

# Mercia Asset Management PLC

30 September 2022  
Interim Results



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## An entrepreneurial leadership team with a track record of value realisation



**Dr Mark Payton**  
Chief Executive Officer

Over 20 years' experience in tech commercialisation and investing  
PhD in Life Sciences  
Co-founder of Mercia



**Martin Glanfield**  
Chief Financial Officer

Over 20 years' CFO experience of multiple listed and PE-backed technology-led businesses  
Former CFO of Forward Group PLC  
KPMG trained chartered accountant  
Chairs Debt team



**Julian Viggars**  
Chief Investment Officer

Over 20 years' venture capital experience including Blue Prism IPO  
Oversees the Group's equity investment activity  
Chartered accountant



## Strong model delivering capital growth and yield

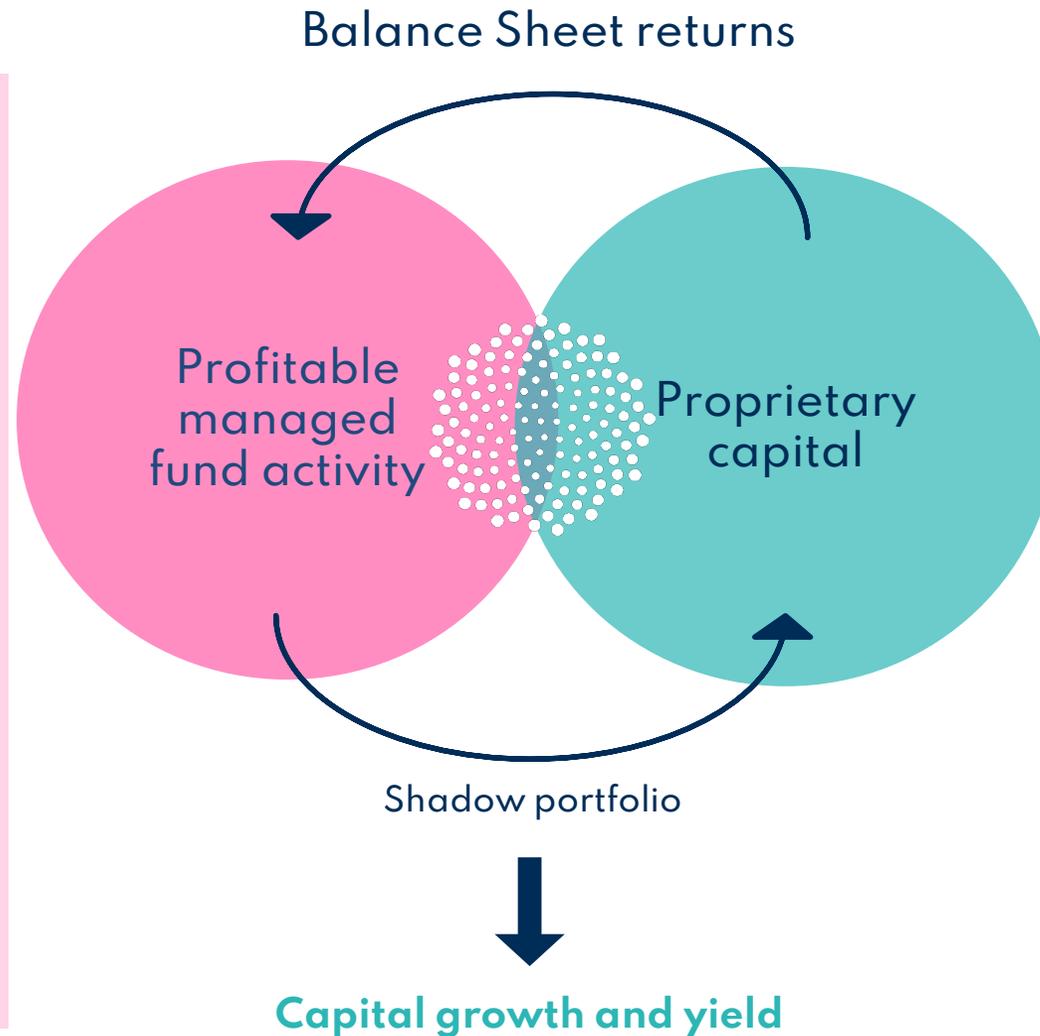
- On track to deliver Mercia '20:20'
- Strong liquidity – c.£296m across managed funds and the balance sheet
- Long-dated managed funds with no redemptions
- Well-funded portfolios with low capital needs
- Resilient Group with sustainable profitability
- NAV/share of 46.8p (31 March 2022: 45.6p)
- 0.33p interim dividend (10.0% increase)



