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## Longbow Portfolio Service Update

Destiny Pharma was the second investment made by the Portfolio Service. Drug development programmes carry high levels of risk and so a lower than normal weighting was allocated to the investment initially. However, over the past three years, the risk profile has reduced substantially and we have increased the weightings within portfolios to reflect this.

All our Portfolio Service investors now have holdings in Destiny Pharma (see over). We have supported three rounds of investment, amounting to £4m out of a total of £10m invested since 2005. We believe the company continues to offer excellent potential to generate strong returns as it enters into an exciting stage of its development.

The area of anti-infective treatment was an important area three years ago but this is now an even higher priority for Governments and communities. Drug resistant infections are being encountered on an increasingly recurrent basis but the means to contain such infections remain limited. We believe this plays directly to the key strengths of Destiny's technology capability and that this will soon become attractive to a growing number of large pharmaceutical companies.

For the earliest investors into the Portfolio Service, Biotronics 3D (featured on page 3) represents their last investment. It is encouraging that most of these investors are now wishing to extend their investment commitments with Longbow.

We anticipate a reduction in investor appetite for risk. However, the longer term nature of venture capital makes this a particularly interesting time, presenting improved opportunities for those with the capital and profile to attract good quality investments. Large companies with global distribution and brands are more receptive than ever to new technologies that can enhance their product portfolios. Picking the right investments remains key, but good exits can be achieved by companies that have demonstrated initial commercial success.

With over 100 private client investors and £14 million of commitments Longbow is expanding its investment activities at a time when alternative assets, including venture capital, are now becoming a more widespread. We will continue to build portfolios with a healthcare focus as we believe the overall growth opportunities remain undiminished in this sector, even in more economically challenging times.

## Latest News

from Longbow Capital



Longbow invests  
£1m into  
Biotronics 3D

*More on page 3*

Destiny Pharma

Longbow invests £1.8m into  
Destiny Pharma

*More on page 2*

pwbHealth

PWB launches  
BreastLight!

*More on page 2*



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## The Spotlight

### CERNO CAPITAL

James Spence (pictured left) and Nick Hornby (right) give their take on Venture Capital investing.



CERNO CAPITAL is an independent wealth management partnership providing advisory and investment management services to a small number of individuals, family offices, educational endowments and charities. Nick Hornby, founder partner of Cerno Capital comments:

“We invest our clients in discretionary portfolios of long term, specialist

funds, with the objective of compounding total returns over time. Cerno Capital provides the infrastructure, access and discretion of a private family investment office. All client portfolios are bespoke. As part of this service we provide access to selective venture capital investments and Longbow Capital has become an important collaborator in this area of investment.

The only form of investment that makes sense is long-term and the inherent attributes that make venture capital attractive to us and our clients remain unchanged. This is based on two simple notions: that

equity returns will, given a proper period of measurement, outstrip those of other broad asset classes and that the returns available from venture capital could enhance portfolio returns. For the second precept to hold true, an investor must hold a diverse number of venture capital investments which should be made through a specialised, professional investment company whose blended portfolio returns are likely to be within the top quartile of their peers.

We have been investing both personally and on behalf of our clients with Longbow for almost three years and will continue to recommend investments sponsored by Longbow. The dedication of the Longbow partners to their investments has impressed us. We particularly like their focus on the healthcare sector, where the fundamentals point to a long and steady secular rise in expenditure. Finally, we like the fact that Longbow's investment approach stands up on its own merits. Whilst the tax benefits to UK investors under the Enterprise Investment Scheme are clear, we always make a point of turning down investment opportunities that are driven solely by tax considerations. On this important issue, Longbow has the cart in the proper place: trailing the horse.”

Cerno Capital was established in August 2008 by Nicholas Hornby and James Spence.

For more information on Cerno Capital please visit [www.cernocapital.com](http://www.cernocapital.com) or call 020 7491 5110.

## Company Updates

The latest news from our Portfolio companies

### PolyTherics

Polytherics has announced new collaborations with Celtic Pharma, Biocompatibles plc and Alligator Bioscience, a Swedish biotechnology company. In May, Polytherics announced the grant of a European patent on the application of its technology to improve drug efficacy.



The first half year of trading has seen CyDen's professional sales division (selling I-Pulse products to spas, salons and clinics) trading in line with its budget forecast. The launch in Boots the Chemist of the consumer model of the i-Pulse is scheduled for early 2009 and the extended lead-in has enabled a rigorous trialling process to be completed and for improvements to be made. A separate consumer i-pulse product is now being developed for direct sales through alternative market channels.



In June Longbow invested £1m into Domainex alongside The Capital Fund who invested £250,000. The investment will be used to expand the contract research business as well as accelerate internal product development. Since the investment the technology portfolio has been added to and its core patent has been granted in Europe.



PWB Health Ltd has seen an eventful 2008 so far with the launch of their first product; the BreastLight. Market response has been very positive. 79 user-groups have been set up with over 1500 individuals testing the product. Longbow Capital also recently completed a £350,000 investment alongside the Scottish Enterprise Co-investment fund.



