We Start with an Apology

We start a newsletter that is too late in being sent with an apology. We are aware that there has been some material delays in regard to you, our investors, receiving all of the respective documentation due from one or two of the companies we have backed. For this we can only apologise on behalf of the investee companies. We continue to harry them on a daily basis and believe that we are making progress – a few share certificates have been despatched of late. We will not be letting up over Christmas and it is our goal as a team to ensure that all documentation is up to date as soon as possible. The delays are not for a want of trying on our part.

Furthermore: We offer our sincerest apologies in respect to the tardiness of the regular reports we promised. Our New Year's resolution is to ensure that quarterly reports are indeed issued.

Moving on to the Bread and Butter...

The past six months, as we are sure you are aware, have been particularly difficult for smaller companies. We have seen severe volatility across all developed Equity markets with the VIX reaching highs unseen since the depths of 2007/2008. For the large part, capital has fled from 'risk assets' and equity values have been battered. Market valuations have taken serious hits and lower down the capitalisation ladder company values have been hit harder and harder. If some folks out there are selling simply because they need cash (and certain market makers are included in this) then prices for small cap stocks will be hit hard. And that is what has happened. But it cannot and will not last forever.

We have unfortunately not escaped the wider sell off. But we remain of the view that the current sentiment goes no way to fairly reflect the intrinsic value present within the investments we have made so far. It also continues to be our view that equity investments are for the long haul and that is why we feel the structure of the EIS fund fits in well with how we operate. In the long run value will out, and good businesses will be rewarded with fuller valuations – EIS funds assist our investors here with attractive tax benefits whilst also ensuring that one does not fall victim to panicked selling. The last six months have been a period where panicked selling has been very common and although we have not escaped the short term impact this madness has had on market valuations, we continue to be positive.

Having said all of that the tough macro climate will claim some victims and we are afraid that this includes one stock held in EIS 1, Beautiful Books. With hindsight the numbers being presented to us as recently as early this year were just fantasy. But we are afraid that with this company in administration it has to be regarded as a tax write off. We invested in an unquoted company, going against our normal rules. We should not do so again unless it has a clear record of delivering real profitability and cash generation. We apologise for this abherration.

Looking ahead over the next few months there evidently still remains a material amount of uncertainty pertaining to the ongoing Eurozone crisis and the smothering amount of debt that the US continues to rack up. Our view is that the end game here will be unprecedented money printing and that ahead of us we have a prolonged period of inflation to come. As a result, our view is that, based on past experience, this will surely be good for equities in general. We also believe that it will continue to be growth companies that outperform and feel that with three more investments to make within EIS3, coupled with the investments we have already made in the two older funds, we are well placed to deliver robust returns.

With the Holiday season upon us the team at T1ps Investment Management would like to wish you all a Merry Christmas and would like to thank you for your continued support and investment. If you would like to discuss any aspect of the EIS Funds we will be working over the Christmas break and you can contact us on tom.winnifrith@t1ps.com or ross.jones@t1psim.com

Ross Jones & Tom Winnifrith

News from the Funds

A drive for more efficient procurement across the public sector is a major component of the government's plan to reduce the deficit. **@UK (ATUK)** – along with several other companies – has invested around £10 million over the past ten years in building a technology platform that enables organisations to establish e-commerce marketplaces, which can deliver immediate cost savings. Crucially, the company approaches customers in partnership with outfits such as Barclaycard (with whom the company has a strong and well established relationship) and Google. Coupled with the fact that its solutions are fully PCI/DSS compliant (ie. have the highest electronic payment standard), often means that @UK is the only company that meets the criteria for many organisations, giving it a key advantage over any potential competitors.

