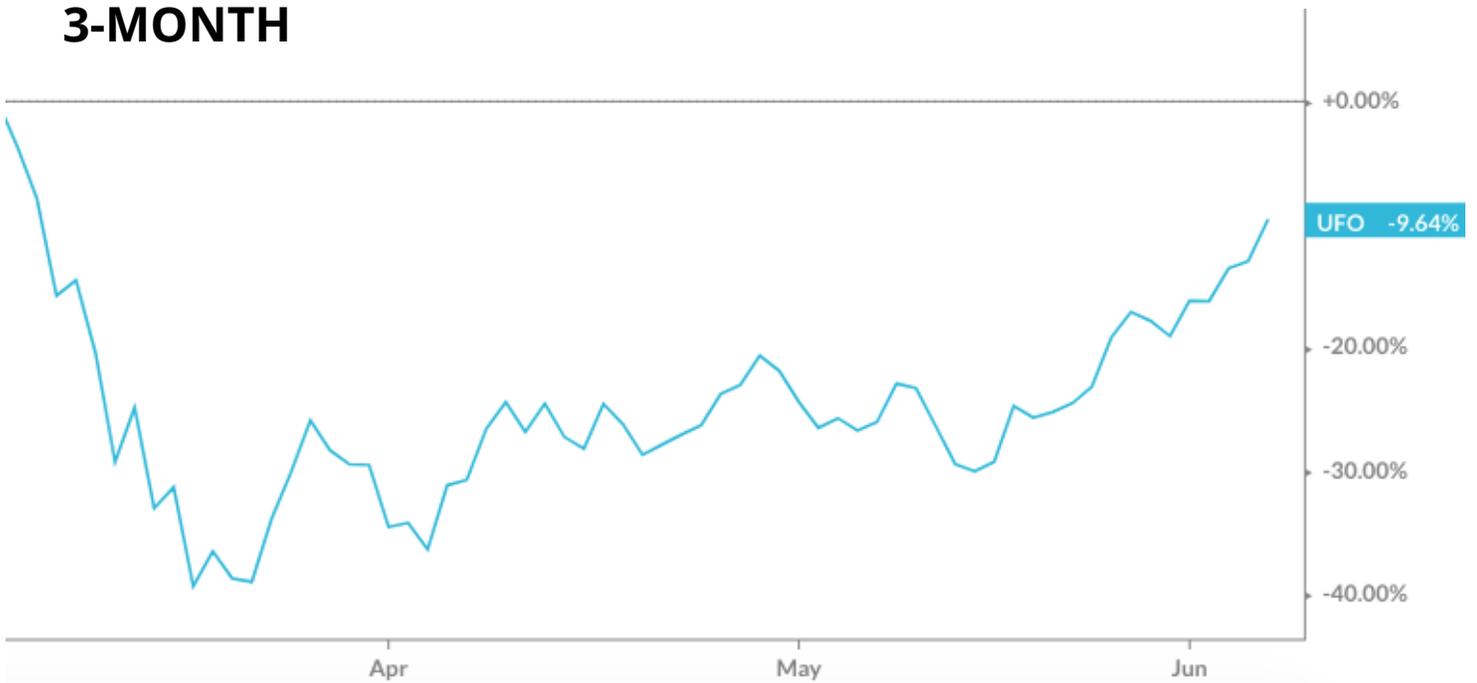
EXPENSE
RATIO

UFO

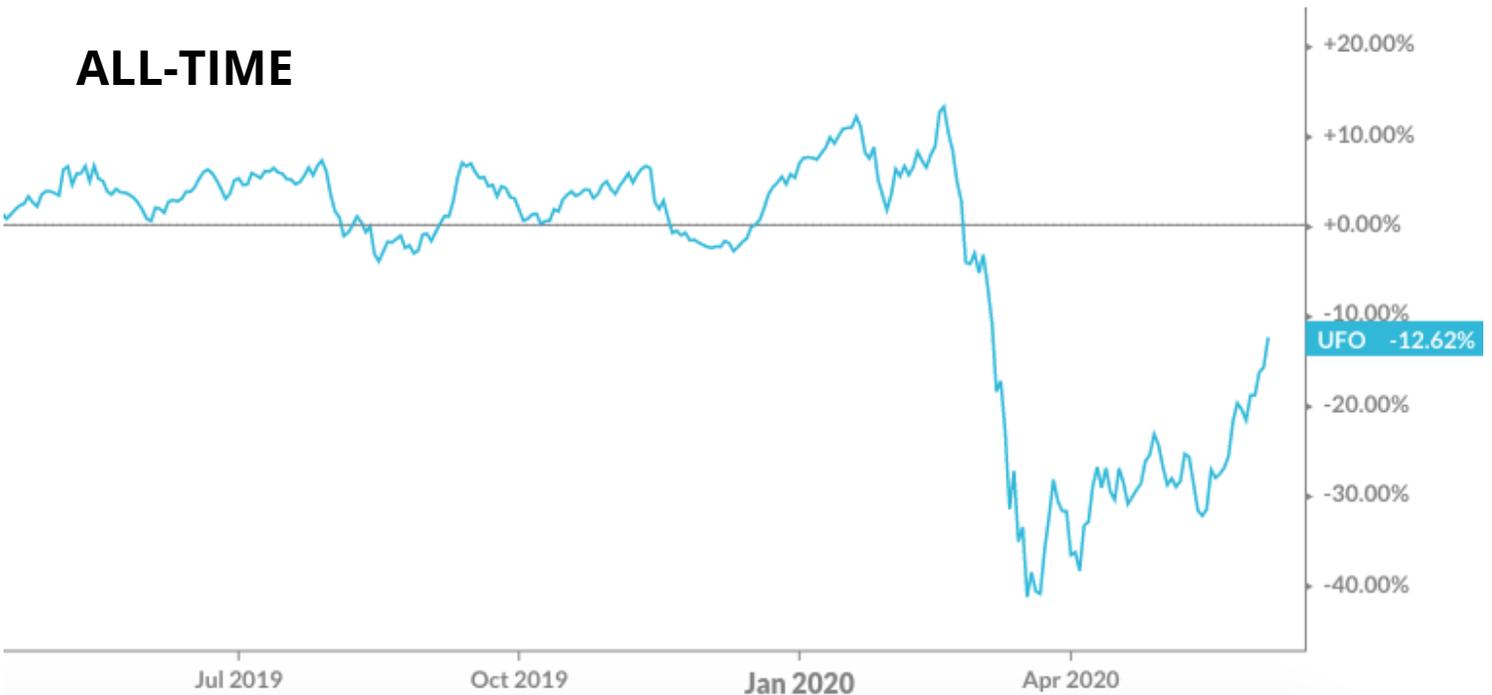


SHARE PRICE PERFORMANCE

3-MONTH



ALL-TIME



ANALYSIS

To begin, this is ProcureAM's first and only ETF that they launched in April 2019 and this is how they manage UFO.

The first tranche (“non-diversified tranche”) comprises “non-diversified” companies that derive at least 50% (but typically 100%) of their total annual revenues from space-related business. Companies included in the non-diversified tranche are accorded an aggregate weight of 80% of the total underlying index weight (100%).

The second tranche (“diversified tranche”) comprises companies in which space-related business plays a significant role in the generation of revenues but produces less than 50% of total annual revenues. Companies included in the diversified tranche are accorded an aggregate weight of 20% of the total underlying index weight (100%).

When it comes to larger companies that people typically associate with aerospace like Boeing, Airbus and Lockheed Martin, their size runs somewhat counter to Procure’s mission of creating a pure play on space. For example, CEO of ProcureAM, Andrew Chanin said, “They’re considered diversified companies,”... “If you look at some of those more industrial defense names [and] aerospace names, that people are familiar with, because it’s not a pure play, they fit into this 20% diversified traunch. So, you are getting exposure to these companies that are huge players, but because you don’t necessarily want a fund that’s going to be guided by these companies that aren’t necessarily deriving their revenues from this theme, that’s why they have this traunch.”

Fund Breakdown

SPACE RELATED INDUSTRIES

At least 80% of the index weight is allocated to companies that derive a majority of revenues from space-related industries, including those companies utilizing satellite technology:

-  Ground Equipment Manufacturing dependent upon satellite systems
-  Rocket and Satellite Manufacturing and Operation
-  Satellite-based telecommunications, Radio and Television Broadcasting
-  Space Industry Segments—Space-based Imagery and Intelligence Services
-  Space Technology and Hardware



EMERGING SPACE INDUSTRIES

The Index Provider believes that additional companies engaged in other space-related industries may emerge in the future, including:

