

Northern 3 VCT PLC

Half-yearly Financial Report
30 September 2021



Welcome

Northern 3 VCT PLC is a Venture Capital Trust (VCT) managed by Mercia Fund Management.

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

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For additional information
visit our investor area online
www.mercia.co.uk/vcts/

Financial summary

	Six months ended 30 September 2021	Six months ended 30 September 2020	Year ended 31 March 2021
Net assets	£116.8m	£103.3m	£117.5m
Net asset value per share	106.1p	93.6p	107.0p
Return per share			
Revenue	0.3p	0.6p	0.5p
Capital	5.8p	17.9p	33.4p
Total	6.1p	18.5p	33.9p
Dividend per share declared in respect of the period	2.0p	2.0p	9.0p
Cumulative return to shareholders since launch			
Net asset value per share	106.1p	93.6p	107.0p
Dividends paid per share*	106.4p	97.4p	99.4p
Net asset value plus dividends paid per share	212.5p	191.0p	206.4p
Mid-market share price at end of period	97.5p	75.5p	91.0p
Share price discount to net asset value	8.1%	19.3%	15.0%
Tax-free dividend yield (based on the net asset value per share)**			
Excluding special dividend	4.8%	4.3%	5.8%
Including special dividend	9.6%	N/A	11.5%

* Excluding interim dividend not yet paid.

** The annualised dividend yield is calculated by dividing the dividends in respect of the 12-month period ended on each reference date by the net asset value per share at the start of the period.



Key dates

**24 November
2021**

**Half-yearly results
announced**

**6 January
2022**

**Shares quoted
ex dividend**

**28 January
2022**

**Interim dividend paid
(to shareholders on
register on 7 January 2022)**

Half-yearly management report to shareholders

for the six months ended 30 September 2021

Results and dividend

The unaudited net asset value (NAV) per share at 30 September 2021 was 106.1 pence (31 March 2021 (audited): 107.0 pence). The September figure is stated after deducting the second interim (special) dividend of 4.5 pence per share and final dividend of 2.5 pence per share in respect of the year ended 31 March 2021, which were paid on 27 August 2021 and therefore recognised in the current half-yearly accounts.

The total return per share for the half year as shown in the income statement, before deducting the dividends, was 6.1 pence, compared with a return of 18.5 pence in the six-month period ended 30 September 2020. The return for the period was mainly produced both by successful realisations combined with an increase in the directors' valuations of unquoted investments, reflecting continued progress in the performance of some portfolio companies.

The directors have declared an unchanged interim dividend of 2.0 pence per share for the year ending 31 March 2022, which will be paid on 28 January 2022 to shareholders on the register at the close of business on 7 January 2022.

Venture capital investment activity

The prior year was dominated by supporting existing investments through the impacts of COVID-19, whereas the current period has seen a return to more normal levels of new investment activity. Further progress was made on the development of the portfolio with three new investments completed for an aggregate consideration of £2.8m:

- **Adludio (£1,300,000)** – marketing services specialising in mobile advertising, London
- **Locate Bio (£813,000)** – medical (orthobiological) products for use in surgical procedures, Nottingham
- **Naitive Technologies (£721,000)** – Artificial Intelligence enabled medical diagnostics, London

A significant proportion of our investment activity continues to provide additional capital to our existing portfolio companies. A total of £3.7 million was invested in eight existing portfolio businesses during the period to support their continued development.

It was a busy period for realisations, with a number of notable transactions either completed or in progress as at the balance sheet date. The highlights during the period were the partial realisation of the investment in Entertainment Magpie Group, which was admitted to AIM under its new name musicMagpie plc in April 2021, and the partial realisation of the investment in Oddbox in August 2021. Both transactions registered excellent returns in excess of 10x the original investment and we have retained stakes in both businesses as they seek to expand further.

Investment portfolio

Our manager has continued to work closely with investee companies to provide strategic and practical support throughout the pandemic, and we have received frequent progress reports. As previously noted, most of the companies in our portfolio have been able to adapt to the events of the last 18 months and there are very few which continue to be impacted severely. Northern 3 VCT benefits from holding a diversified portfolio of investments, both in terms of sector exposure and stage of business maturity. The portfolio of more mature MBO style investments has continued to provide a series of successful sales as intended and now represents 40% of the total venture capital portfolio by value. We have also started to see the first successful sales from the earlier stage portfolio as it continues to grow and mature.

