



The small company specialist

COMPANY INFORMATION

Capital Ideas PLC (LSE: CAPT)

An opportunity to benefit from the current 'credit crunch'

Target price 2.2p



Company Eye Ranking
41 /50

EDITOR'S NOTE

Capital Ideas is an AIM listed investment boutique based in London and Birmingham. The company has a number of divisions focused on advising and arranging finance for small growth companies, investing and turning round distressed businesses, and a property division which provides high growth international property investments to private investors.

The Company's principal activity is that of an Investment Company. The objective of the company is to achieve capital growth for its shareholders through the purchase, holding and sale of minority stakes in other companies. Capital Ideas primarily invests in Pre-IPO companies, which are currently either unquoted or, in some cases, trading on the PLUS or AIM markets in the United Kingdom.

It takes minority stakes in unquoted companies that intend to float on AIM within eighteen months from the company's initial investment.

In order to maximise returns from these investments Capital Ideas plc looks to add value to these companies through directly influencing how these companies are managed and by the implementation of turn round or change strategies.

The current economic climate is ideal for Capital Ideas. The Company announced strong half year figures to 30 October 2007 and since the half year has made a number of positive announcements which would indicate that pre-tax profits for the year ended 30 April 2008 should reach record levels of around £1m. This is roughly equivalent to the Company's market capitalization which we believe substantially undervalues the Company. Based on our estimate for the 2008 financial year we would expect to see the shares reach, and even exceed, 2p.

STRONG BUY

FUNDAMENTALS

Editor note:

The current Market Cap of £0.8m does not reflect the true Net Asset Value (NAV) of the company at this time.

Net assets have grown from £565k to £975k as at end Oct2007. As well as the investments listed later on in this document, the company also has cash from recent disposals that we estimate to be at or near the Market Capitalisation of the company as well.

Company Name	Capital Ideas plc
Price	0.32p
Status	AIM
Market Cap	£0.8m
Shares In Issue	287,155,547
Activities	Strategic investment group specialising in turning round ailing organisations
Sector	Specialty Finance
Corporate advisor	WH Ireland
Registrar	Capita Registrars (Northern)

HISTORY

Capital Ideas started its AIM (Alternative Investment Market) life on 30 August 2002 in a different guise, named Leisure Ventures plc. Things soon changed and the company became Capital Ideas PLC.

Capital Ideas has a successful track record of turning round ailing organisations and investing in small growth companies in various sectors from technology and mining to vending.

In some cases advising on the stock market listing of some of these Companies onto AIM.

The Company has reinvested the disposal proceeds from its successful exits into new opportunities.

FUNDING

The company is currently sitting on cash from sales of the majority of its stakes in Primary Water plc and Brit Films Holdings plc. It has invested some of these proceeds into WorldLink Holdings plc, which has already generated advisory fees paid in shares of over £1m. The Company has also advised on the management buy out of Dateline Holdings plc from AIM listed YooMedia plc which has resulted in substantial fees to the Company.

Based on the £250k profit from Primary Water plc and exits from the Company's other investments the Company should be adequately funded to take advantage of the current market conditions where deal flow should increase significantly.

INVESTMENT STRATEGY

Capital Idea's stated investment strategy is to achieve capital growth for shareholders through the purchase, holding and sale of minority stakes in other companies.

The Company intend to invest only in companies which are currently unquoted but where they believe that it will achieve a flotation on a Recognised Investments Exchange or Exchange Regulated Market in Europe within eighteen months from the time of investment by the Company.

Potential investments are evaluated from a wide variety of industry sectors, which are based upon the recommendations of the directors.

This investment policy sets out a number of key factors which are taken into account, including:

- The size of the investment in relation to Pre IPO's assets;
- Whether or not the investment cost appears to be at a discount to the actual or potential valuation of the investee company;
- Whether or not there is a proven management team in place or available for the investee company;
- Its opinion of the investee company's financial and other resources, future trading prospects, visibility of earnings, cash flow forecasts and ongoing working capital requirements;
- Whether or not it considers that there are satisfactory prospects for the investee company to achieve a quotation within a reasonable time frame (usually 18 months);
- Whether or not it considers that there are satisfactory prospects for Capital Ideas to exit the investment either before or after a flotation has been achieved.

CURRENT INVESTMENTS

Eastern European Ventures plc – A company that invests in emerging European property.

Aerodeon Holdings plc – A mobile phone based sales and marketing company that benefits from a number of blue chip customers who use Aerodeon's technology to market to their clients via SMS text messaging. It is one of the leading companies in its field.

