Direct investment portfolio review

March 2011

LMS Capital plc

Updata – strong progress, first year

Designs, builds and manages wide area networks, primarily for UK local authorities – schools, libraries, fire & rescue

(YE Jun 30)	2007/8	2008/9	2009/10	2010/11 (P)
Total revenue	£5.1m	£10.8m	£19.7m	£25.1m

2010 Performance

- Record growth year: total end sites grew from 2,257 to 4,108
- Secured new contract with Hertfordshire worth £17.1m over 6 years.
- Rental revenues, increased from £5.8m to £12.1m, budget 2011 is £15.7m

Outlook and update

- Tim Pearson, ex-CEO of RM plc, appointed new non-exec chairman
- Established Updata North, to expand geographic footprint into Scotland & N. Ireland
- Sales team structure finalised, recruitment of additional senior sales people, geographic territories and targets agreed; Sales Director to focus on larger contracts
- Offer received for partial refinancing of shareholder loans and to provide revolving credit facility

"2010 was a record year for the company. In a period dominated by public sector spending cuts, sales rose by over 80% ... Updata is a viable, cost effective alternative to traditional carriers ... we expect 2011 to be a busy year."

Richard Bennett, Updata

Nationwide – new investment, good start

Outsourced meter reading, billing and collection for property owners' water and electricity utility supply to tenants

	2008	2009	2010	2011 (P)
Total revenue	$13.9m	$15.9m	$18.0m	$22.7m

2010 Performance

- First contract for an occupied property struck in July this year – a significant milestone and uplift in market potential, adding 827 electric and 827 water meters
- Impact of this >5% of installed base win only seen for ~2 months in 2010 figures
- Company is tracking investment case

Outlook and update

- New customers being added via new construction of multi-family units and via acquisition of existing meters
- Expansion beyond core territory of Ohio is planned
- Value proposition of low cost bulk solution to developers and competitive provider to tenants remains

"We successfully closed our equity capital transaction with LMS allowing us to aggressively expand the business ... 2010: double digit growth in revenues, income and EBITDA ... we expect to generate 20% growth through our existing customer base and expansion into new markets during 2011."

Mike DeAscentis, Nationwide

Apogee – new investment, good start

Provides document management solutions

	2008	2009	2010	2011 (P)
Total revenue	£29.1m	£33.3m	£38.8m	£48.3m

2010 Performance

- Company performed ahead of the investment case
- Morgan Brookes acquisition successfully integrated
- Business development effort more mature - ahead of last year and less reliant on 1 big deal
- Service revenue run-rate £13m

Outlook and update

- New Head of Sales joined January 2011
- New non-exec Chairman, Roger Goodman, fully on board
- Acquisition search ongoing
- Investment being made in systems and processes
- Increased services margins and retention opportunities identified
- Expand national footprint – further offices in Central London now open

"We finished the year with sales of £38.8m, an increase of 19.2% on the previous year ... we are moving away from box shifting and focusing on managed print services ... we are very confident we will continue with a similar growth rate experienced over the last few years (average over 3 years 23%)."

Jason Collins & Barry Ferdinand, Apogee

Entuity – turned around, solid performance

Network management software vendor, used by IT departments and Network Operating Centres

	2008	2009	2010	2011 (P)
Total revenue	$6.2m	$7.2m	$8.2m	$11.1m

2010 Performance

- Since 2008 new management has re-invigorated the product and reduced expenses.
- Revenue split 55% EMEA, 45% US. Maintenance c. 40%
- BMC signed as key channel provider in early ’10, Oracle in late 2010

Outlook and update

- BMC partnership: growth in 2011 and 2012 reflects management’s expectation of enhanced sales from partners
- Oracle partnership adds another dimension of growth
- Entuity has turned the corner, it is the last independent network management company and is profitable

“We entered the year with guarded expectations, but we ended with double-digit growth ... the deployment of virtualization technology and dynamic private cloud infrastructures is driving growth ... We expect to see double digit growth again.”

Michael Jannery, Entuity

Method – withstood the effect of the GFC

The largest green homecare brand in the U.S.

method

	2008	2009	2010	2011 (P)
Total revenue	\$100m	\$77m	\$80m	\$94m

2010 Performance

- Proactively exited air-care and cleaning tools' categories in 2009-2010, leading to a deliberate rebuilding period
- Annual growth of 16% in 2010 in its "core categories" of home care, fabric care and hand care
- Maintained premium pricing in the face of aggressive price promotion from more commodity players, coupled with operational efficiency gains, led to a gross margin improvement of 4.5 points in 2010
- International business (UK, France and Australia) grew 14% in 2010 and has become profitable

Outlook and update

- Investment in brand marketing in 2010 is paying dividends as brand awareness increased from 14% to 28%, following its media campaign
- 2011 plan calls for significant operating leverage as a result of the prior year's restructuring of the product portfolio; topline growth of 17%, additional gross margin improvement of 4.5 points

"Our gross margin was up 4 pts through the core portfolio work, premium innovation, and cost savings efforts... marketplace in our categories continues to be fierce ... (our) revenue growth driven by new products, base business growth, and new customers."

