



The Catalyst Group Newsletter

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 Ericsson	 SSA Global Technologies Inc	 iOra Ltd	 VAI BV
has acquired	has acquired	has been acquired by	has been acquired by
Groupe Audilog	Baan Corporation	Corpora plc	Brain Force Holding AG
 Telescope Technologies Inc	 AM-BEO Ltd	 Unilog SA	 Autodiagnos AB
has been acquired by	has been acquired by	has acquired	has been acquired by
Las Cumbres Observatories Inc	Prime Carrier Ltd	Mezenet Ltd	Crypton Technology Group Ltd



“Making money as a shareholder by IPOing on the AIM market - fact or fiction?” Tim Cooke

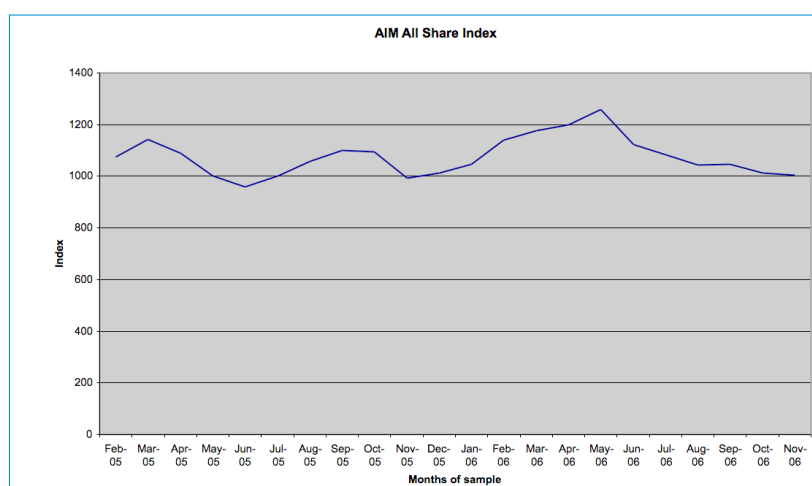
One of our jobs at Catalyst is to make the maximum amount of money for shareholders on an exit, and we spend much time with investors and management deciding the best way to achieve it – either by way of a trade sale or by way of an IPO on London’s AIM market. This discussion has become increasingly important as AIM has blossomed in recent years with an increasing flow of IPOs for tech companies, including a significant number from outside of the UK.

In order to put some hard facts behind our views we have recently analysed the share price performance of IT related product and services companies after they have IPOed for 6 months and also for 12 months. The relevance of this is that an important feature of an IPO is that pre-IPO shareholders are often asked to commit to a lock-up period which is rarely less than 6 months and will sometimes run to 24 months, in order to ensure an orderly market in the shares. So even, if you wanted to sell your shares, in this period this would not be possible. So what happens to shares over 6 month and 12 month period?

We have followed the share price of our selected group of tech shares up to October 2006 and going back to February 2005. In this period we counted 25 IT related companies that been quoted for at least a

year and further 17 companies that had been quoted since March 2006.

First of all, what has happened to the AIM market over this period? Surprisingly, the chart shows that the market has remained remarkably constant over this period. In fact,



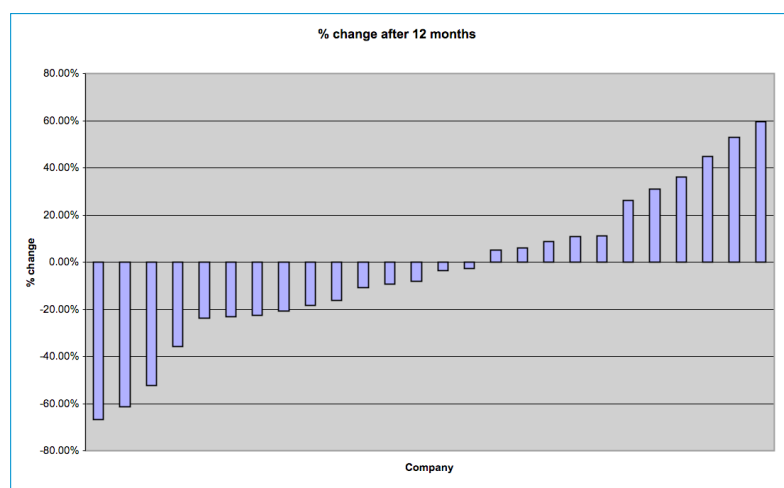
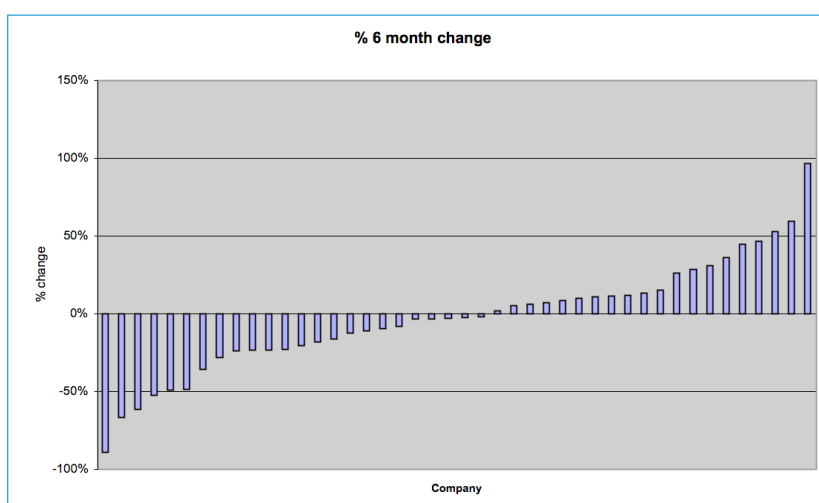
our sample shows a similar pattern with, on average, shares being 3% higher after 6 months and 5% higher after 12 months. So on balance, you could form a view that AIM has provided the possibility for an exit, even after the lock-up period. As AIM shares are often IPOed at a significantly higher price than when the company was private this should definitely be a tick in the box for AIM as an exit mechanism.

