What are the true components of value in a business? - Martin Stanton (EMC)

A reminder about what is legally protectible - Gina Bicknell (TS&P)

Developments in valuation - Kelvin King (Valuation Consulting)

Accounting for IP and preparing for exit, R&D tax credits - Desmond High (EMC)

Raising funds against IP - Christopher Raggett (FinnCap)

Achieving full value on a business sale - live example - Howard Wilder (EMC)
The Art of Adding Corporate Value Through Recognising Your Intangible Assets

Martin Stanton
EMC Management Consultants Ltd
Martin Stanton

- Scientist
- EMC consultant
- On the boards of UK, US, and German companies from £500k - £100M
- Sales specialist
- Growth Accelerator coach
- Growing sales with SMEs
- Grooming businesses for sale
- Humble salesman’s perspective
Sale value = 
Future profits \times \text{multiplier} + 
\text{Tangible assets} + 
\text{Cash in Bank} + 
\text{Debtors/Creditors} +/\- 
\text{Fiddle Factor} +
Fiddle Factor = Difference of (Profits, assets, cash, debtors, creditors, etc)

And what you actually get for the business
Goodwill
Now let’s look at intangible assets that, in general, can’t be protected, but do contribute to the IP and the valuation, and that are often forgotten from a SALES viewpoint.
4 Ms of Sales

• Measure

• Manage

• Motivate

• Mentor
XI
Thou canst not manage what thou dost not measure

XII
SHOW ME
CRM
Sales Forecast

Budgets And Targets
Territory Plan Forecast Accuracy
Training, Skillsets, And Experience
Brand Spec. Market Knowledge
Customer Satisfaction  Customer Loyalty
ISO9001 Compliance

ISO14001 Compliance
Credit Control Protocols

Health and Safety Procedures
Employee Contracts

Non-compete Clauses
Complaint Handling

Cyber-Security Protocols
Etc etc etc
e tc etc etc
etc etc etc
e tc etc etc
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etc etc etc
XI
Thou canst not manage what thou dost not measure

XII
SHOW ME
You will add value by having the documentation to prove what you do
But don’t leave it until you’re ready to sell, to put your IP house in order.
Intellectual Property
Unlocking value in your business

Gina Bicknell
Partner
gina.bicknell@ts-p.co.uk

23 May 2017

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Agenda

• Intellectual Property Overview
  • Patents
  • Trade marks
  • Copyright
  • Design rights
  • Trade secrets
• Questions
• What do patents do?

• To be patentable, your invention must be:
  • New
  • Something that can be made or used (capable of industrial application)
  • Inventive

• Invention cannot be excluded subject matter

• Duration = 20* years from filing date

• Patents are national rights
Patents

• An invention must be new to be patentable
• Public disclosures destroy patentability
  • Beware of written (including online) disclosures, oral disclosures or disclosures by use or other ways
  • Confidentiality agreements very important
• Grace periods in some countries, but not UK or Europe
• Patents are not kept secret
Patents

- Patent infringement occurs when certain unauthorised acts occurs
- In UK, court proceedings generally take place in London (Patents Court – a div of High Court, or Patents County Court)
- Remedies may include:
  - injunctions
  - delivery up or destruction of goods
  - award of damages (what patentee has lost)
  - an account of infringer’s profits (what infringer has gained)
  - legal costs
Trade Marks
Trade Marks

• Trade marks are used to distinguish your products and services from another

• Registration allows you to enforce your rights against 3rd party infringers

• What can be registered?
  • Signs that can be represented graphically
  • Examples:
    • Conventional - letters, numbers, words, logos, pictures, or symbols
    • Non-conventional: shape of goods, colour, sounds, smells, tastes, textures
  • Not registrable:
    • Descriptive terms; generic terms; offensive terms; and specially protected emblems.
Trade Marks

• Must use or have genuine intent to use the registered mark
• Non-use for more than 5 years from registration date can result in loss of mark
• Duration:
  • 10 years from filing date;
  • Can be renewed for further 10-year periods
• Difference between ™ and ® symbols
• National rights
Trade Marks

• Infringement
  • Any unauthorised use in relation to the goods or services protected by the trade mark
  • Varying tests for infringement depending how similar the mark are

• Defences
  • Various defences, including identification of trade mark owner’s goods/services, use of own name and use is descriptive (e.g. name of location or venue)

• Remedies (civil)
  • Injunction
  • Damages
  • Search orders/seizures
Trade Marks

- Unregistered marks – protected by tort of “passing off”
- Must establish:
  - The mark is yours
  - Goodwill and reputation attached to goods and services related to trade mark
  - Misrepresentation by third party causing some harm to you
Copyright

• Protects expressions of idea – not the idea itself
• In the UK, copyright arises automatically on creation
• What kind of works can be copyrighted?
  • literary, dramatic, musical, and artistic works
  • software, databases, web content
  • sound recordings
  • films/tv/broadcasts
  • layout of published editions
Copyright

- Using the © mark
- Duration
- Requirements
  - Must be original, and show labour, skill or judgment
- Who owns?
  - Author/developer?
  - Employer?
  - Commissioner?
Copyright

- Moral rights (personal rights)
- Applies to literary, dramatic, musical or artistic works and films
  - Right to be identified as the author
  - Right to object to derogatory treatment
  - Prevent false attribution
- Waiver, not assignment
Design Rights

- Protects “look and feel” – not function
- Shape, texture, colour, contours, ornamentation
- Registered and unregistered rights
- Duration
  - Registered designs (UK/Community) = 25 years
  - Unregistered designs (UK) = 10-15 years
  - Unregistered (Community) = 3 years
- In US, can obtain Design Patents for the ornamental design of a functional item
Trade Secrets
Trade Secrets

• Not a separate IP right in the UK/Europe
• Common law protection under law of confidence
• Confidential information is information that (1) has the “necessary quality of confidence” and (2) was imparted in a “situation imposing an obligation of confidence”
• EU Trade Secrets Directive
  • Came into force 5 July 2016 (member states have 2 years to implement)
  • Must be secret, have value because of its secrecy, and owner must take reasonable steps to keep secret
  • Infringement for unlawful acquisition
• Misuse of confidential information can lead to injunctions, destruction of confidential information, an account of profits or damages.
Thank you!

