



# SPARK VCT plc Introduction

8 May 2009





# Introduction



Jock Birney, Chairman



# Agenda

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1. Welcome
2. Introduction to the new Board members
3. Manager's Report
4. Formal business of the meeting



## Robin Field, aged 57

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- Small company manager 1975-1983 and 1990 -1998
- Active private equity investor, advisor, director since 1987
- Strategy Consultant with LEK 1984-1988
- CEO Filofax Group plc 1990-1998, rescue at 30p per share, exit at 210p.
- Past and present board roles: Artemis Aim VCT, Artemis VCT, Capstone Publishing, Cognitive Drug Research, Filofax Group, Great Little Trading Company, Metal Bulletin, Strategy Ventures, Unanimis Group, Wall Luxury Essentials, Yard-O-Led Pencil Company, Zofany Hotels, Zola Hotels
- MBA with Distinction, INSEAD 1984
- BA Hons, English Literature, University of Sussex 1974

**Holder of 10,911 shares in SPARK VCT and committed to buy more**





# David Adams, aged 53

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- Qualified as a solicitor in 1980
- Corporate partner at Travers Smith (1987 -2006)
  - Focus on private equity and small to mid cap market
  - IPOs, M&A, Fund raisings and Corporate Governance
  - Acted for Advent VCT, Singer & Friedlander AIM VCT, TriVen VCT and TriVest VCT
- Independent consultant (2006 – date)
  - Assisting clients plan and implement corporate strategies
  - Focus on financial and professional services, property, retail and TMT
  - Clients include small to mid cap companies and private equity investors
  - Chairman of private property company
  - Investor in start up/early stage businesses
- LLB Hons, University of London 1977

**Committed to become a shareholder in SPARK VCT**





# Greg Lockwood, aged 47

- Partner, Piton Capital, a specialist investment vehicle
- CEO Formula Vertex (UBS VC portfolio manager), 2002-2006
- Director, then Partner, UBS Capital, venture investing, 1999-2002
- Director, UBS Corporate Finance, 1993-1998
- Involved in backing growth companies since 1996
- Key Investments:
  - Sunrise Telecom, start up to CHF 2.4bn exit
  - Betfair / Flutter, start up to £ 1.5bn partial exit
  - Wolfson, £12m revenue to IPO
- Past and present board roles: Attenda, Betfair, Cybersports, Demantra, Interwise, Nanomagnetics, Sunrise, Webswappers, Wolfson
- MBA Kellogg Graduate School of Management, 1993
- Hons BA University of Western Ontario, 1986

**Committed to become a shareholder in SPARK VCT**





# Introduction

Andrew Carruthers, CEO, SPARK Ventures





# Manager's Report

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- The effects of the recession
- The managers response to the recession
- Portfolio progress in 2008
- Valuation principles
- Financial results
- Looking ahead



# The effects of the recession

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## How is a venture capital portfolio affected in a recession?

- Early stage, Venture-backed companies generally never had much access to debt finance, so the effects of the credit crunch were muted.

## **BUT the wider recession has had the following consequences:**

- Key customer contracts have been delayed, reduced or shelved altogether;
- The Mergers & Acquisitions market has effectively closed, so selling assets has not been possible, unless at distressed valuations;
- The raising of equity capital has become much more difficult.

# Decline in Venture Capital investment

## VC Investment (£m) in UK/Irish Tech Companies



Chart © Ascendant 2009

Funding for tech companies has dropped 68% from Q1 last year

The number of active investors has dropped 40% from Q1 last year

**➔ PRESERVATION OF CASH IS CRITICAL**



# How should a venture capital manager respond to the recession?

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## 1. In the portfolio (top 15 companies):

- Control costs, reduce the rate of cash burn to extend resources  
(10 companies)
- Strategic reviews and challenge growth assumptions  
(all companies)
- Follow-on investment where good companies take sufficient remedial steps  
(9 companies)
- Change the management where remedial strategies not implemented  
(7 companies)



# How should a venture capital manager respond to the recession?

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## 2. In the fund:

- Plan the resources of the fund to deal with recession
  - Sale in July 2008 of portfolio of listed equities

(value lost in the period to December 08: £1m; value saved if the fund were to be holding the same portfolio now £1.6m)

- Reduce the number of new investments
  - Only 3 new investments in the last 18 months



# Examples of progress are plentiful

## Development stage companies

## Revenue Growth

Sift	+ 20%
Imagesound	+ 7%
Elateral	+ 40%
Workshare	+ 13%
Community Internet	+ 42%

## Early stage companies

Antenova	+ 85%
Isango	+ 55%
Uniservity	+ 62%

## Life Sciences companies

Vivacta	Development milestones met
Haemostatix	Development milestones met and new product created



# But Valuations are falling

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The Fund valuation is based on International Private Equity and Venture Capital Valuation Guidelines, which have been consistently applied:

- Prices of recent financing rounds;
- Earnings multiples (for more mature companies);
- Industry valuation bench-marks

## BUT

- All of these metrics have declined over the last year, leading to downward pressure on valuations, even for good companies
- Inevitably, there have also been some disappointments, and decisions not to provide further support



## Generating the following financial results

	£'000	Pence per share
<b>Net asset value at 31 December 2007</b>	<b>37,676</b>	<b>33.2</b>
Income	1,106	1.0
Operating expenses	(1,149)	(1.0)
Net losses on disposal – listed equity portfolio	(1,020)	(0.9)
Net gains on disposal – venture capital investments	728	0.7
Net loss on revaluation – venture capital investments	(2,862)	(2.6)
<b>Net assets before dividends and share buy-backs</b>	<b>34,479</b>	<b>30.4</b>
Dividend and incentive fee paid	(4,175)	(3.7)
Share buy-backs	(573)	0.1
<b>Net asset value at 31 December 2008</b>	<b>29,731</b>	<b>26.8</b>




# Looking ahead

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Manage the Fund to deliver value to shareholders

- Caution over the deployment of cash
- Use reserves to build value in the better portfolio companies
- Be prepared to wait until the M&A market recovers



SPARK VCT plc  
Annual General Meeting

8 May 2009

