

invention . . . proof of technology . . . proof of market . . . breakeven . . . exploitation

Deals

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Immunosolv takes antibody technology to market

Two business angel groups have invested in Edinburgh University Medical School spin-out Immunosolv, to enable the company to take devices and reagents based on its antibody technology to market.

One of these groups is Grampian Bio-Partners, formed recently by Andy Porter, Professor of Biotechnology at Aberdeen University, after Haptogen (where he was chief scientific officer) was sold to Wyeth Pharmaceuticals last October (see YCF 106). The other is business angel Nelson Gray's Firth Ventures. The total funding of £227k included matched funding from the

Scottish Seed Fund. Following the investment, Porter and Gray have joined Immunosolv's board of directors.

The technology behind Immunosolv was developed by Professor Christopher Gregory, Deputy Director of the Centre for Inflammation Research at the University of Edinburgh's College of Medicine and Veterinary Medicine. In its initial stages, the technology was developed with £250k funding from a Scottish Enterprise Proof of Concept award. After incorporation, Immunosolv was originally focused on delivering services to the biotechnology community, but this changed in April 2007 when the company took up a SMART award.

YCF 6th annual conference

Stirling Management Centre 18th September 2008

Investing in young companies

Main speakers (subject modification)

- ❖ **A VC's take on exciting sectors and technologies:** Calum Paterson, SEP
- ❖ **Issues in second round funding:** Julian Viggars, Enterprise Ventures
- ❖ **Investment patterns & trends:** Stuart McKnight, Ascendant
- ❖ **Cleantech—the business case:** tba

Workshops for young company delegates—to include

- ❖ **Structuring the deal—terms and conditions**
- ❖ **Structuring the deal—thinking of round two and exits**
- ❖ **Making financial projections both believable and exciting**
- ❖ **Creating an investor-ready business plan**

The afternoon session will include presentations by a number of young companies with experience of raising finance.

Registration opens on 22nd May on our website www.ycf.co.uk—the early bird rate of £150 is available until the end of June

This award covered the development of a device for the removal of dead cells and debris from cell cultures. The simple, disposable devices resulting from this project use magnetic bead technology, allied with novel monoclonal antibodies that bind to dying and dead cells. The removal of dead cells from cultures gives large increases in culture productivity.

With the SMART award in place, Dr Ruth Murray joined the company as its only full time employee. A microbiologist and immunologist by training, Murray had subsequently qualified as a solicitor and was working with Maclay Murray & Spens before joining Immunosolv. Up to this point the company had had difficulties in making progress, as its principals were all too busy with their day jobs, a common issue for early stage

technology ventures. Murray remarks that the new funding will help to provide a technologist to assist with the routine scientific work in the company, so that she and the other scientists involved can make progress with the proprietary work.

Immunosolv's devices are single-use and low cost, meaning that the company has a more scalable business model than the straight provision of services. The first product is now ready for market, and Immunosolv will initially target the research sector. There is the prospect for substantial sales in biomanufacturing; this will however require further resources for sales and marketing, and the company expects to be looking for further funding of £1 million - £1.5 million next year.

Although Immunosolv had originally envisaged producing and distributing the products itself for a limited period of time, it is now in discussions with a major global distributor to whom it could subcontract this aspect of the business, leaving the company free to concentrate on further research and development.

At a later stage, Immunosolv intends to develop its antibodies for cancer therapies, partnering with larger organisations when the clinical trials stage is reached.

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Interactive Design Institute draws on £250k funding

The Interactive Design Institute (IDI), the Pathhead-based provider of online design qualifications, has received £250k investment from a group of private equity investors.

The Interactive Design Institute provides fully accredited, practical courses in art and design online. Previously the Studio Art School, it rebranded earlier this year. Says its director Michael Stewart: "We feel the new name is more appropriate. Our target market is domestic and international students seeking to enter degree or masters level courses in the UK. Additionally, we provide the first and second years of four design-based degree programmes online, validated by the University of Hertfordshire. We currently deal with students from 40 countries."

The company was founded in 2004 by its four directors: Michael Stewart, Arlene Stewart, Fiona Crosbie, and John Watson. "We realised that if such a technically demanding subject could be delivered successfully through the web, there was an opportunity to

develop a business which covered a broad range of art and design based disciplines, delivered through a bespoke online teaching and learning platform."

Sensing the enormous potential, the four resigned their posts at a large Further Education college in June 2004 and launched the company under its original name.

Adds Stewart: "I should mention that the Studio Art School was not born of a university spinout. At the time, our circumstances were such that we couldn't initiate the company as full-time employees in an FE institution.

"After this point, there followed a period of intense activity lasting several months when we designed our learning platform, developed materials for online delivery and secured our accreditations."

