

Investing in the growth of businesses in Wales

Annual review 2008-09



Contents

- 03 Key achievements in 2008-09
Key achievements to date
- 04 Welcome
- 06 Investment strategy
- 09 Wales Creative IP Fund
- 10 xénos, the Wales Business Angel Network
- 11 Fund raising
- 12 Investment performance 2008-09
- 13 Financial information 2008-09
- 14 Finance Wales in brief

Key achievements in 2008-09

£26 million invested in Wales-based small and medium-sized businesses

25% increase in investment levels compared to 2007-08

200 investments completed, including 97 syndicated investments

20 early stage investments

£1.6 million investment facilitated by xénos in 17 businesses

Key achievements to date

New £150 million fund in April, 2009, bringing total funds under management to £280 million

£130 million invested in Wales-based small and medium-sized businesses, leveraging an additional £332 million private sector investment

Over £460 million impact on the economy of Wales

2200 investments in small and medium-sized businesses in Wales since 2001

xénos has facilitated investments of £14 million in 144 businesses since 1997, leveraging an additional £6.7 million private sector investment

Welcome

Finance Wales is a subsidiary company of the Welsh Assembly Government that makes commercial investments in eligible growing Wales-based small and medium-sized businesses.

We make commercial debt and equity investments from £5,000 to £2 million in a single round in early stage, development capital and succession deals. We also co-invest with banks, business angels, venture capital funds and other investors.

Finance Wales makes follow-on investments and we believe in developing lasting relationships with the businesses we invest in.

Ian Johnson
Chairman



Siân Lloyd Jones
Chief executive



£460 million impact

I'm heartened that Finance Wales has continued to invest in Welsh businesses in what has been a period of unprecedented turmoil. Pleasingly, our investment levels increased by 25% and at £26 million, have exceeded £20 million for the fourth consecutive financial year.

Our new £150 million fund, the first of its type in Europe, has made a significant amount of investment capital available, so we can continue to demonstrate confidence in Welsh businesses and work with them to achieve their growth ambitions.

Finance Wales has evolved to become not only a credible commercial investor, but also one of the most successful companies of its type in the UK. Indeed, our impact on the economy of Wales through our direct investment in businesses and additional leveraged private capital, has now grown to over £460 million.

Together with the board, I now look forward to guiding the company through the next phase of its commercial development as it looks to develop a sustainable investment portfolio, achieve appropriate returns and secure its future beyond this current investment round.

Ian Johnson

New £150 million fund – new opportunities

Our long-term ambition is to develop sustainable funds for reinvestment in Welsh businesses and building a profitable long-term track record is a key goal for us.

Despite uncertain and challenging times, we've focussed on Welsh businesses' investment funding needs. We've been committed to structuring the most appropriate commercial investment deals for the businesses we've worked with.

I'm pleased we've invested in even more Welsh businesses in 2008-09 and that we're helping them achieve their growth ambitions whilst providing the highest levels of customer service. 86% of our customers rated our service as excellent or very good in our annual satisfaction survey.

We also worked hard to secure our new £150 million fund during the year, so we could be even more ambitious. Our new fund really is exciting and has increased our flexibility. We've doubled our maximum single-round investment to £2 million and we can also make more follow-on investments, for instance.

This injection of investment capital not only means we can work with even more businesses throughout Wales in future, but that we are currently one of a few investors of our type in the UK with available investment capital.

Siân Lloyd Jones

Investment strategy

Finance Wales invests in early stage, development capital and succession deals, as well as an increasing number of acquisition deals. We work with our portfolio of investee businesses to structure follow-on funding rounds to help them achieve a range of business goals. We also provide micro loans and manage the specialist Wales Creative IP Fund.

Our aim is to achieve a balanced investment portfolio and establish long-term sustainable funds we can reinvest in Welsh businesses in future.

Micro loans

Finance Wales' range of growth funding opportunities starts with £5,000 to £25,000 micro loans with up to 5-year repayment terms. Many businesses have used our micro loans effectively to develop new growth opportunities or help achieve their plans.

Our micro loans team works with businesses to ensure the investment is right for them. In 2008-09 we streamlined our approval process further and we now aim to make a micro loan decision in 5-10 working days.



Expansion capital
Debt investment
Business services
£20,000
April, 2008

Since 2007 Scan and Collate has provided on-site encryption services to GPs' practices. Finance Wales' funding will help the company's expansion plans.

