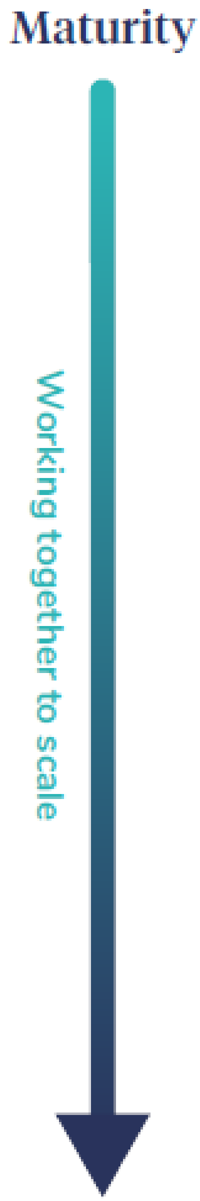
mercia
asset management

Mercia Funds

Working together to scale



Venture - Early Stage

Average deal size - £656k

WM AHSN SME Innovation Fund
Mercia Fund 1
MEIF Proof of Concept & Early Stage LP
NPIF YHTV Equity LP
Mercia EIS Funds

Venture - Scale

Average deal size - £1.76m

Northern VCTs
Mercia Investment Plan

Established Growth

EV Growth II LP and North West

NPIF Mercia Debt Finance
EV SME Loans
FDC Debt LP

National Tooling Loan Fund
Advanced Manufacturing Supply Chain Initiative
- AMSCI Recycled

Contents

Venture

Mercia EIS Funds

Mercia EIS Funds are a series of sequential funds raised by our private Sales & Investor Relations Team – it is expected that by 31 March 2023 Mercia will have raised 25 funds since launching in 2013.

Fund objective

The funds invest in early-stage technology businesses across Mercia's sector interests. While the investments can be based anywhere in the UK, we have a particular interest in the regions outside of London. These funds are able to invest alongside other funds and seek high-growth opportunities.

Region of focus:	National	**Total fund:**	N/A
Financing stage:	Seed to Series A	**Business size:**	SME
Investment range:	Minimum investment size: £750,000 up to £2million	**Funds provided by:**	High-net-worth investors who can invest directly in the fund and via financial advisors
Exit:	Must be capable of commercial returns	**Syndication:**	No limitation as long as EIS status is not affected

Expectations

The Investment Committee expectations are:

- Companies targeted at growth
- Paying attention to management development
- Have a large addressable market which may require additional capital if deemed to be an Emerging Star

Industry preference

- Software & the Internet
- Digital & Digital Entertainment
- Life Sciences & Biosciences

Portfolio examples

AXIS SPINE TECHNOLOGIES   EYOTO   biolocate

Contact

Julian Dennard, Fund Principal, EIS/MEIF
Vicky Voogd, Fund Administration Manager
Jake Connolly, Fund Administrator

Mercia Fund 1

The Mercia Fund 1 is an evergreen early-stage technology fund focused on technologies from our West Midlands University Partners.

Fund objective

The objective of the fund was to support early-stage university spinouts generated from the West Midlands University Partners. The fund could invest in all eligible businesses within Mercia's four sectors but it is not currently seeking new investment opportunities.

Region of focus:	West Midlands University Partners	**Total fund:**	£7m invested and now evergreen
Financing stage:	Early-stage/seed	**Business size:**	SME
Investment range:	£50,000 - £500,000	**Funds provided by:**	Birmingham and Warwick University; ERDF
Exit:	Must be capable of commercial returns	**Syndication:**	No limitation

Expectations

- Companies targeting growth
- Paying attention to management development
- Have a large addressable market which may require additional capital if deemed to be what was considered a 'rising star'

Industry preference

- Software & the Internet
- Digital & Digital Entertainment
- Electronics, Materials, Manufacturing/Engineering
- Life Sciences & Biosciences

Portfolio examples

EYOTO WARWICK ACOUSTICS

Contact

Julian Dennard, Fund Principal, EIS/MEIF
Vicky Voogd, Fund Administration Manager
Jake Connolly, Fund Administrator

Mercia Investment Plan (MIP)

This is Mercia's balance sheet capital that invests in businesses that have come up through the funds. Those that have the potential to receive investment are referred to as 'the shadow portfolio'. It is not technically a fund, but it is described here for the purposes of internal training/education.