Based at the Vineyard Business Centre, Tynehead, a converted steading situated in a working farm near Pathhead, the four directors also work with Professor Roy Leitch, part of the management team, responsible for the company's international partnership strategy. "We were also recently

joined by Rachel Riley who oversees tutoring and is managing our administrative systems," Stewart says.

The directors have benefited from advice from Gordon Stuart, whom Stewart and Watson met when he was running the International Preparedness Programme for the Edinburgh Chamber of Commerce. Stewart says: "He subsequently joined as an adviser, providing invaluable guidance during our start-up phase."

Stewart explains what makes the Institute unique: "We're the only company accredited to provide UK-based art and design qualifications online, providing the best possible opportunities for our international and UK students by working through partnerships with a select number of internationally recognised institutions. This enables us to match our students to the most appropriate course and institution. Our online learning environment is unique, allowing one-to-one tuition, advice and guidance.

"We are approved by the British Council and have membership of the Education UK Partnership. We have also been granted New Provider status

by the Open and Distance Learning Quality Council; a body set up by the UK government to ensure standards in distance learning."

The Institute's directors began to consider the need for funding to further develop the company early last year.

"Through Gordon Stuart, we met Ian Ritchie, who expressed an interest in the company," states Stewart. "It was through Ian that we gained an introduction to Professor Leitch, previously CEO of the Interactive University.

"During this period we made a number of pitches, and actually

received an offer of investment from an angel syndicate. However, we eventually proceeded with a funding package from a small group of private investors led by Ian."

The board of the Interactive Design Institute now consists of Ritchie as chairman and Willie McColl as finance director, in addition to the founding directors. The company will use the funding to develop a new learning platform with improved functionality and ease of use for students, staff and tutors.

"Also, our range of courses continues to expand and we are keen to ensure the quality of the teaching

materials we produce for our students," explains Stewart. "This means employing the best possible developers for the writing of these materials.

"Crucially, we also needed funding to develop our routes to market – particularly those involving international partners. We are currently developing partnerships in Russia, China, the Middle East and Eastern Europe."

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Adaptable chip technology awarded further funding

Spiral Gateway has received £730k in an interim funding round led by Braveheart. It will be used to develop the company's Reconfigurable Instruction Cell Architecture (RICA) technology and work towards taking the product to market next year.

An Edinburgh University spin-out, Spiral Gateway was formed in 2004. Originally working on another technology – building blocks for chips, rather than the chips themselves - the company changed direction in 2006 when the RICA platform was invented. A decision was then made to focus on bringing an actual product to market, with seed funding from Braveheart enabling it to do so.

The RICA technology will be incorporated on to adaptive silicon chips, explains Spiral Gateway chief executive Graham Townsend: "Our reconfigurable processor modifies its structure to best suit its current task. It essentially looks at what it needs to do and restructures itself accordingly, rather than there being a requirement for several processors doing different things.

"It has a wide number of applications, but we're initially targeting

the image signal processing [ISP] of mobile camera phones. That's an area where there are rapid changes in the sensor and the optics technology, requiring rapid updates in the ISP that our processor allows to happen much faster."

The second tranche of investment was led by Braveheart, with co-investment from Bank of Scotland, the Scottish Co-Investment Fund, and Imperial Innovations Group.

Imperial Innovations is the commercialisation arm of Imperial College London, and Townsend said: "We are delighted to have Imperial Innovations involved in this funding round. Their team brings relevant experience of the technology marketplace and their strong links with Imperial College have already contributed to an improved understanding of how our technology is differentiated in the wider field of reconfigurable processing."

The new funding has already been put to use hiring four new staff, taking the Spiral team to ten people. It will also fund trips to Korea and Taiwan, where most of the mobile phones which will integrate the chip are made, to sound out potential customers.

Says Townsend: "We've already spoken with several people and have

received excellent feedback. At the moment all we're showing them are pieces of paper, but they're saying that, if we can deliver what those papers say we can, then they'll definitely be interested."

The market for the product is massive. 700 million camera phones were sold last year, making it one of the biggest consumer sectors in the world. "Every single one of those phones sold had an ISP block inside it, so the market is already there," states Townsend. "We're not targeting the whole market, we're targeting a sector of the market – the middle range 'feature phones', where there is a need to make one element stand out – in this case the camera."

Currently aiming to have a demonstrable product next year, Spiral Gateway won't make its first shipments until 2010. "We have to be realistic," adds Townsend. "The manufacturers need to check that our chip will do what we say it will, but also that it's not doing anything adverse to the phone."

