

October 2006

NEWSLETTER



STRATEGON

Events

- **Regional Business Investment Showcase**, Sydney, Wednesday 18 October 2006
- **Business Growth Workshop**, Port Macquarie, Tuesday 14 November 2006
- **Launch - Investment to Nurture Sustainable Technologies**, North Parramatta, Thursday 30 November 2006

Please see below for further details, or visit our website at www.strategon.com.au

Investment Opportunities Featured

- ◆ **Advanced Wound Management and Pressure Matting**
- ◆ **Franchise Opportunity – Leader in Injury Management**
- ◆ **Empowering Bookkeepers**
- ◆ **Transport Logistics – ‘Pump Reel’ Bulk Liquid Technology**
- ◆ **Wine Harvesting Innovations**
- ◆ **High Value Market Data**
- ◆ **Food Manufacturing and Retail Franchise – National and International Expansion**

Details listed below

US Venture Capital Today

Having just attended the 31st Venture Capital Institute in Atlanta Georgia it was interesting to observe the state of the VC market in the US¹. Committed capital trending upwards from 2001 – VC’s approaching 1999 levels and buyouts nearing historical highs. The term ‘Alpha’ investment is the new buzz word. Investors are looking for the Alpha investment – above market returns resulting from talent rather than the investment tailwind. These investments are built around replicable and scaleable strategies and are not simple opportunistic investments. Valuations have started increasing and investments are at an increasing pace. There is also a trend toward smaller funds and these are extremely competitive. Consequently it is harder for investors to maintain their allocations particularly to the best funds. Buyout funds are increasing their attractiveness. A recent survey² highlights the extent of the volatility still remaining in the market:

- The year 2000 alone saw investment equivalent to the total invested from 1970 to 1998
- Over half of the companies ever financed since 1970 were financed between 1996 and 2000
- Fund raising today is at levels consistent with 1994 or 1995
- The fall out has yet to be fully realized and will take a few more years

Global markets are drawing investment out of the US and this prospecting phase is expected to draw between 10 and 25% of funds out of the US market.

Analogous with this is the expectation of reduced returns from equity markets increasing the pressure on pension funds to meet their actuarial timelines. Consequently they are driven to take on further risk and increase their exposure to other investment vehicles such as hedge funds. This highlights another risk – the hedge funds themselves which may have some ‘event’ with a consequent fall out on the private equity industry.

The requirement to differentiate yourself to investors has never been stronger and emerging funds must have a track record of working together are two take aways from the Conference. Beware the Two Fund Wonder!

¹ Jesse Reyes Crane Capital Associates

² The MoneyTree Survey by PricewaterhouseCoopers/ Thomson Venture Economics/NVCA

Damian Papps

Risk Management, Not Picking Winners

Early stage investors are aware of the risks associated with their startup investments. Even after stringent pre-investment analysis and due diligence, few individual investments are profitable enough to make such investments worthwhile. Most recognise that pursuing a portfolio approach and solid risk management practices are musts to be profitable and managing the downside takes priority before anything else.

On the other hand mainstream stock market investors – professional and “mum and dad” alike – are mainly focused on trying to pick the “winning” stocks with little regard to managing their risk exposure. They ignore the simple arithmetic that if an investment loses 50% of its value, it then has to double just to breakeven.

Banksia Price, who is in the process of starting their own quant fund, manages their investments differently from mainstream stock market investors. They believe that risk management is more important than trying to pick the winning stocks and accordingly they have developed a fully mechanized trading plan that is centered on the philosophy of “Manage the downside, the upside will take care of itself”. Quant funds are not new, Campbell & Company in US, Beach Horizon in UK or Grinham Managed Funds in Australia, just to name a few, are managing over USD 15 Billion combined.

