

ENTERPRISE

BRITISH ENTERPRISE EIS FUNDS

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Lacomp plc

Founded in 1985, Lacomp provides a discretionary portfolio management service to an international clientele and manages a series of Approved EIS Funds.



Peter Buxtorf

“Exciting investments in a tax-advantageous wrapper”

Peter Buxtorf, MD of Lacomp, discusses approved EIS funds.

Lacomp invest in pre-IPO, EIS qualifying companies within an HMRC Approved Investment Fund structure. The aim is to achieve capital appreciation over typically a five-year investment term within a tax-advantageous framework. The Lacomp British Enterprise EIS Funds thus are appropriate for those seeking capital appreciation and/or tax planning ideas.

Q: What does EIS stand for, and why an EIS Fund?

A: I have always liked the principle of Enterprise Investment Scheme investments. Very simply, the Government gives investors significant tax breaks to enable companies who are at an early stage of their development to raise funds. Typically, these companies have outgrown their local clearing banks' lending remit but are still too small to attract the bigger players like investment banks. However, EIS investments traditionally were aimed at just one company, and since this type of investment must be viewed as higher risk, Lacomp was drawn to the idea of diversification offered by the fund approach. Although termed an 'Approved Investment Fund' in HMRC parlance, this is something of a misnomer as EIS Funds actually consist of a collection of discretionary portfolios in which investors have a direct shareholding in the underlying companies.

Q: So what is an 'ideal' company for a Lacomp EIS Fund?

A: The Lacomp British Enterprise EIS Funds are generalist in approach. The ideal would be a pre-IPO company that has funded itself through the early R&D years and is now seeking money to commercialise its ideas. We are particularly drawn to those entrepreneurs who have invested 'sweat capital' in the form of time and personal money as this demonstrates a level of persistence and commitment to the business. There needs to be a clearly defined route to market and personalities are crucial – often the 'brains' behind an idea do not have the requisite commercial skills to capitalise on the project. For this reason, we are drawn to those firms that can demonstrate an established team, particularly where key members are not fully rewarded until the firm is successful. The exit strategy must be important to the management team as, clearly, we do not want to simply fund someone's particular hobby horse.

Q: Why target pre-IPO companies when AIM companies are arguably lower risk whilst still qualifying for EIS relief?

A: You are quite right, many AIM companies (not all) would qualify for the relief but, in our view, an AIM listing is not necessarily less risky. Whilst technically 'unquoted', the AIM market has been shown to be very susceptible to swings in market sentiment arising from the broader market. Such moves are often caused by factors that are completely irrelevant to the investee company – it simply gets caught up in the momentum,

and if share trading volumes are low, the share price can languish despite otherwise positive company news. For this reason, we prefer to invest in non-AIM stocks where any problems are company-specific rather than random and where the potential for capital uplift is considerably enhanced.

Q: So, if you are not too keen on AIM, how do you exit the investments?

A: Of course, we can consider AIM companies, and an AIM listing certainly is not ruled out as a potential exit route – there usually is a share price uplift when a firm goes to an initial public offering. We simply tend to prefer investments in companies which have not yet listed. The exit route is one of the first issues addressed by the Investment Advisory Panel when we look at a company seeking funding. Lacomp do not want to 'collect' investments but are interested in realising value for investors. Throughout the investment period, typically five years, we continually monitor company progress and try identifying potential strategic partners or trade bidders.

Q: Great emphasis is made of your Investment Panel. Why do you view this as important?

A: The IAP is responsible for sourcing, selecting and monitoring of investments. Whilst Lacomp as Fund Managers make the decisions, I felt it was important to introduce an independent element into the investment process, and we are very fortunate to have brought together three individuals with diverse but relevant experience in the pre-IPO market. The team approach works very well when assessing potential investments because of the diversity of experience across the IAP. In addition, their extensive industry contacts provide both a steady deal flow and the ability to introduce industry mentors to assist existing investments. A member of the IAP attends all board meetings and this enables us to spot impending problem areas and also the potential for synergies with other investee companies.

