

Northern 3 VCT PLC

Half-yearly financial report

30 September 2017



Northern 3 VCT PLC is a Venture Capital Trust (VCT) managed by NVM Private Equity LLP.

It invests mainly in unquoted venture capital holdings and aims to provide high long-term tax-free returns to shareholders through a combination of dividend yield and capital growth.

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Financial summary

	Six months ended 30 September 2017	Six months ended 30 September 2016	Year ended 31 March 2017
Net assets	£68.7m	£70.6m	£69.9m
Net asset value per share	98.0p	107.1p	106.2p
Return per share			
Revenue	1.5p	1.2p	2.6p
Capital	(1.2)p	12.3p	12.0p
Total	0.3p	13.5p	14.6p
Dividend declared in respect of the period*	2.0p	2.0p	10.5p
Cumulative return to shareholders since launch			
Net asset value per share	98.0p	107.1p	106.2p
Dividends paid per share**	83.9p	73.4p	75.4p
Net asset value plus dividends paid per share	181.9p	180.5p	181.6p
Mid-market share price at end of period	93.0p	91.5p	101.0p
Share price discount to net asset value	5.1%	14.6%	4.9%
Tax-free dividend yield (based on mid-market share price)			
Including special dividend	N/A	N/A	10.4%
Excluding special dividend	5.9%	6.0%	5.4%

*Year ended 31 March 2017 includes 5.0p special dividend

**Excluding interim dividend not yet paid

Key dates

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Half-yearly results announced

14 November 2017

Shares quoted ex dividend

4 January 2018

Interim dividend paid (to shareholders on register on 5 January 2018)

26 January 2018

Half-yearly management report

for the six months ended 30 September 2017

The financial markets have been remarkably buoyant over the past year despite concerns about future prospects for the UK economy and the political situation in Europe and further afield.

The unaudited net asset value (NAV) per share at 30 September 2017 was 98.0 pence (31 March 2017 (audited) 106.2 pence). The September figure is stated after deducting the second interim and final dividends totalling 8.5 pence per share in respect of the year ended 31 March 2017, which were paid in July 2017 and therefore recognised in the September 2017 half-yearly accounts. The second interim dividend of 5.0 pence was a special payment, following further successful sales of holdings from the venture capital portfolio.

Taking account of the reduction in NAV resulting from the dividend payments, the operating outcome for the six month period was marginally positive with the income statement showing a return per share of 0.3 pence after a very strong advance in the preceding 12 months.

The directors have declared an unchanged interim dividend of 2.0 pence per share for the year ending 31 March 2018, which will be paid on 26 January 2018 to shareholders on the register at the close of business on 5 January 2018.

Investment portfolio

Four new holdings in VCT-qualifying unquoted companies were acquired during the period at a cost of £2.6 million, as follows:

- **Velocity Composites** (£95,000) – AIM-quoted manufacturer of material kits for aircraft production, Burnley
- **Knowledgemotion** (£958,000) – educational video aggregator and distributor, London

- **Contego Fraud Solutions** (£481,000) – identity verification system provider, Oxford
- **Volo Commerce** (£1,088,000) – enterprise resource planning platform for online merchants, London

A second round of funding was provided for existing investee company Sorted Holdings (£760,000).

Subsequent to 30 September 2017 new investments have been completed in Angle (AIM-quoted, £131,000) and Soda Software Labs (£1,301,000).

Proceeds from investment sales and repayments amounted to £6.4 million, producing a gain of £0.6 million over 31 March 2017 carrying values. The investment in Optilan Group was sold in a secondary buy-out transaction to Blue Water Energy for £2.8 million, and a further £2.2 million was released on the liquidation of five companies which were originally set up in 2015 with a view to commencing VCT-qualifying activities but as it turned out were not able to do so. In the AIM-quoted portfolio the remaining investment in Gear4music (Holdings) was sold, as was the investment in Hayward Tyler prior to an agreed takeover by Avingtrans.

Our managers continue to monitor the venture capital portfolio closely. As expected, the composition of the portfolio is changing gradually, reflecting the earlier-stage nature of the new investments which are being completed under the revised VCT regulations. This is likely to give rise to greater fluctuations in valuations over time, and there have already been some instances of movements in both directions. Overall the condition of the portfolio remains satisfactory.



James Ferguson *Chairman*

Share issues and buy-backs

In September 2017 we launched a public offer of new shares, our first significant offer for over four years, to raise up to £20 million for the next phase of the company's investment activities. Northern Venture Trust and Northern 2 VCT launched similar offers in conjunction with ours. The response from investors has been very good, despite a number of competing issues from other VCT houses during the same period, and the offer is already almost fully subscribed. Over 50% of the amount invested came from existing shareholders in Northern 3 VCT, who were given priority in the offer, and we would like to thank both them and our new shareholders for their support and confidence in the company. We now have a very strong store of liquidity for our future investment programme.