Share offers and liquidity

Whilst there were significant cash inflows due to the realisations described above, total cash decreased by £2m during the period due to the investment activity and dividends paid. In conjunction with Mercia we have considered the progress achieved by the portfolio to date and the likely further capital required both to enable our investee companies to develop and to fund our pipeline of new opportunities. Consequently, we intend to launch a share offer in January 2022 to be concluded during the 2021/22 tax year. Further details will be announced in due course.

Share buy-backs

We have maintained our policy of buying back our shares in the market, where necessary to maintain market liquidity, at a discount of 5% to NAV. During the period 734,657 shares were purchased for cancellation at a total cost of £738,196.

VCT-qualifying status and legislation

The company has continued to meet the stringent and complex qualifying conditions laid down by HM Revenue & Customs for maintaining its approval as a VCT. Mercia monitors the position closely and reports regularly to the board. No further amendments to the VCT legislation were announced by the Chancellor in his 2021 Autumn Budget statement.

Prospects

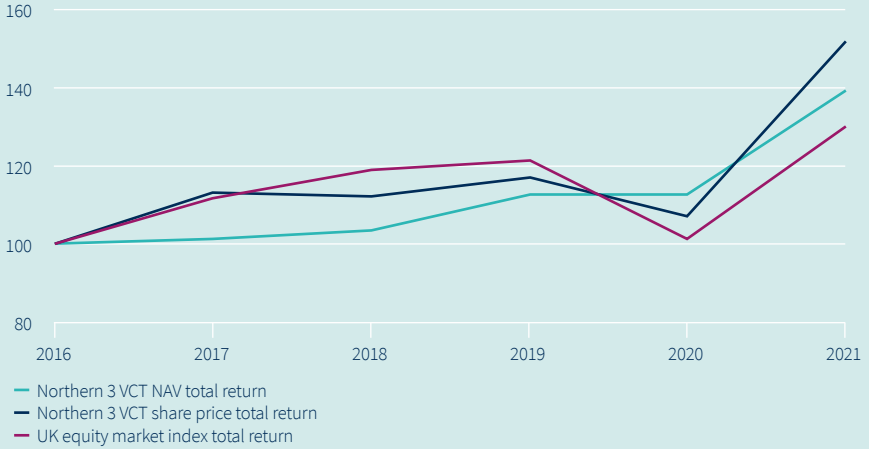
Whilst the pandemic continues to affect the economic environment, we are encouraged by the number of investment opportunities that our manager has identified and by the continued progress of the portfolio as a whole. We remain committed to supporting the development of entrepreneurial early-stage businesses in the UK and believe that your company remains well placed to do so.

On behalf of the board:

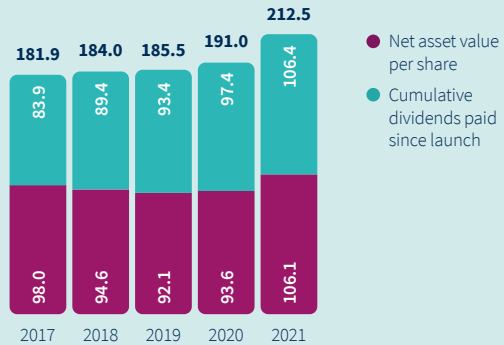
—
James Ferguson
 Chairman

Five-year performance

Comparative return to shareholders (assuming dividends reinvested) Five years to 30 September 2021 (30 September 2016 = 100)



Net asset value and cumulative dividends per share As at 30 September (pence per share)



