



Mercia Asset Management PLC

2020 Preliminary Results Presentation

venture • private equity • debt



A track record of value creation

Dr Mark Payton

Chief Executive
Officer



Over 20 years' experience
in technology
commercialisation and
venture investing

Co-founder of Mercia

Oxford University
Innovation



Martin Glanfield

Chief Financial
Officer



Over 20 years' CFO/FD
experience of listed and
PE backed technology-led
businesses

Former CFO of Forward
Group PLC

KPMG trained chartered
accountant

Also oversees debt team



Julian Viggars

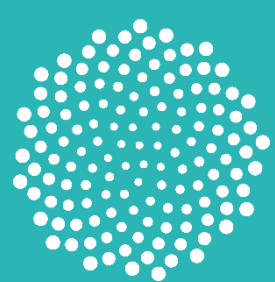
Chief Investment
Officer



Over 20 years' venture
capital experience
including Blue Prism

Oversees the investment
activity of the Group across
venture and private equity





Maiden trading profit (“net revenues”) driven by AuM growth, achieved 12 months ahead of target

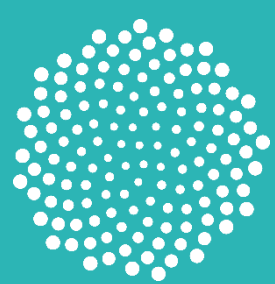
Assets under Management (AuM) grown by 58% to c.£800m (2019: c.£507m)

Average recurring fund management related fees % maintained at c.2%

Maiden trading profit (“net revenues”): £0.1m (2019: £1.4m loss); revenue up by 19.4% and ahead of operating costs up by 4.5%

Significant operational progress by direct investments; valuation impacted by COVID-19: FVM decrease of £15.8m; £87.5m valuation (2019: £87.7m)

Strong balance sheet with significant investment dry powder: c.£290m across client funds and c.£30m on balance sheet. **Debt-free**



Response to COVID-19

Our Company

- Wellbeing of our team remains the key priority
- Remote working with productivity maintained
- No use of Government furlough scheme
- Executives voluntarily reduced bonus awards by 50%
- No RPI salary increase across the Group for FY21

Direct investment portfolio

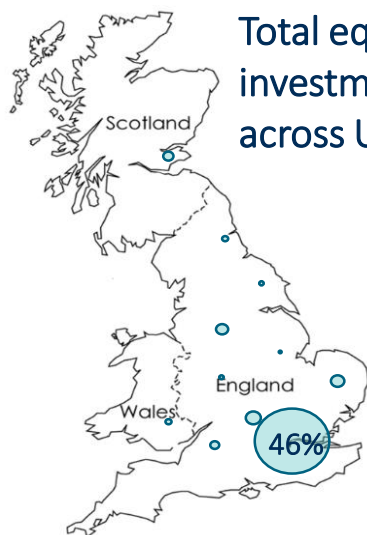
- Prompt review, support and financing
- 75% of top 20 portfolio financed for >12 months
- c.£30m unrestricted cash
- c.79% of FVM decrease from COVID-19 impact on four companies (WA, ITL, LM Tech, Crowd Reactive)

Fund management

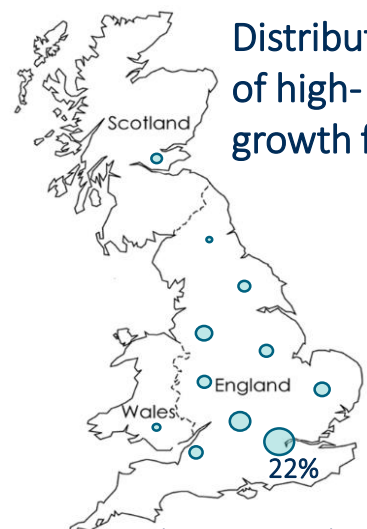
- Regular dialogue with clients
- Continued fund raising; positive 'Churchill review'
- Robust uninvested cash position of c.£290m
- Fund FVM impacts of +10% to -30%. c.£2.2m revenue impact, however FY21 contribution will grow overall