But there is a potentially costly devil in the detail. The question becomes – ***averages are all very well but is it likely to happen to my company? After all, I am not average, am I?***



To answer this question we analysed share performance on an individual level at the 6 month and 12 month point. The results are illuminating.

After 6 months the share price changes have a remarkable but unfortunate symmetry. There is a 50% chance that your shares will be less highly valued after 6 months and a 25% chance that your share price will have fallen by 20% in that time. And who thinks you can or would want to sell them with price performance? You even have a chance of the share price halving in this time.



And the position after 12 months is no better as can be seen from the next chart – in fact it is even worse as your chances of a reduced price after 12 months after your 12 month lock in have now increased to 60%, assuming that you can even sell

The lesson from these statistics is clear. As an investor or founder shareholder – if you want to get value from your shareholding think twice about an IPO – it could be

seriously damaging to your wealth. After all, how many shareholders seriously thought that their shares would decline at the time of an IPO? With a properly handled trade sale value should be known and fixed at the time of exit.



Glossery John Scholes

Yes, I know the word for a list of terms explained is “glossary”. An entry might be

Catalyst n. (fig.) Something that facilitates a (good!) change

But I meant “glossery”

Glossery n. the art of hiding under a deceptively attractive surface or appearance

The financial world is unfortunately awash with jargon, often deliberately used to reinforce the idea that advisers know lots of stuff that the poor benighted client doesn't. While naturally it's true that some advisers do indeed know lots of useful stuff, it's also true that glossery is frequently used to render helpful advice opaque. But I'm disappearing in a sheen of paint analogies here.

The previous article shows how easy it is to do. Tim mentions, inter alia (ha!)

AIM – London's Alternative Investment Market

a more accessible (=cheaper & less regulated) public market for shares

IPO – Initial Public Offering

What used to be called a float, but “floating on AIM” sounds far too spaced out, doesn't it?

lock-up period

A period during which shareholders are not allowed to sell their shares (not to be confused with the lock-up period which might be rewarded to directors or promoters who illegally mislead the market when IPOing)

Lock-up period illustrates very well that most terms of art can have alternative definitions with good or bad connotations. Here are a few more, just from the Bs.

Bollinger Bands

Plus or minus two standard deviations where the standard deviations are calculated historically in a moving window estimation. Hence, the bands will widen if the most recent share price data is more volatile. If the share prices break out of the band, this is considered a significant move.

A collection of Champagne Charlies playing musical instruments.

Broker

A person or company authorised to trade in shares on the stock exchange.

Even more broken.

Bull

Someone who believes that prices in the stock market are going to rise. Opposite of a bear.

Very similar to gloss.

Business Plan

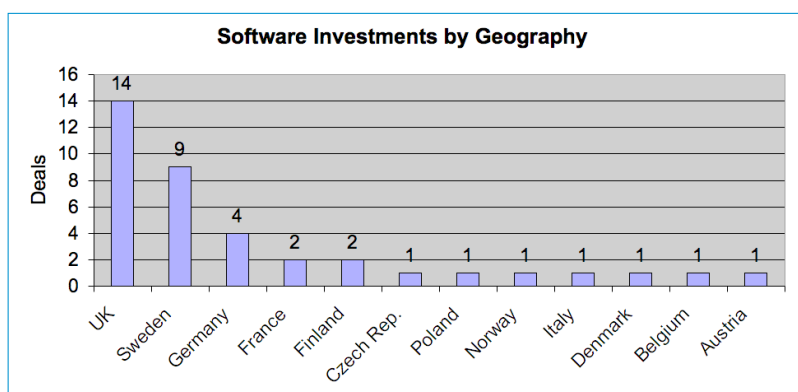
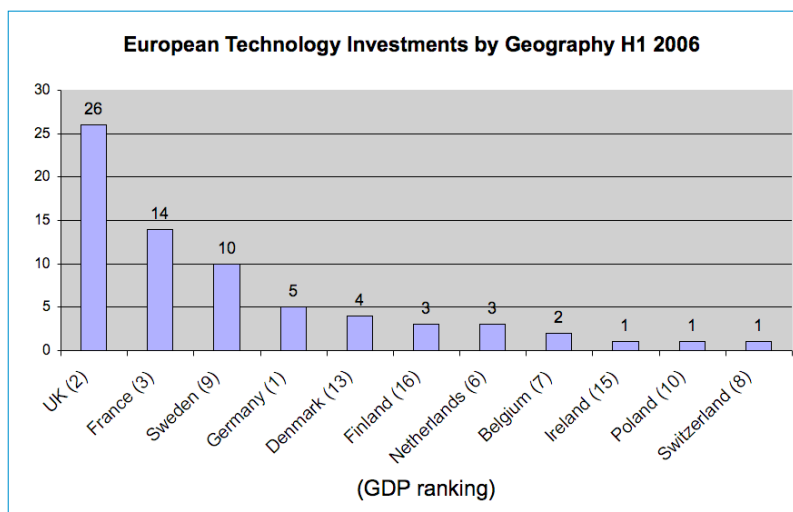
A detailed description of the plans of an existing business and its expansion plans or a new business, with financial projections.

