Mercia Asset Management PLC

A deeply undervalued specialist in private markets

2nd July 2024

Mercia is one of the largest investors in 'regional' (ex-London) UK growth businesses. Its primary focus is managing funds of around £1.6bn for third parties (FUM) in structures such as Venture Capital Trusts, EIS funds and funds for institutional investors. It deploys c£220m per year across venture capital, debt and private equity (100k to £20m per investment).

The business is scaling. FUM has more than doubled in two years. Record net flows exceeded £0.5bn in FY24. And growth is by far the highest among a London-listed peer group (page 4).

FY24 revenue grew 18% y-o-y to £30.4m, EBITDA 7% to £5.5m, a margin of 18.2%, likely to ratchet up over the longer term as the business scales further. Indeed, the newly announced *Mercia 27:100% growth* strategy aims to reach £3bn AUM (FUM + proprietary capital) and £11m EBITDA in 3 years.

Mercia also invests its own capital into a portfolio of 'direct investments' (NAV: £189m on 31 Mar 24). Its record is impressive. Since listing on AIM in 2014, it has realised nine exits, every one with a positive return and an aggregate return of 3.0x (page 20). However, FY24 highlighted the highs and lows of venture investing. Mercia successfully exited nDreams, realising £30.2m at a 2.7x return. But it wrote down its entire investment in Impression Technologies, taking an £18.6m impairment.

A strategic change is to be proposed at the 2024 AGM - to focus primarily on highly profitable and fast-growing fund management, and to stop making new direct investments (while supporting existing investments). This allows Mercia to **reclassify from an investment company to a trading company under AIM rules, allowing gains made on shares to be IHT-exempt** (under certain conditions).

Based on fundamentals, Mercia shares look mispriced

We value the business on a sum-of-the-parts basis as follows (page 29):

'Standalone' fee-earning asset management business:	13p per share
Cash on balance sheet:	11p per share
Direct investment portfolio:	27p per share*
Total fundamental value:	**51p per share**

*We see no reason to discount this to NAV given Mercia's track record of consistently realising investments at a premium to holding NAV (page 21).

With a fundamental value 65% above the share price, we see potential for a significant rerating.

Key Financials

Year-end 31 Mar	FY21A	FY 22A	FY 23A	FY 24A	FY 25E	FY 26E
AUM, £bn	0.94	0.96	1.44	1.82	1.97	1.98
Third-party FUM, £bn	0.76	0.76	1.23	1.63	1.77	1.78
Direct investments, £m	96.2	119.6	136.6	116.9	128.9	136.9
Rev (excl. perf. fees), £m	19.2	20.6	25.9	30.4	34.5	35.5
Performance fees, £m	4.2	2.6	0.0	0.0	0.0	0.0
EBITDA*, £m	3.3	4.0	5.2	5.5	6.2	6.2
EBITDA margin	17.1%	19.2%	20.0%	18.2%	18.0%	17.5%
PBT, £m	34.0	27.4	2.4	-8.2	2.8	2.8
EPS basic, p	7.8	5.9	0.6	-1.7	0.7	0.7
Div, p	0.40	0.80	0.86	0.90	0.95	0.99
Yield	1.3%	2.6%	2.8%	2.9%	3.0%	3.2%
Net assets, £m	176.0	200.6	202.9	189.2	187.3	187.4
Net cash, £m	54.5	56.0	37.6	46.9	33.2	28.4

*Source: Company Historic Data, ED estimates. * See page 24 for definition. Yield based on share price of:* ***31p***

Company Data

EPIC	MERC
Price (last close)	31p
52 weeks Hi/Lo	36p/21p
Market cap	£134m
ED Fair Value / share	51p
Net cash	£47m
Avg. daily volume	646k

Share Price, p

Source: ADVFN

Company 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.£189million of its own.

Paul Bryant (Analyst)
0207 065 2690
paul.bryant@equitydevelopment.co.uk

Hannah Crowe
0207 065 2692
hannah@equitydevelopment.co.uk

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Mercia at a glance

Mercia was founded in 2010 and listed on the AIM market of the London Stock Exchange in December 2014. It currently has c140 employees based in 11 offices across the UK. The business is **founder-led** by Dr Mark Payton (CEO) and since 2014 Martin Glanfield (CFO). Chief Investment Officer, Julian Viggers, is also an executive director. The board, management, and employees own around 17% of the business.

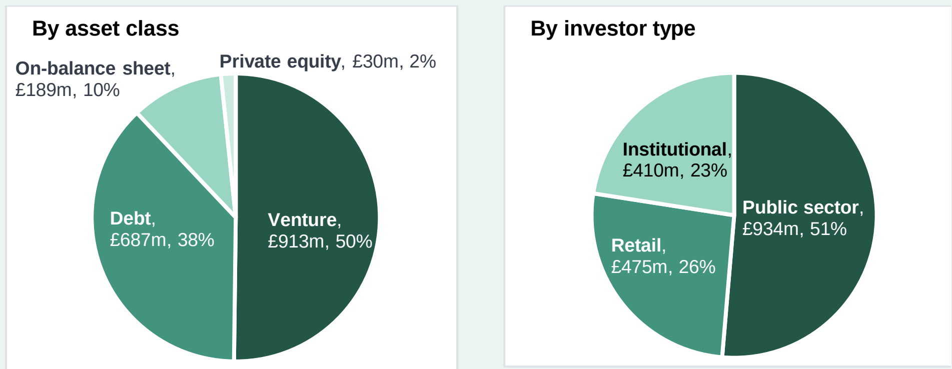
It is a **highly specialist** alternative asset manager. Mercia's funds provide venture capital finance, private equity, and debt finance to high-growth UK SMEs based mostly in the 'regions' i.e. outside London.

Equity funds typically deploy between £100k and £10m per investment, and debt funds between £250k and £20m. Equity funds make up c.57% FUM, and debt c.43%.

Around £1.6bn of clients' capital (Funds Under Management, 'FUM') is invested in Mercia's funds or other investment vehicles, from which it generates fee income. Capital providers include public sector bodies (such as the British Business Bank), institutional investors (such as pension funds), and high-net-worth/sophisticated retail investors (investing via tax-advantaged structures such as Venture Capital Trusts and Enterprise Investment Scheme funds).

Mercia also had £189m (31 March 2024) of its own capital invested alongside these funds (on- balance sheet), bringing total Assets Under Management (AUM) to c£1.8bn (AUM is defined as the value of funds under management from which the Group earns fund management revenues, plus the Group's consolidated net assets, the bulk of which is made up of direct investments plus net cash).

AUM breakdown: 100% = £1,819m



3rd Party FUM: £1,630m; On-balance sheet portfolio NAV: £117m; Net cash: £47m

Source: Company, as at 31 Mar 24.

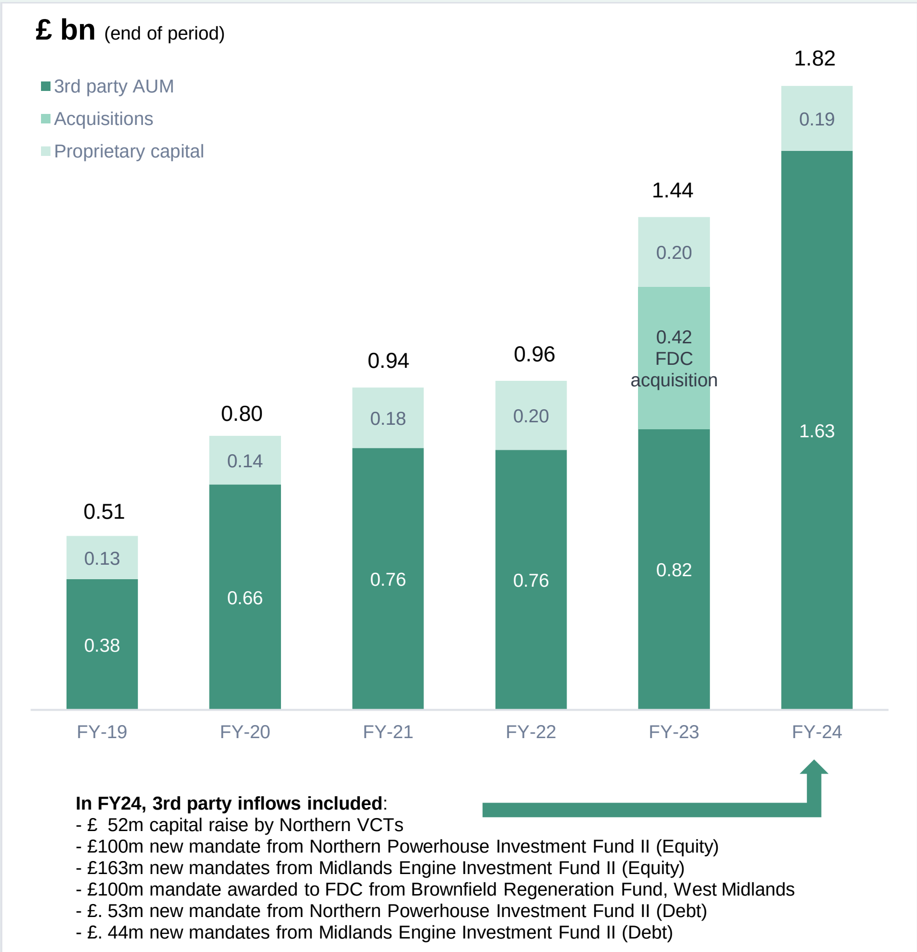
Its business model is designed to meet the needs of and be highly attractive to entrepreneurs and their companies, as well as investors.

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 (page 10).

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.

This unique proposition to investee companies and to investors, coupled with its impressive investment track record, has led to rapid AUM growth – indeed, the highest among UK-listed asset managers – see overleaf, with some very significant recent organic inflows over FY24.

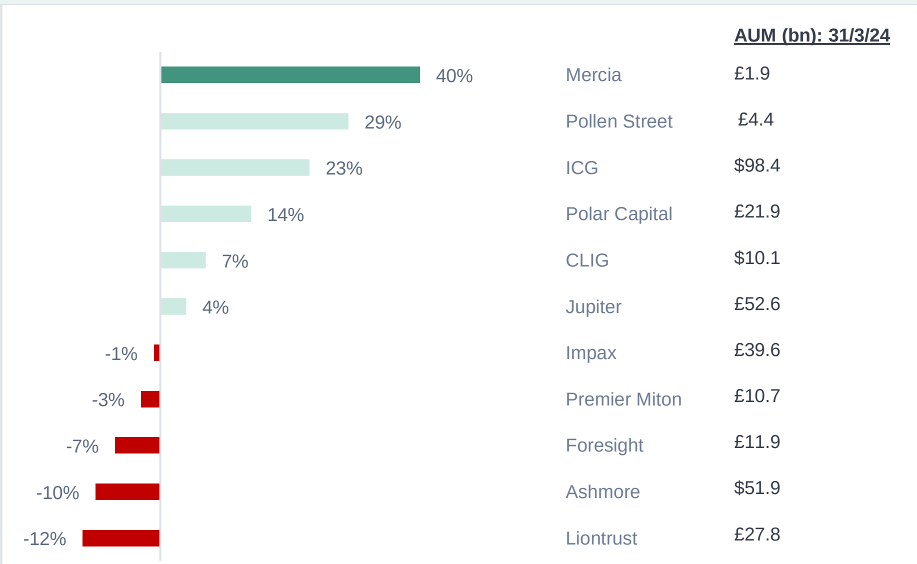
AUM growth ramping up, has doubled over 2 years



Source: Company

The scale of these inflows over the last year has resulted in Mercia having **the highest AUM growth rate by far** out of a group of London-listed asset managers (small and medium managers with AUM of less than £100bn). A truly impressive outcome, even though Mercia is the smallest manager in this group.

AUM increase/decrease excluding acquisitions, 12m to 31 Mar 24



Source: Company reports and trading updates, ED analysis

History of group

Mercia Fund Management Limited, as it was then known (today Mercia Asset Management PLC), was founded in January 2010 when Dr Mark Payton, the current CEO, led a management buyout of two fund management contracts from WM Enterprise Limited (WME), an established Venture Capital Provider. This created a third-party fund manager with £12m AUM and three employees.

The two contracts acquired were:

- Mercia Fund 1: an evergreen seed fund providing support and capital to spinout projects covering eight universities, and
- Mercia Fund 2: a 10-year limited life fund investing post-seed-stage in slightly later stage businesses.