Although focused on one market at present, there is scope for Spiral's technology to have applications in other areas. Townsend explains: "We think we'll get to the point when the technology can be used in a number of other products. Our chip will enable

many different features, which will in turn reduce the cost of the products with these features. These could vary from computer mice to CCTV that can highlight something as it is happening rather than after the fact."

The company is currently in the process of obtaining Series A Funding, using current investors and new investors.

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MMIC Solutions' potential detected by security imaging market

MMIC Solutions, which supplies module and subsystem solutions for commercial millimetre wave applications, has secured a further £2.7 million in A Round funding.

MMIC Solutions is a spin-out from Qinetiq, headquartered in Ledbury with subcontracted production operations in Scotland (details of which remain confidential for the moment). It develops solutions for equipment makers in several markets including security imaging, high bandwidth communications, and high-resolution radar, for a range of systems operating at frequencies between 50GHz and 250GHz.

New investor YFM Group and existing investor the Scottish Venture

Fund participated in the funding round along with the company's other existing investors, including NESTA and AEGF.

Having raised seed funding of more than £1.5 million so far (see YCF 97 of January 2007), the company has already developed and sold 94GHz receivers to a number of manufacturers of millimetre wave security imaging systems.

The ability to use millimetre waves to detect non-metallic materials concealed about the body including weapons, explosives, and illegal goods is generating a lot of interest, with systems being deployed at many commercial and civic infrastructure locations, and at airports in the US and Europe. The company is also developing low cost modules for high capacity communications applications.

These links support data rates of 1Gbit/sec and more, and operate in various unlicensed and 'light-licensed' bands between 60 and 80GHz.

Jonathan Lloyd-Hirst, Investment Manager for the Scottish Venture Fund, commented; "By establishing its UK production operations in Scotland, MMIC Solutions joins the growing number of cutting edge technology companies choosing Scotland as their base. Innovative companies such as MMIC Solutions demonstrate the high calibre of investment opportunities for our investment partners."

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AWS Ocean Energy makes waves

Rosshire-based marine technology company AWS Ocean Energy is embarking on a major phase of expansion and development following a substantial investment. A recently completed funding round, led by the Shell Technology Ventures Fund (STV Fund), totalled £3.5m.

AWS Ocean Energy was set up in 2004 to take advantage of an opportunity to commercialise the Archimedes Waveswing technology, invented, developed and tested by a

Dutch R&D company which had run into funding difficulties and needed a new outlet to take it forward.

Simon Grey, the company's chief executive, explains: "After our first funding round in April 2006 from RAB Capital, we were able to transfer all the technology into the company so we owned it. We then set about building a team and optimising the technology."

The Archimedes Waveswing is AWS Ocean Energy's lead product, but the company is looking to develop, deliver, and commercialise a variety of solutions to make wave energy

sustainable. "We're a high tech R&D company focusing on the marine energy space," says Grey. "We see the Archimedes Waveswing as one of the brightest prospects in terms of wave energy technologies out there, but there are a lot of other problems which need to be solved. We're looking at these too, and are about to start investing heavily in next-generation technologies.

"A few key things make us different. Our machine is moored sub-sea, so it responds to pressure forces from waves, rather than buoyancy forces on the surface. We're not

exposed to damaging storm waves, so the survival issue is easier to deal with. Also, the way we capture the power is more effective than our competitors. Basic physics tell us that we have comparatively higher power absorption per tonne of steel than the vast majority.

"Yet we see our competitors claiming costs of power production at a quarter of our costs. We know from our research that we're twice as good as them, so we're wondering at what point people will realise what they're saying is all smoke and mirrors."

Currently at proof of concept phase, AWS Ocean Energy is committed to testing its technology in the water to show it can really work, before driving costs down and improving performance to make wave power affordable. The company has had a lot of interest from potential partners and investors who are monitoring the company to see what it does. Says Grey: "They like our approach, they like it that we're saying let's walk before we can run, then let's get our economics right. They like our honesty in terms of costs and power potential, our pragmatism and the way we look at operations and maintenance."

So what is the timescale for reaching the market? "We think we'll have our mark two machine up at our test centre in Orkney in 2009 – we'll be gathering data from that and working on designs for our first demonstration array of machines to launch in 2011. The first true commercial sales will happen in 2012."

The company has been significantly supported in these aims by the recent investment of £3.5m from the STV Fund and investment fund Tudor BVI Global Portfolio (Tudor Group). "Shell had been monitoring the marine technology space," reveals Grey. "They identified us as a company to watch. When they decided to go ahead with the investment we were top of the list. I think they were attracted to us because of our unique approach. We're quite well aligned, as Shell is a big product company and recognises the timescales involved in technology development and the challenges of the marine environment."