Investment portfolio

(unaudited) as at 30 September 2021

	Cost £000	Valuation £000	% of net assets by value
Fifteen largest venture capital investments			
musicMagpie*	201	6,418	5.5%
Lineup Systems	974	5,970	5.1%
Currentbody.com	1,843	5,256	4.5%
Oddbox	350	3,819	3.3%
SHE Software Group	2,168	3,625	3.1%
Intelling Group	1,118	3,201	2.7%
GRIP-UK (t.a. The Climbing Hangar)	3,174	3,174	2.7%
Ideagen*	352	3,075	2.6%
Idox*	530	3,060	2.6%
Volumatic Holdings	216	2,796	2.4%
Clarilis	1,772	2,294	2.0%
Life's Great Group (t.a. Mojo Mortgages)	1,437	2,225	1.9%
Buoyant Holdings	907	2,140	1.8%
Newcells Biotech	1,592	1,901	1.6%
Tutora (t.a. Tutorful)	1,813	1,802	1.5%
Fifteen largest venture capital investments	18,447	50,756	43.3%
Other venture capital investments	41,207	31,270	26.9%
Total venture capital investments	59,654	82,026	70.2%
Listed equity investments	10,199	13,235	11.3%
Total fixed asset investments	69,853	95,261	81.5%
Net current assets		21,558	18.5%
Net assets		116,819	100.0%

*Quoted on AIM.

Income statement

(unaudited) for the six months ended 30 September 2021

	Six months ended 30 September 2021		
	Revenue £000	Capital £000	Total £000
Gain on disposal of investments	-	1,180	1,180
Movements in fair value of investments	-	5,936	5,936
	-	7,116	7,116
Income	898	-	898
Investment management fee	(282)	(846)	(1,128)
Other expenses	(210)	-	(210)
Return before tax	406	6,270	6,676
Tax on return	(27)	27	-
Return after tax	379	6,297	6,676
Return per share	0.3p	5.8p	6.1p

- The total column of the income statement is the statement of total comprehensive income of the company prepared in accordance with FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland". The supplemental revenue return and capital return columns have been prepared in accordance with the Statement of Recommended Practice "Financial Statements of Investment Trust Companies and Venture Capital Trusts" issued in April 2021 by the Association of Investment Companies ("AIC SORP").

- There are no recognised gains or losses other than those disclosed in the income statement.

- All items in the above statement derive from continuing operations.

- The accompanying notes are an integral part of this statement.

Six months ended 30 September 2020			Year ended 31 March 2021		
Revenue £000	Capital £000	Total £000	Revenue £000	Capital £000	Total £000
–	466	466	–	8,646	8,646
–	19,903	19,903	–	31,139	31,139
–	20,369	20,369	–	39,785	39,785
1,014	–	1,014	1,500	–	1,500
(206)	(617)	(823)	(462)	(3,019)	(3,481)
(168)	–	(168)	(404)	–	(404)
640	19,752	20,392	634	36,766	37,400
–	–	–	(72)	72	–
640	19,752	20,392	562	36,838	37,400
0.6p	17.9p	18.5p	0.5p	33.4p	33.9p

Balance sheet

(unaudited) as at 30 September 2021

	30 September 2021 £000	30 September 2020 £000	31 March 2021 £000
Fixed assets			
Investments	95,261	85,689	94,301
Current assets			
Debtors	289	583	1,630
Cash and deposits	21,389	17,158	23,397
	21,678	17,741	25,027
Creditors (amounts falling due within one year)	(120)	(98)	(1,785)
Net current assets	21,558	17,643	23,242
Net assets	116,819	103,332	117,543
Capital and reserves			
Called-up equity share capital	5,504	5,522	5,492
Share premium	20,658	19,500	19,716
Capital redemption reserve	539	457	502
Capital reserve	62,866	58,106	64,263
Revaluation reserve	25,408	18,204	26,105
Revenue reserve	1,844	1,543	1,465
Total equity shareholders' funds	116,819	103,332	117,543
Net asset value per share	106.1p	93.6p	107.0p