Turnaround Capital Consultancy plc – A company that advises firms in distress on strategy and fund raising.

Smart Implant Holdings plc – A company that manufactures and distributes a revolutionary new breast implant.

Marlin Group plc – A company that is engaged in precision engineering which manufactures for a number of major blue chip clients such as JCB, Johnson Controls, CooperVision and, Airbus UK.

Worldlink plc – Worldlink's patented process allows an initial download of a set of data selected by the recipient (for example the current prices of a portfolio of stocks) which is automatically updated as individual items change (for example when a stock price moves). The process is not restricted to financial data, it applies to any type of data for example live train times, flight times, auction sites like eBay, sports results, etc and is compatible with all types of mobile communications networks, regardless of their current or future protocols.

Britfilms Holdings plc – A leading online film and review channel combined with online social networking.

Europol Holdings plc – A leading asset recovery specialist which focuses on repossessing leased assets, mainly vehicles, from consumers on behalf of a number of blue chip lenders such as Lombard and GE.

Towerinput Ltd – A company that was recently acquired by AIM listed Southern Bear plc and has an exclusive distribution licence for a number of leading engineering tools including Samsung of Korea.

Consolidated Vending plc – An AIM listed vending machine business which is no2 in the field of photo booths and Kiddie rides and is looking to expand into other related and complementary areas.

Pathway 1 Plc – A PLUS listed technology investment company.

Viatrade plc – A PLUS listed generalist investment company.

Primary Water plc – The Company is a leader in the exploration, development and production of commercial quantities of primary and deep ground water to government, industry, agriculture and consumers.

Famous Retail Ltd – A leading retailer of sporting and film memorabilia with a high street presence and a growing online business.

Dateline Holdings plc – The UK's oldest online dating website.

HIGHLIGHTS

- Profit before tax for £217k for 2007
- Net assets growing to £975k for 2007
- Increase of investments to 12
- New Finance Director appointed November 2007
- Investment philosophy remains consistent with a focus on pre-IPO financings of distressed enterprises.
- Investments being regularly realised providing funds for further investments

REVIEW & RECENT ACTIVITY

The Company continues to increase the number of transactions in which it is involved. During the period, Capital Ideas acted in an advisory capacity in the restructuring and refinancing of two companies, Smart Implant plc and Revo World Limited. In addition to fees earned for its consultancy services, Capital Ideas was granted a 1.4% stake in Smart Implant plc. Capital Ideas was also granted an option to subscribe for ordinary shares in Revo World Limited representing 2.5% of the share capital.

In October, the Company announced that it had invested £50,000 in BritFilms Group plc, receiving 17,111,111 ordinary shares in the company, representing approximately 7.5% of its issued share capital. The Company subsequently made a disposal of 1,944,444 of these ordinary shares for a net consideration of £50,000, representing a profit of £43,750. The company will still retain a 6.5% stake in BritFilms, which operates in the online film channel arena and is looking to expand into the social networking market. At the disposal price, Capital Ideas' remaining holding in BritFilms would be valued at £390k.

Following the end of the six month period, the Company has been involved in several transactions, including its recently announced investment of £50,000 in Primary Water plc, acquiring 1,428,571 ordinary shares at 3.5p each. This investment was part of a larger fundraising being undertaken by Primary Water in which Capital Ideas also acted in an advisory capacity.

For its services, the Company received a further 17,889,667 ordinary shares (also at 3.5p) in lieu of arrangement fees, totalling £626,138. Following the investment, Capital Ideas holds a total of 19,318,238 ordinary shares in Primary Water, representing 5.24% of its issued share capital. Primary Water has stated its intention to list on AIM in due course.

Capital Ideas also recently announced that it had agreed terms to acquire a number of investments from Emerging UK Investments plc for a total consideration of £36,500. These acquisitions bring considerable value to the Company, having been made at a discount to their aggregate market value.

In addition, Capital Ideas recently announced a re-organisation of the group's structure with the creation of a number of subsidiaries with a view to broadening its approach. This is to take advantage of what your board believes to be a favourable environment resulting from current market conditions which have seen, and we believe will continue to see, an upturn in attractive turnaround investment opportunities.

At the end of November Anita Madhas joined the board as Finance Director. The company said it is still looking to strengthen the senior management team further by making a number of appropriate executive director appointments in the near future.

OUTLOOK

The Directors believe that Capital Ideas PLC has made very good progress of late with the increase of its NAV and the completion of a number of lucrative transactions since the half year end and believe that the share price will soon start to reflect this performance.