As part of their R&D process, directors Arpad Marton and Stephen Hovens have developed a risk management application called TradeRisk that allows them to measure and manage their market risk exposure for any market, local and offshore, that they operate in. Between 2003 and mid 2006, they have invested their funds into the ASX market, their fund realizing a unit price increase from \$1.00 to over \$3.00, a return equal to around 70% p.a. During this period the All Ords index only returned 70% in total for the same period. Nevertheless, even in such a bull market period only 45% of their investments were profitable; however these were over 2½ times larger than their losers. Arpad believes without stringent risk management rules and without TradeRisk, obtaining these results would have been impossible.

Their progress and dedication prompted interest from Tricom who provided Authorized Representative status of its AFSL and Banksia Price also has received the Federal Government’s COMET grant to commercialise TradeRisk. As part of the commercialisation project – assisted by Strategon – Banksia Price has teamed up with a team of managed investment scheme experts with the view of obtaining a Responsible Entity license to issue a PDS for a retail Managed Investment Scheme. The fund is anticipated to go live 2nd quarter of 2007 and in the meantime Banksia Price will operate a Managed Discretionary Portfolio service via Tricom. It is too early to say how successful Banksia Price will become, however results so far have been highly encouraging and everyone involved is highly focused with a long term plan for success.

Lisa Nolan

Appetite for Success



Strategon, in partnership with the hospitality and food sectors and TAFE SA have developed ‘Appetite for Success’ (AFS). AFS is an industry led and supported national professional development program to build future leaders in cookery, front of house, back of house, butchery and bakery. The program represents a core component of the industry’s 10 year workforce retention strategy. The Program is structured over three years and leads to a post graduate qualification.

For participants it provides a unique opportunity to increase their culinary skills and gain the necessary general business knowledge that will enhance their career. For employers it provides a unique opportunity to help their business by improving the quality of your staff and internal processes.

For more information please visit www.appetiteforsuccess.com.au

Peter Graves

Flat Pty Limited

Background

Flat is a privately owned Australian Company. Damian Chown, a director of Strategon has been working with Flat since it lodged its first patent in August 2004.

Flat is completely revolutionizing the small-scale hydraulics market and manual levelling market by providing levelling and stabilizing capabilities. The Flat® System instantly and automatically adjusts, stabilizes and locks in place virtually any product that needs to be levelled or adjusted to any angle and remain completely stable at all points of contact with the surface below, even when the surface is sloping or inconsistent. This technology has virtually no limitation to the products it will provide levelling and stability capacities to.

The overarching strategy for Flat is to be an application development business that researches market gaps and identifies opportunities for the development of product that incorporates the **Flat System**®. Commercialisation of these products will take place by securing a number of high profile distributors in international markets. The aim will be to build a portfolio of alliances with large industry organisations across many product markets that assume the manufacturing and distribution arm to take each product to market. As each application is developed, it will be branded with the **Flat System**® and patent protected by Flat Inc. This will include the patenting of all manufacturing processes.

Key Achievements

Strategon has coordinated the development of business strategy and preparation of documentation to enable the Company to raise private Angel capital. This capital has allowed the business to develop its prototypes and investigate market opportunities in the United States.

The key achievements to date include:

- 1 Raised \$1.275 million in private equity for Intellectual Property (IP) protection, early stage R&D and prototype development.
- 2 Produced a complete production-ready model of the commercial (café) table application and a Stage One prototype of the extension ladder application, with detailed engineering specifications, demonstrating the system.
- 3 Formed a strong and passionate advisory board and management team with experience in all aspects of the business, meeting twice a month.
- 4 Engaged leading Attorneys in both the US and Australia to advise on and ensure full protection of IP through patent and trademark registration and ongoing risk management.
- 5 Engaged leading R&D and engineering specialists in Australia to advise on and develop engineering and R&D plans.
- 6 Multiple letters of intent from product manufacturers to purchase products with the Flat® System.
- 7 Market-ready products are currently being tooled and produced by AE Bishop.
- 8 Strong relationships have been established with international product distributors.
- 9 Well advanced in accessing Australian Government programs to assist businesses to commercialise technology through the provision of a Commercial Ready Grant US \$ 3.75 million and other relevant programs. (There is opportunity to access a further 1.875 million as a second stage grant).