Fund objective

The objective of balance sheet capital is to provide development capital to scale £100million-potential businesses sourced from Mercia's third-party funds.

Region of focus:	All regions but with emphasis on the Midlands, North of England, the North East and South West	**Total fund:**	N/A
Financing stage:	Venture and growth capital	**Business size:**	SME
Investment range:	Typically upto £10m	**Funds provided by:**	Financial institution and retail investors
Exit:	Must demonstrate commercial returns	**Syndication:**	Where appropriate

Expectations

Investee companies should be able to deliver returns for shareholders from 7-15 years from the point of initial investment by the managed funds.

Industry preference

- Software & the Internet
- Digital & Digital Entertainment
- Electronics, Materials, Manufacturing/Engineering
- Life Sciences & Biosciences

Portfolio examples

Contact

Julian Viggars, Chief Investment Officer
Angela Warner, Managing Director, Mercia Investments

venture • private equity • debt

NPIF YHTV Equity LP

Equity for growth-orientated SME businesses in the Northern Powerhouse region.

Fund objective

To support ambitious management teams requiring start-up or scale-up equity finance. The fund supports innovative companies in a range of sectors but does not invest in companies which are in financial difficulty or companies involved in the:

- Provision of social welfare facilities
- Coastal protection, soil conservation and infrastructure
- Land acquisition
- Building and renovation of housing, except for energy efficiency improvements and renewable energy operations which comply with PA4
- Major infrastructure in private sector ports
- Retail - however, an online platform that sells through other business channels, such as Amazon, can be considered eligible
- Nuclear related activity
- Fintech and financial (lending) services

Region of focus:	75% of the fund must be invested in Yorkshire, Humberside & Tees Valley, and up to 25% of the fund can be invested in the NW of England	**Total fund:**	As at 30 September 2022 - £97.4m
Financing stage:	All stages, but subject to restrictions on companies over seven years since incorporation or first commercial sales	**Business size:**	<50 employees, <£10m turnover
Investment range:	£50,000 up to £2m	**Funds provided by:**	British Business Bank (includes some ERDF finance)
Exit:	• The fund's investment period runs to December 2023	**Syndication:**	No specific requirements for matching at the time of the investment, however to

	• Up to 30% of the fund can be used for follow-on investments for a further two years		ensure a broader spread of risk we will normally introduce additional investors or participate in investments led by other investors

Expectations

- Companies targeting growth
- Paying attention to management development
- Have a large addressable market which may require additional capital if deemed to be an Emerging Star

Industry preference

Innovative and technology-related.

Portfolio examples

sitehop

SLINGSHOT SIMULATIONS

NOVAPANGAEA Technologies

TRIBOSONICS

Contact

Will Clark, MD, Regional Venture
Graham Davies, Deputy Fund Principal
Emily Latus, Fund Administrator
Jake Connolly, Fund Administrator

MEIF Proof of Concept & Early-stage LP

Early-stage, proof of concept and follow-on equity funding for SMEs based in the Midlands region.

Fund objective

To support ambitious management teams requiring early-stage or proof of concept and follow-on equity finance. The fund supports innovative companies in a range of sectors but does not invest in companies which are in financial difficulty or companies involved in the:

- Provision of social welfare facilities
- Coastal protection, soil conservation and infrastructure
- Land acquisition
- Building and renovation of housing, except for energy efficiency improvements and renewable energy operations which comply with PA4
- Major infrastructure in private sector ports
- Retail - however, an online platform that sells through other business channels, such as Amazon, can be considered eligible
- Nuclear related activity
- Fintech and financial (lending) services

Region of focus:	West, East and South East Midlands	**Total fund:**	As at 5 December 2022 - £40.4m
Financing stage:	Initial proof of concept and early-stage growth but subject to restrictions on companies over seven years since incorporation or first commercial sales	**Business size:**	<50 employees, <£10m turnover
Investment range:	Up to £750,000	**Funds provided by:**	British Business Bank and NPIF
Exit:	• The fund's investment period runs to December 2023 • Up to 30% of the fund can be used for follow-on investments for a further two years	**Syndication:**	No specific requirements for matching at the time of the investment, however to ensure a broader spread of risk EVL will normally introduce additional investors or

			participate in investments led by other investors

Expectations

- Companies targeting growth
- Paying attention to management development
- Have a large addressable market which may require additional capital if deemed to be an Emerging Star

Industry preference

Innovative and technology-related.

