

Preliminary results for the year ended 31 March 2018

Realising value



Mark Payton - CEO

Martin Glanfield - CFO

Julian Viggars - CIO

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- Continued good progress with direct investment portfolio:
 - £21.1million invested in 17 portfolio companies, with three new Emerging Stars
 - Net fair value gains of £2.8million
 - Third cash realisation, Science Warehouse, for £10.5million including a realisation of £0.6million
 - Portfolio poised for further fair value growth
- Net assets of £123.5million (2017: £121.4million)
- NAV per share 40.7 pence (2017: 40.4 pence)
- Settlement of £2.0million deferred consideration for Enterprise Ventures acquisition due to target significantly exceeded
- Revenue growth to £10.2million (2017: £6.7million)
- Net expenses reduced to £0.4million (2017: £2.5million)
- Unrestricted cash and short-term liquidity investments of £49.4million (2017: £59.6million) due to accelerating direct investment
- Assets under management (“AuM”) grown to ~£500.0million (2017: ~£450.0million)

Our journey: The start, December 2014



£0.7million turnover



~£31.1million AuM:

- ~£22.0million FuM (portfolio of 36 companies)
- ~£9.0million portfolio valuation (11 direct investments)
- ~£100,000 cash



1 office, West Midlands based



Ambition to expand FuM to provide a funnel for direct investments and build a strong position in the Midlands, the North of England and Scotland



8 employees



9 university partners



December
2014

Our journey: Just over three years later



£10.2million turnover



~£500.0million AuM:

- ~£400.0m FuM (portfolio of >190 companies)
- ~£66.1million portfolio valuation (26 direct investments)
- ~£49.4million unrestricted cash



3 cash realisations



9 offices in the Midlands, the North of England and Scotland



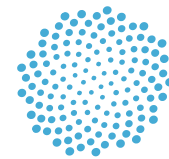
80 employees



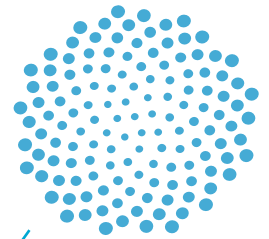
19 university partners



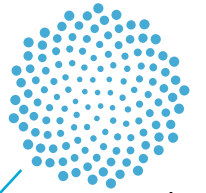
Business built to deliver



March 2016



March 2018



December
2014

The Board and Investment Team

The Board



Dr Mark Payton
CEO



Martin Glanfield
CFO



Julian Viggars
CIO



Susan Searle
Non-executive
Chair



Ian Metcalfe
Snr Independent
Director



Ray Chamberlain
Non-executive
Director



Dr Jonathan Pell
Non-executive
Director



Caroline Plumb OBE
Non-executive
Director

Sector Investment Team Leaders



Peter Dines
COO and Head of Life
Sciences & Biosciences



Dr Alistair Forbes
Head of Software &
the Internet



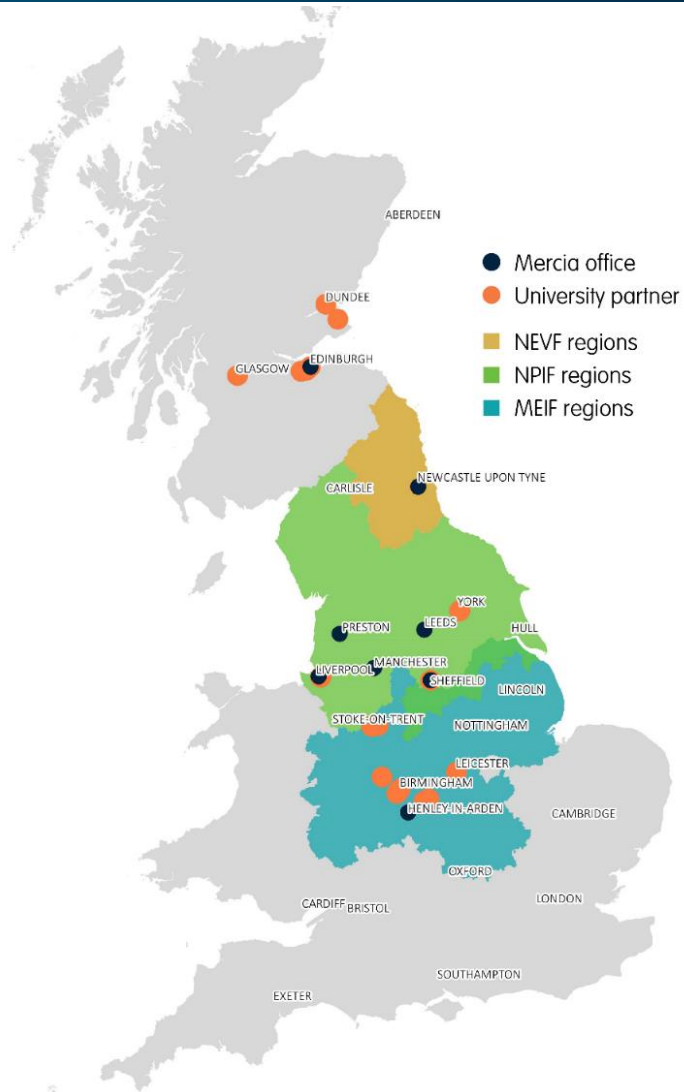
Dr Mark Volanthen
Head of Electronics,
Materials, Manufacturing
/ Engineering