Early stage

Finance Wales invests seed and development capital in ambitious early stage IP-based businesses with market-leading potential. We have a strong investment track record in technology start-ups and university spinouts and we're committed to investing in early stage businesses as they grow.

We can invest up to £1 million in an early stage business and can also follow with future rounds. We've also invested with a range of co-investment partners and our early stage team regularly structures deals with a range of co-investors and funding sources.



**Early stage
Equity investment
Manufacturing
£120,000
March, 2009**

Econotherm's unique process converts waste heat into re-usable energy. The Bridgend-based company will use this latest round of follow-on funding to support further expansion.

Development capital

Our structured debt and equity investments are continuing to have a significant impact in helping businesses invest in their future growth. 2008-09 saw our investment teams work with businesses on a wider range of development capital deals.

We structured investments to help businesses achieve key priorities such as product development and market expansion. Our investments also helped businesses to invest in other key growth priorities such as new infrastructure and equipment or to move to larger premises.



**Development capital
Debt investment
Manufacturing
£500,000
March, 2009**

Finance Wales' investment will fund Mangar's European expansion, particularly in the UK retail market and expand its customer services operation.

Succession and acquisition

In 2008-09 we invested in an increasing number of acquisition and consolidation deals, helping businesses to implement 'buy and build' growth strategies. We also continued to invest in management buy-outs and buy-ins because effective succession planning continues to offer huge opportunities for owner-managers, potential owner-managers and employees.

Our investment teams work with businesses to structure deals and adopt a flexible approach to their equity structure. We can also make cash flow-driven investments, provided businesses can demonstrate their ability to service the debt.



MBO
Debt investment
Non-ferrous metal supplies
£650,000
September, 2008

A £650,000 investment from Finance Wales supported the £1.3 million MBO of the C G Rees Group, now re-named Fromstock.

Portfolio management

We're keen to ensure our investee businesses achieve their growth potential and we believe in developing lasting relationships with them. So, in 2008-09, our portfolio team structured follow-on funding rounds to help them achieve a range of business goals.

As a prudent investor, we also examined a range of ways to help our portfolio businesses develop and maximise our investment returns. This has included supply chain development; considering potential joint ventures to strengthen their product/service and acquisitions of their product/service.



Development capital
Debt and equity investment
Tourism/leisure
£425,000
December, 2008

Outlook has received a number of Finance Wales investments since 2001, totalling £710,000. This round helped Outlook fund its plans to expand its client base.

Wales Creative IP Fund

Finance Wales manages the £10 million Wales Creative IP Fund for the Welsh Assembly Government as part of its strategy for the creative industries in Wales.

The IP Fund invests in film, television, new media and music productions and aims to achieve a return on its investment which it can then re-invest. It also aims to increase production activity in Wales as well as to enable Welsh producers to create and retain intellectual property.

The IP Fund has invested £8.4 million in 26 projects to date.

The IP Fund invests from £50,000 to £700,000 in film, television, new media and music productions with a sound commercial proposition. As a gap financier, projects must already have secured a minimum of 60% of their budgets from other sources.

Productions must also spend a proportion of their budget in Wales, which not only benefits the Welsh economy, but also increases production activity in Wales' creative industries.



Production Finance
Project equity investment
TV (live action comedy)
£290,000 (22% of total budget)
May, 2008

Grandpa In My Pocket, produced by Adastra Creative, was Cbeebies' top-rated show and the BBC committed to a second series before the first series aired.

xénos, the Wales Business Angel Network

A subsidiary of Finance Wales, xénos matches business angels to businesses seeking investment. xénos angels invest at all stages from early stage, through to expansion, acquisition and turnaround.

xénos provides an alternative and important source of equity funding for Wales-based businesses.

In 2008-09, xénos angels invested over £1.6 million of private equity in 17 businesses.

xénos' position means it provides an invaluable service for both angels and potential investee businesses alike. Operating regionally, xénos' managers match angels with potential investment opportunities.

xénos angels also benefit from the network's relationship with Finance Wales which provides angels with investment opportunities that might otherwise be unavailable to them.

In 2008-09 xénos enhanced its service, introducing an advisory membership category to match businesses, angels and professional advisors to enable deals to be finalised promptly.



Development capital
Equity investment
Leisure
£60,000
May, 2008

Boulders Ltd secured a £525,000 syndicated investment which included £114,000 equity investment from Finance Wales and two business angels to complete its flagship indoor climbing centre in Cardiff.