Statement of changes in equity

(unaudited) for the six months ended 30 September 2021

	Non-distributable reserves				Distributable reserves		Total
	Called-up share capital	Share premium	Capital redemption reserve	Revaluation reserve*	Capital reserve	Revenue reserve	
At 1 April 2021	5,492	19,716	502	26,105	64,263	1,465	117,543
Return after tax	-	-	-	(697)	6,994	379	6,676
Dividends paid	-	-	-	-	(7,655)	-	(7,655)
Net proceeds of share issues	49	942	-	-	-	-	991
Shares purchased for cancellation	(37)	-	37	-	(736)	-	(736)
At 30 September 2021	5,504	20,658	539	25,408	62,866	1,844	116,819
Six months ended 30 September 2020							
At 1 April 2020	4,647	7,428	432	(1,653)	60,786	903	72,543
Return after tax	-	-	-	19,857	(105)	640	20,392
Dividends paid	-	-	-	-	(2,208)	-	(2,208)
Net proceeds of share issues	900	12,072	-	-	-	-	12,972
Shares purchased for cancellation	(25)	-	25	-	(367)	-	(367)
At 30 September 2020	5,522	19,500	457	18,204	58,106	1,543	103,332
Year ended 31 March 2021							
At 1 April 2020	4,647	7,428	432	(1,653)	60,786	903	72,543
Return after tax	-	-	-	27,758	9,080	562	37,400
Dividends paid	-	-	-	-	(4,411)	-	(4,411)
Net proceeds of share issues	915	12,288	-	-	-	-	13,203
Shares purchased for cancellation	(70)	-	70	-	(1,192)	-	(1,192)
At 31 March 2021	5,492	19,716	502	26,105	64,263	1,465	117,543

*The revaluation reserve is generally non-distributable other than that part of the reserve relating to gains/losses on readily realisable quoted investments, which are distributable.

Statement of cash flows

(unaudited) for the six months ended 30 September 2021

	Six months ended 30 September 2021 £000	Six months ended 30 September 2020 £000	Year ended 31 March 2021 £000
Cash flows from operating activities			
Return before tax	6,676	20,392	37,400
Adjustments for:			
Gain on disposal of investments	(1,180)	(466)	(8,646)
Movements in fair value of investments	(5,936)	(19,903)	(31,139)
Decrease/(increase) in debtors	1,340	(556)	(482)
(Decrease)/increase in creditors	(1,665)	(38)	1,648
Net cash outflow from operating activities	(765)	(571)	(1,219)
Cash flows from investing activities			
Purchase of investments	(7,178)	(3,431)	(10,033)
Sale/repayment of investments	13,335	1,886	18,173
Net cash inflow/(outflow) from investing activities	6,157	(1,545)	8,140
Cash flows from financing activities			
Issue of ordinary shares	1,000	13,300	13,578
Share issue expenses	(7)	(327)	(375)
Purchase of ordinary shares for cancellation	(738)	(367)	(1,192)
Equity dividends paid	(7,655)	(2,208)	(4,411)
Net cash (outflow)/inflow from financing activities	(7,400)	10,398	7,600
Net (decrease)/increase in cash and cash equivalents	(2,008)	8,282	14,521
Cash and cash equivalents at beginning of period	23,397	8,876	8,876
Cash and cash equivalents at end of period	21,389	17,158	23,397

Notes to the financial statements

(unaudited) for the six months ended 30 September 2021

- 1.** The financial statements have been prepared under FRS 102 “The Financial Reporting Standard applicable in the UK and Republic of Ireland” and in accordance with the Statement of Recommended Practice “Financial Statements of Investment Trust Companies and Venture Capital Trusts” issued in April 2021 by the Association of Investment Companies (“AIC SORP”).
- 2.** The calculation of return per share is based on the return after tax for the six months ended 30 September 2021 and on 109,782,428 (2020: 110,279,045) ordinary shares, being the weighted average number of shares in issue during the period.
- 3.** The calculation of net asset value per share is based on the net assets at 30 September 2021 divided by the 110,084,493 (2020: 110,445,090) ordinary shares in issue at that date.
- 4.** The interim dividend of 2.0 pence per share for the year ending 31 March 2022 will be paid on 28 January 2022 to shareholders on the register at the close of business on 7 January 2022.
- 5.** The unaudited half-yearly financial statements for the six months ended 30 September 2021 do not constitute statutory financial statements within the meaning of Section 434 of the Companies Act 2006, have not been reviewed or audited by the company’s independent auditor and have not been delivered to the Registrar of Companies. The comparative figures for the year ended 31 March 2021 have been extracted from the audited financial statements for that year, which have been delivered to the Registrar of Companies; the independent auditor’s report on those financial statements (i) was unqualified, (ii) did not include any reference to matters to which the auditor drew attention by way of emphasis without qualifying the report and (iii) did not contain a statement under Section 498 (2) or (3) of the Companies Act 2006. The half-yearly financial statements have been prepared on the basis of the accounting policies set out in the annual financial statements for the year ended 31 March 2021.
- 6.** Each of the directors confirms that to the best of their knowledge the half-yearly financial statements have been prepared in accordance with the Statement “Half-yearly financial reports” issued by the UK Accounting Standards Board and the half-yearly financial report includes a fair review of the information required by (a) DTR 4.2.7R of the Disclosure Rules and Transparency Rules, being an indication of important events that have occurred during the first six months of the financial year and their impact on the condensed set of financial statements, and a description of the principal risks and uncertainties for the remaining six months of the year, and (b) DTR 4.2.8R of the Disclosure Rules and Transparency Rules, being related party transactions that have taken place in the first six months of the current financial year and that have materially affected the financial position or performance of the entity during that period, and any changes in the related party transactions described in the last annual report that could do so.
- 7.** Copies of this half-yearly report have been mailed to shareholders and are available to the public at the company’s registered office, and on the company’s website.