The Company, its Directors and the Flat® System technology are receiving increased media attention and brand awareness. Recent media exposure and successes include:

- 1 Won Australian Television's (ABC) New Inventors show with Episode Winner, Finalist for 2006 and People's Choice Award; and is favourite to take the Grand Prize in November 2006;
- 2 Won "Best in Show" at INPEX in the US, the largest invention trade show in the World, collecting 5 Gold Awards, 1 Silver and The Grand Prix Award; Best in Show, June 2006; and
- 3 Won the *Engineers Australia (Sydney Division) Engineering Excellence Award* in the Invention and Innovation Category (September 2006.)
- 4 Finalist Engineers Australia, National Engineering Excellence Award. (November 2006).
- 5 Have been invited to donate two early stage prototypes to the Sydney Powerhouse Museum. These prototypes will be on display to the public from December 2006.

Damian Chown



New Assistance Program For Environmental & Energy Companies

Investment to Nurture Sustainable Technologies

Funding for High Growth Business Strategies for Success

This new Program has been designed for New South Wales based **environmental** and **energy** companies seeking to expand or to commercialise their products and services by:

- ◆ enhancing their attractiveness to financiers
- ◆ removing impediments to growth; and
- ◆ securing the capital and expertise they require.

The Program has been made possible through funding provided by the New South Wales Department of State & Regional Development.

Companies will be provided with direct avenues to secure finance through Government grants, debt, equity, and the corporate sector utilising a targeted approach and showcasing to potential investors. Professional business mentors that will guide and navigate each company in the development of business and financing plans through tailored consultancy, and a series of informative workshops.

The Key Benefits for Companies Include:

- Understand the ingredients of a successful business and investment plan
- Assistance in securing commercial opportunities and partnerships to accelerate growth
- Access government assistance
- Access mentoring from professional advisers
- Strategies to improve value
- Access to Business Angels, venture capital and corporate investment
- An opportunity to showcase their business to potential investors

An introductory information seminar will be hosted at State and Regional Development.

Thursday 30 November 2006
NSW Department of State and Regional Development
Level 2, 470 Church St
North Parramatta 2124
5.00pm, concluding by 6.30pm

Expression of Interest are invited from early stage companies that have national and international opportunities, research and development companies seeking to commercialise technology and successful companies with turnover between \$200K - \$20 million that are seeking capital for local and international expansion, acquisition or to restructure.

Assistance is limited to 8 companies. Applications for assistance will be open until 16 February 2007 or until places have been filled.

CRC Bid

Strategon's Commercialisation Advisory team has assisted the SARDI led bid for an Integrated Resource Solutions Cooperative Research Centre bid at the recent round of Cooperative Research Centre bids.

Strategon was engaged as the Commercialisation Advisor to the bid, which was successful in round 1 and is now awaiting round two feedback.

The bid included developing a commercialisation structure and strategy that encompassed all industry partners, including 4 major universities around Australia, major industry partners such as Transpacific Ltd, research development councils such as and the Wine and Grain councils, and local and regional government councils.

The total value for the bid was in excess of \$60 million over a 7 year period.

\$650,000 boost for Australian agribusiness

Strategon's Commercialisation Advisory team were successful in obtaining a New Industry Development Program Grant of \$80,000 for a client, which will enable a regional company to commercialise their innovative vineyard technology

Australian Minister for Agriculture, Fisheries and Forestry, Peter McGauran, said seven Australian agribusinesses will share in \$650,000 supporting them turn their creative ideas into commercial realities.

Mr McGauran said the Government is dedicated to assisting businesses in the agricultural, processed food, fisheries and forestry industries to build on innovative business ideas and opportunities.

"The funding provides enterprising Australian companies with up to \$120,000, to commercialise new products, services and technologies, and to attend a business readiness workshop," Mr McGauran said.