Target market and market trends

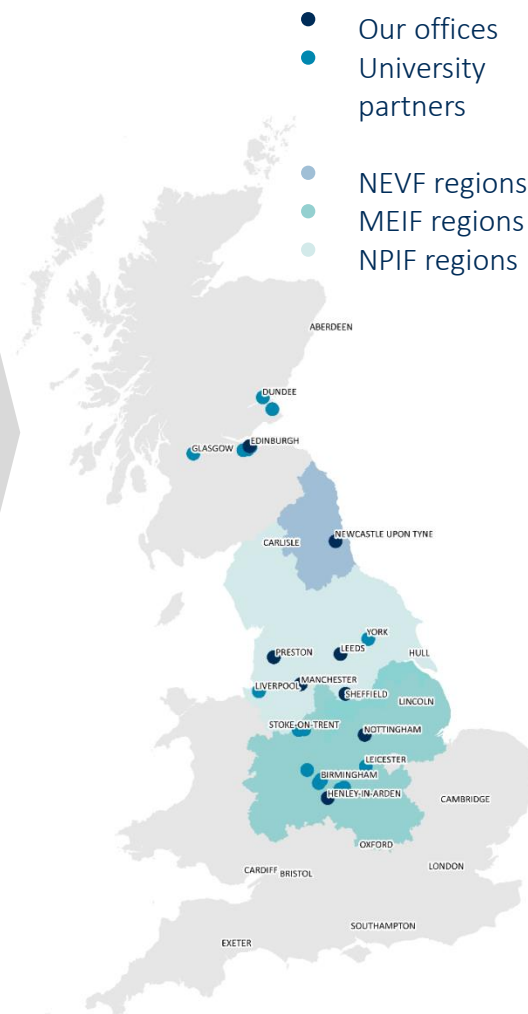
Total equity investment across UK



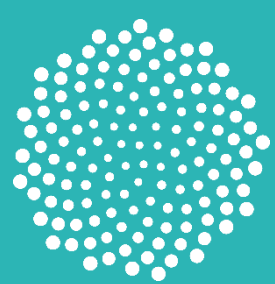
Distribution of high-growth firms



Our regional coverage



- We seek businesses typically requiring <£20m investment with exit expectations of £20m - £200m
- Target market c.£1bn
- Levelling up agenda
- During previous recessions, capital re-trenches to London
- Robust venture market
- Start-up numbers trend upwards following economic downswings

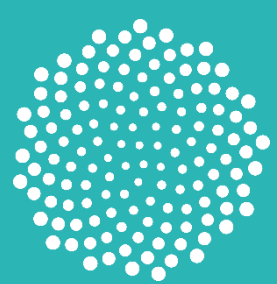


Strong progress against strategic priorities

FY20 – FY22

First choice for investees, investors & employees

1. Become the most active investor in our target market
2. Achieve operating profitability before balance sheet fair value movements, realised cash gains and all non-cash charges/credits
3. Grow AuM to \geq £1bn - currently £0.8bn (FY19: £0.5bn)
4. Deliver 15% IRR in equity investments
5. Evergreen balance sheet through cash realisations



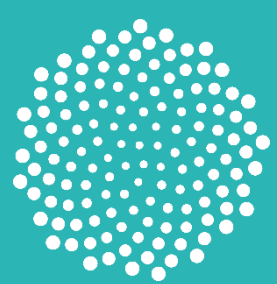
Strong regional deal origination

Across all asset classes in FY20

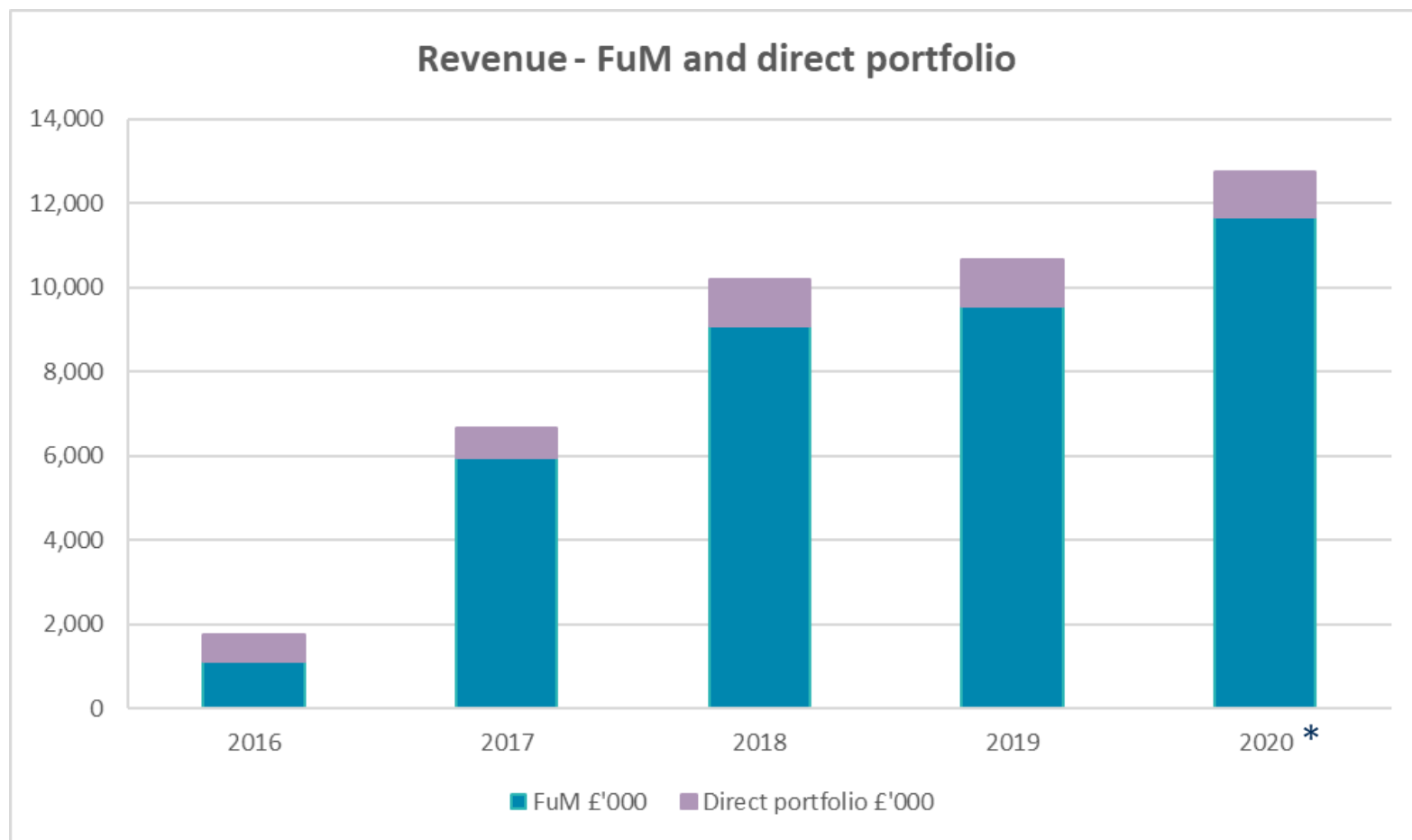
- 3,323 investment enquiries
- c.£75m invested in existing and new portfolio companies:
 - into 133 companies
 - of which 54 are new
 - 387 portfolio companies