-  Space Tourism, Including Transportation and Hospitality
-  Space-based Military and Defense Systems
-  Space Resource Exploration and Extraction
-  Space Colonization and Infrastructure
-  Space Technologies that Enable the Space Economy

\$17.9M

Assets Under Management

This amount of AUM, generally speaking, is pretty low and is also seen by its average daily volume of 19,900 shares.

Fund Breakdown

At this point it's a good time to also define "space". Although there is no legal definition of "space," a commonly accepted definition is that the edge of space begins at the Kármán line, which is 100 kilometers (62 miles) above the Earth's surface. This is approximately the point where there is not enough air to provide lift to a winged vehicle.

ProcureAM considers a company to be in a "space-related business" if a company's products or services either have as their essential purpose — or are entirely dependent upon — "space-based functions". Space-based functions include any kind of function carried out by hardware, software, or humans physically located in space. Examples of current space-related businesses (or "Space Industry Segments") include satellite-based telecommunications; transmission of television and radio content via satellite; rocket and satellite manufacturing, deployment, operation, and maintenance; manufacturing of ground equipment that is used with satellite systems; space technology and hardware; and space-based imagery and intelligence services.

In the case of companies that make products that go into space (such as launch vehicles), or companies that operate or maintain systems used in space (such as satellites), the space-related nature of the business is clear. In the case of companies whose products and services are used wholly on Earth, space must play an essential role in the business. For example, a company that manufactures GPS navigation systems as its primary business is wholly dependent upon those products' GPS satellite connectivity and therefore is engaged in a space-related business. By contrast, an automaker that incorporates a GPS navigation system into its automobiles is not considered to be engaged in a space-related business because the GPS system is not essential to the operation of the automobile and accounts for a negligible part of the selling price.