Q: How do you value the investments if they are not listed on a recognised market?

A: Valuation of a company at this early stage of its development is largely subjective and the only verifiable 'value' is that achieved when an investment is sold. Lacomp decided to adopt a very conservative approach to valuations for two reasons. Firstly, we do not wish to inflate expectations, preferring to give

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investors positive surprises at exit rather than downward revisions. Secondly, investee companies frequently are competing in a sector where there are dominant market players. Premature disclosure of commercially sensitive information in order to achieve a boost to the short-term valuation could draw unwelcome attention from the incumbent market leaders. It may well be preferable to quietly become an 'irritant' in order to attract a trade buyer. Companies bringing disruptive technology to market are particularly suited to this approach. For this reason, Lacomp adopts a 'softly, softly' approach, often not disclosing favourable news derived from our monitors until the time is considered appropriate.

Q: This is surely a risky investment?

A: We are at great pains to point out that the conditions for EIS qualification necessarily mean that the underlying investments will be in unquoted companies that, by definition, are risky. Such companies are usually illiquid and difficult to sell in the short term and pre-IPO companies are certainly not for the faint-hearted. Neither are they for investors seeking income, as Lacomp would expect any profits generated to be reinvested to further a company's development. Having said that, the risk element is considerably softened by the advantageous tax treatment whilst the 'reward' for incurring greater risk lies in the potential for significant tax-free capital gains. We always urge investors to contact an appropriately qualified and regulated adviser when considering an investment of this sort.

Q: You have mentioned the tax treatment in passing. What are the key elements in your view?

A: Changes in the 2006 Budget went some way towards levelling the playing field with Venture Capital Trusts (VCTs). EIS investors can invest up to £400,000 and need only hold the shares for three years whilst the VCT limits are £200,000 and five years respectively. Narrowing a company's capitalisation maximum to £7m also served to limit the scope for VCTs whilst leaving Lacomp largely unaffected in its chosen niche where companies are smaller at the time we invest. There is a clear income tax advantage for VCT investors – the tax relief is at 30% rather than 20% for EIS – but, essentially, we see the two vehicles as complementary, particularly if an investor has CGT or IHT issues to address. The ability to defer capital gains, the availability of loss relief and the IHT rules concerning Business Property Relief are the essential elements that make EIS worthy of consideration. Again, I would urge investors to consult a suitable adviser on these aspects.

Q: You just mentioned loss relief and IHT rules. Could you explain?

A: Certainly. Let's take loss relief first, and let's further assume you are an investor in a collective vehicle such as a unit trust or a VCT. If one of the underlying investments partially or completely fails, this merely serves to depress the price of the unit or share you hold. If, in the case of an EIS Fund, a particular company fails, the resultant loss can be crystallized and offset against either income or capital gains tax. Whilst the loss relief and the other significant tax breaks go a long way towards softening the impact of any capital losses, we strongly feel that tax considerations should not be the main criteria persuading an investor to invest. As Fund Managers, we are searching out real investment opportunities that offer the potential for significant capital appreciation.

Looking at IHT, EIS investments qualify for Business Property Relief, which means that they fall outside the estate once they have been held for two years. This is quite different from the often mentioned 'seven year window' when gifting under the PET (Potentially Exempt Transfer) rules. More importantly, even if an investor were to die within the two year period, provided the EIS investment is left to the surviving spouse by adding a codicil to the Will and provided the surviving spouse holds the investments for the remainder of the two year period, the amount invested still remains outside the estate.

Q: One final point. Lacomp have just successfully closed their seventh Approved Fund. Why do you consider the 'Approved' format to be preferable?

A: This is a very important point which becomes essential when addressing the deferral of capital gains. Approved Funds must make their investments within six months of the Closing Date, whereas Unapproved Funds have up to three years to do so. Therefore, the Approved Fund route is preferable because it allows investors and their advisers a degree of accuracy in tax planning in relation to capital gains deferral and, indeed, inheritance tax. Whilst income tax relief is given in the tax year in which a fund closes, the relevant dates for CGT and IHT considerations are when the underlying investments are placed. In this context, it is worth noting that an investor can defer capital gains that have been crystallized in the previous 36 months (or, indeed, the following 12 months) of the date when we, as Fund Managers, place the investments in EIS qualifying companies.