Mike Hayes
Head of Digital &
Digital Entertainment



Dr Nicola Broughton
Head of Universities



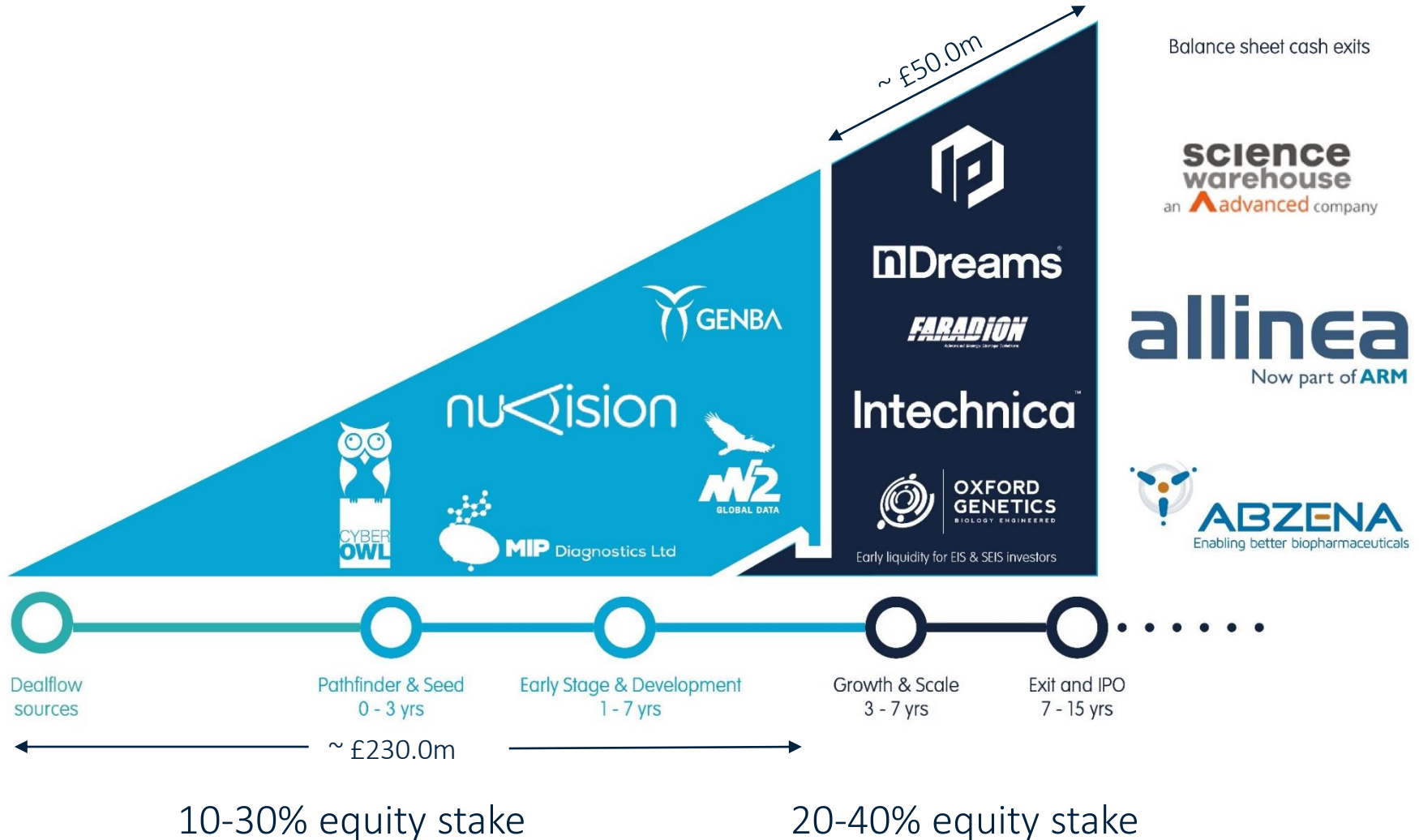
Regional:

- NEVF (Gold: equity)
- NPIF (Green: debt & equity)
- Rosebud (Green: debt & equity)
- MEIF (Turquoise: equity)

National:

- EVGF II (equity)
- SME Loans (debt)
- EIS (equity)
- Balance sheet (equity)

Complete capital solution



University partnerships delivering value

The Midlands



Scotland



The North of England



Delivering ~50 innovative opportunities



Starting to deliver both balance sheet and funds value

allinea

Now part of **ARM**

- Midlands/University of Warwick
- Sold in December 2016
- ~£2.9million full cash realisation

science warehouse

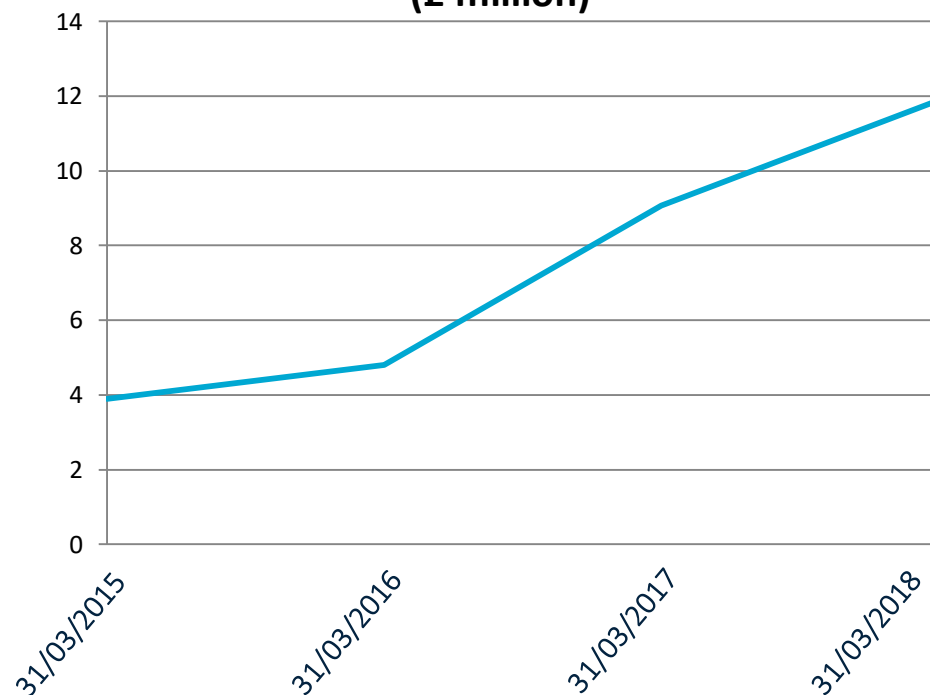
an **advanced** company

- North of England/Leeds University
- Sold in March 2018
- ~£10.5million full cash realisation

blueprism

- North of England (fund investment, RSGF)
- First invested in 2004, equity divestments in 2016 & 2017
- Return to date ~80x (~£70.0million)

Cumulative fair value net gains
(£'million)



Software & the Internet

- Artificial intelligence
- Cybersecurity
- Software as a service
- Analytical tools
- Adtech