Fund raising

During 2008-09 we raised our £150 million fund – a first of its type in Europe. It comprises a £75 million European Investment Bank loan under the EU’s JEREMIE (Joint European Resources for Micro to Medium Enterprises) scheme; £60 million from the European Regional Development Fund and £15 million from Finance Wales itself.

We can now invest from £5,000 to £2 million in a single round and can undertake a number of follow-on rounds, usually up to a total investment of £5 million in a business. We can also undertake more co-investments with banks, business angels, venture capital funds and other investors.

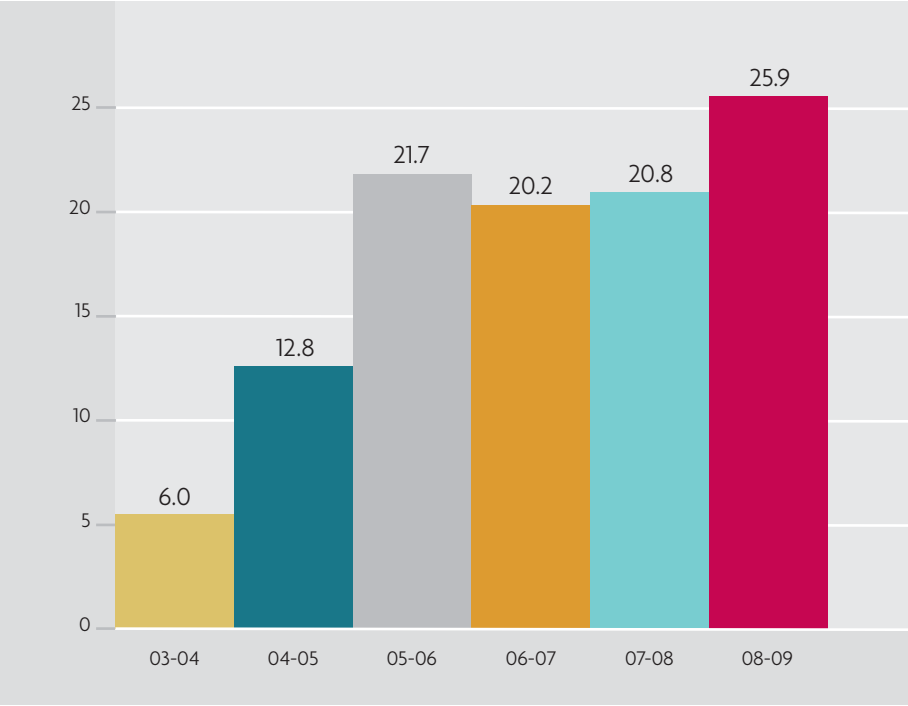
“ The EIB Group is delighted to work with Finance Wales plc and the Welsh Assembly Government, as its parent body, in co-operation with the European Commission, to implement the JEREMIE scheme for the first time in the UK. ”

Simon Brooks, EIB vice-president responsible for lending activity in the UK.

