

Fund management strong, exit environment subdued

30 June 2026

While FUM was marginally up y-o-y (to £1.82bn) and revenue marginally down (to £34.1m), FUM jumped 13% shortly after year-end with c. £230m coming 'on-fee' in Apr 26. Additional allocations boosted existing regional venture and debt funds by c. £151m; a new 'industrial' allocation of c. £33m was received; the Northern VCTs increased 25/26 tax year allocations from £50m to £80m, driven by investor demand; and EIS funds raised new capital.

Recent capital raises support FY27 revenue, and our forecast remains £35m. FY26 EBITDA of £8.1m was 6% up y-o-y, with operating costs down 3%. Operational leverage is kicking in and our FY27 EBITDA forecast increases from £7.7m to £8.0m.

Near-term setbacks for on-balance sheet portfolio exit timing

But the exit environment for venture investments is subdued, so Mercia's target of realising 70% of its direct investments (on-balance sheet) by end-FY27 is likely to be pushed to FY28/FY29. However, it is exploring exit options - which presumably could involve a partial or possibly even a full portfolio sale - so this timeline might be brought forward.

The portfolio value fell by £1.2m to £124.8m, with £11.6m of follow-on investments made and negative fair value movements of £12.8m. Mercia highlights that the portfolio has been broadly resilient to AI-driven disruptions, but expectations of such disruption (e.g. in software) and geopolitical uncertainty has hit market confidence, risk appetite, and valuation comparables. Valuation falls are primarily responsible for PBT falling from +£2.8m in FY25 to -£7.7m, and basic EPS falling from 0.8p to -2.0p.

Balance sheet strong, dividend up, ED valuation 88% above share price

Net assets totalled £173.6m (FY25: £187.9m) with net cash of £26.4m (FY25: £40.1m). Cash reduced due to £11.6m invested in direct investments, £4.2m in dividends, and £3.0m of share buybacks. A final dividend of 0.61p is proposed (full-year 1.00p, up 6% y-o-y with a yield of 3.5%).

We value Mercia on a sum-of-the-parts basis at 54p per share (p 15) and see no reason to discount the direct portfolio NAV given Mercia's fine record of exiting at a premium to NAV (p 16).

Company data

EPIC	MERC.L
Price (last close)	28.75p
52 weeks Hi/Lo	34p/26p
Market cap	£121m
ED Fair Value / share	54p
Net cash** 2026A	£26m
Avg. daily volume (3m)	640k

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, development capital (SME loans) and property finance to mostly regional (ex-London) UK businesses, investing between £100k and £20m.

It manages c.£1.8bn of funds for third parties and has net assets of c.£174million of its own.

Next event

H1-27 results Dec '26

Paul Bryant (Analyst)

0207 065 2690
paul.bryant@equitydevelopment.co.uk

Hannah Crowe

0207 065 2691
hannah@equitydevelopment.co.uk

Key financials & valuation metrics

Year to 31 Mar (£m)	FY 24A	FY 25A	FY 26A	FY 27E	FY 28E
AUM*, £bn	1.82	2.01	2.00	2.28	2.48
Third-party FUM, £bn	1.63	1.80	1.82	2.10	2.29
Direct investments	116.9	126.0	124.8	129.8	79.8
Rev (excl. perf. fees)	30.4	34.4	34.1	35.0	39.0
EBITDA	5.5	7.6	8.1	8.0	9.0
EBITDA margin	18.2%	22.1%	23.7%	23.0%	23.1%
PBT	-8.2	2.8	-7.7	4.8	5.4
EPS basic, p	-1.7	0.2	-2.0	0.8	0.9
Div, p	0.90	0.95	1.00	1.05	1.10
Yield	3.1%	3.3%	3.5%	3.7%	3.8%
Share buybacks	3.19	1.84	2.96	3.00	3.00
% of market cap (period-start)	2.7%	1.3%	2.7%	2.70%	
Net assets	189.2	187.9	173.6	170.2	167.2
Net cash	46.9	40.1	26.4	19.1	66.7

Source: Company data, Equity Development, priced at 29/06/26. *FUM plus consolidated net assets.

Contents

Contents	2
Mercia at a glance.....	3
Assets and Funds under management.....	4
AUM slightly up with post year-end boost.....	4
Strong record of attracting and retaining capital	5
£230m capital deployed, huge opportunity to grow in underserved 'regional' finance markets.....	6
On-balance-sheet portfolio impacted by current market sentiment, subdued exit environment	7
Valuation reductions seen across venture in 2025, but outlook brightening	8
Analysis of FY26 financials	9
FUM slightly up in FY26, but boosted post year end: teeing up a stronger FY27	9
Revenue marginally down on fall in initial management fees (not charged on BBB funds).....	10
EBITDA up 6%, margin up from 22.1% to 23.7%	11
Statutory PBT falls on fair value reductions in direct investments	12
Balance sheet strong with net cash of £26m (>20% of market cap).....	13
Forecasts and valuation	14
Performance vs forecast and updated forecasts.....	14
Sum-of-parts and DCF valuations suggest deep discount to fundamental value.....	15
Appendix 1: Direct investment exits, % above NAV.....	16
Appendix 2: Summary financials	17

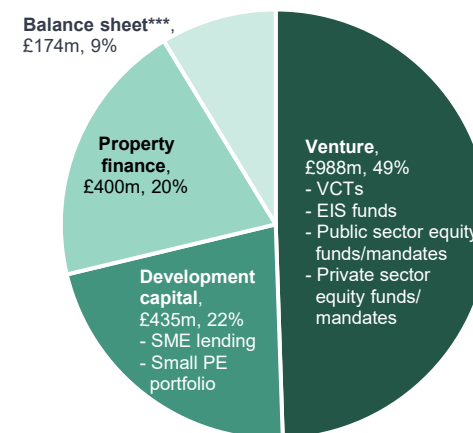
Mercia at a glance

History, market positioning, strategic focus

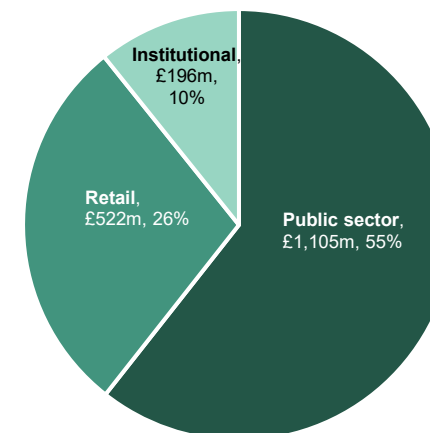
- Mercia was founded in 2010 and listed on AIM in December 2014. It has c.130 employees based in 11 offices across the UK.
- It is a specialist alternative asset manager. Mercia funds provide venture capital finance, development capital (SME loans), and property finance, to UK SMEs based mostly in the ‘regions’ i.e. outside London. Equity funds typically deploy between £100k & £10m per investment, debt funds between £250k & £20m.
- Its business model is designed to meet the needs of and be highly attractive to entrepreneurs and their companies, as well as investors.
- From an investee company perspective, **Mercia fulfils a crucial financing role in the UK regional high-growth ecosystem, which is characterised by a chronic undersupply of capital.** This is in sharp contrast to London and surrounds which enjoys access to a hugely concentrated pool of capital. Mercia also plays an active role post-investment, helping its investee companies succeed and exit.
- From an investor’s perspective, **Mercia offers exposure to an attractive asset class that is not easy to access and requires a highly specialised skillset to succeed in.** Regional businesses typically have lower pre-investment valuations compared to London, despite significant areas of thriving and highly sophisticated start-up and scale-up activity.
- Mercia is undergoing **a strategic shift** to 1) focus on highly profitable and fast-growing 3rd party fund management; and 2) realise the c.£125m (NAV) of on-balance-sheet investments (c. 70% by FY28-FY29), to deploy to grow its fund management business.

