

insidetrack

The newsletter of xénos, the Wales Business Angel Network

Issue 12

www.xenos.co.uk



SmartKem pioneers smart technology

**Angels make
the difference at
Kind Consumer**

**Interview with an angel:
Gavin Davidson**



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Company presentation at a recent xénos investor forum

Welcome to Issue 12 of inside track, the newsletter of xénos, the Wales Business Angel Network.

2009 promised to be a year of great uncertainty in the private equity market. Would there be quality deals we could put forward? Would investors be more cautious? Would there be an appetite for risk?

Yet, against this backdrop I'm pleased to say that xénos has continued to perform well, and in fact we've outperformed the same period for the last two years, investing £1.4 million in 13 new deals since April. I'm also pleased that our pipeline remains strong for the rest of the year and we are on target to invest over £2 million again this year.

So far we haven't seen an increase in demand from companies in financial difficulty, or a huge increase in demand for investment in business start-ups. Rather, we've noticed that more existing businesses are turning to private equity

to fund their growth as bank lending and other sources of investment remain scarce. This is giving business angels a chance to consolidate their portfolios with companies that have been trading for some time.

In this issue we take a look at some of our investments in 2009, including Kind Consumer with its nicotine replacement product; Elderworld, a training and management company targeting care home providers and Alzeim's development of an extract from daffodils in the fight against Alzheimer's. New xénos angel, Gavin Davidson also shares his thoughts on his hands-on approach to investing.

I hope you enjoy this issue of inside track, and if you know of someone who'd like to receive a copy please let us know.

David Maas
Manager, xénos

Angels make the difference at Kind Consumer

A consumer medical technology company set to address the global nicotine addiction problem will soon have a new base in North Wales after securing early stage funding through xénos.

Founded in 2006, Kind Consumer Ltd, has developed smoking replacement technology that simulates the ritual and physiology of smoking but without harm. This latest funding round, which involves a number of individual investors, will help the company complete product development and clinical trials.

“As the single largest killer, smoking justifiably warrants the highest possible levels of global attention on prevention,” explains chief executive and founder, Dr Sam Bakri. “Our technology is designed to go a step beyond currently available nicotine replacement therapies, delivering nicotine by a faster acting means, in a safe manner and at an affordable level. Kind’s

‘harm reduction’ approach focuses on the psychology and physiology of smoking while eliminating the intake of the many harmful carcinogens in cigarette smoke.”

Commenting on this latest investment, Bakri continues: “xénos clearly understood our needs and we had significant interest from a number of serious angel investors who have become either non-executive directors or advisors. Their commitment has been fantastic from our very first investment pitch, they have all followed on through three rounds of funding.”

Added to this, Kind Consumer is taking advantage of all aspects of the service xénos offers. Bakri explains: “As a young management team with an entrepreneurial spirit we recognised that xénos understood what it would take to grow the company from an idea into a business, they identified appropriate angels, and within three months of meeting the angels, investment

was secured. As well as the significant investment made, their time, expertise and connections are helping Kind Consumer to fulfil its ambitions of becoming a global industry leader. xénos’ contribution to date has been critical, and the level of professionalism unparalleled.”

As Nick Bradley, xénos’ regional manager, for North Wales, concludes: “Kind Consumer is a good example of an early stage company that’s making the most of its intellectual property to attract the right level of investment at the appropriate time in its development. The company demonstrated both a strong management team and a thorough understanding of the medical technology markets, making this investment opportunity very attractive for business angels.”

Now, as experts believe this approach could save tens of thousands of lives in future, Kind Consumer is in talks with a number of potential commercial partners.

“The company demonstrated both a strong management team and a thorough understanding of the medical technology markets, making this investment opportunity very attractive for business angels.”

Nick Bradley, xénos regional manager, North Wales



Investment accelerates Alzheimer's growth



Mid-Wales bio-tech company, Alzeim, is stepping up its fight against Alzheimer's after securing £575,000 in its latest funding round from xénos and Finance Wales.

The Brecon-based company, which extracts galanthamine from daffodils, now expects to go into full-scale production to provide enough of the natural plant alkaloid for large-scale medical application.