Fund Breakdown

In addition to companies exclusively focused on space, the ETF includes certain companies whose products and services span both space-related and other types of businesses. An example of such a company would be a defense contractor that manufactures systems and hardware involving space but does not derive a sufficient percentage of its revenues from space to qualify as a non-diversified space company. Another example would be a company that transmits television or radio content both via satellite and via terrestrial wired or wireless services; its space-related revenue is considered to be only that which is derived from customers who subscribe to content delivery via satellite.

With this being noted, the satellite industry, which accounts for the largest part of the overall space economy, is experiencing mixed growth.

- Satellite Manufacturing revenues increased by 26%; several high value intelligence and military satellites launched in the U.S. and abroad (satellite manufacturing revenues recognized in the year of launch)
- Satellite Services revenues remained as the largest industry segment; growth in value-added markets (broadband 12%; radio 7%; managed networks 7%; and mobile 3%); 1.7% overall decrease, reflecting satellite TV and transponder leasing markets
- Ground Equipment revenues increased by 5%; growth in network equipment, flat or somewhat decreasing consumer equipment revenues
- Satellite Launch Services Industry revenues increased by 34%; record number of launches (revenues recognized in the year of launch)

More on this to come.

Industry Statistics

The industry has been getting a ton of private funding over the years and it is showing zero signs of any slowdown.

From 2000-2005, the industry received more than \$1.1B in investment from private equity, venture capital, acquisitions, prizes and grants, and public offerings. By the 2012-2017 period, the industry had received more than \$10.2B.

In 2019 alone, space companies received \$5.8B across 198 investment rounds (view image below). The largest private companies — such as SpaceX, Blue Origin and OneWeb — made up the lion's share of last year's investments, receiving billions in new funds. But early-stage deals remained strong as well, making up 72% of the total investment rounds last year. As these companies mature, we believe many will step into the public markets and CUBE predicts a tremendous amount of turnover in the UFO ETF as more directly related companies make their way onto the exchanges.

YEAR-TO-DATE EQUITY INVESTMENTS

Investment Amount

\$5.8B

NUMBER OF ROUNDS

198

EARLY-STAGE¹ INVESTMENT

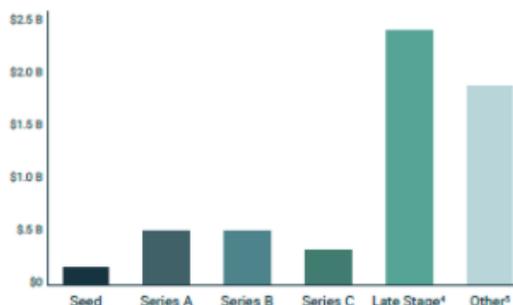
\$686M

EARLY-STAGE ROUNDS

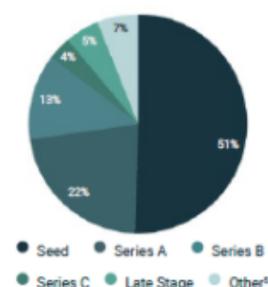
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By Stage

Investment Amount



Round Share



Industry Statistics

The space industry has developed into a multi-billion dollar industry and has attracted considerable media attention in recent years, in part because of interest and investment from high profile billionaires like Paul Allen, Jeff Bezos, and Elon Musk, among others.

Near term, space as an investment theme is also likely to impact a number of industries beyond Aerospace & Defense, such as IT Hardware and Telecom sectors. Morgan Stanley estimates that the global space industry could generate revenue of more than \$1 trillion by 2040, up from \$350 billion, currently. Yet, the most significant short- and medium-term opportunities may come from satellite broadband Internet access.