The investment will be used to double the company's team, currently at 13 staff, within 12 months. "We'll also significantly increase our R&D base so we can really crack the future of wave technology," Grey adds. "We're

about finding out which technologies are necessary and bringing them to market. To do this we need a solid team of people in R&D, and also the facilities, so we're working on those things in the immediate future. We also want to get on with building the machine to demonstrate that Archimedes Waveswing works, to build confidence in the sector and in us as a company."

Following the investment the AWS board has been joined by Terry Rhodes, Shell's Head of Offshore Structures, Aruna Subramanian of Kenda Capital BV (managers of the STV Fund), and Ahmed Moussa, the former general manager of Gamesa, the Spanish wind turbine manufacturer.

AWS Ocean Energy will be seeking its next funding round in the second half of this year.

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Discovery finds Easyberth for investment

Easyberth has developed a safe berthing device for yachts and boats, which will not only help reduce damage to vessels and injury to people, but also enable marina owners to increase berthing capacity.

Discovery Investment Fund has taken an equity stake in the business for £350k, which will enable the company to embark on a marketing campaign, initially focusing on the UK.

The Easyberth device was invented by Jim Dixon, after struggling with a particularly difficult berthing manoeuvre and thinking "there must be a better way" (he can't have been the first to harbour this thought). His invention is a separator and guidance system which can be installed in marinas to assist yachtsmen when returning to their

moorings. Dixon teamed up with Peter Wright to develop the business idea, and with his own experience in steel fabrication was able to build and test a prototype at Largs.

In November last year the team met Craig Katz, who has worked extensively with young companies, often on behalf of Archangel Informal Investment, most recently helping Legal Data Solutions transform itself into a professional CPD business now called Orkell. Katz joined Easyberth as commercial director, and is now busy preparing for the imminent marketing campaign.

Easyberth has been assisted by Scottish Enterprise's High Growth Start-up Unit in its development, and the directors used their own funds to build the prototype, but the investment by Discovery is the first external funding

for the business. The connection with Discovery was made through Colin Clark of Clark Associates, who had met Jim Dixon through a Scottish Enterprise event. According to Katz, the new funds will be used primarily for marketing, as the product is ready to roll out, and the company has already paid for patents.

After launching in the UK, Easyberth expects to follow up in the highly prospective marketplaces of the USA, France, the Mediterranean, and Dubai.

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[coming shortly]

Private financing deals–2008

dealdate	YCF	company	location	sector/activity	TOTAL £k
Jan-08	110	Hubdub	Edinburgh	internet	tba
Jan-08	111	CXR BioSciences	Dundee	biotechnology	£1,326
Jan-08	110	Lumicure	St Andrews	biotechnology	£2,500
Jan-08		Sentient Medical	Dundee	medical devices	£150
Feb-08	112	Bluesky Telemetry	Aberfeldy	GPS systems	£287
Feb-08	113	AWS Ocean Energy	Alness	renewable energy	£3,500
Feb-08	110	Elonics	Livingston	microelectronics	£2,500
Feb-08	111	SIT Corporation (sit1.tv)	Alloa	internet TV	£150
Feb-08	111	Sumerian Europe (was Sumerian Networks)	Glasgow	software	£x,000
Mar-08	112	Gas2	Aberdeen	oil & gas	£10,000
Mar-08	112	Helixion	Edinburgh	mobile SIM software	£500
Mar-08	111	Rapid Mobile Media	Edinburgh	mobile software	£2,000
Mar-08	112	Lab901	Loanhead	bioinformatics	£3,550
Mar-08	111	Gigha Halibut	Isle of Gigha	fish farming	£850
Mar-08	113	Well Cow	Roslin	veterinary medicine	£250
Mar-08	112	Appshare	Glasgow	IT	£180
Mar-08	112	Conjunct	Livingston	optoelectronics	£300
Apr-08	112	Futuretec	Aberdeen	oil & gas	£4,000
Apr-08	113	Spiral Gateway	Edinburgh	electronics	£730
Apr-08	113	Immunosolv	Edinburgh	biotechnology	£227
Apr-08	113	Interactive Design Institute (was Studio Art School)	Pathhead	e-learning	£250
Apr-08	112	Realtime Worlds	Dundee	video game developer	US\$50,000
Apr-08	113	Easyberth	Dundee	manufacturing	£350
Apr-08	113	MMIC Solutions	Ledbury	microelectronics	£2,700

Investor Search helps young companies find appropriate investors

The Investor Search website (www.investorsearch.info), believed to be the first of its kind, was created by UMIP (The University of Manchester Intellectual Property Ltd) to help anyone seeking venture capital or private equity funding.

Investor Search is a specialist search engine that will greatly simplify the task of identifying investors with interests or preferences that match a company's investment needs. It is designed for companies that need capital to grow, for start-ups looking to get off the ground, or indeed for anyone in the investment community.