As chief executive, Kevin Stephens explains: "Galanthamine is a compound used to correct the enzyme balance in the brain, thereby delaying the effects of Alzheimer's. Originally found only in snowdrops in Eastern Europe and China;

the ready availability of galanthamine in daffodils grown in the Black Mountains, makes this discovery by our chief scientist, Professor Trevor Walker, arguably one of the most important in generic drug development globally.

"The £850,000 funding secured to date from Finance Wales, Gambit Corporate Finance and a number of individual investors via xénos, will enable us to facilitate on-site production and expand the acreage of daffodils planted. This will reduce the cost of supplying galanthamine substantially and we hope the drug will be available soon on standard prescription lists in England and Wales."

Elderworld invests in expansion

A co-investment between a xénos business angel and Finance Wales is helping Monmouth-based Elderworld Ltd, which provides online services to the UK's care homes sector, a sector which is governed by national minimum standards' legislation.

This investment will help it increase its sales as well as develop its software, recruit additional staff and move to new premises.

The company has received £300,000 from Finance Wales and xénos angel, Gavin Davidson, has taken a five per cent equity stake.

Elderworld provides care home operators with a comprehensive training and management system to help them optimise performance and a one-stop shop - helping them to cut costs in procurement. Elderworld's online

services are available 24 hours-a-day, ensuring customers' staff can be trained at convenient times to suit shift patterns.

"Elderworld is an exciting company in a niche market. Its potential for growth is significant as care home providers need to train their staff to stringent requirements to ensure maximum care benefits. They also need access to certain products and services and to effectively implement the latest governance regulations," said Davidson.

"I'm taking a hands-on role within the business and I'm looking forward to playing a part in the company's continued success."

Elderworld is one of several companies in which Gavin Davidson has invested. You can read more about these investments and his hands-on approach on pages 8 and 9.



A valued business opinion



**Chris Burgess, Partner at
HW Corporate Finance**

Company valuations are a hot topic, with many companies having to adjust their expectations or risk losing interest from potential investors. Chris Burgess, a partner at HW Corporate Finance, explains how to achieve a realistic valuation.

Knowing the value of your business (or proposed investment opportunity) when pitching for investment is tricky and it can be one of the biggest deal breakers for potential investors. The inflated company valuations achieved in recent times have come to be thought of as the norm, but in truth, they have often exceeded the norm of three to four times operating profit.

Despite this, I'm not in favour of formulaic valuations and suggest companies consider a range of relevant factors before deciding on how much equity to part with when pitching for investment.

Angel investors not only provide a vital source of investment funding, but they can also offer a wealth of other benefits and it's important to

take this into account when you value your company. I'd always recommend obtaining advice from a reputable investment professional. An experienced advisor will not only take current and possible future earnings and relevant assets into account but will also undertake a pre-pitch 'reality check' for you.

Crucially, you should ensure your business is 'investment ready' and a robust business plan with realistic and supportable, financial forecasts will pay dividends. Benchmarking your business correctly will often encourage potential investors. Remember, investors want to achieve a solid return and exit their investments after 5-10 years, so you should have a clear exit strategy. If your sums don't add up, investors will walk away.

Throughout any negotiations, maintaining a realistic attitude is crucial and you should always be able to justify your company's valuation. However, if you can't agree on a realistic price-equity ratio or the relationship seems fraught, don't be afraid to walk away. After all, the deal needs to work for both you and the investor!

Burgess offers the following thoughts on achieving the best company valuation:

- Ensure your business is 'investment ready', with a business plan containing realistic and supportable financial forecasts.
- Consider the potential investor's viewpoint and the additional benefits with an angel investor on board.
- Don't be afraid to secure a limited level of investment to get your business to the next stage of development and achieve a better 'price' for future rounds.
- Benchmark correctly to encourage potential investors.
- Think about factors such as the potential market size, routes to market or stage of development.
- Consider all of your company's 'assets'. If your IP lies in your people, show how this knowledge will be protected or transferred.
- Ensure your idea or IP is protected as your company could achieve a higher valuation and achieve a better deal.
- Have a clear exit strategy - investors want to achieve a solid return and exit their investments after 5-10 years.