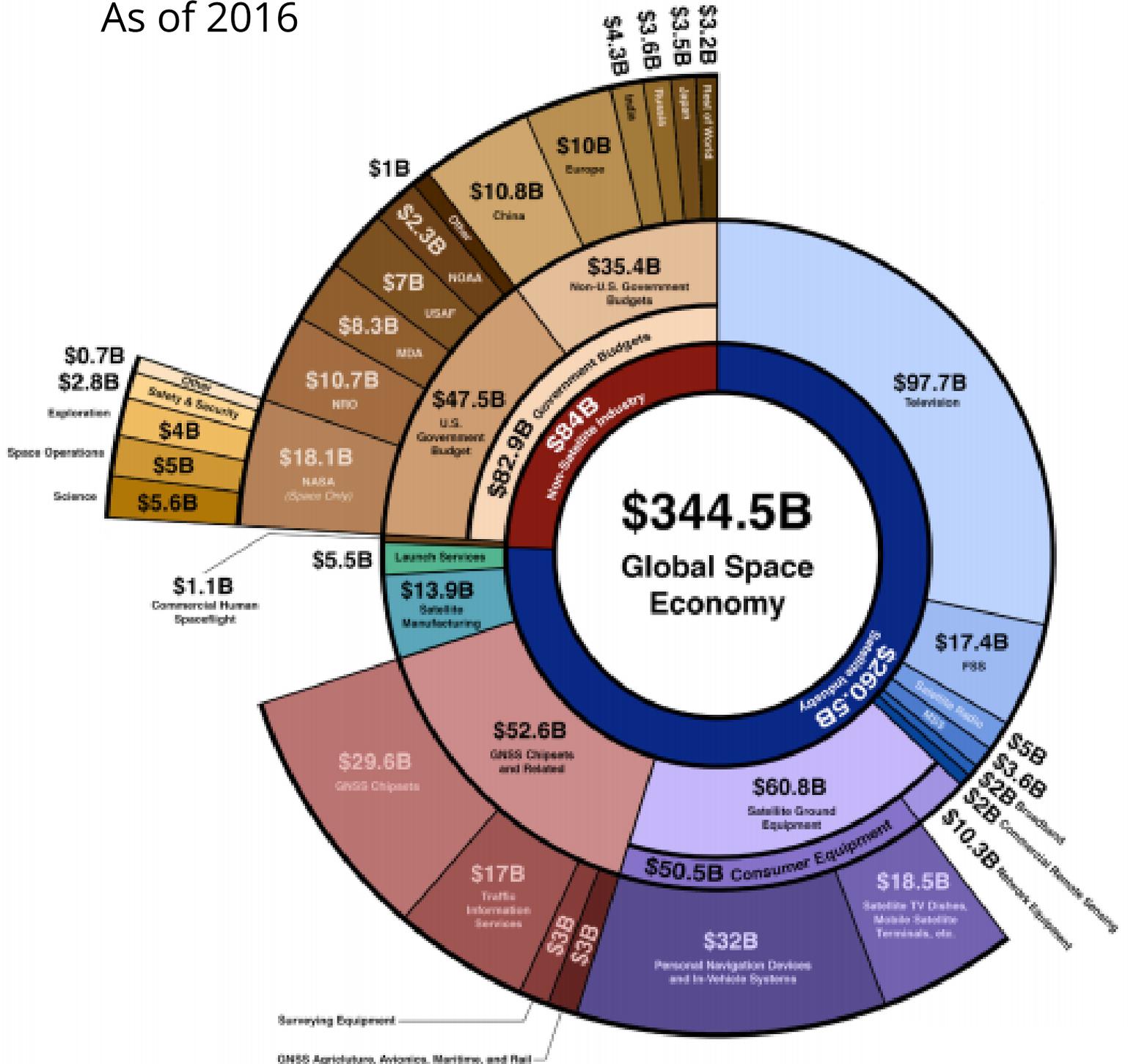
One report by Goldman Sachs predicted the industry would reach \$1 trillion in the 2040s, noted Jeff Matthews, a consultant with Deloitte who moderated the panel discussion. A separate study by Morgan Stanley projected a “most likely outcome” of a \$1.1 trillion space economy in the 2040s. A third study by Bank of America Merrill Lynch was the most optimistic, seeing the market growing to \$2.7 trillion by the same timeframe.

Governments and companies worldwide spent a record \$415 billion last year on everything from satellite-based entertainment to real-time services such as mapping and weather forecasting -- notably, private businesses account for nearly 80% of that spending, according to the nonprofit Space Foundation.

More than half of that money went into satellite services and products like entertainment, with about a quarter for infrastructure such as satellite launch vehicles. Also, commercial space investment is up 79% since 2009.