A work of fiction in which both entrepreneurs and investors temporarily suspend disbelief.



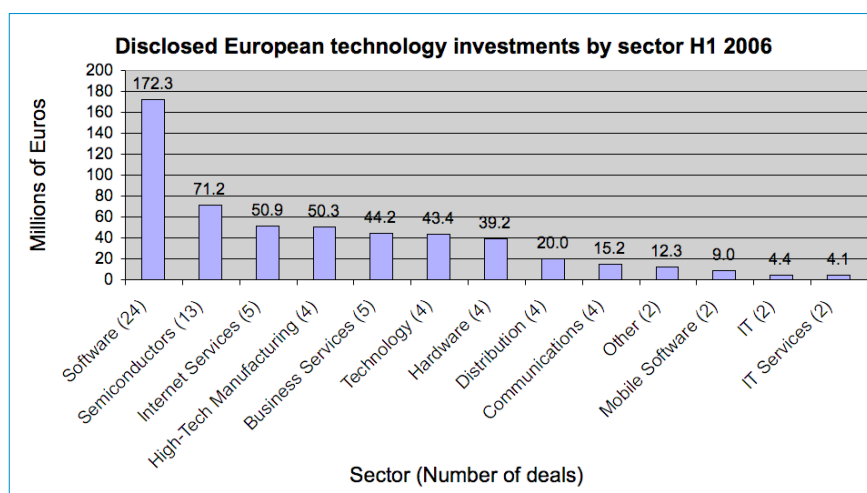
European VC funding snapshot Natalia Fetherston-Dilke

The UK leads the European investment league in both number of deals and amount invested, totalling more than France and Sweden put together. Neither Income per capita nor GDP are useful for determining the level of investment in technology in European countries. Notably absent are Italy and Spain, who rank fourth and fifth in Europe in terms of GDP, but registered no technology investments in the first half of 2006.



Of the 26 UK technology investments in the first half of 2006, 14 were software investments. 9 out of 10 Swedish investments were made in software companies, whilst only 2 out of 14 French VC investments were software based.

Software investments dominated European Technology funding. Software deals, where the amounts invested were disclosed, totalled to €172.3 m. Again, this is more than investments made in Semiconductors, Internet Services and High-Tech Manufacturing sectors put together.





Top 10 European VC deals in H1 2006

Date	Target	Sector	Country	Investors	Amount
Apr-06	Icera	Semiconductor	UK	Amadeus Capital, Accel Partners, Atlas Venture, Benchmark Capital	€ 40.0m
Feb-06	Metris	Software	Belgium	GIMV	€ 35.0m
Jan-06	Webpay	Business Services	Switzerland	3i	€ 29.6m
Jun-06	Tagsys	High-Tech Manufacturing	France	JPMorgan, Cazenove, Elliott Associates, Endeavour	€ 27.7m
Mar-06	Mblox	Mobile Software	UK & US	TridentCapital, BA Venture Partners, Norwest Venture Partners, Novus Ventures, Avanti Capital	€ 25.0m
Jun-06	BridgeCo	Technology	Switzerland	Wellington Partners, Advent Venture Partners, Benchmark Capital, Cipio Partners, Earlybird Venture Capital, Fidelity Ventures, Intel Capital	€ 23.0m
Mar-06	MySQL	Software	Sweden	IVP, Intel Capital, Red Hat, SAP Ventures, Pesidio STX	€ 19.0m
Apr-06	Empower Interactive	Mobile Software	UK	Scottish Equity Partners, Argo Global Capital, Cazenove Private Equity, DN Capital, IDG Ventures Europe	€ 18.0m
Feb-06	Zensys	Hardware	Denmark	Bessemer Venture Partners, Palamon Capital Partners, Cisco, Intel Capital, VaekstFonden	€ 16.0m
Jun-06	Cavendish Kinetics	Semiconductors	Netherlands	Bessemer Venture Partners, Palamon Capital Partners, Cisco, Intel Capital, VaekstFonden	€ 15.5m



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The Catalyst Group provides international merger, acquisition, divestiture, funding, strategic transaction and corporate development services for Information Technology, Electronics, Telecommunications, and Internet companies.

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