

The stars of the future

There can be significant opportunities backing small to medium-sized private companies

Imagine you're 10 minutes from London's St. Pancras Station on the Eurostar, on your way back from mainland Europe. A text message says that if you visit Coffee Café on the station concourse, you'll get a free croissant with your cappuccino. You pay using your phone (effectively 'click and collect') and receive a code that can be scanned at the till to show you've already paid for the food and drink which are ready on your arrival. There's no queuing and you're out of the café in a flash.

This technology already exists and offered by such companies as Amersham-based Paythru and its partner, retail strategy consultant Javelin. Not only is the technology exciting, it also brings tangible benefits to the consumer, the retailer and the landlord.

All are aligned: the customer has benefited from targeted direct marketing, convenience and a free pastry; the shop has generated extra revenue more cheaply (no proscribed merchant card-reading machines and the flexibility to make, for example, special offers at quieter times); and the landlord, under an innovative lease arrangement that generates more rent, the greater the footfall at the lessee's premises.

Alignment need not stop there. Paythru has just completed a pre-IPO (initial public offering) fund raise of £2.5million and the company is eligible for tax reliefs under the Enterprise Investment Scheme (EIS). Much of this private equity has come from the Restoration Alpha Angels, a network of active investors.

Paythru is one of a myriad of opportunities presented by the rapidly changing world of technological innovation, the pace of which shows no sign of abating; in fact, it is quite the opposite with more appearing all the time. The internet revolution has been compared to the voyage of the Pilgrim Fathers aboard the Mayflower, who set out to colonise the New World in 1620. In terms of the distance covered, the development of the internet equates to not having yet cleared Plymouth Harbour.

This is relevant to private investors because there's a huge funding gap between £2 million and £10 million in this country (source: Rowlands' Report, 2009) for the kind of companies that qualify for EIS. The



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venture capital model in the UK is all but broken and its antiquated time frames for any return on investment are woefully out of synchronisation with the needs of a rapidly-growing technology company.

This set of circumstances presents an opportunity for the private investor who is able to take advantage of tax-efficient wrappers and unquoted investment opportunities.

Technology small to medium-sized enterprises (SMEs) like Paythru are at the vanguard of the economic recovery. They have interesting growth prospects (Paythru is looking to float on AIM in October) and are often exciting and innovative.

There is risk and one that is different from the relative predictability of backing companies on the FTSE. Private company and junior market

investing requires an understanding of technology and the entrepreneurs who lead such businesses.

Most technology companies start with an entrepreneur and an evolving idea, which will change with alarming regularity, frustrating employees, teams, investors and loved ones. This 'Entrepreneurial Cycle' sits in sharp contrast to the conventional world of the mature business and ordered numbers.

Entrepreneurs by their nature are quixotic; quite different from the average manager in a large organisation. Compare the risk-averse manager who rehearses his excuse for failure before he begins, with that of an entrepreneur who doesn't even consider failure, only his or her destination.

Entrepreneurs race around the Entrepreneurial Cycle, like a piece of phosphorous dropped on to the surface of water, constantly changing, refining and rejecting business models, until they reach their goal.

In the UK there are over 150 publicly-quoted technology companies; 289,000 private information and communication businesses (source: DBIS); 400,000 start-ups each year (source: Techradar); and an unknown number of ideas. Approximately 99% of UK companies are SMEs; they contribute over half of the country's GDP; over 200,000 are in the technology sector (source: Tech UK). The stars are aligned: there has never been a better time to invest in SMEs and, if you have the appetite, technology stocks.