Risk management

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

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

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

Economic risk: events such as economic recession or general fluctuation in stock markets, exchange rates and interest rates may affect the valuation of investee companies and their ability to access adequate financial resources, as well as affecting the company's own share price and discount to net asset value. The level of economic risk has been elevated by the COVID-19 pandemic which caused a global recession during 2020. **Mitigation:** the company invests in a diversified portfolio of investments spanning various industry sectors, and maintains sufficient cash reserves to be able to provide additional funding to investee companies where it is appropriate and in the interests of the company to do so. The investment manager typically provides an investment executive to actively support the board of each unquoted investee company. At all times, and particularly during periods of heightened economic uncertainty, the investment executives share best practice from across the portfolio with investee management teams in order to mitigate economic risk.

Brexit risk: the UK withdrew from the European Union (EU) on 31 January 2020. The impact on the future business environment in the UK remains difficult to predict. **Mitigation:** whilst we do not expect that Brexit will have a significant impact on the operations of Northern 3 VCT PLC itself, the board and the investment manager follow Brexit developments closely with a view to identifying changes which might affect the company's investment portfolio. The investment manager works closely with investee companies in order to plan for a range of possible outcomes.

Stock market risk: some of the company's investments are quoted on the London Stock Exchange or AIM and will be subject to market fluctuations upwards and downwards. External factors such as terrorist activity or global health crises, such as the COVID-19 pandemic, can negatively impact stock markets worldwide. In times of adverse sentiment there may be very little, if any, market demand for shares in smaller companies quoted on AIM. **Mitigation:** the company's quoted investments are actively managed by specialist managers, including Mercia in the case of the AIM-quoted investments, and the board keeps the portfolio and the actions taken under ongoing review.

Credit risk: the company holds a number of financial instruments and cash deposits and is dependent on the counterparties discharging their commitment.

Mitigation: the directors review the creditworthiness of the counterparties to these instruments and cash deposits and seek to ensure there is no undue concentration of credit risk with any one party.

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

Internal control risk: the company's assets could be at risk in the absence of an appropriate internal control regime which is able to operate effectively even during times of disruption, such as that caused by COVID-19.

Mitigation: the board regularly reviews the system of internal controls, both financial and non-financial, operated by the company and the investment manager. These include controls designed to ensure that the company's assets are safeguarded and that proper accounting records are maintained.

VCT-qualifying status risk: while it is the intention of the directors that the company will be managed so as to continue to qualify as a VCT, there can be no guarantee that this status will be maintained. A failure to continue meeting the qualifying requirements could result in the loss of VCT tax relief, the company losing its exemption from corporation tax on capital gains, to shareholders being liable to pay income tax on dividends received from the company and, in certain circumstances, to shareholders being required to repay the initial income tax relief on their investment.

Mitigation: the investment manager keeps the company's VCT-qualifying status under continual review and its reports are reviewed by the board on a quarterly basis. The board has also retained Philip Hare & Associates LLP to undertake an independent VCT status monitoring role.



Company information

Directors

James Ferguson (Chairman)
Chris Fleetwood
Tim Levett
John Waddell
Anna Brown

Secretary

James Bryce LLB

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