

15 November 2011

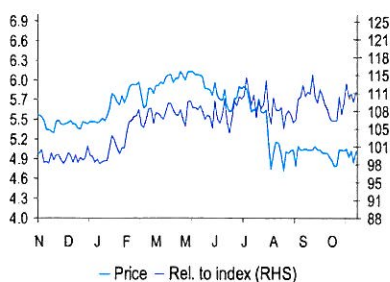
QUEST FOR GROWTH

Sphere Medical nears IPO, limited (positive) impact

EQUITY INVESTMENT INSTRUMENTS
BELGIUM

CURRENT PRICE € 4.98
TARGET PRICE € 6.00

ACCUMULATE
RATING UNCHANGED



Source: Thomson Reuters Datastream

Bloomberg QFG.BB
Reuters QUFG.BR
www.questforgrowth.com

Market Cap € 58.7m
Shares outst. 11.8m
Volume (daily) € 44,876
Free float 90.6%

Next corporate event

NAV update 11: 2 December 2011

(€ m)	2008	2009	2010
Net result	-48.4	18.1	20.6
Adj. net result	-48.4	18.1	20.6
Basic EPS (€)	-4.11	1.53	1.74
ROE	-41.8%	26.8%	24.1%
Adj. eq. value	9.87	7.25	8.99
Premium/disc.	14.9%	35.9%	42.9%
DPS (€)	0.00	0.00	0.00
Dividend yield	0.0%	0.0%	0.0%

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Summary:

Sphere Medical Holding, in which QfG has held a stake since October 2008, successfully wrapped a £ 14m capital hike in connection with its listing on AIM on Thursday 17 November. Valued at £ 34.05m, QfG is set to reap a (unrealised) capital gain of approx. € 0.57m (€ 0.05 p.s).

News:

Sphere Medical develops highly innovative monitoring products to provide clinical and economic benefits in the critical care environment. The products are all based on the company's proprietary technology and allow minimally invasive, real time measurement of clinical chemistry parameters and therapeutic drug concentrations, giving healthcare professionals the information they require to more effectively manage therapy and optimise patient outcomes.

A total of 15,135,135 new Sphere Medical shares were placed at 92.5 pence per share with institutional and other investors, valuing the company at £ 34.05m. The number of shares in circulation has increased to 36,805,644, of which 930,031 (2.53%) are held by QfG.

Quest's involvement dates back to 23 October 2008, when it announced a £ 1m investment in Sphere Medical Holdings as part of a £ 10.0m funding round. Going by what we know, QfG in 1Q10 converted a £ 0.3m loan note into equity, but in October 2010 announced – in its monthly NAV updates – to halve the carrying value of its Sphere Medical stake from € 1.65m to € 0.84m. Another valuation adjustment of Quest's stake was pushed through in January 2011, this time shaving off half of the carrying value to € 0.42m. As of today, this level has been maintained.

Our View:

Though unsubstantiated, QfG didn't subscribe to the cap hike. The fundraising, however, does lift the carrying value of QfG's stake to approx. € 1.0m (£ 0.86m) versus € 0.43m at end-October 2011. Note that this excludes accounting effects of any lock-up agreements (traditionally 6 months) and does not take into account stock price movements post-listing. Going by the initial investment and based on the info that we have available; Sphere Medical could represent a loss-making investment.

Conclusion:

Sphere Medical demonstrates that investors should be cautious in their assumptions for QfG's ability to generate capital gains out of the current Private Equity portfolio (e.g. Movetis). Moreover, weak equity markets will prevent QfG from wiping out its carried-over losses in FY11, hence blocking the pay-out of a long-hoped for tax-free dividend. We continue to advise investors to Accumulate the shares with a € 6 TP, which implies a 25% discount to NAV. The current discount amounts to 37.2%, which is elevated going by the transparency of its listed investment portfolio, the lack of debt on its balance sheet and its ability to defend its equity base with success. But the stock's illiquidity plays its part as well.