These slides are for presentation purposes only. They are not comprehensive and the information in these slides should not be used as a substitute for seeking professional advice on a specific issue. Thomson Snell & Passmore LLP does not accept any responsibility for any action which may be taken as a result of having read these slides.
WHO ARE VALUATION CONSULTING

- Many years experience within Government, Investment Banks and the accountancy profession
- Members of the Society of Share and Business Valuers, authors, lecturers
- RICS Chartered Valuation Surveyors and Registered Business Valuers
- Law Society Registered Expert Witness accreditation/membership of the Expert Witness Institute
- Four Directors have experience in presenting testimony with many compliments in Judgements
- Dedicated valuers – we only value shares, businesses, intangibles and IPR worldwide for a variety of non-contentious and contentious purposes
INTANGIBLES – THE CURRENT BIG ISSUES

- Accounting Standards
- Corporate Governance
- Fairness Opinions
- Valuation
- Pension Deficits
VALUATION IS IN EYE OF BEHOLDER

Four Calculations or Steps – 'can Kelvin count'

1. Intrinsic value of Vendor/Licensor
2. Intrinsic value of Purchaser/Licensee

PLUS

1. Intrinsic value of Vendor/Licensor
2. Intrinsic value of Purchaser/Licensee

The capital values calculated are an essential step to consider the valuation and or licensing proposition.
STARTING AT THE TOP AND TRYING TO BUILD DOWN

THE LAWS OF PHYSICS AND VALUATION SUGGEST THAT THIS IS NOT POSSIBLE

Quantitative analysis is important but the foundation of valuation is qualitative and principled, not prescriptive

Human Resources meets Finance – the forgotten element
INTELLECTUAL PROPERTY

Those assets whose essential characteristics are derived from the Legal System, in this case the UK

Registered Rights
- Trade Marks – UK, CTM (TMA 1994)

Unregistered Rights
- Confidential Information (equitable and contract)
- Passing-off (common law)
- Copyright (CDPA 1988 and Copyright Computer Software Amendment Act 1985)
- Miscellaneous: Performance Rights, Image Rights, Moral Rights, Database Rights, Malicious Falsehood (common law), Plant Variety Rights
INTANGIBLE ASSETS – JUST A FEW EXAMPLES

Rights
- Contracts

Relationships
- Workforce
- Customers

Group Intangibles
- Goodwill

Characteristics of Economic Advantage
- The spectrum of creative thought
- Formulae, Recipes
- Experience
- Negative Knowledge
- R&D and Information
80% OF CORPORATE WORTH IS INVISIBLE

The US FASB has created a list of what it considers to be a firm's intangibles:

<table>
<thead>
<tr>
<th>Category</th>
<th>Examples</th>
</tr>
</thead>
<tbody>
<tr>
<td>Market-related</td>
<td>Trademarks, trade names, service marks, trade dress, newspaper mastheads, internet domain names.</td>
</tr>
<tr>
<td>Customer-related</td>
<td>Customer lists, customer contracts, customer relationships, customer agreements</td>
</tr>
<tr>
<td>Artistic related</td>
<td>Ballets, books, plays, articles, other literary works, musical words, opera, pictures, photographs, video and audio-visual material.</td>
</tr>
<tr>
<td>Contract-based</td>
<td>Licensing agreements, advertising or service contracts, lease agreements, construction permits, operating and broadcast rights, employment contracts.</td>
</tr>
<tr>
<td>Technology-based</td>
<td>Patented technology, computer software, unpatented technology, databases, trade secrets, secret formulae</td>
</tr>
</tbody>
</table>

Recognition under IFRS is only allowed when there is a merger or purchase of one company by another. You CANNOT under most Standards value own-grown IP for accounting statements.
OCCASIONS WHEN FINANCIAL VALUATION IS IMPORTANT

- Mergers & Acquisitions
- Portfolio review and risk assessment
- Arrange a loan – securitisation
- Tax purposes
- Licensing
- Balance Sheet
- Joint Ventures and Technology Transfer
- Pension deficits
- Selling your IP
- Distress
- Litigation
WHY ARE WE VALUING - CONCEPTS?

- Tax Open Market Value
- Fair Value
- Fair Market Value
- Commercial Value
- Investment Value
- Owner Value
- Damages enquiry and account of profit
METHODS OF VALUATION

**Market based**
- Comparable market transactions

**Cost based**
- Historical or replacement cost

**Income based**
- Discounted cashflow
- Capitalisation of Profits
Apply most appropriate method considering economic benefits and valuation inputs available
INCOME APPROACH: DISCOUNTED CASHFLOW MODELS

Modern valuation analysis is effectively DCF applied to the business enterprise under consideration

- The Net Present Value (NPV) of a strategy or business is the sum of its expected free cash flows to a horizon (H) discounted by its cost of capital (r)

\[
NPV = Year\ 1\ Cash\ Flow + Year\ 2\ Cash\ Flow \ldots\ To\ say\ Year\ 5\ Cash\ Flow
\]

\[
\frac{1}{(1+r)} + \frac{1}{(1+r)^2} + \frac{1}{(1+r)^H}
\]

PLUS

- The terminal value which is the value of the business at a horizon (HV)

\[
HV = Cash\ Flow
\]

\[
(\text{r} - \text{growth})
\]

Also discounted back to present value
TOOLS

HOW MUCH – IDENTIFYING CASHFLOWS?

