

Proventure

Business news from MTI

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Welcome



Regular readers of *Proventure* will appreciate that early stage tech venture investing is not for those of a nervous disposition.

It comprises long periods of hard work occasionally interspersed with short periods of euphoria associated with successful exits, which sustain us through everything else.

MTI is currently going through not one, but two such periods of euphoria, with the highly successful flotation of Sarantel on AIM and the sale of Chevin to ASG. These are described in more detail inside, but there are just a few general observations I would like to make about these transactions:-

- ▶ Both deals represent classic MTI transactions, i.e. businesses that needed serious input from MTI Execs to translate their underlying quality into substance that would be valued in the wider world.
- ▶ The two responsible Execs (David Ward and Tom Jarman) each demonstrated the ability to source, execute and exit deals in a fashion that stands in a long and successful MTI tradition.
- ▶ As David Gamble highlights in 'his view' (right) the recent MTI successes reflect a wider improvement in the performance and prospects for the tech venture industry in the UK and Europe.

Two exits within seven days will be hard to beat, but I do expect that such exists, coming as they do out of our current MTI4 fund, are a harbinger of good news for the future.

Ernie Richardson

Ernie Richardson
Chief Executive

Tech boom but not as we know it?

Proventure asked **David Gamble, formerly of British Airways Pension Investment Management, for his view.**

At last year's EVCA Private Equity conference I made some predictions about the UK tech market. Among them was the forecast that we would see signs of reacceptance of tech stocks in the public markets. This is now happening. But will it be a different market compared to the days of the tech

"AIM investors recognise that IPO is not an end in itself for the companies, their founders or the VC investors."

'Bubble'? Much ink has been printed on the factors surrounding the tech bubble of 1999 but in large part it was due to the top-down pressure exerted by the public markets' "discovery" of early stage technology, and their almost desperate fear of missing that investment opportunity. The result was the tech stock wreckage and the slamming shut of the public company flotation market.

For young technology companies there was nothing to be done but to hunker down and concentrate on their

Flotation Success For MTI Investment

MTI is celebrating the successful flotation of miniature antenna manufacturer Sarantel. For the full story turn to page 2.



businesses. But they began to see their prospects improve slowly in 2003 and more significantly in 2004, helped in part by the early stage VC firms starting to make fresh commitments. In the second half of 2004 the AIM market was showing interest again in tech stocks and no doubt, in due course we shall see a major tech IPO on the main market.

But why will it be different in 2005? I believe it is because AIM investors recognise that IPO is not an end in itself for the companies, their founders or the VC investors, and neither should it be. Access to

public markets via an IPO provides access to capital to continue the growth of businesses. Well managed companies that are undergoing substantial growth will virtually always need capital.

The bottom up approach fermented in the recent past has produced well managed businesses built on solid bases with products, customers and improving finances. I think such companies will always attract interest from buyers. It is the process of sustaining well managed growth which will prolong the market; not the simple act of listing.

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MTI is one of the UK's leading providers of specialist venture capital to UK technology companies that are at an early stage in their development or are undergoing a period of major strategic change.

The MTI investment team comprises experienced technology managers with strong operational backgrounds and are typically investing sums between £1m

and £5m, but able to deploy larger sums. MTI is currently investing out of its fourth fund (£104m) raised in 2000. More than 50 early stage and start-up technology businesses have been funded by MTI. It is this combination of experience and successful track record which makes MTI one of the most successful practitioners in the UK tech venture market.



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Investee News

Flotation Success For MTI Investment

A successful flotation by miniature antenna pioneer Sarantel has proved MTI was wise to step into an area where

few dared to tread two years ago.

The IPO, on March 2, was an overwhelming success – the company raised £18 million of new money at an opening market price of 82p



Sarantel's products dominate the global mobile handset antenna market.

continued from cover

Currently what is clear is that the opening up of the AIM IPO market has not (yet) impacted on entry prices for companies at round A and round B in Europe. This creates a good environment in which VCs can develop young companies in preparation for the IPO market and as a consequence giving rise to high quality exits. When we look back in a few years time, we could see the period 2003 - 2005 as being a great vintage for venture funds.

Europe has languished in the absence of a quality IPO market such as is available on NASDAQ. But it is interesting to note how many non-UK companies are now coming to AIM, from France, Germany and Israel. Could AIM become the NASDAQ of Europe? Only if AIM is able to maintain its light regulatory touch and those who bring companies to the market, and that includes VCs, exert reasonable quality controls on their businesses, even at times of irrational exuberance in the market. This is a much more sustainable model and bodes well for the future of tech VC investment in Europe.

per share, giving Sarantel an initial market capitalisation of £43.3 million.

MTI retains its entire holding in Sarantel and at the time of writing Sarantel was trading at 128 pence. MTI's 21.3 per cent stake is valued now at £14.4 million compared with its cash investment of £3.8 million.

