

FY25 expected to be materially above expectations

16 April 2025

In today's FY25 year-end trading summary for the period 1 Apr 24 – 31 Mar 25, Mercia has announced it expects EBITDA to be 'materially ahead' of expectations. This seems to be driven by a 'continuing focus on efficiencies.' It also reported a jump in net inflows in Q4 (£250m). This is hugely impressive given such an uncertain market and economic environment.

It closed the year with cash and equivalents of c. £40m, well ahead of our forecast of £34m. Following the recent share price fall, **that £40m of cash translates to around 31% of Mercia's market cap.** We remind readers that at the end of H1-25, the NAV of Mercia's on-balance sheet investments totalled £121m (110% of current market cap), and we valued the third-party fund management business at £56m (51% of market cap). Provided there are no major falls in the NAV of on-balance-sheet investments, **today's update suggests that our previous sum-of-the-parts valuation of 52p per share (double the current share price) may prove conservative.**

Significant progress in pivot towards third-party fund management

As previously announced, Mercia is now in the process of making third-party fund management its primary focus and will be selling most of its on-balance-sheet portfolio over the next few years. The £250m of inflows in Q4 (existing fund mandate increases, new fund management contracts, and successful VCT and EIS fund raises), coupled with the £57m in H1 shows that **Mercia has developed a proposition which is highly attractive to investors in its range of vehicles.**

A key recruit in this strategy was Dean Heaney, appointed as *Head of Institutional Distribution* (March '25), to lead the distribution strategy across venture, debt, private equity and real assets strategies.

FY25 forecast upgraded, fundamental value 52p (double the share price)

We upgrade FY25 forecasts on the back of **higher-than-expected net flows and additional efficiencies**, and assume no major market moves in FUM, or major valuation moves to on-balance investments. We will update outer year forecasts with the release of results on 1 July 2025, although we flag that our current FY26 forecasts do now look conservative. Our fundamental valuation of **52p / share** is unchanged for now.

We also note recent **additional institutional interest in MERC shares**. Unicorn Asset Management acquired 5.1% for some of its funds and Harwood Capital 3.4% for its funds and investment trusts.

Company Data

EPIC	MERC.L
Price (last close)	25.5p
52 weeks Hi/Lo	36.5p/22.5p
Market cap	£110m
ED Fair Value/share	52p
Proforma net cash	£47m
Avg. daily volume	703k

Share Price, p



Source: Investing.com

Description

Mercia Asset Management (Mercia) was founded in 2010 and listed on the AIM market of the London Stock Exchange in Dec 2014.

It provides venture capital, debt and private equity to mostly regional (ex-London) UK businesses, investing between £100k and £20m.

It manages c.£1.6bn of funds for third parties and has net assets of c.£187m of its own (on 30 Sep 24).

Next event

FY25 results 1 July 2025

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Key Financials

Year-end 31 Mar	FY22A	FY23A	FY24A	FY25E prev.	FY25E new	FY26E
AUM*, £bn	1.0	1.4	1.8	2.0	2.2	2.0
3 rd -party FUM, £bn	0.8	1.2	1.6	1.8	2.0	1.8
Dir. investments, £m	119.6	136.6	116.9	128.9	124.4	136.9
Revenue, £m	20.6	25.9	30.4	34.5	34.5	35.5
EBITDA**, £m	4.0	5.2	5.5	6.2	7.7	6.2
EBITDA margin	19.2%	20.0%	18.2%	18.0%	22.2%	17.5%
PBT, £m	27.4	2.4	-8.2	3.3	4.8	2.7
EPS basic, p	5.9	0.6	-1.7	0.5	0.8	0.4
Div, p	0.80	0.86	0.90	0.95	0.95	0.99
Yield	3.1%	3.4%	3.5%	3.7%	3.7%	3.9%
Net assets, £m	200.6	202.9	189.2	186.7	187.9	185.7
Net cash, £m	56.0	37.6	46.9	33.9	40.0	27.9

Source: Company Historic Data, ED estimates. PER and Yield based on share price of 25.5p

* Value of FUM from which the Group earns fund management revenues, plus consolidated net assets

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