Find out more about xenos' advisory membership at www.xenos.co.uk

SmartKem pioneers smart technology



North Wales-based start-up, SmartKem Ltd plans to develop smart laser printable electronic processes. The company's processes will enable electronic circuits to be printed on a range of surfaces and will significantly impact the manufacturing of electronic components and reduce manufacturing costs in a range of consumer products.

The company recently relocated to St Asaph's Technium Optic after attracting a £250,000 xénos and Finance Wales co-investment, as well as a Welsh Assembly Government grant.

SmartKem will now use the investment to accelerate its growth as it exploits the multi-billion pound printable electronics industry. Smart packaging, thermal clothing, roll-up display screens, flat-screen TVs, flexible electronic paper, radio frequency ID (RFID) tags and sensors will all

benefit from developments in printable electronics technology in future.

"SmartKem will be the first organisation fully committed to the laser generation and structuring of functional printed electronic thin films – a unique marriage of photonics, chemistry and electronics," says Steve Kelly, SmartKem's managing director.

"In order to realise our vision of building a world-class collaborative technological enterprise typically the realm of semiconductor companies, we required investors that would not only enable the



company to get off the ground, but share our passion for this rapidly advancing and highly innovative technological space.

"xénos put us in touch with a number of private investors and we were able to access the funds within three weeks!"

Commenting on the investment, xénos regional manager for North Wales, Nick Bradley said: "Although early stage and very high risk, SmartKem provided xénos investors and Finance Wales with a great opportunity to invest early-on in both a highly innovative company and a rapidly growing sector.

"SmartKem plans to develop novel processes for using low-power lasers with light-reactive chemical coatings and organic substrates to produce printable electronic components. This is a platform technology with future patents likely to be more application-specific, thereby providing substantial scope for future investment."

The market for laser printable electronics technology is growing and SmartKem is currently developing a number of patent-protected processes which it intends to exploit commercially.

This investment round will help SmartKem produce early 'proof of principle' examples of its processes. The company now plans to collaborate with a number of St Asaph-based companies and other Wales-based prototyping and manufacturing companies on product and application development.

SmartKem aims to have early demonstrations of its groundbreaking technology available by the end of the first quarter in 2010, when it will embark on further fundraising to develop product applications.

Profiting from a hands-on approach

In the latest 'interview with an angel', inside track talks to Gavin Davidson, who began his career as a chartered accountant only to realise his passion was to invest in - and run - a business or two.

Gavin Davidson entered the financial world after qualifying as an accountant with Peat Marwick Mitchell (now KPMG) in 1985. He then spent three years at Pricewaterhouse providing growing businesses with strategic business planning advice. In 1989, he embarked on a role with an independent chartered accountancy company as business development manager, becoming a partner in 1993 and managing partner in 2001.

But it was in late 2003, having completed the merger of the business with a competitor, he found his experience and expertise was a valuable commodity when he joined Source Software Ltd as financial director.

A Wales Fast Growth 50 company, Source provides intermediaries with an online panel of blue-chip insurers providing household, buy-to-let and income protection policies, allowing them to compare and buy products on behalf of clients who are completing a mortgage or re-mortgage.

Davidson successfully applied for the company to become regulated by the Financial Services Authority in 2004 and working closely with the company's

managing director, Source's profitability has increased year-on-year ever since.

"I had moved too far away from seeing the action that resulted from the advice given and I needed to be more hands-on and creative. I'm quite passionate about things and wanted to develop this in a new role. Source needed input at a strategic financial level to steer the company through financial regulation and capitalise on the opportunities that presented.

"That was very stimulating for me and my role as FD, in conjunction with the new managing director, was to maximise gross profit growth through supplier contract negotiation. The company is profitable and we have seen growth year-on-year through continued investment," Davidson explains.

Having recruited and mentored a financial controller, Davidson can now dedicate a few days a month to his passion for "getting his hands dirty" in early stage ventures. He is now financially and managerially involved in several businesses, including a financial services company at concept stage, TicketSource, a free online box office service for event promoters and WaterSpace, which provides 'floating' offices in marinas and water-side developments.

His first investment through xénos was made earlier this year in Elderworld, a Monmouth-based online business providing upgradeable and future-proofed e-learning programmes and

governance solutions to the staff in care homes, and procurement of products and services in the care home sector.

