

ENTERPRISE

LACOMP BRITISH ENTERPRISE EIS FUNDS

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Lacomp plc

Fund 11
Closes 31st July

'May the force be with you!'

It is no coincidence that many of Lacomp's EIS investments continue to perform well given that they have been carefully selected to benefit from global trends and/or major technological breakthroughs.

You may remember the Star Wars films and the Jedi farewell to each other, the famous **"May the force be with you!"**

This epitomizes the Lacomp Investment Advisory Panel members' current view of the market. Investors need to develop strong themes for their investment strategy and identify sectors that are helped by "the force", while avoiding companies that are "on the dark side" of it.

Rather than just complaining about high energy costs, one should look to take advantage of the trend in oil prices. At the risk of stating the obvious, it is far better to be invested in oil services companies, which benefit from increased oil prices, than in airlines faced with the rising fuel costs.

Whilst businesses and consumers reel from the high price of energy and fuel, the oil price surge, for one, has added significantly to the attractiveness of Lacomp investee company **Artificial Lift Company**.

Artificial Lift's innovative technology promises significant cost savings and efficiencies for oil and gas producers.

Several other Lacomp EIS investee companies also target high growth sectors. Both **Sky Medical** and **Prosurgics** have revolutionary medical technologies which address the huge medical markets. Sky Medical tackles the world-wide problem of DVT (deep vein thrombosis), whilst Prosurgics is addressing a \$1bn market for image guided robotics and laparoscopic surgery, which reputedly is growing at a staggering 45% per annum (source: Prosurgics). Better still, these healthcare markets are completely decoupled from the economic cycle and the current global slowdown. On top of this, Prosurgics currently sees little or no competition in most of its markets.

Another global phenomenon that benefits some of our Lacomp investee companies is geopolitical uncertainty.

Auxetix, with its unique anti-blast curtains, should be a major beneficiary of the current war on terrorism. The material has many other applications designed to protect soldiers in a war zone.

Similarly, **Dualglo** is benefiting from Health & Safety legislation in the US which requires more visible and robust emergency lighting (light bulbs are destroyed by the shock wave from an explosion) and photoluminescence (glow-in-the-dark) signage following the attacks of 9/11.

The IAP continues working hard on behalf of its investors in identifying strong investment themes, such as the examples mentioned above.

Another great attraction of unquoted EIS qualifying companies is that they often are immune to adverse market sentiment. The lack of correlation with the broader stock markets is a good argument for including EIS companies within a well diversified portfolio, whatever the prevailing economic condition or market sentiment.

Please note that the companies mentioned in this newsletter are those which comprise previous EIS Funds.

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Short of Energy? Artificial Lift's revolutionary technology provides part of the answer.



Energy is a major contributor to the global economy, currently estimated to be worth \$6 trillion a year, which equates to 10% of world GDP! Current world energy consumption is estimated to be 15 terawatts (a terawatt is equivalent to 1,000 gigawatts, and each gigawatt represents the output of the largest coal fired power station). This demand is predicted to *double* by 2050, and much of this additional demand is due to the increased industrialisation occurring in China and India.

Given the surge in oil prices and issues over new sources of supply, there is a clear 'capacity gap' opening up. This ultimately will enable energy production based around wind and solar power, traditionally a fringe activity, to become more mainstream. However, unlike new IT products, solar and wind power are not disruptive technology and will not displace incumbent methods in the short term. Whilst they, along with ethanol and a rehabilitated nuclear industry, will gradually expand in significance, the process is likely to be relatively slow, and the short term issues centre on oil.

Conventional wisdom would argue that higher oil prices will inevitably squeeze consumers in the world's biggest economy and that recession will follow. Actions by the American Federal Reserve to counteract the impending slowdown have further weakened the dollar which, amongst other things, has added to the upward movement in the oil price.

The significance of recent price movements has been rather exaggerated in the popular perception – a \$5 increase in the price of oil occasions much press comment but, in percentage terms, this equates to a less spectacular 75 cents per barrel in the 1990s – and the volatility of recent oil price movements is actually lower than the average level experienced since 1988. This apparently "stable" situation suggests that it is demand that is driving the price rather than supply shocks (which do trigger volatility) although these are never far away, as evidenced by past hurricanes or the recent bomb attacks on Nigerian pipelines. In addition, it is difficult to gauge to what extent speculators, particularly in the form of hedge funds, have affected oil price movements.



Things are very different from the 1970s when the tripling of oil prices (occasioned by reaction to the Yom Kippur war) last caused major economic dislocation. The high oil price is perceived as a major issue for the broader global economy despite the fact that oil is not as economically important now as it was in the 1970s – witness the energy sector of the S&P 500 which was 27% of the index in 1970 but is now less than 12%. The issue remains crucial because of political and strategic considerations over and above the economic factors.

With over 60% of the proven reserves of traditional oil in the Middle East, and a further 14% in Russia and Venezuela, the strategic implications for the US are clear. Unlike some members of OPEC (which produces more than a third of global oil), Saudi Arabia is trying to avoid the backlash which accompanied the 1974 crisis and remain on good terms with consumers, particularly in the US. Iran, on the other hand, is able to use the oil price as a line of defence in any stand-off with the US, threatening to cut supplies and prompt a global economic crisis if tensions rise.

