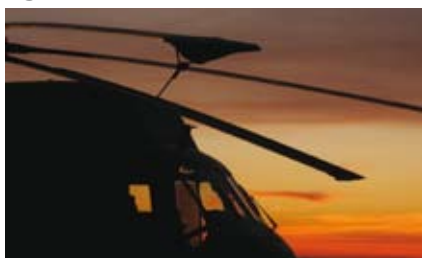


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## Logistical dream for NVM

**Successful sale of PSL proves that there are still good exit opportunities out there for the right businesses**



Despite the downturn in the number of corporate transactions in 2008, well-managed businesses with a clearly defined market niche will always be attractive to buyers. NVM's exit from logistics company Product Support Limited (PSL) is a case in point.

NVM invested almost £7 million in the management buy-out of the company in December 2006 – supposedly at the height of the pre-credit crunch bubble. But with NVM's support, management grew sales by 27% within 18 months, attracting the attention of quoted supply chain giant Wincanton in June – and

delivering an IRR of more than 70% per annum for NVM's funds.

*"The PSL management team did an excellent job in developing the business after our investment," says Peter Hodson, who ran the deal for NVM. "We believe this exit further cements NVM's position as a leader in the mid-market deal arena."*

PSL showed great potential from the outset. Despite a 60-year history, management were clearly committed to a modern, creative and flexible approach to running the business.

The company offers outsourced warehousing and logistics services for higher technical and sensitive goods. That means that public and private sector organisations find it attractive to contract in PSL's supply chain expertise. It has adapted well to an increasingly demanding regulatory environment, and is accredited by both the Ministry of Defence (MoD) and the extremely fastidious US Department of Defense. *"In recent years the MoD has developed strong partnerships with private sector logistics companies," says Hodson. "PSL's focus on low volume, high value items within the defence industry allows it to benefit from a market currently experiencing strong growth."*

## Opting in to Optilan

**Sector focus and global ambitions make for a smart investment in networking**



Every investor should be looking for opportunities to buck the global economic slow-down – and NVM has found one in the shape of Optilan CEO Richard Buckland. The result is a £5 million investment in his buy-out of the telecoms network provider, backing his vision to grow the business across new territories and in new markets.

Optilan's secret is specialisation: it offers high-tech networking services in recession-proof industries such as oil and gas, transport and law enforcement.

As with every NVM investment, the quality of management is also a crucial part of the package. *"Richard Buckland has been instrumental in the development of Optilan," says NVM's James Arrowsmith. "He is ably supported by a great management team and we believe they can take advantage of growing markets and realise their expansion plans."*

With offices in Moscow and Qatar, Optilan has shown a willingness to respond to the needs of its sophisticated customer base. And because it has expertise in markets that are both technically demanding and heavily regulated, potential rivals face high barriers to entry.

Even in the UK, the company can look forward to a relatively buoyant business environment. Government spending on infrastructure and public safety – two key markets for Optilan – looks set to rise, positioning the company for new contracts and further growth.

*"We are delighted to be working with NVM to take the company into its next growth phase," says Buckland. "This will include the expansion of our overseas activities as well as selective development in new markets where our technical skills will be valuable to customers."*

# Market update

## Accentuating the positives

**A recession demands hard work and innovation. But testing times bring out the best in many businesses – and create investment opportunities too, as NVM managing director *Martin Green* explains**

The speed and severity of the economic slowdown in the UK has surprised many people. But for those who look beyond the newspaper headlines, it's been clear that things have been getting harder for a lot longer than the past six months.

It's also clear that conditions are going to be tough for at least another year. We may see things beginning to pick up by the end of 2009, though the economy is unlikely to bounce back quickly from the combination of financial crisis and recession. But there are silver linings to this cloud – and both NVM and its portfolio companies are well placed to make the most of trying times.

First, it's important to stress that this remains an uneven recession – not every sector has been equally affected. Some of our portfolio businesses are performing very well: those supplying the oil and gas sector, for example, benefit from the fact that capital expenditure by their customers is planned well in advance – and even with the oil price below its recent high, it's still profitable to maintain and expand production.