Oil: Exploiting a finite resource

A large number of mature oil wells have experienced a notable decline in output or have already suspended production. In the North Sea alone, there are believed to be between 300-400 dormant wells. At a time when oil prices seem set to remain at \$60 or more per barrel, any technology which would enable this resource to be brought back into play could prove very profitable indeed.

It is for these reasons that Lacomp were excited to have the opportunity to invest in oil services provider Artificial Lift Company Limited (ALC).

ALC have developed a range of products designed to improve the efficiency of 'brownfield' sites, i.e. those wells that are no longer commercially viable and have ceased flowing. By utilising their electric submersible pump (ESP), it is estimated that production per well could easily be some 5,000 to 6,000 barrels per day (bpd), equivalent to between 900,000 and 1,600,000 bpd from the current dormant infrastructure within the UK. Currently used ESPs require a rig, but the ALC deployment system does not.

The delivery system is very portable and quick to install thus saving valuable rig 'downtime'. Typically, an installation will be out of commission for some 90 days in the event of a breakdown or some routine servicing requirement. The ALC unit can be installed within 5-7 days, allowing production to resume quickly. Lacomp felt that this was a particular investment attraction whilst the geopolitical climate keeps oil prices high.

The familiar 'nodding donkeys' could soon be a thing of the past if the efficiency savings can be demonstrated. Based on 19th century technology, the 'donkey' works from a surface mounted rod pump. By basing the pump below the surface using the



existing shaft and utilising the ALC cabling system, it will be possible to replace the surface structure with something less visually obtrusive thus providing another 'green' credential for this innovative technology.

PREVENT PLC: Health screening at work and at home

"To achieve overall good health & well-being it is essential to obtain digestive balance. Time and again it has been shown that food intolerance causes illness and prevents a full recovery. The Prevent plc Food Intolerance Test will go a long way to ensure you achieve balanced and improved digestion, increased energy levels and manage your weight more effectively"

Dr. John Brazier (TCM) MSc MBRCPC CCATCM

Lacomp were impressed with the potential scale of the Prevent plc business plan that envisaged workplace provision of affordable health screening. Since our original investment, Prevent have expanded their offering to include online screening in the home and have now introduced a test for food allergy and sensitivity.

Food intolerance can lead to undigested food, turning slowly to sugar or acid, creating an imbalance and causing bloating, irritable bowel, weight gain, headaches, rashes, hormone imbalances and a number of other symptoms.

Intolerances will often not surface for many hours or even days after eating the offending food, making intolerances difficult to identify. However, if underlying reasons can be re-balanced, the intolerance can often be exposed and therefore avoided in the future.

Using Acalc™, a testing system developed by their nutritional team and based on the results of more than 35,000 people surveyed within the UK, Prevent plc have produced an award-winning product that has been used by several thousand participants and continually generates tremendous results.



The test assesses intolerance to wheat, yeast, alcohol and dairy products, provides data on acid/alkaline and vitamin/mineral imbalances and can identify food sensitivities. The results are presented in a comprehensive report and follow-up telephone consultation with a nutritionist.

The participant completes a set of symptom analysis questionnaires and four Acalc™ urine tests after eating, over the course of a normal day. The urine tests and questionnaires can be conducted at home and the results posted to the Prevent plc laboratory. A report is then produced which assesses the likely causes of intolerance and makes recommendations as to the specific foods to avoid, the vitamins and minerals to take, and the preventative action necessary to help re-balance the digestive system.