Indeed, last year saw Russia's then President Putin engage in a bit of sabre-rattling by threatening to cut off gas supplies to other countries, so it is becoming increasingly clear that energy, and oil and gas in particular, now must be viewed as a strategic resource rather than a mere commodity, and this is the case even in times of relative peace.

Saudi Arabia epitomises the short term problem. As the supplier of an eighth of global oil and with the largest proven reserves, Saudi Arabia would appear to be in an enviable position as prices climb above \$140 per barrel. However, much of the reserves are in the form of heavy oil that requires additional refining capacity. The investment programme intended to raise capacity from 11.3m barrels per day to 12.5m is at least a year from completion, and the recent short term output increases by the Saudis (up from 9.0m to 9.5m in May) have had little impact on the oil price.

The concentration of the remaining proven reserves in the Middle East, Russia and Venezuela, areas that America traditionally viewed as "unstable" or "unreliable", means that much effort is being devoted to severing this energy dependence both by innovation and more efficient exploitation of the remaining domestic reserves, and it is precisely for those reasons that we considered Lacompe EIS investee company **Artificial Lift** to be an excellent proposition. The attractiveness of Artificial Lift is in its potential to provide massive cost savings and improved access to these reserves through its innovative electric submersible pumps.

A company spokesman estimated that there are potentially *500,000 wells in North America alone* for which the new efficient pump would be suitable. Testing of the pump is expected to move from the UK test rig to an oil field in Texas later this year and, if successful, the pumps will be commercially available during 2009, which should result in a further massive uplift in the company's valuation.

As a director of Artificial Lift commented, there is a shortage of oil at a given price rather than a physical shortage. There is plentiful supply in non-traditional tar sands and liquefied coal deposits, but these have historically been ignored because of prohibitive production costs, as was the case with deep sea oil drilling. Tapping into these new sources of oil will gradually ease the supply issues but would not appear to offer a low-cost alternative.

In other words, the days of cheap oil are probably gone forever, and it is for that reason alone that Artificial Lift continues to look increasingly attractive.

Anti-terrorism measures - a potentially huge market for Auxetix



There are many defence-related applications for the award winning textile produced by **Auxetix**.

Chief among these is the provision of blast-proof curtains for public buildings and key strategic installations. The market for such curtains in *London alone* has been estimated to be worth \$1billion, but this is dwarfed by the American market. The General Services Administration in the US is responsible for 182,000 public buildings (such as, for instance, court houses), many of which are being considered for protection. 182,000 public buildings that need protection is impressive, but this number is likely to expand dramatically in America as a result of the Sarbanes-Oxley Act, chiefly thought of as covering corporate governance, which also imposes responsibility for homeland security measures on *individual corporations*. Furthermore, the market could conceivably grow to many *trillions* of dollars, particularly if the population in storm-vulnerable areas (estimated at 50 million) is included in the calculation.



In addition to window protection against natural disaster or human action, Auxetix has also identified a market in the provision of ballistic protection for military tents in the form of Zetix®-lined fly sheets. These could significantly reduce shrapnel injuries or deaths. Again, the potential market is huge: the US spends \$250m per year on tents, NATO spends \$100m and the UK a further \$25m. Many US tents are supported by air-pressurised fabric tubes which are particularly vulnerable to fragmentation damage and the ability to retro-fit the Zetix protection to existing supplies would further enhance the market.

As a spin-off from the military tent market, it would also be possible to incorporate Zetix into camouflage nets and mosquito netting, thus providing a secondary level of protection, and there is also scope to include it with other components in body armour for military and law-enforcement personnel.

The material is also being considered as a liner inside armoured vehicles in order to prevent 'spalling'. Spalling is the process whereby parts of the inner lining of a vehicle fly off, often at ballistic speed, when the exterior structure is hit by a projectile. It is thought that such a lining would enable cost and weight savings through the use of thinner external armour without compromising the safety of the crew. Spalling is also experienced in aircraft, ships and buildings, all of which provide potential applications.

Needless to say, given this potentially huge and lucrative market, Auxetix faces competition, but this chiefly comes from competitors who use high-performance materials that are very costly. The use of Zetix fabric allows these components to be used in smaller quantities in combination with cheaper bulk components, thereby reducing the cost without impeding performance. For example, traditional blast protection fabrics are typically six times the area of the window to be protected whilst the Zetix fabric will be the same size, representing a considerable cost reduction.

Lacomp are optimistic that Auxetix has positioned itself very well to secure a significant proportion of the global defence-related market, and we continue to actively support the company in its development.

SAP - a big new market for Lacomp EIS investee company Inflow



SAP is the world's largest provider of business software, comprising enterprise resource planning and related applications such as supply chain, customer relationship, product life-cycle and supplier relationship management. Over 41,000 customers in more than 120 countries run SAP® applications, which range from distinct solutions addressing the needs of small and midsize companies to suite offerings for global organizations. With subsidiaries in more than 50 countries, SAP is listed on several exchanges, including the Frankfurt and New York stock exchanges.