1	2	3
Newcastle	Preston	Leeds
4	5	6
Manchester	Sheffield	Bristol
7	8	9
Henley-in-Arden	London	Birmingham

## The model - a debt-free group delivering

- Complementary asset classes
- Recurring predictable fee income
- Growing profitability and operating cash inflow
- Scalable platform and systems to facilitate accelerated growth



- Strong focus and discipline
- Invests in emerging funds' portfolio companies, selectively into managed funds and complementary M&A to scale AuM
- Fully aligned

## Strong M&A track record

### What we look for:

- i. Value driver analysis – minimum 20
- ii. Strong cultural fit
- iii. ‘More of the same’ or adjacent asset classes
- iv. Earnings enhancing
- v. Domestic market expansion via new FuM, both national and regional
- vi. Strong fit with internal capabilities / systems
- vii. Organic growth prospects of the acquired business



2016

Acquired entire group (£11.0m):

- c.£200m FuM
- 7.9x PBT



2019

Acquired 3 VCT fund management contracts plus team (£25.0m):

- c.£270m FuM
- 6.3x PBT

Post-acquisition  
FuM growth:

+c.£150m

+c.£66m

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2022

Acquired entire group (£9.5m):

- c.£415m FuM
- 7.3x PBT

Post-acquisition  
FuM growth:

+c.£150m

+c.£66m



- i. Alternative national fund manager providing loans to SMEs and property developers to fund regional growth
- ii. Established in 2016 - headquartered in Birmingham with 24 employees
- iii. The transaction:
  - £9.5m total cash consideration; £5.5m initial; £4.0m deferred consideration, contingent upon achieving both two-year revenue and £100m net new institutional third-party fundraising targets
- iv. Typical loans of c. £2m to c. £10m
- v. Platform for future FuM growth
- vi. Highly complementary to Mercia’s ‘Complete Connected Capital’ model and FuM growth strategy

## Proforma AuM post-acquisition

Venture	Private Equity	Debt	Balance Sheet	FDC Debt	TOTAL
£0.2m - £5m	£2m - £5m	£0.2m - £1m	£1m - £10m	£2m - £10m	
Total FuM £611m	Total FuM £46m	Total FuM £116m	NAV £206m	Total FuM £415m	Total AuM £1,394m

## Tailwinds for growth

### Scalable distribution:

- i. Retail investors (via EIS and VCT)
- ii. Public sector (via British Business Bank)
- iii. Institutional capital (via regional pension funds)

	Drivers for growth	Growing addressable opportunity
Retail capital (EIS / VCT)	Top-four manager in both classes	EIS: £1.6bn (2021) VCT: £1.1bn (2022)
British Business Bank / others	Currently manage c.40% of regional BBB funds. Next generation funds due FY 2023-24	£1.6bn committed in 2021 spending review to next generation regional funds
Institutional capital	Through PE and Debt	Strong track record for further growth

## FY22 – FY24 Our three-year strategic goals



Achieve average pre-tax profits of £20million per annum over the next three years

Grow NAV/share

Grow AuM by an average of 20% per annum over the same three-year period

Grow dividend

	PBT	AuM
FY 2022:	£27.4m	£959m
H1 2023:	£7.4m	£979m
H1 2023*:	-	c.£1.4bn
FY 2024:	-	-
Three-year cumulative target:	£60.0m	c.£1.6bn

\* Proforma AuM post-acquisition of FDC





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## Financial review

## HEADLINE FINANCIALS

<b>30 September 2022:</b>	<b>£12.2m</b> Group revenue	<b>£3.6m</b> Adjusted operating profit	<b>£7.4m</b> Profit before taxation	<b>£56.1m</b> Unrestricted cash	<b>46.8p</b> NAV/share
30 September 2021:	£10.1m*	£2.4m	£11.0m	£52.1m	42.4p
31 March 2022:	£20.6m*	£8.4m	£27.4m	£61.3m	45.6p