Recent progress at @UK has been very encouraging. In August it announced it would be supporting the Department of Work and Pensions (DWP) with a new government initiative called the New Enterprise Allowance, which will help enable unemployed people to start their own business. The DWP will give each applicant £1,274 over 26 weeks in the form of benefits to which they would not otherwise be entitled. The applicant may also borrow up to a further £1,000 from DWP lenders to use as they see fit. The Department of Work and Pensions anticipates around 40,000 people will benefit from New Enterprise Allowance, which suggests that there could be an additional £40 million to be spent on start up services. @UK could get a reasonable share of this income since it is providing a matched funding loan to users of its Cloud-Start-Up.com (cstart.com) service. As broker Arbuthnot observes, "Even if there is only a 5% sign-up with @UK this would equate to £2m of new revenues, an increase of 63% over our current 2012 forecast, and potential additional profits of some £1m, an increase of 250% over our current 2012 forecast."

August also witnessed the firm's Generic eMarketplace (GeM) for procurement in higher education and further education go live on schedule. The fact that the firm managed to sign-up 162 of the major higher education suppliers since the contract was awarded in April is ample testament to its ability to deliver. On top of this, the company announced the launch of a Schools Ecommerce Marketplace (it went live early in September), which should see 30,000 schools purchase a similar volume of goods and services to that of universities. @UK reckons this market could be worth up to £72 million a year, so securing even a small share of this market could be transformational for the group.

Another breakthrough was achieved in September when the firm won a contract to provide to provide the analysis services to the new NHS Expenditure Carbon Footprint Project, the aim of which is to "help inform decision making, revealing where carbon hot spots are and which suppliers and types of goods and services purchased contribute most to the carbon footprint." Utilising the technical breakthroughs in Artificial Intelligence developed by @UK (supported by the University of Reading and Goldsmiths College London), the technology allows for the automated analysis of finance system data to identify and categorise the individual items being purchased for the first time. According to broker Arbuthnot, "There is scope for this market to be large and develop quickly given the NHS SDU's [Sustainable Development Unit] report should encompass all NHS organisations."

Forecasts from broker Arbuthnot envisage a pre-tax profit of £0.4 million on revenues of £3.2 million for calendar 2012, rising to £0.9 million and £4.1 million respectively for 2013. Given that the market cap is now £8 million (at 11p up from our 5p investment price), some may view the current valuation as being pretty full. However, the firm's platform is building traction and the upside inherent in @UK's business wins to date suggests the premium is worth paying. With the company having reported "a healthy pipeline of opportunities for the second half" and experiencing "considerable interest in our products and services from areas outside of the UK, particularly Asia Pacific and Europe," our outlook for the company remains optimistic.

We hold RAM Active Media (formerly known as RAM Investments) in both EIS 1 and 2. Although this has not been an investment that has covered us in glory thus far, there have been some notable developments of late that suggest the company's fortunes may be about to turn.

As you may know, RAM has two main revenue streams: TrainFx and RAM Vision. During the first half of 2011 TrainFx successfully completed its first contract for passenger information systems on First Great Western Thames Valley routes and Southern Coastway lines, while deployment on Arriva and LNWR is ongoing. The company has also extended its product set over the last 6 months to widen the available market opportunities for its engineering and software solutions for retrofitting on older train sets and it is currently "tendering on a substantial number of new contracts the success of which could materially affect expectations through Q4 and into 2012 depending on their success or otherwise".

However, the prospects of this division could potentially be transformed thanks to news that emerged earlier this month. TrainFx has established an agreement with CETEC Europe Limited whereby the former has effectively transferred part of its IP into a Joint Venture controlled by the latter (RAM will hold 30%). CETEC Europe is a subsidiary of Changzhou Evergreen Transport Technology (CETT), which is in turn a subsidiary of the $200 million Changzhou Evergreen Group (CEG), a China based manufacturer of rail and metro products which supplying several of the major European and Chinese train manufacturers. Under the terms of the agreement, RAM will receive a royalty of 5% of TrainFX sales in the UK, 1% of sales in China, and 2% of sales to the rest of the world for a period of four years of the date of the transaction. While we expect the contribution in FY12 to be minimal, the long-term implications of such a leap-frog in scale are clearly very positive.