Split in AUM* and FUM**

AUM (incl. own funds) by asset class (100% = £2.0bn)



FUM by investor type, (100% =£1.8bn)



Source: Company, as at 31 Mar 26. Totals may not sum to 100% due to rounding.
 *3rd party funds under management + net assets, the bulk of which is made up of on-balance-sheet ‘direct’ investments. **3rd party funds under management only. ***Includes cash of £26m

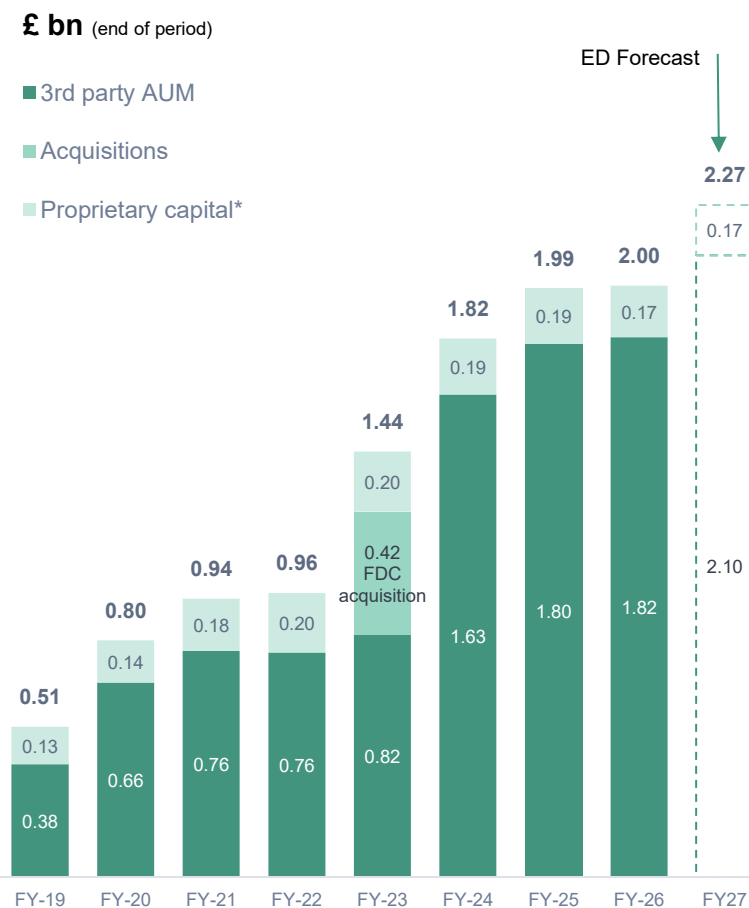
Assets and Funds under management

AUM slightly up with post year-end boost

Venture raises particularly strong

- Third party FUM grew marginally over FY26, ending the period on £1.82bn (31 Mar 25: £1.80bn). It was positively impacted by **total inflows of £127m** into venture capital, including:
 - c. £87m of new capital raised by the three Northern VCTs (part 25/26 tax year allocation, raised early-FY26, part 24/25 allocation, raised late-FY26. The total 25/26 allocation was increased from £50m to £80m due to investor demand with c. £41m of this raise falling into FY27.
 - £12.7m raised by EIS funds.
 - Additional and new allocations to other managed investment funds.
- **There were no redemptions.**
- FUM flows included:
 - £88m of distributions (driven by equity realisations, capital returns to VCT shareholders, and loan capital repayments) and £4m of transitions to realisation phase.
 - £12m of negative movements in valuations.
- The value of the on-balance-sheet portfolio of 'direct investments' decreased slightly to £125m from £126m with £11.6m of follow-on investments made, largely offset by negative portfolio revaluations (see page 7). Net cash closed on £26m. This, plus direct investments and working capital makes up 'proprietary capital' used to calculate AUM.
- **FY27 has seen a very strong start to capital raising. Mercia has secured c. £151m of additional allocations**, effective Apr 26, into regional venture and lending funds, and a **new allocation of c. £33m** for deployment against the government's eight industrial sectors ("IS-8"). **We increase our end-FY27 forecast FUM from £1.8bn to £2.1bn.**

AUM & FUM growth history and forecast

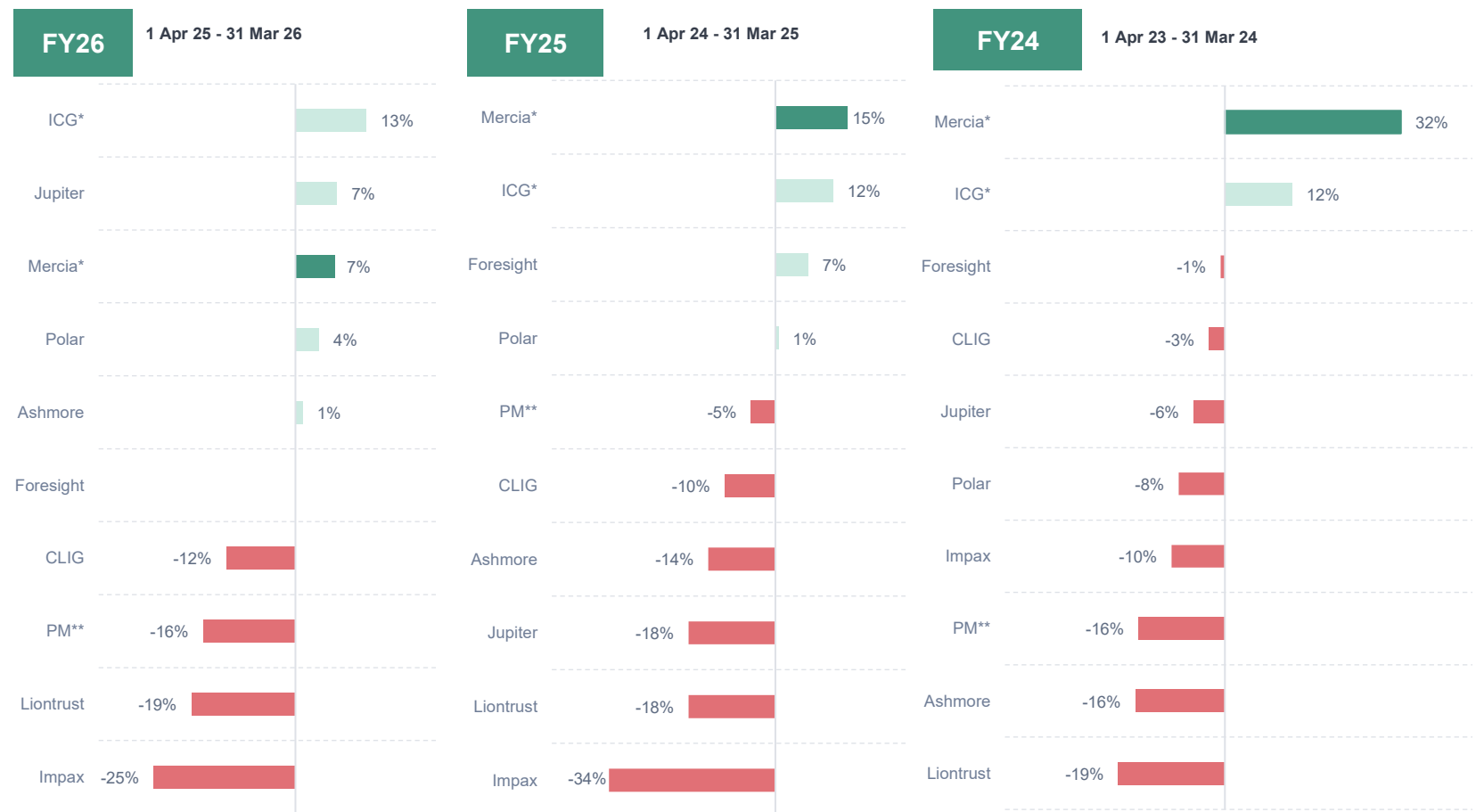


Source: Company, as at 31 Mar 26. Totals may not sum to 100% due to rounding.
 *Includes cash (£26m on 31 Mar 26)

Strong record of attracting and retaining capital

Compared to other small and medium sized London-listed asset managers (AUM < £100bn), Mercia has been a standout in terms of attracting and retaining assets with the **highest net flow rate in FY24 and FY25**. While Mercia was not top-of-the-pile again in FY26, its **net flows were still among the highest in the sector**. [If we include the additional £230m coming 'on-fee' post year-end, its inflow rate would be 20%]. It shows that Mercia has developed a range of highly attractive investment propositions.

