

COVID-19 Update for Northern VCT Shareholders

In these challenging times, we wanted to take the opportunity to provide Northern VCT shareholders with an update about how we are reacting to the evolving situation on your behalf. In response to the challenges posed by COVID-19, our focus is on three priorities: ensuring the safety of our colleagues, continuing support for our portfolio companies and maintaining long-term value creation potential for shareholders in our VCTs.

Market volatility

The worldwide impact of the COVID-19 virus on the financial markets has been unprecedented and has caused a great deal of volatility as market participants attempt to predict the effects of the virus on the economy and to assess the resilience of specific businesses and sectors to weather the storm. Although the majority of our portfolio is represented by unquoted investments, investors look to the quoted markets as a benchmark and the valuation metrics for many of the sectors in which we invest have reduced. We feel that this reflects institutional investors moving away from valuations based mainly on growth prospects to a more evenly weighted balance of growth and other fundamentals. Whilst short term disruption to trading is inevitable for many of our companies, some are finding that their products or services are now in greater demand and we are assessing the prospects for each of our investees once the disruption subsides. The relatively low levels of third party debt that our companies generally carry makes a significant difference to their ability to manage through this period. We are fortunate in having sufficient liquidity, both existing cash and through our current share offer that is anticipated to complete next week, to both support our portfolio further through the imminent challenges and to make new investments.

Managing the portfolio

The Northern VCTs benefit from a highly diversified portfolio, with no concentration on one sector or in respect to areas associated with discretionary spending. Both the NVM team who continue to manage the pre-2015 investments and the NVM venture team who are now part of Mercia have a track record of being hands on and close to their businesses and there is deep experience across the Mercia Group in respect to investing through cycles. We believe, never more so than now, this hands on approach will guide our investees through a challenging period in order to benefit from opportunities which will arise out of this, particularly the number of our portfolio companies that are exploiting trends that are only being rapidly accelerated by the pandemic, such as innovative delivery and distribution; the digitisation of traditional off-line business processes; and the development of innovative medical technologies.

During the current restrictions we are speaking with the CEOs of our businesses each day, formulating plans to mitigate the impact of the crisis, monitoring events very closely as they develop and last but not least, helping to keep up morale and providing access to professional advice through interactive webinars with external advisors and the investment team. For businesses which have experienced an immediate drop in revenues, we are implementing plans to preserve cash until a recovery commences. For other cases where we are experiencing an uptick in activity, we are exploring ways of creating additional cash headroom in order to enable the necessary investment in working capital to support the current levels of trading.

The Investment Teams

We are actively managing 47 investments spread across the UK in a range of sectors and at various stages of development and with varying amounts of liquidity. Our team of 16 comprises a blend of investment and sector experience which gives the required balance of skills to navigate this challenging situation. Even a few days into the lockdown, with all of us working from home and on the telephone or video-conferencing almost constantly to our investee companies and our colleagues, it is remarkable how quickly we are adjusting to the new way of doing business.

We hope that all of our shareholders remain in good health and are staying safe. We assure you that we continue to work very hard on your behalf to drive long term shareholder value.

Tim Levett and Charlie Winward