➢ Gross profit or incremental profit differential methods – premium prices/premium profits
➢ Excess profits method, multi-period excess earnings method
➢ Relief from Royalty method
USEFUL LIFE

HOW LONG FOR – TIME PERIODS?

- Physical Life
- Functional Life
- Technological Life
- Economic Life
- Legal Life
THE DISCOUNT OR CAPITALISATION RATE AND FINANCIAL/MARKET DUE-DILIGENCE

AT WHAT RISK AND COST OF CAPITAL?

Derive the appropriate cost of capital – for an investment and asset to be worthwhile the expected return on capital (equity and debt) should be greater that the cost of capital

➢ Risk free profile and risk factors

Caveats

➢ Immense difficulty in forecasting well into the future
➢ Future distant growth is often significantly discounted in the perpetuity calculation
➢ Most seed invention does not reach the market – less than 20% - how do we deal with that
➢ In Pharma Preclinical discount rates 55-80%, Phase 1 40% + etc
An appropriate discount rate should be utilised based on the risk profile, IP analytics and landscaping of underlying asset, liability or business.

Guideline benchmarks for selecting appropriate discount rates:

- Weighted average cost of capital (WACC)
- Internal rate of return (IRR)
- Weighted average return on assets (WARA)

Discount rate and cashflows need to be a like for like basis:

- Taxes in cashflows, use a post tax rate
- Risk in cashflows, use a risk free rate

In many tax jurisdictions intangibles can be amortised reducing a taxpayer’s burden. It may be appropriate to include the value of TAB in valuation of the intangible.
ADVANCED MODELLING

Monte Carlo

- Effectively a DCF multiplier
- Numerous DCF calculations accounting for various scenarios and probability eg a launch date, revenue targets, market share, costs, internationality and other risks
- With just 4 scenario changes of 4 stated assumptions this means 256 models!
- That is 4 values for each of income, different market share, costs, international penetration

\[ i.e. \ 4 \times 4 \times 4 \times 4 = 256 \]

Real Options

- Probability trees = snakes and ladders, develops the Monte Carlo analysis weighting by a % say to obvious hurdles to market for example in Pharma, the Phases, Regulatory Success and Sales
- Develops terminations (snakes) if a route identifies problems to suggest failure
- Uses basic discount rates and applies on top a differential risk factor to cashflow eg 100% cumulative probability Year 1, 50% Years 2 and 3, 30% Year 4 etc
THE LICENSEE/PURCHASER & LICENSOR/VENDOR

Four Calculations or Steps – 'can Kelvin count'

1. Intrinsic value of Vendor/Licensor
2. Intrinsic value of Purchaser/Licensee

PLUS

1. Intrinsic value of Vendor/Licensor
2. Intrinsic value of Purchaser/Licensee

The capital values calculated are an essential step to calculate royalty rate or valuation - discuss
Unlocking value in your business

Desmond High

Desmond is a director of EMC and has worked in and alongside privately-owned businesses for many years. He has been through the growth process for many IP driven businesses both as principal and adviser.
What’s in this session?

• Accounting for intangible assets

• R&D Tax credits

• Anticipating a full or partial exit
Accounting

• What is the purpose of accounts?

• And who determines the content?
Profit & Loss account

- Covers a specific period
- Income
- Expenditure
Balance Sheet

• Snapshot in time

• What you own, or are owed

• What you owe

• The difference is equity in the business, but what does that mean?
Accounting dilemma

• But how do you decide what is an asset rather than an expense?

• Bought in v home grown assets

• Different treatment, but why?
Accounting dilemma

• Downside of home grown

• Dismal P&L results

• Weak balance sheet
Result - misery

• Poor credit rating

• Lenders back away in horror
R & D Tax Credits

• Do these help?

• Expenditure has to hit P&L to qualify

• Up to 33% cash back
Problem

• Accounting and tax conventions are working against recognition of value in accounts

• Fresh approach needed
Solution

• If you can’t measure it you cannot monitor it

• Use management accounts to track and identify all “IP” assets and expenditure
Solution

• Use management accounts to separate current trading from asset creation

• Use these as your prime trading results

• Manage up the value of those assets

• Present to the outside world whenever they are requested
Solution

• Use the Directors’ report in statutory accounts to highlight the value created

• If you feel bold enough, state that the accounts as presented under current accounting conventions are a waste of time
Another Solution

• The dedicated IP company

• Create a licence between IP Co and trading company
Selling the business/raising capital

• The true value is never on the balance sheet

• Exit values are on average 5 times the balance sheet value

• Restated trading results
Selling the business/raising capital

- The sale or investment process attempts to “unlock” the value not on the balance sheet but is leaving it late.