Portfolio examples

STORMBURST STUDIOS
locate bio
StaffCircle your people unified
WorkBuzz

Contact

Julian Dennard, Fund Principal EIS/MEIF
Sandy Reid, Deputy Fund Principal
Helen Birch, Fund Administrator

North East (ERDF) Venture Capital LP ("NEVF")

Early-stage equity for growth-orientated SME businesses in the North East of England.

Fund objective

To support ambitious management teams requiring start-up or scale-up equity finance. The fund supports innovative companies in a range of sectors but does not invest in companies which are in financial difficulty or companies involved in the:

- Provision of social welfare facilities
- Coastal protection, soil conservation and infrastructure
- Land acquisition
- Building and renovation of housing, except for energy efficiency improvements and renewable energy operations which comply with PA4
- Major infrastructure in private sector ports
- Retail - however, an online platform that sells through other business channels, such as Amazon, can be considered eligible
- Nuclear related activity

Region of focus:	80% of the fund must be invested in Northumberland and Tyne & Wear, and 20% of the fund must be invested in County Durham	**Total fund:**	As at 30 September 2022 - £27.5m
Financing stage:	All stages but subject to restrictions on companies over seven years since incorporation or first commercial sales	**Business size:**	<250 employees <€50m turnover <€43m balance sheet total
Investment range:	£100,000 – £1m	**Funds provided by:**	ERDF, EIB
Exit:	The fund's investment period runs to 31 March 2023	**Syndication:**	150% required across the life of the fund

Expectations

- Companies targeting growth
- Paying attention to management development
- Have a large addressable market which may require additional capital if deemed to be an Emerging Star

Industry preference

Innovative and technology-related.

Portfolio examples

equiwatt

HandbagClinic
BUY | SELL | RESTORE

trench networks limited
connectingconstruction

Contact

Ian Wilson, Fund Principal
Emma Fisher, Fund Administrator

Northern VCTs

Series A venture funds investing from £2.0 million up to £7.0 million (up to £20 million overall).

Fund objective

To provide high long-term tax-free returns to investors through a combination of dividend yield and capital growth, by investing primarily in unquoted UK technology businesses which meet the fund manager's key criteria of growth potential, strong management and ability to generate strong financial returns in the medium to long term.

Region of focus:	The funds invest across the UK	**Total fund:**	As at 30 September 2022 – c.£335m
Financing stage:	Early stage and growth stage	**Business size:**	No restrictions other than within the VCT rules
Investment range:	£2.0million to £7.0milion initially and up to £20m for knowledge intensive businesses	**Funds provided by:**	Individuals
Exit:	The funds have so far exited from 185 businesses.	**Syndication:**	The VCTs co-invest with other investment funds.

Expectations

- High growth potential, targeting a total return over the life of the investment of over 3x.
- Experienced and new management teams who demonstrate a capability and potential to grow their businesses; being companies which have demonstrated initial validation of their product, market or business plan.
- Early-stage businesses that can demonstrate significant compensating risk mitigation, such as proven technology, or barriers to entry such as IP or contracts, established contracts or embedded relationships.
- Have a large addressable market which may require additional capital to achieve the scale and returns required.

Industry preference

Software
Consumer
Life Sciences and Deep Tech

Portfolio examples

Contact
Peter Dines, MD, National Venture
Jo Bayes, Fund Administrator

Private Equity

EV Growth II LP

A 10-year LP SME-focused institutional investment fund, targeting MBO and growth capital, investing £1m to £5m in UK-based growing businesses.

Fund objective

To back established management teams in profitable and growing SMEs.

