

# Mercia Technologies

H119 results

Good progress across the portfolio

**Mercia's H119 results reflected continued steady progress across the portfolio, with net assets rising slightly to £125.2m and FuM remaining stable at £394.9m. The direct investment portfolio increased 17.7% to £77.8m, reflecting £9.2m of cash investment as well as £2.6m fair value uplift. Key portfolio companies continue to deliver against commercial milestones and with c £60m of investment expected in FY19, Mercia is well positioned for further progress in FY19. The shares continue to trade at a significant discount to NAV (0.74x) and peer group comparators.**

Year end	Net cash* (£m)	Direct investments (£m)	FuM (£m)	NAV (£m)	NAV per share (p)	P/NAV (x)
03/16	30.9	38.1	220.0	80.0	26.3	1.16
03/17	59.6	52.0	336.5	121.4	40.0	0.76
03/18	49.4	66.1	400.0	123.5	40.7	0.75
H119	38.3	77.8	394.9	125.2	41.3	0.74

Note: \*Includes liquid securities but not funds held on behalf of EIS investors.

## 17.7% growth in direct investment portfolio

Mercia reported H119 net assets of £125.2m, which compares to £123.5m at FY18. As a result of a £9.2m of investment and £2.6m fair value uplift, the direct investment portfolio grew to £77.8m from £66.0m at FY18. Within the Mercia Fund Managers (MFM) subsidiary, FuM remained steady at £394.9m (vs c £400m at FY18). Importantly, MFM also contributed the majority of £5.27m revenues at H119 (vs £4.85m in H118), with a 19.1% reduction in operating expenses to £0.69m vs the comparable period (£0.85m for H118). Mercia continues to expect to invest c £60m during FY19, of which £20-25m will be direct balance sheet investments.

## Commercial traction in key companies

Within the £77.8m direct investment portfolio, four companies comprise 44% of the value, reporting significant commercial milestones during the period, including multi-million pound contracts for Oxford Genetics and nDreams. Warwick Acoustics received further funding from Mercia and Intechnica saw a 16.3% uplift in value. Also notable in the direct portfolio, Aston EyeTech signed a multi-million pound contract, while VirtTrade signed partnership agreements with both Formula 1 and Valiant Comics. Please see our [October initiation](#) for more information on the key portfolio businesses.

## Valuation: 0.74x NAV, does not include MFM

Mercia's shares trade at a meaningful discount to NAV (0.74x). This compares to its peers such as IP Group at 0.83x and Draper Esprit at 1.19x. We note that the simple NAV calculation does not include profits generated from the MFM business, which we estimate at a value of c 9p per share, which is unchanged from the initiation (bringing the total discount to NAV to 0.60x). Catalysts for a re-rating would include meaningful commercialisation of the direct investments and/or further successful exits.

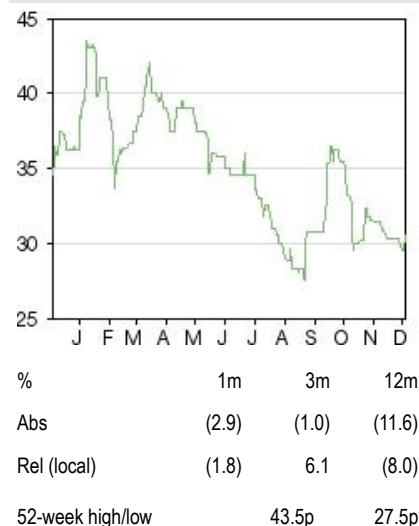
### Investment companies

**4 December 2018**

**Price** **30.5p**  
**Market cap** **£93m**

Net cash (£m) at 30 September 2018	38.3
Shares in issue	303.3m
Free float	23.2%
Code	MERC
Primary exchange	AIM
Secondary exchange	N/A

### Share price performance



### Business description

Mercia Technologies is a leading player in the funding and scaling of high-growth businesses. Through its subsidiary managed funds (MFM) and its own balance sheet, Mercia provides a 'complete capital solution' to UK SMEs, with a focus on the Midlands and North UK.

### Next event

2019 preliminary results July 2019

### Analysts

Victoria Pease +44 (0)20 3077 5700  
 Richard Williamson +44 (0)20 3077 5700

[tech@edisongroup.com](mailto:tech@edisongroup.com)

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## Investment summary

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### Stable net assets and FuM

Mercia reported a net asset value of £125.2m at H119 (vs £123.5m at FY18), which equates to 41.3p per share. Largely as a result of a £9.2m direct investment, unrestricted cash and short-term liquidity investments fell from £49.4m at FY18 to £38.3m at H119. This is in line with expectations and management anticipates total direct investment of £20-25m for FY19.

The MFM subsidiary business reported FuM of £394.9m, which is in line with c £400m at FY18. The funds have £216m available capital to invest and MFM is currently investing c £25m pa from its venture funds. The aim is to create a healthy pipeline of investments, before making selective new direct balance sheet investments – so-called, ‘Emerging Stars’.