- If there is a clear policy of monitoring the spend that has created the goodwill it is easier to demonstrate its existence to a third party.
Conclusion

• Fresh thinking

• Ignore traditional accounting convention

• Monitor and manage the intangibles as you would any tangible asset
Maximising the value of your IP

May 2017
Introduction

Leading full-service independent broker to growth companies

WHO WE ARE

FINNCAP IN NUMBERS¹

RECOGNITION

Number 1 Adviser & Broker on AIM

£1.1bn+ funds raised since January 2014*

£9.5bn total client market cap

145% average share price performance since take on (142% for top 25 clients)

117 retained clients

Number 1 Adviser on LSE

>£300m top 20 client average market cap

47 Companies with market cap >£50m

23 IPOs since January 2014

12 sector focused analysts

¹ As at 1 May 2017
* Including block trades

No. 5 Extel Ranked Small & Mid Cap Corporate Broking – 2016

Broker of the Year 2016
### What finnCap do

<table>
<thead>
<tr>
<th>Raise money pre-IPO</th>
<th>IPO</th>
<th>M&amp;A</th>
<th>Fundraising on Market</th>
<th>Exits</th>
</tr>
</thead>
<tbody>
<tr>
<td>- Private fundraisings off-market</td>
<td>- Raising money simultaneous with a listing on the LSE</td>
<td>- Buying and selling companies</td>
<td>- Further raising once on the LSE</td>
<td>- Trade Sales</td>
</tr>
<tr>
<td>- Traditionally from tax efficient sources or HNWIs</td>
<td>- Typically larger sums of money</td>
<td>- Mergers on market under the Takeover Code</td>
<td>- Typically easier than an IPO – proven track record</td>
<td>- Secondary Buyouts</td>
</tr>
<tr>
<td>- Simple process with bespoke due diligence</td>
<td>- Mostly from UK institutional investors</td>
<td>- Private acquisitions and financings</td>
<td>- Institutional investors following their money</td>
<td>- Leveraged Recapitalisations</td>
</tr>
<tr>
<td>- Sets up for early-stage growth</td>
<td>- Funds the second phase of your growth</td>
<td>- Spin offs</td>
<td>- Exit multiple value analysis</td>
<td></td>
</tr>
</tbody>
</table>

**SELLING YOUR BUSINESS**
Our Clients

finnCap has a broad range of Intellectual Property sector expertise in a variety of Industries

<table>
<thead>
<tr>
<th>COMPANY</th>
<th>USP</th>
<th>MARKET CAP*</th>
<th>SHARE PRICE PERFORMANCE SINCE TAKE-ON</th>
</tr>
</thead>
<tbody>
<tr>
<td>Iomart</td>
<td>Patented Technology</td>
<td>£322.7m</td>
<td>23%</td>
</tr>
<tr>
<td>Quixant</td>
<td>High end product offering</td>
<td>£317.3m</td>
<td>155%</td>
</tr>
<tr>
<td>Gooch &amp; Hausego</td>
<td>Innovative research and client service</td>
<td>£264.7m</td>
<td>780%</td>
</tr>
<tr>
<td>Somero</td>
<td>Products and services</td>
<td>£185.6m</td>
<td>170%</td>
</tr>
<tr>
<td>ideagen</td>
<td>Segment Branding</td>
<td>£175.3m</td>
<td>510%</td>
</tr>
<tr>
<td>allergy Therapeutics</td>
<td>Service delivery methodology</td>
<td>£164.9m</td>
<td>4%</td>
</tr>
<tr>
<td>Bioventix</td>
<td>Formula</td>
<td>£90.6m</td>
<td>315%</td>
</tr>
<tr>
<td>SRT Marine</td>
<td>Turn-key Industry solutions</td>
<td>£58.4m</td>
<td>9%</td>
</tr>
<tr>
<td>Software enabled delivery method</td>
<td>TBD</td>
<td>TBD</td>
<td>TBD</td>
</tr>
<tr>
<td>Altitude Group</td>
<td>Innovated technology</td>
<td>33.4m</td>
<td>17%</td>
</tr>
<tr>
<td>Altitude Group</td>
<td>Unique user experience</td>
<td>31.8m</td>
<td>5%</td>
</tr>
</tbody>
</table>
Being Ready

Bobby Axelrod: “You weren't ready. Leave it there”.

Lara Axelrod: “Why the 🙄🤔 not?”

Bobby Axelrod: “What is it that you do that you’re the best in the world at?

You offer a service you didn’t invent, a formula you didn’t invent, a delivery method you didn’t invent.

Nothing about you is patentable or a unique user experience.

You haven't identified an isolated market segment, haven’t truly branded your concept. You need me to go on? So, why would an Investment bank put serious money into it?

I all but told you ahead of time, but you wouldn’t listen. Now you have heard it, but it’s too late. You weren't ready.”
Part of the massive success of ASOS is its **unwavering focus on growth** at all costs.

Whilst it has chased growth across all areas, its underpinned these targets with a **vigorous attention** to its USP: **Service**

Its digital platform, unique **Desktop as a Service** and patented Cloud technologies are all leveraged with the **end user in mind**.

ASOS leveraged market trends, such as the move to Iphone and Ipad tools, to **continuously learn** from and **engage** with its **customer base**.

By fully understanding its IP, USP's and keeping its service offering fresh, ASOS was able to become one of the most successful public offerings of all time.

- **22,153%** returns by 2013
- **Record UK sales** of **£605.7m**
- International sales of **£361m** despite turbulent economic outlook (Brexit)
SciFluor: Patented Formula

A drug development company whose IP has allowed them to become ‘best in class’ with significant PE interest

SUMMARY

- SciFluor is a drug and development company with an expanding portfolio of patented compounds
- SciFluor strategically uses its identified IP to improve pharmacological profiles and provide important benefits over existing therapies such as increased safety, efficacy, dosing, and patient compliance
- SciFluor has generated a proprietary pipeline of unique and differentiated small molecule drugs across a diverse range of therapeutic categories
- Successfully raised $30m from investors to help realise pipeline gained through patented formulae
- SciFluor is an ideal candidate for a takeover or an IPO with all the characteristics potential investors would look for

KEY PLAYERS

- Allied Minds Devices
- Invesco
- Harvard University
- woodford
Velocity manufactures advanced composite products for the aerospace industry. By utilising its process knowledge, business processes and proprietary software, Velocity reduces the amount of material required by its customers and associated material waste when making aircraft parts.