Region of focus:	50% of the fund must be invested in the North of England	**Total fund:**	As at 30 September 2022 - £40.1m
Financing stage:	Focus on established businesses with development capital and support for MBOs and MBIs and 'cash-out'	**Business size:**	Any
Investment range:	• Up to £5m (minimum investment £1m) • £5m additional (side car fund available for North West based investments thereby increasing limit to £10m in North West.	**Funds provided by:**	Local Authority Pension Funds LPs and high-net worth investors/investment team
Exit:	• The fund has a five-year investment period, followed by a five-year returns period	**Syndication:**	No limitation

	• Target exits via trade sale or secondary MBO (IPO is a possibility but not likely in majority of investments)		

Expectations

The aim of the fund is to generate returns in excess of 3x which will be achieved via combination of buying well, earnings growth and earnings multiple growth.

Industry preference

None

Portfolio examples

UKL UK LANDSCAPES · ParkVia · TOTAL RESOURCES (UK) Ltd

Contact

Wayne Thomas, Fund Principal
Melanie Hooper, Investment Administrator

EVG II North West LP

A £5m Side Car Fund to be deployed alongside Enterprise Ventures Growth II LP. This fund can only invest alongside EVGII; it can't invest in its own. The intention is that it provides a top up for Northwest investments that need more than the £5m EVGII can invest.

Fund objective

To invest alongside EVGII into North West based deals.

Region of focus:	The majority of the fund must be invested in the North West of England	**Total fund:**	£5m
Financing stage:	Focus on established businesses with development capital and support for MBOs and MBIs and 'cash-out'	**Business size:**	Any
Investment range:	Up to £5m (minimum investment £1m)	**Funds provided by:**	Greater Manchester Pension Fund
Exit:	Must be capable of commercial returns	**Syndication:**	No limitation

Expectations

Majority North West businesses.

Industry preference

None.

Contact

Wayne Thomas, Fund Principal
Melanie Hooper, Investment Administrator

Debt

NPIF – Mercia Debt Finance
Debt funding and business loans.

Fund objective
The fund has a broad objective – essentially to support growing businesses in the region.

Region of focus:	Yorkshire & Humber, but can also do 25% of the fund into the North West, Cumbria & Tees	**Total fund:**	As at 31 March 2023 - £92.7m
Financing stage:	Any	**Business size:**	SME
Investment range:	£100,000 to £750,000, more with BBB approval	**Funds provided by:**	British Business Bank; ERDF funds so come with usual State Aid and other restrictions, but NOT the seven-year rule. That only applies to Equity

Expectations
Growth-oriented businesses.

Industry preference
Some exclusions but not many, so please ask.

Additional notes
- RLS accredited
- Term loans of 12 months up to five years
- Interest rates typically between 6.5% and 11.5% dependent on risk profile
- Could co-invest with SME Loans to write loans of up to £1.75m

Portfolio examples

Aldgate Veterinary Practice

WOLD TOP

CANDYHERO

Contact

Paul Taberner, MD, Mercia Debt
Pete Sorsby, Deputy Fund Principal
Val Andrew, Fund Administrator

EV SME Loans

Loans for established and growing UK SMEs.

Fund objective

Commercial fund, lend for financial return.

Region of focus:	No geographical restrictions – can do anywhere in the UK; most opportunities south of Manchester/ Chesterfield will be very relevant to this fund	**Total fund:**	Circa £9m per annum, so £45m, revolving
Financing stage:	Established and profitable	**Business size:**	Any
Investment range:	£150,000 to £1.0m	**Funds provided by:**	Private institutional money, so no sector prohibitions

Expectations

Commercial return.

Industry preference

None, although avoids high risk sectors.

Additional notes

- Term loans of three to five years
- Interest rates typically 7% to 11%
- Very happy to look at transactional situations, MBOs, acquisitions, etc. Would also consider MBIs on an exceptional basis
- Can do capital repayment holidays and bullet or seasonal repayments
- Typical debt multiplies 2-3x EBITDA
- All loans individually priced to risk, so can stray out of 'normal' debt parameters to lend on a 'quasi-equity' basis, e.g. where Mercia's lend exceeds 3x EBITDA
- In these situations, Mercia would enhance overall return through the use of redemption premiums and share warrants to increase overall IRR to between 10% and 17%

Portfolio examples

Birkett & Co. Ltd Accountants & Tax Advisors

EXCEL WATER WATER TREATMENT & PURIFICATION

MOT Expert

Contact

Paul Taberner, MD, Mercia Debt
Heather Lloyd, Fund Administrator

WM AHSN SME Innovation Fund

A West Midlands loans fund supporting early-stage healthcare opportunities backed by the Academic Health Science Network (AHSN).