Group revenues increased by 8.7% to £5.3m and included £3.6m fund management fees, £0.5m initial management fees and £1.1m portfolio director fees. Accounting for the increased fee income, net expenses reduced to £0.7m (£0.9m at H118). The contribution from the MFM business is a key differentiator for Mercia, as central costs are minimised and balance sheet cash is largely directed towards growing the direct investment portfolio.

### Direct investment portfolio up 17.7% vs prior year.

Mercia’s direct investment portfolio grew from £66.0m at FY18 to £77.8m at H119, with the value increasing due to £9.2m of investment, as well as a £2.6m net fair value increase.

- **£3.2m fair value gains** resulted from uplifts for Faradion and Intechnica, based upon “third-party indications of market value”, an uplift at Voxpopme following a successful syndicated third-party investment round and an uplift at The Native Antigen Company as its profitable trading progresses.
- **£0.6m downward fair value movement:** This reflects a £0.5m reduction in Concepta’s share price, as well as a £0.1m reduction in a small direct investment, where Mercia elected not to provide further funding. In total, 10% of the portfolio has been subject to impairments.
- **Edge Case Games sold post period end:** following a disappointing relaunch of its title Fractured Space during the summer, Edge Case Games was sold in an asset and royalty deal to Wargaming. Over £1.0m was returned to Mercia up-front, with deferred consideration of up to \$10m possible over time.
- **Two new Emerging Stars brought across from MFM:** Mercia has invested £0.5m into Locate Bio (regenerative medicine) and £2.0m into W2 Global Data Solutions (W2 was post period end).

Similar to previous reporting periods, Mercia’s top 20 direct investments represented 98.7% of total portfolio value (includes Edge Case Games, excludes W2 Global Data Solutions and Locate Bio).

### Milestones achieved

Significant commercial milestones achieved by direct investment portfolio companies include:

- **Oxford Genetics** won its largest multi-million pound contract to date with a global e-commerce provider of reagents and tools to the research and clinical community.
- **nDreams** won its largest multi-million pound contract to date with a high-profile global technology company.
- **Aston EyeTech (trading as Eyoto)** won its largest multi-million pound contract to date with one of the fastest growing optical retailers in the world.

- **VirtTrade** signed partnership agreements with both Formula 1 and Valiant Comics to develop digital collectibles content.

Please see our note, [Realising value](#) for more information on the key portfolio businesses.

<b>Exhibit 1: Direct investment portfolio</b>						
<b>(£'000)</b>	<b>Sector</b>	<b>Net value 1/4/18</b>	<b>Net cash invested in H119</b>	<b>Fair value change H119</b>	<b>Net value 30/9/18</b>	<b>% held at 30/9/18</b>
nDreams Ltd	Digital/digital entertainment	12,979	-	-	12,979	45.6
Oxford Genetics Ltd	Life sciences/biosciences	9,090	-	-	9,090	40.5
Warwick Acoustics Ltd	EMME	6,152	1,000	-	7,152	64
Intechnica Ltd	Software and the internet	4,021	-	656	4,677	27.9
Impression Technologies Ltd	EMME	3,107	1,500	-	4,607	31.4
Ton UK Ltd t/a Intelligent Positioning	Software and the internet	4,216	-	-	4,216	28.8
Faradion Ltd	EMME	1,299	600	1,625	3,524	18.1
Medherant Ltd	Life sciences/biosciences	3,453	-	-	3,453	31.9
Smart Antenna Technologies Ltd	EMME	2,148	1,200	-	3,348	32.2
Edge Case Games Ltd	Digital/digital entertainment	2,000	1,150	-	3,150	21.2
VirtTrade Ltd	Digital/digital entertainment	2,538	550	-	3,088	28.4
Voxpopme Ltd	Software and the internet	1,000	1,500	526	3,026	21.8
PsiOxus Therapeutics Ltd	Life Sciences/biosciences	2,377	-	-	2,377	1.5
The Native Antigen Company Ltd	Life sciences/biosciences	1,942	-	382	2,324	32.7
LM Technologies Ltd	EMME	1,913	-	-	1,913	41.4
sureCore Ltd	EMME	1,500	334	-	1,834	24.4
Aston EyeTech Ltd t/a Eyoto	Life sciences/biosciences	1,750	-	-	1,750	18.7
Crowd Reactive Ltd	Software and the internet	1,650	(13)	-	1,637	26.2
Soccer Manager Ltd	Digital/digital entertainment	1,199	300	-	1,499	31.6
Concepta Plc	Life sciences/biosciences	1,306	365	-468	1,203	18.2
Other direct investments	-	430	670	-120	980	n/a
<b>Total</b>		<b>66,070</b>	<b>9,156</b>	<b>2,601</b>	<b>77,827</b>	<b>n/a</b>