(Mark had joined WME in 2005 and led the launch of Mercia Fund 2, and a restructuring of Mercia Fund 1).

The business continued to expand over the next five years, building its AUM to £23m by the end of 2014, with investments in 38 businesses. This expansion included:

- adding a range of Enterprise Investment Scheme (EIS) and Seed Enterprise Investment Scheme (SEIS) funds,
- entering into an agreement with Forward Group and Forward Innovation Fund (Forward) whereby they provided follow-on capital for portfolio companies considered to be 'emerging stars', known as 'direct investments' (Forward is led by technology entrepreneur and venture capitalist Ray Chamberlain who still owns a c.15% stake in Mercia today through various entities, and is a non-executive director – to retire in Sep 24, see page 28),
- Forward Innovation Fund acquiring a majority stake in Mercia Fund Management at the time of the MBO.

In December 2014, Mercia listed on the AIM market, raising net proceeds of £66m. A key element of the transaction was to use 70-80% of the proceeds to build a portfolio of on-balance sheet direct investments (i.e. to no longer use Forward Group as the funder of these). Additional capital would also be available for regional expansion, organic, and acquisitive growth initiatives. The listed entity became known as Mercia Technologies PLC, subsequently changing its name to Mercia Asset Management PLC in 2019.

In the (nearly) 10 years since listing, Mercia has grown from £23m FUM and seven employees to managing around £1.6bn of third-party FUM and an on-balance sheet direct investment portfolio valued at c.£117m (at 31 March 2024), with 11 offices across the UK, and a portfolio of c.500 companies.

This was achieved with **only two capital raisings,** of £40m in 2017 and £30m in 2019.

Key milestones between Mercia's AIM listing and today include:

- The acquisition of Enterprise Ventures in 2016, which managed a portfolio of £200m at the time with a focus on the North of England. Enterprise Ventures' then Head of Technology Investments, Julian Viggars, went on to become Mercia's Chief Investment Officer, a position he still holds today.
- The acquisition of the Venture Capital Trust business from NVM Private Equity LLP in 2019, which manages the investments of Northern Venture Trust plc, Northern 2 VCT plc, and Northern 3 VCT plc, a total of £270m AUM at the time of acquisition.
- The acquisition of Frontier Development Capital (FDC) in December 2022 which significantly boosted Mercia's debt AUM, by £415m.
- A string of contract wins over a number of years to manage public development funds for initiatives such as the Northern Powerhouse Investment Funds and the Midlands Engine Investment Funds, including **£360m of new mandates won in Q1 of 2024**.
- Building **an exceptional track record of profitable exits** from portfolio investments, with £340m of equity exits (across all funds and direct investments) in the three years to 31 March 2023, a further £52m in H1-24 to 30 September 2023, and £26m from its nDreams exit in November 2023, bringing its cash realisation total to around £420m over the last c3.5years.

A truly unique investor

Mercia manages funds which invest in smaller, private, high-growth, UK regional businesses; at very specific stages of these business's growth cycle; in highly targeted sectors; and it provides support for these businesses post investment to help them succeed.

Sourcing, executing, managing, and exiting investments not only requires highly-specialist and rare investment and technical skills to understand the underlying investee business and its market dynamics, but also an ability to develop and nurture relationships with founders, management teams, introducers, and other investors.

Specialist in UK regional businesses

The business model is based on being the preferred investor to 'regional' business in the UK i.e. those based outside of London. These regions have been under-served by capital markets. Mercia has stated that its purpose is to address the imbalance of capital between London and the UK regions. Having said that, it is not absent from the London investment scene. In FY24, around 90% of the £247m capital deployed was invested into companies outside London and just under 10% in London.

This geographic focus has attractions for investors in Mercia's funds. In contrast to London and the South-East, **the UK regions have an undersupply of capital, lower competition among capital providers, and lower pre-investment valuations, making for many attractive investment opportunities**. This is despite there being significant areas of thriving and sophisticated start-up and scale-up activity.

By having 11 offices spread across the UK, Mercia ensures it can source and manage investments effectively, with investment teams always within two hours from prospective and existing investments.

Mercia offices

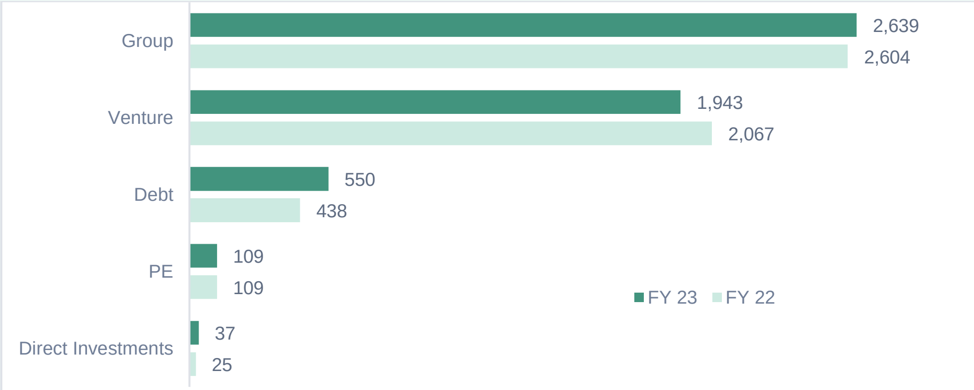
Source: Company website

Competitive advantage in deal sourcing

Being so deeply connected to and embedded within regional business (and especially technology business) ecosystems provides Mercia with a distinct competitive advantage when it comes to sourcing deals. Indeed, it claims to see around 60% of all deals in the regions, the vast majority of which would bypass most London-based capital providers entirely.

Mercia is a natural first port of call for capital raising in the regions, receiving over 2,600 investment requests in FY23.

Investment requests



Source: Company website

Deals are sourced via professional networks and collaborative relationships with [19 regional universities in the UK].

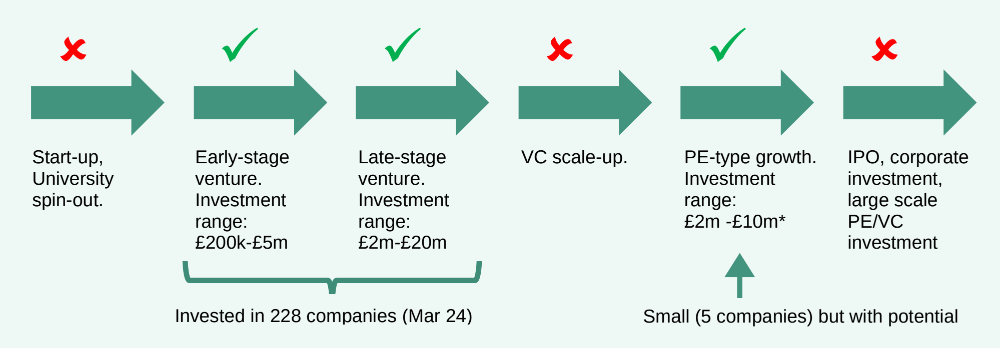
Universities are a source of spin-out and non-spin-out investment opportunities. Mercia is one of the top investors into spinouts in the UK measured by the number of equity deals (89 in the portfolio by May 24 according to the Mercia website) with spinouts making up c.5% of the current portfolio.

Equity investments - a focus on specific company growth stages

Mercia's equity investments are made at specific stages of company development: mostly early and late-stage venture growth (c.£1.1bn AUM between venture funds and direct investments on 31 March 2024). It also has a private equity arm which is still small (£30m) but with potential to grow.

More specifics of its investment stage focus are shown below. Bear in mind that the ticks in the chart apply only to typical entry points of investments as Mercia may make follow-on investments and will look to hold its investments until the company is more mature when exit opportunities are likely to be most profitable.

EQUITY: Typical timing of investment in relation to company growth cycle



Source: Company, ED
The British Private Equity and Venture Capital Association (BVCA) categorises PE by deal size: Small <£10m, Mid-market £10m-£100m, Large £100m - £00m, and Mega > £300m, so Mercia would be operating in the 'small' end of the PE market.

Venture

Venture investments mostly fall into one of four sectors where Mercia has deep domain expertise and experience: *Software, consumer (mostly digital entertainment), life sciences*, and *deep tech* (spanning electronics, materials, manufacturing, engineering). It also has extensive expertise in artificial intelligence, which more and more, is spanning all four of its primary investment sectors.

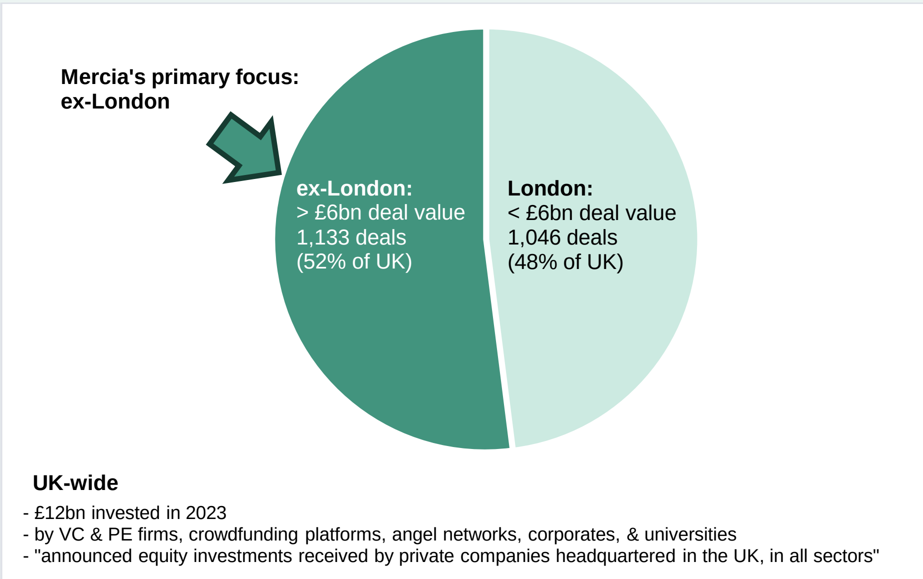
Mercia's primary investment sectors (with example investments)

Software	**Consumer** (mostly digital entertainment)
Voxpopme: Video analytics software for market research, customer experience, recruitment, HR. Valuation: £78m. Netacea: AI-driven threat detection and response to combat bot attacks on websites, mobile apps, APIs. Valuation: £43m.	nDreams: Virtual reality game developer (exited by Mercia in Nov 23). Valuation £90m (Mercia share £30m, 2.7x amount invested). Avid Games: Digital trading cards and collectibles. Valuation £17m.
Life sciences	**Deep tech** (spanning electronics, materials, manufacturing, engineering)
Medherant: Transdermal (skin patch) drug delivery technology including testosterone patch for women. Valuation £33m. Axis Spine Technologies: Spinal implant systems that achieve and maintain superior spinal alignment. Valuation: £32m.	Warwick Acoustics: Advanced electrostatic acoustic technology for headphones and cars. Valuation £32m. Nova Pangea: Clean Tech business converting discarded plant biomass into biochemicals and biofuels.

Source: Company. All valuation data as at 31 Mar 24, Mercia exited nDreams Nov 23.

Mercia's venture investments operate in a UK-ex-London market of around **£5bn - £6bn** (2023), which is about half of the total UK market, with London-based investments making up the other half. This market data of Mercia's venture investment universe is not a perfect fit with its investment strategy and should be treated only as a rough approximation. But even this approximate data should still prove useful in helping Mercia's shareholders or potential shareholders understand the size of the market in which it operates.

UK venture market, capital deployed in 2023



Source: Beauhurst. The Deal 2023, Equity investment market update

Mercia's targeted investment focus is certainly narrower than the market presented above (e.g. the data includes investments much larger than Mercia would target and investments in sectors it would not target etc).

But it still shows that Mercia's current annual capital deployment in venture of around £100m (£110m deployed in FY24) is a tiny fraction of the overall market. Therefore, deal opportunities should certainly not be a constraint on Mercia's growth.