CEO, Method

YesTo – rapid growth from new products

The fastest growing brand in the natural personal care market

	2008	2009	2010	2011 (P)
Total revenue	$14.8m	$10.5m	$19.6m	$24.7m

2010 Performance

- Dramatic growth in 2010 and has quickly become the fastest growing natural personal care brand in the U.S.
- Mid-40's gross margin was maintained despite a mid-year transition of manufacturing from Israel to the U.S.
- CEO Joy Chen, brought into YesTo in Dec 2009, continues to strengthen the business both commercially and operationally
- Key initiative: repositioning of sub-brands around skin type and demographic as opposed to "flavor", new product line (YesTo Blueberries), improvement of customer-level profitability in the U.S.

Outlook and update

- Continues to gain market share from its competitors and has emerged as the clear #2 player in natural personal care
- Key initiatives for 2011 include launches in large US retailers, and pursuit of international expansion opportunities

"We improved our profitability at all of our major retail partners ... mass personal care category has weathered the economic downturn quite well ... YesTo is an affordable, natural brand, we are poised to grow the brand through increased doors and International market expansion."

Joy Chen, YesTo

Zoom – new investment in eyewear

Marketer of fashion reading glasses and sunglasses under multiple brands

	2008	2009	2010	2011 (P)
Total revenue	$33.4m	$29.7m	$25.1m	$25.2m

2010 Performance

– New account activity has picked up with recent wins at Chain Drug Consortium, Borders, Aaron Brothers and Shnucks, an upcoming test in Lowe's and discussions with Staples

Outlook and update

– A turnaround in earnings from a solid base

– CEO search process is nearing completion

– Major driver of improved EBITDA in 2011 is the switch to an outsourced service model, executed in conjunction with the acquisition, which removed 40+ FTE's from the company's payroll

– E-commerce platform being developed by trusted outside consultant to implement SFEP's thesis of building a meaningful online revenue stream to augment Zoom's retail business

"Since acquiring Zoom Eyeworks in late 2010, we have made significant operational improvements to the business. 2011 will be a year where we reap the benefits of these improvements through drastically improved EBITDA margin, which in turn will fund the growth initiatives underlying our investment thesis."

Scot Potter, SFEP

LuxuryLink – now home of 3 travel sites

The leading online luxury travel resource, operator of websites LuxuryLink.com, FamilyGetaway.com and Vacationist.com

LUXURY LINK®
Travel Well. Travel Smart.

	2008	2009	2010	2011 (P)
Total revenue	$10.7m	$10.7m	$12.6m	$16.4m

2010 Performance

- Revenues grew 18% in 2010 with launch of 2 new sites include Familygetaway.com, focused on extending the Luxurylink.com model to the family travel market, and Vacationist.com, a private sale site for luxury hotels launched in partnership with Travel & Leisure (owned by American Express)
- Higher end travel has returned, the auction model for 4 and 5 star accommodation is resonating with customers

Outlook and update

- Both new websites are showing good initial metrics
- Amex is looking at additional integration opportunities
- The 2011 plan calls for 30% revenue growth as LL leverages its 2010 investments in the new lines of business

"We launched two new websites/businesses ... 2010 marked a slight uptick in the luxury hotel sector after a couple years of precipitous declines, 2011 is looking better ... we expect to increase our revenue by 25%+ and expand our margins as we see the benefits of the two new website launches."

Drew Marich, Luxury Link

LMS CAPITAL

Penguin – explosive growth

Provider of high-performance computing solutions, from workstations to the "cloud"

	2008	2009	2010	2011 (P)
Total revenue	$27.5m	$23.0m	$48.8m	$42.8m

2010 Performance

- Explosive top-line growth of 112% in 2010 a result of strong traction in the financial services sector (Goldman Sachs, flash traders), life sciences, and continued traction in govt./university labs
- Growth driven by high-volume, lower-margin systems business, but EBITDA positive in 2010 for the first time

Outlook and update

- Penguin's cloud offering, Penguin on Demand, was successfully launched and surpassed $1mm of bookings in first year of operations
- 2011 revenue growth tempered as the organisation catches its breath

"Growth, growth and more growth ... we made money: it was a challenge but we have more customers and delivered solutions ... we are not standing still."

Charlie Wuischpard, Penguin