Source: Mercia Technologies: Note. EMME is Electronics, Materials, Manufacturing and Engineering

**Exhibit 2: Financial summary**

	£'000	2014	2015	2016	2017	2018
		IFRS	IFRS	IFRS	IFRS	IFRS
<b>INCOME STATEMENT</b>						
31-March						
Revenue		723	508	1,755	6,660	10,197
Cost of Sales		(26)	(10)	(79)	(92)	0
Gross Profit		697	498	1,676	6,568	10,197
Operating Profit (before amort. and except.)		42	2,937	(1,439)	2,624	3,258
Amortisation of acquired intangibles		0	0	(17)	(301)	(301)
Fair value changes		0	3,934	896	4,268	2,823
Realised gains			0	0	839	871
Exceptionals		0	(1,018)	(372)	(1,125)	(1,125)
Share-based payments		0	(44)	(230)	(395)	(497)
Reported operating profit		42	1,875	(2,058)	803	1,335
Net Interest		0	93	361	186	274
Joint ventures & associates (post tax)		0	0	0	0	0
Profit Before Tax (norm)		42	3,030	(1,078)	2,810	3,532
Profit Before Tax (reported)		42	1,968	(1,697)	989	1,609
Reported tax		0	0	0	54	54
Profit After Tax (norm)		42	3,030	(1,078)	2,810	3,532
Profit After Tax (reported)		42	1,968	(1,697)	1,043	1,663
Minority interests		0	0	0	0	0
Discontinued operations		0	0	0	0	0
Net income (normalised)		42	3,030	(1,078)	2,810	3,532
Net income (reported)		42	1,968	(1,697)	1,043	1,663
Average Number of Shares Outstanding (m)		13	212	212	224	301
EPS - normalised (p)		0.33	1.43	(0.51)	1.26	1.17
EPS - diluted normalised (p)		0.33	1.43	(0.51)	1.26	1.17
EPS - basic reported (p)		0.33	0.93	(0.80)	0.47	0.55
Dividend (p)		0.00	0.00	0.00	0.00	0.00
Revenue growth (%)		N/A	(-29.7)	245.5	279.5	53.1
Gross Margin (%)		96.4	98.0	95.5	98.6	100.0
Normalised Operating Margin		5.8	578.1	-82.0	39.4	32.0
<b>BALANCE SHEET</b>						
Fixed Assets		27	27,121	50,103	63,693	77,428
Intangible Assets		0	2,455	11,815	11,514	11,213
Tangible Assets		27	49	145	151	145
Investments & other		0	24,617	38,143	52,028	66,070
Current Assets		223	54,349	31,730	64,576	53,965
Stocks		0	0	0	0	0
Debtors		184	716	798	747	1,057
Cash & cash equivalents		39	23,633	20,932	28,829	42,908
Short term liquidity investments		0	30,000	10,000	35,000	10,000
Current Liabilities		(141)	(631)	(1,521)	(6,698)	(7,760)
Creditors		(141)	(631)	(1,521)	(6,698)	(7,760)
Tax and social security		0	0	0	0	0
Short term borrowings		0	0	0	0	0
Other		0	0	0	0	0
Long Term Liabilities		0	0	(271)	(217)	(163)
Long term borrowings		0	0	0	0	0
Other long term liabilities		0	0	(271)	(217)	(163)
Net Assets		108	80,839	80,041	121,354	123,470
Minority interests		(0)	0	0	0	0
Shareholders' equity		108	80,839	80,041	121,354	123,470
<b>CASH FLOW</b>						
Op Cash Flow before WC and tax		46	2,943	(1,406)	2,700	3,339
Working capital		(28)	(20)	650	5,250	(87)
Exceptional & other		0	(4,952)	(1,268)	(5,107)	(3,694)
Tax		0	0	0	0	0
Net operating cash flow		18	(2,029)	(2,024)	2,843	(442)
Capex		(30)	(27)	(113)	(82)	(75)
Acquisitions/disposals		0	(11,563)	(20,939)	(8,779)	(10,664)
Net interest		0	22	397	165	260
Equity financing		(4)	67,230	(22)	38,750	0
Dividends		0	0	0	0	0
Other		0	(30,000)	20,000	(25,000)	25,000
Net Cash Flow		(16)	23,633	(2,701)	7,897	14,079
Opening net debt/(cash)		(54)	(39)	(23,633)	(20,932)	(28,829)
FX		0	0	0	0	0
Other non-cash movements		0	(39)	0	0	0
Closing net debt/(cash)		(39)	(23,633)	(20,932)	(28,829)	(42,908)
Closing net debt/ (cash) inc short-term liquidity investments (not EIS)		(39)	(53,633)	(30,932)	(59,601)	(49,435)
Source: Mercia Technologies						

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