Digital & Digital Entertainment

- Virtual reality
- Augmented reality
- Gaming/content
- Serious games



Electronics, Materials, Manufacturing / Engineering

- Energy
- Communications
- High value electronics
- Manufacturing applications

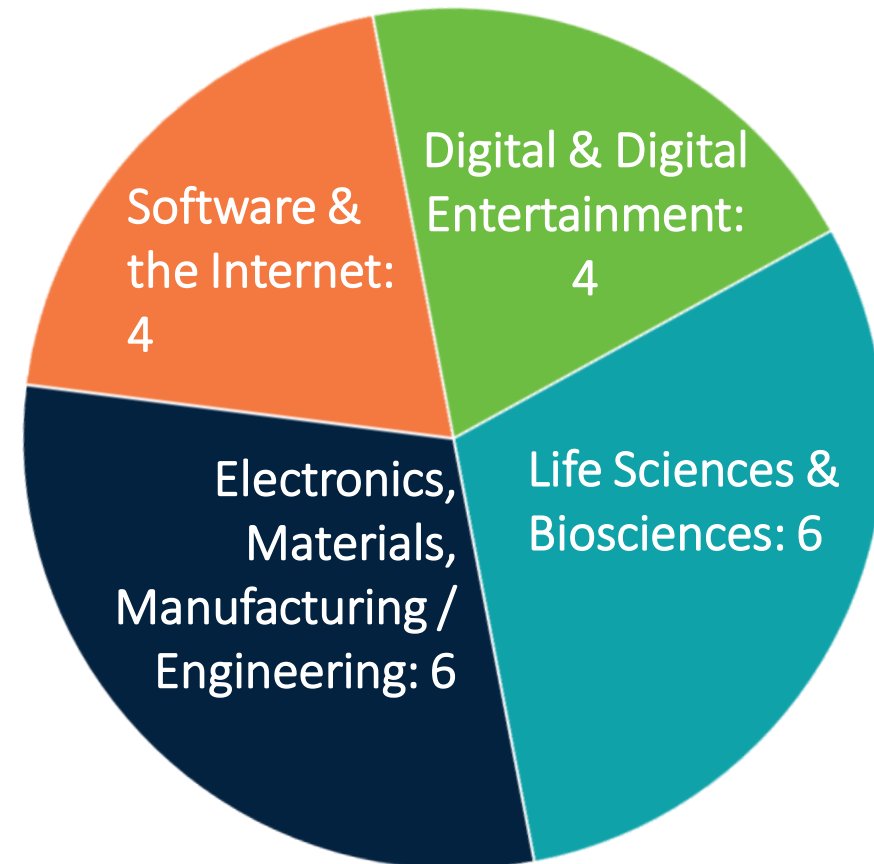


Life Sciences & Biosciences

- Diagnostics
- Digital health
- Medical devices
- Synthetic bio



Portfolio composition
(values above £1.0million)



Robust and growing FuM pipeline



Electronics, Materials, Manufacturing / Engineering



Gorilla in the room



Digital & Digital Entertainment



Life Sciences & Biosciences



Manchester Imaging
DENTAL DIAGNOSTIC SOFTWARE



Software & the Internet



Key sector companies



Software & the Internet



Intelligent
Positioning

Equity stake:
28.8%

Holding value:
£4.2million

IntechnicaTM

Intechnica

Equity stake:
27.9%

Holding value:
£4.0million



CROWDREACTIVE

Crowd Reactive

Equity stake:
28.3%

Holding value:
£1.7million



Voxpopme[®]

Voxpopme

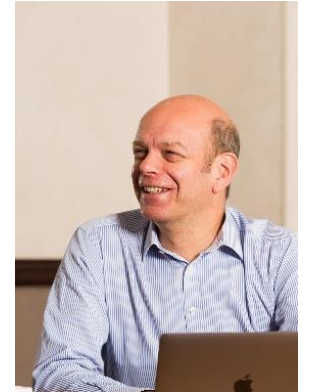
Equity stake:
12.3%

Holding value:
£1.0million

Investment Director

Dr Alistair Forbes – Sector Head
15+ years in the sector

Co-founder of HoundDog Technology, acquired by GFI Software in 2009. He then held the position of GM for a division that grew from \$6.0million ARR to \$100.0million ARR in a period of six years



Key sector companies



Digital & Digital Entertainment



nDreams

Equity stake:
45.6%

Holding value:
£13.0million



VirtTrade

Equity stake:
28.4%

Holding value:
£2.5million



Edge Case Games

Equity stake:
21.2%

Holding value:
£2.0million



Soccer Manager

Equity stake:
31.6%

Holding value:
£1.2million

Investment Director

Mike Hayes – Sector Head
20+ years in the sector

Formerly CEO at SEGA Europe & America, sales & marketing director at Nintendo and marketing director at Codemasters



Key sector companies



Electronics, Materials, Manufacturing / Engineering

Investment Director

Dr Mark Volanthen – Sector Head
20+ years in the sector

Named on 65 patents. Founding
employee at Kymata, acquired by
Alcatel for \$118.0million



Warwick Audio
Technologies

Equity stake:
64.0%

Holding value:
£6.2million



Impression
Technologies

Equity stake:
26.6%

Holding value:
£3.1million



Smart Antenna
Technologies

Equity stake:
28.0%

Holding value:
£2.1million



Faradion

Equity stake:
13.6%

Holding value:
£1.3million

Key sector companies



Life Sciences & Biosciences



**OXFORD
GENETICS**
BIOLOGY ENGINEERED

Oxford Genetics

Equity stake:
40.6%

Holding value:
£9.1million



Medherant

Equity stake:
31.9%

Holding value:
£3.5million



The Native
Antigen Company

Equity stake:
32.7%

Holding value:
£1.9million



Concepta

Equity stake:
18.2%

Holding value:
£1.3million

Investment Director

Peter Dines – Sector Head
20+ years in the sector

Former MD of Surgicraft, led MBO of UK business Surgi C during which time sales tripled, sold to Livingbridge



Summary financial information

	Year to 31 March 2018 £'000	Year to 31 March 2017 £'000
Income statement - key items		
Revenue	10,197	6,660
Administrative expenses	(10,633)	(9,143)
Net expenses	(436)	(2,483)
Realised gains on disposal of investments	871	839
Fair value movements in investments	2,823	4,268
Exceptional item – deferred consideration	(1,125)	(1,125)
Profit for the financial year	1,663	1,043
Balance sheet – key items		
Direct investment portfolio value	66,070	52,028
Cash and short-term liquidity investments *	52,908	63,829
Net assets	123,470	121,354
Cash flow – key item		
Net cash flows from direct investment activities **	(10,664)	(8,779)