More broadly, the fact that our portfolio covers a real cross-section of the economy is a major plus during a recession. Funds specialising in a sector that's badly hit will suffer disproportionately, so our balanced approach is a defensive strength.

That's not to say there won't be challenges. Our companies face tougher markets and operational risks like every business. But as experienced hands-on investors, we can bring practical help to management teams looking for ways to beat the downturn. And at a time when many banks seem to be concentrating on reducing their exposure rather than supporting their customers, our supportive long-term



outlook can make all the difference. On average our companies are borrowing less than three times annual operating profit, a relatively low level of financial gearing.

Management teams are also working incredibly hard to make the most of the situation. In some cases this means unpleasant but necessary decisions as costs are brought in line with revenues. But at the same time managers are looking to open up new markets in sectors and parts of the world where growth prospects are better.

The downturn also opens up possibilities for NVM as asset prices fall. At present, buying opportunities for our funds are limited by the extreme volatility in the market. But we are already seeing parent companies in need of cash put fundamentally sound businesses up for sale – and with debt providers in no hurry to take on new business, private equity funding becomes an attractive alternative.

With cash available to invest, we should be in an even stronger position once the market bottoms out. The combination of depressed price-earnings ratios and lower profits will create opportunities to buy businesses at realistic prices just as they are poised to benefit from economic recovery in 2010 and 2011.

So while we're far from being happy about the recession, we are positive about what the next couple of years hold. We're working hard with companies' management teams to help them weather the storm and, where possible, improve their businesses despite the downturn. We have plenty of liquidity in reserve to make the most of the new investment opportunities identified by our investment team. And with almost 25 years' experience of investing through the economic cycle, we believe we can make the most of the present conditions and deliver good returns to our investors.

## VCT market overview

**NVM chairman *Tim Levett* gives a brief update on recent developments and prospects for VCT investors**

The past six months have seen a dramatic fall in the stock markets, and VCTs have been affected along with most other investment vehicles. AIM-focused VCTs have been particularly hard hit, with the FTSE AIM All-Share index currently down by over 60% since 1 January 2008, but most generalist funds have also experienced a fall in asset values and the green shoots of recovery will not be seen for some time to come.

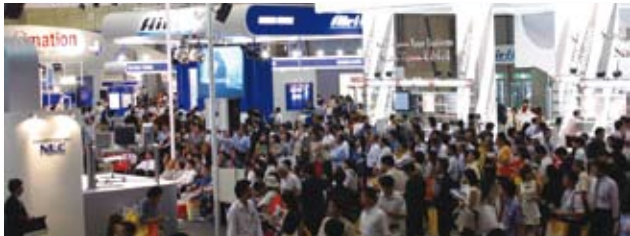
Despite the gloom, 2008 has seen some very pleasing exits in the NVM portfolio, two of which are reported elsewhere in this edition of NVM News. This has enabled our funds to maintain a healthy level of tax-free dividends

to shareholders whilst also topping up their cash reserves in anticipation of future portfolio requirements. With interest rates apparently heading to new lows in the short term, we intend to reinforce the message that well-managed, mature generalist VCTs can produce a very attractive income yield.

Although we expect the current recession to throw up some interesting investment opportunities for VCTs (see Martin Green's article above), market commentators are cautious about VCT fund raising prospects for the 2008/09 tax year and it seems unlikely that many private investors will be seeking to commit substantial new funds to the sector this year. However it is likely that the three generalist Northern VCTs will offer their shareholders the opportunity to take part in a small non-prospectus "top-up" issue in the first quarter of 2009, and further announcements will be made in due course.

## CloserStill

Still a great team



How do you follow a deal that returned three times its investment in under three years for an IRR of 60%? Simple: you back the same team to do it again.

NVM is investing £7 million in the buy-and-build strategy of **CloserStill**, an events business formed by the management team that created, grew and then, in 2007, sold Ithaca Business Media for £14 million. NVM backed the Ithaca MBO back in April 2005.

*"We are delighted to be working with Andy Center and Phil Soar again,"* says NVM's leader on the deal, Peter Hodson. *"Both have generated great returns for investors on numerous occasions."* An initial £4 million will be augmented with a £3 million war-chest to fund up to ten acquisitions in the next three years.