Fund objective

The objective of the fund is to provide very early-stage proof of concept funding for healthcare innovations. The fund will invest in all eligible businesses that can demonstrate they have an innovation that fits the AHSN clinical themes and is likely to be in an investment-ready stage after the initial funding.

Region of focus:	West Midlands	**Total fund:**	As at 30 September 2022 - £1.6m
Financing stage:	Early-stage/seed	**Business size:**	SME
Investment range:	£30,000-£50,000 convertible loan	**Funds provided by:**	NHS
Exit:	Must have strong clinical benefit and be likely to attract follow on funding	**Syndication:**	N/A

Expectations

- Innovations in line with WM AHSN themes
- Able to deliver a clear milestone by use of the Innovation Funds
- Likely to be ready for additional seed investment to develop further

Industry preference

- Software & the Internet
- Digital & Digital Entertainment
- Electronics, Materials, Manufacturing/Engineering
- Life Sciences & Biosciences

Portfolio examples

Shield

Contact

Peter Dines, MD, National Venture
Vicky Voogd, Fund Administrator

FDC Debt

FDC Debt LP

Offering a range of growth capital transactions for establish mid-market SMEs across the UK.

Fund objective

Provide flexible debt funding to support any business growth strategy, including property developments to established mid-market SMEs operating in the UK.

Region of focus:	UK wide	**Total fund:**	£75 million
Financing stage:	Growth Capital, Development Capital, Acquisition Finance, Change of Ownership	**Business size:**	SME
Investment range:	From £1 million to £7.5 million	**Funds provided by:**	West Midlands Pension Fund and British Business Investments
Exit:	Loan period up to a maximum of 5 years	**Syndication:**	No, but could consider

Expectations

- Can be used for a broad range of purposes including shareholder transactions, growth capital and property developments.
- Every investment considered on a case-by-case basis, no stringent lending criteria.
- Flexible repayment structures of up to 5 years, designed to support both strategy and cashflow.

Industry preference

- Sector Agnostic

Portfolio examples

Contact

Graham Mold, Head of Growth Capital

National Tooling Loan Fund

Providing funding for toolmakers and component manufacturers to complete new and confirmed orders.

Fund objective

Provide toolmakers and component manufacturers with funding to support the design, development and manufacture of tooling equipment required for new and confirmed projects dictated by OEMs.

Region of focus:	Across England	**Total fund:**	£24 million
Financing stage:	Existing businesses with new projects	**Business size:**	SME
Investment range:	£50,000 to £2 million	**Funds provided by:**	The Regional Growth (RGF) Fund and The West Midlands Pension Fund (WMPF)
Exit:	Loans are for a maximum period of 2 years	**Syndication:**	No

Expectations

- Funding to contribute towards the design, development and creation of tooling or expanding tooling capacity.
- A confirmed order for tooling is required that originates from an Original Equipment Manufacturer (OEM), a tier 1 supplier or from further along the supply chain, with repayment of loan due upon satisfactory completion of tooling.
- Difficulty securing the required level of investment from existing providers.
- Final manufacture of the tooling and subsequent component must be in England.
- Evidence of 2 years trading record and proven ability to complete similar projects.

Industry preference

- Manufacturing, any sector

qualityplatedplastics

Portfolio examples

Contact

Marie Kelly, Investment Manager – Tooling

venture • private equity • debt

Advanced Manufacturing Supply Chain Initiative – AMSCI Recycled

Helping businesses in the advanced manufacturing supply chain increase their growth potential and support job creation.

Fund objective

Support the growth of the advanced manufacturing sector, providing loan investment to help address market failures and increase business capabilities and competitiveness.

Region of focus:	England	**Total fund:**	£35 million
Financing stage:	Project funding/existing businesses	**Business size:**	SME
Investment range:	From £500,000 to £3 million (typically)	**Funds provided by:**	Department for Business, Energy and Industrial Strategy
Exit:	Loans are for a maximum period of five years.	**Syndication:**	No, but will consider

Expectations

- Project funding for innovative manufacturers.
- Eligible projects and deliverables must be located in England with outcomes to include the creation of new jobs and/or safeguard existing ones.
- Available to single SME applicants or via consortium.
- Must be able to demonstrate that a project would be significantly delayed or not feasible without the requested investment market failure to feature – unable to obtain funding from usual sources of finance.
- Investment can be used for Capital Expenditure, R&D and Training and other project related costs.
- Has a clear route of bringing project to market in a reasonable timescale.
- Aligns to government strategy e.g., export growth, inward UK investment, carbon footprint reduction.