It remains our policy to buy back the company's shares in the market at a discount of 5% to NAV, and 569,000 shares were re-purchased for cancellation during the six months ended 30 September 2017 at a cost of £530,000.

VCT qualifying status

The company has continued to comply with the conditions laid down by HM Revenue & Customs for the maintenance of approved venture capital trust status. Our managers monitor the position closely and the board also receives regular reports from our taxation advisers at Philip Hare & Associates LLP.

VCT legislation

The Government has continued to consult on the subject of how best to provide long-term financial investment for smaller unquoted companies in the UK, and our managers and their colleagues in the VCT sector have played a full part in making representations to HM Treasury concerning the key role played by VCTs over the past 20 years. We wait to see whether the outcome of the consultation leads to any changes in the VCT legislation when the Chancellor makes his Budget announcement on 22 November 2017. In the meantime NVM has continued to develop its investment resources to address the need to focus activity on earlier-stage businesses. As previously indicated, the VCT-qualifying investments made in previous years in later-stage companies are not affected by the recent legislation, except that many of them are no longer eligible for "follow-on" funding rounds.

Prospects

The financial markets have been remarkably buoyant over the past year despite concerns about future prospects for the UK economy and the political situation in Europe and further afield. We do not expect the recent marginal increase in interest rates to have a significant impact on the companies we have invested in, and the flow of potential new investments currently appears healthy.

On behalf of the Board

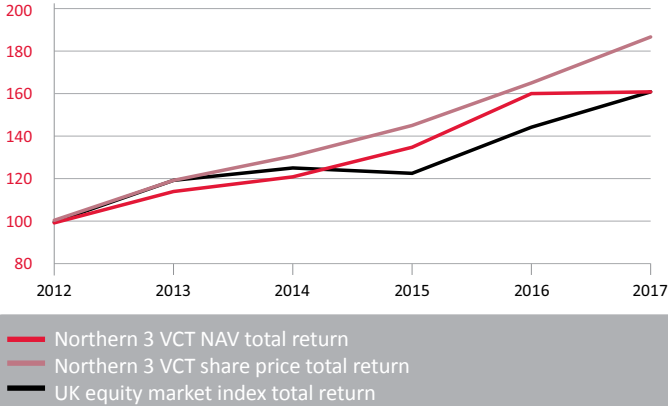
James Ferguson
Chairman

14 November 2017

Five year performance

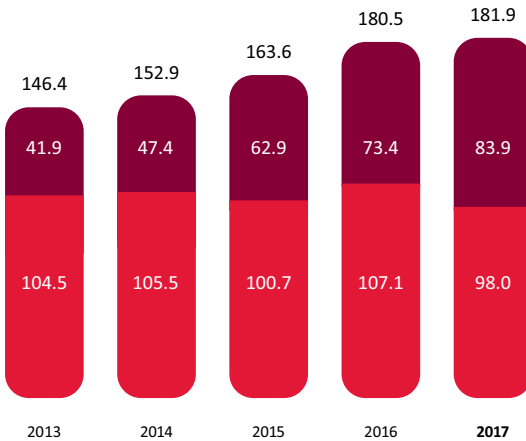
Comparative return to shareholders (assuming dividends re-invested)

Five years to 30 September 2017 (30 September 2012 = 100)



Net asset value and cumulative dividends per share

As at 30 September (pence per share)



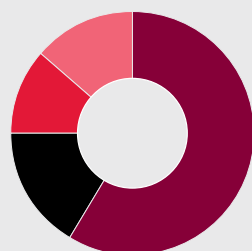
- Cumulative dividends paid since launch
- Net asset value per share

Investment portfolio

(unaudited) as at 30 September 2017

	Cost £000	Valuation £000	% of net assets by value
Fifteen largest venture capital investments			
No 1 Lounges	1,748	3,412	5.0
Entertainment Magpie Group	1,360	3,167	4.6
IDOX*	530	2,820	4.1
Buoyant Upholstery	1,294	2,518	3.7
Lineup Systems	974	2,468	3.6
Sorted Holdings	1,521	2,372	3.5
MSQ Partners Group	1,478	2,286	3.3
Agilitas IT Holdings	1,448	1,725	2.5
Biological Preparations Group	1,915	1,671	2.4
Closerstill Group	1,520	1,660	2.4
It's All Good	1,131	1,656	2.4
Wear Inns	1,406	1,589	2.3
Volumatic Holdings	1,423	1,555	2.3
Eco Animal Health Group*	497	1,426	2.1
Love Saving Group	1,017	1,399	2.0
Fifteen largest venture capital investments	19,262	31,724	46.2
Other venture capital investments	22,078	19,538	28.4
Total venture capital investments	41,340	51,262	74.6
Listed equity investments	7,182	7,605	11.1
Total fixed asset investments	48,522	58,867	85.7
Net current assets		9,808	14.3
Net assets		68,675	100.0