\* Excluding exceptional performance fees

## H1 2023 - AuM movements

Asset class	AuM 1 April 2022 £'m	Investor inflows £'m	Performance £'m	Distributions £'m	AuM 30 Sept. 2022 £'m	Post period end inflows £'m
Venture	592	54	(21)	(14)	611	12
Private Equity	48	-	(2)	-	46	-
Debt	118	-	-	(2)	116	-
Debt (FDC)	-	-	-	-	-	415
<b>Total FuM</b>	<b>758</b>	<b>54</b>	<b>(23)</b>	<b>(16)</b>	<b>773</b>	<b>427</b>
Proprietary Capital	201	-	7	(2)	206	-
<b>Total AuM</b>	<b>959</b>	<b>54</b>	<b>(16)</b>	<b>(18)</b>	<b>979</b>	<b>427</b>

- VCT (c.£41m\*) and EIS funds raised (c.£13m) successfully in the period
- FuM performance impacted by VCT portfolio valuation headwinds
- Venture and debt capital distributions to investors

\* Including investor inflows as part of the Northern VCT dividend reinvestment plans

# Consolidated statement of comprehensive income

For the six months ended 30 September 2022

	<b>Unaudited Six months ended 30 September 2022 £'000</b>	Unaudited Six months ended 30 September 2021 £'000	Audited Year ended 31 March 2022 £'000	
<b>Revenue</b>	<b>12,181</b>	12,696	23,183	
Administrative expenses	<b>(10,222)</b>	(9,082)	(17,857)	
Realised gain on disposal of investment	-	-	9,878	
Fair value movements in investments	<b>5,595</b>	8,708	11,385	• Upward fair value movement of +£5.6m
Share-based payments charge	<b>(592)</b>	(573)	(1,109)	
Amortisation of intangible assets	<b>(1,017)</b>	(1,017)	(2,033)	
Movement in fair value of deferred consideration	-	-	(522)	
<b>Operating profit</b>	<b>5,945</b>	10,732	22,925	
Finance income	<b>1,488</b>	238	4,452	
Finance expense	<b>(8)</b>	(8)	(15)	
<b>Profit before taxation</b>	<b>7,425</b>	10,962	27,362	• Mercia '20:20' midpoint:
Taxation	<b>(422)</b>	192	(1,262)	• c.£35m profit before taxation
<b>Profit and total comprehensive income for the period</b>	<b>7,003</b>	11,154	26,100	
<b>Basic earnings per Ordinary share (pence)</b>	<b>1.59</b>	2.53	5.93	
<b>Diluted earnings per Ordinary share (pence)</b>	<b>1.57</b>	2.50	5.82	

# Consolidated statement of financial position

As at 30 September 2022

	Unaudited As at 30 September 2022 £'000	Unaudited As at 30 September 2021 £'000	Audited As at 31 March 2022 £'000
Goodwill and intangible assets	31,338	33,371	32,355
Property, plant, equipment and right-of use assets	468	526	530
Investments	131,545	110,298	119,558
<b>Total non-current assets</b>	<b>163,351</b>	<b>144,195</b>	<b>152,443</b>
Trade and other receivables	1,158	4,551	1,074
Cash and short-term liquidity investments	56,112	52,114	61,284
<b>Total current assets</b>	<b>57,270</b>	<b>56,665</b>	<b>62,358</b>
<b>Total assets</b>	<b>220,621</b>	<b>200,860</b>	<b>214,801</b>
Trade, other payables and lease liabilities	(7,851)	(6,486)	(7,120)
Deferred consideration	(2,869)	(1,578)	(2,869)
<b>Total current liabilities</b>	<b>(10,720)</b>	<b>(8,064)</b>	<b>(9,989)</b>
Lease liabilities	(241)	(319)	(295)
Deferred consideration	-	(2,869)	-
Deferred taxation	(3,676)	(3,180)	(3,928)
<b>Total non-current liabilities</b>	<b>(3,917)</b>	<b>(6,368)</b>	<b>(4,223)</b>
<b>Total liabilities</b>	<b>(14,637)</b>	<b>(14,432)</b>	<b>(14,212)</b>
<b>Net assets</b>	<b>205,984</b>	<b>186,428</b>	<b>200,589</b>
<b>Equity</b>			
Issued share capital	4	4	4
Share premium	81,644	81,644	81,644
Other distributable reserve	64,719	68,240	66,919
Retained earnings	55,508	33,559	48,505
Share-based payments reserve	4,109	2,981	3,517
<b>Total equity</b>	<b>205,984</b>	<b>186,428</b>	<b>200,589</b>