* includes £3.5million of cash held on behalf of 3rd party fund investors (31:03:17 £4.2million)

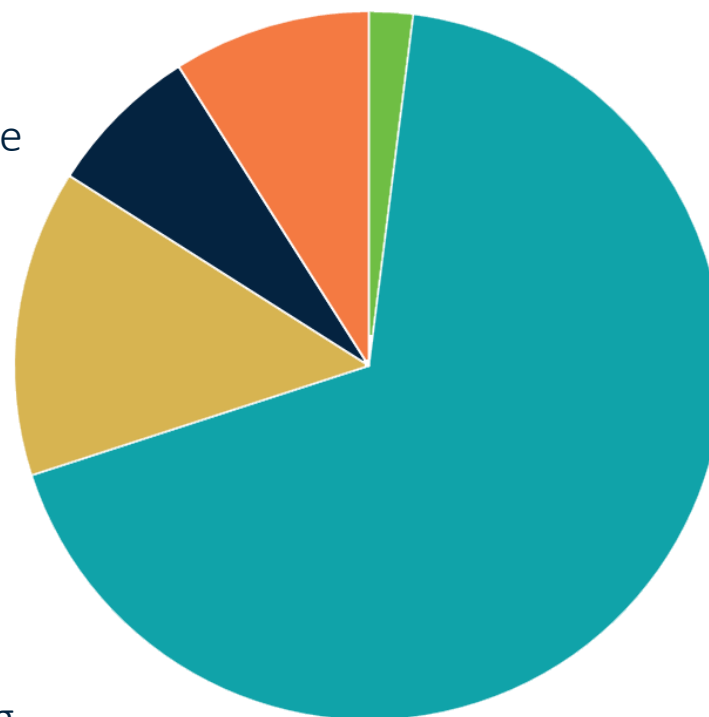
** net of £10.5million disposal proceeds from Science Warehouse sale

Direct investment holdings

	Net investment value As at 1 April 2017	Net cash invested Year to 31 March 2018	Investment realisations Year to 31 March 2018	Fair value movements Year to 31 March 2018	Net investment value As at 31 March 2018	Percentage held As at 31 March 2018
Investment	£'000	£'000	£'000	£'000	£'000	%
nDreams Ltd	10,979	2,000	-	-	12,979	45.6
Oxford Genetics Ltd	2,196	2,500	-	4,394	9,090	40.6
Warwick Audio Technologies Ltd	2,791	1,800	-	1,561	6,152	64.0
Ton UK Ltd t/a Intelligent Positioning	2,500	500	-	1,216	4,216	28.8
Intechnica Ltd	-	3,750	-	271	4,021	27.9
Medherant Ltd	650	2,500	-	303	3,453	31.9
Impression Technologies Ltd	1,500	1,520	-	87	3,107	26.6
VirtTrade Ltd	1,538	1,000	-	-	2,538	28.4
PsiOxus Therapeutics Ltd	2,377	-	-	-	2,377	1.5
Smart Antenna Technologies Ltd	2,259	450	-	(561)	2,148	28.0
Edge Case Games Ltd	2,310	1,500	-	(1,810)	2,000	21.2
The Native Antigen Company Ltd	1,141	23	-	778	1,942	32.7
LM Technologies Ltd	1,770	100	-	43	1,913	41.4
Aston EyeTech Ltd t/a Eyoto	-	1,750	-	-	1,750	18.7
Crowd Reactive Ltd	1,500	150	-	-	1,650	28.3
sureCore Ltd	1,500	-	-	-	1,500	23.0
Concepta PLC	3,400	365	-	(2,459)	1,306	18.2
Faradion Ltd	1,299	-	-	-	1,299	13.6
Soccer Manager Ltd	1,599	-	-	(400)	1,199	31.6
Voxpopme Ltd	-	1,000	-	-	1,000	12.3
Science Warehouse Ltd	9,913	-	(9,913)	-	-	-
Other direct investments	806	224	-	(600)	430	n/a
Totals	52,028	21,132	(9,913)	2,823	66,070	n/a

99.3% of portfolio value represented by top 20 investments

- All £66.1million of investments are held at fair values based on IPEVCV Guidelines
- Early-stage companies often have no current/short-term future earnings or positive cash flows
- Consequently, the most appropriate fair value methodology is that based on available market data, being the 'price of recent investment'
- 'Price of recent investment' can be either 'price of recent funding round' or 'cost' in the case of a new direct investment



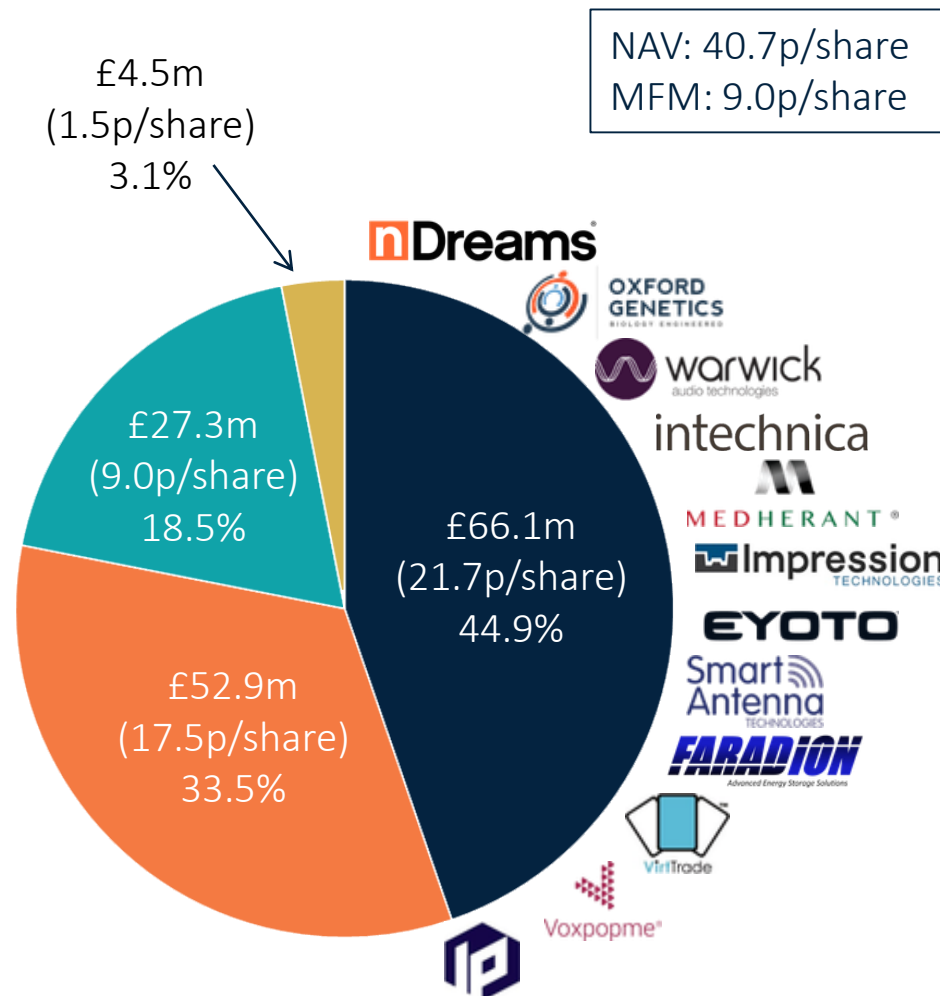
- Listed bid price: 2%
- Price of recent round: 68%
- Cost: 14%
- Enterprise value: 7%
- Cost adjusted for impairment: 9%

