

Technology update

Capital markets and technology businesses in 2008 – a viable option or something to be avoided?

For many technology based businesses, flotation is seen as a realistic option for raising further equity or the exit of earlier funders.



Edward Porter

However, the degree of volatility seen over the past twelve months has meant investors had a rough ride on the UK capital markets in 2007 with plummeting share prices in the second half of the year reminiscent of the burst of the dot.com bubble in 2001.

Since 2001 the technology sector has undergone a long period of consolidation and on the back of the bull market it looked like 2007 was going to be the year that technology stocks finally bounced back.

Numerous software IPOs were set up to capitalise on the excitement generated by such high profile companies as VMware and Facebook and once again it was possible for technology companies to obtain premium valuations with many achieving Price-Earnings Ratios of 10x.

But then came the sub-prime crisis and resulting credit crunch. The resulting reduction in liquidity has had a widespread impact on the markets with technology and other smaller cap companies being hit particularly hard.

An example of this can be seen by looking at the experience of technology companies listed on The Alternative Investment Market (AIM). AIM has long been a favoured destination for technology companies with around 150 currently listed on it. However recent research has suggested that a great many may be undervalued by as much as 50 per cent.

One such AIM listed company, Intechology plc, announced in the last quarter of 2007 that it plans to de-list because of this liquidity problem and it is quite possible that others may follow suit.

A number of potential technology floats are also being shelved as investors become increasingly wary of the sector – Oxfordshire based Sophos plc recently announced it has decided to pull its

plans to list on the London Stock Exchange because of weak market conditions only a month after announcing its decision to list.

Although difficult to predict, many analysts expect conditions to get worse in 2008. On a positive note, a reduced number of IPOs combined with undervalued technology stocks should increase the amount of merger and acquisition activity we see in the sector in the next twelve months.

There will still be some opportunity in the markets for very specific technology companies but we are counselling any clients intending to float this year to take soundings of investors with brokers before commencing the process.

For further information contact
Ed Porter on + 44 (0) 1865 200 500 or
eporter@jamescowper.co.uk

James Cowper's Technology Team

James Cowper's Technology team work with technology businesses from spinout stage to those listed on AIM and in sectors including environmental, IT, telecoms and communication, physical and material sciences and life sciences, including pharmaceuticals, diagnostics and medical devices.



Senior members of James Cowper's technology team, from l to r: Sue Staunton, Steve Clarke, Robert Holland, Melissa Baxter and Alex Peal.

The team's expertise means that we are able to provide our clients with the full range of accounting and business advisory services, from basic book-keeping through to support for flotation.

If you want to discuss how our team can help your technology business, contact Sue Staunton on + 44 (0) 1865 200 500 or sstaunton@jamescowper.co.uk

In the last six months a number of James Cowper clients have been successful in raising funds, including:

Company	Sector	Amount	Source
Syntaxin	Drug Development	£16M	VC
Particle Therapeutics	Medical Device	£600,000	Angels
Anaxsys Technology	Medical Device	£1.6M	VC & Angels
Impera	IT	£250,000	VC

If you have a technology business looking to raise investment please contact Alastair Cavanagh on + 44 (0) 118 959 0261 or acavanagh@jamescowper.co.uk

Is Your Business Investment-Ready?



Alastair Cavanagh

The majority of technology businesses need to raise external funding at some point in their development.

Being 'investment ready' is about the business having a structure into which funders will want to invest their money. It is about more than

having leading edge technology. It requires the business to have the internal housekeeping and infrastructure that demonstrates not only that the business has been well-run and there are no skeletons in the cupboard, but that it has the solid basis from which to develop as per its articulated plan.

When a company comes to us looking for funding we take them through a checklist:

- Are all the company's statutory filings (its financial statements, tax returns, annual returns etc) up to date?
- Does the company have an existing shareholder agreement and Articles of Association?
- Does the company own all of the IP upon which its technology is based?