Net flows as % of opening AUM (Small & medium London-listed asset managers, < £100bn AUM)



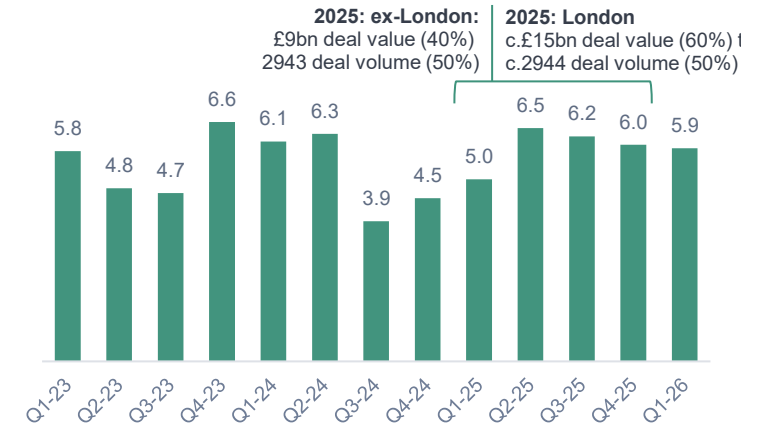
Source: Company reports, ED analysis. *Mercia data 3rd party FUM only, ICG data for Fee Earning AUM only. ** = Premier Miton.

£230m capital deployed, huge opportunity to grow in underserved ‘regional’ finance markets

Mercia has a tiny share of large & stable UK funding markets

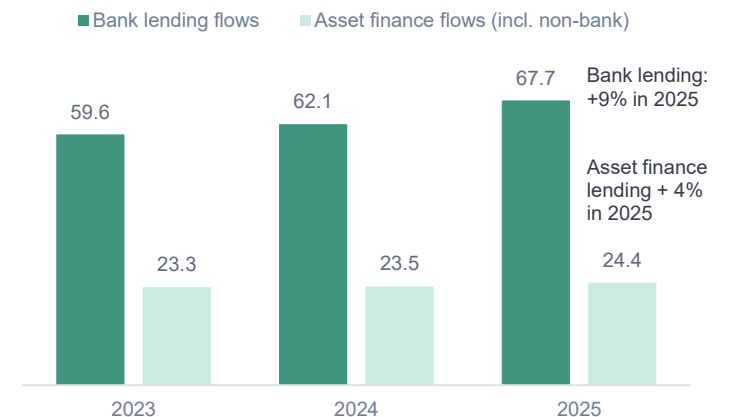
- Mercia started FY26 with c. £640m of ‘dry powder’ to deploy, from its third-party funds and own balance sheet combined, with own balance sheet capital to be used for follow-on funding only in line with the Mercia-27 strategy.
- It **deployed £230m in FY26 (FY25: £286m) into 156 businesses.**
 - £123m into venture (£111m from third party funds/trusts, £12m from own balance sheet);
 - £46m into development capital;
 - £61m into property finance.
- **86% of this capital was deployed into businesses outside of London.**
- This was in a UK equity funding market (top right) which deploys around £6bn per quarter, seeing £24.0bn raised in 2025, up from £23.2bn in 2024. Deals outside of London (Mercia’s primary focus) raised 40% of this capital in 2025. Encouragingly, in 2025, first-time equity investment jumped 24%, with research house Beauhurst saying: “*The rise in first-time deals suggests a pipeline of new companies entering the equity market.*” **There is clearly significant potential for Mercia to grow its equity fund management business in this market.**
- And Mercia’s debt finance business operates in a huge UK SME lending market, served by both bank and non-bank lenders (bottom right). Mercia obviously only operates in selected sub-segments of this lending market, but there is without any doubt a huge opportunity to grow.
- Mercia ended FY26 with around £620m of liquidity or ‘dry powder’ on 31 Mar 26 **so we would expect continued strong momentum in capital deployment**

UK equity capital raised, £bn



Source: Beauhurst: *The Deal 2025 & The Deal Q1 2026. Equity investments across seed, venture and growth rounds by companies headquartered in the UK, in all sectors.*

SME lending flows to UK smaller businesses 2025, £bn



Source: British Business Bank: *Small Business Finance Markets 2025/26.*

On-balance-sheet portfolio impacted by current market sentiment, subdued exit environment

The direct investment portfolio fell by £1.2m, with £11.6m invested, and negative fair value movements of £12.8m. Investments were in follow-on rounds only. Mercia is divesting the bulk of the direct portfolio, with no new companies to be brought into the portfolio. It expects another c. £15m of follow-on investments over the next 2-3 years.

Mercia's strategy originally targeted realising c.70% of the direct portfolio by the end of FY27. But market conditions have not made for a conducive exit environment, although a number of small exits have recently been achieved: Fortis Frontier, realising £0.6m; Impression Technologies, £0.3m; LM Technologies, £0.1m. Mercia has revised its realisations timeline with the majority of realisations now expected to fall between FY28 and FY29. **However, it is exploring exit options - which presumably could involve a partial or possibly even a full portfolio sale - so this timeline might be brought forward.**

Six portfolio companies had fair value gains, the largest being Tozaro (cell and gene therapies): +£0.9m. But there were seven unrealised fair value decreases, including: Netacea (AI-driven threat detection and response to combat bot attacks on websites, mobile apps, APIs) -£6.2m; Voxpopme (video analytics software for market research, customer experience, recruitment, HR) -£3.3m, and VirTrade (digital card trading platform) -£2.0m. Mercia permanently impaired its holdings in Impression Technologies Limited, Akamis Bio Limited and sureCore Limited. It has highlighted the development and adoption of artificial intelligence as a negative weight on market confidence, risk appetite, and non-AI valuation multiples and exits, especially where disruption is expected to be significant (e.g. software). This is confirmed by market data (see overleaf), which shows **a general reduction in VC valuations over 2025**. Mercia has however stressed that the underlying businesses within its portfolio have been broadly resilient to these potential disruptions.