Finding investors with the right sort of interests or preferences can be a lengthy and uncertain process, whether searching through personal networks, online data sources, web searching, or using conventional search engines.

Investor Search is unique because it allows users to search the websites of

the 300 venture capital and private equity firms operating in the UK, and eliminates the chance of finding irrelevant information. The majority of these sites include information on the investment portfolios or preferences of each fund. This means users of Investor Search only need to type in what they are looking for and the site finds any matching content within seconds.

For example, search for 'precision engineering' and it will seek funders that have published web information matching those terms. It could be applied to any business sector, as well as being a useful resource for professionals in the finance community itself.

The site is completely free to use and requires no registration or log-in.

Mark Thompson, head of market development at UMIP, said: "The idea for the website came from the problems we continually face seeking funding for our technology start-ups at the University. There are a lot of

funders out there, but finding a match for our very varied funding opportunities takes a lot of time and effort. We thought this would help find the 'needle in the haystack' more quickly."

"Like any search engine, the success you get very much depends on what you are looking for or how you look for it, but our internal trials have been very encouraging, with the search engine revealing potential funders for some of our projects that we previously didn't know about. It is just like having a Google tool but with much of the irrelevant content on the rest of the web left behind. There are plans for a USA version to be launched shortly as well as other parts of the world."

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www.investorsearch.info

RSA grant offers Jan-Mar 2008 Selection of grants offered to young companies in Scotland

company	town	grant £'000	project
Annandale Distillery Company	Annan	£150	Production of malt whisky
Kshocolat	Glasgow	£150	Supplier of premium branded chocolate products
Trisent Communications	Dunfermline	£175	Software for automatic and continuous location monitoring of mobile phones

The Annandale Distillery Company Ltd is owned by Professor David Thomson and his wife Teresa Church, who plan to restore the historic buildings and reinstate distilling operations. The old distillery originally opened in the 1830s and closed in 1919.

Professor Thomson is the founder and now chairman and CEO of MMR Research, an independent consumer research business. He is also Visiting Professor in the Department of Food Biosciences, University of Reading.

Contact: David Thomson 07831 315671

Well Cow chews on £250k investment

A Roslin Institute spin-out, Well Cow Ltd has received £250k from the Genomia Fund. The company has developed a groundbreaking device to regulate the diet of cattle, which has already attracted the interest of a significant animal feedstuffs company.

Well Cow's device can be used to prevent sub-acute ruminal acidosis (SARA), a health problem in cows affecting an increasing proportion of dairy herds, particularly in the United States. Cows with the disorder have reduced milk fat and reduced total milk output and, in some cows, it can cause more serious conditions such as lameness, mastitis and infertility.

The economic impact for farmers can be staggering. In North America alone, SARA is thought to cost the dairy industry anything between \$0.5bn and \$1.0bn annually.

One method of preventing the disease is through monitoring the pH of cows' rumen (part of the cow's

stomach) and adjusting feeding regimes according to data collected. Although present techniques involve highly invasive veterinary procedures, Well Cow – a joint development involving the Roslin Institute, the Technology Partnership (TTP) and Dr Toby Mottram - has developed a wireless device that does the same job.

The Genomia Fund has agreed to invest up to £250k (in two funding tranches) in Well Cow, to allow it to undertake a substantive development and testing programme. The company will take the device through to a production prototype which can then be taken to market. An order has already been received for the first prototypes and, once established, the potential market for the devices is several million dollars per year.

Interestingly, Well Cow's device could also have green applications. It is estimated that cattle contribute up to one quarter of the UK's methane emissions as a result of their digestive processes. A single cow can produce as much as 200 litres of methane a day. Better regulation of diets is one

way to reduce these emissions. Farmers using the Well Cow device in their herds will be able to maintain healthy cattle, with better efficiency of milk production and a reduced carbon footprint.

Malcolm Bateman from the Roslin Institute says: "We envisage using the device in selected cows to provide an overall picture of the health of the herd. If pH levels are not right, it will indicate that something needs to be changed in the cattle's diet. By analysing the acidity in the cow's stomach you can identify digestive problems at an early stage and correct them promptly. This will improve efficiency of milk production, with the consequence that you are more environmentally friendly – you need fewer cows and less feed to produce the milk required."

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Genomia helps Creative Science Company reach market

The Creative Science Company, spun out of the Moredun Research Institute in Edinburgh, has attracted £150k investment from the Genomia Fund to gear up production and supply of products to its customers, and also to embark on early development of complementary products.

The Creative Science Company was launched in December 2007 by two scientists from Moredun, Elisabeth Innes and Stephen Wright, who have between them 60 years research experience in protozoan parasites. The

main focus of the company is to produce Cryptosporidium parasites and related diagnostic standards and products for the water industry and academic researchers.

