

Investing in private equity



Dunedin

Dunedin Enterprise Investment Trust PLC
Half Year Report 2011

Objective

Dunedin Enterprise Investment Trust PLC specialises in the provision of private equity finance. Private equity is medium to long term finance provided in return for an equity stake in established, potentially high growth private companies.

The Company's investment objective is to achieve substantial long term growth in its assets through capital gains from its investments.

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Financial Highlights

Net asset value per share increased by 5.6% to 525.0p per share in the six months to 30 June 2011

New investment of £6.8 million in the half year

Realisations of £12.2 million in the half year

Comparative Total Return Performance

Periods to 30 June 2011	Net Asset value*	Share price	FTSE Small Cap (ex Inv Cos) Index	FTSE All Share (ex Inv Cos) Index
Six months	6.3%	22.4%	2.8%	3.0%
One year	22.4%	40.7%	24.6%	25.7%
Three years	7.2%	11.1%	18.5%	21.0%
Five years	19.5%	3.0%	-5.4%	24.3%
Ten years	93.7%	93.3%	22.3%	58.8%

* taken from 30 April for five and ten years

Manager's Review

Overview

In the six months to 30 June 2011, Dunedin Enterprise's unaudited net asset value increased from £150.1m at 31 December 2010 to £158.4m. The net asset value per share increased from 497.3p to 525.0p. This is an increase of 5.6% and when dividends paid in the half year are included this equates to a total return of 6.3%.

During the six months to 30 June 2011 the share price of Dunedin Enterprise increased by 21.0% from 300p to 363p. The FTSE Small Cap index rose by 1.0% over the same period. The share price of 363p equates to a discount of 30.9% to net asset value and has reduced from 39.7% at 31 December 2010. Discounts throughout the sector generally remain high.

In the six months to 30 June 2011 Dunedin Enterprise invested a total of £6.8m and realised £12.2m from investments. Realisations in the half year generated a loss of £0.3m over opening valuations.

The Company had outstanding commitments to limited partnership funds of £72.8m at 30 June 2011.

Net asset and cash movements in the half year to 30 June 2011

The movement in net asset value is summarised in the table below:-

	£'m
Net asset value at 31 December 2010	150.1
Unrealised value increases	12.6
Unrealised value decreases	(3.4)
Realised loss over opening valuation	(0.3)
Dividends paid to shareholders	(1.1)
Other movements	0.5
Net asset value at 30 June 2011	158.4

Cash movements in the half year to 30 June 2011 can be summarised as follows:-

	£'m
Cash and near cash balances at 31 December 2010	29.1
Investments made	(6.8)
Investments recognised at 31 December 2010*	(6.1)
Investments realised	12.2
Dividends paid to shareholders	(1.1)
Operating activities	0.6
Cash and near cash balances at 30 June 2011	27.9

* Investments recognised at 31 December 2010 for which funds drawn post 31 December 2010

Portfolio composition and movements

Dunedin Enterprise holds investments in unquoted companies through:-

- Dunedin managed funds (including direct investments),
- third party managed funds,
- European listed private equity (now realised),
- SWIP Private Equity Fund of Funds, and
- legacy technology funds.

The portfolio movements can be analysed as shown in the table below:-

	Valuation at 31-12-10 £'m	Additions in half year £'m	Disposals in half year £'m	Realised movement £'m	Unrealised movement £'m	Valuation at 30-6-11 £'m
Dunedin managed	87.2	0.8	–	0.1	5.1	93.2
Third party managed	12.5	6.0	(0.9)	–	1.8	19.4
European listed private equity	11.6	–	(11.2)	(0.4)	–	–
SWIP Private Equity Fund of Funds	14.4	–	–	–	1.9	16.3
Legacy technology funds	1.7	–	(0.1)	–	0.4	2.0
	127.4	6.8	(12.2)	(0.3)	9.2	130.9

In the half year a total of £6.8m was invested by Dunedin Enterprise. The majority of new investment activity was for drawdowns by the European third party managed funds. The most significant drawdowns were made by FSN Capital III (£2.5m), Capiton IV (£2.2m) and Innova/5 (£1.0m). These investments diversify the geographical spread of the portfolio with FSN investing in the Nordic countries, Capiton in Germany and Innova in Central and Eastern Europe.