There has been significant improvement in Direct Health's operating performance over the past six months. It achieved a record month in June in both profit and revenue volume terms, which should be sustainable. Revenues are increasing to more than £26m p.a. and a new contract tender has been won with Stockton on Tees Local Authority. This is worth circa £500,000 pa initially and has added to a growing presence in the North East.



Destiny gained some high profile press coverage following the publication of results for its XF compound at the Clinical Microbiology & Infection Diseases conference in Barcelona in April. Their nasal decolonisation gel, XF 73 was found to be effective against the five most common strains of MRSA. Significantly, studies suggest that infections exposed to an XF compound do not readily mutate or develop resistance. This indicates the XF compound could be applied to a number of increasingly common infectious conditions. Destiny raised over £4m (circa £2m from Longbow investors) from its existing investors over the summer.

These funds will be applied to expanding the clinical trial and XF compound development programmes beyond the end of 2009.



Longbow invested £1.5m in January to develop its technology in two product areas; non melanoma skin cancer and acne. The design process is almost completed and commercial discussions with potential partners have commenced.

# Venture Capital in the Healthcare Industry

Both sides of the investment story

## Biotronics 3D™

Medicine in Three Dimensions

<b>Company</b>	Biotronics 3D
<b>Sector</b>	Healthcare IT
<b>Date Completed</b>	12.09.2008
<b>Investment</b>	£1m

Biotronics 3D has conceived and developed a technical framework called 3D Net which enhances medical image analysis. The technology enables clinicians to manipulate CT and MRI scans in 3D. The technology also forms the core of other specialised products including virtual colonoscopy.

### Why Biotronics 3D?

Longbow Partner Edward Rudd explains what is special about Biotronics 3D

#### What impressed you about Biotronics 3D?

Prior to our investment, the company was operating with only six full time employees and had received relatively little funding. Despite this they had developed world class products that were being sold in the US, UK and Japan. Customers and distributors were highly complimentary about the technology, products and support that they had received from Biotronics 3D.

#### Why did Longbow choose to invest?

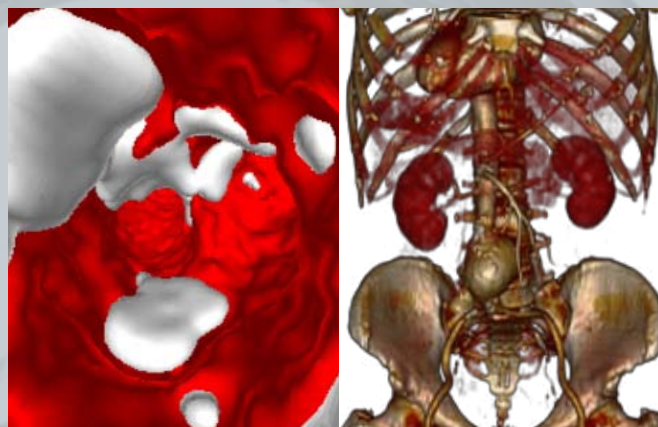
The demand for such products is set to grow rapidly over the next few years as radiology departments are under pressure to extract greater output from their expensive CT and MRI scanning equipment. By reducing as many as 10,000 images per scan to one 3D image diagnosis is made easier, more consistent and, importantly, faster.

The founders have proven that they can turn complex technology into cost efficient, user friendly products, but without investment in sales and marketing Biotronics 3D would not be able to achieve their potential in such a fast moving environment. Our investment enables the company to realise this potential and generate a healthy return for doing so.

#### What do you believe the outlook is for Biotronics 3D?

The company recently agreed a collaboration with the institute of Cancer Research that was looking for a partner to commercialise their MRI oncology intellectual property. Work is already underway to integrate this with 3D Net to create a new product that can help diagnose breast cancer and I expect this collaboration will extend to other technologies and diseases (such as prostate cancer) in due course.

Ultimately, I see Biotronics 3D being purchased by a company that will benefit strategically from owning such 3D imaging expertise and products. This might be a hardware manufacturer or a software company.



*Pictured left is an example of an image showing calcium build up in the blood and right an internal image of the human abdomen.*

### Why Longbow?

Biotronics 3D CEO Harry Hatzakis discusses the importance of venture capital for entrepreneurial companies.

#### Why Venture Capital, and why Longbow?

The modern health IT industry has in recent years been forced to become global, as a response to the flattening of the world economy. Emerging innovative companies will only succeed in the present economic environment if they fashion their strategies, their management and their operations in pursuit of a new goal: integration of research, development, production and value in the delivery of new products worldwide.

The old monolithic multinational that created value in an old hierarchical fashion is dead, mainly because of the fundamental restrictions in delivering innovation in the modern economy. Not since the 19th century have our systems of innovation and production endured such large and fundamental changes to their architectures. These changes have provided a great opportunity for smaller companies with remarkable abilities, like Biotronics3D, to adapt to global market requirements rapidly.