Direct (on-balance-sheet) investment portfolio (top 10 + other) – year to 31 March 2026, £'000

	First investment	Net value 1/4/25	Net cash invested	Realisation	Realised gain/(loss)	FV movement	Net value 31/3/26	% held
Voxpopme Ltd	2018	15,874	668	-	-	(3,292)	13,250	20.6
Medherant Ltd	2016	11,521	1,000	-	-	633	13,154	36.3
Warwick Acoustics Ltd	2014	11,934	1,000	-	-	-	12,934	30.7
Netacea Group Ltd	2022	16,661	2,100	-	-	(6,243)	12,518	33.4
VirTrade Ltd*	2015	11,547	2,100	-	-	(1,977)	11,670	61.4
Eyoto Group Ltd	2017	9,642	1,400	-	-	-	11,042	24.7
Invincibles Studio Ltd	2015	9,317	-	-	-	-	9,317	35.5
Locate Bio Ltd	2018	7,837	-	-	-	-	7,837	19.3
Aonic Founder SCS	2023	5,700	-	-	-	(20)	5,680	0.0
Axis Spine Technologies Ltd	2022	4,000	1,008	-	-	-	5,008	14.5
Other direct investments	n/a	21,927	2,367	-	-	(1,938)	22,356	n/a
Total		125,960	11,643	-	-	(12,837)	124,766	n/a

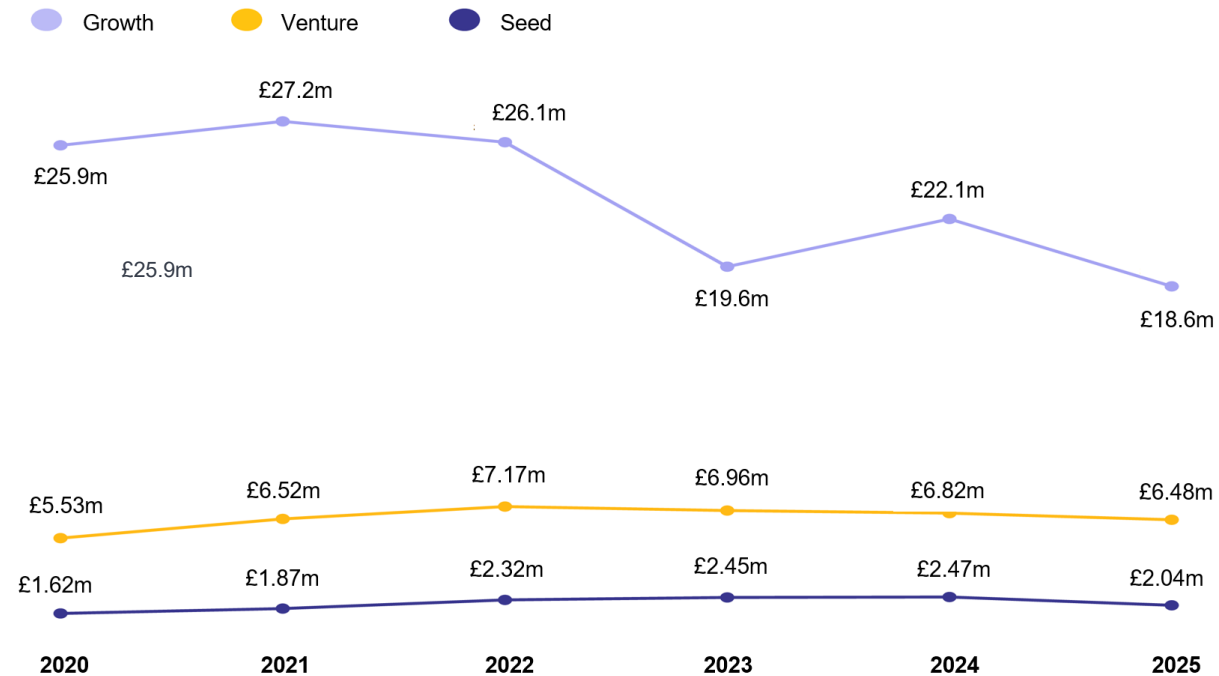
Source: company. * Trading as Avid Games.

Valuation reductions seen across venture in 2025, but outlook brightening

It is also clear that UK venture valuations are currently depressed, especially for larger VC investments. Data from research house Beauhurst shows that median valuations fell in 2025 across seed, venture and growth businesses (most significantly in growth or larger VC-backed businesses).

But valuations rise and fall with market conditions, and a pickup in valuations should be a boost to Mercia's NAV and to the exit environment. The British Business Bank's report, *UK Venture Capital Financial Returns 2025*, suggests a **valuation pickup is likely**: "Looking ahead, 50% of GPs expect average valuations to rise across the VC market over the next year, with the majority expecting either a moderate increase (24%) or slight increase (24%). In contrast, the percentage of GPs expecting a slight or moderate decrease was 16% and 4% respectively. 30% expected average valuations to remain in line with current levels. This reflects recent signs indicating some signs of recovery in valuations across the wider UK VC market."

Median pre-money valuation by stage of evolution (2020-2025)



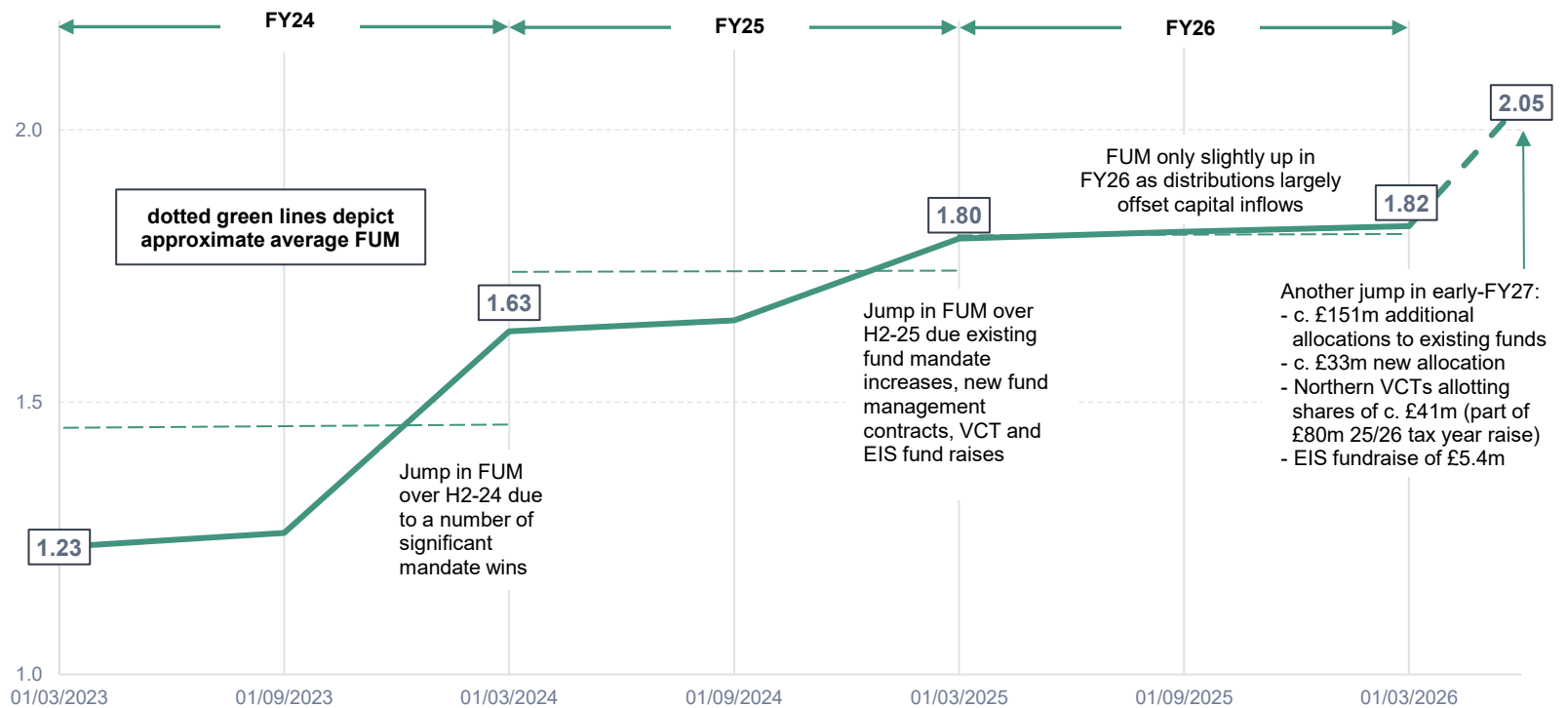
Source: Beauhurst (chart reproduced with permission). Summarised stage of evolution definitions: Seed = young, low-valuation startups (most commonly funded by grant-awarding bodies, equity crowdfunding, business angels); Venture = companies with proven models, multi-year development, and valuations in the millions (most commonly backed by venture capital firms); Growth = 5+ years old, multi-location, substantial revenues and headcount (most commonly funded by venture capital firms, corporates, asset management firms, mezzanine lenders).