Debt financing

Debt financing strategy

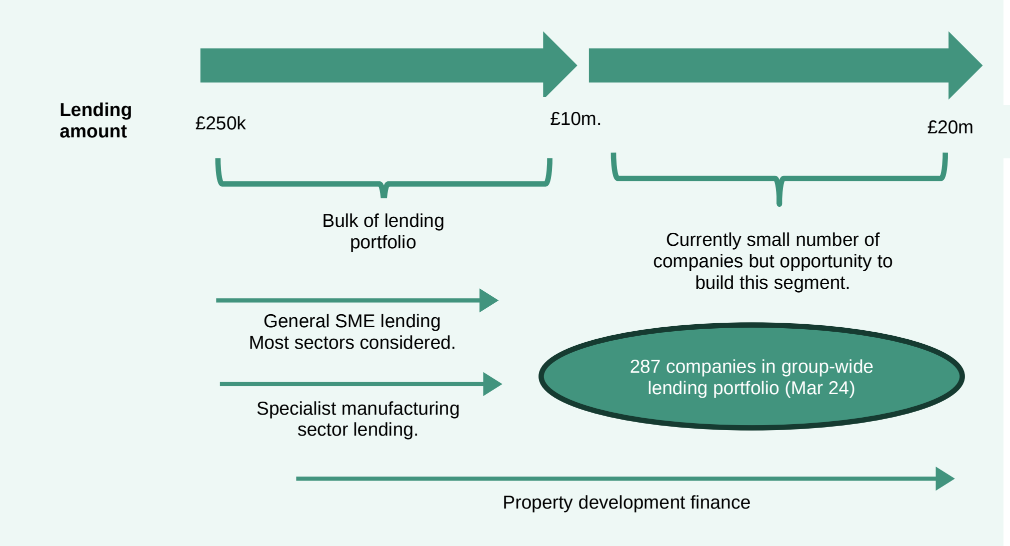
Mercia's debt finance arm takes a broader sector focus and targets more mature, profitable businesses. It has been transformed over the last year or so by the acquisition of Frontier Development Capital (FDC) in Dec 22.

Prior to that, with debt AUM of around £120m, Mercia was focused more on the lower end of the lending spectrum illustrated below, typically lending between £200k and £1m. With the acquisition of FDC, it added £415m of AUM, and moved into larger debt deals with FDC typically making commercial loans upwards of £2m.

The combined operation had grown AUM to £687m by 31 March 2024, including two significant contract wins in Feb and Mar 24 (see page 17).

The group's debt finance areas of operation are summarised in the chart below.

Mercia's debt operations



Source: Company, ED

Private equity

PE investments are also considered across a much broader sector range than venture investments. For example, Mercia has invested in businesses as diverse as a parking reservation app (Parkvia), a landscape servicing business (UK Landscapes) (both now sold), a temporary traffic management business (Total Resources), and a digital business mailing service (inmail comms).

Criteria for PE investments revolve more around the credibility of management teams and companies, which must already have a track record of success, are probably already profitable, have strong growth potential, but need additional capital to ramp up their growth through organic means or acquisitions. Capital is also deployed to fund transactions such as a management buyout.

The UK PE market in which Mercia operates is also vast, with around **£11bn** invested into UK PE deals in 2023, according to the BVCA, but it is dominated by far larger deals than is Mercia's primary focus. BVCA data shows that small deals of less than £10m (Mercia's market) make up less than 1.5% of the PE market i.e. less than £200m invested in 2023.

But, again, Mercia deploys such a small fraction of this amount at present it makes little sense to see its operations in comparison to a top-down sector sizing. Just a handful of good deals by Mercia's PE team has the potential to kick start a period of rapid growth. This team is also expected to benefit from Mercia's beefed-up debt financing capability (see below), which can be complementary to PE deal structuring.

Active support for investee companies

After making an investment, Mercia is not a passive shareholder. It runs a programme called *Nucleus*, which is designed to assist investee companies succeed. This is designed around four elements:

Talent acquisition: where Mercia assists with businesses' resourcing needs – particularly at Board level.

Expert link: where Mercia's network of in-house and external professionals is made available to investee companies to provide specialised sector knowledge and functional expertise.

Growth partners: where Mercia provides access to a corporate partner network to assist investee companies with growth, such as go-to-market strategies, international expansion (with a focus on the US) and successful exits.

Knowledge exchange: where Mercia facilitates or runs training and peer-to-peer events where the portfolio founders and CEOs, industry leaders and professionals from across its ecosystem come together to exchange knowledge, share insights, best practice etc.

Funds suite

The investments discussed above are made using capital invested into a range of funds or other vehicles, which fall into four broad categories, the first two below being aimed at retail investors, and the second two involve managing capital on behalf of public and private sector institutional investors*:*

- **Venture Capital Trusts**, **AUM: £356m** (31 March 2024). London Stock Exchange-listed investment companies, the (retail investor) shareholders of which qualify for a range of tax benefits, to encourage them to support portfolios of higher-risk smaller businesses.

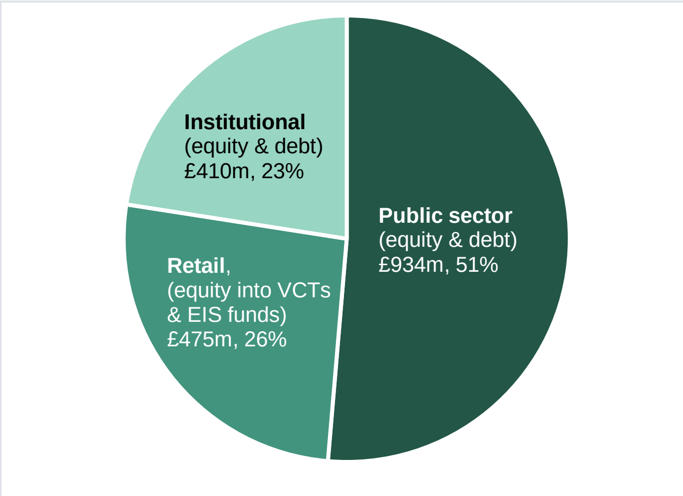
- **Retail EIS funds**, **AUM: £99m.** Investment funds aimed at high net worth or sophisticated retail investors which qualify for a range of tax benefits to encourage them to support portfolios of higher-risk smaller businesses.

- **Institutional equity funds, AUM: c£488m**. Most of which are managed for public sector bodies such as the British Business Bank or regional development organisations, with some funds managed for private sector institutional investors too.

- **Debt funds**, **AUM: £687m.** Run for both public sector and private institutional investors who provide debt finance to UK SMEs.

Overall, investment capital for the above vehicles is split roughly three ways between public sector bodies, private sector institutional investors, and retail investors.

Merica funds AUM breakdown by investor type



Source: Company, as at 31 Mar 24.

Below, we explain each fund suite's market positioning, investment performance, and outlook.

Venture Capital Trusts (VCTs)

VCT offering

Mercia's three VCTs, Northern VCT, Northern 2 VCT, and Northern 3 VCT had a combined net asset value (or AUM) of £356m on 31 March 24, with investments in 58 companies. These investments are mostly in series-A venture rounds at a typical level of £2m-£5m per investment and are made throughout the UK.

By acquiring shares in the VCT, investors gain exposure to a portfolio of high-growth innovative private businesses (investments which are often difficult to access by retail investors), selected by an expert and experienced Mercia team. Mercia's VCT's have a sector bias towards software and electronics, and biotech and healthcare (combined making up around c65% of AUM on 31 Dec 23).

Investments are tax incentivised. Simplistically, retail investors receive 30% income tax relief on the amount they invest, tax free dividends (Mercia VCT's target a dividend yield of 4.5%-5% although yields are frequently higher than this), and tax-free capital gains on disposal of their shares. [NB: this is a high-level summary of the main benefits of investing in VCT's and is not a complete picture as benefits come with a host of limits and conditions which need to be fully investigated before investing.]

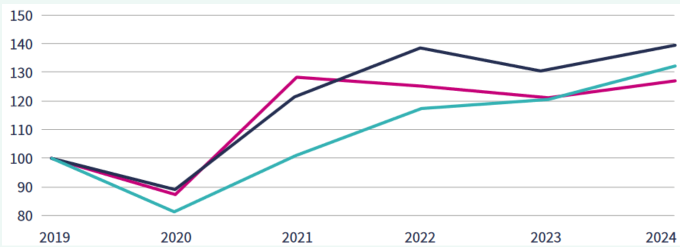
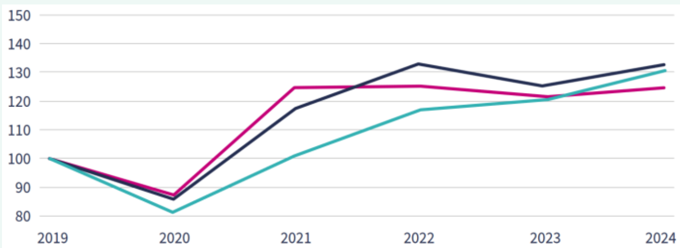
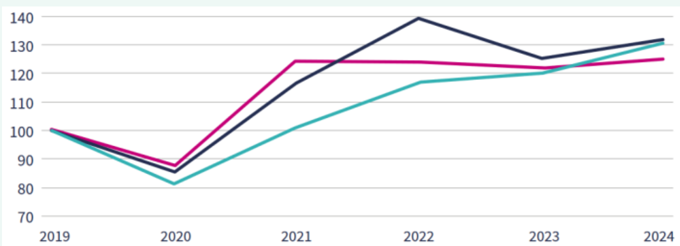
VCT returns

Being stock market listed entities committed to paying regular dividends to shareholders, VCT performance is presented using two metrics:

1) *total return*: Cumulative dividends paid (since launch) plus current net asset value per share (bar charts on left side of table below). **This shows an impressive track record of long-term value creation**.

2) *comparative return:* NAV and share price movement (assuming dividends reinvested) relative to the UK equity market index (line charts on right side of table). This shows that the **VCT's share price total returns have outperformed the FTSE All-Share Index total return over 5 years (and in addition, shareholders benefit from the tax advantages described above)**. The upward acceleration of the index over 2023 and early 2024 has, however, resulted in the index marginally outperforming the VCT NAV total return over the period.

Mercia VCTs investment performance

VCT	NAV (p per share)	Total return (p per share)	5Y comparative return* (FTSE All-Share Index total return; VCT share price total return; VCT NAV total return)
Northern Venture Trust	60.3	252.4	
Northern 2 VCT	57.3	196.4	
Northern 3 VCT	89.3	207.2	

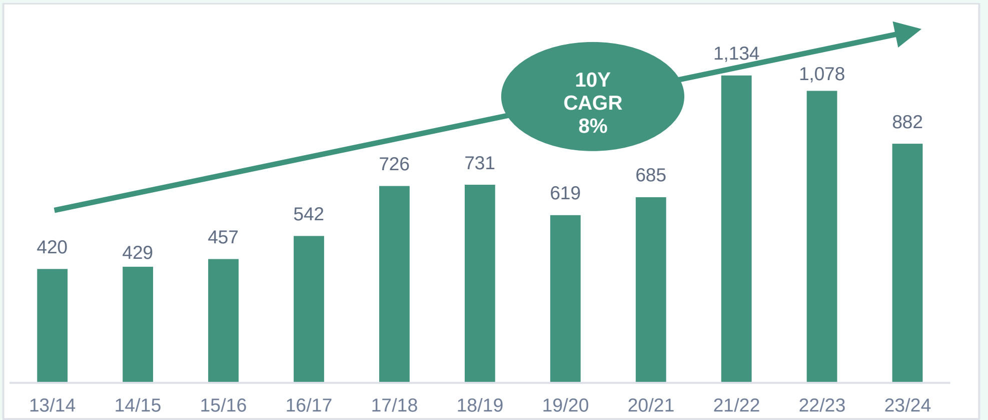
Source: VCT Annual Reports. All data to 31 Mar 24.
** Comparative return to shareholders (assuming dividends re-invested), 5 years to 31 Mar 24 (31 Mar 19 = 100)*

VCT outlook

Mercia operates in a UK-wide market of 51 VCTs which manage £6.5bn of AUM, according Apr 24 data of The Association of Investment Companies. These have a diverse range of investment strategies, so many would not compete with Mercia directly for underlying investments. For example, some invest in AIM listed stocks, and some are sector specialists.