- Direct portfolio:
  - Net capital deployed £6.4m
  - FVM +£5.6m  
+c.10% vs. March 2022
- Significant liquidity of £56.1m with no debt
- NAV per share 46.8p  
+c.3% vs. March 2022
- FY22 final dividend of 0.50p/share approved in September 2022
  - FY23 interim dividend of 0.33p/share  
+c.10% vs. FY22 interim dividend

# Consolidated cash flow statement

For the six months ended 30 September 2022

	Unaudited Six months ended 30 September 2022 £'000	Unaudited Six months ended 30 September 2021 £'000	Audited Year ended 31 March 2022 £'000
<b>Cash generated from operating activities</b>	<b>544</b>	2,625	9,150
Corporation tax paid	(705)	-	-
<b>Net cash (used in)/generated from operating activities</b>	<b>(161)</b>	2,625	9,150
Sale of direct investments	11	-	16,309
Purchase of direct investments	(6,403)	(5,370)	(19,884)
Investee company loan repayment	-	-	1,500
Investee company loan interest received	1,371	235	4,438
<b>Net cash (used in)/generated from direct investment activities</b>	<b>(5,021)</b>	(5,135)	2,363
Receipt of bank interest on deposits	104	3	14
Purchase of property, plant and equipment	(20)	(34)	(76)
Purchase of fund management contracts	-	-	(2,100)
Decrease in short-term liquidity investments	-	-	(5,001)
<b>Net cash generated from/(used in) other investing activities</b>	<b>84</b>	(31)	(7,163)
<b>Net cash used in total investing activities</b>	<b>(4,937)</b>	(5,166)	(4,800)
Dividends paid	-	-	(2,641)
Interest paid	(8)	(8)	(15)
Payment of lease liabilities	(79)	(62)	(136)
<b>Net cash used in financing activities</b>	<b>(87)</b>	(70)	(2,792)
<b>Net (decrease)/increase in cash and cash equivalents</b>	<b>(5,185)</b>	(2,611)	1,558
Cash and cash equivalents at the beginning of the period	56,049	54,491	54,491
<b>Cash and cash equivalents at the end of the period</b>	<b>50,864</b>	51,880	56,049

- Net £6.4m capital deployed

- +£5.2m of short-term liquidity investments



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## Investment review

## H1 2023 - Key investment figures for the Group

### INVESTMENT

30 September 2022:	<b>1,165</b> Investment requests	<b>c.£56m</b> Capital deployed	<b>80</b> Businesses invested	<b>35</b> New to portfolio
30 September 2021:	1,110	c.£55m	74	38
31 March 2022:	2,604	c.£124m	148	95

### PERFORMANCE

30 September 2022:	<b>c.£25m</b> Investment returns	<b>1.6x</b> Investment multiple	<b>14</b> Full or partial exit events
30 September 2021:	c.£43m	2.4x	9
31 March 2022:	c.£155m	3.1x	17