Analysis of FY26 financials

FUM slightly up in FY26, but boosted post year end: teeing up a stronger FY27

Average FUM (3rd party funds under management) is the main driver of Mercia's largest source of revenue, fund management fees (c. 70% of revenue, although this percentage can vary depending on: capital deployed which drives initial management fees; capital raised in VCTs which drives share offer fees; and performance fees). **FUM has grown steadily over the last few years** and while there was only a small average FUM increase in FY26, **c. £230m of new inflows post year-end should lift average FUM, and fund management fees, in FY27.**

FUM profile, £bn (funds managed for third parties)



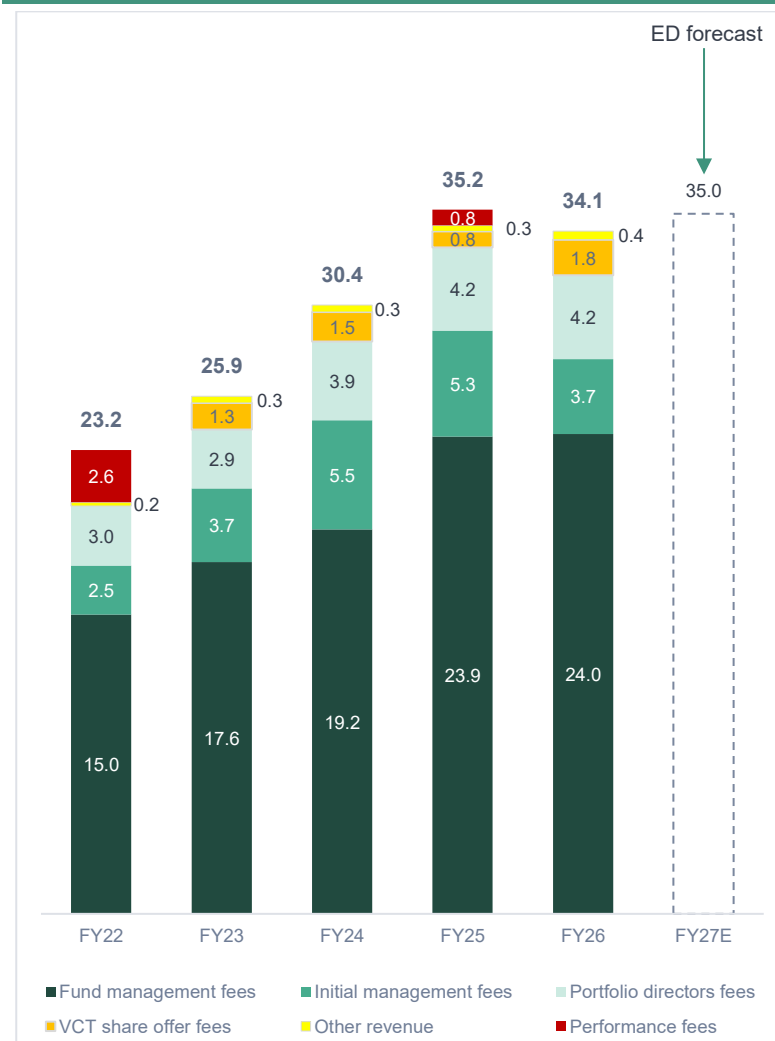
Source: Company reports, ED analysis

Revenue marginally down on fall in initial management fees (not charged on BBB funds)

Fund management fees flat but pick up expected in FY27

- Total revenue fell 3% from £35.2m in FY25 to £34.1m in FY26.
- Fund management fees were roughly flat at £24.0m. These are typically a fixed % of FUM, paid by investors in funds/VCTs, and are mostly driven by average FUM levels (see previous page).
- While capital deployment was down 19% from £284 in FY25 to £230m, initial management fees (fixed % of amounts invested, paid by investee companies) fell 29% from £5.3m in FY25 to £3.7m due to a higher proportion of total capital deployment originating from British Business Bank funds (where initial management fees are not charged).
- **VCT share offer fees ('% of funds raised' basis) received a boost with the expanded capital raise in H2.** Fees jumped from £0.8m to £1.8m.
- Portfolio directors' fees (annual fees, paid by investee companies) were flat at £4.2m.
- Mercia earned £0.8m of performance fees in FY25 but did not earn performance fees in FY26. These are by nature volatile and intermittent. Other revenue (Custodian fees and Business services fees) totalled £0.4m.
- **We forecast an overall revenue increase of c. 3% for FY27, totalling c. £35m .**

Revenue breakdown, historical & forecast £m



Source: Company reports. Totals may not tally exactly due to rounding.
 *Other revenue = custodian fees and business services fees.

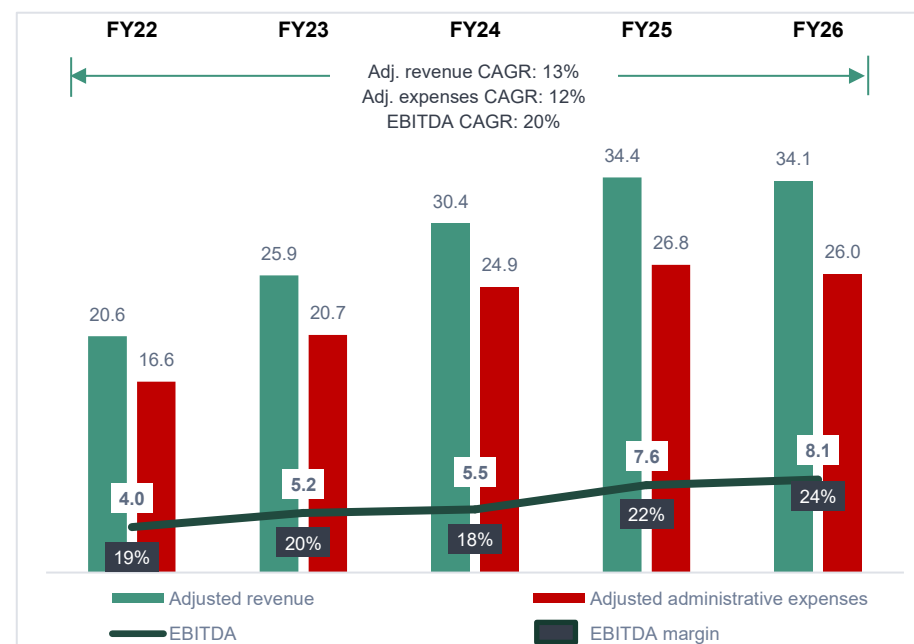
EBITDA up 6%, margin up from 22.1% to 23.7%

Cost efficiencies drive margin expansion

- IFRS accounts include items that are potentially large, volatile, or non-cash, most significantly: performance fee revenue and associated costs; profits or losses from the sale of or fair value movements of direct investments; amortisation (largely related to the acquisition accounting requirement of amortising intangible assets); depreciation; share based payments; and tax.
- Therefore, Mercia also produces an *EBITDA* metric, (revenue less adj. expenses) which excludes the above items, and is a good measure of cash operating profit. It is also a useful measure of assessing scale benefits and Mercia's profitability as a standalone fund management business.
- In FY26, **adj. expenses fell 3% y-o-y**, from £26.8m in FY25 to £26.0m, as efficiencies, including increasing use of AI within the business, drove expenses down.
- With the fall in costs, **EBITDA was up 6% from £7.6m to £8.1m with EBITDA margin increasing y-o-y from 22.1% to 23.7%**.
- Net finance income was down y-o-y from £2.6m to £1.2m as the average cash balance fell, as did interest rates. There was also a fall in investee company loan interest from £0.6m to c. nil.

