

# Active investors push for value

## Paddy Carter

Active investors have come to the fore this week, attempting to drive value out of two cash-rich companies.

Recovery Partners wants Aim-listed e-primefinancial to abandon its banking strategy, and put its £18m cash to better use. The proposal was rejected by the company on Tuesday, but Recovery's co-founder Alex Jurshevski says there's sufficient shareholder support to force a vote if necessary.

Meanwhile, Laxey Partners built up a 17 per cent stake in e-commerce software vendor Izodia, with similar intentions. But Laxey sold the stake last Friday after receiving an offer it couldn't refuse from an unnamed third party. Laxey chairman Colin Kingsnorth believes there's still an opportunity to release value at Izodia. Both Recovery Partners and Laxey Partners say they are pursuing numerous other targets.

That's because, long after the technology bubble burst, much

of the cash raised is still hanging around on company balance sheets. Thanks to disillusionment with technology business models, plenty of companies trade at steep discounts to their cash, giving active investors the opportunity to force a break-up.

Private investors are frequently lured by the apparent value of companies trading at discounts to cash, but if they are committed to pursuing a doomed strategy, that value is illusory. Mr Jurshevski says: "The market is fairly efficient. If a company trades at a discount to cash, there is usually a significant problem." Investors should only invest in such companies if they believe the market has got it wrong, or they think a restructuring is on the cards.

Mr Kingsnorth says private investors should watch for outfits like Laxey building up stakes. He says finding out what price major institutional shareholders bought in at is also useful. "Like anybody else, they tend to cling to hopes of recovery." Companies with large stakes held by directors are

## Worth less than cash

Company	Discount to cash pile (%)
GB Railways Group	68
Riversoft	62
Zen Research	59
E-Capital Investments	51
E-primefinancial	47
RMR	45
Superscape	44
Izodia	43
ARC	29
Winchester Entertainment	27
New Media Spark	26
Bookham	24
Orchestream	23
365 Corporation	22

Percentage shown is the difference between the cash pile and the market capitalisation

Source: INVESTORS CHRONICLE

unlikely to agree to hand back cash. Mr Jurshevski says the key is to assess the degree of dissatisfaction among their shareholders.

Besides cash, some companies have other assets, such as technologies or even on-going businesses, which could be sold. For example, Riversoft has software that would interest many possible suitors, such as Hewlett Packard.