	Venture	Private equity	Debt	Balance sheet	Total
Total portfolio size:	233	10	119	25	387
Invested in FY20:	65	4	46	18	133
Of which - new to portfolio in FY20:	20	2	32	1*	54

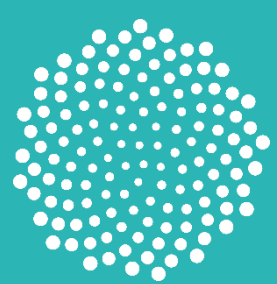
* Not included in total as sourced from FuM portfolio



Fee income growth driven by scaling funds under management (FuM)



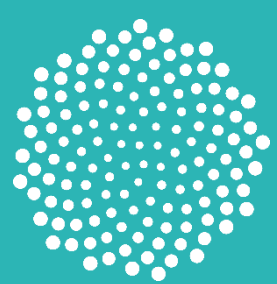
* Includes 3 months' contribution from Northern VCT fund management contracts



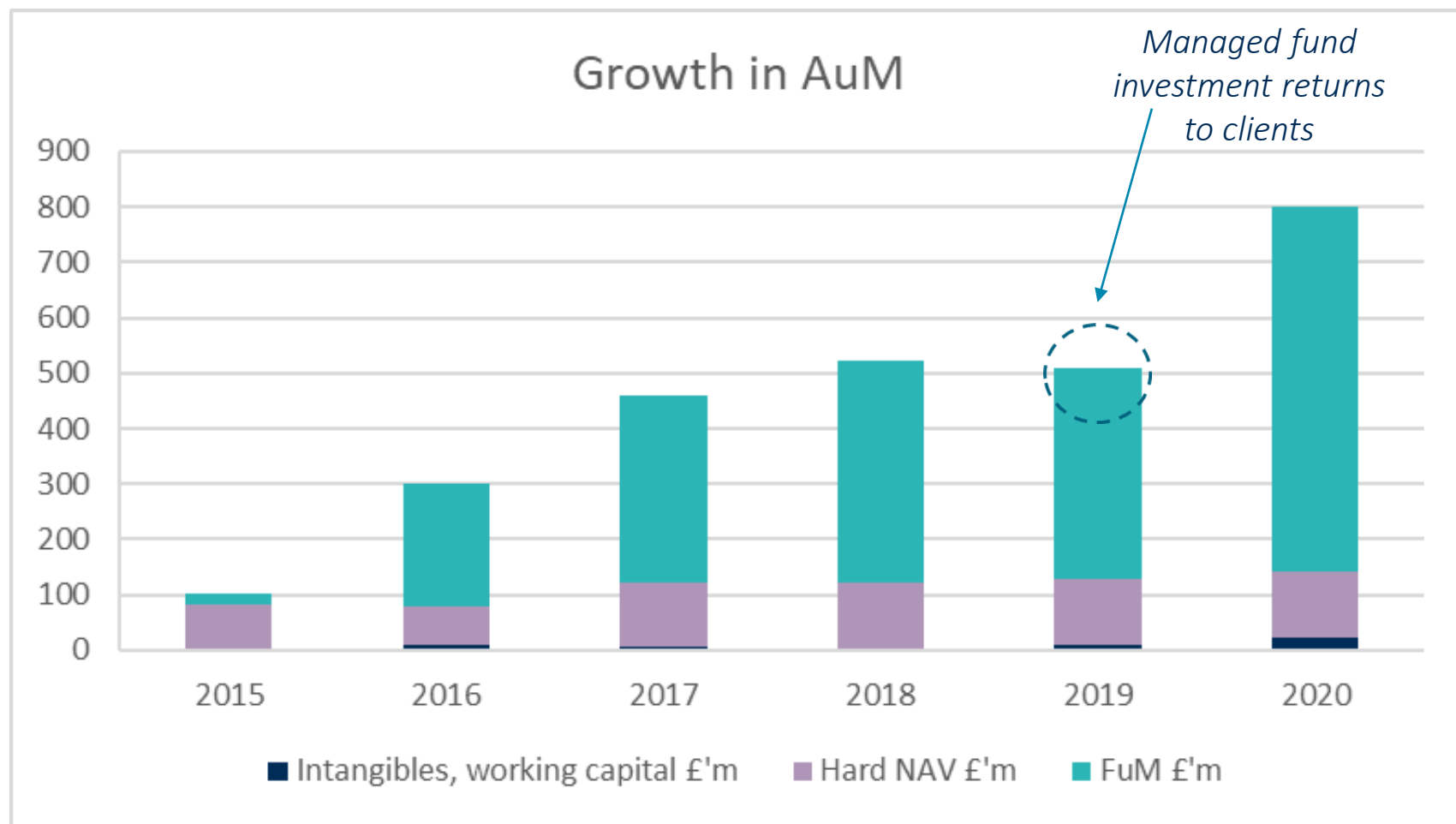
Key acquisition combined with organic growth