The seven successful businesses are:

- **Sunny Ridge Epicure**, Main Ridge in Victoria, will produce a unique range of strawberry wines and liqueurs
- **Transplant Systems Pty Ltd**, Berwick in Victoria, will commercialise a machine that automatically plants lettuce seedlings at a high density
- **Gebert Industries Pty Ltd (Inland Sales & Service)**, Merredin in WA, will commercialise a new, high-tech mobile grain-cleaner/seed-grader
- **All About Shipping**, Rosanna in Victoria, will commercialise a new desiccant called 'maxisorb'
- **Australian Solar**, Emu in Victoria, will commercialise an off-the-shelf, hybrid wind/solar regulator for small to medium sized applications
- **Germplasm Stock Australia Pty Ltd**, Oakbank in South Australia, will commercially release 'clean vines' — a world's first, 'clean' grape vine, and
- **S&R Enterprises (SA) Pty Ltd**, Penola in South Australia, will commercialise an innovative new petiole remover for grape growers.

Further information, including guidelines, is available online at www.daff.gov.au/agribiz, or email nidp@daff.gov.au or call 1300 884 588.

Andrew Grant

Regional Business Investment Showcase

This forum is to showcase and promote Regional business investment opportunities and is part of the Business Expansion Program delivered by Strategon on behalf of the Australian Local Government Association, funded by the Department of Transport & Regional Services

Investments Opportunities Presented included: (A profile of each company is attached)

- ◆ Advanced Wound Management and Pressure Matting (Yass, NSW)
- ◆ Franchising Opportunity - Leader in Injury Management (Orange, NSW)
- ◆ Empowering Bookkeepers (Wollongong, NSW)
- ◆ Transport Logistics - "Pump Reel" Bulk Liquid Technology (Mt Gambier, South Australia)
- ◆ Wine Harvesting Innovations (Penola, South Australia)
- ◆ High Value Market Data (Blackwood, South Australia)
- ◆ Food Manufacturing and Retail Franchise – National and International Expansion (South Australia)

WHO SHOULD ATTEND?

- ◆ Business Angels
- ◆ Representatives from the Finance Industry
- ◆ Advisors
- ◆ Venture Capitalists
- ◆ Government Representatives

BENEFITS OF ATTENDING

- ◆ Opportunity to review investment opportunities and meet the management teams
- ◆ Expand your network in the investment community

WHEN: Wednesday 18 October 2006
WHERE: Royal Automobile Club of Australia, 89 Macquarie Street, Sydney
TIME: 12.15pm for 12.30pm start, concluding by 2.30pm
COST: **No charge** - Working sandwich luncheon with fruit & cheese to follow
Beer, wine, juice and soft drink will be offered

To request a Registration Form, please telephone 1300 364 527 or email info@strategon.com.au or visit our website

Current Business Opportunities

Advanced Wound Management and Pressure Matting

Reference: STRAT 0045

Capital Required: \$3,000,000 over coming 18 months, initial investment of \$500,000 is now sought

Stage of Development: Commercialisation

Distribution and first round capital secured

The Company was established in November 2005 to capitalise on two patented product stems: An innovative wound bandaging system and a pressure sore treatment. The products have application across veterinary, medical, age-care and industrial market segments. The commercialisation strategy is to enter into commercial partnerships with industry leaders to bring its superior range of wound management, bedding and dressings applications to market under exclusive licensing arrangements or joint ventures. The Company is current finalising its first partnership with a leader in the veterinary industry, and completing an MOU with a US based company. The company was also recently granted an AusIndustry COMET Grant.

The product range includes:

- Bandaging system – A unique, reusable/disposable securing device used to fix dressings over wounds injuries on humans and animals.
- Dressing - A multi layered, highly absorbent dressing which can be chemically impregnated
- Pressure Matt - A multi-layered pressure sensitive device that provides a cost effective, self monitoring, bed pressure management system for the reduction or elimination of pressure problems in the age-care facilities and hospitals.