In the six months to 30 June 2011 a total of £12.2m was realised from investments. As previously noted in the Annual Report to 31 December 2010, the entire remaining holding of European listed securities was realised in January 2011. This generated proceeds of £11.2m, a value £0.4m less than the 31 December 2010 valuation. These holdings were realised to fund new investments by the Dunedin managed and European third party managed funds.

On 2 July 2011 an investment of £8.0m was made in Red Commerce through Dunedin Buyout Fund II LP ("DBFIL"). DBFIL invested a total of £27.0m for a majority stake in the

company. Red Commerce is a global supplier of SAP experts to international corporations and consultancies. It was founded in 2000, and now has a global footprint with access to over 20,000 SAP experts in 80 countries, and offices in the UK, Germany, France, Scandinavia, Switzerland and Brazil.

Unrealised movements in valuation

Unrealised movements in portfolio company valuations in the half year totalled £9.2m. The largest increases within this total were in the valuation of Capula (£3.0m) and WFEL (£2.2m). Capula has benefited from a strong level of new order generation from utility companies for their real time automation systems. WFEL has benefited from strong cash generation on mature contracts where payment from the customer is back ended.

The largest investment in the portfolio, SWIP Private Equity Fund of Funds, showed a £1.9m increase in value during the half year. The SWIP portfolio consists of commitments to 72 private equity funds and with an interest in 580 underlying companies. During the half year the net asset value per share increased from €0.76 to €0.82. This increase in net asset

Manager's Review continued

value reflected strong revenue and earnings growth from within the portfolio and a number of realisations at meaningful uplifts to carrying values. This holding whilst listed has minimal liquidity and is therefore expected to be held for the foreseeable future.

The other principal valuation increases within the portfolio were at Practice Plan (£1.6m) and within the European funds, Realza (£1.0m) and Egeria (£0.9m). The valuation of one portfolio company within the Realza fund has benefitted from a significant de-gearing leading to a valuation increase. A number of the portfolio companies within Egeria have moved from cost to an earnings based valuation.

The principal valuation decreases were at RSL (£1.7m) and Formaplex (£0.9m). RSL is experiencing challenging market conditions as the NHS continues to exert pricing pressure on its suppliers. Trading at Formaplex has been impacted by inefficiencies in one area of the business which are being addressed. The Manager remains supportive of both these companies.

Foreign exchange movements accounted for £1.3m of the net portfolio valuation movement of £8.9m.

The average earnings multiple applied to the valuation of the Dunedin managed portfolio was 6.6x EBITDA (31 December 2010: 6.4x) or 8.1x EBITA (31 December 2010: 7.8x). These multiples are applied to the maintainable earnings of portfolio companies. Within the Dunedin managed portfolio, the weighted average gearing of the companies was 1.5x EBITDA (31 December 2010: 1.7x) or 1.9x EBITA (31 December 2010: 2.1x).

The total value of accrued interest included in valuations at 30 June 2011 was £10.7m (31 December 2010: £8.2m).

The portfolio continues to be valued in accordance with the International Private Equity Venture Capital valuation guidelines.

The principal risks which the Company faces include continued weakness and volatility in the financial markets, currency movements and some portfolio companies facing difficult trading conditions.

The Board and the Manager remain satisfied with the balance between cash resources and outstanding commitments to limited partnership funds given the expected rate of new investment and therefore continues to adopt a going concern basis in preparing the half year report and accounts.

Outlook

Whilst the outlook for the economy in both the UK and Europe remains uncertain, the quality and quantity of deal flow is stronger than it was in the corresponding period last year. There still remains however substantial competition for deals from both the Private Equity sector and from well funded trade buyers. The Dunedin managed portfolio is well positioned with 10 out of 13 portfolio companies budgeting for increased profits and the remaining three budgeting for flat profits.