The Company continue to review a wide range of potential investments and are confident that the investments the Company has made will be exited in a profitable and timely manner.

SHARE PRICE AND VALUATION

Based on the most recent transactions since the half year end including Dateline, Worldlink and Primary Water we estimate that the Company should produce record profits for the year to 30 April 2008.

We estimate that pre-tax profits should exceed £1m with an EPS (earnings per share) of circa 0.32p.

A price earnings ratio (P/E ratio) of 10 times would be reasonable for a company operating in this sector, however based on a more conservative PE ratio of 7 times this would equate to a share price of 2.2p.

We consider the share price is substantially undervalued based on this fundamental analysis.

DIRECTORS

Renwick Haddow BA (hons) FCCA (Chairman)

Renwick graduated from Thames Valley University in 1990 with a BA in Accounting Studies. In 1993 Renwick qualified as a Chartered Certified Accountant and holds the Investment Management Certificate.

Renwick sits on a number of small companies' boards including a number of AIM listed companies spanning various sectors. He is very experienced in the identification of investment opportunities and bringing these companies to markets such as AIM and PLUS. He was founder of AIM-listed Arc Fund Management Holdings plc, a broad-based financial services boutique, where he advised on both small company investment and property investment.

His particular area of expertise is investing in and turning round distressed companies.

Anita Madhas (Executive director)

Anita Madhas has a BA honours degree in Accounting and Finance. She has worked in both industry and practice, gaining experience in many different sectors from Advertising, Construction, Leisure to Online Betting and Beauty Supplies.

She brings with her experience as a company secretary and director of private and public companies.

Having run the financial function of the majority of these companies, she has a hands-on approach to all aspects of accounting. This marries well when investments require management input on an ongoing basis.

Management Team

The company is looking to strengthen its management team, and have recently appointed a Legal Adviser, Marcia Hargous, a Deal Originator, Toni Shukla, and a Project Manager, Paula Conway.

SHAREHOLDINGS

Director Holdings	Number	%
Renwick Haddow	75,654,036	26.3%

Major Shareholders	Number	%
Glenburnie Investments Limited	53,693,182	18.7%
Robert Wing	24,181,600	8.4%
Pershing Keen Nominees Limited	21,819,999	7.6%
Stramongate Nominees Limited	17,424,242	6.06%
NCS Self Administered Pensions Scheme	12,926,137	4.5%
Alan Pascoe/Quink Music	9,048,295	3.15%

FINANCIAL HISTORY

Profit and loss account – year end 30 April

Figures are £,000s	Six Months Oct 2007	Y/E Apr 2007	Y/E Apr 2006
Revenue	340	503	438
Cost of Sales	(4)	(11)	(46)
Gross Profit	336	492	392
Admin Costs	(36)	(42)	(100)
Profit Before Exceptional Items	300	450	292
Loss on Disposable Assets	(83)	(96)	(4)

Interest receivable and similar income			13
Operating Profit	217	354	292
Profit Before Tax	217	361	301
Tax	(52)	(63)	(34)
Profit After Tax	165	298	267
Basic EPS	0.7p	0.13p	0.12p
Non-Current Assets	778	730	231
Current Assets	382	87	230
Current Liabilities	(185)	(125)	(67)
Net Assets	975	692	394

RISK FACTORS

In addition to the other relevant information, the following specific factors should be considered carefully when evaluating whether to make an investment in the company. The investment offered in this document may not be suitable for all of its recipients. Before making an investment decision, prospective Investors should consult a person authorised under the Financial Services and Markets Act 2000 who specialises in advising on the acquisition of shares and other

securities. A prospective Investor should consider carefully whether an investment in the company is suitable for him/her in the light of his/her personal circumstances and the financial resources available to him/her. There are various risk and other factors associated with an investment of the type described in this document.

In particular: The value of an investment in the company is largely

dependent upon the expertise of the Directors and their ability to identify and acquire or invest in suitable companies or businesses. There can be no certainty that the company will be able to identify suitable acquisition targets or complete the purchase of any identified targets at a price the Directors consider acceptable. In the event of an aborted acquisition it is likely that resources may have been expended on investigative

work and due diligence, which cannot be recovered.

The acquisition of other businesses can involve significant commercial and financial risks and there can be no certainty that any acquired business will not have a material adverse effect on the operations, results or financial position of the Company.

FINANCIAL INSTRUMENTS

Management of risk

The Company's financial instruments comprise:

- Equity shares that are held in accordance with the Company's investment objective as set out in the Director's Statement
- Cash and short term debtors and creditors that arise directly from the Company's operations.