Y-o-y adjusted income statement & longer-term trend, £m

	FY26	FY25
Adjusted revenue (excl. perf. fees)	34.14	34.42
Staff costs (excl. perf. fee allocations)	(18.53)	(19.72)
Other admin expenses	(7.51)	(7.09)
Adj. expenses¹	(26.03)	(26.81)
EBITDA	8.10	7.61
Net finance income	1.22	2.57
Adj. operating profit	9.32	10.18



Source: Company reports

Statutory PBT falls on fair value reductions in direct investments

Statutory income statement developments

- Mercia's full statutory income statement is more complex and volatile, bringing back the abovementioned items which are excluded from EBITDA.
- No performance fees were earned in FY26. (FY25 gross fees: £0.79m, net fees after staff allocations: £0.63m).
- The fair value movement of the on-balance sheet portfolio was -£12.8m, as detailed on page 7).
- Amortisation of intangible assets was unchanged y-o-y.
- Share-based payment charges fell from £0.94m to £0.57m.
- Depreciation was similar at £0.58m (FY25: £0.60m).
- Profit before tax fell from £5.35m in FY25 to -£7.66m.
- Profit after tax also fell from £3.46m in FY25 to -£8.6m. Mercia's tax charge moved from £1.90m in FY25 to £0.95m as profits fell.
- Basic and diluted EPS fell from 0.80p in FY25 to -2.00p.

Y-O-Y IFRS summarised income statements, £m

	FY26	FY25
Revenue	34.14	35.20
Adj. admin expenses	(26.03)	(26.81)
Staff share of perf. fee interests	(0.00)	(0.63)
Depreciation	(0.58)	(0.60)
P/L on sale of direct investment	0.00	(0.28)
FV move, direct investments	(12.84)	0.27
Share-based payments charge	(0.57)	(0.94)
Amort. Of intangible assets	(2.99)	(2.99)
FV move on def. consideration	0.00	(0.45)
Exceptional costs	0.00	0.00
Net finance income	1.22	2.57
Profit before tax	(7.66)	5.35
Tax	(0.95)	(1.90)
Profit after tax	(8.61)	3.46
Basic eps	-2.00p	0.80p
Diluted eps	-2.00p	0.80p

Source: company reports

Balance sheet strong with net cash of £26m (>20% of market cap)

Cash down on investments into direct portfolio

- Mercia maintains its strong balance sheet, with net assets down 8% over FY26 from £187.9m on 31 Mar 25 to £187.9m.
- **Net cash also remained strong at £26.4m (31 Mar 25: £40.1m), making up 21% of the group's market cap (on 26 Jun 26). Mercia has no borrowings.**
- Cash generated from operations (pre-tax) was £6.5m (FY25: £9.4m), driven largely by a £2.6m change in payables.
- **The group invested £11.6m into its existing portfolio of direct investments, paid £4.2m in dividends, and spent £3.0m on share buybacks.**

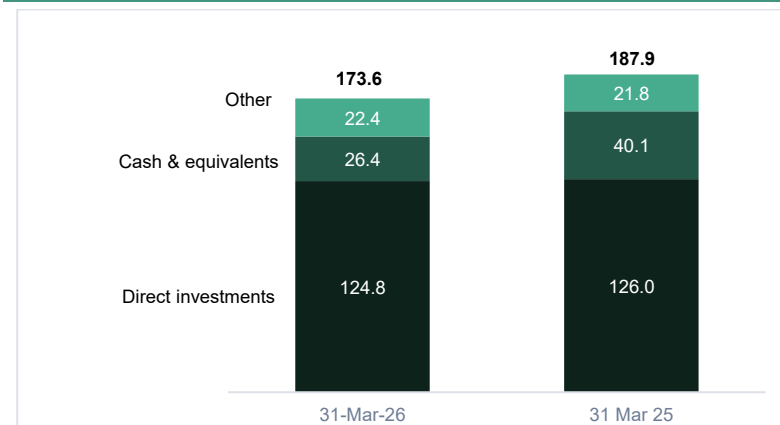
Source: Company

Dividend increased by 6%, yield 3.5%

- Mercia first started paying a dividend in FY21 (year to end-Mar 21) and follows a progressive dividend policy. The progress is shown in the chart on the right.
- A final FY26 dividend of 0.61p per share is proposed (FY25: 0.58p) in addition to the interim dividend of 0.39p (FY25: 0.37p).
- This results in a **total FY26 dividend of 1.00p, 6% up on the 0.95p of FY25, producing a yield of 3.5%** based on the share price on 26 Jun '26.

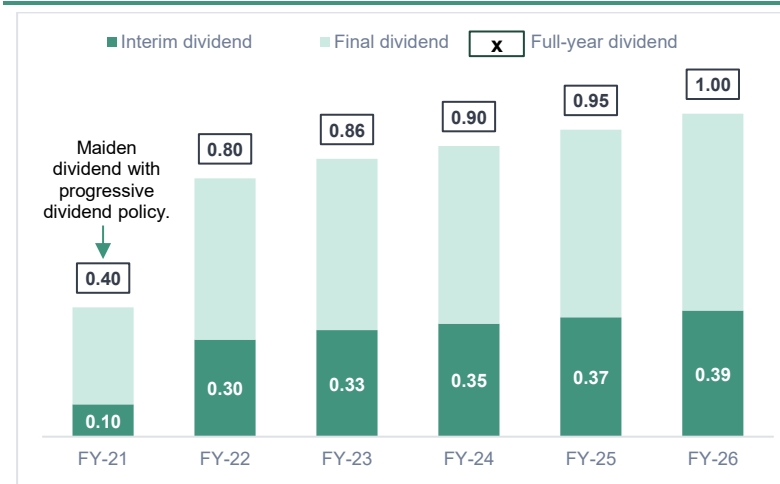
Source: Company

Summarised net asset composition, £m



Source: Company

Dividend history



Source: Company

Forecasts and valuation

Performance vs forecast and updated forecasts

- For FY26, revenue was largely in line with our forecasts, costs were lower than forecast and EBITDA was above our forecast. However, the negative (non-cash) fair value moves of the direct portfolio has resulted in statutory results (PBT & EPS) being lower than forecast.
- Our revenue forecast is largely unchanged but **additional efficiencies captured during the year also reduce our previous costs estimates** for FY27.
- This results in our **adjusted EBITDA forecast increasing from £7.7m to £8.0m** with our adjusted EBITDA margin also forecast to increase from our previous forecast of 22.1% to 23.0%.

Performance v forecast and Forecast changes

Year to 31 Mar (£m)	FY26	FY26E	above/below	FY27E	FY26E	Change
	Actual	Forecast	forecast	New	Old	
AUM*, £bn	2.00	2.00	0%	2.28	2.05	11%
Third-party AUM, £bn	1.82	1.78	2%	2.10	1.82	15%
Direct investments	124.8	140.6	-11%	129.8	88.6	46%
Rev (excl. perf. fees)	34.1	34.1	0%	35.0	35.0	0%
EBITDA**	8.1	7.2	12%	8.0	7.7	4%
EBITDA margin	23.7%	21.2%	12%	23.0%	22.1%	4%
PBT	-7.7	4.8	-260%	4.8	5.0	-4%
EPS basic, p	-2.0	0.8	-355%	0.8	0.8	-1%
Div, p	1.00	0.99	1%	1.05	1.04	1%
Yield	3.5%	3.5%		3.7%	3.6%	
Share buybacks	2.96	3.00	-1%	3.00	3.00	
% of market cap***	2.7%	2.7%		2.7%	2.7%	
Net assets	173.6	185.0	-6%	170.2	181.8	-6%
Net cash	26.4	26.0	1%	19.1	78.7	-76%

Source: Equity Development, Priced at 29/06/2026.