Center – who was itching to get back in the saddle when NVM News spoke to him in issue 17 about the Ithaca exit – has a stunning track record in the events industry. With a successful MBO under his belt and a great relationship with NVM, the omens are good for a repeat performance.



Testing positive



It's been a great year for NVM portfolio business **DxS**, which is building a world-wide reputation for its unique molecular diagnostics kits. The company was formed in 2001 when NVM backed former AstraZeneca scientists Steve Little and Dave Whitcombe. DxS exploits the pair's patented Scorpions technology to run sophisticated genetic analysis and develop tests that help pharmaceutical companies and doctors tailor treatments for individual patients.

This "personalised medicine" ensures that cancer sufferers, for example, aren't prescribed painful therapies that won't deliver the expected benefits because the patient's genetic

make-up is unsuitable. DxS's technology helps ensure treatment is properly targeted – delivering potential cost benefits for healthcare providers as well as patients.

Aside from a number of deals to license the Scorpions technology to other firms, 2008 saw the DxS team sign an exclusive global deal with pharmaceutical giant Roche for distribution of its diagnostic kits. *"It's a very exciting period for the company,"* says Jeff Holder, who handles the investment for NVM. *"We're putting more resources into the business to maintain the momentum of its international roll-out. These products have enormous potential."*



Galvanising returns



In November 2008 NVM's funds achieved a notable exit from **Stainton Metal Company**, the Teesside-based manufacturer of steel lamp posts and telecommunication poles. The company was acquired in an all-cash deal by Valmont Industries Inc, a New York Stock Exchange quoted group whose worldwide manufacturing interests include lighting poles, utility structures and water management systems.

NVM invested in Stainton in 2001, teaming up with managing director Phil Plackett and his colleagues to buy the business from its Canadian owners. Stainton is ranked number one in the UK lighting column market and has achieved a 50% increase in annual sales since the buy-out, benefiting from the recent increase in street lighting and infrastructure expenditure in the UK after a long period of under-investment.

NVM's Yorkshire and North East investment manager, Jeff Holder, says: *"Stainton is a strong North East manufacturing company with a great management team who have shown real commitment to getting the best out of their business."*



# A chairman reflects

**Michael Denny retired as NVM chairman in April 2008 after more than 20 years at the helm, during which he also served a term as chairman of the British Venture Capital Association. He shared his thoughts on changes in the private equity industry with Richard Young.**

Michael Denny doesn't seem to be taking it easy, despite stepping down as NVM chairman several months before we meet in Edinburgh's Balmoral Hotel. He's full of observations from his morning meeting with senior HBOS executives, for example, and his briefcase is still bulging.

Bulking out his bag is Sir Ronnie Cohen's book *The Second Bounce of the Ball*, the Apax founder's analysis of successful entrepreneurialism. Denny agrees that understanding what makes business ventures succeed, rather than spotting arbitrage or leveraging opportunities, ought to lie at the heart of the private equity (PE) industry.

*"PE has changed its spots over the years – it's no longer concentrating on the opportunity to take a great idea and support it to grow,"* he says. *"In a start-up or early stage investment, of course a VC does put money in, but they also bring contacts and cohesion, methodology and systems – experience, basically – to make the business run better and grow. You're backing the vision of an entrepreneur. But that model is hugely people intensive – it's not at all passive."*

While there is a place for pumping in money to help businesses expand, Denny reckons that too many of the traditional skills have been displaced in many larger PE firms. Historical success has made it easy for PE firms to raise huge funds, encouraging professional corporate financiers to push deals faster and with less focus on the business. Accountants – rather than businesspeople – happily tap numbers into spreadsheet models that assume perpetual growth, making reckless leveraging seem attractive, or even inevitable.

*"The danger today is that we're so into the idea of process and procedure that we're forgetting the basics,"* Denny argues. *"We should still be asking, 'Do you trust this fellow? Do you feel right about this bank?'"* Today, many deals are done in undue haste, with investors sometimes committing without ever meeting management.