Cryptosporidium parasites are a common cause of diarrhoea in livestock, and people can also become infected if they ingest the parasite.

Says Stephen Wright: "Cryptosporidium parasites are a major problem in finished water supplies as they can survive for long periods of time in water and possess a very tough outer shell which makes them resistant to many of the standard chemical disinfection treatments used to treat water."

Water companies have to test for the presence and the quantity of Cryptosporidium parasites in finished water and the Creative Science Company supplies some of the water companies with standard doses of the parasite to use in their detection systems.

The Genomia Fund, established to invest in commercial opportunities emerging from a group of public sector research establishments in the East of Scotland, has committed £150k to the new company to help with development of products.

Keith Winton, Genomia's manager, says: "This is the first time Genomia has invested in a company which is not

so much seeking to conduct development work. It will allow it to address a market demand which could not be met from within a research institute alone.

"To see our monies being used for the commercialisation phase, and to

see real revenue so imminently on the horizon is a new experience for us and we will be watching progress very closely to see if we can replicate it across other members of our target group."

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Quarter 1 technology investment trends

Ascendant Ltd has given details of investment trends in the UK and Ireland in the first quarter of this year.

In this period, 102 investors participated in 72 deals totalling £357 million.

As in many previous quarters, London companies secured the largest share of funds invested, receiving close to 50% of the total. VCs invested in 28 companies in the London area, completing deals for just over £175m including the largest – a £50m investment in Spinvox, founded by 2006 Ernst and Young UK Entrepreneur of the Year Christina Domecq. SpinVox captures spoken messages and converts them into text, then delivers the message to a destination of choice – inbox, blog, wall or space.

With £42 million of investment, Scotland followed hot on the heels of the North of England (£43m) for third place, with Cambridge (£22m), the Thames Valley and Ireland (each approximately £17m) some way behind. The largest investment in Scotland in this period was the US\$50 million (£25m) in Realtime Worlds reported in the last issue of YCF.

Ascendant's figures cover technology investments (excluding life sciences) of £500k and above – the upper end of the range normally reported by YCF.

Stuart McKnight, Ascendant's managing director, comments: "2008 has started very well for the sector with increases in both the value and volume of deals. Although the number of active investors declined slightly, VCs and private investors increased the

capital they invested in Q1 by 15% to £357 million, backing 13% more companies which rose to 72 businesses."

The trends which he identifies include the following:

- ❖ The busiest investors were Balderton Capital, Scottish Enterprise's Funds, Atlas Ventures, Bank of Scotland Growth Equity, Eden Ventures, Fidelity Ventures, NorthStar Equity Investors and SPARK Ventures
- ❖ 65% of deals involved more than one investor – up from 55% in Q1 2007
- ❖ Private investors continue to play an increasing role in the sector, participating in 19% of completed deals. This compares with 13% of all deals in 2007.
- ❖ The 10 biggest deals, including SpinVox and Realtime Worlds, took 55% of funds invested.
- ❖ Notwithstanding the effect of the Spinvox deal, internet/wireless services companies (£160m) still took the biggest share of investors' funds, followed by software (£79m) and cleantech (£38m).
- ❖ Internet/wireless services and cleantech experienced a strong increase in investment; communication services displayed modest improvement – all other sectors declined.
- ❖ 22 internet/wireless service companies were backed by VCs in Q1 – an increase from Q1 2007's total of 17. However the increase in the volume of deals is dwarfed by the close to 4x growth in funds invested in the sector. The largest

deals were Spinvox, MoneyExpert, Badoo, Seatwave, OpenX, Touch Local, and Livebookings. Significant deals with undisclosed values included Mydeco and Reevo. Social networking and casual gaming propositions attracted lots of interest.

- ❖ Semi/opto companies experienced their lowest level of Q1 VC investment for many years. 3 companies shared just £10m compared with £76m in Q1 2007.
- ❖ Although the number of completed cleantech deals did not increase significantly, investors doubled the funds they committed to the sector compared with the same period last year.
- ❖ Whilst investment in software businesses was largely static, the sector remains the second largest when measured by funds invested. One bright spot for the sector was that the number of businesses that received investment increased to 20 – a notable improvement on the low of 14 in Q1 2007.

Ascendant specialises in advisory services for growing technology, telecoms and media businesses. The firm provides a wide range of services including advice on fund raising, mergers, acquisitions, disposals, exit planning, MBOs and licensing.

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The Beermat Entrepreneur on investors

At the Alba Innovation Centre's *One Year On* event at the beginning of this month, YCF's editor was given the opportunity to interview Mike Southon, known to all as "the Beermat Entrepreneur".

