



Rathbones Specialist Tax Portfolio Service Enterprise Investment Scheme (EIS)

January 2021 update

“Even as COVID-19 ravaged the global economy in 2020, many early stage ventures blossomed,”

Ivan Teare, Head of Specialist Tax Portfolio Service

COVID-19 has pulled the rug on our freedom of movement. Lockdowns have decimated the global economy. Calls of a bitter economic winter ahead circled in March 2020. It was an incredibly uncomfortable time for anyone, let alone for small companies, venture capital start-ups and their investors. And yet, instead of hiding away from investors, the management teams that we deal with turned towards them, setting out robust growth plans to create jobs and take market share.

The upheaval led to a sharp rise in the amount of money raised by existing FTSE AIM All-Share companies, with an injection of £5.3 billion of fresh capital in 2020. This is a remarkable sum given we would expect to see capital draw away from riskier assets in such difficult times. Smaller companies are often seen as the barometer of health for the wider economy, so the capital put into Alternative Investment Market (AIM) last year shows that investors are prepared to support business. The number of new entrants to AIM has been subdued over the past two years, however. This is accounted for, in part, by companies understandably shying away from listing in such volatile times when it is not conducive to achieving an optimal valuation.

An acceleration of interest in technology and healthcare occurred during the depths of the pandemic, two principal themes in 2020, and this shows no sign of slowing. This is where nimble, smaller companies with rich intellectual property can be innovative and react quicker than large-cap supertankers, which can be more bureaucratic. The healthcare crisis has stoked renewed investor optimism in the research and development of drugs and testing, especially where they can help the fight against and treatment of COVID. Innovative IT businesses accelerated development in automation helping millions move virtually overnight to home working. They have since helped contend with the inevitable ramp-up in cybercrime too.

We are proud to have invested in a range of vibrant ventures on behalf of our EIS investors during 2020. Assisting in the supply of vital development capital to propel competitive advantages and, most critically in these difficult times, create jobs. Our approach of investing

in later-stage EIS-qualifying companies tilts us towards healthcare and technology. We generally have little exposure to the direct consumers hurt or hindered by the pandemic and accompanying lockdowns. Away from these core investment themes there's been heavy interest in ventures exposed to electric vehicles, supported by increasing environmental regulations and recognition of the need to tackle climate change. This interest got a fillip from the election of President Joe Biden in November. There are opportunities in lesser-known ecological themes, too, including more sustainable crop protection products.

A selection of companies we have supported

Abingdon Health, uses the latest technology to design and produce rapid disease tests on behalf of other labs around the world as well as on its own account. It specialises in 'lateral flow' diagnostics, which are typically intuitive enough to be self-administered - the most common of test of this type is the shop-bought pregnancy test. They produce accurate results without the need to send a sample to a specialised laboratory. Abingdon Health has one of the largest rapid diagnostic manufacturing capacities in Europe, with an ambition to be the largest globally. Abingdon has developed the finger-prick AbC19 Rapid Test for antibodies, which can provide a result within 20 minutes and would be used by healthcare professionals to test the effectiveness following a COVID vaccination. Lateral flow testing was a growing market, even before the pandemic. Abingdon raised £20 million in its December 2020 IPO to increase manufacturing capability with a target capacity of 150 million tests per annum.

C4X Discovery Holdings aims to create the world's most productive drug discovery engine. It uses cutting-edge technologies and expertise to efficiently deliver small-molecule medicines to clinical partners for the benefit of patients. The business model focuses on replenishing big pharma drug discovery pipelines, driving returns through revenue-generating pre-clinical licensing deals. C4X's pre-clinical discovery portfolio is focused on inflammation, brain disease and cancer. Its cancer portfolio includes immuno-oncology, which uses the body's immune system to fight tumours. C4X's major validation came in 2018 when it successfully licensed a pre-clinical programme in addiction disorders to FTSE 250-listed Indivior, in a deal worth up to \$294 million. C4X was spun out from the University of Manchester and owns a state-of-the-art suite of patented technologies across the drug discovery process.

Surface Transforms. Once the preserve of Formula One, carbon-ceramic brakes are now an optional extra in high-performance road cars. They bring the benefits of weight savings, reduced brake wear, higher performance and better handling compared with traditional iron-brake discs. Knowsley-based Surface is the only UK developer and manufacturer of proprietary carbon-ceramic brakes for cars in a sector historically dominated by Brembo SGL, of Italy. Surface announced a breakthrough five-year sole supplier contract in September with an unnamed US-based electric vehicle manufacturer; this transformed the company's prospects, validating both the quality of its product and ultimately the value of carbon ceramic over existing technology in this sector.