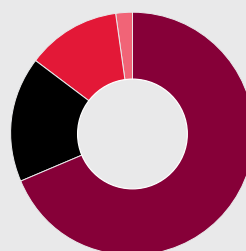
*Quoted on AIM



30 September 2017

Asset allocation

58.8%	● Venture capital – unquoted	68.8%
16.4%	● Venture capital – quoted	16.7%
11.2%	● Listed equity	12.3%
13.6%	● Cash and short term deposits	2.2%



30 September 2016

Income statement

(unaudited) for the six months ended 30 September 2017

	Six months ended 30 September 2017		
	Revenue £000	Capital £000	Total £000
Gain on disposal of investments	–	580	580
Movements in fair value of investments	–	(986)	(986)
	–	(406)	(406)
Income	1,525	–	1,525
Investment management fee	(187)	(562)	(749)
Other expenses	(156)	–	(156)
Return on ordinary activities before tax	1,182	(968)	214
Tax on return on ordinary activities	(152)	152	–
Return on ordinary activities after tax	1,030	(816)	214
Return per share	1.5p	(1.2)p	0.3p
Dividends paid/proposed in respect of the period	1.0p	1.0p	2.0p

- The total column of this statement is the profit and loss account of the company. The supplementary revenue return and capital return columns have been prepared under guidance published by The Association of Investment Companies.
- There are no recognised gains or losses other than those disclosed in the income statement.
- All items in the above statement derive from continuing operations.

Six months ended 30 September 2016			Year ended 31 March 2017		
Revenue £000	Capital £000	Total £000	Revenue £000	Capital £000	Total £000
–	492	492	–	1,775	1,775
–	7,975	7,975	–	7,785	7,785
–	8,467	8,467	–	9,560	9,560
1,201	–	1,201	2,626	–	2,626
(173)	(517)	(690)	(354)	(1,951)	(2,305)
(150)	–	(150)	(306)	–	(306)
878	7,950	8,828	1,966	7,609	9,575
(105)	105	–	(274)	274	–
773	8,055	8,828	1,692	7,883	9,575
1.2p	12.3p	13.5p	2.6p	12.0p	14.6p
1.0p	1.0p	2.0p	2.0p	8.5p	10.5p

Balance sheet

(unaudited) as at 30 September 2017

	30 September 2017 £000	30 September 2016 £000	31 March 2017 £000
Fixed assets			
Investments	58,867	68,849	62,717
Current assets			
Debtors	560	251	652
Cash and deposits	9,324	1,542	11,811
	9,884	1,793	12,463
Creditors (amounts falling due within one year)	(76)	(85)	(5,288)
Net current assets	9,808	1,708	7,175
Net assets	68,675	70,557	69,892
Capital and reserves			
Called-up equity share capital	3,502	3,294	3,290
Share premium	7,011	2,074	2,223
Capital redemption reserve	141	100	113
Capital reserve	46,051	50,756	50,850
Revaluation reserve	10,345	13,300	12,124
Revenue reserve	1,625	1,033	1,292
Total equity shareholders' funds	68,675	70,557	69,892
Net asset value per share	98.0p	107.1p	106.2p