A share in Mercia; *sum of the parts*

Other value drivers

- Future fair value uplifts and realised gains in existing balance sheet portfolio
- Growing number, strength and breadth of future de-risked Emerging Stars from FuM
- 19 university partnerships
- Deep venture and sector expertise
- Extensive regional networks
- Lower net expenses business model
- Return of NAV premium

- Direct investments
- Cash
- Mercia Fund Managers
- Goodwill, intangible assets & net working capital



Mercia is in a secure financial position



- Cash in hand is ~£50.0million
- ~£230.0million 'dry powder' in managed funds
- Group's net expenses are reducing
- 2018/19 balance sheet investment ~£25.0million
- 'Group' annual investment rates (funds and balance sheet):
 - In 2016/17: ~£20.0million
 - In 2017/18: ~£46.0million
 - In 2018/19: ~£60.0million+
- Increasing funds investment activity will lead to more balance sheet investment opportunities



NAV growth

Business built, now strong focus on accelerated growth in the value of direct investments



Minimisation of cash erosion

Increasing revenue and reducing net expenses



Leverage partnerships and business model

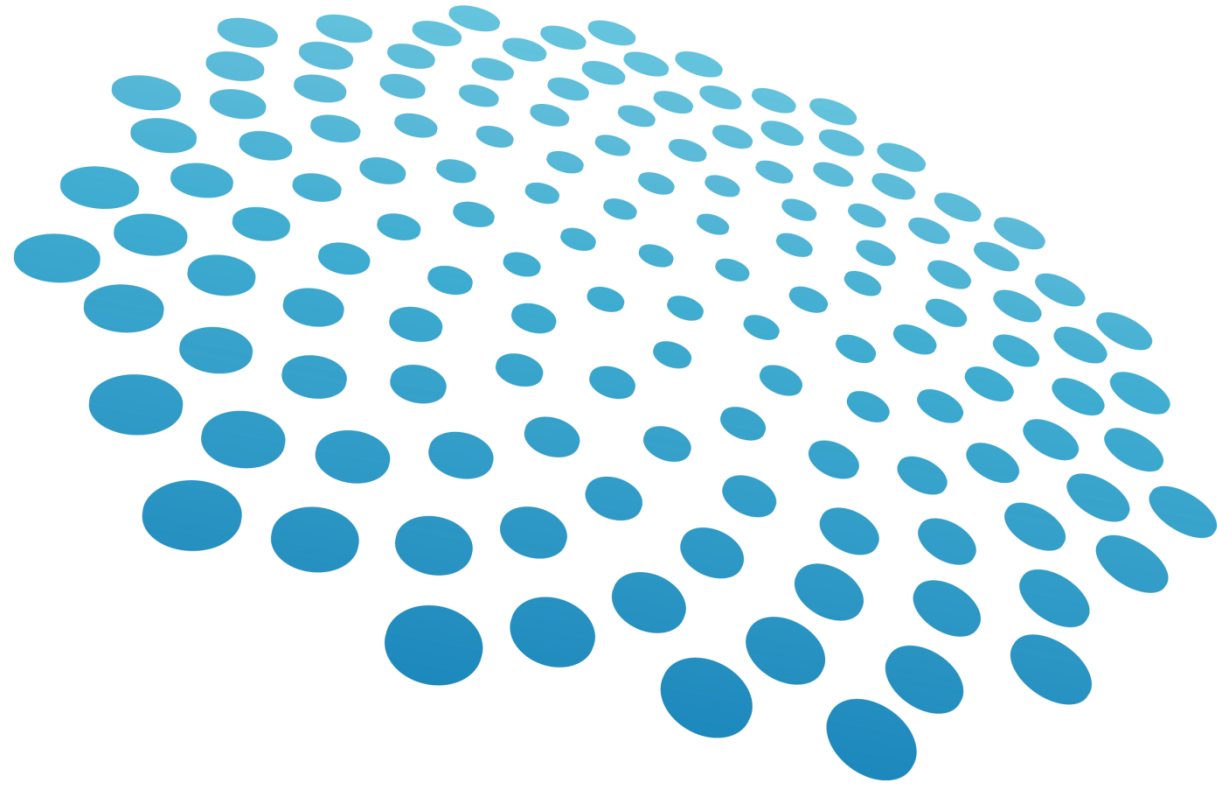
In last 12 months:

- >1,700 plans received (~5% invested through FuM)
- >190 venture businesses in FuM
- 3 (2% of venture portfolio) new Emerging Stars
- Increasing number of potential Emerging Stars in funds pipeline