Sarantel operates in the

“Our hands-on work with Sarantel enabled us to help transform a nascent technology into a globally dominant company, providing outstanding value to our investors.”

global mobile handset antenna market, developing products for GPS, satellite radio, Bluetooth/wireless LAN and mobile telephone applications, including 3G phones. Their product can also reduce emissions radiated into the body by more than 90 per cent.

MTI invested in 2003 alongside Foresight Venture Partners with additional support from eTechnology VCT and Hotbed.

MTI partner David Ward commented: “Our hands-on work with Sarantel, as with all our investments, enabled us to help transform a nascent technology into a globally dominant company, providing outstanding value to our investors.”

MTI's experience of the challenges facing

technology companies enabled it to introduce the necessary strategic changes at Sarantel.

Immediately after investing, MTI and Foresight identified the need for a new CEO with knowledge of the wireless chip market, international trade and sales. As a result David Wither was recruited from R F Micro Devices Inc. (NASDAQ) to lead Sarantel's international



expansion and subsequent rapid growth.

With MTI's encouragement to expand its global presence, particularly in Asia and the US, Sarantel hired Vice-Presidents in Singapore and Seattle to further forge customer relationships.

David Ward added: “We were sure that the sophistication of Sarantel's technology would have a lasting impact on mobile phone use. But at

the time there was little appetite in the market for investing in early stage tech, particularly in a UK manufacturing company. There was still a lot to do in the business, but we believed it was a risk well worth taking, given the potential returns.

“The flotation proves we were right.”

Sarantel founder, Dr Oliver Leisten added: “The input and team-working from our investors was genuinely amazing. MTI flew round the world to visit many of our customers and potential customers – this demonstration of commitment to the company helped us do business with some of the world's largest corporations.”

Successful exit as Chevin goes global

The sale of Chevin to Allen Systems Group (ASG) marks another successful exit for MTI after a five-year, £4.5 million investment.

Chevin's product suite, TeVISTA, provides secure, distributed and pro-active solutions that manage the performance and condition of an entire business network and its applications.

Investment has Powerlase beaming

High-power laser technology is to benefit from pan-European investment of £7 million led by MTI together with Deutsche Venture Capital (DVC).

Also participating were new investors Alice (Italy) and existing shareholders Cazenove and FNI.

Powerlase makes a range of solid state diode pumped lasers for industrial applications which combine high power with nanosecond pulses, a combination which was previously unavailable together. Plus its lasers have an energy conversion efficiency of double the industry standard.

The technology also means high power light can be delivered by fibre optics, providing great flexibility to systems integrators.

Current applications include Flat Panel Display manufacturing, Microelectronics, PCB production and Aerospace,

MTI invested £3 million in the early stage business in 2000 and further cash injections totalling £1.5 million followed from 2002, bringing the shareholding to 85 per cent.

MTI partner Tom Jarman said: "Chevin has succeeded when it could so easily have been another tech boom story of big ideas and little delivery. Sometimes it is turning around the difficult investments which prove to be the most rewarding.



CHEVIN

"When the tech bubble burst Chevin ran into problems, but we could see that the company still had many

opportunities. With careful turnaround management by MTI, minimising cash consumption and consolidating sales, Chevin has been able to attract interest by the world's third largest player in the systems

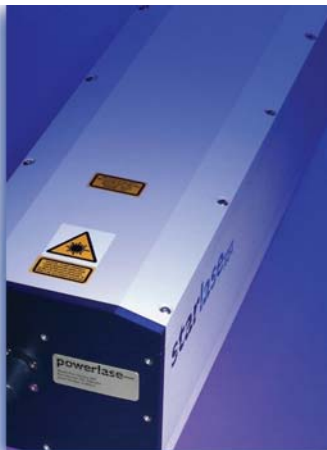
management for mainframes."

ASG has acquired Chevin in a revenue sharing arrangement that allows Chevin shareholders to share in the value created by the technology as it enters the world market place.

Based in Naples, Florida, ASG provides Global 5000 businesses with professional services and software solutions for management of security, applications, operations, information, performance and infrastructure.

Founded in 1986, ASG has 45 offices worldwide and more than 900 employees. It sees Chevin as an important component in its ambitious growth plans, providing key infrastructure management tools for desktop systems.

The deal is further evidence of the capabilities of the MTI team to identify and back winning companies. Tom concluded: "MTI's expertise and hands-on approach means that we can invest locally to exit globally, producing great exits and extracting value from troubled companies to provide upper quartile returns for our investors."



Above and right Powerlase's range of solid state diode pumped lasers combine high power with nanosecond pulses, previously unavailable together.

while future markets include Semi-conductor Lithography (EUV).

"Powerlase is a great example of the type of company that MTI gets excited about. It combines state-of-the-art technology with a major current and future corporate marketplace."

The new investment will assist the Crawley-based company to expand its manufacturing operations and finance further laser development for materials processing and EUV applications.