Statement of changes in equity

(unaudited) for the six months ended 30 September 2017

	Non-distributable reserves				Distributable reserves		Total £000
	Called up share capital £000	Share premium £000	Capital redemption reserve £000	Revaluation reserve £000	Capital reserve £000	Revenue reserve £000	
	At 1 April 2017	3,290	2,223	113	12,124	50,850	
Return on ordinary activities after tax	–	–	–	(1,779)	963	1,030	214
Dividends paid	–	–	–	–	(5,232)	(697)	(5,929)
Net proceeds of share issues	240	4,788	–	–	–	–	5,028
Shares purchased for cancellation	(28)	–	28	–	(530)	–	(530)
At 30 September 2017	3,502	7,011	141	10,345	46,051	1,625	68,675
Six months ended 30 September 2016							
At 1 April 2016	3,277	1,348	76	6,899	54,452	912	66,964
Return on ordinary activities after tax	–	–	–	6,401	1,654	773	8,828
Dividends paid	–	–	–	–	(4,900)	(652)	(5,552)
Net proceeds of share issues	41	726	–	–	–	–	767
Shares purchased for cancellation	(24)	–	24	–	(450)	–	(450)
At 30 September 2016	3,294	2,074	100	13,300	50,756	1,033	70,557
Year ended 31 March 2017							
At 1 April 2016	3,277	1,348	76	6,899	54,452	912	66,964
Return on ordinary activities after tax	–	–	–	5,225	2,658	1,692	9,575
Dividends paid	–	–	–	–	(5,559)	(1,312)	(6,871)
Net proceeds of share issues	50	875	–	–	–	–	925
Shares purchased for cancellation	(37)	–	37	–	(701)	–	(701)
At 31 March 2017	3,290	2,223	113	12,124	50,850	1,292	69,892

Statement of cash flows

(unaudited) for the six months ended 30 September 2017

	Six months ended 30 September 2017 £000	Six months ended 30 September 2016 £000	Year ended 31 March 2017 £000
Cash flows from operating activities			
Return on ordinary activities before tax	214	8,828	9,575
Adjustments for:			
Gain on disposal of investments	(580)	(492)	(1,775)
Movements in fair value of investments	986	(7,975)	(7,785)
Decrease/(increase) in debtors	92	1	(400)
(Decrease)/increase in creditors	(932)	(535)	387
Net cash (outflow)/inflow from operating activities	(220)	(173)	2
Cash flows from investing activities			
Purchase of investments	(3,703)	(5,547)	(6,856)
Sale/repayment of investments	7,146	3,860	12,394
Net cash inflow/(outflow) from investing activities	3,443	(1,687)	5,538
Cash flows from financing activities			
Issue of ordinary shares	5,117	775	951
Share issue expenses	(87)	(8)	(26)
Share subscriptions held pending allotment	(4,281)	–	4,281
Purchase of ordinary shares for cancellation	(530)	(450)	(701)
Equity dividends paid	(5,929)	(5,552)	(6,871)
Net cash outflow from financing activities	(5,710)	(5,235)	(2,366)
Net (decrease)/increase in cash and cash equivalents	(2,487)	(7,095)	3,174
Cash and cash equivalents at beginning of period	11,811	8,637	8,637
Cash and cash equivalents at end of period	9,324	1,542	11,811

Notes to the financial statements

(unaudited) for the six months ended 30 September 2017

- 1 The financial statements have been prepared under FRS 102 “The Financial Reporting Standard applicable in the UK and Republic of Ireland” and in accordance with the Statement of Recommended Practice “Financial Statements of Investment Trust Companies and Venture Capital Trusts”, issued in November 2014 and updated in January 2017 with consequential amendments by the Association of Investment Companies (“AIC SORP”).
- 2 The calculation of return per share is based on the return on ordinary activities after tax for the six months ended 30 September 2017 and on 69,893,045 (2016 65,685,799) ordinary shares, being the weighted average number of shares in issue during the period.
- 3 The calculation of net asset value per share is based on the net assets at 30 September 2017 divided by the 70,043,146 (2016 65,880,055) ordinary shares in issue at that date.
- 4 The interim dividend of 2.0p per share for the year ending 31 March 2018 will be paid on 26 January 2018 to shareholders on the register at the close of business on 5 January 2018.
- 5 The unaudited half-yearly financial statements for the six months ended 30 September 2017 do not constitute statutory financial statements within the meaning of Section 434 of the Companies Act 2006, have not been reviewed or audited by the company’s independent auditor and have not been delivered to the Registrar of Companies. The comparative figures for the year ended 31 March 2017 have been extracted from the audited financial statements for that year, which have been delivered to the Registrar of Companies; the independent auditor’s report on those financial statements (i) was unqualified, (ii) did not include any reference to matters to which the auditor drew attention by way of emphasis without qualifying the report and (iii) did not contain a statement under Section 498 (2) or (3) of the Companies Act 2006. The half-yearly financial statements have been prepared on the basis of the accounting policies set out in the annual financial statements for the year ended 31 March 2017.
- 6 Each of the directors confirms that to the best of their knowledge the half-yearly financial statements have been prepared in accordance with the Statement “Half-yearly financial reports” issued by the UK Accounting Standards Board and the half-yearly financial report includes a fair review of the information required by (a) DTR 4.2.7R of the Disclosure Rules and Transparency Rules, being an indication of important events that have occurred during the first six months of the financial year and their impact on the condensed set of financial statements, and a description of the principal risks and uncertainties for the remaining six months of the year, and (b) DTR 4.2.8R of the Disclosure Rules and Transparency Rules, being related party transactions that have taken place in the first six months of the current financial year and that have materially affected the financial position or performance of the entity during that period, and any changes in the related party transactions described in the last annual report that could do so.
- 7 Copies of this half-yearly report have been mailed to shareholders and are available to the public at the company’s registered office, and on the NVM Private Equity website, www.nvm.co.uk.