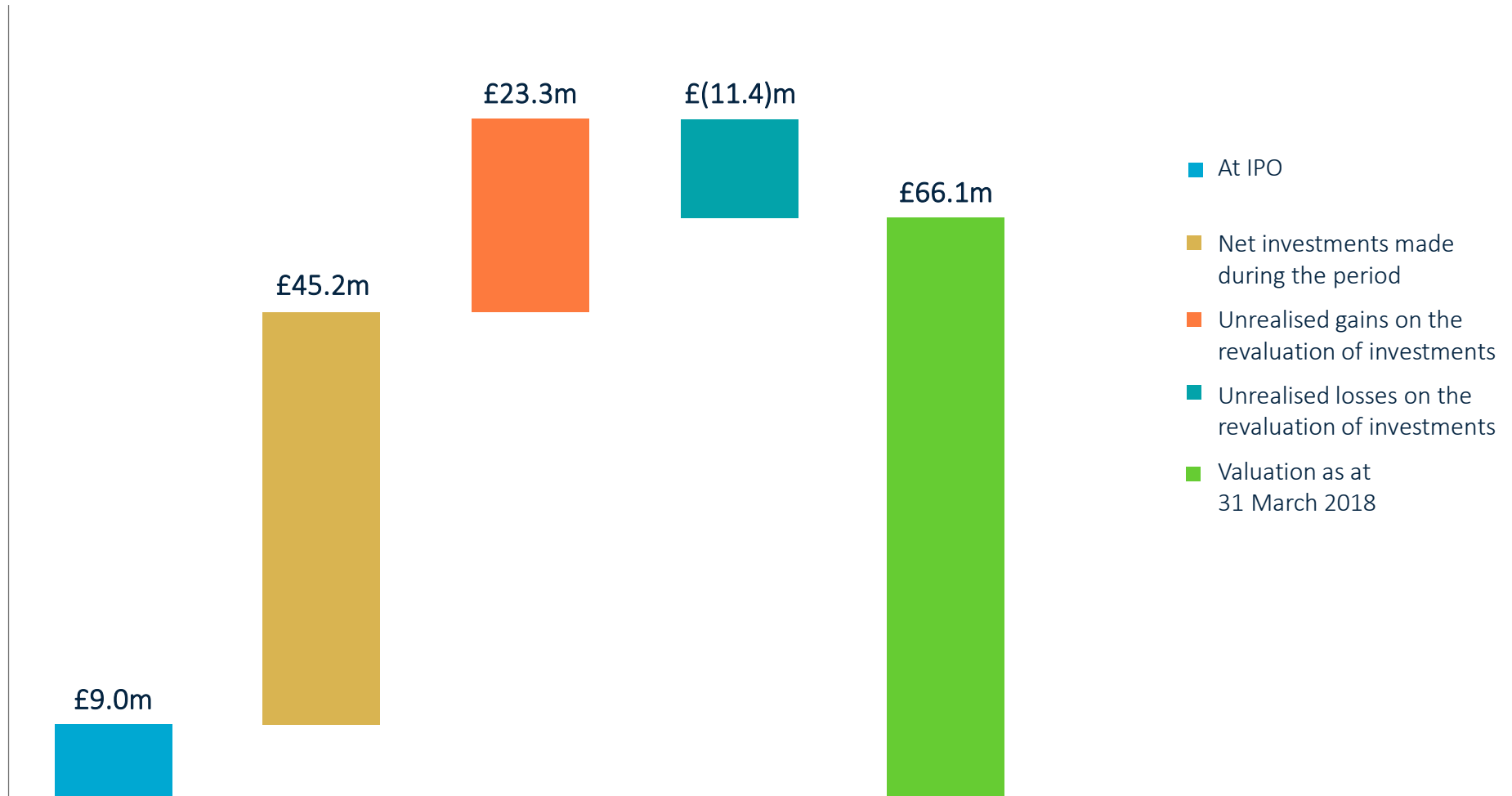


Realise value

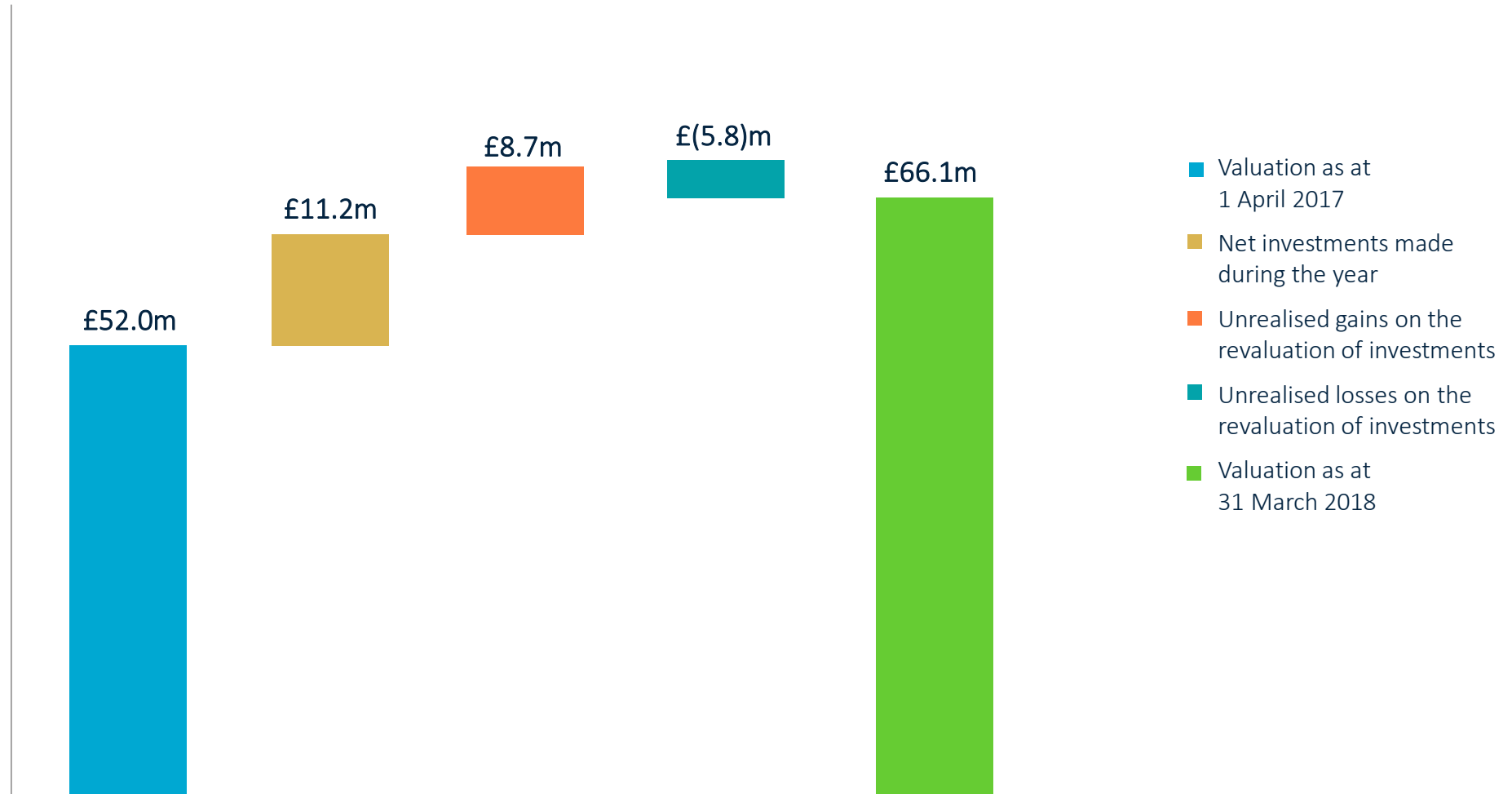
Cash returns through trade sales and IPOs