In total, UK VCTs raised around £1.1bn of new investment in each of the 21/22 and 22/23 tax years, and £882m in the 23/24 tax year (a dip from the previous two years but still the third highest fundraising by VCTs on record). Capital raised by VCTs has increased at a CAGR of 8% over the last 10 years or so, indicating that **demand for VCT's specialist investment offerings coupled with the tax incentives has been very strong.**

VCT market fundraising, £m



Source: Association of Investment Companies

Indeed, demand jumped in 2021 and was maintained through to early 2023, with Richard Stone, Chief Executive of the Association of Investment Companies saying: "*During a tough year for investors, demand for VCTs remains near record levels demonstrating the numerous benefits they bring. VCTs have been around for over 25 years and are a trusted tax-efficient scheme. They have strong long-term performance, with the average VCT returning 108% over ten years. Following the pandemic, private investors are particularly interested in supporting the UK's entrepreneurs and their innovative high-growth companies.*"

Mercia has also experienced very strong demand for its VCTs, recently raising an additional £60m in the 23/24 tax year and £40m in the 22/23 tax year.

The UK Chancellor recently committed to extending the VCT regime until 2035. This, coupled with the evidence on ongoing strong demand for VCT's generally, and Mercia's VCT's specifically, leads us to conclude that **ongoing growth for Mercia's VCTs is likely in the years to come, and we would expect capital raisings to match or exceed historical levels of around £50m per year on average**, although this could vary substantially from year to year depending on investment opportunities and demand.

Retail EIS funds

EIS fund offering

A close cousin of VCTs are retail EIS funds, with Mercia's AUM totalling £99m on 31 March 2024. These funds were invested in 81 companies (individual investments are smaller than VCTs, typically in seed and early-stage venture rounds as opposed to later-stage series-A rounds). Mercia's EIS funds are 'rolling' i.e. they stay open with regular closes, with each fund investing in a diversified portfolio of 12-15 investments.

Like VCTs, investors gain exposure to a portfolio of high-growth innovative private businesses (investments which are difficult to access by retail investors, and require specialist expertise to analyse), selected by an expert and experienced Mercia team.

Key sectors are *life sciences & digital health*, *AI & software*, *clean tech*, and *deep tech*.

Also, like VCTs, investments are tax incentivised. Simplistically, retail investors receive 30% income tax relief on the amount they invest, tax-free capital gains on profitable exits, and tax relief on capital losses. [NB: this is a high-level summary of the main benefits of EIS investments and is not a complete picture as benefits come with a host of limits and conditions which need to be fully investigated before investing.]

EIS fund returns

Mercia's EIS funds target returns of 3x invested capital, including tax reliefs, over a period of five to seven years, with actual returns as follows:

- Mature fund performance:
  - **EIS funds before April 2015 averaged 3.3x return**.
- Immature fund performance:
  - **EIS funds before April 2018 averaged 2.5x return**.
  - **EIS funds before April 2021 averaged 2.1x return**.

Source: Mercia website: All the above valuations include tax reliefs and are accurate as of September 2023.

Note that mature and immature funds are separated to provide greater clarity on investment performance as mature funds would be expected to have higher returns than immature funds. This is because most of Mercia's investments are relatively early-stage equity investments, with returns taking some time to build.

Older funds have had the time to realise more of this upside and record more exits while newer funds will be characterised by more relatively recent investments (which have not had time to accrue value) and may also not have deployed all cash into investments yet.

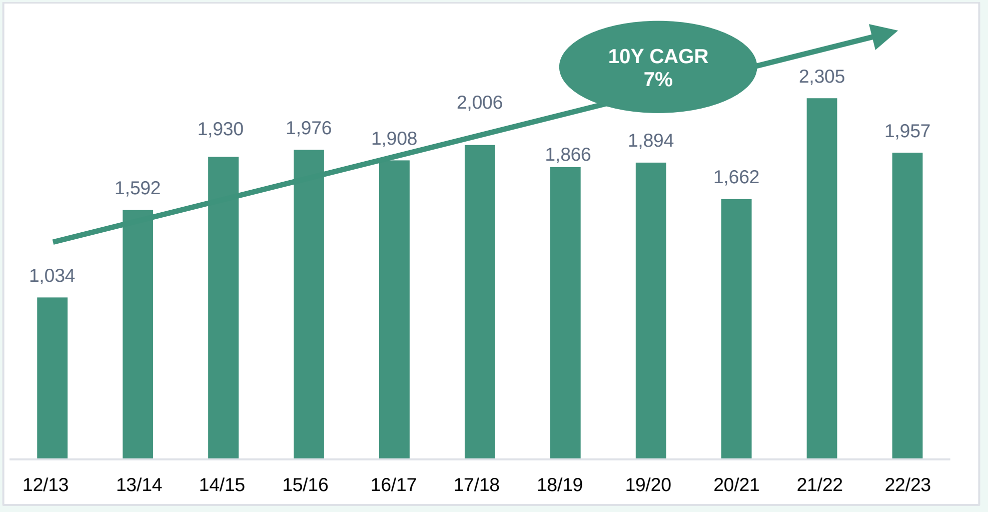
EIS fund outlook

EIS investments across the UK totalled £2.0bn in the 22/23 tax year, according to HMRC (23/24 data not yet available), down a little from the £2.3bn of the 21/22 tax year which saw the highest level of capital raised and the highest number of companies raising capital in the history of EIS.

This capital is deployed directly by individuals into companies (as business angels), through crowdfunding platforms, or through EIS funds such as those managed by Mercia. According to the Enterprise Investment Scheme Association, there are currently 57 EIS funds in the UK operated by 35 managers.

And like the VCT market, EIS investments have proven very popular with investors, with capital deployed increasing at a CAGR of 7% over the last 10 years or so.

EIS market fundraising, £m



Source: HMRC

Mercia's EIS funds also continued to experience strong demand, with £14m raised in FY24, £31m in FY23 and £16m in FY22. And in the post FY-end period since 31 Mar 24, an additional c. £15m has been raised by the EIS team.

Looking forward, the previously mentioned Chancellor's commitment to extending the VCT regime until 2035 also applies to EIS, so we would again **expect capital raisings to match or exceed historical levels of around £30m per year on average**.

Institutional equity funds

Institutional equity fund offering

Mercia managed around £488m of institutional equity funds on 31 Mar 24, most of which is managed for public sector bodies such as the British Business Bank or regional development organisations. Most of Mercia's FUM in this segment of its business form part of the £1.6bn British Business Bank's Nations and Regions Investment Funds series (not all of the £1.6bn has been deployed yet).

These are typically 10-year funds i.e. a 10-year window for capital to be deployed and returned. Mercia also manages some funds for private sector institutional investors too.

In FY24, **AUM was boosted by contract wins from the Northern Powerhouse Investment Funds and the Midlands Engine Investment Funds, totalling £263m** (see bold text in list of funds below). Also, additional allocations were received under the Northern Powerhouse Investment Fund Equity and Midlands Engine Investment Fund Proof of Concept mandates (£20m in total), and £15.7m to the North-East Venture Capital fund mandate.

These wins will be partially offset by AUM declines from older funds which transitioned from their investment phase to their realisation phase (as exits are realised, capital is returned to fund investors), This was mainly a c.£47m downward movement in FUM for the Northern Powerhouse Investment Fund Equity and Midlands Engine Investment Fund Proof of Concept.

'Open' funds:

- Northern Powerhouse Investment Fund II. High growth companies. Up to £5m; Yorkshire & Humber. **(Recent contract win to manage additional £100m, Mar 24).**
- Midlands Engine Investment Fund II. High growth companies. Up to £5m. West Midlands. **(Recent contract win to manage additional £80m, Feb 24).**

- Midlands Engine Investment Fund II. High growth companies. Up to £5m. East and South-East Midlands. **(Recent contract win to manage additional £83m, Mar 24).**
- Mercia Fund 1. University spinouts. £100k-£500k. Covers eight universities in West Midlands.
- North-East Venture Fund. Any stage. Up to £1m. Durham, Northumberland, Tyne and Wear.

'Closed' funds (fully invested and in realisation phase):

- Northern Powerhouse Investment Fund. Early or late-stage venture. £100k-£2m per investment; Yorkshire & Humber, Tees Valley.
- Midlands Engine Investment Fund – Mercia Proof-of-Concept. Seed or early-stage venture. Up to £750k. Midlands.
- EV Growth Fund II. Management Buy Outs, Replacement Capital. Up to £10m. North England.
- Finance Yorkshire Seedcorn Finance. Seed or early-stage venture. £50k-£780k. Yorkshire and Humberside.
- Rising Stars Growth Fund II. Early-stage high-growth technology companies.
- The North-West Fund 4 Venture Capital. New and early-stage start-ups. £50k-£2m. North-West.

Performance of these unlisted funds is measured on a *Total Value to Paid in (TVPI)* metric: the total value returned and accruing to investors after fees (total value + cash / capital paid in). This performance is shown below and is once again impressive.

Note that funds are split into 'legacy' and 'current' to provide greater clarity on investment performance as legacy funds would be expected to have higher returns than current funds. This is because most of Mercia's investments are relatively early-stage equity investments, with returns taking some time to build. Older legacy funds have had the time to realise more of this upside and record more exits – they are in their 'realisation phase' i.e. closed to new investments.

Newer, current funds will be characterised by more recent investments (which have not had time to accrue significant value increases) and will also not have deployed all invested cash into investments yet.

Institutional equity funds investment performance

Performance measure	Fund type	Capital paid in (indexed to 100)	TVPI
Total Value to Paid In (TVPI) Total value returned & accruing to investors after fees (total value + cash/ capital paid in)	Venture (legacy)	100	191
	Venture (current)	100	103
	PE (legacy)	100	143
	PE (current)	100	126

Source: Company. All data as at 30 Sep 23.

Institutional equity fund outlook

Mercia expects modest growth in the public-sector-funded segment of its fund suite with no significant new funds expected to be announced from public sector bodies. However, not all of the £1.6bn British Business Bank's Nations and Regions Investment Funds series have been deployed, so some further fund 'top-ups' are expected which Mercia is likely to compete for (such as the recent wins – described above - to manage further capital for the Northern Powerhouse and Midlands Engine funds).

Mercia does see an opportunity to increase investment in its private equity segment from private institutional backers, so that is a segment to watch for growth.

Debt funds

Debt fund offering

Mercia managed £687m of institutional debt funds on 31 Mar 24. Most of this is managed by Birmingham-based **Frontier Development Capital** ('FDC', acquired in Dec 22).

FDC sources a substantial portion of its lending capital from public sector bodies, including British Business Investments (a subsidiary of British Business Bank), West Midlands Pension Fund, and West Midlands Combined Authority (a collaboration of 18 local authorities, including Birmingham City Council and four Local Enterprise Partnerships including Greater Birmingham & Solihull LEP).

During FY24, AUM ramped up significantly, with the combination of Mercia's pre-FDC-acquisition debt team with FDC enjoying substantial success. **Contracts have been won from the Northern Powerhouse Investment Funds and the Midlands Engine Investment Funds totalling £97m** (see bold text in fund list below), and FDC was awarded a £100m Brownfield Regeneration Fund for the West Midlands. There was also a downward movement in FUM as the Northern Powerhouse Investment Fund Debt transitioned from its investment phase to realisation phase.

Furthermore, in its year end trading update (10 Apr 24), Mercia announced: *"Frontier Development Capital continued to perform in line with the Group's expectations and has now achieved another of its two-year contingent deferred consideration targets, eight months early, namely the achievement of a net new institutional third-party funds raising target of £100million."*

A summary of Mercia's debt funds is shown below:

- Frontier Development Capital funds: SME & property development finance. £1m-£20m, including:
  - FDC Debt LP. £1m-£7.5m. Established mid-market SMEs. UK-wide.
  - Regional Debt Fund – West Midlands. £500k-£2m. West Midlands.
  - AMSCI Recycled Fund. (Advanced Manufacturing Supply Chain Initiative Recycled Fund). £500k-£2m. England-wide.
  - National Tooling Loan Fund (manufacturing sector). £50k-£2m. England-wide.
  - WMCA Commercial Investment Fund. Up to £20m for Commercial Developments, Refurbishments and Green Industry Projects. West Midlands.
  - WMCA Residential Investment Fund. Up to £20m for Residential Developments, Refurbishments and green industry projects. West Midlands.
- Northern Powerhouse Investment Fund. £100k-£750k; Yorkshire and the Humber.
- Northern Powerhouse Investment Fund II. £100k-£2m; Yorkshire and the Humber. (**Recent contract win to manage additional £53m – Mar 24**).
- Midlands Engine Investment Fund II. £100k-£2m; West Midlands. **(Recent contract win to manage additional £44m, Mar 24).**
- Mercia SME loans. Established, growing SMEs. £150k-£1m. UK-wide, focus on North England.
- Finance Yorkshire Business Loans. £15k-£250k. Yorkshire and Humberside. *Fully invested - in realisation phase.*

Debt funds outlook

The SME lending market in the UK is huge, with Mercia only having a tiny share of the overall market. But it operates in a highly focused niche as detailed above, **with debt seen as a key growth area of the group.**

The FDC acquisition was considered an opportunity to strengthen its position as a leading, regionally focused supporter of SMEs by beefing up its debt financing arm. This is a fit with Mercia's longstanding strategic offering of 'Complete Connected Capital' for SMEs whereby it can provide finance via venture, private equity, debt, or proprietary capital.