- FuM increased from c.£381m to c.£658m mainly driven by acquisition of the Northern VCT contracts
- Organic growth of £101.6m from:
 - £38.2m new FuM raised by Northern VCTs
 - £53.4m additional regional funds awarded by BBB
 - £10.0m additional EIS capital raised
- Average recurring fund management related fees maintained at c.2%

**Established distribution network and track record to
support organic growth**



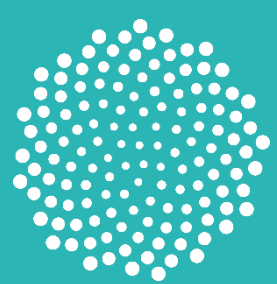
AuM growth (FuM + balance sheet NAV) since IPO



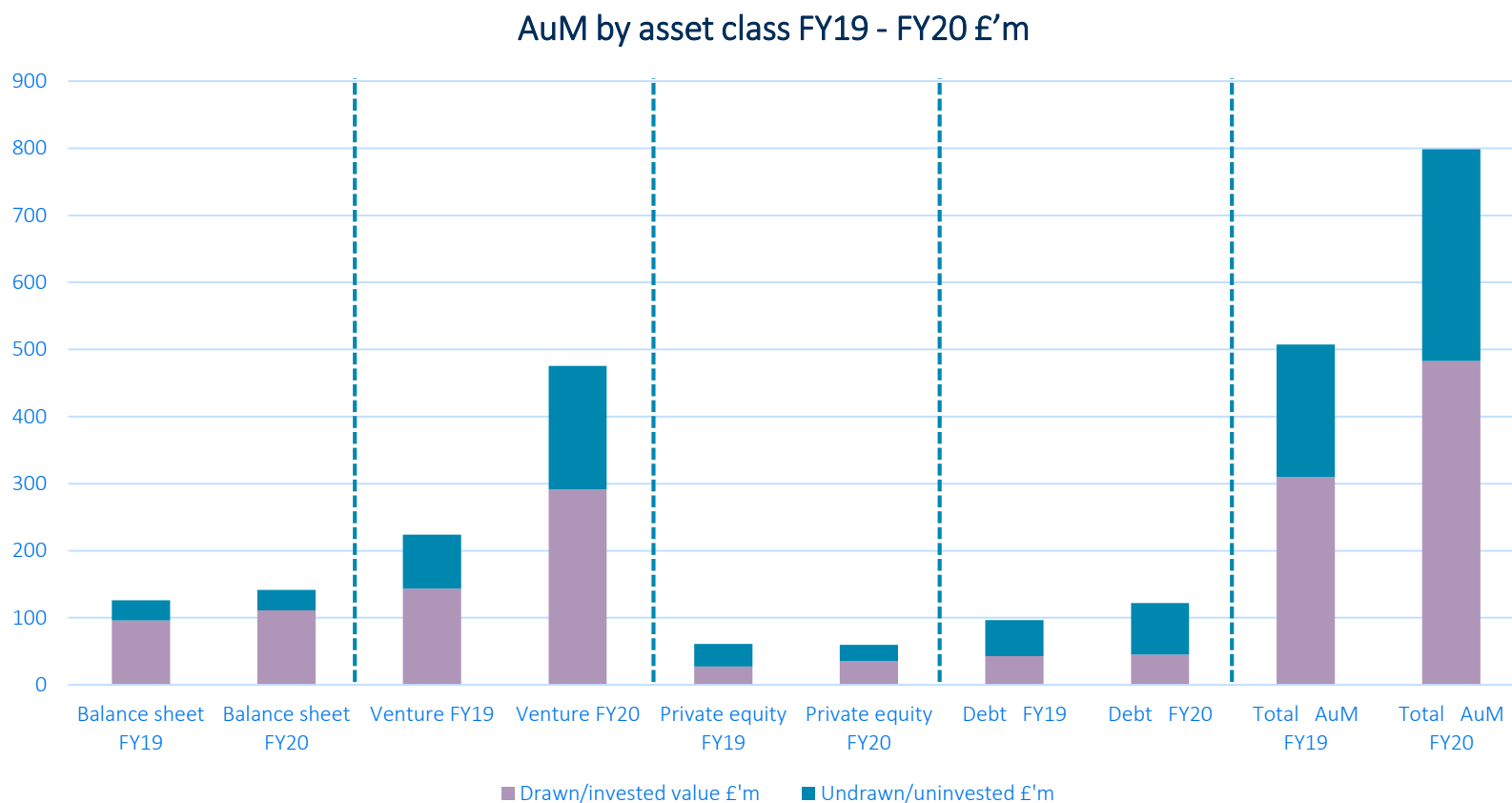
AuM: assets under management (FuM plus balance sheet NAV)