Risk management

The board carries out a regular and robust review of the risk environment in which the company operates. The principal risks and uncertainties identified by the board which might affect the company's business model and future performance, and the steps taken with a view to their mitigation, are as follows:

Investment and liquidity risk: investment in smaller and unquoted companies, such as those in which the company invests, involves a higher degree of risk than investment in larger listed companies because they generally have limited product lines, markets and financial resources and may be more dependent on their management or key individuals. The securities of smaller companies in which the company invests are typically unlisted, making them illiquid, and this may cause difficulties in valuing and disposing of the securities. The company may invest in businesses whose shares are quoted on AIM – the fact that a share is quoted on AIM does not mean that it can be readily traded and the spread between the buying and selling prices of such shares may be wide. **Mitigation:** the directors aim to limit the risk attaching to the portfolio as a whole by careful selection, close monitoring and timely realisation of investments, by carrying out rigorous due diligence procedures and maintaining a wide spread of holdings in terms of financing stage and industry sector. The board reviews the investment portfolio with the investment manager on a regular basis.

Financial risk: most of the company's investments involve a medium- to long-term commitment and many are relatively illiquid. **Mitigation:** the directors consider that it is inappropriate to finance the company's activities through borrowing except on an occasional short-term basis. Accordingly they seek to maintain a proportion of the company's assets in cash or cash equivalents in order to be in a position to take advantage of new unquoted investment opportunities. The company has very little direct exposure to foreign currency risk and does not enter into derivative transactions.

Economic risk: events such as economic recession or general fluctuation in stock markets, exchange rates and interest rates may affect the valuation of investee companies and their ability to access adequate financial resources, as well as affecting the company's own share price and discount to net asset value. **Mitigation:** the company invests in a diversified portfolio of investments spanning various industry sectors, and maintains sufficient cash reserves to be able to provide additional funding to investee companies where appropriate.

Stock market risk: some of the company's investments are quoted on the London Stock Exchange or AIM and will be subject to market fluctuations upwards and downwards. External factors such as terrorist activity can negatively impact stock markets worldwide. In times of adverse sentiment there can be very little, if any, market demand for shares in smaller companies quoted on AIM. **Mitigation:** the company's quoted investments are actively managed by specialist managers and the board keeps the portfolio under ongoing review.

Credit risk: the company holds a number of financial instruments and cash deposits and is dependent on the counterparties discharging their commitment. **Mitigation:** the directors review the creditworthiness of the counterparties to these instruments and cash deposits and seek to ensure there is no undue concentration of credit risk with any one party.

Legislative and regulatory risk: in order to maintain its approval as a VCT, the company is required to comply with current VCT legislation in the UK, which reflects the European Commission's State aid rules. Changes to the UK legislation or the State aid rules in the future could have an adverse effect on the company's ability to achieve satisfactory investment returns whilst retaining its VCT approval. **Mitigation:** The board and the manager monitor political developments and where appropriate seek to make representations either directly or through relevant trade bodies.

Internal control risk: the company's assets could be at risk in the absence of an appropriate internal control regime. **Mitigation:** the board regularly reviews the system of internal controls, both financial and non-financial, operated by the company and the manager. These include controls designed to ensure that the company's assets are safeguarded and that proper accounting records are maintained.

VCT qualifying status risk: while it is the intention of the directors that the company will be managed so as to continue to qualify as a VCT, there can be no guarantee that this status will be maintained. A failure to continue meeting the qualifying requirements could result in the loss of VCT tax relief, the company losing its exemption from corporation tax on capital gains, to shareholders being liable to pay income tax on dividends received from the company and, in certain circumstances, to shareholders being required to repay the initial income tax relief on their investment. **Mitigation:** the investment manager keeps the company's VCT qualifying status under continual review and its reports are reviewed by the board on a quarterly basis. The board has also retained Philip Hare & Associates LLP to undertake an independent VCT status monitoring role.

Company information

Directors

James Ferguson (Chairman)
Chris Fleetwood
Tim Levett
John Waddell

Secretary

Christopher Mellor FCA MCSI

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