These efficiency savings help aircraft manufacturers reduce costs and increase production rates which allows them to more readily meet the significant increases in aircraft build rates.

Velocity identified their USP and importantly patented their technology to gain market advantage over their peers.

This in turn maximized their valuation leading to a 4X oversubscribed investor demand.

The aerospace composite materials market is predicted to grow at a CAGR of approximately 9.1% between 2016 and 2024.

finnCap acted as broker and financial adviser on the successful flotation of the Company in May 2017.

1 As to 1 May 2016
Altitude Group: Unique user experience

Oversubscribed fundraise based off unique, patented and scalable IP

### SUMMARY

Altitude Group plc is a leading provider of virtual sample technology and information services to the International promotional products, print and clothing industry

Altitude’s business model is based on their patented and scalable technology that drives and formulates their unique user experience

Its digital platform offers market advantages and unique customer experience that is years ahead of the (bigger) competition

Through leveraging their IP, Altitude have built an investment case around their USPs and as such have had oversubscribed fundraisings in 2017

The success of their user experience and patented technology has been realised in their increased valuation and strong projected growth multiples

### UNIQUE USER EXPERIENCE

```
<table>
<thead>
<tr>
<th>Channel</th>
<th>Supplier</th>
<th>Aggregation of online orders</th>
</tr>
</thead>
<tbody>
<tr>
<td>Online</td>
<td></td>
<td></td>
</tr>
<tr>
<td>PPD</td>
<td>Supplier</td>
<td></td>
</tr>
<tr>
<td>Distributor/Reseller</td>
<td>Distributor/Reseller</td>
<td>Distributor/Reseller</td>
</tr>
<tr>
<td>End User</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
```

### KEY SHAREHOLDERS

- Charles Stanley
- Edale
- Killik & Co
- TsCapital
- River and Mercantile Group
- Cazadores Investments

1 As to 1 May 2016
Mulberry: Branding demands a premium

Mulberry is a fantastic example of a company who know its customer and how to sell itself

SUMMARY

- Mulberry Group designs, develops markets and sells products under the Mulberry brand name, operating through two segments: Retail and Design
- Mulberry have clearly identified its market, position and targeted end user
- Expanded its staff base from 1 to 600 since its inception in 1971
- The Company distributes its products through over 120 stores in 30 countries
- Increased focus on their digital sales have firmed the Company’s online presence among high-end retailers (up 32% in 2016)
- The Group is expected to directly invest £3.0m in additional regional marketing over the next two years ensuring it can continue to match its customer expectations and command its USP premium

WORLD LUXURY BRAND INDEX 2017

KEY SHAREHOLDERS
Common themes: Success

- **Have a clear reason to be quoted**
  - Investors buy into businesses with future growth plans
  - And *unique* market advantageous **Intellectual Property**

- **Be realistic about valuation**
  - Valuation is equally as important as ‘on market’ valuation 18 months down the line
  - Unique Intellectual Property can greatly **enhance** valuation

- **Have a plan**
  - Clear plan to *leverage* protect IP for **sustainable growth**
  - Management stock ‘locked-in’ for a reasonable period post IPO
  - Careful management of remaining significant investors

- **Deliver against expectations**
  - Under promise and over deliver
  - **Maximize** future IP potential to the market!
Common themes: Failure

- **Lack of newsflow**
  - Investors lose confidence with long periods of news ‘blackouts’

- **Sudden changes in overall strategic direction**
  - Often a disguise for problems elsewhere in the business
  - Lack of IP patent/protection

- **Don’t gloss over problems**
  - Investors prefer honesty and transparency

- **Faltering growth plans**
  - Leads to price and ratings deterioration
  - Have a clear path on how to turn unique IP into actionable growth

- **Stretch forecasts / overprice the IPO**
  - Increases likelihood of missing numbers
  - Price instability after IPO, often linked to market confidence in the business (IP)

**Examples of Common Themes:**

- **boohoo**
  - £300m at IPO
  - Share price fell 30% in first 6 months after IPO
  - Sporadic newsflow
  - Further share price drop of 50% after profit warning

- **MYSALE**
  - £115m at IPO
  - Profit warning December 2014
  - Share price down 78%

- **HSS Hire**
  - £325m at IPO
  - Repeated profit warnings since IPO
  - Share price down 71%

- **AO**
  - £420m at IPO
  - Share price fell 33% in first year after IPO
  - Profit warning in February caused another 37% drop in share price

- **REX BIONICS**
  - £10m fundraise and reverse takeover
  - Delays in product commercialisation
  - Share price down 79%
Conclusion

BUILDING YOUR BEST CASE TO THE MARKET

➤ Intellectual Property can be a key and deciding factor in any sale of your business

➤ Properly managed IP can greatly enhance a company's valuation and provide significant Investor confidence

➤ Companies must truly understand their IP with a clear plan on how to protect it as their USP

➤ Well managed IP can offer companies a clear market advantage against their peers this in turn can maximize future returns

➤ Companies who do not know what their unique proposition is and how to effectively manage an investment case around it have notoriously poor records at IPO

➤ UK Institutional investors favour candidates with established routes to market, clear visibility, well managed USPs and a certain degree of safety. Failures from companies in these areas are met with lower valuations and poorer raisings

➤ Be prepared
Appendix
finnCap has added Private Advisory services, enabling it to support businesses across the full Public and Private lifecycle.