The technology incorporates latest wound care management practices, optimising moisture, pressure, gas exchange, and temperature. This has been achieved without compromising patient comfort. These cost competitive products incorporate a unique securing device minimising the risk of over compression.

Additional funding is now sort to complete trials for the bandaging product and prototype the Pressure Matt.

Franchising Opportunity – Leader in Injury Management

Reference: STRAT 0049

Capital Required: \$300,000

Stage of Development: Expansion

The Company has a strong reputation as one of the leaders in rehabilitation and injury management. The Company commenced operations in January 2002 in Orange NSW and since then has grown to 4 offices (Orange, Dubbo, Wagga Wagga and Canberra) and 16 staff.

A McKinsey and Company report commissioned by WorkCover has led to the implementation of a number of changes within the industry over the past 3 years. The Company has prepared itself for these changes and has built strategic alliances with major employers in its service area. The Company has also established relationships with a number of major insurers to ensure consistent flow of business. It is difficult for small independent practitioners to secure listing on the Insurance panels, the major source of work-related injury patients.

The company now seeks to take advantage of the opportunity to franchise their model, starting with company owned offices, and then expanding nationally, to gain greater efficiency in managing compliance, to secure national accounts and increased scale of operations to access industry panels across Australia. Initial feedback indicates small practitioners see great value in this franchise system.

Capital required to accelerate rollout of business plan.

Empowering Bookkeepers

Reference: STRAT 0047

Capital Required: \$210,000

Stage of Development: Start up

This Company is preparing the launch of a unique franchise model in the Bookkeeping Industry. The industry is currently very fragmented with thousands of private, small sole traders. The ATO has recently announced new regulations which will significantly impact bookkeepers. It will soon be a requirement for all bookkeepers to hold a Certificate IV in Bookkeeping and be a member of a professional body or work under a registered tax agent to commence or continue work.

The size of the potential market for the Franchisees is an estimated 1,600,000 registered ABNs in Australia. The business is initially targeting specific market segments that represent some 24,000 businesses Australia wide.

The Company has developed a bold positioning strategy to differentiate its offering in the market while offering a number of key advantages for both franchisees and customers. The services offered to SME (Small to medium enterprise) and SOHO (small office home office) will include all transactional bookwork and the preparation of BAS statements on a set monthly fee basis with twelve-month non-binding contracts.

Initial market analysis has confirmed a strong demand from potential franchisees and end customers. The business will seek to sell master franchises in international market once local operations have been established. The principals of the business have accounting and business development experience.

Australian Business Angels

The business now seeks additional funding to support the completion of the franchise documentation and working capital to deploy the franchise model.

Transport Logistics – 'Pump Reel' Bulk Liquid Technology

Reference: STRAT 0050

Capital Required: \$300,000

Stage of Development: Start up

A major bottleneck in bulk liquid transport is the loading and transfer of bulk product. This company has developed a unique and patented "pump reel" enabling flow rates of liquids to and from bulk transport vehicles to improve by more than 70%. This has major ramifications for vehicle turnaround times and utilisation. The 'pump reel' when combined with load planning and GPS mapping system currently under development, can deliver significant value to transport companies.

The current load pumping technology used throughout the industry has problems with suppressed liquid flows. The company's innovation has been to develop a pump on the 90 degree connection, delivering the increased flowrate.

The initial target market for the technology is bulk liquid transport and includes milk, wine, fruit juice, fuel etc. The size of the potential market is more than 1000 domestic vehicles and more than 20,000 international vehicles.

The company's principles have more than 20 years experience in the liquid transport business and seek capital to complete the load planning system and market the technology.

Wine Harvesting Innovations

Reference: STRAT 0051

Capital Required: \$400,000

Stage of Development: Commercialisation and Distribution

The wine industry is undergoing continual process refinement to enhance the quality of grapes harvested while increasing production efficiencies. This company has developed 2 key harvesting technologies addressing issue of contaminants. The first of these technologies is now in production with solid sales, the second has recently completed validation trials at various vineyard sites in South Australia with very positive results.