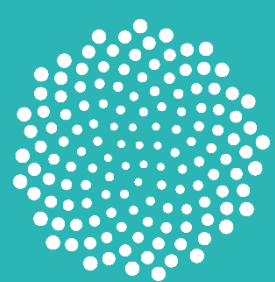
FuM: third-party funds under management

Hard NAV: direct investment holding value plus cash on hand



Growth in AuM and dry powder by asset class

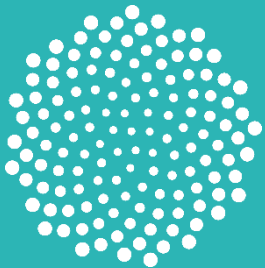




Investment performance

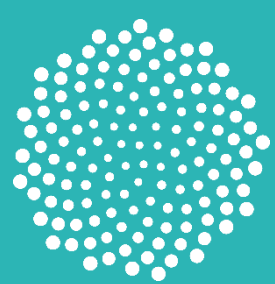
- Direct investments:
 - Since IPO (December 2014):
 - £94.7m invested gross, average c.£14.8m p.a.
 - Four exits – total returned to March 2020 £14.5m
 - Post year end, sale of The Native Antigen Company 93% above September 2019 holding value will return c.£5.2m
 - With COVID-19 correction:
 - £15.8m net FVM decrease, c.15% erosion in the year
- FuM:
 - In FY20, five exits returning £16.2m in total with average 3x return
 - Early funds now unwound: VC fund IRR 15% and PE fund IRR 18%
 - Remaining funds, with COVID-19 correction: FVM of + 10% to -30%

Expectation is value will recover in the near to medium term



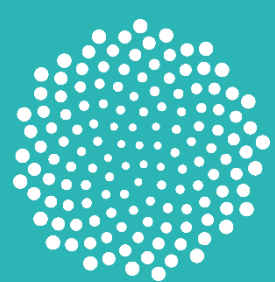
Direct investments










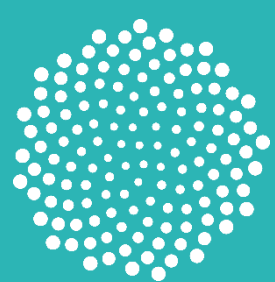
Highlights

- Effort concentrated on larger investments, top 10 represent c.77% of portfolio value
- FY20 focus on strengthening boards, management teams and building co-investment syndications
- 15 of 20 (75%) companies funded through FY21 and beyond
- £15.7m net invested into 18 companies, Clear Review added in year (and MIP Diagnostics post-period end)
- c.79% of COVID-19 related FVM decrease was from four companies (Warwick Acoustics, Impression Technologies, LM Technologies, Crowd Reactive)








Top 10 holdings, by value (1-5)