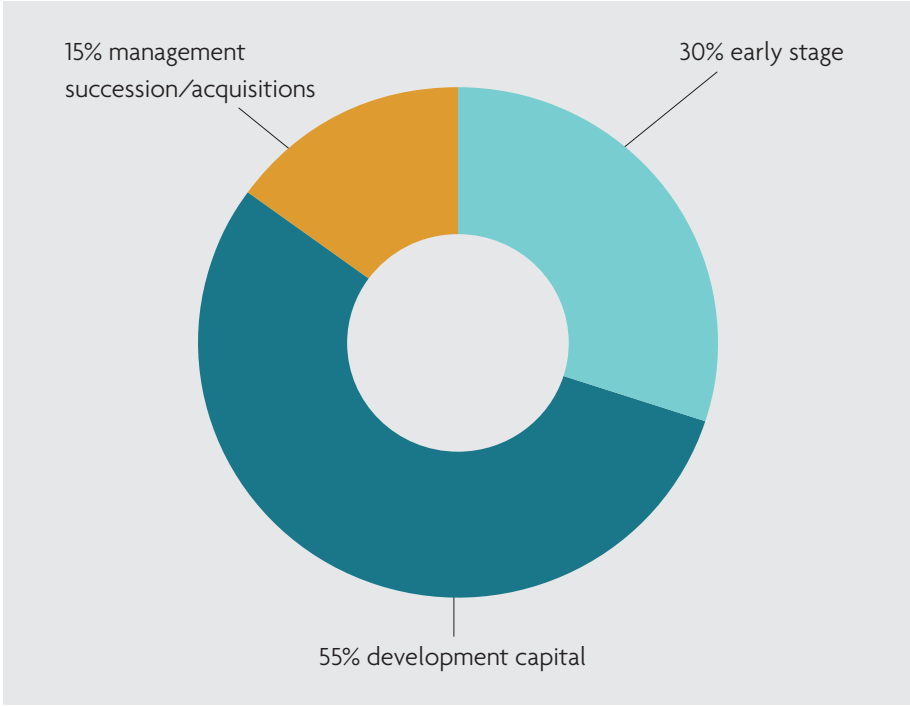
		
European Investment Bank	European Regional Development Fund	Finance Wales plc
£75 million	£60 million	£15 million
Finance Wales’ £150 million fund will enable it to continue to invest in growth businesses as well as to work closely with commercial funders to increase its co-investment levels.		

Investment performance 2008-09

Completed investments (£m)



Portfolio balance



Financial information 2008-09

Profit and loss account for the Finance Wales Group

	£000s	
Fees and loan repayments	4776	
Joint venture	0	
		4776
Provisions and write offs:		
Loans	-6574	
Equity investments	-3918	
Administrative expenses	-8891	
		-19383
Other income:		
ERDF grant income	1220	
Welsh Assembly Government support	5349	
Miscellaneous	0	
		6569
Profit on sale of investments		6
Operating profit		-8032
Joint venture:		
Loss		-3
Provisions and write offs		-193
Interest received		1670
Interest paid		-3047
Profit on ordinary activities before tax		-9605

Balance sheet for the Finance Wales Group

	£000s	
Fixed assets		
Office equipment etc.		76
Investments in:		
Joint venture		-678
Equity		12127
		11525
Current assets		
Debtors due within 1 year (including loans to clients)	7901	
Debtors due after 1 year (including loans to clients)	31190	
Other investments	22	
Cash	15003	
		54116
Creditors due within 1 year		-434
		53682
		65207
Creditors due after 1 year		
Due to bank and others	-28930	
		-28930
Accrual and deferred income (largely ERDF grant)		-4335
Net liabilities		31942
Capital and reserves		
Public equity		41843
Share capital		12
Capital reserve		10
Profit and loss account		-9923
Shareholders' funds		31942

*All figures shown net of pension liabilities

Finance Wales in brief

2008-09	<p>Finance Wales invests £26 million in Wales-based SMEs – a 25% increase on 2007-08</p> <p>Finance Wales raises its £150 million fund</p> <p>Finance Wales achieves the goal it set in 2001 of investing £100 million by 2008</p>
2007-08	<p>Freshwater and Boomerang list on AIM; Finance Wales exits from Enfis, Accountis and Greenwood</p> <p>Finance Wales completes three early stage co-investments with Fusion IP</p> <p>Annual investment levels exceed £20 million for the third year in succession</p>
2006-07	<p>First all-Wales investment fund (£30 million) launched</p> <p>Finance Wales exits Alito in trade sale to AIM-listed Proactis Group and also howies in trade sale to Timberland</p> <p>Finance Wales maintains annual investment level in excess of £20 million</p>
2005-06	<p>Finance Wales starts managing the Wales Creative IP Fund for the Welsh Assembly Government</p> <p>Finance Wales exits Crystal Reference in a trade sale to AD Pepper Media</p> <p>Annual investment level exceeds £20 million for the first time</p>
2004-05	<p>First investment exit achieved from Crumlin-based Atlantic Technologies which is followed by an exit from Rafiki</p> <p>Largest equity investment to date is made in Cardiff-based Boomerang</p> <p>Annual investment level reaches £12.8 million</p>
2003-04	<p>Finance Wales invests £6 million</p>
2002-03	<p>Finance Wales raises another fund, the £35.9 million Objective 2 fund, backed by Barclays Bank, the European Regional Development Fund and the Welsh Assembly Government</p>
2001-02	<p>Welsh Assembly Government establishes Finance Wales</p> <p>The company begins investing its £45.2 million Objective 1 fund, backed by Barclays Bank and the European Regional Development Fund</p>

Finance Wales plc

T: 0800 587 4140

F: 029 2033 8101

E: info@financewales.co.uk

www.financewales.co.uk

Oakleigh House
Park Place
Cardiff CF10 3DQ

St David's House
New Road
Newtown SY16 1RB

Llys Llywelyn
St Asaph Business Park
Ffordd Richard Davies
St Asaph LL17 0LJ

Axis 3
Axis Court
Mallard Way
Swansea Vale
Swansea SA7 0AJ

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