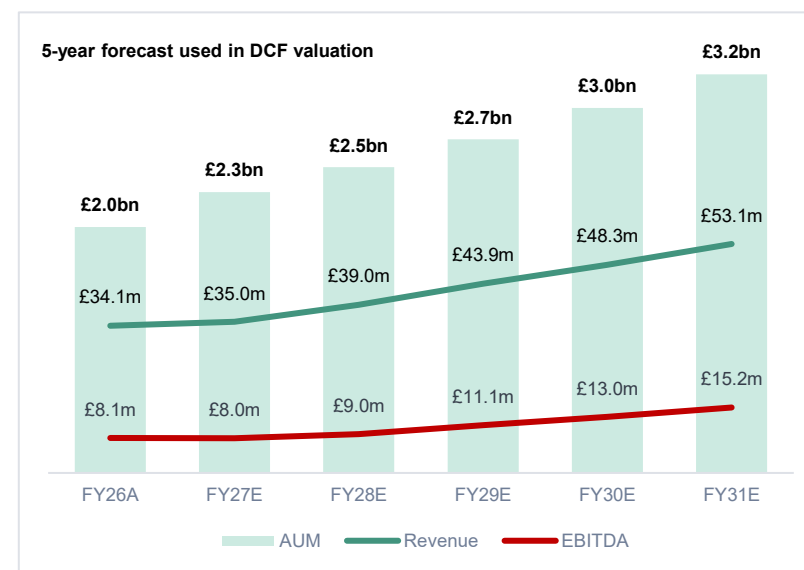
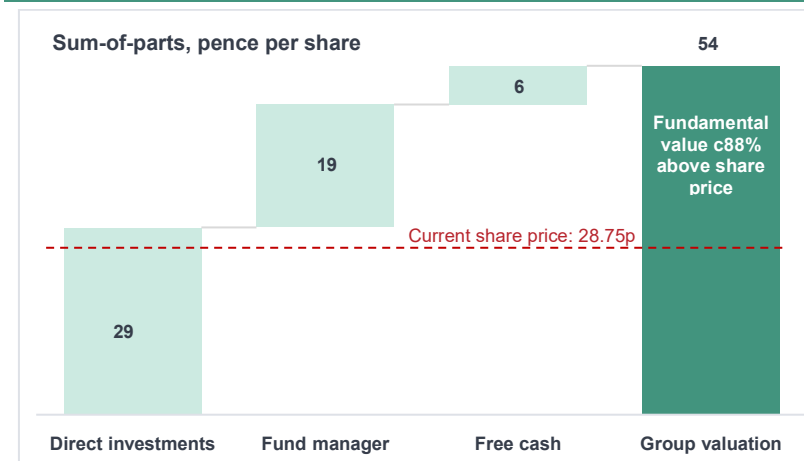
* Value of FUM from which the Group earns fund management revenues, plus consolidated net assets. **Op. profit before exceptional items, depreciation, gains/(losses) on sale of direct investments, FV movement in direct investments, SB payments charge, amortisation of intangible assets, movement in FV of deferred consideration. ***Based on market cap at beginning of period.

Sum-of-parts and DCF valuations suggest deep discount to fundamental value

Underlying assumptions of fundamental valuation

- We believe Mercia's current share price significantly misprices its fundamental value. Two separate valuation methodologies back this up.
- On a sum-of-parts basis, we split Mercia's value into three components:
 - A fund management business, where fees are charged for managing funds for third party investors, which we value at 19p per share (EBITDA per share multiplied by an adjusted multiple of 10x).
 - A significant direct investment portfolio, which is disproportionately large compared to most on-balance sheet investments of other asset managers, and which is valued at 29p per share (see page 7 and Appendix 1).
 - A cash pile of £26m which is also large in relation to the size of the business, translating to a per-share value of 6p.
- **This methodology produces a fundamental valuation of 54p per share, 88% above the 28.75p share price on 30/06/26.**
- We also compare this to DCF valuation. Key assumptions include:
 - A 5-year explicit growth forecast (shown on right right).
 - A terminal value based on a profitability growth rate of 2.5%, which we believe is conservative.
 - A discount rate of 11%.
- **This produces a slightly higher value of 65p per share.** Conservatively, we use the sum-of-parts value of 54p as our fundamental value.

Sum-of-parts and DCF summaries



Source: Company historic data, ED forecasts and analysis

Appendix 1: Direct investment exits, % above NAV

Mercia has a record of valuing portfolio businesses conservatively, with every significant exit since IPO concluded at a premium to holding-NAV, with a weighted average premium of 41%. A portfolio NAV of c£125m on 31 Mar 26 would be around 103% of Mercia's market cap of £122m (on 26 Jun 26).

This would imply that the market is applying a significant discount to the direct investment portfolio NAV, which looks unjustified given its record of exiting investments well above holding NAV.

Direct-investment exits since IPO: Exit value to holding-NAV				
Company	Exit date	Pre-exit NAV	Exit value realised	Exit-surplus to NAV
Sherlock Biosciences	Dec '24	£0.34m	nil	(-£0.34m)
Artesian Solutions	Oct '24	£0.54m	£0.60m	+12% (+£0.06m)
nDreams	Nov '23	£25.8m	£30.2m	+17% (+£4.4m)
Intechnica	Jan '23	£2.2m	£4.0m	+81% (+£1.8m)
Faradion	Jan '22	£12.9m	£19.4m	+50% (+£6.5m)
Oxford Genetics	Mar '21	£16.1m	£30.7m	+91% (+£14.6m)
Clear Review	Oct 20	£1.0m	£1.0m	+1% (+£0.01m)
Native Antigen	Jul '20	£3.5m	£5.2m	+49% (+£1.7m)
Science Warehouse	Mar '18	£9.9m	£10.5m	+6% (+£0.6m)
Abzena	Feb '17	£0.15m	£0.17m	+13% (+£0.02m)
Allinea Software	Dec '16	£1.9m	£3.0m	+58% (+£1.1m)
Weighted-average Exit-surplus to holding NAV				+41%

Source: Company, ED analysis

Appendix 2: Summary financials

Income statement					
Year to 31 Mar (£m)	FY24A	FY25A	FY26A	FY27E	FY28E
Revenue (excl. performance fees)	30.4	34.4	34.1	35.0	39.0
Adjusted administrative expenses	(24.9)	(26.8)	(26.0)	(27.0)	(30.0)
EBITDA	5.5	7.6	8.1	8.0	9.0
Net finance income	4.2	2.6	1.2	0.9	0.7
Adjusted operating profit	9.7	10.2	9.3	9.0	9.7
Gross performance fees	-	0.8	-	-	-
IFRS Revenue	30.4	35.2	34.1	35.0	39.0
Adjusted administrative expenses	(24.9)	(26.8)	(26.0)	(27.0)	(30.0)
Performance fee costs	-	(0.6)	-	-	-
Depreciation	(0.5)	(0.6)	(0.6)	(0.6)	(0.6)
Realised P/(L) on sale of direct investments	4.5	(0.3)	-	-	-
FV movement in direct investments	(17.3)	0.3	(12.8)	-	-
Share-based payments charge	(1.0)	(0.9)	(0.6)	(0.6)	(0.6)
Amortisation of intangible assets	(3.0)	(3.0)	(3.0)	(3.0)	(3.0)
Movement in FV of deferred consideration	(0.5)	(0.5)	-	-	-
Operating P/(L) before exceptional items	(12.4)	2.8	(8.9)	3.9	4.8
Exceptional items	-	-	-	-	-
Operating profit/(loss)	(12.4)	2.8	(8.9)	3.9	4.8
Net finance income	4.2	2.6	1.2	0.9	0.7
Profit before tax	(8.2)	5.4	(7.7)	4.8	5.4
Taxation	0.6	(1.9)	(1.0)	(1.3)	(1.5)
Profit & total comprehensive income	(7.6)	3.5	(8.6)	3.4	3.9
		0.8			
Basic EPS, p	(1.7)	0.8	(2.0)	0.8	0.9
Diluted EPS, p	(1.7)	2.6	(2.0)	0.8	0.9

Source: Company data, Equity Development.