Industry Statistics

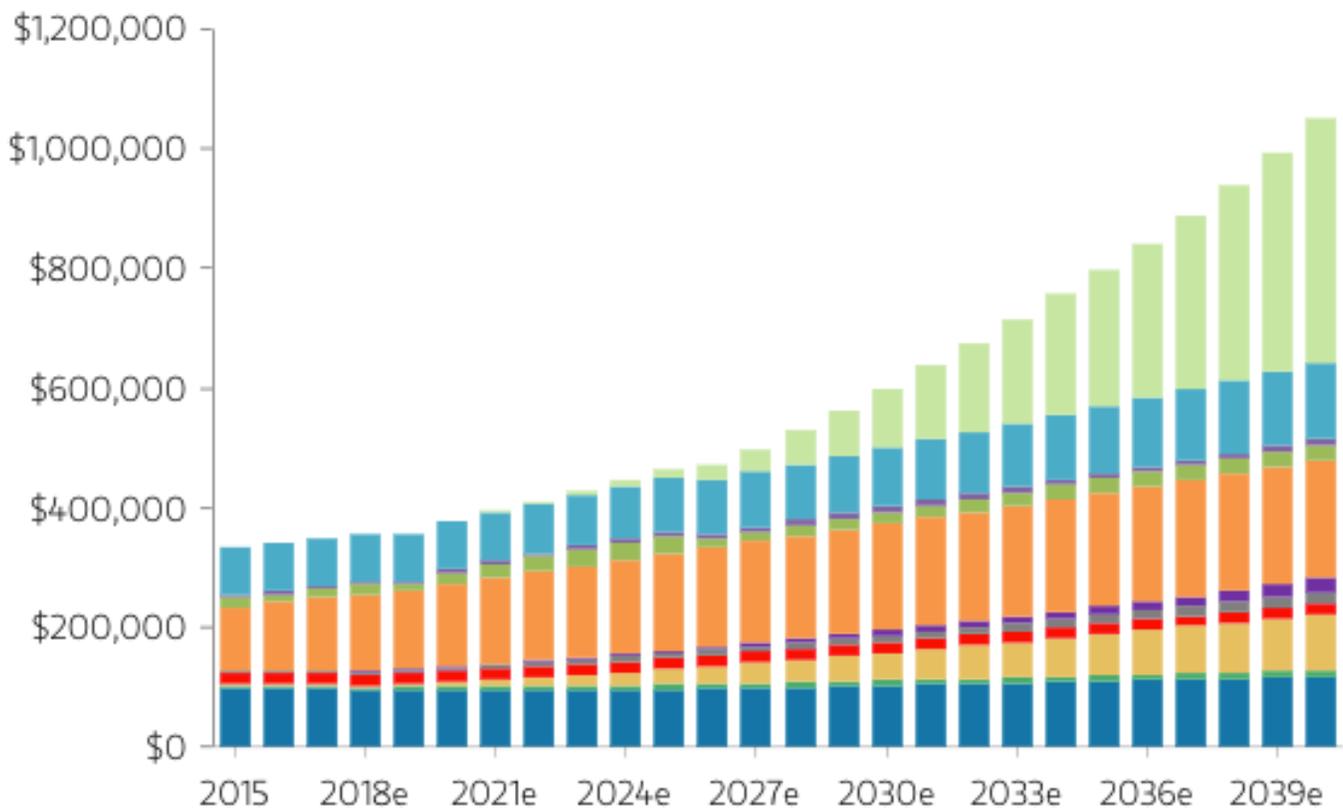
As of 2016



Industry Statistics

Projected 2015-2040

The Global Space Economy (\$t)



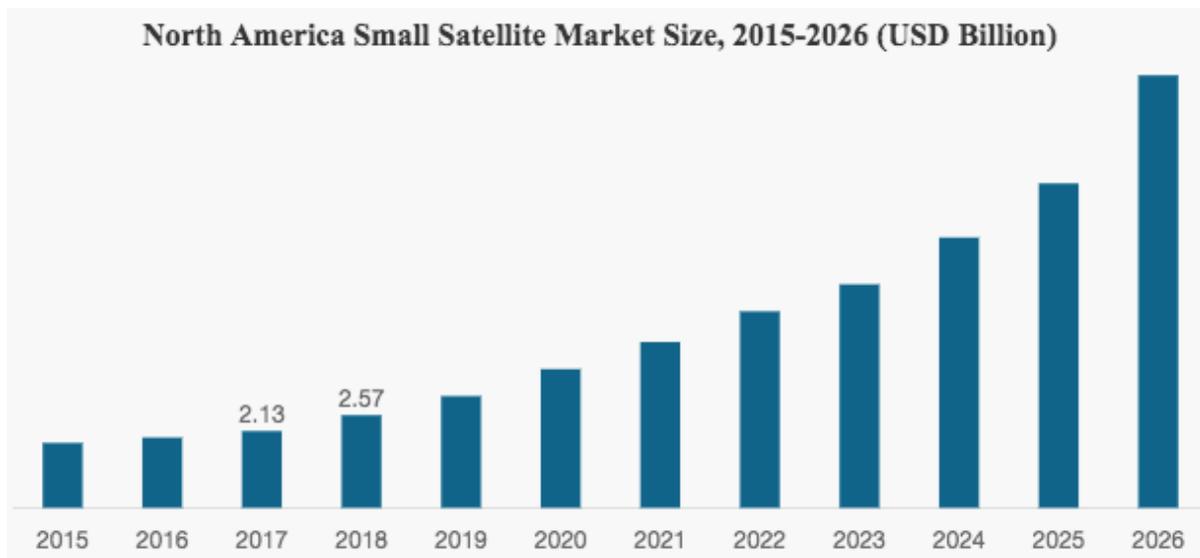
- Consumer TV
- Consumer Broadband
- Mobile Satellite Services
- Ground Equipment
- Satellite Launch
- Second Order Impacts
- Consumer Radio
- Fixed Satellite Services
- Earth Observation Services
- Satellite Manufacturing
- Non Satellite Industry

Industry Statistics

Let's actually dive a little deeper into the satellite market of the "space industry". The "small satellite" market in particular is expected to boom.

The global small satellite market size is expected to reach \$18.3B by 2026, exhibiting a CAGR of 20.28% during the forecast period. How come? Mainly from the rising integration of the Internet of Things (IoT) era in various industries that will boost demand for the small satellite market as IoT provides secure and high-availability data services for professional users along with high level of service reliability for active IoT deployments has led to the higher implementation of IoT.

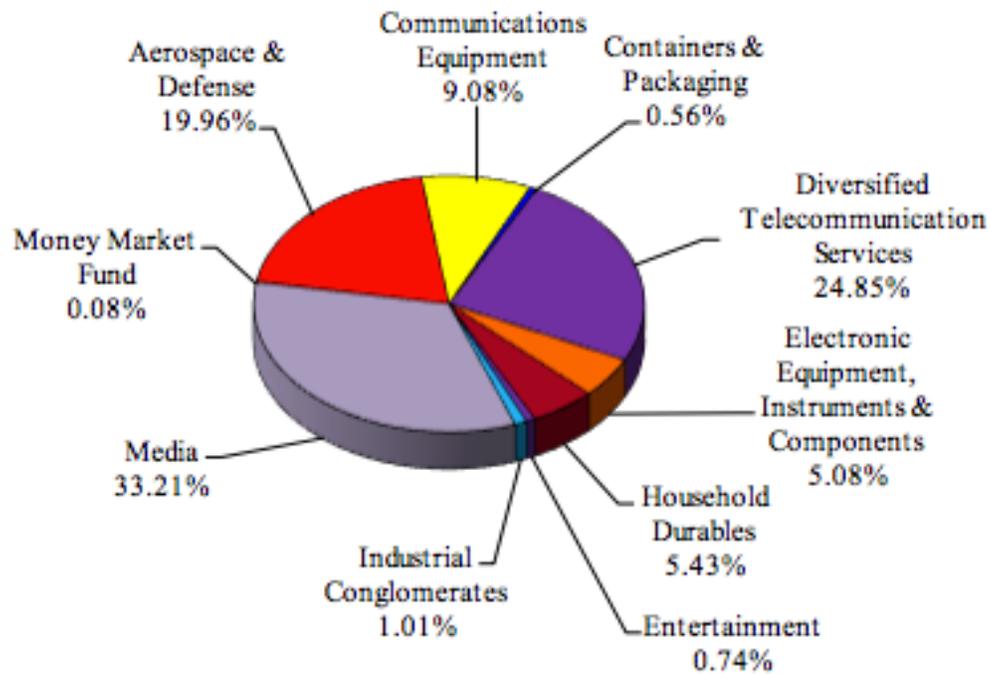
In January, SpaceX launched its third batch of 60 mini-satellites into orbit, part of its plans to build a giant constellation of thousands of spacecraft that will form a global broadband internet system. Musk hopes eventually to control 3-5% of the global internet market and his company, SpaceX, has so far received US authorization to launch 12,000 satellites in several different orbits, and it has applied to launch as many as 30,000 more.