Dunedin Capital Partners Limited

3 August 2011

Ten Largest Investments

(both held directly and via Dunedin managed funds) by value at 30 June 2011

Company name	Approx. percentage of equity %	Cost of investment £'000	Directors' valuation £'000	Percentage of net assets %
SWIP Private Equity Fund of Funds II PLC	4.0	15,025	16,292	10.3
Practice Plan Holdings Limited	26.2	10,402	14,911	9.4
OSS Environmental Holdings Limited	40.2	5,951	11,443	7.2
CitySprint (UK) Group Limited	11.9	9,838	10,755	6.8
WFEL Holdings Limited	23.2	7,340	9,907	6.3
Weldex (International) Offshore Holdings Limited	15.1	9,505	9,765	6.2
Capula Group Limited	37.5	8,419	7,468	4.7
etc.venues Group Limited	27.9	3,388	7,153	4.5
CGI Group Holdings Limited	41.4	8,509	5,962	3.8
U-Pol Group Limited	5.2	5,657	5,787	3.6
		84,034	99,443	62.8

Overview of Portfolio

Analysed by category of investment (including cash)

	30 June 2011 %	31 December 2010 %
Dunedin managed	59	56
Third party managed	12	8
Listed private equity	10	16
Legacy technology funds	1	1
Cash	18	19

Analysed by valuation method

	30 June 2011 %	31 December 2010 %
Cost/written down	7	15
Earnings – provision	14	13
Earnings – uplift	67	52
Bid price	12	20

Analysed by geographic location

	30 June 2011 %	31 December 2010 %
UK	75	72
Rest of Europe	21	24
USA	3*	4
Rest of World	1*	–

* held via SWIP Private Equity Fund of Funds II PLC and Legacy Technology Funds

Analysed by sector

	30 June 2011 %	31 December 2010 %
Construction and building materials	6	5
Consumer products & services	5	5
Financial services	5	5
Healthcare	3	5
Leisure and hotels	1	–
Industrials	17	22
Pharma, medical, biotech	3	3
Real Estate	–	2
Support services	52	48
Technology, media & telecoms	8	5

Analysed by deal type

	30 June 2011 %	31 December 2010 %
Management buyouts/buyins	93	90
Technology	4	5
Life Sciences	3	3
Real Estate	–	2

Analysed by age of investment

	30 June 2011 %	31 December 2010 %
<1 year	18	26
1-3 years	25	15
3-5 years	18	22
>5 years	39	37

Consolidated Income Statement

for the six months ended 30 June 2011

	Six months ended 30 June 2011		
	Revenue £'000	Capital £'000	Unaudited Total £'000
Investment income	1,028	-	1,028
Gains on investments	-	9,591	9,591
Total Income	1,028	9,591	10,619
Expenses			
Investment management fees	(169)	(507)	(676)
Other expenses	(325)	-	(325)
Profit before finance costs and tax	534	9,084	9,618
Finance costs	(14)	(43)	(57)
Profit before tax	520	9,041	9,561
Taxation	(156)	103	(53)
Profit for the period	364	9,144	9,508
Earnings per ordinary share (basic & diluted)	1.2p	30.3p	31.5p

The Total column of this statement represents the Income Statement of the Group, prepared in accordance with International Financial Reporting Standards as adopted by the EU. The supplementary revenue and capital columns are both prepared under guidance published by the Association of Investment Companies. All items in the above statement derive from continuing operations.

All income is attributable to the equity shareholders of Dunedin Enterprise Investment Trust PLC.

Revenue £'000	Unaudited Six months ended 30 June 2010		Revenue £'000	Audited Year ended 31 December 2010	
	Capital £'000	Total £'000		Capital £'000	Total £'000
1,242	–	1,242	2,401	–	2,401
–	7,935	7,935	–	27,325	27,325
1,242	7,935	9,177	2,401	27,325	29,726
(111)	(334)	(445)	(265)	(794)	(1,059)
(320)	–	(320)	(641)	–	(641)
811	7,601	8,412	1,495	26,531	28,026
(22)	(66)	(88)	(22)	(66)	(88)
789	7,535	8,324	1,473	26,465	27,938
(278)	112	(166)	(348)	241	(107)
511	7,647	8,158	1,125	26,706	27,831
1.7p	25.3p	27.0p	3.7p	88.5p	92.2p

Consolidated Statement of Changes in Equity

for the six months ended 30 June 2011

Six months ended 30 June 2011 (unaudited)

	Share capital £'000	Share premium account £'000	Capital redemption reserve £'000	Capital reserve - realised £'000	Capital reserve - unrealised £'000	Revenue account £'000	Total retained earnings £'000	Total equity £'000
At 31 December 2010	7,544	47,600	382	96,460	(8,109)	6,206	94,557	150,083
Profit/(loss) for the period	–	–	–	(4,219)	13,363	364	9,508	9,508
Dividends paid	–	–	–	–	–	(1,147)	(1,147)	(1,147)
At 30 June 2011	7,544	47,600	382	92,241	5,254	5,423	102,918	158,444