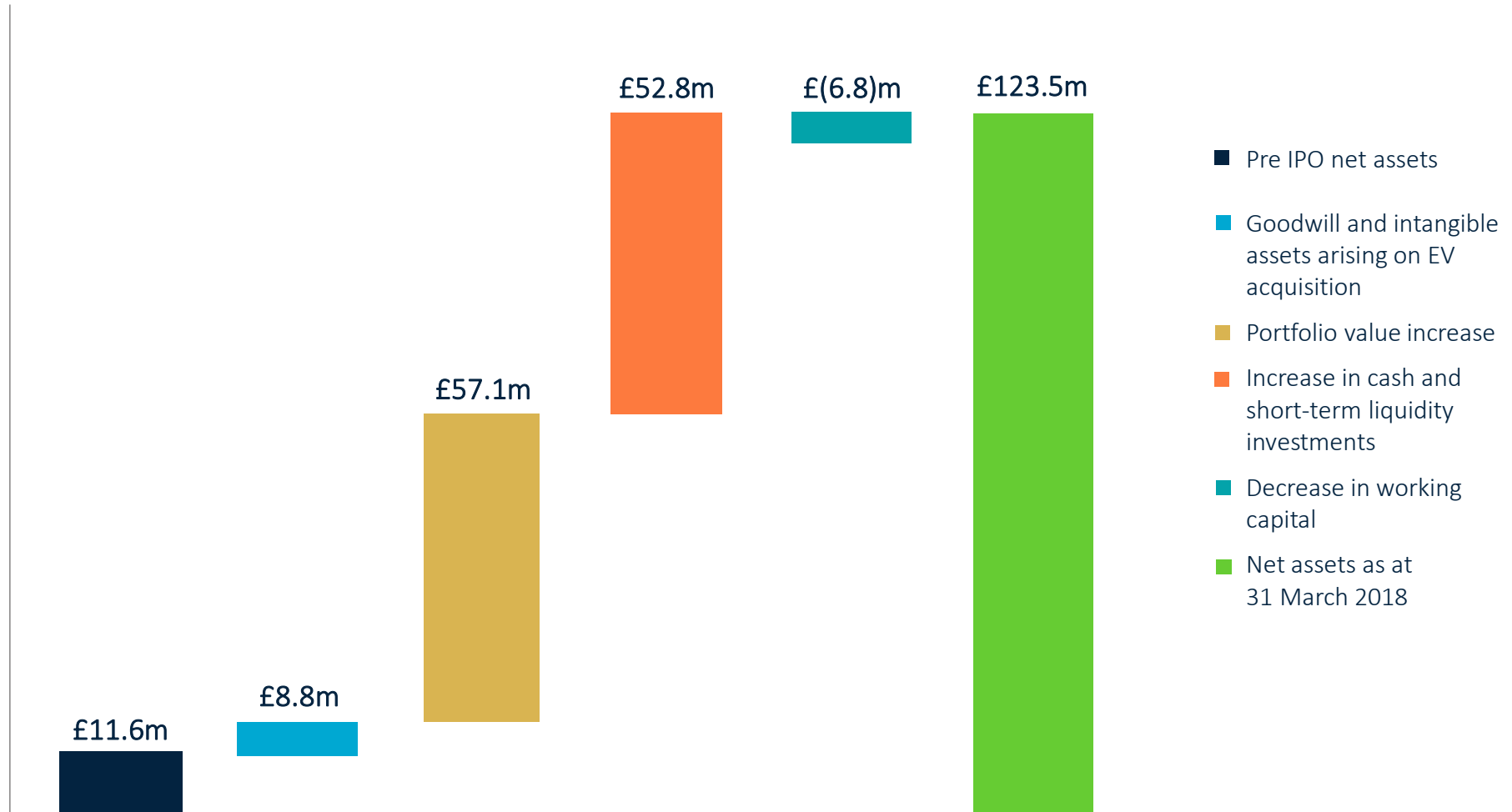
Movements in portfolio: IPO to 31 March 2018