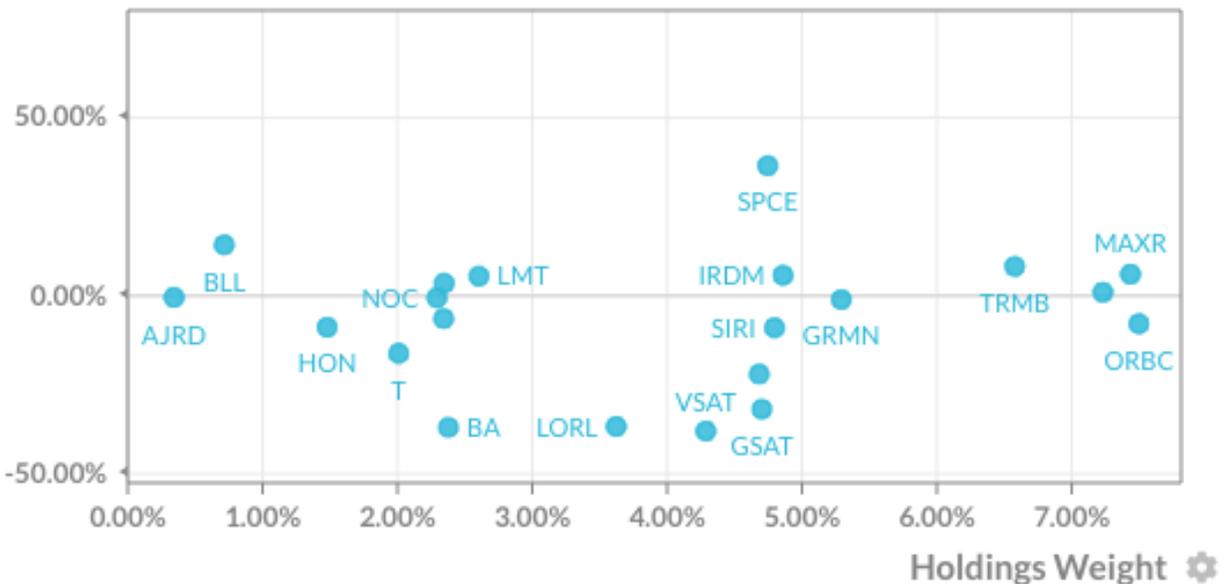
Holdings Breakdown

Stock Ticker	Security Name	Weight
ORBC	ORBCOMM INC	8.21%
DISH	DISH NETWORK CORPORATION	7.22%
MAXR	MAXAR TECHNOLOGIES INC	7.22%
TRMB	TRIMBLE INC	6.67%
GRMN	GARMIN LTD	5.30%
SESG FP	SES SA	5.19%
GSAT	GLOBALSTAR INC	4.96%
IRDM	IRIDIUM COMMUNICATIONS INC	4.78%
ETL FP	EUTELSAT COMMUNICA	4.69%
SIRI	SIRIUS XM HOLDINGS INC	4.68%
SATS	ECHOSTAR CORP	4.59%
SPCE	VIRGIN GALACTIC HOLDINGS INC COF	4.57%
9412 JP	SKY PERFECT JSAT H	4.29%
VSAT	VIASAT INC	4.19%
LORL	LORAL SPACE & COMMUNICATNS INC	3.70%
BA	BOEING CO	2.57%
LMT	LOCKHEED MARTIN CORP	2.56%
LHX	L3 HARRIS TECHNOLOGIES INC	2.33%
CMCSA	COMCAST CORP NEW	2.31%
NOC	NORTHROP GRUMMAN CORP	2.26%
T	AT&T INC	2.00%
RTX	RAYTHEON TECHNOLOGIES CORP	1.54%
HON	HONEYWELL INTL INC	1.48%
AIR FP	AIRBUS GROUP SE	0.86%
BLL	BALL CORP	0.68%
Cash&Other	Cash & Other	0.43%