PROSURGICS: Driving the adoption of robotics in surgery *by David McTurk CEO*



Over the past decade Prosurgics has developed a significant technological base in surgical robotics technology, and in recent years has achieved leadership in "image-guided" surgical robots – combining the accuracy of robotics with the power and resolution of modern medical imaging (MRI and CT). The company has built a focused platform of intellectual property and international regulatory approval for its first two products. Over the past 18 months, a new management team has transitioned Prosurgics from its predominant R&D focus to become a commercially driven and outward facing organisation, meeting the needs of its growing customer base.

The surgical robotics market is evolving rapidly, with global revenues of \$200m last year expected to rise to \$1-2bn in the medium term. Prosurgics' robots do not replace the surgeon, but rather empower skilled surgeons to achieve even better results. The benefits of surgical robotics include improved patient outcomes, reduced hospitalisation recovery times and reduced surgeon fatigue. They can also offer a positive financial impact to healthcare providers.

In tune with the way healthcare is evolving internationally, Prosurgics is applying its technology to develop products that will maximise efficiency in service delivery. The company's robotic camera holder provides an "additional hand" for surgeons performing keyhole surgery, shortening operations and reducing staffing needs. The company's vision is to make this type of product ubiquitous in keyhole surgery. To achieve this ambitious target, the company is redefining the accepted capital sales model for such products to a hybrid of lower capital cost, combined with highly efficient single-use-product revenue streams. This departure shifts the company from reliance on resource-intensive and lengthy capital goods selling processes, aligning it with best commercial practice in the medical device industry.

At the heart of Prosurgics' progress over the past year has been the development of a keen understanding of the evolving needs of its customers, both existing and potential. To signal and reflect the company's re-emphasised customer orientation and commercial focus, the business recently has been renamed and completely rebranded.

With the commercial refocusing of the business complete, the company has successfully raised the £1.3m first tranche of the planned £3m fundraising required over three years to move into profitability. These funds are being used to bring two new products to market during 2007, and to initiate global market expansion through partnership alliances.

INVESTMENT ADVISORY PANEL

The Investment Advisory Panel (IAP) is the key element in the Lacomp range of EIS Funds, being responsible for sourcing, assessing, monitoring and exiting investee companies.

Initially, an individual panel member assesses a prospective investee company before it is being considered for a formal presentation to the full IAP. On occasions, other individuals with specialist technical knowledge are invited to the meeting in order to provide expert advice to the IAP. By the time a Fund is approaching its Closing Date, the IAP will have a shortlist of acceptable propositions and will instruct formal commercial, financial and legal due diligence in order to select or reject the proposal. After investment, the progress of chosen companies is continuously and carefully monitored. A member of the IAP attends all board meetings and reports to the other panel members. All investee companies are reviewed and discussed at specially convened monthly IAP meetings, and exit strategies

are considered throughout the term of the investment.

Headed by Lacomp Managing Director Peter Buxtorf, the panel consists of Lacomp Investment Director Steve Willmot, Simon Pannett (over 30 years experience in stock broking, investment and corporate affairs and specializing in unquoted company corporate services), Nigel Milton (Honours graduate in Business Studies, key positions in technology related companies, freelance journalist, editor of 'Investing For Growth', TV share pundit and contributor to Investors Chronicle) and Paul Finnigan (ex-Royal Marines, marketing background, 20 years experience leading a company specializing in the provision of services in the M&A and corporate fund raising sectors). In short, the IAP comprises a diverse group of individuals with differing skill sets thus providing a rounded assessment of investment proposals and opportunities.



From left to right: Paul Finnigan, Steve Willmot, Peter Buxtorf, Nigel Milton & Simon Pannett

EIS Fund 8 will close on 5th April 2007



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Founded in 1985 by Swiss Managing Director Peter Buxtorf, Lacomp provides a discretionary investment management service to an international clientele. As well as managing an authorised unit trust, CF Lacomp World, for its own clients, Lacomp is the fund manager to a series of Approved EIS Funds which are marketed via IFAs.

The Lacomp British Enterprise EIS Funds invest in a minimum of four EIS qualifying companies and aim to combine attractive tax breaks with the potential for significant capital appreciation.

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