The main risks arising from the Company's financial instruments are due to fluctuations in market prices, foreign exchange rates and interest rates. The Board regularly reviews and agrees policies for managing each of these risks and they are summarised below. These policies have remained constant throughout the period under review.

Market price risk

Market price risk arises mainly from uncertainty about the future prices of financial instruments used in the Company's operations. It represents the potential loss the Company might suffer through holding market positions in the face of price movements and movements in exchange rates. It is the Board's policy to hold an appropriate spread of investments in the portfolio in order to reduce risk arising from factors specific to a particular country or sector. The allocation of assets to international markets and stock selection are other factors which act to reduce market price risk. The Investment Advisory Panel monitor market prices throughout the year and report to the Board, which meets regularly to consider investment strategy.

Foreign currency risk

The Company's total return and net assets can be significantly affected by fluctuations in foreign currency exchange rates because a portion of the Company's assets and revenue are denominated in currencies other than sterling.

Liquidity risk

The Company's assets comprise mainly readily realisable securities which can be sold to meet funding commitments if necessary.

Credit risk

The Company places funds with authorised deposit takers from time to time and is therefore potentially at risk from the failure of any such institution of which it is a creditor. The Company expects to place any deposits on a short term basis and where possible with more than one institution to reduce its credit risk.

Interest rate risk of financial assets

The majority of the Company's financial assets are equity shares and other investments which neither pay interest nor have a stated maturity date.

Currency exposure

A portion of the financial assets of the Company are denominated in currencies other than sterling with the effect that the net assets and total return can be significantly affected by currency movements.

CONTACT

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RANKING

		Ranking out of 50 (50 being highest)
Business model - competitive advantage	Competition	40
	Customers	n/a
	Low cost	45
	Management	40
	- corporate governance	40
	- quality	35
	- shareholding	45
	Product	40
	Sector	40

Financial evaluation	Early and profitable exit potential	45
	Financial strength	39
	- cash flow	45
	- conservative accounting	45
	- need for funding	38
	Growth at a reasonable price	42
	Risk	35
Overall average rating		41

FURTHER INFORMATION ABOUT THE RANKING

Competitive advantage

Companies are assessed according to their business model and how this translates into strong and sustainable competitive advantage. This can only be achieved with low cost activities and doing something different from the competition. This 'differentiation' must add value to the customer who is then prepared to pay a premium price. The differentiation is most obvious in the product but it can exist anywhere in the company's value

chain of activities, such as easy payment terms, convenient locations, superior management, and quality of suppliers. Companies that do not achieve competitive advantage because they have the same costs and/or do the same as the competition are marooned in a profitless zone. They helplessly try to compete with the one weapon left open to them, which is the disaster of cutting prices and typically leads to similar retaliation by competitors, with disastrous results.

THE FOLLOWING ELABORATES ON THE RANKING CRITERIA

Competition

How intense is the competition and are there barriers to entry?

Customers

Is the company controlling its customers and therefore its revenue streams? Are customers glued to the company and providing valuable and reliable recurring revenue or are they one-off, or 'transactional', providing shaky revenue? The company should ideally have weak and numerous customers.

Low costs

Has the company achieved low cost activities thus allowing more of the top line revenue to trickle down to the profit line?

Management

Is there good corporate governance? What is the quality of management, as this is crucial to any business? Are the directors' shareholdings significant but not so large that they control the company?

Product

Is the product different from the competition and adds value to the customer? Are there threatening substitutes? Does it have a powerful brand?

Sector

Is the company in an attractive sector that is profitable and adds value?

Services tend to be more protected than products from international competition. Does the sector ride the tailwind of multi-year mega trends? Is the business well positioned in the current stage of the economic cycle? What is its resistance to a recession?

Profitable exit potential

What is the potential for selling the share profitably? This is more applicable to pre-flotation investments.

Financial strength

Does the company have strong cash flow, the lifeblood of any business? Is the accounting conservative or is there 'accounting for growth'? Does it need more funding? Is the profit margin healthy and at least equal to its sector? What has been the track record in the growth rate of profits?

Growth at a reasonable price

Does the share offer growth at a reasonable price? This is commonly measured using the PEG. This is the price earnings ratio (PE) divided by the forecast growth rate in earnings per share (EPS). The lower the PEG the better and under 1.0 is considered good for a blue chip company and under 0.6 for a small growth company.

Risk

What is the risk rating of the share due to factors such as new markets, its business model and strategies?

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