"I'd known about xénos for sometime and I was keen to see how I could get involved. I attended some of the xénos forums. These have proved very useful and informative. As a result I was aware of Elderworld and after speaking to its managing director I realised that there was a lot I could bring to the table – in addition to the investment.

"And that's what it's all about. My passion for business and not just the investment – it allows me to get involved in a business and support its growth by being hands-on."

Davidson admits that he's had other ideas for start-up businesses, but because they were not in areas of his expertise or passion, he hasn't progressed with them. "I'm sure someone else will have the same idea, take it to market and make it a success. But while the idea is good, I don't have the passion for that particular type of business and I haven't progressed with it.

"And that's what is important as an angel investor. You need to be passionate about what you are doing and investing in. You have to be able to bring something to the business that can support its growth. In most cases that is financial investment, but the mentoring and hands-on role is also vitally important."



Untapped potential



Having invested £1.6 million of private equity in 17 businesses in 2008 - 09 and a further £1.4 million in 13 businesses since April, 2009, xénos investors continue to make the most of the ready source of investment opportunities Wales has to offer.

Here, inside track examines what's on offer to angel investors in Wales and finds a large number of SMEs operating in a range of sectors. There is a wealth of untapped potential for angel investors throughout Wales and xénos' managers are helping them make the most of it.

Mid Wales Powys, Ceredigion and south Gwynedd

Mid Wales offers a range of high-quality investment opportunities in the technology, IT, biotech, medtech and environmental sectors, many of which either operate globally or have global ambitions. These opportunities are complemented by Aberystwyth university's spin-out and early-stage opportunities as well as opportunities in more traditional manufacturing and other supply sectors.

xénos was involved in the investment into Brecon-based biotech company Alzeim Ltd, which is extracting galanthamine from daffodils in the fight against Alzheimer's.

South East Wales Cardiff, Newport, Monmouthshire, Blaenau Gwent, Torfaen, Caerphilly and Merthyr Tydfil

The source of over 50% of xénos' investment opportunities, South East Wales has much to offer angel investors across a wide range of sectors, including IT, medical and clean technologies, environmental and manufacturing. There are also opportunities to invest in early-stage and recently relocated companies. xénos investors also invest in a significant number of deals with Finance Wales.

A xénos angel recently co-invested in Cardiff-based SubHub, whose software enables users to build websites. This funding round will enable the company to expand globally.

L to R: Richard Bonfield,
David Mass, Nick Bradley
and Colin Lucas



North Wales

**Anglesey, Conwy, north Gwynedd,
Denbighshire, Flintshire and
Wrexham.**

St Asaph's Technium OpTIC specialist innovation centre has given rise to a number of high-tech businesses focusing on optics, photonics and lasers, holography, vision systems and thin film coatings. The region is also home to a cluster of software and IT businesses. xénos investors also invest in a significant number of deals with Finance Wales.

A recent xénos angel investment in consumer medical technology company, Kind Consumer, which has developed a smoking replacement technology, will see it move to a new base in North Wales.

South West Wales

**Rhondda Cynon Taf, Vale of
Glamorgan, Bridgend, Port Talbot,
Swansea, Carmarthenshire and
Pembrokeshire**

A diverse urban and rural mix, the region offers much investment potential with opportunities in the software, IT, digital, biotech, medical technologies, environmental and manufacturing sectors. The region is also home to six Technium innovation centres.

xénos was involved in the angel investment in Haemair Ltd, a company based at Technium Digital, Swansea. The company owns patented technology for the control of a blood/air air exchanger to be used as either a prosthetic lung or as an external respiratory aid.

xénos makes the difference

With a 12-year track record of facilitating significant levels of angel investment and a 120-strong network, xénos provides a personalised service for business angels looking for sound investment opportunities.

Matching potential

xénos not only matches exclusive potential investment opportunities to angels' specific criteria, but it can also match potential syndication partners. Added to this xénos works closely with Finance Wales enabling angels to make the most of investment opportunities they may not otherwise be aware of.

Investment ready

For xénos, it's not simply a case of promoting businesses' investment needs to potential investors, it helps and advises businesses on how to perfect their business plans and prepare for investment. So, when you see an investment case at a xénos investor forum, you can be sure it's an investment opportunity worth considering.

**Call xénos today to find
out more about current
investment opportunities.**



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