In particular, Mercia sees opportunities to expand its debt operations by:

- Targeting further public sector contract wins such as the recent Northern Powerhouse and Midlands Engine contracts.
- Expanding the FDC commercial property lending business (up to £20m per loan) in regions where Mercia has a presence, but FDC (pre-Mercia deal) does not.
- FDC and Mercia Private Equity collaborating to source lending opportunities linked to PE deals.
- Entering adjacent lending classes such as 'real assets' i.e. infrastructure development.

Direct (on-balance sheet) investments

Direct investment strategy

Mercia invests its own capital, mostly alongside managed funds, into a portfolio of 'direct investments'. The underlying principle of these investments is to provide development capital to those companies within the fund management portfolio which are considered 'emerging stars' (and sometimes in other opportunities outside of the fund management portfolio). This strategy ramped up after the AIM listing in 2014, with 70-80% of the £66m capital raised used to provide additional capital for these direct investments.

A full list of Mercia's direct investment portfolio is detailed below.

Direct investment portfolio as at 31 Mar 24

	Year of first direct investment	Net investment value as at 1 April 2023 £'000	Net cash invested year to 31 March 2024 £'000	Investment realisations year to 31 March 2024 £'000	Realised gain year to 31 March 2024 £'000	Fair value movement year to 31 March 2024 £'000	Net investment value as at 31 March 2024 £'000	Percentage held as at 31 March 2024 %
Voxpopme Ltd	2018	11,015	861	-	-	3,973	15,849	20.4
Netacea Group Ltd	2022	11,693	2,696	-	-	272	14,661	34.2
Warwick Acoustics Ltd	2014	9,695	2,011	-	-	228	11,934	37.3
Medherant Ltd	2016	10,934	-	-	-	-	10,934	33.3
VirtTrade Ltd *	2015	10,082	2,080	-	-	(1,939)	10,223	61.4
Invincibles Studio Ltd	2015	8,697	-	-	-	(130)	8,567	35.5
Locate Bio Ltd	2018	4,858	2,500	-	-	479	7,837	20.1
Eyoto Group Ltd	2017	5,487	3,977	-	-	(2,322)	7,142	24.7
Ton UK Ltd **	2015	5,382	746	-	-	481	6,609	40.4
Aonic Founder SCS	2023	-	-	3,784	-	-	3,784	0.0
Axis Spine Technologies Ltd	2022	3,000	-	-	-	-	3,000	9.4
Tozaro Ltd ***	2020	1,449	1,205	-	-	80	2,734	11.9
Pimberly Ltd	2021	1,375	-	-	-	1,237	2,612	4.9
sureCore Ltd	2016	2,417	-	-	-	(1)	2,416	22.0
Forensic Analytics Ltd	2021	1,750	-	-	-	514	2,264	7.4
Nova Pangaea (Holdings) Ltd	2022	2,250	-	-	-	-	2,250	0.0
MyHealthChecked PLC	2016	969	-	-	-	(187)	782	13.1
Uniphy Ltd	2022	550	40	-	-	137	727	3.9
Artesian Solutions Ltd	2023	-	63	-	-	476	539	0.8
Sherlock Biosciences Inc	2023	347	-	-	-	(7)	340	0.3
nDreams Ltd	2014	25,761	-	(30,211)	4,450	-	-	0.0
Impression Technologies Ltd	2015	15,260	3,298	-	-	(18,558)	-	65.1
Other direct investments	n/a	3,579	149	-	-	(2,071)	1,657	n/a
Total		136,550	19,626	(26,427)	4,450	(17,338)	116,861	n/a

Source: Mercia interim results presentation (period ended 31 Mar 24).
Mercia sold its stake in nDreams in Nov 23 for gross proceeds of £30.2m
** Trading as Avid Games*
*** Trading as Intelligent Positioning*
**** Formerly MIP Discovery Limited, prior to a change in registered name to Tozaro Limited in June 2024*

However, in its FY24 results announcement Mercia announced a material change to its direct investment strategy, as part of a new three-year group strategy. This involves a primary focus on growing 3rd party FUM (i.e. growing the third party, fee-earning, fund management business), ceasing making direct investments into any new ventures (existing direct investments will still be supported) and using the cash proceeds generated by the direct investment portfolio to fund inorganic FUM growth.

While this new strategy will inevitably lessen the focus on the direct investment portfolio over time, the current portfolio remains extremely important to the business (and will continue to be important for a few years yet) and indeed, remains important to Mercia's valuation (direct investment NAV makes up 91% of Mercia's market capitalisation at the time of publication – see below). We therefore explain Mercia's impressive direct investment track record and outlook for the portfolio in some detail below.

Direct investment returns

We highlight two data sets which we believe are extremely relevant to Mercia shareholders.

The first is Mercia's impressive record of exits from its direct investments. Since listing on AIM in 2014, it has realised nine exits, every single one with a positive return and an aggregate return of 3.0x the amount invested.

Direct investment exits since IPO

Company	Exit date	Total invested	Exit value realised	Total return
nDreams	Nov '23	£11.2m	£30.2m	2.7x (+£19.0m)
Intechnica	Jan '23	£1.3*	£4.0m	3.0x (+£2.7m)
Faradion	Jan '22	£4.4m	£19.4m	4.4x (+£15.0m)
Oxford Genetics	Mar '21	£6.1m	£30.7m	5.0x (+£24.6m)
Clear Review	Oct 20	£0.5m	£1.0m	2x (+£0.5m)
Native Antigen	Jul '20	£0.6m	£5.2m	8.4x (+£4.6m)
Science Warehouse	Mar '18	£9.2m	£10.5m	1.1x (+£1.3m)
Abzena	Feb '17	£0.17m	£0.17m	1.0x (+£0.0m)
Allinea Software	Dec '16	£1.5m	£3.0m	2.0x (+£1.5m)
Total Exit-value to amount invested				**3.0x**

Source: Company, ED analysis.
**£1.3m = c15% allocation of total investment (£9.0m) in combined Intechnica/Netacea entity pre-demerger which took place during FY23. In FY23, c85% of Intechnica fair value moved to Netacea to account for demerger.*

The second data set is the relationship between exit value realised and the holding NAV pre-exit. It is clear that **Mercia has a record of valuing portfolio businesses conservatively, with every single exit since IPO concluded at a premium to holding-NAV, with a weighted average premium of 41%.**

The reason we stress the importance of this data set is the significance of the value of direct investments in relation to the overall group valuation. **A portfolio NAV of c£117m on 31 Mar 24 would be around 91% of Mercia's market cap of £129m (on 28 Jun 24).**

This would certainly imply that the market is applying a significant discount to the direct investment portfolio NAV, which seems strange, if not patently incorrect to us, given Mercia's record of exiting investments well above holding NAV (bear in mind that the group had £47m of free cash on 31 Mar 24, and a substantial fee-earning asset management business as well, which we value at around £55m).

Direct-investment exits since IPO: Exit value to holding-NAV

Company	Exit date	Pre-exit NAV	Exit value realised	Exit-surplus to NAV
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

While the above is certainly an impressive track record, it is also appropriate to flag that failures in early-stage ventures do occur, with substantial write-downs in holding values, even for highly experienced investors such as Mercia.

Indeed, in the post results period Mercia took the decision to cease further material funding for Impression Technologies Limited (which provides advanced materials and engineering solutions for lightweight alumunium structures) and fully impair its investment fair value (to nil) as at 31 Mar 24, taking an £18.6m write-down as a result. This decision was taken because the licensing revenue model was unable to reach critical mass and profitability, with two separate sale processes in late-2023 and early-2024 failing to conclude, despite firm interest in the business.

Direct investment outlook

As part of the new strategy described above, Mercia will now be **concentrating on accelerating the growth of its managed funds' operation**, both organically and via selective acquisitions, including utilising some of the proceeds from direct asset realisations such as the exit from nDreams.

More cash realisations from the direct investment portfolio are expected over time, and therefore we expect to see more activity on the acquisition front as Mercia adds to its already-substantial ‘war-chest’, and a lot less capital being deployed to direct investments.

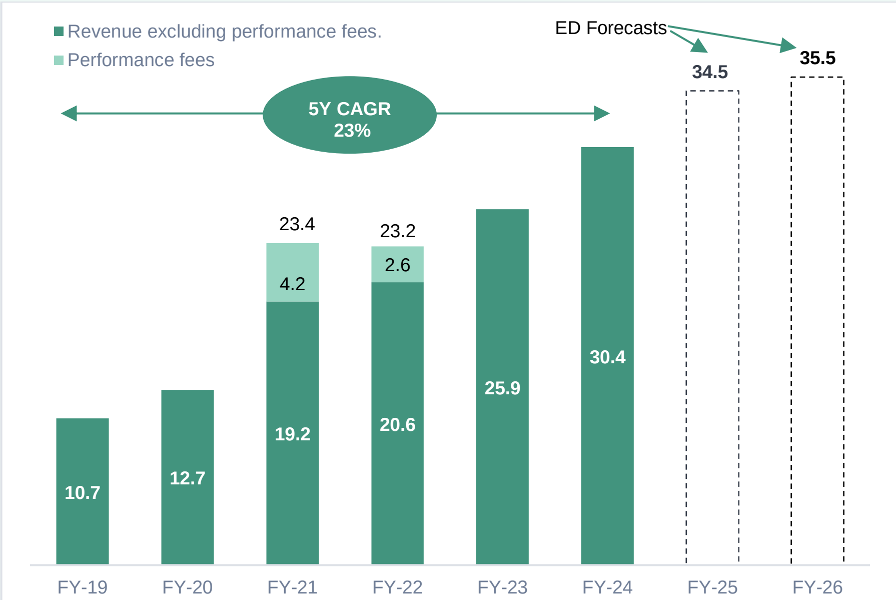
Investments will not cease entirely, however, as the existing portfolio will inevitably require additional investments to fund growth, with Mercia often being a preferred funder - it is considered a key strategic partner by many of its direct investments.

A compelling financial story

Revenue

Mercia's organic FUM growth has been the primary driver of recent revenue growth, which was also boosted by the Dec 22 acquisition of FDC (revenue £5.1m in the 12m period to Nov 21). **With revenue jumping 18% y-o-y from £25.9m in FY23 to £30.4m in FY24, Mercia has achieved a revenue CAGR of 23% over the last 5 years**.

Historical & forecast revenue



Source: Company reports, ED forecast

We expect a further jump in organic revenue growth in FY25 because average FUM for FY25 is likely to be substantially higher than FY24 – due to the significant contract wins and capital raises towards the end of FY24 and also in the post-FY24-year-end-period (see pages 13 – 18).

The above revenue excluding performance fees, termed 'adjusted revenue' in Mercia's alternative performance metrics is made up of five components, summarised below.

Adjusted revenue components

Revenue type	Description	FY23	FY24	% of adj. rev (FY24)	Comments
Fund management fees	Fixed % of AUM, paid by investors in funds/VCTs.	£17.6m	£19.2m	63%	Varies by fund, average 1.5% of average AUM in FY24
Initial management fees	Fixed % of amounts invested, paid by investee companies.	£3.7m	£5.5m	18%	Not applicable to all funds, varies also with amount of capital deployed.
Portfolio directors' fees	Annual fees, paid by investee companies.	£2.9m	£3.9m	13%	For Mercia representation on investee boards.
Other revenue	Custodian fees and Business services fees.	£0.3m	£0.3m	1%	
VCT share offer fees	'% of funds raised' basis	£1.3m	£1.5m	5%	Volatile, dependent on capital raised.