## New to the direct portfolio



£3.0m invested  
in October 2022



£2.3m invested  
in October 2022



NOVA PANGAEA  
TECHNOLOGIES



£0.3m invested  
in H1 2023

Uniphy



...and at the right time, more to come

# Direct investment portfolio

H1 2023 progress

	Year of first direct investment	Investment value As at 1 April 2022 £'000	Net cash invested Six months to 30 September 2022 £'000	Investment realisations Six months to 30 September 2022 £'000	Fair value movement Six months to 30 September 2022 £'000	Investment value As at 30 September 2022 £'000	Percentage held As at 30 September 2022 %
nDreams Ltd	2014	25,761	-	-	-	25,761	33.2
Impression Technologies Ltd	2015	10,372	3,588	-	-	13,960	65.1
Netacea Ltd	2022	-	-	-	12,204	12,204	24.1
Voxpopme Ltd	2018	10,511	-	-	-	10,511	17.6
VirtTrade Ltd	2015	5,387	450	-	4,003	9,840	40.6
Warwick Acoustics Ltd	2014	6,306	1,450	-	1,939	9,695	40.3
Medherant Ltd	2016	8,989	-	-	-	8,989	33.1
Invincibles Studio Ltd	2015	4,600	-	-	1,400	6,000	39.0
Ton UK Ltd	2015	6,074	-	-	(699)	5,375	29.9
Locate Bio Ltd	2018	4,858	-	-	-	4,858	18.1
Eyoto Group Ltd	2017	2,960	444	-	-	3,404	11.5
Sense Biodetection Ltd	2020	2,479	-	-	-	2,479	1.6
sureCore Ltd	2016	2,417	-	-	-	2,417	22.0
W2 Global Data Solutions Ltd	2018	2,500	200	-	(401)	2,299	16.3
Intechnica Holdings Ltd	2017	14,411	-	-	(12,204)	2,207	24.1
PsiOxus Therapeutics Ltd	2015	1,780	-	-	-	1,780	1.4
Forensic Analytics Ltd	2021	1,750	-	-	-	1,750	8.9
MyHealthChecked PLC	2016	1,632	-	-	102	1,734	13.1
MIP Discovery Ltd	2020	1,449	-	-	-	1,449	10.2
Edge Case Games Ltd	2015	2,300	-	-	(883)	1,417	18.7
Other direct investments	n/a	3,022	271	(11)	134	3,416	n/a
<b>Total</b>		<b>119,558</b>	<b>6,403</b>	<b>(11)</b>	<b>5,595</b>	<b>131,545</b>	<b>n/a</b>

## Direct portfolio value creation

Financial year/investee	Carrying value £'000	Realised value £'000	Premium (%)
2017			
Abzena plc	150	170	13.3
Allinea Software Limited	1,900	2,700	42.1
2018			
Science Warehouse Limited	9,900	10,500	6.1
2021			
The Native Antigen Company Limited	3,500	5,200	48.6
Clear Review Limited	1,030	1,040	1.0
Oxford Genetics Limited	16,100	30,700	90.7
2022			
Faradion Limited	12,900	19,400	50.4
<b>Total/average premium</b>	<b>45,480</b>	<b>69,710</b>	<b>53.3</b>

## Summary and outlook

- ✓ Earnings enhancing acquisition expands national debt footprint
- ✓ Acquisition moves Mercia closer to achieving Mercia '20:20' at the midpoint
- ✓ Long-dated managed funds not subject to redemptions
- ✓ Well funded, diversified direct investment portfolio with modest capital needs
- ✓ Still c.2% fee margin on scaling managed funds
- ✓ Strong liquidity; c. two-year cash runway across all asset classes

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# Appendices

## Top 10 holdings, by value (1-5)

	 nDreams	 Impression TECHNOLOGIES	NETACEA	 Voxpopme®	 CARDS, THE UNIVERSE AND EVERYTHING
Investment value	£25.8m	£14.0m	£12.2m	£10.5m	£9.8m
% direct holding (excludes FuM)	33.2%	65.1%	24.1%	17.6%	40.6%
Initial year of investment	2014	2015	2022	2018	2015
Description	VR developer	Aluminum pressing	Bot management	Video analytics	Mobile digital trading cards
Board representation	Yes	Yes	Yes	Yes	No
Key metrics	Revenue, partnerships	Licences, partnerships	Revenue, ARR	Revenue, ARR	Revenue, partnerships
H1 2023 highlights	Ghostbusters VR, third-party titles	Progress in battery boxes, recycled aluminium and aerospace	Sales and channel progress	Growth and acquisition	Significant revenue growth
Valuation change	=	=	↑	=	↑

## Top 10 holdings, by value (6-10)

					
Investment value	£9.7m	£9.0m	£6.0m	£5.4m	£4.9m
% direct holding (excludes FuM)	40.3%	33.1%	39.0%	29.9%	18.1%
Initial year of investment	2014	2016	2015	2015	2018
Description	Flat speaker tech	Patch delivery	Mobile soccer management game	Business intelligence	Orthobiologics
Board representation	Yes	Yes	Yes	Yes	Yes
Key metrics	Licences, partnerships	Regulatory, clinical, partnerships	Revenue, partnerships	Revenue, partnerships	Revenue, partnerships
H1 2023 highlights	OEM engagements x4	Tech and commercial progress	SM23 launch, revenues +c.50%	Steady growth	Trials progressing
Valuation change	↑	=	↑	↓	=