Nevertheless, SAP has a number of issues for which software solutions Lacomp EIS investee company **Inflow** has a solution.

SAP's reporting systems could arguably do with better distribution capability, and on top of this, the company recently acquired Business Objects and therefore needs to provide integration between the two software suites and seamless reporting customers' legacy systems.

Enter **Inflow**, with its strategically positioned SAP Report Manager product which provides solutions to both of these problems.

In June, Inflow became a SAP certified partner in the UK, which meant that Inflow's SAP Report Manager has been added to the UK SAP Packaged Services catalogue.

Inflow CEO Stuart Beet explains: "This is a significant achievement for the company and follows three months of concentrated effort which was required to ensure that our technology and procedures met with the strict and high standards that we have come to expect from one of the world's leading application technology companies."

SAP has adopted Inflow's exceptional report distribution capabilities to deliver information to each person on a precise, need-to-know basis. Inflow Report Manager for SAP is a centrally managed, enterprise-wide report scheduling and distribution solution that also has intelligent content management.

Lacomp fully supported the decision to enter into a relationship with SAP as this promises to accelerate the acceptance and market penetration of Inflow's products.

SAP's UK Packaged Services is a catalogue of complementary 'add-on' solutions that are designed to enhance the customer's experience of SAP. All Packaged Service solutions are purchased directly from SAP via the SAP Direct Catalogue. Purchases have to be made on SAP's terms and conditions and, as such, all products have to be certified and proven to seamlessly integrate with SAP in order to reduce any perceived operational risk for the

Infloflow cont'd

customer. SAP has recently announced that from July 2008, the current crop of around 165 Packaged Service solutions will be reduced to a strategic 21, two of which will be provided by SAP themselves.

The inclusion of Infloflow in the new SAP catalogue is a considerable testimony to the potential of its technology and Lacomp are delighted with the implied endorsement.

The SAP UK catalogue is distributed to over 12,000 UK and Irish SAP users. There are also a number of sponsorship opportunities available offering an increased level of engagement with the SAP

UK and Ireland customer base, of which Infloflow intends to take full advantage. These include activities such as presenting at regional road shows, catalogue advertising, co-branded advertising with SAP, workshops at SAP's headquarters, e-Blasts and Webinars (a Webinar is a workshop, lecture, presentation or seminar that is transmitted over the World Wide Web).

Stuart Beet, commented: "I am delighted to announce that the Infloflow solution has been chosen as one of the remaining 19 solutions, and Infloflow is now one of only 11 Packaged Service partners. This is excellent news for Infloflow in terms of putting the company on the map and increasing the value of the business."



Prosurgics are about to launch the next generation robotic camera holder



Prosurgics is dedicated to bringing surgical robotics into mainstream operating procedures and aims to offer previously unattainable healthcare efficiencies.

The 'FreeHand' robotic camera holder is the latest product in Prosurgics' suite of surgical devices. Designed to provide a dependable and affordable tool to assist in general surgery, urology and gynaecology, the device will be sufficiently adaptable to cater for individual surgeons' preferred approach, the location of scrub nurse, anaesthetist and other monitoring equipment.

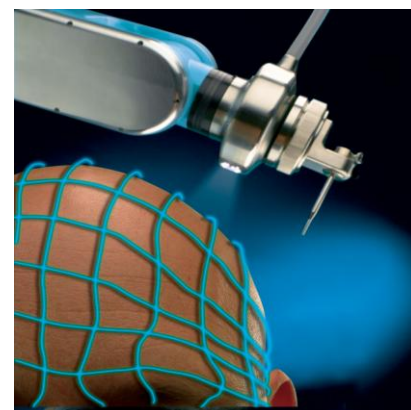
A big advantage is that the camera can be controlled from within the sterile area rather than requiring outside assistance. Freehand can move in three planes using the pan, tilt and zoom controls and the device is controlled from a hands-free set worn on the surgeon's cap or head band which will respond to head movements to dictate the desired positioning. Once the surgeon is satisfied, the actual movement is initiated by a foot-pedal. The surgeon is able to manually override the positioning at any time before returning to hands-free control.

Freehand provides rock-steady images of "unsurpassed clarity" and, because it is securely clamped to the operating table, these images are unaffected should it be necessary to adjust the table angle.

Launched in Stockholm during June, it is anticipated that the device will be delivered to surgeons from September. The successful development of Freehand necessitated the solution of a number of practical issues within a tight timeframe and is testimony to the skills and commitment of the management team at Prosurgics.

Another Prosurgics product in the final stages of development is Pathfinder (see picture right), an image-guided robot that enables surgeons to achieve the highest accuracy in neurosurgery, while reducing the duration and complexity of procedures.

Lacomp are impressed with the 'can do' approach at the company and are hoping for great things from this investment.



STOP PRESS

Lacomp are pleased to report that, as a result of exiting successfully from an investee company, an average annualised return of in excess of 20% p.a. has been realised. Details of the exit are currently subject to a confidentiality agreement and cannot be disclosed.

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