MTI partner David Ward said: "Powerlase is a great example of the type of company that MTI gets excited about. It combines

state-of-the-art technology with a major current and future corporate marketplace.

"The co-lead investors bring complementary skills to the company. Powerlase will benefit from both DVC's excellent knowledge of the industrial laser marketplace in Germany, and MTI's hands-on investment style based on the international operating experience of the MTI team."

Both David and DVC partner Cyril Bertrand will join the Powerlase board.

Powerlase CEO Terry Nowell added: "To

strengthen our investor base at a time when we see accelerated customer demand for our products is timely, and will enable us to meet the increased volumes coming out of the Asia Pacific industrial sector. Increased investment in product development will see the company creating new products to address emerging industrial laser opportunities."

powerlase



MTI News

Plans are underway for the 2005 MTI Investor Day meeting in London on Tuesday, June 21.

As well as giving investors an update on performance of the MTI funds, this event also provides an opportunity to showcase some of the outstanding companies that are backed by MTI.

Keeping it Personal



Proventure talks to MTI partner, Tom Jarman

What did you do before?

I moved from engineering into marketing and general management roles in international technology businesses, taking new products to market with precision metrologist Renishaw and Horstmann Controls. Most recently I was MD of Tellermate, a medium sized retail technology business where we achieved very substantial revenue and profit growth over three years.

How long have you been in VC?

Approaching four years.

What attracted you to VC?

I'm only accidentally a VC - but what a terrific accident! I get a kick out of being involved with the energy, opportunity and dynamic challenge you find in ambitious teams at early stage technology businesses.

Why did you join MTI?

I was impressed with the quality of its experience and the success it has achieved, it became a compelling opportunity.

What areas of technology do you specialise in?

I have broad interests and experience but tend towards semi-conductors, electronic products and pervasive computing areas. I like technologies with strong USPs targeted at emerging spaces; Screen Technology's ITrans is a good example where, for the first time, high brightness, high resolution displays of 200" can be made for the advertising and digital signage market.

What recent technologies have you been involved in?

My current investments are in EDA (Electronic Design Automation), displays and network management software.

What was your first deal for MTI?

My first investment was in Beach Solutions Ltd. - a leading EDA player in emerging silicon design (IP) definition and re-use. I have recently completed the sale of Chevin to ASG which has been my first exit.

What is your investment philosophy?

A good VC should be able to support business building, not just provide the cash. The transition from small engineering-led business to market leader is difficult to manage well and MTI has tremendous depth of experience to draw on to support management teams in achieving this successfully.

What is your view on the current tech VC market?

The UK produces some of the world's most capable technology - the challenge is to get more value from this to

ultimately yield high value exits. The US presents many more good value exit opportunities so crossing the Atlantic (not just crossing Geoffrey Moore's 'chasm') effectively is often a key to success.

Is there a key criterion you look for in investee companies?

No single key criterion - I look for strong fundamentals that can be built on. I like compelling and differentiated technology with latent market opportunity. And I like highly committed management that I can work with (or should that be 'who can work with me?')

Do you have any advice for a potential investee?

Be sure you want to finance your company with VC funding; it increases both the risks and the rewards and is absolutely inconsistent with a 'lifestyle company'.

Away from MTI what are your interests?

High flying tennis balls in Berkhamsted and Stroud can be blamed on me, and my two energetic teenage boys. I like to travel, ski and play games, some too much, and some too little.

MTI News

Research reveals new tech boom

An MTI co-sponsored survey of small tech companies reveals that many are expecting a new boom for their sector.

According to the survey nearly two-thirds of tech companies expect revenues to grow more than 50 per cent a year during the next three years.

The FT's report of the survey of March 7 suggests that the signs are encouraging: "Investors might be alarmed at the signs of a new boom but

there are some reasons to believe it could be different this time.

"The internet has become one of the fastest-growing sectors of the advertising market, with spending expected to grow 20 per cent this year. Dotcom business plans appear more pragmatic."

MTI partner John Polden commented "We certainly don't predict an IPO boom for tech stocks but we are seeing renewed appetite among institutional investors for well managed tech businesses, as exemplified by the Sarantel IPO, currently trading at over 50 per cent premium to the offer price."

It's all in the planning

The succession of a new CEO at a General Partner like MTI is a matter for serious consideration - one highlighted by some excellent coverage for us in the December 16 edition of RealDeals.

CEO Ernie Richardson was featured on the magazine's cover and, with his predecessor Dr Paul Castle, was quoted extensively in the article about succession planning when an GP's leader retires.

Ernie explains that active planning at MTI started 18 months before Paul stepped down. In successfully navigating this issue MTI has blazed a trail that many other VCs will have to follow.

"It's always good to have positive coverage in the media and the *RealDeals* article demonstrates MTI's leadership in the industry," Ernie added.