In Longbow Capital we found a dynamic company, with experience in working with smaller companies in the healthcare sector. We share the same vision of the way healthcare needs to be delivered in the 21st century and agree on the ever increasing role of global innovation in that market space.

We also realised that Longbow will offer not only capital, but a strong support network for our company (through business support, introductions and advice) to further develop and implement a strategy that will increase our company value in the years to come.

#### What will the capital be used for?

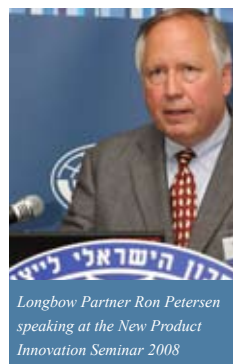
The raised capital will be used to take on key personnel to help develop our sales and marketing departments. This will help us achieve a global reach via partnerships with other companies in the world market. Investing in Sales and Marketing will accelerate our brand and product penetration to the international market. This will be pivotal in the implementation of our business plan. We anticipate the impact of this investment will lead to the further expansion of product line and eventually a portfolio of disease management IT products with an initial focus on breast and colon cancer.

# A Day in the Life of the BCI: Swansea • Oxford • Tel Aviv

THE BCI are on the frontline of innovation, but how do they discover and develop exciting new products and technologies?

Louise Bryce, Marketing Manager, explains.

The Boots Centre for Innovation is passionate about delivering great health and beauty solutions that help our customers look good and feel great. Our core purpose is to support innovators who are developing new products and technologies within the health and beauty sectors. We can help develop the innovative new product or technology from the original idea to the finished product on the shelf, sold through the vast Boots retail network.



So how do we go about harnessing the ideas out there? Here at the Centre we believe the best way is to get out into the world and meet the talented innovators of the future.

We host events regularly all over the world bringing together people and concepts; most recently in Tel Aviv, at Oxford University and at home in Swansea.

## Tel Aviv, Israel

The Boots Centre for Innovation hosted its second New Product Innovation Seminar in June 2008. On this occasion the location was Israel, with the objective of meeting with innovative companies and inventors in our field of health and beauty.

We deliberately selected Israel as it is one of the most innovative countries in the world, particularly in diagnostics and medical devices. It is also home to a successful high-technology industry and a young, highly educated workforce including talented physicians and biologists. Alliance Boots Health & Beauty experts, alongside Longbow's Ron Petersen, presented to 100 delegates discussing market trends and future growth opportunities as well as information on how to access and work in partnership with Alliance Boots to bring new products to market. Following the conference, pre-selected entrepreneurs had private meetings with senior managers from Alliance Boots and the Boots Centre for Innovation where they were given the opportunity to pitch their product concepts. Thirty nine companies put forward proposals on that day and the BCI are now actively pursuing relationships with many of these companies.



The BCI team in Swansea

## Oxford University, UK

The Centre is currently hosting a series of New Product Innovation Seminars with some of the UK's leading Universities. In June 2008 we hosted, in partnership with ISIS Innovation, the first free seminar at the Said Business School in Oxford. The University's scientists and entrepreneurs had the opportunity to learn about the open innovation model adopted by Boots and key areas of consumer needs identified by the Centre. Longbow partner Edward Rudd provided an overview of Venture Capital for the group.

A follow up event took place two weeks later allowing up and coming innovators to meet the BCI team in 'Dragon's Den' style where the innovators were able to pitch their pioneering health and beauty concepts.

## Swansea, UK

Leading figures in academia, medicine, science and technology visited us earlier this year for the 2015 Healthcare Summit. The event, hosted by the Centre included presentations and working groups providing the attendees with the opportunity to share knowledge, views and predictions on a variety of healthcare-related topics. The impact of global trends, developments in nanotechnology, current and future legislation and next generation consumer needs were all hot topics of discussion.

## The Final Word By Edward Beckett

The 2008 Budget reduced the headline rate of capital gains tax (CGT) from 40% to 18% on gains crystallised after 6 April 2008. What is less well known is that investors can use EIS investments to reduce the CGT rate on gains made up to three years previously.

Gains made between 6 April 2005 and 6 April 2008 will have been charged at a rate of 40%. By investing into EIS qualifying companies, CGT can be deferred at 40% but so long as the qualifying investment is held for three years, the original gain will become chargeable at the new rate of 18%. In this way the investor has reduced the CGT rate by 22%. The EIS Qualifying Investment must be made within three

years of the date of the capital gain, therefore this opportunity will last until 5 April 2011.

Alternative assets, including venture capital, will play an increasing role in long term investment strategies and the recent volatility in equity and fixed income markets highlights the need for investors to diversify across different asset classes. Recent corporate activity within the healthcare and life sciences markets highlights the attractiveness of the sector as large cash rich companies continue to plug gaps in their product portfolios. We are therefore as excited as ever by investing into emerging healthcare companies and believe that now is an attractive time to be building a portfolio.

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