Happily, NVM still relies on managers living and working locally with the companies in which it invests. The essence of successful investing is

that personal connection. *"That 'hugging' by our managers is rather important,"* says Denny. *"But it's also vital to remember that our ultimate clients are our shareholders. If you're always trying to rescue investee companies, everyone loses money."*

The banking sector shows what happens when executives forget that fact, he adds. Both management and shareholders seemed to believe the economic cycle had been banished; executives became reckless and investors complacent. Firms that pay attention to their shareholders – that respect the economic cycle and buy when prices are low, investing their trust in good entrepreneurs – will be positioned to thrive over the long term. It's all about delivering sustainable returns.

What else made NVM a good firm? *"As a chairman, my job was to meet people – to make our people feel part of a well-run, successful and caring business,"* says Denny. *"NVM has always been very careful about that – we are good people and that makes us a good place for investors."* *Treating people fairly and trusting your judgment isn't just about creating good vibrations – it's good business sense."*

So how have those principles translated into outcomes during Denny's chairmanship? What was his best deal, for example? *"Well, the first was the formation of Northern Investors Company, NVM's original fund, which I am deeply proud of,"* he says. *"But in terms of PE investment, I'm proudest of Weldex, a crane hire company from Inverness. We bought out the entrepreneur's partner 12 years ago and put in some additional money to finance growth. But it should make £5 million or £6 million profit this year, and our 30 per cent interest is worth a lot more than we paid for it! That business was backed on the basis of the key man. We just knew we could trust him."*

The NVM approach should, he hopes, become the norm again for the private equity industry: invest money after applying good judgment, make a genuine contribution to the investee business and rely a little less on the spreadsheet skills and financial engineering to justify your decision. *"That's just good risk management,"* says Denny. *"The best deal on the block is always the one where you put money behind people you know and trust."*

• Richard Young is a freelance journalist



# Performance data



## Northern Investors Company PLC

Launch date	1984 (listed since 1990)
Share price	104.75p
Latest NAV per share	255.9p (30 September 2008)
No of shares in issue	19,523,440
Market capitalisation	£20.5 million
Dividend yield	6.9%

	1 year	3 years	5 years	10 years
NAV total return – company	92.1	113.7	123.7	182.6
– sector average	110.1	164.1	227.2	292.7
Share price total return				
– company	49.0	56.9	62.4	119.4
– sector average	42.1	54.5	90.7	121.9



## Northern 2 VCT PLC

Launch date	1999
Share price	54.0p
Latest NAV per share	76.7p (31 October 2008)
No of shares in issue	56,703,730
Market capitalisation	£30.6 million
Dividend yield	11.1%

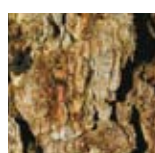
	1 year	3 years	5 years	10 years
NAV total return – company	90.3	105.6	105.1	n/a
– sector average	91.1	105.3	131.3	n/a
Share price total return				
– company	74.2	85.9	91.9	n/a
– sector average	83.5	97.2	132.8	n/a



## Northern Venture Trust PLC – ordinary shares

Launch date	1995
Share price	52.5p
Latest NAV per share	80.1p (30 September 2008)
No of shares in issue	39,133,216
Market capitalisation	£20.5 million
Dividend yield	14.3%

	1 year	3 years	5 years	10 years
NAV total return – company	99.9	134.7	165.2	165.5
– sector average	91.1	105.3	131.3	151.9
Share price total return				
– company	78.8	99.7	152.0	151.0
– sector average	83.5	97.2	132.8	161.6



## Northern 3 VCT PLC

Launch date	2001
Share price	58.5p
Latest NAV per share	86.1p (30 September 2008)
No of shares in issue	28,854,122
Market capitalisation	£16.9 million
Dividend yield	6.8%

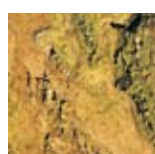
	1 year	3 years	5 years	10 years
NAV total return – company	91.5	102.9	109.0	n/a
– sector average	91.1	105.3	131.3	n/a
Share price total return				
– company	70.9	77.1	80.0	n/a
– sector average	83.5	97.2	132.8	n/a