Balance sheet					
Year to 31 Mar (£m)	FY24A	FY25A	FY26A	FY27E	FY28E
Non-current assets					
Goodwill	21.1	21.1	21.1	21.1	21.1
Intangible assets	15.2	12.2	9.2	6.2	3.2
Property, plant and equipment	0.1	0.2	0.3	0.3	0.3
Right of Use Assets	0.7	0.7	0.9	0.9	0.9
Investments	116.9	126.0	124.8	129.8	79.8
Sub-total NCAs	154.0	160.1	156.3	158.3	105.3
Current assets					
Trade and other receivables	4.0	3.2	4.7	5.3	6.1
Restricted cash	-	-	-	-	-
Short-term liquidity investments	-	-	-	-	-
Cash and cash equivalents	46.9	40.1	26.4	19.1	66.7
Sub-total CAs	50.9	43.3	31.0	24.4	72.8
TOTAL ASSETS	204.9	203.5	187.3	182.7	178.2
Current Liabilities					
Trade and other payables	(8.9)	(11.8)	(10.5)	(10.0)	(9.1)
Lease liabilities	(0.4)	(0.4)	(0.3)	(0.2)	(0.0)
Deferred consideration	(2.3)	-	-	-	-
Sub-total CLs	(11.5)	(12.2)	(10.8)	(10.1)	(9.1)
Non-current Liabilities					
Lease liabilities	(0.3)	(0.3)	(0.6)	(0.8)	(1.0)
Deferred consideration	-	-	-	-	-
Deferred tax liability	(3.8)	(3.0)	(2.3)	(1.5)	(0.8)
Sub-total NCLs	(4.1)	(3.4)	(2.9)	(2.4)	(1.8)
TOTAL LIABILITIES	(15.7)	(15.6)	(13.7)	(12.5)	(10.9)
NET ASSETS	189.2	187.9	173.6	170.2	167.2
EQUITY					
Share capital	0.0	0.0	0.0	0.0	0.0
Share premium	83.8	83.8	83.8	80.8	77.8
Treasury reserve	(3.2)	(4.9)	(3.8)	(3.8)	(3.8)
Other distributable reserves	59.3	55.4	48.2	48.2	48.2
Retained earnings	43.8	47.2	38.6	37.6	37.0
Share based payments reserve	5.6	6.5	6.7	7.3	7.9
TOTAL EQUITY	189.2	187.9	173.6	170.2	167.2

Source: Company data, Equity Development

Cash flow statement

Year to 31 Mar (£m)	FY24A	FY25A	FY26A	FY27E	FY28E
Operating activities					
Operating profit	(12.4)	2.8	(8.9)	3.9	4.8
Adjustment for:	-	-	-	-	-
Depreciation of property, plant & equipment	0.1	0.1	0.1	0.1	0.1
Depreciation of right-of use assets	0.4	0.5	0.5	0.5	0.5
Loss/(profit) on sale of direct investment	(4.5)	0.3	-	-	-
Fair value movement in direct investments	17.3	(0.3)	12.8	-	-
Share-based payment charges	1.0	0.9	0.6	0.6	0.6
Amortisation of intangible assets	3.0	3.0	3.0	3.0	3.0
Movement in fair value of contingent consideration	0.5	0.5	-	-	-
Working capital adjustments:	-	-	-	-	-
Decrease/(increase) in receivables	0.8	(0.0)	(0.7)	(0.7)	(0.8)
(Decr)/incr in trade and other payables	1.5	1.7	(0.9)	(0.9)	(1.0)
Cash generated from operations	7.9	9.4	6.5	6.4	7.2
Corporation tax paid	(0.8)	(0.7)	(2.7)	(1.7)	(2.1)
Net cash from operating activities	7.1	8.7	3.8	4.7	5.1
Investing activities					
Sale of direct investments	26.7	0.6	-	5.0	55.0
Purchase of direct investments	(19.9)	(9.7)	(12.2)	(10.0)	(5.0)
Investee company loan repayment	0.3	-	0.6	-	-
Investee co. loan redemption premium & interest received	2.3	0.6	0.0	0.0	0.0
Interest received on cash deposits	1.8	2.1	1.2	0.9	0.7
Purchase of property and equipment	(0.1)	(0.1)	(0.3)	(0.1)	(0.1)
Acquisition of subsidiary	(1.5)	(2.7)	-	-	-
Cash acquired with purchase of subsidiary	-	-	-	-	-
Purchase of VCT fund management business	-	-	-	-	-
Decrease/(increase) in short term liquidity investments	0.3	-	-	-	-
Net cash used in investing activities	9.9	(9.3)	(10.7)	(4.2)	50.5
Financing activities					
Proceeds of issue of shares	-	-	-	-	-
Transaction costs relating to the issue of Ordinary shares	-	-	-	-	-
Dividends paid	(3.9)	(4.0)	(4.2)	(4.3)	(4.5)
Interest paid	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)
Pmt of lease liabilities and initial direct costs	(0.4)	(0.5)	(0.4)	(0.5)	(0.5)
Redemption of subsidiary undertaking pref. shares	-	-	-	-	-
Purchase of own shares	(3.2)	(1.8)	(3.0)	(3.0)	(3.0)
Proceeds from exercise of employee share options	0.0	0.1	0.8	-	-
Net cash from / (used in) financing activities	(7.6)	(6.3)	(6.8)	(7.9)	(8.0)
Net (decr)/incr in cash & equivalents	9.4	(6.8)	(13.7)	(7.3)	47.6
Cash & equivalents beginning of year	37.6	46.9	40.1	26.4	19.1
Cash & equivalents at end of year	46.9	40.1	26.4	19.1	66.7

Source: Company data, Equity Development

Contacts

Andy Edmond

Direct: 020 7065 2691

Tel: 020 7065 2690

andy@equitydevelopment.co.uk

Hannah Crowe

Direct: 0207 065 2692

Tel: 0207 065 2690

hannah@equitydevelopment.co.uk

Equity Development Limited is regulated by the Financial Conduct Authority

Disclaimer

Equity Development Limited ('ED') is retained to act as financial adviser for its corporate clients, some or all of whom may now or in the future have an interest in the contents of this document. ED produces and distributes research for these corporate clients to persons who are not clients of ED. In the preparation of this report ED has taken professional efforts to ensure that the facts stated herein are clear, fair and not misleading, but makes no guarantee as to the accuracy or completeness of the information or opinions contained herein.

Any reader of this research should not act or rely on this document or any of its contents. This report is being provided by ED to provide background information about the subject of the research to relevant persons, as defined by the Financial Services and Markets Act 2000 (Financial Promotions) Order 2005. This document does not constitute, nor form part of, and should not be construed as, any offer for sale or purchase of (or solicitation of, or invitation to make any offer to buy or sell) any Securities (which may rise and fall in value). Nor shall it, or any part of it, form the basis of, or be relied on in connection with, any contract or commitment whatsoever.

Research produced and distributed by ED on its client companies is normally commissioned and paid for by those companies themselves ('issuer financed research') and as such is not deemed to be independent as defined by the FCA but is 'objective' in that the authors are stating their own opinions. This document is prepared for clients under UK law. In the UK, companies quoted on AIM are subject to lighter due diligence than shares quoted on the main market and are therefore more likely to carry a higher degree of risk than main market companies.

ED may in the future provide, or may have in the past provided, investment banking services to the subject of this report. ED, its directors or persons connected may at some time in the future have, or have had in the past, a material investment in the Company. ED, its affiliates, officers, directors and employees, will not be liable for any loss or damage arising from any use of this document to the maximum extent that the law permits.

More information is available on our website www.equitydevelopment.co.uk

Contact: info@equitydevelopment.co.uk | 020 7065 2690