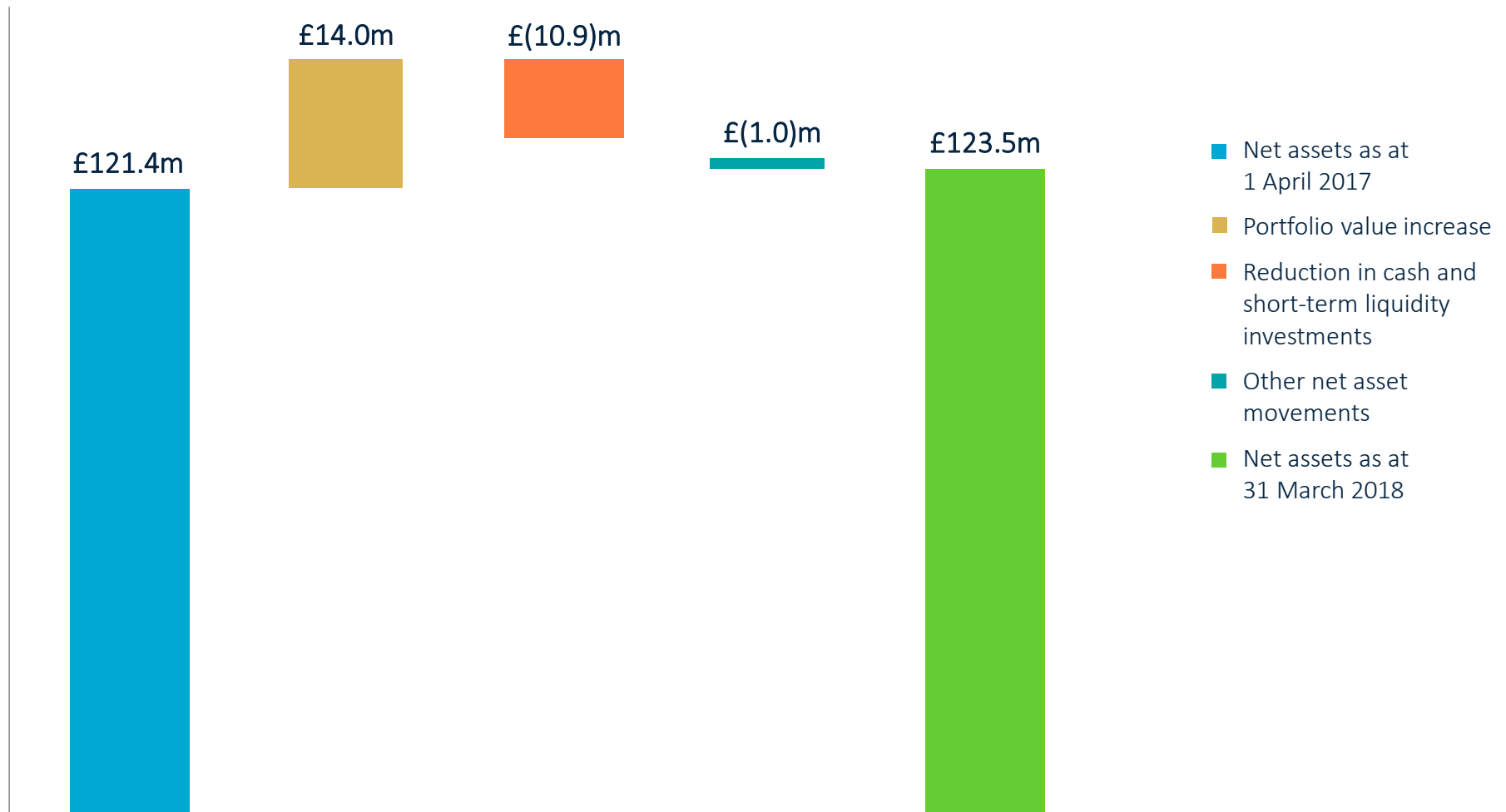
Movements in portfolio: Year ended 31 March 2018

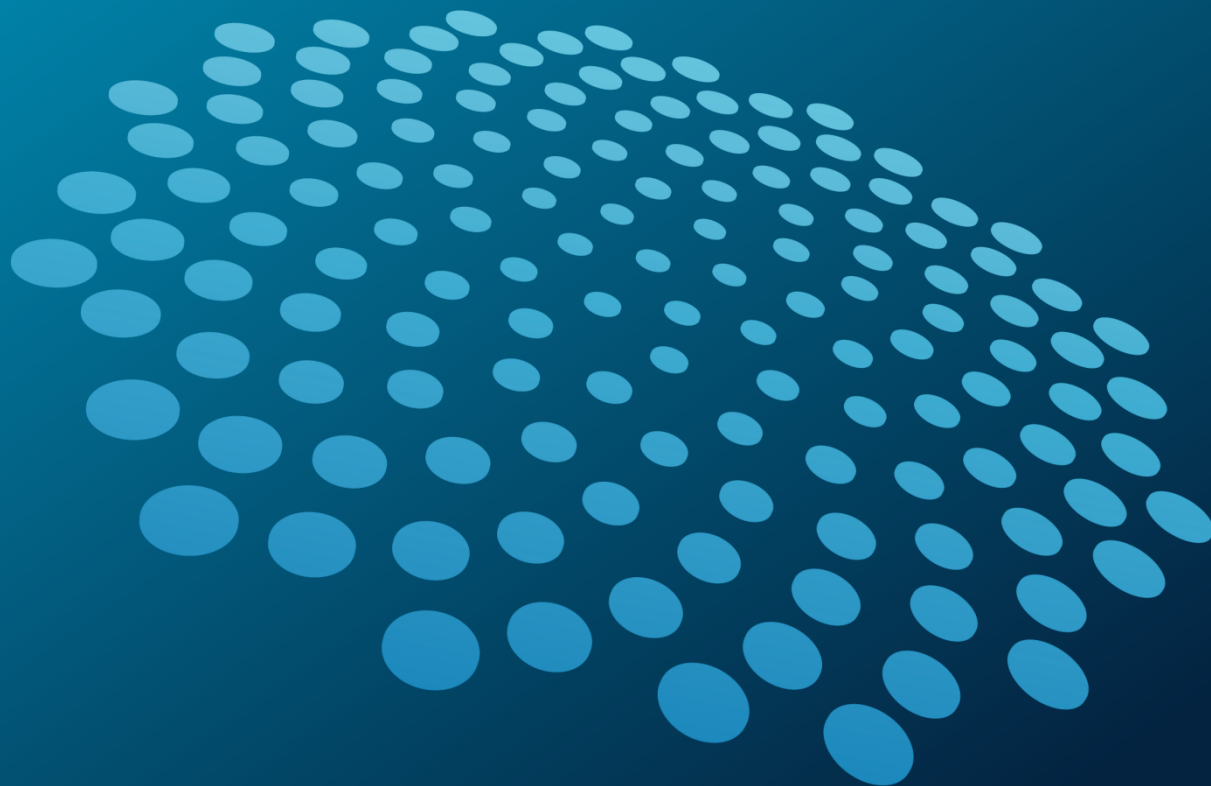



Movements in net assets: IPO to 31 March 2018



Movements in net assets: Year ended 31 March 2018





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