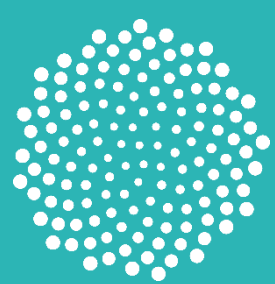
	 nDreams	 OXGENE	 intechica.	 MEDHERANT	 Voxpopme®
Investment value	£16.1m	£11.7m	£7.2m	£6.7m	£6.0m
% direct holding (excludes FuM)	36.4%	30.2%	27.5%	30.1%	17.1%
Initial investment date	2014	2016	2017	2017	2018
Description	VR developer	Biotech gene therapy	Machine learning/AI	Patch delivery	Video analytics
Board representation	Yes	Yes	Yes	Yes	Yes
Key metrics	Revenue, partnerships	Revenue, licences	Revenue, ARR	Regulatory, clinical, partnerships	Revenue, ARR
Highlights FY20	2x+ revenue growth	2x+ revenue growth	Client wins 50%+ growth	Partnership Cycle Pharma	50%+ revenue growth
Valuation change	=	↑	=	=	↑



Top 10 holdings, by value (6-10)

Direct investments

					
Investment value	£4.4m	£4.3m	£4.0m	£3.7m	£3.5m Cash exit £5.2m
% direct holding (excludes FuM)	28.2%	25.9%	15.6%	52.9%	29.4%
Initial investment date	2015	2015	2018	2014	2014
Description	SEO platform	Aluminium pressing	Sodium-ion battery tech	Flat speaker tech	Antigen developer
Board representation	Yes	Yes	Yes	Yes	Yes
Key metrics	Revenue, ARR	Licences, partnerships	Licences, partnerships	Revenue, partnerships	Revenue
Highlights FY20	Revenue growth	4 licences, 2 customers	First order in Australia	JLR	2x+ revenue growth, exit
Valuation change	↓	↓ Automotive	=	↓ Automotive	↑



Operational leverage

Backing founders, managed funds' first

- All direct investments derive from FuM
- Balance sheet holding period 3-7 years from initial investment

VoxPopMe (Midlands-based)

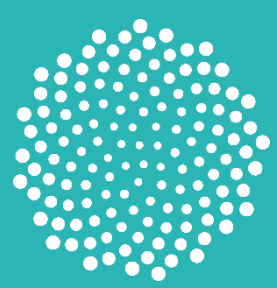


- Sourced from regional network
- Mercia's EIS, VCT and balance sheet

Native Antigen Company (University of Birmingham spinout)

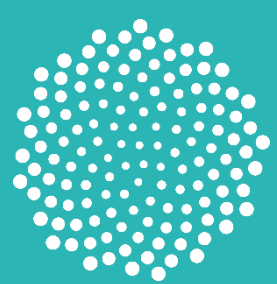
- Mercia's FuM (including EIS) and balance sheet
- c.1.9x on September 2019 holding value
- Returns on investment costs:
 - c.11.9x FuM (Nov. 2011) and c.8.5x balance sheet (Dec. 2014)





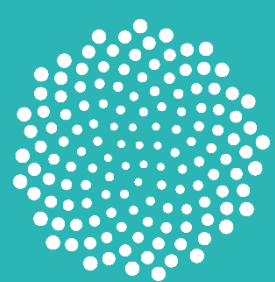
Financial review





Summarised results

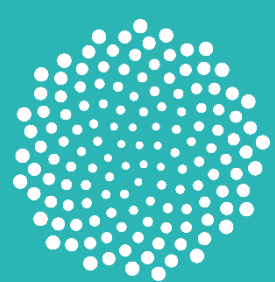
- AuM increased 58% to c.£800m (2019: c.£507m)
- Revenue increased 19.4% to £12.7m (2019: £10.7m)
- Trading profit (“net revenues”) £0.1m (2019: £1.4m trading loss)
- Net fair value decrease £15.8m (2019: £3.9m increase) – COVID-19
- Pre-exceptional operating loss £17.1m (2019: £2.0m profit)
- Net assets £141.5m (2019: £126.1m)
- Net assets per share 32.1 pence (2019: 41.6 pence)
- Unrestricted cash and short-term liquidity investments £30.2m (2019: £29.8m)
- **No debt**



Consolidated statement of comprehensive income

for the year ended 31 March 2020

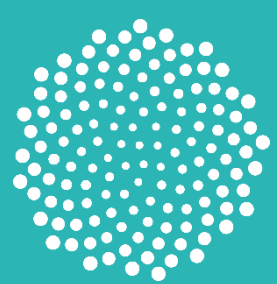
Consolidated statement of comprehensive income	Year ended	Year ended
	31 March 2020 £'000	31 March 2019 £'000
Revenue	12,747	10,675
Other administrative expenses	(12,661)	(12,115)
Net revenues/(expenses)	86	(1,440)
Fair value movements in investments	(15,844)	3,916
Share-based payments charge	(528)	(171)
Amortisation of intangible assets	(852)	(301)
Operating (loss)/profit before exceptional item	(17,138)	2,004
Exceptional items	(695)	-
Operating (loss)/profit	(17,833)	2,004
Finance income	246	562
Finance costs	(26)	-
(Loss)/profit before taxation	(17,613)	2,566
Taxation	159	54
(Loss)/profit and total comprehensive (loss)/income for the financial year	(17,454)	2,620
Basic and diluted (loss)/earnings per Ordinary share (pence)	(5.11)	0.86