Holdings Breakdown



⚙️ Historical % price change: YTD



Holdings Breakdown

As an additional reminder, do not let the ticker confuse you. UFO is not invested solely in companies that are sending people to space. With this in mind it was to our surprise that UFO's largest holding with an 8.2% weight is a company called Orbcomm (ORBC). Its assets were purchased out of bankruptcy in 2001 with the company re-formed in 2003, eventually going public in 2006, raising net proceeds of ~\$90 million at \$11 per share and now trades at nearly \$4.00 per share with a \$300M market cap. ORBC is a provider of Machine-to-Machine (M2M) and Internet of Things (IoT) solutions with 2.2M global subscriber communicators dispatched to monitor everything from the temperature and location of a refrigerated shipping container to the performance of a driver for an insurance discount to the position of marine vessels to the corrosion level of a pipeline. The company appears positioned to capitalize on the IoT market and is trading at interesting valuation of 2x forward EV/Sales and 10x forward EV/EBITDA but based on their recent quarterly report saw a lot of headwinds from COVID19.

DISH Network (DISH), UFO's second largest holding at 7.2%, is another company that is in a weird business cycle. As many know, the only reason the Sprint and T-Mobile merger went through was because Dish is acquiring Sprint's prepaid mobile brand Boost and Sprint's 800MHz wireless spectrum to help it build a 5G network that is supposed to rival the likes of AT&T, Verizon and the new T-Mobile. This move is going to require significant capital and resources to become profitable and there are many question marks as to whether DISH is capable enough to be a real contender in the space. On top of this you have their dying legacy business and their attempt to make money on cord cutting via SlingTV which actually had its first decline in Q4 of a net loss of 94,000 accounts, and that accelerated to 281,000 net losses in Q1. Sling subscribers as of March 31 were down 4.7% Y/Y to 2.31M - not good.

Holdings Breakdown

The third largest holding is a company called Maxar Technologies (MAXR). Maxar is another company in the midst of a turnaround in its business. The company is pretty loaded in debt. For example, as of March 2020, it had only \$12 million in cash but nearly \$2.96 billion in both long and short-term debts. Most of its long-term debt includes \$1 billion in 2023 Notes, maturing in 2023, and \$1.955 billion in Term Loan B, maturing in October 2024.

The company is on its path towards getting the balance sheet in a better position as they have recently divested assets worth almost \$700M which will be seen on future quarterly results.

Michael Burry, famous for the Big Short, has increased his position in the company and it now makes up nearly 13% of his portfolio as of the New Year.

The top 3 companies in UFO are currently not big growth names. In fact, they are companies trying to rebound after a rough 5 or so years. If we look below, we will see the performance of all three companies since 2015 vs. the SPY.



Holdings Breakdown

We like that the fund owns Lockheed Martin (LMT) as CUBE also does so that is nice to see. We also like that Virgin Galactic (SPCE) isn't the largest holding but is worked into there to give it more of a "space" feel. You can view the research report on SPCE as well in the Vault for more info.

All around, the portfolio composition isn't necessarily bad but we do find some holdings and their weights to be a bit odd. CUBE personally thinks companies like Iridium (IRDM), Eutelsat (ETL.PA), AT&T (T), and Airbus (AIR.FP) should be weighted heavier and positions like ORBC, GSAT, and more so DISH should be reduced until it is more clear that their businesses are going to thrive and capitalize in the rapidly evolving industry.

If we look at another competing ETF, State Street's SPDR Kensho Final Frontiers ETF (ROKT), we see their holdings are weighted on much more established companies with Raytheon and Lockheed making up over 12% of the portfolio.

Maxar Technologies Inc.	36,464	7.68%
Raytheon Technologies Corporation	7,547	6.48%
Teledyne Technologies Incorporated	1,237	5.86%
Lockheed Martin Corporation	1,117	5.73%
L3Harris Technologies Inc	2,175	5.52%
CACI International Inc Class A	1,627	5.42%
Northrop Grumman Corporation	1,237	5.28%
Aerojet Rocketdyne Holdings Inc.	8,796	5.06%
HEICO Corporation	3,474	4.89%
Mercury Systems Inc.	4,313	4.78%

Holdings Breakdown

ROKT is weighed much heavier in aerospace and defense while UFO is heavier on the communications side. For example, ROKT doesn't own DISH, AT&T, Iridium, Eutelsat, Comcast, Viasat, GlobalStar, etc. ROKT also does not own SPCE as the fund appears to be much more conservative with positions in companies with more proven track records. CUBE believes if both funds could merge and take the best of each it would be a better fund.

Since inception, ROKT has outperformed UFO but ROKT also has the same issues such as lack of liquidity and low assets under management making them both relatively unknown or unwanted ETFs.

ROKT does have a lower expense ratio at 0.45% vs. UFO at 0.75%.