## Northern Venture Trust PLC – C shares

Launch date	2006
Share price	58.5p
Latest NAV per share	84.7p (30 September 2008)
No of shares in issue	20,612,249
Market capitalisation	£12.1 million
Dividend yield	6.8%

	1 year	3 years	5 years	10 years
NAV total return – company	104.9	n/a	n/a	n/a
– sector average	91.1	n/a	n/a	n/a
Share price total return				
– company	91.2	n/a	n/a	n/a
– sector average	83.5	n/a	n/a	n/a



## Northern AIM VCT PLC

Launch date	2000
Share price	40.0p
Latest NAV per share	39.7p (30 September 2008)
No of shares in issue	21,785,766
Market capitalisation	£8.7 million
Dividend yield	7.5%

	1 year	3 years	5 years	10 years
NAV total return – company	65.5	74.8	71.0	n/a
– sector average	58.6	54.3	54.6	n/a
Share price total return				
– company	85.9	78.2	88.1	n/a
– sector average	61.7	60.5	61.7	n/a

"Share price" is mid-market price as at 28 November 2008. "Dividend yield" is based on cash dividend paid in respect of latest full financial year, expressed as a percentage of share price. NAV and share price total return statistics (source: AIC) are for periods to 28 November 2008, mid to mid, net income re-invested. "Sector average" refers to the following sectors:

Private equity Northern Investors Company PLC

VCT generalist Northern Venture Trust PLC, Northern 2 VCT PLC, Northern 3 VCT PLC

VCT AIM-quoted Northern AIM VCT PLC

# Any other business

## Martin Green becomes MD of NVM



**Martin Green** was appointed as managing director of NVM with effect from 1 October 2008, taking over from Alastair Conn who stands down after completing 20 years in the role and takes up the position of financial director. Tim Levett continues as executive chairman.

Martin is 44 and qualified as a chartered accountant

with Coopers & Lybrand before joining 3i, where he became a director in the Birmingham office responsible for new investment across the Midlands. He then spent two years with Montagu Capital before joining NVM as a director in August 2004. Since then he has led a number of new deals for NVM, latterly taking over responsibility for the leadership of NVM's 10-strong investment team.

Martin says: *"I have really enjoyed my first four years with NVM and am delighted to have the opportunity of leading the next stage of the company's development. My appointment as managing director is the latest stage in a carefully planned transition from the original management group who founded NVM in 1988 – we have built an excellent business over the years and I am looking forward to working with Tim, Alastair and the rest of the NVM team as we go on to even better things in the future."*



NVM has appointed **David Inman** as financial controller, based in the Newcastle office. David will be responsible for all aspects of finance in respect of NVM and its funds. He joins from PricewaterhouseCoopers LLP in Newcastle where he qualified as a chartered accountant in 2005.

Away from the office David plays rugby for Darlington RFC and, with his wife Rachel, is busy restoring their house.



**Layne Howarth** has joined NVM's Reading office to take over the role of marketing from Liberty Bollen, who has taken an extended period of leave in order to travel overseas. Layne previously held marketing roles with Sony & Corel. Among her many responsibilities with NVM

has been the production of this edition of NVM News.



**Richard Gibson** (on right in picture), who manages NVM's investments in the South of England, has been named Venture Capitalist of the Year at The Business Magazine Thames Valley Deals Awards 2008. Richard, who took over the Thames Valley patch at NVM in January 2007, was among 359 nominees up for 10 different awards designed

to recognise and reward the best of the corporate finance industry in the region.

Shareholder meeting dates:

### **Northern Venture Trust PLC AGM**

Wednesday 14 January 2009, 11.30am  
The Balmoral, 1 Princes Street, Edinburgh EH2 2EQ

### **Northern AIM VCT PLC AGM**

Wednesday 18 February 2009, 11.30am  
The Balmoral, 1 Princes Street, Edinburgh EH2 2EQ

### **Northern 2 VCT PLC AGM**

Thursday 14 May 2009, 12.00 noon  
Newcastle upon Tyne, venue to be confirmed

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