Consolidated balance sheet

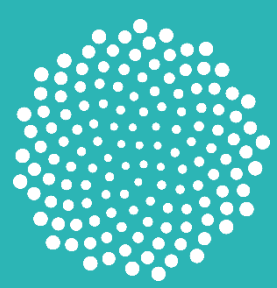
as at 31 March 2020

Consolidated balance sheet	As at 31 March 2020 £'000	As at 31 March 2019 £'000
Assets		
Non-current assets		
Goodwill	16,642	10,328
Intangible assets	20,063	584
Property, plant and equipment	125	153
Right-of-use assets	598	-
Investments	87,471	87,659
Total non-current assets	124,899	98,724
Current assets		
Trade and other receivables	1,298	782
Short-term liquidity investments	6,215	5,188
Cash and cash equivalents	24,438	25,210
Total current assets	31,951	31,180
Total assets	156,850	129,904
Current liabilities		
Trade and other payables	(4,805)	(3,730)
Lease liabilities	(118)	-
Deferred consideration	(1,736)	-
Total current liabilities	(6,659)	(3,730)
Non-current liabilities		
Lease liabilities	(473)	-
Deferred consideration	(4,446)	-
Deferred taxation	(3,812)	(109)
Total non-current liabilities	(8,731)	(109)
Total liabilities	(15,390)	(3,839)
Net assets	141,460	126,065
Equity		
Issued share capital	5	3
Share premium	81,643	49,324
Other distributable reserve	70,000	70,000
Retained earnings	(12,053)	5,401
Share-based payments reserve	1,865	1,337
Total equity	141,460	126,065



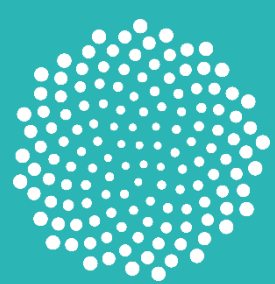
Focused asset manager with robust business model

- ✓ Continued fee income growth with c.87% contracted recurring (fund and monitoring fees)
- ✓ Broad range of close ended and evergreen client FuM
- ✓ Scale: continued growth towards target of £1bn AuM
- ✓ Well capitalised with substantial dry powder
- ✓ Diversified portfolio of direct investments making significant progress
- ✓ Positive outlook and well placed to capitalise on the growing regional markets



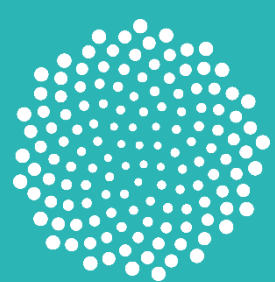
Appendices





Where employees do their best work

- In the regions, from the regions, to the regions
- c.100 employees in 8 regional offices, with 19 regional university partnerships
- c.41% of staff, c.26% of the investment team and 25% of Mercia board NEDs are women
- c.10% BAME
- Mercia Spirit (nominated charities – skills partnership and Cancer Research where staff give up free time)
- Mercia Academy (tailored internal training for all)
- Mercia Knowledge (bespoke information system)

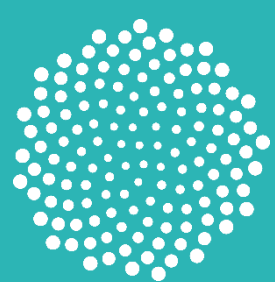


Mercia: *share register* – 69% free float (2019: 23%)

- Board, management and employees (c.17%)
- Invesco (c.14%)
- Retail (c.12%)
- Librae Holdings (c.6%)
- Ruffer (c.6%)
- Ninety One (Investec Asset Management) (c.4%)
- Chelverton Asset Management (c.3%)
- The Hargreaves No.11 settlement (c.3%)
- NFU Mutual (c.3%)

Others of note:

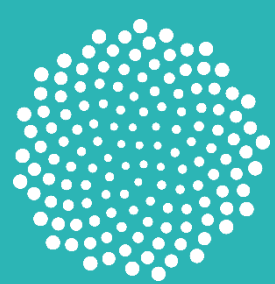
- | | |
|-------------------------------|-------------------|
| • Hargreave Hale | • Schroders |
| • Liontrust | • Quilter Cheviot |
| • West Yorkshire Pension Fund | • Allianz |
| • Unicorn | • Baillie Gifford |
| • NVM Private Equity | • Raymond James |