Trackwise Designs custom manufactures products involving printed circuit boards. It has two core divisions: radio frequency and its own patented Improved Harness Technology. In September, Trackwise announced a transformational electric vehicle production contract which could be worth up to £38 million over three years. Improved Harness Technology has the ingredients to replace traditional cabling in battery modules, allowing weight and space savings. This technology has many other applications too, including in medical devices, aerospace (wing edge de-icing), and leak detection. Trackwise is investing in a new manufacturing unit, which is expected to be operational this year.

Eden Research – the agrochemicals industry is undergoing significant regulatory-driven change. For example, by 2025 pesticides containing synthetic polymer microplastics – widely used for controlled-release fertilisers, seed coatings and biocides – are likely to be banned in the EU, clearing the way for biodegradable formulations. Eden Research is a developer and supplier of biopesticides and natural microencapsulation technologies. Its delivery mechanism – Sustaine – is a microcapsule derived from yeast extract that has phased release patterns. It is safer for the environment and is being developed with US-listed agri-science giant Corteva. Eden Research takes naturally occurring chemicals produced by plants (terpenes), which can be used with both natural and synthetic compounds to enhance their performance and ease of use. In March, Eden Research raised £10.4 million to develop, register and commercialise new products. These will include a natural insecticide formulation and seed treatments to complement its existing fungicide and nematicide technology.

Ilika is a pioneer in solid-state battery technology. It was founded in 2004 as a spin out from the University of Southampton and today has a family of battery products. The Stereax range are miniature batteries, less than 1 millimetre thick, for use in wireless sensors and medical devices. The Goliath range are larger batteries for electric vehicles and cordless consumer electronics. Solid-state batteries have superior benefits to existing technologies – they are ultra-compact, operate at very high temperatures, have higher energy density, and are faster charging – 6x faster than lithium-ion. Ilika raised £15 million in March 2020 to establish its own manufacturing facility, which should increase production 70 times over in 2021. Ilika has participated in three entries for the UK Government's Faraday Battery Challenge, engaging in rapid-charging projects with Honda and battery packs with McLaren.

SkinBioTherapeutics is a life science company focused on skin health that has developed its own patented technology, SkinBiotix, based upon discoveries made by Professor Catherine O'Neill and Professor Andrew McBain. The company has demonstrated, through scientific testing, that SkinBiotix can improve the barrier effect of skin models, protect from infection and repair wounds.

The above is just a selection of investee companies covering themes set out above. Each is a British AIM-quoted business developing exciting intellectual property and products financed by our EIS investors and, in many cases, largely out of the sight of many investors.

Management teams cite "rites of passage" to where they are today – that any overnight success is usually 20 years in the making.

The EIS Association

Rathbones have been members of the EIS Association for over 15 years now. Mark Brownridge, the director general, has provided the following powerful reminder of how critical the EIS has been to the entrepreneurial scene in the UK:

The Enterprise Investment Scheme (EIS) has been vital to start and scale up businesses who struggle to gain access to funding for over 25 years. EIS (and in 2012, the Seed Enterprise Investment Scheme, SEIS) were introduced to incentivise private investors to risk funds by investing in smaller businesses and have helped over 31,000 SMEs raise over £22 billion in that time. Jobs are also clearly a priority and our report highlights that EIS and SEIS investment in an early stage business help it employ more people. Our survey discovered that:

- Average employment growth for EIS funded companies is 86%.
- On average, companies employed 6 additional people as a direct result of their EIS investment.
- Within a year of investment, each £1M invested in EIS creates 4 jobs

Just short of 4,000 companies received EIS funding in 2018/19 meaning the schemes can justifiably claim to have created 24,000 jobs in that one year alone. Expanding the schemes can multiply that figure even further and keep our young, entrepreneurial companies on the path to growth. In addition, for every £1 invested into EIS qualifying companies, those companies deliver back £2 in additional revenue.

If you would like further information on the Rathbones Specialist Tax Portfolio Service, please do get in touch at rutm@rathbones.com.

Ivan Teare, Chartered FCSI
Head of Specialist Tax Portfolio Service
Telephone: 0151 236 6666

Rathbones
Look forward

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We recommend that you read our Specialist Tax portfolio Service brochure and terms of business that are available on request

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For further information (including the amounts covered and the eligibility to claim) please refer to the FSCS website www.fscs.org.uk.

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