Six months ended 30 June 2010 (unaudited)

	Share capital £'000	Share premium account £'000	Capital redemption reserve £'000	Capital reserve - realised £'000	Capital reserve - unrealised £'000	Revenue account £'000	Total retained earnings £'000	Total equity £'000
At 31 December 2009	7,544	47,600	382	102,651	(41,006)	5,685	67,330	122,856
Profit/(loss) for the period	–	–	–	(631)	8,278	511	8,158	8,158
Dividends paid	–	–	–	–	–	(604)	(604)	(604)
At 30 June 2010	7,544	47,600	382	102,020	(32,728)	5,592	74,884	130,410

Year ended 31 December 2010 (audited)

	Share capital £'000	Share premium account £'000	Capital redemption reserve £'000	Capital reserve - realised £'000	Capital reserve - unrealised £'000	Revenue account £'000	Total retained earnings £'000	Total equity £'000
At 31 December 2009	7,544	47,600	382	102,651	(41,006)	5,685	67,330	122,856
Profit/(loss) for the year	–	–	–	(6,191)	32,897	1,125	27,831	27,831
Dividends paid	–	–	–	–	–	(604)	(604)	(604)
At 31 December 2010	7,544	47,600	382	96,460	(8,109)	6,206	94,557	150,083

Consolidated Balance Sheet

As at 30 June 2011

	Unaudited 30 June 2011 £'000	Unaudited 30 June 2010 £'000	Audited 31 December 2010 £'000
Non-current assets			
Investments held at fair value	157,009	128,652	152,312
Current assets			
Other receivables	110	367	241
Cash and cash equivalents	1,876	1,965	4,177
	1,986	2,332	4,418
Total assets	158,995	130,984	156,730
Current liabilities			
Other liabilities	(94)	(95)	(6,270)
Current tax liabilities	(457)	(479)	(377)
Net assets	158,444	130,410	150,083
Equity attributable to equity holders			
Share capital	7,544	7,544	7,544
Share premium	47,600	47,600	47,600
Capital redemption reserve	382	382	382
Capital reserve – realised	92,241	102,020	96,460
Capital reserve – unrealised	5,254	(32,728)	(8,109)
Revenue reserve	5,423	5,592	6,206
Total equity	158,444	130,410	150,083
Net asset value per ordinary share (basic and diluted)	525.0p	432.1p	497.3p

Consolidated Cash Flow Statement

for the six months ended 30 June 2011

	Unaudited 30 June 2011 £'000	Unaudited 30 June 2010 £'000	Audited 31 December 2010 £'000
Operating activities			
Profit before tax	9,561	8,324	27,938
(Gains) on investments	(9,591)	(7,935)	(27,325)
Interest paid	57	88	88
Decrease in debtors	131	104	230
(Decrease) in creditors	(6,176)	(14)	(19)
Tax recovered/(paid)	27	(58)	(101)
Net cash inflow/(outflow) from operating activities	(5,991)	509	811
Servicing of finance			
Interest paid	(57)	(88)	(88)
Investing activities			
Purchase of investments	(6,901)	(18,212)	(32,520)
Purchase of 'AAA' rated money market funds	(10,744)	(6,508)	(7,616)
Sale of investments	12,230	4,420	7,746
Sale of 'AAA' rated money market funds	10,309	17,828	31,828
Net cash inflow/(outflow) from investing activities	4,894	(2,472)	(562)
Financing activities			
Dividends paid	(1,147)	(604)	(604)
Net cash (outflow) from financing activities	(1,147)	(604)	(604)
Net (decrease) in cash and cash equivalents	(2,301)	(2,655)	(443)
Cash and cash equivalents at the start of period	4,177	4,620	4,620
Net (decrease) in cash and cash equivalents	(2,301)	(2,655)	(443)
Cash and cash equivalents at the end of period	1,876	1,965	4,177

Responsibility statement of the Directors in respect of the half-yearly financial report

We confirm that to the best of our knowledge:

- the condensed set of financial statements has been prepared in accordance with IAS 34 Interim Financial Reporting as adopted by the EU;
- the interim management report includes a fair review of the information required by:
 - (a) DTR 4.2.7R of the Disclosure and Transparency Rules, being an indication of important events that have occurred during the first six months of the financial period and their impact on the condensed set of financial statements; and a description of the principal risks and uncertainties for the remaining six months of the year; and
 - (b) DTR 4.2.8R of the Disclosure and Transparency Rules, being related party transactions that have taken place in the first six months of the current financial year and that have materially affected the financial position or performance of the entity during that period; and any changes in the related party transactions described in the last annual report that could do so.