CUBE'S TOP PROS FOR UFO



HIGH GROWTH
MARKET



ALTERNATIVE
PLAY ON 5G/IOT



DIVERSIFICATION
MADE EASY

CUBE'S TOP CONS FOR UFO



MANAGEMENT
FEE, LOW AUM,
LOW VOLUME



MANY PURE PLAY
SPACE COMPANIES
NOT YET PUBLIC



QUESTIONABLE
HOLDINGS/
COMPOSITION



UFO

TECH ANALYSIS

UFO Procure Space ETF Nasdaq GM

© StockCharts.com

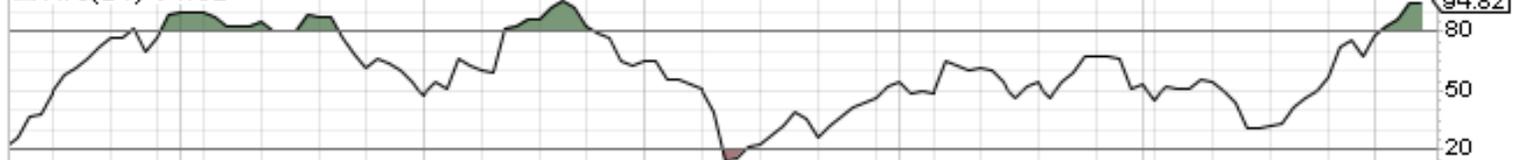
5-Jun-2020

Open 21.80 High 22.10 Low 21.68 Close 21.89 Volume 39.7K Chg +0.81 (+3.83%) ▲

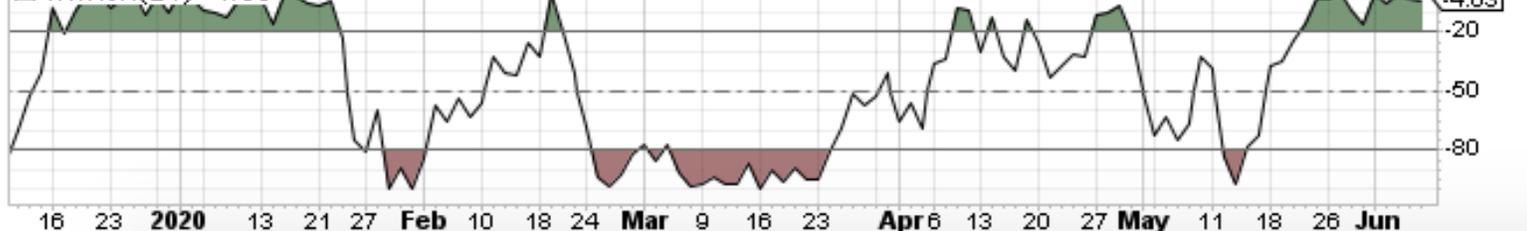
▲ RSI(14) 72.77



▲ MFI(14) 94.82



▲ Wm%R(14) -4.63





TECH ANALYSIS SUMMARY

Looking at the charts, UFO has some key resistance levels coming up. The company first has the R2 level of \$22.68 followed by the 200DMA of \$23.34.

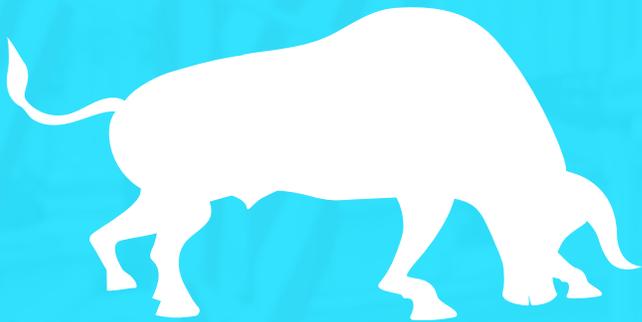
To the downside, there is support at the 100DMA of \$21.06 and if that does not hold some further support in the low \$19s where the 20DMA is.



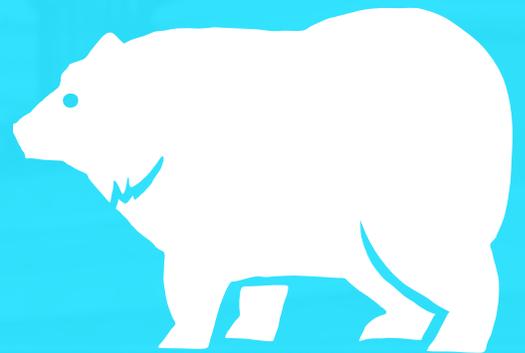
CUBE believes UFO will test the upper resistance levels in the near future but will ultimately get rejected and retest the 100DMA of \$21.06 which may be slightly higher by the time it happens.

We believe this based off the run its had and where RSI, MFI, and the W%R currently stand in overbought territory.

BULLISH OR BEARISH?



VS.



**MORE BULLISH
(POSITIVE)**

**MORE BEARISH
(NEGATIVE)**





UFO CONCLUSION

Overall, CUBE teeters towards more bearish on the UFO ETF over the next 12 months. While we are bullish on the industry we simply do not understand many of the holdings and the reasoning for their individual weights. Many of the companies in the portfolio have been major laggards and while this doesn't mean they'll underperform forever, it is safe to say the market has been favoring riding winners higher and selling laggards lower. We would also prefer an ETF that has a more balanced structure and awaits seeing solid business progress in many of these companies before owning them.

Furthermore, we must take into account that CUBE is judging the ETF based on its lack of liquidity and AUM which can lead to above average volatility alongside a fairly steep expense ratio. CUBE would rather wait for more space-related companies to enter the markets so it can be owned by an ETF like this rather than jumping the gun now. We think the reason this is the only space ETF on the market is because many of these companies aren't really true "space" companies that we think of and it is kind of misleading in a sense. The ETF seems more geared towards communications and in that case we would favor a more popular 5G/IoT themed ETF.

DISCLAIMER

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