- What is the quality of the company's internal management information?
- What is the management structure and capability – will it be sufficient to deliver the plan?
- What is the investment for? Is it to fund future growth or partly to pay directors' higher salaries or the repayment of debt?

Although investors will take into account the stage of development a business has reached, it's important to realise that the more professionally presented the business is in terms of these sorts of issues, the more likely the investor is to entrust its funds to that business.

Having ensured that the housekeeping is appropriate, the business should then turn its attention to the business plan.

When developing a business plan or presentation, entrepreneurs should always assume investors are new to their kind of business and opportunity.

This is most applicable to technology based businesses – even if the investor has an understanding of the subject, they are unlikely to be an expert and will need to undertake due diligence at a later stage.

In simplistic terms investors want to know 'why will customers buy the proposed product and can the business make money?' No matter how detailed and wide-ranging the final plan may become, answering these two key questions should always underpin the whole document.

The difficulty for many businesses is that often they are some way from being able to sell a finished product.

For early stage businesses, it is still possible to get customer validation. This could simply be a quote from a key target customer, through to a letter of intent. This will demonstrate knowledge of the market and customers and a degree of entrepreneurial flair within the team.

We work with many technology businesses to assist them to raise funds and we know how challenging it can be – by helping to groom our clients we can help ensure they are truly 'investment-ready'.

For further information contact
Alastair Cavanagh on: + 44 (0)118 959 0261 or
acavanagh@jamescowper.co.uk

Capital Gains Tax Reform - impact for technology companies

In the government's pre-budget report in October 2007, it announced a simplification of capital gains tax rules from 6 April 2008 for individual investors. From this date, all capital gains will be subject to a flat tax rate of 18 per cent.

However, on 24 January, it was announced that the first £1m gain realised by business proprietors will be subject to 10 per cent tax. This is to be known as 'entrepreneurs' relief' and certain conditions will apply.

There are many technology firms in the Thames Valley that rely on external investors. The fear is that the changes may encourage investors to move away from investing in shares to other perceived lower risk options such as buy-to-let.

Currently, capital disposals of shares in private trading companies are subject to taper relief which means that if an individual has held shares in a private company for more than two years, tax is only paid on 25 per cent of the gain.

If the individual is a higher rate tax payer, they effectively pay tax at 10 per cent of the net gain. Under the new simplified rules, the individual will pay 18 per cent of the net gain in excess of £1million.

It is not uncommon for successful businesses in the Thames Valley to have a gain of £5 million. Under current legislation, if business asset taper relief applies, the capital gains tax liability will be £500,000. Under the new legislation, providing the individual is eligible for entrepreneurs relief,

£4 million of the gain will be taxed at 18 per cent resulting in a £720,000 capital gains tax liability – a 44 per cent increase.

The announcement has already caused many shareholders to consider disposing of assets prior to 6 April 2008 to avoid the higher rate of tax their gain will be subject to.

However the disposal of businesses should not be based solely on tax efficiency - if it is not the right time to sell in the business life-cycle then the amount received may be depressed.

Investment into smaller private technology companies should still be popular if the investment qualifies for Enterprise Incentive Scheme (EIS) relief.

For further information contact
Liz Rand on + 44 (0) 1865 200 500 or
lrاند@jamescowper.co.uk

James Cowper offices:

Phoenix House
Bartholomew Street
Newbury
Berkshire RG14 5QA
Tel: +44 (0)1635 35255
Fax: +44 (0)1635 40500

Willow Court
7 West Way
Botley
Oxford OX2 0JB
Tel: +44 (0)1865 200500
Fax: +44 (0)1865 200501

3 Wesley Gate
Queen's Road
Reading
Berkshire RG1 4AP
Tel: +44 (0)118 959 0261
Fax: +44 (0)118 939 3385



Accountants & Business Advisers

email: info@jamescowper.co.uk
www.jamescowper.co.uk