### Service Scope

<table>
<thead>
<tr>
<th>Service</th>
<th>Public</th>
<th>Private</th>
<th>finnVentures</th>
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<tr>
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<tr>
<td>Other Services</td>
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</tbody>
</table>

We can now utilise an incremental product offering to our existing clients.
UK IPO Market Overview

CURRENT MARKET CONDITIONS FOR IPO

- Solid level of IPO activity with 75 IPOs and £3.9bn raised since beginning of 2016
- 2016 down on 2015 due to a lack of market confidence in the wake of Brexit and the US election
- There is a solid pipeline of near completed and rumoured floats that will continue momentum through the rest of 2017 as the market recovers and confidence returns
- We see a very low interest rate environment continuing, suggesting that markets will retain a healthy appetite for companies with genuine growth and/or income potential
- Brexit is currently having a lesser effect on deal flow than expected

FUTURE RUMOURED IPOS

![Graph showing volume of IPOs from Q1 2013 to Q1 2017 with companies like Integumen, Tufton Oceanic, Path Investments, Pret a Manger, Appbox, ADES, and Downing.

* Has since IPO’d
Recent finnCap IPOs

- Raised over £265m at IPO since Jan 2014
- 23 IPOs in this time*
- Strong share price performance post float
- Track record of support from ‘blue chip’ institutions
- Successful record of follow-on fundraisings to aid further Company ambitions

*Includes reverse takeovers

**K3 capital group plc**

- **Financials**
  - IPO Apr 17
  - £17.8m Placing
  - £40m Market Cap
- **Admission to AIM**
  - 11 April 2017

**Anglo African Oil & Gas**

- **Oil & Gas**
- IPO Feb 2017
- £10.6m Placing
- £14m Market Cap
- **Admission to AIM**

**TOC Property Backed Lending Trust**

- **Investments**
- Admission to Main Market
- Jan 2017
- £18m Market Cap

**tax systems plc**

- **Technology**
- Reverse Takeover by Eco City Vehicles
- Jul 2016
- £45m Placing
- £60m Market Cap

**maintel**

- **Technology**
- Reverse Takeover of Azzurri Communications
- Apr 2016
- £24m Placing
- £141m Market Cap

**CHT**

- **Support Services**
- IPO Dec 2014
- £9.6m Placing
- £75m Market Cap
- May 2015 & Dec 2015
- £12.9m & £30m Placing
- £127m Final Market Cap

**CityFibre**

- **Technology**
- IPO Jan 2014
- £16.5m Placing
- £76m Market Cap
- Reverse Takeover of KCOM assets Jan 2016
- £80m Placing
- £175m Market Cap
Key Requirements For A Successful IPO

**Market Conditions**
- Favourable sector/market dynamics

**Fair Valuation with Credible Justification**

**Size / Scale**
- Need for critical mass and appropriate capital structure to achieve business aims

**Management and Shareholder Intentions**
- Ownership clarity; lock-in to retain investment; no value leakage

**Corporate Governance**
- Management track record; high calibre non execs; technical and practical compliance

**Investment Story**
- Immediacy of cashflow; strong growth characteristics and sustainable earnings

**Rationale**
- Credible reasons for going public, why London? And use of proceeds

**Investor Needs**
- Liquidity, transparency and research coverage to understand industry dynamics
Post-IPO Support

**REGULATORY**
- Ongoing confidential advice on all matters surrounding the AIM Rules and Takeover Code
- Advice on results and other announcements
- Corporate Governance best practice advice

**RESEARCH**
- Market leading commentary from an AIM award-winning team
- Note published on release of full year and interim results
- Ad hoc notes released in reaction to market news
- Innovative distribution methods – videos and sector notes

**INVESTOR RELATIONS**
- Co-ordination of holder and non-holder institutional and PCB roadshows (Edinburgh, Leeds)
- Regular investor feedback
- Share register analysis

**MARKET MAKING / SALES TRADING**
- Over 130 stocks under the FCAP banner
- Strong presence in all our corporate stocks
- Increased market intelligence and liquidity post-Admission

**ADVISORY**
- Full range of corporate finance services
- Senior team with strong range of skills and experience
- M&A and strategic financial advice

**CORPORATE BROKING AND SALES**
- Largest growth company broking and sales team
- Comprehensive CRM system delivering real-time feedback on share price movement
- Over 200 institutional and PCB clients
- Aftermarket care and focus
2016 IPO REVIEW

OBSERVATIONS ON 2016 IPOS

• 54 IPOS IN 2016 (36 ON AIM)

• AVERAGE SHARE PRICE UP 38% TO 31 DEC 2016 (53% ON AIM)