Meanwhile, although the company described its interim results for RAM Vision as "disappointing" and we would not disagree with that analysis, revenues were significantly up on the same period in 2010 and the change in management during the first half appears to have improved prospects markedly. As the company moved into the seasonally more important second half, the company stands to benefit from contract wins including City Gateway Media Limited for the large outdoor iconic screen in Piccadilly, Silverburn mall, Southampton Football Club onsite ground screens and a video wall screen in the Oracle mall, Reading. Management believes the business is positioned to grow "significantly" in 2012, while the Olympics is sure to provide a fillip to the screen advertising market.

As we move towards 2012 there are many reasons to feel positive about RAM. We believe the RAM Vision business is capable of achieving a profit of c.£1 million in 2012 on revenues of c.£4 million, which suggests the current valuation £3.34 million at 1.125p) is out of step - even without taking into account TrainFx. Although we only expect a modest contribution from TrainFx in FY12, we expect to see a dramatic uplift from this side of the business in FY13 when the JV should gain traction.

On 12th December 2011 healthcare supplies provider, Sutherland Health, announced its interim results for the six months ended 30th September 2011. The company is a national supplier of patient hygiene, sexual health and gynaecology products, to customers including the NHS, but has more recently widened its reach beyond the traditional healthcare sector. As a result, 22 of the company's products are now stocked by Amazon, including the new Babskin baby range. In addition to hitting the internet, the company has also secured 13 new wholesale customers and appointed a distributor in Ireland.

Moving to the half year numbers. The six month period was one of restructuring the business away from an operation that was predominantly dependent on the UK public healthcare sector, after the loss of the NHS patient hygiene business to Chinese competitors. The company has spent the recent months building its sales base away from the NHS, but notes its relationship with the NHS still remains good, and that the NHS continues to be supplied with an increasing range of products, including the new Vision and Babskin offerings. For the 6 months the company reported a 29.4% in turnover to £333,238, which saw Sutherland deliver a reduced gross profit of £168,251, and a pre tax loss of £42,677. The main culprit here was a materially reduced gross profit margin of 50%, coupled with, relative to sales, increased admin expenses, which are actually understandable given the company's drive to widen its sales scope. More positively, the company kept its distribution costs, as a percent of sales, in line with previous periods. During the period the company also announced that it had repaid its July 2011 loan notes to the value of £74,000 which now sees the company with no loan notes outstanding. As at the half year the company held cash of £128,966, and sported a current ratio of 1.5.

Despite the company showing a loss at the half year we believe that since the end of September the company has been operating more robustly and has in fact been trading profitably as a result of the broader distribution programme aimed at diluting the NHS business. We also believe that some of the lost NHS business is returning on an ad hoc basis as the private sector looks for increasingly better quality products. In addition, historically the company has always sold its products direct, but more recently business relationships with distributors have been sparked. Furthermore, and although the Amazon drive is still embryonic, sales are said to be increasing month on month through this platform.

Conservatively assuming no margin improvement, we believe that for the full year ending 31st March 2012 Sutherland's P&L will show a relatively small loss, with the company moving back into profitability for FY13. The first half was evidently a period of restructuring for the company, and with now circa 55% of business facing the NHS, as opposed to a percentage in the mid 70s last year, the programme aimed at reducing the company's reliance on the UK public health sector looks to be progressing steadily. It will however take time to build sales in the new sectors the company is targeting and given the respective small market cap, and relative closeness to the public health sector, the shares have suffered recently. Currently trading at 1.4p, valuing the company at £976,532, given the potential for expansion here into the niche, retail, day to day health market, pharma market, and the wider personal health industry, the valuation is far from demanding.

Ross Jones & Tom Winnifrith

Risk Warning:

Please note that EIS Funds are products which should be considered as being higher-risk investments. They are not suitable for all investors. They may be appropriate as part of a diversified portfolio, giving access to an alternative asset class, but should be considered illiquid and therefore unsuitable for unplanned or early capital withdrawals. You should seek qualifed professional advice before investing. You should also remember that the tax benefits may change as they are subject to changes in tax legislation.