By Order of the Board

Edward Dawney

Chairman

3 August 2011

Notes to the Accounts

1. Unaudited Interim Report

The financial information contained in this report does not constitute the Company's statutory accounts for the year ended 31 December 2010 but is derived from those accounts. Statutory accounts for the year ended 31 December 2010 have been delivered to the Registrar of Companies. The auditor has reported on those accounts; their report was (i) unqualified, (ii) did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying their report and (iii) did not contain a statement under section 498 (2) or (3) of the Companies Act 2006.

The financial statement for the six months ended 30 June 2010 and 30 June 2011 have not been audited.

2. Basis of Preparation

This condensed set of financial statements has been prepared in accordance with IAS 34 *Interim Financial Reporting* as adopted by the EU.

The annual financial statements of the group are prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU. As required by the Disclosure and Transparency Rules of the Financial Services Authority, the condensed set of financial statements have been prepared applying the accounting policies and presentation that were applied in the preparation of the group's published consolidated financial statements for the year ended 31 December 2010.

3. Dividends

	Six months to 30 June 2011 £'000	Six months to 30 June 2010 £'000	Year to 31 December 2010 £'000
Dividends paid in the period	1,147	604	604

4. Earnings per share

	Six months to 30 June 2011	Six months to 30 June 2010	Year to 31 December 2010
Revenue return per ordinary share (p)	1.2	1.7	3.7
Capital return per ordinary share (p)	30.3	25.3	88.5
Earnings per ordinary share (p)	31.5	27.0	92.2
Weighted average number of shares	30,177,380	30,177,380	30,177,380

The earnings per share figures are based on the weighted average numbers of shares set out above. Earnings per share is based on the revenue profit in the period as shown in the consolidated income statement.

5. Contingent assets

Discussions are ongoing regarding the recovery of VAT suffered prior to 2001 and payment of interest on a compound basis. The amount and timing of any recovery remains uncertain and accordingly no amount has been provided for in the financial statements.

Independent Review Report to Dunedin Enterprise Investment Trust PLC

Introduction

We have been engaged by the Company to review the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2011 which comprises the Consolidated Income Statement, Consolidated Statement of Changes in Equity, Consolidated Balance Sheet, Consolidated Cash Flow Statement and the related explanatory notes. We have read the other information contained in the half-yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

This report is made solely to the Company in accordance with the terms of our engagement to assist the Company in meeting the requirements of the Disclosure and Transparency Rules ("the DTR") of the UK's Financial Services Authority ("the UK FSA"). Our review has been undertaken so that we might state to the Company those matters we are required to state to it in this report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company for our review work, for this report, or for the conclusions we have reached.

Directors' responsibilities

The half-yearly financial report is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the half-yearly financial report in accordance with the DTR of the UK FSA.

As disclosed in note 2, the annual financial statements of the Group are prepared in accordance with IFRSs as adopted by the EU. The condensed set of financial statements included in this half-yearly financial report has been prepared in accordance with IAS 34 Interim Financial Reporting as adopted by the EU.

Our responsibility

Our responsibility is to express to the Company a conclusion on the condensed set of financial statements in the half-yearly financial report based on our review.

Scope of review

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410 Review of Interim Financial Information Performed by the Independent Auditor of the Entity issued by the Auditing Practices Board for use in the UK. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK and Ireland) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2011 is not prepared, in all material respects, in accordance with IAS 34 as adopted by the EU and the DTR of the UK FSA.

Simon Pashby
for and on behalf of KPMG Audit Plc
Chartered Accountants
Edinburgh

3 August 2011

Financial Calendar

Announcements, dividend payments and the issue of the annual and half year reports may normally be expected in the months shown below:

February

Preliminary figures and recommended dividend for the year announced.

April

Annual Report and Accounts published.

May

Annual General Meeting and dividend paid.

August

Half year report published.

Corporate Information

Directors

Edward Dawney, Chairman
Liz Airey
Brian Finlayson
David Gamble
Federico Marescotti

Manager and Secretary

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Financial Services Authority)

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