Source: Company reports, ED

Costs and profitability

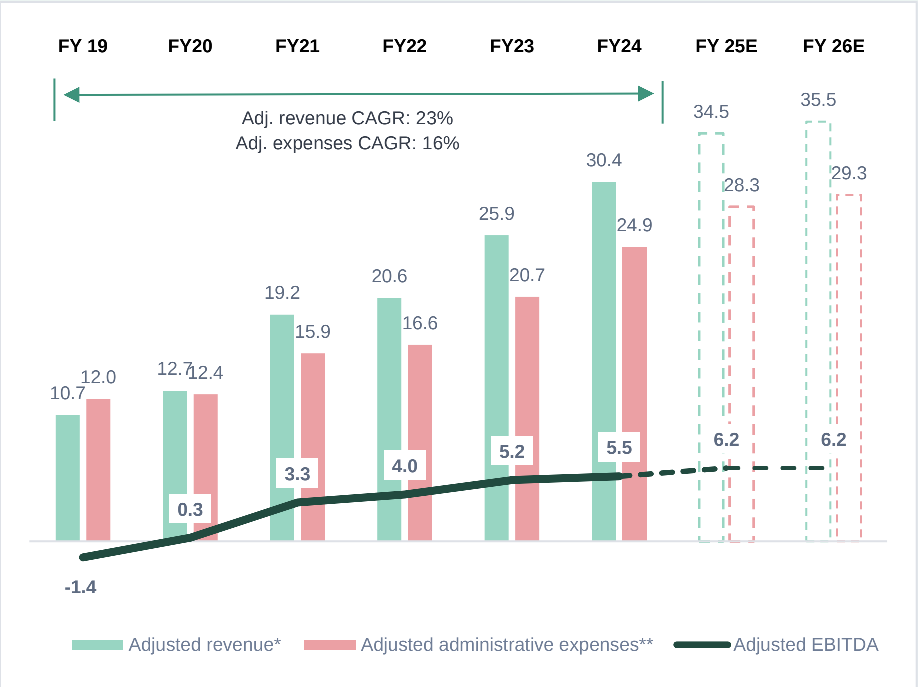
Mercia in a scale-up phase. And one of the most useful measures of assessing how scale is benefitting profitability for Mercia as a standalone fund management business is *adjusted EBITDA*, which can be thought of as a good measure of cash operating profit.

It excludes potentially large and volatile items such as performance fee revenue and costs (staff share of performance fees), profits or losses from the sale of direct investments, exceptional items, and net finance income (which has been volatile recently as a result of interest rate moves).

It also excludes non-cash items such as depreciation, amortisation (largely related to the acquisition accounting requirement of amortising intangible assets), fair value movements of direct investments, and share based payments.

The chart below shows how Mercia has moved from an adjusted EBITDA loss of -£1.4m in FY19, to a £5.5m profit in FY24 as its scaling up has progressed, because revenue has grown at a faster rate than expenses. FY24 saw y-o-y EBITDA increase 7% from £5.2m in FY23 to £5.5m in FY24.

Profitability ratchets up as the business scales (£m)



Source: Company reports, ED analysis
**Excluding performance fees.*
***Includes (primarily) staff costs, marketing, professional advice, travel & entertainment.*
***Excludes (primarily) depreciation & amortisation, profit/loss from sale of direct investments, fair value movement of direct investments, share based payments.*

It can be seen from the chart that we forecast adj. EBITDA to grow in FY25 with margin roughly static and for EBITDA to remain roughly static in FY26 (before kicking up again in FY27 and beyond - see page 32). The reasons for this include: revenue being impacted by some funds moving from the investment to realisation phase, an increase in headcount over the last year as the business scales (average headcount increased from 138 to 144), which will continue into FY25 (including to manage and service the significant new contract wins of late-FY24 and early-FY25); inflationary and market-related remuneration adjustments; and general inflationary pressures.

Mercia's full statutory income statement is however a lot more complex, bringing back the abovementioned items which are excluded from EBITDA. We summarise these developments in the table below (with further income statement details on page 33).

Adjusted and IFRS Income statements: historical & forecast (£m)

Adjusted Income Statement	FY 19	FY 20	FY 21	FY 22	FY 23	FY24	FY 25E	FY 26E
Adj. revenue	**10.7**	**12.7**	**19.2**	**20.6**	**25.9**	**30.4**	**34.5**	**35.5**
Staff costs	(8.4)	(8.8)	(10.3)	(11.9)	(14.4)	(17.5)	(19.6)	(20.6)
Other admin expenses	(3.6)	(3.7)	(5.6)	(4.7)	(6.3)	(7.4)	(8.7)	(8.7)
Adj. expenses	**(12.0)**	**(12.4)**	**(15.9)**	**(16.6)**	**(20.7)**	**(24.9)**	**(28.3)**	**(29.3)**
Adj. EBITDA	**(1.4)**	**0.3**	**3.3**	**4.0**	**5.2**	**5.5**	**6.2**	**6.2**
Net finance income	0.6	0.2	0.0	4.4	2.4	4.2	1.2	1.3
Adj. operating profit	**(0.8)**	**0.5**	**3.3**	**8.4**	**7.6**	**9.7**	**7.4**	**7.5**
IFRS Income statement*								
Performance fees	0.0	0.0	4.2	2.6	0.0	0.0	0.0	0.0
Revenue	**10.7**	**12.7**	**23.4**	**23.2**	**25.9**	**30.4**	**34.5**	**35.5**
Adjusted admin expenses	(12.0)	(12.4)	(15.9)	(16.6)	(20.7)	(24.9)	(28.3)	(29.3)
Performance fees (staff share)	0.0	0.0	(0.4)	(1.0)	0.0	0.0	0.0	0.0
Depreciation	(0.1)	(0.2)	(0.2)	(0.2)	(0.3)	(0.5)	(0.5)	(0.5)
P/L on sale of direct investment	0.0	0.0	20.3	9.9	(0.8)	4.5	0.0	0.0
FV move, direct investments	3.9	(15.8)	10.1	11.4	1.2	(17.3)	0.0	0.0
Share-based payments charge	(0.2)	(0.5)	(0.5)	(1.1)	(1.0)	(1.0)	(1.1)	(1.2)
Amort. of intangible assets	(0.3)	(0.9)	(2.3)	(2.0)	(2.3)	(3.0)	(3.0)	(3.0)
FV move, def. consideration	0.0	0.0	(0.4)	(0.5)	(1.5)	(0.5)	0.0	0.0
Exceptional costs	0.0	(0.7)	0.0	0.0	(0.4)	0.0	0.0	0.0
Net finance income	0.6	0.2	0.0	4.4	2.4	4.2	1.2	1.3
Profit before tax	**2.6**	**(17.6)**	**34.0**	**27.4**	**2.4**	**(8.2)**	2.8	2.8
Tax	0.1	0.2	0.4	(1.3)	0.4	0.6	0.1	0.0
Profit after tax	**2.6**	**(17.5)**	**34.5**	**26.1**	**2.8**	**(7.6)**	2.8	2.9

Source: Company reports.
Some totals may not tally due to rounding.
**Modified for ease of reconciliation to adjusted income statement*

We have highlighted above (in red) four lines from the IFRS income statement, which tend to be especially volatile and can be responsible for quite large swings in IFRS profits (and sometimes losses):

- **Performance fees**: which are earned in particularly profitable years only, from Mercia's VCT business. There were no performance fees earned in FY24.
- **Profits and losses on the sale of direct investments**: where the timing and quantum of portfolio company exits is never certain in advance, and which tend to be significant amounts in the context of Mercia's income statement. In FY24, this was dominated by the **profitable sale of nDreams in Nov 23, generating a realised gain of £4.5m**. The total consideration received was £30.2m, comprising cash of £26,4m and an equity interest in Aonic Founder SCS of £3.8m.
- **Fair value movements of the direct investment portfolio**, which are periodically revalued and can result in large noncash swings to the income statement result. FY24 saw a total negative movement of -£17.3m, dominated by the write-down of Impression Technologies (see page 22), with the most significant fair value movements by investment being: Impression Technologies: -£18.6m; Voxpopme: +£3.9m; Eyote group: -£2.3m; Pimberly: +£1.2m.

- **Tax,** where Mercia sometimes receives substantial tax relief on gains from the sale of direct investments under the 'substantial shareholder exemption rule' - the main criteria being that Mercia must hold more than 10% of investment (which is common in its direct portfolio). This results in Mercia's tax charge often deviating significantly from the 25% corporation tax rate. In FY24, a net tax credit of £0.6m was recorded, comprising the continued unwinding of the deferred tax liability in respect of the intangible assets arising on the acquisition of FDC and the VCT fund management business, partially offset by a corporation tax charge on taxable profits.

Because of the above, some common valuation metrics such as PE ratios based on statutory profits are not particularly useful when valuing Mercia. This is discussed in more detail on page 30.

Balance sheet and cash position

Mercia has an exceptionally strong balance sheet, which on 31 Mar 24 (end of FY24), had net assets of £189m, a net cash position of £47m, and no debt.

The other hugely significant item on the balance sheet is the value of Mercia's direct investment portfolio, which stood at £117m.

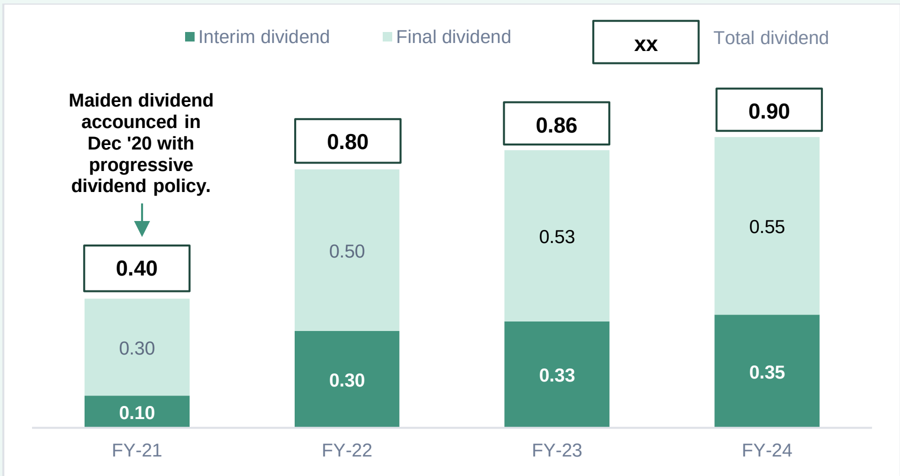
In terms of cash movements, significant items to pay attention to on the cash flow statement include:

- **Cash generated from operating activities**, which was £7.9m in FY24 (FY23: £3.0m).
- **Sale and purchase of direct investments**, which can vary significantly each year. In FY24, £26.7m was generated from the sale of direct investments, primarily nDreams (FY23: £3.7m), with £19.9m utilised purchasing direct investments (FY23: 20.8m). As discussed on pages 19-22, we see the impact of these items reducing over time, with the announcement to cease investments into new direct investments, in order to channel capital into organic and acquisitive opportunities related to the 3rd party asset management business.
- **Dividends paid,** which were £3.9m in FY24 v £3.7m in FY23 (see below).
- **Share buybacks,** where Mercia has now concluded a buy-back of £5m of its own shares (started in Nov 23), with £3.2m spent by the end of FY24.
- **Deferred consideration,** with £1.5m paid to the vendors of FDC as growth targets were met.

Dividends

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 below, with the FY24 dividend translating to a yield of 2.9%, based on a share price of 31p on 1 Jul 24.

Historical dividends, pence



Source: Company

Senior Management and Board

Mercia is still founder-led, with a highly skilled and experienced executive team and group of non-executive directors.

Executive directors

Dr Mark Payton, Chief Executive Officer. Mark has extensive investment and scale-up experience. Since co-founding Mercia, he has led the sales of Hybrid Systems Ltd (to Myotec) to create PsiOxus Therapeutics Ltd, Warwick Effect Polymers Ltd (to Polytherics Ltd) to create Abzena plc, Oxford Genetics Ltd (sold to WuXi AppTec) and led the founding investment in Allinea Software Ltd (sold to ARM).

Prior to Mercia, Mark played a leading role within Oxford University Innovation ("OUI"), the technology transfer operation of the University of Oxford, spinning out BioAnalab Ltd (sold to Millipore), Oxford Immunotec Ltd (listed on NASDAQ), Oxitec Ltd (sold to Intrexon) and Natural Motion Ltd (sold to Zynga). Following his time at OUI, Mark was the vice president of corporate development at Oxxon Therapeutics Inc, prior to its sale to Oxford BioMedica plc.

Mark gained his PhD jointly between the University of Oxford and the University of London (King's College). He has an MBA from the University of Warwick, is a Sainsbury Management Fellow for Life Sciences and was awarded the 2015 EY Entrepreneur of the Year (regional and national).