The company has been a previous COMET recipient and more recently was successful in a New Industries Development Program grant, and has received endorsements from some of Australia's major wineries and recently received interest from a number of US wine and viticultural services companies.

Market analysis for these products includes all major wine regions throughout the world, and major viticultural technology suppliers.

The company's principle has more than 20 years experience in the viticultural engineering industry, and seeks investment capital to formalise local distribution, establish international distribution partnerships and drive further development of innovative viticultural technology.

High Value Market Data

Reference: STRAT 0052

Capital Required: \$500,000

Stage of Development: Early Sales and Growth

This Company has launched a truly unique business with multiple target markets and potential revenue streams. Core to the company's innovation and intellectual property is specialised data mining technology that targets relevant websites to retrieve detailed attribute information. Several patents are currently being prepared to protect the intellectual property.

Two core products have already been released:

1. **Market Data:** deployed with 2 of the 4 major Australian Banks, this application provides highly relevant and filtered marketing leads for banks outbound marketing and customer retention activities. This particular product has appeal to all financial service providers.
2. **Consumer Information Broker:** A product geared for the consumer market. A version has been released for the real estate market to provide sorted, qualified and short-listed properties for renters and homebuyers. The trial has gone extremely well with a customer satisfaction level of up to 90%. Significant revenue potential was demonstrated with 6.2% of consumers opting to pay for the premium service.

Additional product modules for Sales Management and Market Research are nearing completion.

The founder /managing director has over 30 years experience in the ICT industry, both in Australia and Internationally and has a solid track record in building an IT business with national and global clients.

Australian Business Angels

The company is now seeking initial investment of \$500,000 to accelerate market rollout and fund the resources required to secure this rapid growth opportunity. A further round of up to \$2m will be sought in 12 to 24 months. An investor with experience in a rapidly growing IT business would be advantageous.

Food Manufacturing and Retail Franchise – National and International Expansion

Reference: STRAT 0033

Capital Required: \$250,000 to \$500,000+

Stage of Development: Expansion – Initial investor funding secured

Additional capital required for store rollout and international expansion

Operating in a market valued at over \$100b internationally the company has pioneered the manufacture and rollout of a highly sought after food product via a chain of retail outlets.

Experience with the pilot operation shows that the key target market is from teenagers through to people in their early forties. Unlike many other food products it does not rely heavily on impulse purchases, rather this product becomes part of a consumer's purchasing routine. Trading results to date have found very little seasonality in takings, allowing a very consistent approach to marketing while simplifying store management and staffing. System and processes developed by the company have proven successful with existing stores achieving annual sales up to AUD\$850,000 per annum (exclusive of GST). The store environment is non-threatening and experience indicates it will be quickly approved by parents and social groups as an acceptable meeting place for children and youth groups.

Milestones Completed

- Product introduced to Australian consumers and concept refined to suit Australian market needs
- Franchise documentation and systems package completed for Franchisee (Store Operations)
- Legal documentation package complying with Australian Franchising Code of Conduct completed
- Franchise documentation and systems package completed for National Master Franchisor (Country Operations)
- Initial visits to determine feasibility of concept introduction conducted to USA, Singapore, Malaysia, India and New Zealand. Income and expenditure models to validate viability of business proposal completed for each country visited
- Supply agreements developed with key equipment and ingredients suppliers
- Heads of Agreement reached for development in the USA
- Signing of JV agreement in India with first store opening September 2006
- Establish preferred city to launch in the USA (5 are currently short listed).

The opportunity now exists for an investor to purchase a franchise, invest in the master franchise and/ or invest in the international expansion.

Visit our website to learn more about Strategon's commercialisation services.

www.strategon.com.au

Sydney Office:

Level 5, 55 Miller Street
Pyrmont NSW 2009

Tel: 1300 364 527

Adelaide Office:

Level 2, 22 Grenfell Street
Adelaide, SA, 5000

Email: info@strategon.com.au

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