Mike had just given a very lively talk about how to start and grow an innovative business. As an example he used the Beatles, describing some of the milestones in their rise to international fame and success and relating these to stages in the development of a young company. This approach not only gave some interesting new angles on the business points he made, but also gave Mike the opportunity to parade some of his views on 60s music and play some of his favourite tracks!

Many YCF readers will know of Mike, either from reading his book *The Beermat Entrepreneur*, or from his column in the FT's Weekend edition, or indeed from hearing him speak at conferences.

Those who have read the book will know that Mike has a very sceptical view of independent investors, both big and small. Indeed, in his list of funding sources, in descending order of desirability, he has VCs at number nine, only one place higher than organised crime. Angels are not much more 'heavenly' in Mike's view, coming in at number eight.

So what could YCF, which focuses on independent investments in early stage high growth companies, ask Mike about the sector?

Well, firstly, the role of mentors, whom he sees as not only a source of experience, wisdom, contacts, and advice, but also as potential investors themselves – mentors rank fourth in Mike's list of desirable funders, and friends of mentors rank fifth.

For many people, a mentor might be seen as someone very special, difficult to find, above the fray, someone to consult like an oracle – only on rare occasions, when the business is at a turning point and needs special guidance.

Mike's view is quite different. He suggests that mentors are all around, and are a real key to success. They must have relevant experience, but everyone, even with little or no business experience, can find someone suitable. For a student, a possible mentor might be a member of staff. The senior members of your industry sector, leaders of the local Chamber of Commerce, directors of businesses which you admire, all can be approached for advice.

It is not necessary to have only one mentor, and not all mentors rank equally. Mike gives an example of one of his own mentors, who is the CEO of a FTSE 100 plc; he will not put every minor issue he faces in his business past this contact, but knows that when he has an issue of major importance, this is the person to talk to.

Mike has some interesting thoughts on why mentors will take an interest in an ambitious young business. It goes without saying that the business must have good growth prospects, and that the founders are passionate about realising the potential of their ideas. In these cases, mentors might be looking for what Mike calls "radiance" – the reflected glory of being associated with young, dynamic, innovative companies, and the prospect of even greater glory if the company makes a major impression on global markets.

Many experienced mentors will come from large organisations, and entrepreneurs must remember that such organisations can be cumbersome and conservative, and that therefore their more go-ahead people welcome the opportunity to be associated with companies which are more innovative and faster on their feet.

Mentors in such organisations can often find a budget allocation which allows them to invest in a young company. Whereas the organisation's R&D department might resist funding a project conducted by a third party, a mentor at a suitably senior level can, as Mike suggests, perhaps find funding for a project under a broad heading like 'training'. Funding of this sort, which can be a substantial sum from the point of view of the entrepreneur, can often be written off if the project is less

successful than hoped, but can lead to very helpful collaborations and further funding if its cost-saving potential to the larger partner can be demonstrated.

Mike recognises that many technology companies cannot avoid independent investors if they need to complete prototypes, or demonstrate the value of their products to their market sector. He has a number of observations on how mentors can help companies in this situation.

In the first place, many technology companies start with a concept which has potential applications in a number of market sectors. Here, Mike feels it is essential for the mentor to be able to open doors and also give an excellent 'elevator pitch' in his or her own right. This means that the mentor must have some high level contacts who know the structure of the target industry and the names of the decision makers, then is able to lean on the contacts for the chance to make the pitch.

It is also essential that the mentor is brutally honest; if the feedback he or she gets from a particular market sector indicates that the product would not have much chance of success, this message must be put across unambiguously, so that no time is wasted going down dead ends.

When dealing with VCs, whom Mike sees as very ruthless, his advice is to get business angel investment first, then ask the angel investors to provide funds to hire a top notch executive, known to the VC community, who knows their negotiating tactics and is able to meet them on a level basis.

So what about Mike's top recommendations for sources of funding? For that you'll have to buy the book (*The Beermat Entrepreneur* by Mike Southon and Chris West). YCF gets no commission from this recommendation, but is confident that its price will repay itself many times over for entrepreneurs wanting to "turn good ideas into great businesses".

One final piece of advice from Mike, not in the book – never raise money from someone younger than yourself. But that's a subject for discussion at another time or in another place.

Angel investing the American way



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John Huston is the founder of the Ohio TechAngels (OTA—www.OhioTechAngels.com), a fifty investor fund which is one of North America's largest angel groups, having three funds and 218 members.

After his presentation at the European Business Angel Network (EBAN) Congress 2008 in Arnhem last month, John visited Scotland at the invitation of LINC to meet some of the key players in the sector here, and to talk about how things are done in his part of the world.