In addition to this CEO role Mark is also responsible for the following investments - Medherant and Tozaro.

Martin Glanfield, Chief Financial Officer. Martin has significant public markets and business experience. He is a KPMG–qualified chartered accountant with more than 25 years' experience as chief financial officer of listed, private equity-backed and privately owned technology-led businesses.

Martin joined the main market listed Forward Group PLC in 1993 and was Group financial director from 1995 until its sale, for £129.0million, in 1997. In 1999, as deputy chief executive of Symonds plc, Martin led the public to private of this main market-listed technology group, backed by NatWest Equity Partners. The group was successfully restructured and sold within 12 months to a NASDAQ-listed US electronics group, whereupon he became a vice president, working frequently in Silicon Valley. He was chief executive of the private equity business Forward Group plc from 2003 to 2005 and since then has been group finance and IT director of the large international food processing group Boparan Holdings Ltd and a private equity-backed building services business.

As well as his CFO responsibilities, Martin also chairs Mercia's two lending subsidiaries. He has an honours degree in business from Aston University and holds the FT Non-executive Director Diploma.

Julian Viggers, Chief Investment Officer. Julian joined Mercia through the 2016 acquisition of Enterprise Ventures, which he joined in 2004 and was head of technology investments at the time of its acquisition.

He has over 20 years of venture capital experience, including the successful listings of companies such as Blue Prism Group plc and OptiBiotix Health plc. Through the subsequent sell-down of its holding in Blue Prism, Mercia's RisingStars Growth Fund realised c£95m, 105x the cost of its investment.

Julian leads the equity investment team as well as managing the pipeline of Mercia's direct investments. Alongside his wide experience of investing across many sectors, he played a leading role in securing the managed funds contracts awarded by the British Business Bank and North-East Fund Ltd and has been Mercia's Chief Investment Officer since April 2018.

Julian has a geology with chemistry degree from the University of Southampton and qualified as a chartered accountant with accountants Smith & Williamson. He was also responsible for the investment in nDreams (now realised) and is responsible for the investment in Invincibles Studios.

Non-executive directors

Ian Metcalfe OBE, Non-Executive Chair. Ian is a qualified solicitor who retired as managing partner of international law firm Wragge & Co in 2014 after eight years in post. Prior to managing the business, he was a corporate partner at the firm for 14 years, acting for a number of substantial public and private companies and private equity houses on a wide range of transactions.

From 2014 until 2022, Ian was chair of Commonwealth Games England, responsible for preparing and presenting Team England to the Commonwealth Games. From 2018, he was also a director of the Board of the Organising Committee of the Birmingham 2022 Commonwealth Games and the Host city representative on the Commonwealth Games Federation Executive Board. He was also previously a non-executive director of the global waste management group TRRG Holdings Ltd and a non-executive director of the AIM listed Arena Events Group plc.

Ian has an MA in law from Cambridge University and his appointment as Mercia's Senior Independent Director in January 2017 recognised the continuing development and scale of the Group. He became Non-executive Chair in July 2019.

Ray Chamberlain. Ray is an entrepreneur with an established track record of shareholder value creation. Until 1997, **he was executive chairman and the principal shareholder in Forward Group PLC, which he grew from a start-up company in 1978 to become one of Europe's leading high technology printed circuit board manufacturers, and listed on the Main Market of the London Stock Exchange**. In 1997 Forward Group accepted a £129.0million offer from PCB Investments plc, a company established by Hicks, Muse, Tate & Furst.

Subsequently, Ray diversified his interests in a number of areas, which included setting up the Forward Innovation Fund, a trust focused on investing in university spinouts and other technology-led start-ups (and an early financial backer of Mercia). Ray was appointed Non-executive Chair of Mercia at the time of the Group's IPO and having steered Mercia Asset Management through its first 18 months as a listed company, moved to a non-executive position in May 2016. **He still owns around 15% of Mercia**, through various investment vehicles.

In Sep 24, Ray will retire from the board, having reached 78 years of age. With the Board currently comprising five Non-executive Directors and three Executive Directors, it has been decided not to add an additional Non-executive Director once Ray steps down. The Nominations Committee will keep the Board's composition and balance of skills and experience under review.

Diane Seymour-Williams, Senior Independent Director. Diane is a non-executive director of Standard Life Private Equity Trust plc, PraxisIFM Group Limited and SEI Investments (Europe) Ltd and is a director of Acorn Capital Advisers Limited. Most recently Diane was also a non-executive director of Brooks Macdonald Group Plc, serving a nine-year tenure.

Diane has significant industry experience, having worked at Deutsche Asset Management Group (previously Morgan Grenfell) for over 23 years where she held various senior positions, including CIO and CEO for Asia. She subsequently spent nine years at LGM Investments Limited, a specialist global emerging and frontier markets equities manager, where she was global head of relationship management. Her non-executive experience spans the quoted wealth and asset management, global equity, private equity, investment services and VCT sectors. She is a pro-bono member of the Investment Committees of Newnham College, Cambridge and the Canal & River Trust.

Caroline Plumb OBE. Caroline is a serial entrepreneur who previously co-founded recruitment and innovation consultancy FreshMinds, with clients including Jaguar Land Rover, Vodafone and Google. She remains involved with FreshMinds as non-executive chair and is CEO of Fluidly which she founded in 2016, a venture-backed SaaS business in the fintech space.

Caroline was previously an independent panel member of the £2.7billion Regional Growth Fund and served as one of Prime Minister David Cameron's Business Ambassadors representing the Professional and Business Services sectors. Caroline was awarded an OBE in the 2016 Birthday Honours' list for services to business and charity. She has an MEng in engineering, economics and management from Oxford University.

Dr Jonathan Pell. Jonathan brings extensive experience in the technology sector, originally in both finance director and chief executive roles and latterly in investing in and helping to scale up technology ventures.

Having qualified as a chartered accountant at PwC, Jonathan gained significant executive experience, firstly in senior finance positions at Convergys Corporation (NYSE – CVG), Geneva Technology Ltd, Thomas Cook Retail Ltd and Semitool Inc. He then became CEO at Datanomic Ltd, where he oversaw a twenty-fold increase in the company's global customer base and compound revenue growth of 105% over a four-year period, before being purchased by Oracle Inc (NYSE – ORCL) in 2011.

Since leaving Oracle Inc in 2012, Jonathan has founded his own early-stage technology investment vehicle, Thorium Technology Investors, and currently sits on the boards of a number of young technology businesses.

Jonathan has a degree in zoology with marine zoology from the University of Wales, Bangor and a PhD in cell proliferation from the University of East Anglia.

Shareholdings

The shareholding of Mercia is well diversified, with a highly credible list of larger shareholders and a **substantial free float of around 69%** (at 31 Mar 24) which should provide ample liquidity for smaller investors.

Additionally, key managers have substantial shareholdings and options over shares which aligns their interests with other shareholders.

Significant shareholdings (approximate)	
Board, management, and employees	17%
Including:	
Ray Chamberlain (non-executive director): 15%	
Mark Payton (CEO): 1.7% (plus options on 1.3%)	
Martin Glanfield (CFO): 0.4% (plus options on 1.1%)	
Julian Viggers (CIO): 0.2% (plus options on 1.1%)	
Invesco	14%
Fidelity	10%
Ruffer	6%
Chelverton Asset Management	4%
Columbia Threadneedle	4%
GPIM	4%
Blackrock	3%
The Hargreaves No 11 Settlement	3%
NFU Mutual	3%

Source: Company website, as at 31 Dec 23.

Valuation

We believe Mercia's current share price significantly misprices its fundamental value, with the reasons for our view explained in some detail below, using two valuation methodologies.

Note: We stress that we do not believe applying a simple PE multiple to Mercia's profits is an appropriate method of valuation, because: 1) this fails to capture the impact of the very large value of its direct (on-balance sheet) investments, 2) this fails to capture the impact of its very large cash pile, and 3) Mercia's statutory profits can be volatile due to (non-cash) movements in the NAV of its direct investment portfolio.

Valuation methodology 1 – sum of the parts

We look at Mercia's value being made up of three primary components:

- **An asset management business**, where fees are charged for manging funds for third party investors, which we (conservatively) value at 13p per share.
- **A significant direct investment portfolio**, which is disproportionately large compared to most on-balance sheet investments of other asset managers, and which we value at 27p per share.
- **A cash pile** which is also extremely large in relation to its size, valued at 11p per share.

This methodology produces a fundamental valuation of 51p per share, a 65% premium to the 31p share price on 01/07/24.

Sum-of-parts reveals deep discount to fundamental value

Source: ED analysis

Our methodology is explained in more detail below.

The value of Mercia's asset management business on a standalone basis can be benchmarked against sector multiples. But conventional PE multiples based on statutory profits are often distorted in the asset management sector by large on-balance sheet investments, and often, large cash piles.

We have therefore calculated what we have called an **'adjusted PER'** for a group of asset management peers, to see what a sensible multiple would be to use in our valuation. These adjusted PER ratios have been calculated as follows:

1) To get an 'apples v apples' valuation comparison between standalone fee earning asset management businesses without the value of on-balance sheet investments and net cash, we strip the per share value of these two items out of peer share prices.

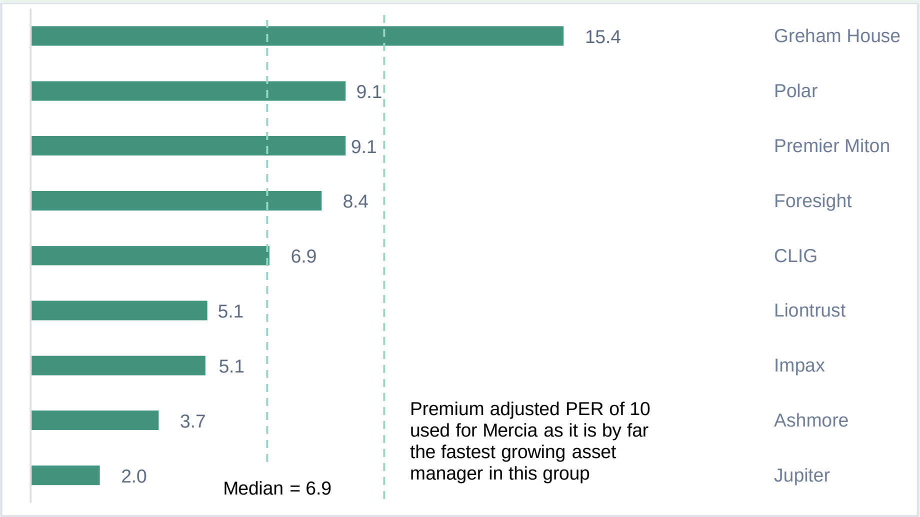
2) We then calculate an adjusted EBITDA per share metric for each asset manager (as close as possible to Mercia's definition of adjusted EBITDA), which is a metric that is easy to calculate

from most asset managers' financial statements. An advantage of this metric is that it eliminates distortions from significant non-cash items such as amortisation of acquired intangible assets, and NAV movements of investment portfolios i.e. it is a good (albeit not perfect) measure of pre-tax cash profitability of asset mangers' fee-earning fund management businesses.

3) We then calculate an adjusted PER for each asset manager by dividing the adjusted share price (point 1 above) by its adjusted EBITDA per share (point 2 above).

The results of this analysis are shown in the chart below (note that these adjusted PERs will be lower than conventional quoted PERs because the value of on-balance sheet investments and cash have been stripped out of the share price used in the PER calculation).

UK-listed active asset managers 'adjusted' PE ratios*



Source: Company reports, ED analysis. All calculations done using share price on 29/6/24 and financial data for the latest full financial year. Only asset managers with AUM < £100bn used in the peer group.
**Adjusted PER = share price less on-balance sheet investments value per share less net cash per share divided by adjusted EBITDA per share.*

It can be seen from the chart that these 'adjusted' PER multiples are mostly, not hugely different from each other (with the exception of Jupiter being abnormally low and Gresham House being abnormally high: Gresham House was acquired and de-listed in Dec 23 at a 63% premium to the pre-deal-announcement price). This analysis gives us a guideline for a sensible PER multiple to apply to Mercia's adjusted EBITDA.

As Mercia is growing at a much faster rate than all these asset managers, we believe it is fully justified that it will command a premium adjusted PER ratio. We use a value of 10 in our calculation which is towards the top end of this peer group but still substantially below the PER commanded by Gresham House when it was acquired.