Industry preference

- Manufacturing – automotive/aerospace/materials/any innovative manufacturing project considered.

Portfolio examples

beryl HNRC

Contact

Diane Watt, Investment Director – AMSCI
Andy Green, Investment Director – AMSCI

venture • private equity • debt

WMCA CIF/RIF Property Funds

Accelerating site regeneration, supporting speculative industrial, commercial, housing development, and encouraging long term growth in the West Midlands.

Fund objective

Funding is designed to bring inward investment and employment into the region, accelerating site regeneration, supporting strong cities and diverse town centres.

Region of focus:	West Midlands	**Total fund:**	£210 million
Financing stage:	Senior or mezzanine debt Equity	**Business size:**	Property developers / owner occupiers
Investment range:	From £1 million to £20 million	**Funds provided by:**	West Midlands Combined Authority (WMCA)
Exit:	Loans are for a maximum period of five years.	**Syndication:**	Not applicable

Expectations

- Loan funding for residential developments can be provided as Senior Debt, Mezzanine Debt or Equity Investment. Fully secured with a maximum repayment term of 5 years.
- Eligible projects include for the CIF: Office, Industrial, Leisure, Retail, Mixed Use, Green Energy, Roadside and Hotels.
- Available for known or referenced developers with a successful and proven track record.
- Suitable for brownfield regeneration sites and improving existing properties.
- Schemes must be located within the West Midlands Combined Authority area.
- All cases subject to a formal credit approval process.
- Proposals are looked at on a case-by-case basis.

Industry preference

- Industrial, Leisure, Office, Retail, Roadside, PRS, Refurbishment, Green Energy, Residential and Hotels.

Portfolio examples

BARBERRY Chancerygate BE BEST PLACED CORDWELL PROPERTY GROUP redsun projects

Contact

Nick Oakley, Head of Property Funding

General debt characteristics

Applicable to all debt funds

- Looking to lend based on current financial performance of the SME
- The Mercia Fund Managers debt team will take forecasts into account, and in rare cases will lend against them but only where there is a high level of visibility or contractual underpinning
- Maximum debt leverage would be 3x - a business making £200,000 EBITDA should have no more than c£600,000 of debt. The same applies to revolving facilities such as overdraft or CID (confidential invoice discounting) where the borrower only has to cover interest and not make capital repayments
- The key element the debt team focuses on is the ability of the business to service its debt; called DSC (debt service cover) ratio. The relationship between the amount of cash the business is generating versus the cost of servicing its debt:
    - First the team looks at EBITDA after tax and dividends
    - They then compare this to the interest and capital repayments on all debt, including proposed loan
    - Ideally this should be a minimum of 1.25x (to give a buffer), but occasionally as low as 1x if the team buy in to a growth story:
        - If it's below 1x, then the business can't service its debt – and Mercia is out!
        - Above 1.25x and the team start to get more interested and once above 1.5x then getting into medium/low risk territory where they would have a strong appetite
- This is impacted by the term. Where the debt is long term, e.g. a commercial mortgage over 20 years, then the debt multiple may be higher, as the annual servicing cost is lower

Security

- This is how Mercia Fund Managers debt team differentiates itself from banks and many other lenders
- Unlike most banks, the team doesn't expect to be fully secured over assets (typically stock, debtors and property) in the business– it simply isn't available in most opportunities they see, although they often take a debenture to 'mop up' any residual value in these assets if something does go wrong
- Instead, the team focuses on serviceability as above; if they get that bit right then there is no need to fall back on security
- As a general rule the debt team take personal guarantees from the directors to cover 50% of the loan; this ensures the director's commitment and timely communication of issues
- It is not expected for directors to pledge personal assets (e.g. marital home) in support of their guarantee
- In some lower risk situations the team may dispense with the need for PGs