In some ways, his experience is not typical of the USA as a whole, where early stage high tech companies and the investment infrastructure which surrounds them are polarised to the two coasts, East and West. Ohio has a population of approximately twice that of Scotland, and supports a half dozen angel syndicates and some 30 VC firms – one of John's preoccupations is to keep the VCs active in Ohio, and keep promising young companies contributing to Ohio's economy rather than moving to the coastal states.

The Ohio TechAngel Funds are contributed capital and "sidecar" angel funds. There are various versions of sidecar funds, but the principle in each case is that passive investors can make

commitments to the fund which then co-invests alongside its principals' deals. This approach has many advantages, including the introduction of high net worth individuals to angel investing before taking an active personal role, and the potential to gear investments to a higher level than would be possible with cash from individual angels alone. It fits particularly well in a situation such as that in Ohio, where there is considerable support from the state government for investment in the high technology sector which potentially has widespread economic benefits.

OTA's Fund I has been fully invested and is no longer seeking new opportunities. Fund II was launched in January and has already made three investments in life sciences and information technology ventures. OTA seeks to co-invest with its own members and their networks, funds supported by the State of Ohio, Midwest angel funds, and VC funds active in Ohio.

John reported that OTA has seen over 800 proposals since its inception in 2004. Instead of a screening process by a management team, members of the organisation volunteer to take proposals which they like through initial due diligence. 55 proposals have been taken this far – probably more than might have survived an initial rigorous

screening process – and from these OTA has made investments in 19 ventures. Three of the 19 have had liquidity events, two generating losses and one returning 4X the group's investment.

OTA requires new members to invest \$25k each into its funds. A main attraction is the monthly meetings – when asked by new recruits about potential IRRs on investment, John jokes that they may lose all their investment, but this will happen over a ten year period during which they are entitled to attend 120 dinners. These are paid for by revenue from pitches by would-be investees (charged a fee of US\$300 each time), and interest on cash in the bank.

John himself graduated with a BA in economics, subsequently taking his MBA while stationed in Georgia as a navy pilot. Thereafter, his 30-year commercial banking career took him to positions with banks in five states. He commenced his angel investing activities after retiring from banking in 2000.

In words of caution to the angel investing community, he states that his most exciting experiences to date in increasing order of difficulty have been bungee jumping, skydiving, aircraft carrier landings, and angel investing.

Nelson Gray: European Business Angel of the Year

The European Business Angel Network (EBAN), based in Brussels, is the trade association for the Europe-wide business angel investor community.

Its 80 members are made up of regional and national angel networks from over 27 countries.

At the EBAN Congress 2008 in Arnhem on 14 and 15 April, an award for European Business Angel of the

Year 2008 was made to Nelson Gray, known to most YCF readers as an active participant in the young company sector, as an angel investor (eg see this month's report on Immunosolv), a non-executive director, and formerly fund manager of ESI (East of Scotland Investment) and SIF (Strathclyde Investment Fund).

The award was not based on any biggest or best deal metric, but on a range of judgments reflecting respect for the winning candidate. Nominees

had to demonstrate that they had made at least one investment in the last 12 months in a "very performing" start up, were recognised by their peers as experienced business mentors, were recognised by entrepreneurs as bringing a real value added to an enterprise by making a measurable impact, and finally were seen to promote their activity so as to bring new investors to the market. The judging panel was made up of members from Germany, Netherlands, Italy, and Belgium.

To:

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Summary of main deals in this issue:

company	location	deal date	TOTAL '000	sector/ activity	investors, lenders, grants	advisers
AWS Ocean Energy	Alness	6-Feb-08	£3,500	renewable energy	Shell Technology Ventures Fund, Tudor Group	McClure Naismith
Creative Science Company	Edinburgh	20-Dec-07	£150	biotechnology	Genomia Fund	
Easyberth	Dundee	30-Apr-08	£350	manufacturing	Discovery Investment Fund	
Immunosolv	Edinburgh	8-Apr-08	£227	biotechnology	Grampian Bio-Partners, Firth Ventures, Scottish Seed Fund	Maclay Murray & Spens, Stephen Gibbens CA, Edinburgh Corporate, Burness
Interactive Design Institute <i>(was Studio Art School)</i>	Pathhead	14-Apr-08	£250	e-learning	individuals	Anderson Strathern
MMIC Solutions	Ledbury	30-Apr-08	£2,700	micro-electronics	YFM Group, Scottish Venture Fund, NESTA, AEGF	
Spiral Gateway	Edinburgh	7-Apr-08	£730	micro-electronics	Braveheart, Imperial Innovations, BofS Corporate, SCF	MBM Commercial, Tenon
Well Cow	Roslin	27-Mar-08	£250	veterinary medicine	Genomia Fund	

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