

Smith & Williamson

Ingenious Entertainment VCT 1 / VCT 2 – D Share

Venture Capital Trust Review

18 December 2009

Introduction

Rating: n n n n

- | A new offering from Ingenious Media of up to £20m for their existing Entertainment VCTs which was first launched in November 2007.
- | The investment remit encompasses a broad cross section from the entertainment sector. The aim is to invest in UK companies which have been established to create and market live events and premium entertainment content. The VCTs will utilise the minimum holding period to develop each investment year-on-year, with a view to building a brand for an onward sale to a third party for a multiple of profits
- | The VCT will therefore continue to engage in the creation and promotion of live events, festivals, sporting and interactive events, exhibitions, family shows, and entertainment content which can be exploited across multiple media platforms.
- | This VCT includes a high degree of downside protection. The Investee company is required to provide contractual revenues (backed up by cash collateral) equal to at least 75% of the VCT investment in any event company. Coupled with approximately 30% of the VCT capital raised being held in cash or cash equivalents throughout the VCTs' life the combination of the two aims to provide comfort as to downside protection.
- | The VCT will invest a mixture of equity (30%) and debt (70%) via Investee Companies formed for the purpose of each event.

Track Record

Rating: n n n n

- | Ingenious has previously offered specialist VCTs to the market, including the Ingenious Music VCTs launched in June 2005, the Ingenious Live VCTs closed in July 2007 and the Entertainment VCT's that were originally launched in 2007 raising £20.3m in its first year and with a C share offering to the same VCT raising in excess of £5m to April 2009.
- | As intended when originally launched the Music VCT is now in the process of winding up and returning capital to shareholders. As at June 2009 a total of 73p has been returned to shareholders against a net cost of 60p, with further distributions to come. This is in line with the minimum returns predicted at the outset of 74p and the manager is confident the final return will be in excess of this.
- | The Live VCTs have recently written up their NAV to 98.2p as of October 2009 while the Entertainment VCT's have a NAV of 94.2p with last year's "C Class" share issue currently reporting a NAV of 92.5p at the same date at this early stage.
- | As with previous VCT offerings there is commitment to pay dividend distributions from revenue received from investee companies, although the manager expects returns to ultimately be generated from the sale of the brands after the 5 years holding period.

Management Group

Rating: n n n n

- | Ingenious Ventures is the venture capital arm of Ingenious Media and is involved in alternative investments in film, music and television.
- | The Ingenious Group has an extensive footprint across the UK media sector from both its investment and advisory activities.
- | Ingenious has in excess of £6 billion of funds under management.
- | Ingenious have demonstrated their ability to source deals with the Live VCTs having invested in ‘The Underage Festival’ – which won the NME award for ‘Best New Festival’ in 2008. They have also funded the heavily publicised– Taste of Christmas live exhibition at the Excel centre in London which is running again in 2009 following over 20,000 visitors to last years event.
- | The loan agreements should significantly limit the downside risk to investors, although the potential upside is contingent upon the on-going success and sale of the brands.

People

Rating: n n n n

- | Patrick McKenna will act as chairman of the VCT – he was previously Chairman and CEO of Andrew Lloyd Webber’s Really Useful Group and is currently Chairman of The Young Vic Theatre Company and Cream Holding Limited.
- | The investment team comprises of four including Patrick McKenna and have in-depth sector knowledge and vast experience.
- | Ingenious Media invested £1m into the VCT ordinary shares in 2007/08 which, as they do not receive the tax advantages available to the private investor demonstrates considerable belief in their ability to deliver.
- | In addition to this the Directors and Managers have invested £471,625 in the Ordinary shares and a further £200,000 in the C Shares.

Costs

Rating: n n n n

- | The AMC is 1.75% + VAT.
- | There is also an annual administration fee of £53,025 plus any irrecoverable tax which is adjusted annually in line with inflation.
- | The TER is capped at 3.5% excluding irrecoverable VAT.
- | The performance fee is 20% of cumulative distributions in excess of £1.05 per share.

Exit Strategy

Rating: n n n n

- | The intention is to return capital to shareholders as soon as possible after five years, following realisation of cash investments and third party trade sales of entertainment brands. The manager has confirmed that it has already been approached by third parties in this respect.

Disclaimer

This note does not constitute a personal recommendation to invest and may not be suitable for everyone. Reasonable care has been taken in the compilation of this review but its accuracy is not guaranteed and all facts stated should be independently checked. No investment decision should be based on this note. Investors should review the prospectus for a VCT carefully and take appropriate financial advice from a person authorised and regulated by the Financial Services Authority to give such advice before investing. Bases and rates of tax relief are subject to future change. As such, their value depends on individual circumstances. VCT shares must be held for a minimum of 5 years to attract tax reliefs. VCTs should be seen as high risk and only suitable for individuals who can endure losses and take a long term perspective, as their value can fall as well as rise and an investor may lose all of his investment. The market in VCT shares is illiquid and it may be difficult or impossible to sell shares. Past performance should not be seen as an indication of future performance.

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