SELECTED 2016 IPO ACTIVITY

AIM

- PLACING £40M
  S/P -17%

- PLACING £8.5M
  S/P 52%

- PLACING £74M
  S/P 16%

- PLACING £3M
  S/P 63%

- PLACING £8M
  S/P 8%

- PLACING £90M
  S/P -10%

MAIN MARKET

- PLACING £1,465M
  S/P 19%

- PLACING £262M
  S/P 6%

- PLACING £26M
  S/P 44%

- PLACING £8M
  S/P 8%

2017 POTENTIAL IPO ACTIVITY

PULLED FLOATS
## LONDON – 2016 & 2017 IPOs

### The Facts

<table>
<thead>
<tr>
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<tbody>
<tr>
<td><strong>All</strong> AVERAGE - £62M</td>
<td><strong>All</strong> AVERAGE - £244M</td>
<td><strong>All</strong> AVERAGE - £20M</td>
<td><strong>AIM</strong> AVERAGE – 48%</td>
<td><strong>All</strong> AVERAGE - +36%</td>
</tr>
<tr>
<td><strong>Main Market</strong> AVERAGE - £140M</td>
<td><strong>Main Market</strong> AVERAGE - £546M</td>
<td></td>
<td></td>
<td><strong>Main Market</strong> AVERAGE - +2.8%</td>
</tr>
<tr>
<td><strong>AIM</strong> AVERAGE - £19M</td>
<td><strong>AIM</strong> AVERAGE - £78M</td>
<td></td>
<td><strong>AIM</strong> AVERAGE – 48%</td>
<td><strong>AIM</strong> AVERAGE - +64%</td>
</tr>
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</table>
PE Realisations – How do they perform

- 2014 saw a resurgence in PE-backed flotations reflective of the strength of the IPO market in that year.
- 2015 YTD* has seen less IPOs by number but there is still a continued appetite for PE exits, seeing some of the largest PE-backed IPOs occurring so far in 2015
- The 18 month period to 30 October 2015 saw 47 PE-realisation IPOs raising a combined £4.6 billion (£16.4 billion total) and £97.5 million average (£311.2 million in total)
- The aftermarket performance has generally been positive with an average of 23% above the issue price

Average performance is 23% above issue price

Since January 2014, 12 listings have performed negatively from a total of 47
It is important to identify the correct balance for use of IPO proceeds as this can influence investors’ perceptions of the attractiveness of the opportunity.

Funds raised at IPO can be used to fund the sale of shares by existing shareholders (such as PE houses and management), redeem loan notes, refinance existing debt or provide new capital to fund growth plans post-IPO.

From January 2014, five of the PE-realisation IPOs raised funds solely as a PE sell-down, 23 had greater than 50% of funds raised being used for PE sell down and only 6 involved less than 10% of funds raised for PE sell-down.

Any significant residual PE holding needs careful aftermarket management.
Appendix II
Case Studies
Case Study: K3 Capital Group

Heavily oversubscribed IPO with broad range of blue-chip institutions and wealth managers

**SUMMARY**

- K3 Capital Group plc is a leading sell side adviser to SME owners across a broad spectrum of business and company sales methodologies which spans Business Transfer, Business Brokerage and Corporate Finance.
- finnCap acted as Nomad and sole broker in connection with the Company’s admission to AIM in April 2017 and placing to raise £17.8m.
- The Company’s Admission to AIM will raise their profile in the industry and allowed the founding shareholder to realise part of his investment in the business due to health reasons.
- finnCap introduced Ian Mattioli, co-founder and CEO of the Mattioli Woods Group, to the Company. His appointment as K3’s Chairman and personal investment in the fundraise was instrumental to the success of the transaction.
- The placing received such a strong response from investors that the book of demand for the Company’s shares was multiple times oversubscribed.
- This demand created a healthy aftermarket following admission which saw the shares increase over 30% on the first day of trading.

**COMPANY REFERENCE**

“We chose finnCap as our broker as it felt like they were the right fit for us, professional yet friendly, and this feeling has proved right. The whole team worked tirelessly together to deliver a transaction over and above our expectations, in a shorter timetable than we had first envisaged. They introduced us to our new chairman, Ian Mattioli, and secured cornerstone investors at the top of the target price range to ensure momentum during the marketing phase of the transaction. Throughout the transaction they impressed upon us the need to under promise and over deliver, a mantra that they appear to adhere to themselves. A huge thank you to the whole team at finnCap who we look forward to continue working with during the next chapter of our development.”

John Rigby, CEO and Tony Ford, Founder and Executive Vice-Chairman

**KEY SHAREHOLDERS**

- Schroders
- CREDO WEALTH
- ARTEMIS
- HARGREAVEHALE
- Henderson GLOBAL INVESTORS
- Miton
- Framlington
- LOMBARD ODIER
- HARGREAVES LANSDOWN
- CHARLES STANLEY
- LIONTRUST

1 As to 1 May 2016
Case Study: Utilitywise

**Successful IPO followed by staged sell down of management equity**

### SUMMARY

- Utilitywise is a leading independent utility cost management consultancy
- Admission to AIM provided growth capital and ability for founders to realise part of their investment
- finnCap achieved a managed sell down of Utilitywise’s management equity to ‘blue chip’ institutional investor base over an 18 month period following IPO
- In aggregate finnCap have raised c. £70m for the Company and selling shareholders
- Trading market Share: finnCap 48%, Liberum 12%, Winterfloods 8%*

### KEY SHAREHOLDERS

<table>
<thead>
<tr>
<th>Event</th>
<th>Details</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Admission to AIM &amp; Placing of £6.9m</strong></td>
<td>Market cap: £37m Management stake: 80%</td>
</tr>
<tr>
<td><strong>Placing of £10m management equity</strong></td>
<td>Market cap: £50m Management stake: 58%</td>
</tr>
<tr>
<td><strong>Placing of £5m new equity &amp; £17.2m management equity</strong></td>
<td>Market cap: £65m Management stake: 26%</td>
</tr>
<tr>
<td><strong>Placing of £30m management equity</strong></td>
<td>Market cap: £217m Management stake: 16%</td>
</tr>
</tbody>
</table>