We therefore value Mercia's asset management business on a standalone basis at 13p per share (Adjusted EBITDA = £5.5m or 1.28p per share x adjusted PER of 10).

On top of this, we add the NAV per share of its direct investment portfolio which is 27p per share (£117m NAV on 31 Mar 24) which we see no reason to discount given Mercia's **track record of consistently realising investments at a premium to holding NAV** (see page 21).

And then we add Mercia's net cash per share of 11p per share.

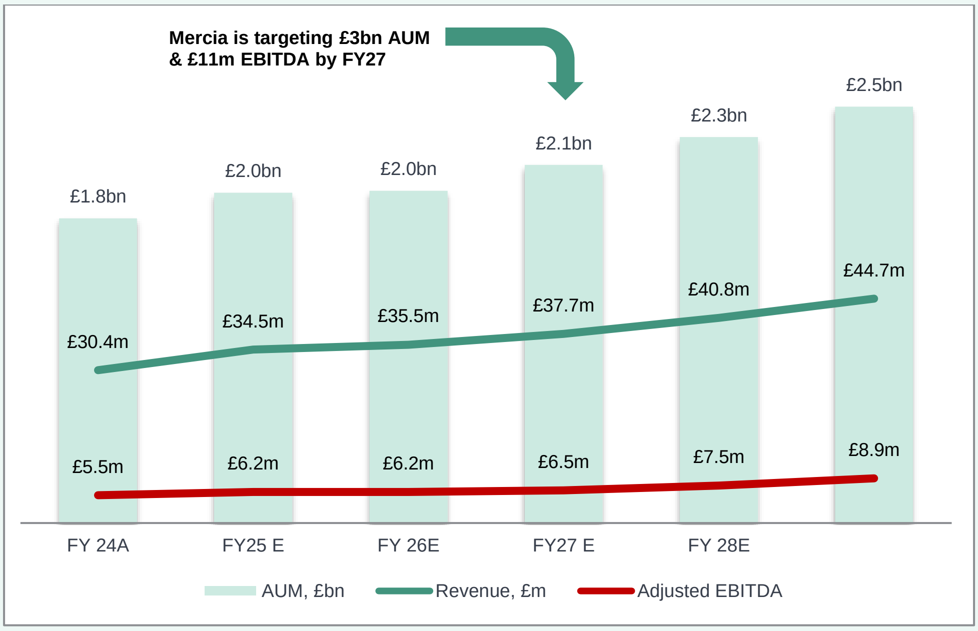
The sum of these parts provides our fundamental valuation of 51p per share, a 65% premium to the 31.0p share price on 01/07/24.

Valuation methodology 2 – discounted cash flow

In this method we consider the business, discounting all forecast free cash flows to their present value. **This produces a slightly higher value of 59p per share compared with a sum-of-the parts valuation of 51p**. Key assumptions include:

- A 5-year explicit growth period as follows, noting that **this forecast is more conservative than the *Mercia 27: 100% growth* ambition – which is to achieve £3bn AUM and to double EBITDA to £11.0m by FY27, although our forecast does not take into account any acquisitions (which are part of Mercia's strategy going forward).**

Five-year forecast key metrics



Source: Company Historic Data, ED Estimates

- A terminal value based on a profitability growth rate of 2.5%, which we believe is conservative.
- A discount rate of 11%, based on a risk-free rate of 4.2%, an equity market risk premium of 5.5% and a beta of 1.25.

We have taken a conservative approach and used the lower result of the two approaches above (methodology 1: 51p per share) as our stated fundamental value.

Appendix 1: Historical and forecast financials

Consolidated Income Statement + Forecasts						
12 months to end Mar, £'m	**FY 21A**	**FY 22A**	**FY 23A**	**FY 24A**	**FY 25E**	**FY 26E**
Revenue	12.7	23.2	25.9	30.4	34.5	35.5
Administrative expenses	(9.1)	(17.9)	(21.0)	(25.4)	(28.8)	(29.8)
EBITDA	**2.1**	**4.0**	**5.2**	**5.5**	**6.2**	**6.2**
Net finance income	0.2	4.4	2.4	4.2	1.2	1.3
Adjusted operating profit	**2.4**	**8.4**	**7.6**	**9.7**	**7.4**	**7.5**
Depreciation	(0.1)	(0.2)	(0.3)	(0.5)	(0.5)	(0.5)
Net finance income	0.2	4.4	2.4	4.2	1.2	1.3
Realised P/(L) on sale of direct investments	-	9.9	(0.8)	4.5	-	-
FV movement in direct investments	8.7	11.4	1.2	(17.3)	-	-
Share-based payments charge	(0.6)	(1.1)	(1.0)	(1.0)	(1.1)	(1.2)
Amortisation of intangible assets	(1.0)	(2.0)	(2.3)	(3.0)	(3.0)	(3.0)
Movement in FV of deferred consideration	-	(0.5)	(1.5)	(0.5)	-	-
Operating P/(L) before exceptional items	**10.7**	**22.9**	**0.4**	**(12.4)**	**1.6**	**1.5**
Exceptional items	-	-	(0.4)	-	-	-
Operating profit/(loss)	**10.7**	**22.9**	**0.0**	**(12.4)**	**1.6**	**1.5**
Net finance income	0.2	4.4	2.4	4.2	1.2	1.3
Profit before tax	**11.0**	**27.4**	**2.4**	**(8.2)**	**2.8**	**2.8**
Taxation	0.2	(1.3)	0.4	0.6	0.1	0.0
Profit & total comprehensive income	**11.2**	**26.1**	**2.8**	**(7.6)**	**2.8**	**2.9**
Basic EPS, p	2.5	5.9	0.6	(1.7)	0.7	0.7
Diluted EPS, p	2.5	5.8	0.6	(1.7)	0.7	0.7

Source: Company Historic Data, ED estimates.

Consolidated Balance Sheet + Forecasts						
As at end Mar, £m	**FY 21A**	**FY 22A**	**FY 23A**	**FY 24A**	**FY 25E**	**FY 26E**
ASSETS						
Non-current assets						
Goodwill	16.6	16.6	20.9	21.1	21.3	21.3
Intangible assets	17.7	15.7	18.2	15.2	12.2	9.2
Property, plant and equipment	0.1	0.1	0.1	0.1	0.1	0.1
Right of Use Assets	0.5	0.4	0.8	0.7	0.3	(0.1)
Investments	96.2	119.6	136.6	116.9	128.9	136.9
Total non-current assets	**131.2**	**152.4**	**176.6**	**154.0**	**162.8**	**167.4**
Current assets						
Trade and other receivables	4.1	1.1	3.8	4.0	3.2	2.3
Restricted cash	2.5	-	-	-	-	-
Short-term liquidity investments	0.2	5.2	0.3	-	-	-
Cash and cash equivalents	54.5	56.0	37.6	46.9	33.2	28.4
Total current assets	**61.3**	**62.4**	**41.6**	**50.9**	**36.4**	**30.8**
Total assets	**192.4**	**214.8**	**218.2**	**204.9**	**199.2**	**198.2**
LIABILITIES						
Non-current Liabilities						
Lease liabilities	(0.4)	(0.3)	(0.6)	(0.3)	(0.0)	0.2
Deferred consideration	(2.9)	-	(1.8)	-	-	-
Deferred tax liability	(3.4)	(3.9)	(4.5)	(3.8)	(3.0)	(2.3)
Total non-current liabilities	**(6.6)**	**(4.2)**	**(6.9)**	**(4.1)**	**(3.1)**	**(2.1)**
Current Liabilities						
Trade and other payables	(8.1)	(7.0)	(6.8)	(8.9)	(8.6)	(8.6)
Lease liabilities	(0.1)	(0.2)	(0.3)	(0.4)	(0.2)	(0.1)
Deferred consideration	(1.6)	(2.9)	(1.2)	(2.3)	-	-
Total current liabilities	**(9.8)**	**(10.0)**	**(8.4)**	**(11.5)**	**(8.8)**	**(8.7)**
Total liabilities	**(16.4)**	**(14.2)**	**(15.3)**	**(15.7)**	**(11.9)**	**(10.7)**
NET ASSETS	**176.0**	**200.6**	**202.9**	**189.2**	**187.3**	**187.4**
EQUITY						
Share capital	0.0	0.0	0.0	0.0	0.0	0.0
Share premium	81.6	81.6	83.7	83.8	83.8	83.8
Treasury reserve	-	-	-	(3.2)	(5.0)	(5.0)
Other distributable reserves	69.6	66.9	63.3	59.3	59.3	59.3
Retained earnings	22.4	48.5	51.3	43.8	42.5	41.5
Share based payments reserve	2.4	3.5	4.6	5.6	6.7	7.9
Total equity	**176.0**	**200.6**	**202.9**	**189.2**	**187.3**	**187.4**

Source: Company Historic Data, ED estimates.

Consolidated Cash Flow Statement + Forecasts

12 months to end Mar, £m	FY 21A	FY 22A	FY 23A	FY 24E	FY 25E	FY 26E
Operating activities						
Operating Profit	**34.0**	**22.9**	**0.0**	**(12.4)**	**1.6**	**1.5**
Adjustment for:						
Depreciation of PPE	0.1	0.1	0.1	0.1	0.1	0.1
Depreciation of right-of use assets	0.1	0.2	0.2	0.4	0.4	0.4
Loss/(profit) on sale of direct investment	(20.3)	(9.9)	0.8	(4.5)	-	-
FV movement in direct investments	(10.1)	(11.4)	(1.2)	17.3	-	-
Share-based payment charges	0.5	1.1	1.0	1.0	1.1	1.2
Amortisation of intangible assets	2.3	2.0	2.3	3.0	3.0	3.0
Movement in FV contingent consideration	0.4	0.5	1.5	0.5	-	-
Working capital adjustments:	-	-	-	-	-	-
Decrease/(increase) in receivables	(2.8)	3.0	(1.1)	0.8	0.8	0.8
(Decr.)/incr. in trade and other payables	1.3	0.6	(0.7)	1.5	-	-
Cash generated from op. activities	**5.6**	**9.2**	**3.0**	**7.9**	**7.0**	**7.0**
Corporation tax paid	-	-	(1.8)	(0.8)	(1.0)	(0.7)
Net cash from operating activities	**5.6**	**9.2**	**1.2**	**7.1**	**6.0**	**6.3**
Investing activities						
Sale of direct investments	37.0	16.3	3.7	26.7	-	-
Purchase of direct investments	(15.6)	(19.9)	(20.8)	(19.9)	(12.0)	(8.0)
Investee company loan repayment	0.3	1.5	0.1	0.3	-	-
Investee loan redemption prem. & interest	0.1	4.4	2.0	2.3	-	-
Interest received on cash deposits	-	0.0	0.4	1.8	1.2	1.3
Purchase of property and equipment	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)
Acquisition of subsidiary	-	-	(7.0)	(1.5)	(2.5)	-
Cash acquired with purchase of subsidiary	-	-	2.9	-	-	-
Purchase of VCT business	(2.1)	(2.1)	(2.1)	-	-	-
Decr./(incr.) in ST liquidity investments	6.0	(5.0)	5.0	0.3	-	-
Net cash used in investing activities	**25.5**	**(4.8)**	**(15.8)**	**9.9**	**(13.4)**	**(6.8)**
Financing activities						
Dividends paid	(0.4)	(2.6)	(3.7)	(3.9)	(4.0)	(3.9)
Interest paid	(0.0)	(0.0)	(0.0)	(0.1)	(0.1)	(0.1)
Pmt of lease liabilities & initial direct costs	(0.1)	(0.1)	(0.2)	(0.4)	(0.4)	(0.4)
Redemption, subsidiary pref. shares	-	-	-	-	-	-
Purchase of own shares	-	-	-	(3.2)	(1.8)	-
Proceeds from ex. of empl. share options	-	-	-	0.0	-	-
Net cash from /(used in) fin activities	(0.6)	(2.8)	(3.9)	(7.6)	(6.3)	(4.4)
Net (decr.)/incr. in cash & equivalents	30.5	1.6	(18.5)	9.4	(13.7)	(4.8)
Cash & equivalents at beginning of year	24.0	54.5	56.0	37.6	46.9	33.2
Cash & equivalents at end of year	**54.5**	**56.0**	**37.6**	**46.9**	**33.2**	**28.4**

Source: Company Historic Data, ED estimates.

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

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Equity Development, 2nd Floor, Park House, 16-18 Finsbury Circus, London, EC2M 7EB

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