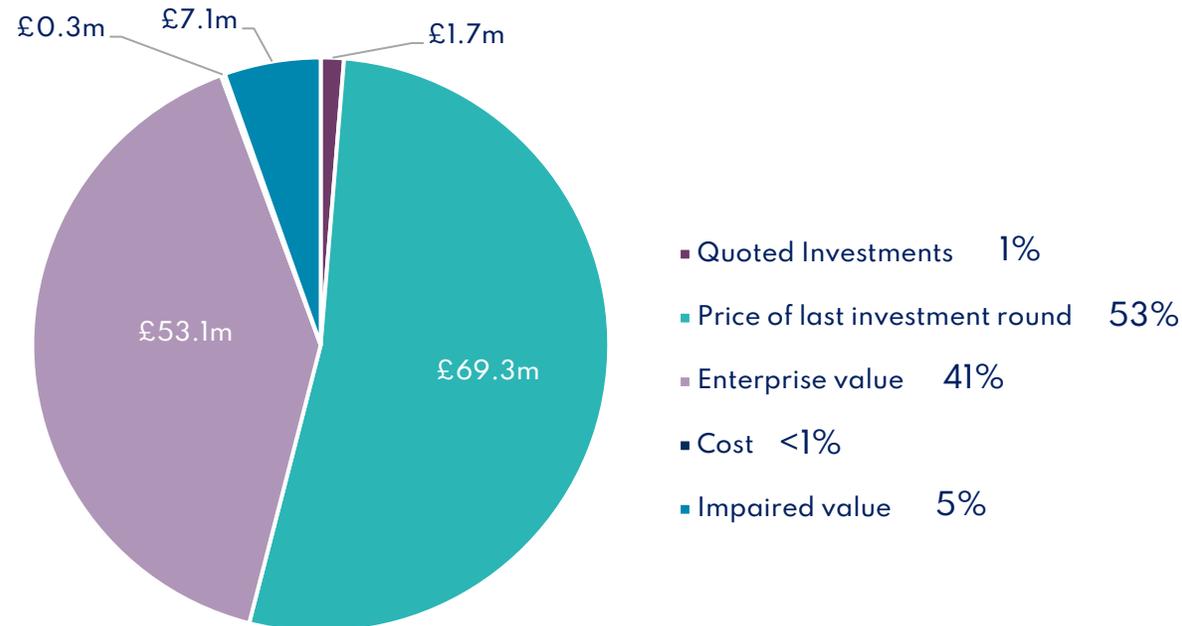
# Shadow portfolio, ones to watch



## Valuation methodology

- Followed IPEV CV Guidelines
- Calibration of valuation approaches
- Some use of DCF due to valuation guidelines
- Some COVID-19 discounts still to unwind
- But still adopt a 'hand-on-heart' final review
- BDO undertook interim valuations review – not all companies do

### Direct investment valuations



## Mercia share register: 69% free float (FY 2022: 69%)

- Board, management and employees (c.17%)
- Invesco (c.14%)
- Retail (c.10%)
- Ruffer (c.7%)
- Chelverton Asset Management (c.5%)
- BlackRock (c.4%)
- Columbia Threadneedle Investments (c.4%)
- Fidelity (c.4%)
- The Hargreaves No.11 Settlement (c.3%)
- NFU Mutual (c.3%)
- Librae Holdings (c.3%)
- Allianz (c.3%)

### Others of note:

- Ninety One
- Hargreave Hale
- Liontrust
- West Yorkshire Pension Fund
- Unicorn

## Asset class summary

Venture	Private Equity	Debt	Balance Sheet	Frontier Dev. Capital Debt	TOTAL
£0.2m - £5m	£2m - £5m	£0.2m - £1m	£1m - £10m	£2m - £10m	
Total portfolio 236	Total portfolio 9	Total portfolio 179	Total portfolio 25	Total portfolio 100	Total portfolio 549
Total FuM £611m	Total FuM £46m	Total FuM £116m	NAV £206m	Total FuM £415m	Total AuM £1,394m
Total invested HI 2023 £39.1m	Total invested HI 2023 £0.3m	Total invested HI 2023 £9.7m	Total invested HI 2023 £6.4m	Total invested* HI 2023 £22.0m	Total invested HI 2023 £77.5m
Liquidity £175m	Liquidity £14m	Liquidity £51m	Liquidity £56m	Liquidity £163m	Liquidity £459m

\* Excludes £55.0million of debt facilities committed to developers from two managed property funds