### SHARE PRICE PERFORMANCE

- FY11/12 results announcement
- Acquistion of Aqua Veritas
- UTW Market Cap £46m
- FY12/13 interim results announcement
- Acquisition of Clouds Environmental
- UTW Market Cap £57m
- FY12/13 results announcement
- finnCap 48%, Liberum 12%, Winterfloods 8%*
- FY13/14 interim results announcement
- FY14/15 finnCap estimates upgrade

### CORPORATE ACTIVITY

1. **June 2012: IPO with £6.9m placing**
   - Marketed UTW to over 50 institutional investors and PCB’s of which 24 invested
   - Key institutional investors took part in placing; a number of others placed UTW on their ‘watch list’

2. **October 2012: £10m placing of management equity**
   - Successful broadening of UTW’s ‘blue chip’ institutional investor base
   - Placees included a number of investors introduced to UTW at IPO who did not invest at that time

3. **June 2013: Acquisition of EIC and £22.2m placing**
   - £5m placing of new shares with £17.2m placing of management equity
   - Further broadening of UTW’s institutional investor base
   - Quantum of Director placing eventually increased due to investor demand

4. **June 2014: £30m placing of management and employee equity**
   - Further sell down of management equity which further broadened UTW’s already impressive shareholder register
   - New investors included Woodford Equity Income and Jupiter Asset Management

*As at 1 November 2015*
Case Study: Nasstar

Successful IPO of PE backed cloud computing provider

**SUMMARY**

- finnCap was appointed to advise Nasstar on the successful £13m Reverse Takeover of Denara Holdings Limited in December 2013.
- The transaction created an enlarged group providing hosted desktop solutions to SMEs.
- The Reverse Takeover saw NVM, PE backers of Denara Holdings, realise 3.6x their original investment, selling down £4m of equity at the IPO, retaining a 7.5% interest in the enlarged.
- Blue-chip institutional support significantly bolstered Nasstar’s share register via the £10.5m placing.
- Share Price has increased 28.5% since the completion of the Reverse Takeover.\(^1\)
- Successful turnaround of old Nasstar business by Denara management and on subsequent acquisition.
- Trading market share: finnCap 65%, N+1 Singers 28%, Winterfloods 6%.\(^2\)

**KEY SHAREHOLDERS**

**SHARE PRICE PERFORMANCE**

**CORPORATE ACTIVITY**

1. **December 2013**
   Re-admission to AIM following Reverse Acquisition of Denara Holdings for £13m
2. **January 2014**
   Invited to join Microsoft hosting partner incentive scheme
3. **July 2014**
   Acquisition of Kamanchi Limited for £2.5m
4. **October 2015**
   Acquisition of VESK Group for £7.8m

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\(^1\) To 01 October 2015
\(^2\) As at 01 October 2015
Case Study: Ideagen

A track record of fundraisings and acquisitions

SUMMARY

- A leading supplier of Compliance based Information Management Software, Ideagen plc was admitted to AIM in July 2012 from PLUS markets
- Ideagen’s strategy is to grow by the selective acquisition of complementary software businesses
- finnCap have advised Ideagen on four acquisitions raising in aggregate c. £30m at increasing share prices
- Through extensive roadshows finnCap has built Ideagen a strong, supportive investor base
- Share price performance since admission to AIM of 142%¹
- Trading market share: finnCap 65%, Winterfloods 19%, Cantor Fitzgerald 5%²

KEY SHAREHOLDERS

- Hargreave Hale
- Herald Investment Management
- Octopus Investments
- Liontrust
- Amati Global Investors
- Investec Wealth & Investment
- Alto

CORPORATE ACTIVITY

1. **July 2012: Successful move to AIM from PLUS**
   - Gives Ideagen access to a broader investor universe providing greater liquidity for both existing and new investors

2. **December 2012: £6m placing and acquisition of Plumtree Group**
   - Successful introduction of ‘blue-chip’ investors to Ideagen’s share register
   - Delivery of November trading update was key to success of placing shares with multiple ‘blue-chip’ institutional investors

3. **November 2013: Acquisition of Pentana Ltd for £3.4m**
   - Paid from Ideagen’s existing cash reserves
   - A strong entry point into the financial services sector and the outsourced risk and compliance market
   - Significant cross selling opportunities

4. **January 2015: £18m placing and acquisition of Gael Limited**
   - Further support from existing and new ‘blue-chip’ institutional investors
   - Acquisition of Gael Limited consolidates Ideagen’s position within the NHS and complex manufacturing sectors

¹ To 1 November 2015
² As at 1 November 2015
Achieving Full Value on A Business Sale

Howard Wilder

www.emcltd.co.uk
Sale of My Business

- Genitrix Ltd Founded in 1998
- Veterinary pharmaceuticals, medical devices and diagnostics.
- Sold to Dechra PLC a FTSE 250 pharma company
- December 2010
- Price Achieved
- >20X EBITDA
Non financial assets

• Tradenames and Trademarks
  – Some registered, some not

• Value of a brand and brand recognition
  – Company name
  – Product names
  – Styles
Intellectual Property in Networks

• Distribution Agreements
  – Rights to exploit
  – Right to assign

• Customer Database
  – Same Customers
  – CRM System

• Employees
  – My sales team was better than theirs.
  – Everyone offered a job
Intellectual Property in Products

- Genitrix had No Patents
- Licensed veterinary Medicines Undergo Approval Process
  - EU Law
  - Right to market in 28 member states with single application
  - Protection against generics for 10 years

- Formulations
  - Hard to copy
- Know How
  - Hard to copy
Thank You!

Howard Wilder

www.emcltd.co.uk