Direct investment holdings

as at 31 March 2020

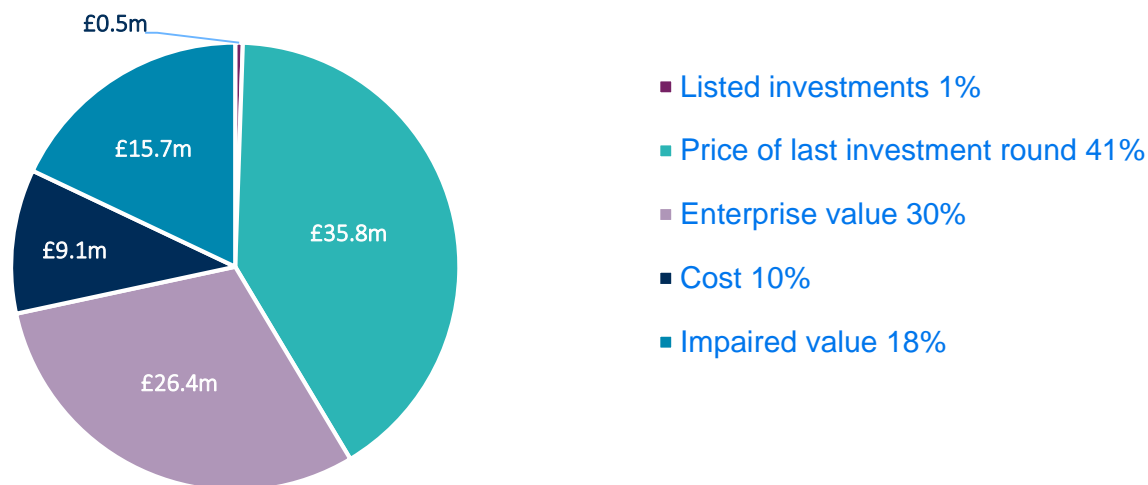
	Investment value As at 1 April 2019 £'000	Net cash invested Year to 31 March 2020 £'000	Fair value movement Year to 31 March 2020 £'000	Investment value As at 31 March 2020 £'000	Percentage held As at 31 March 2020 %
nDreams Ltd	15,120	1,000	-	16,120	36.4
Oxford Genetics Ltd t/a OXGENE™	10,161	-	1,582	11,743	30.2
Intechnica Ltd	6,677	500	-	7,177	27.5
Medherant Ltd	5,205	1,500	-	6,705	30.1
Voxpopme Ltd	3,026	2,000	1,004	6,030	17.1
Ton UK Ltd t/a Intelligent Positioning	5,473	400	(1,519)	4,354	28.2
Impression Technologies Ltd	5,381	2,000	(3,087)	4,294	25.9
Faradion Ltd	3,525	500	-	4,025	15.6
Warwick Acoustics Ltd	7,904	1,065	(5,313)	3,656	52.9
The Native Antigen Company Ltd	2,863	-	630	3,493	29.4
Soccer Manager Ltd	2,099	300	135	2,534	34.8
Edge Case Games Ltd	2,300	-	-	2,300	21.2
Locate Bio Ltd	500	1,750	-	2,250	17.4
VirtTrade Ltd t/a Avid Games	3,938	550	(2,288)	2,200	25.8
PsiOxus Therapeutics Ltd	2,377	160	(344)	2,193	1.4
sureCore Ltd	1,834	333	-	2,167	22.0
W2 Global Data Solutions Ltd	2,000	-	-	2,000	15.2
Eyoto Group Ltd	1,755	875	(878)	1,752	15.7
One Touch Apps Ltd t/a Clear Review	-	500	-	500	3.9
Concepta PLC	1,133	750	(1,408)	475	22.4
Other direct investments	4,388	1,473	(4,358)	1,503	n/a
Totals	87,659	15,656	(15,844)	87,471	n/a

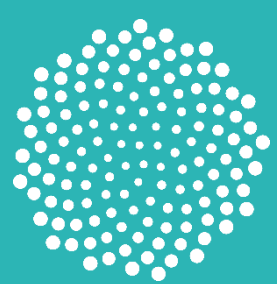


Valuation methodology

- Followed new IPEV CV Guidelines
- Calibration of valuation approaches
- Some use of DCF due to new valuation guidelines
- COVID-19 discounts applied where appropriate
- But, still adopt a 'hand on heart' final review

Direct investment valuation





Strong corporate governance combined with deep, patient investment experience



Ian Metcalfe
Chair



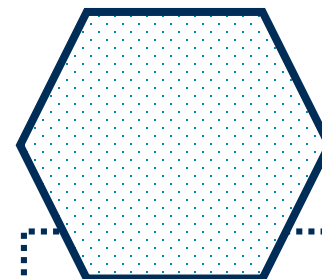
Ray
Chamberlain



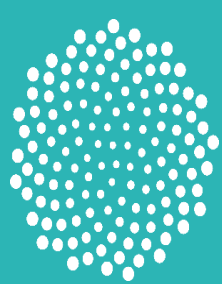
Dr Jonathan
Pell



Caroline
Plumb OBE



New NED
with strong
asset
management
background



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