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Mercia Asset Management PLC
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Mercia Asset Management PLC
("Mercia" or the "Group" or the "Company")

Preliminary results for the year ended 31 March 2024

Record organic growth in assets under management

Proposed strategy evolution to focus on growth of managed funds

Mercia Asset Management PLC (AIM: MERC), the proactive regionally focused, specialist alternative asset manager with c. £1.8billion of assets under management ("AuM"), is pleased to announce its preliminary results for the year ended 31 March 2024.

Set against another year of subdued inflows by the asset management sector, Mercia achieved record fund inflows of c. £562million during the year and increased revenues, EBITDA, adjusted operating profit, dividends and cash.

	31 March 2024	31 March 2023
Statutory results		
Revenue	**£30.4m**	£25.9m
Realised gain/(loss) on sale of direct investments	**£4.5m**	£(0.8)m
Fair value movement in direct investments	**£(17.3)m**	£1.2m
(Loss)/profit before taxation	**£(8.2)m**	£2.4m
Basic (loss)/earnings per share	**(1.71)p**	0.64p
Interim dividend paid per share	**0.35p**	0.33p
Proposed final dividend per share[1]	**0.55p**	0.53p
Cash and cash equivalents	**£46.9m**	£37.8m
Net assets	**£189.2m**	£202.9m
Alternative performance measures		
AuM [2]	**£1,818.8m**	£1,437.3m
EBITDA [3]	**£5.5m**	£5.2m
Adjusted operating profit [4]	**£9.7m**	£7.6m
Net assets per share	**43.4p**	45.4p

1 The proposed final dividend is subject to shareholder approval at the Company's Annual General Meeting on 26 September 2024, and if approved, will be paid on 1 November 2024 to shareholders on the register at the close of business on 4 October 2024.
2 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.
3 EBITDA is defined as operating (loss)/profit before exceptional item, depreciation, realised gains/(losses) on the sale of direct investments, fair value movement in direct investments, share-based payments charge, amortisation of intangible assets and movement in fair value of deferred consideration.
4 Adjusted operating profit is defined as EBITDA plus net finance income.

Managed fund movements

- Third-party funds under management ("FuM") increased by c.32% to c.£1,630million (2023: c.£1,234million), with no redemptions
  - Venture FuM of c.£913million (2023: c.£630million)
    - Three new British Business Bank ("BBB") fund mandates secured with c.£263million to be invested across the West Midlands, Yorkshire and the Humber regions
    - Additional allocations totalling £20.0million under the Northern Powerhouse Investment Fund Equity and Midlands Engine Investment Fund Proof of Concept mandates, with a further £15.7million allocated to the North East Venture Capital fund mandate in the year
    - Shares totalling c.£49million allotted by the three Northern Venture Capital Trusts ("VCTs") in the financial year, in addition to £2.7million of shareholder dividend reinvestment inflows
    - Three Enterprise Investment Scheme ("EIS") funds closed in the financial year, raising a total of £14.4million
    - c.£47million downward movement in FuM for the Northern Powerhouse Investment Fund Equity and Midlands Engine Investment Fund Proof of Concept which both transitioned from their investment phase to realisation phase during the year.
  - Debt FuM of c.£687million (2023 c.£556million)
    - Two new BBB fund mandates totalling £97.0million to be lent across the West Midlands, Yorkshire and the Humber regions
    - Frontier Development Capital Limited ("FDC") awarded a £100.0million Brownfield Regeneration Fund for the West Midlands
    - c.£65million downward movement in FuM as the Northern Powerhouse Investment Fund Debt transitioned from its investment phase to realisation phase in the year.
  - Private equity FuM of c.£30million (2023: c.£48million)
    - c.£16million downward movement in FuM as the EV Growth Fund II transitioned from its investment phase to realisation phase in the year.

Direct investment portfolio movements

- Direct investment portfolio fair value of £116.9million (2023: £136.6million)
- Profitable sale of nDreams Limited ("nDreams") to Aonic AB ("Aonic") for an enterprise value of £90.3million ($110million). Mercia held a 33.2% direct stake in nDreams, resulting in a total consideration of £30.2million, split between £26.4million in cash and a £3.8million investment in Aonic Founder SCS. This exit resulted in a 2.7x return on invested capital and an 18.4% IRR
- £19.6million net invested into 11 portfolio companies (2023: £20.7million net invested into 13 portfolio companies)

- £17.3million net fair value decrease in the portfolio during the year (2023: £1.2million increase), largely resulting from the impairment of the Group's direct investment in Impression Technologies Limited ("Impression Technologies").

Future strategy and proposed reclassification as a trading company

- Mercia's intention is to now focus on its profitable and fast-growing FuM
- The Board will propose a resolution at the 2024 Annual General Meeting that Mercia reclassifies as a trading company and ceases to be an investing company under the AIM Rules.

Post-period end developments

- The Northern VCTs allotted shares totalling c.£29million on 4 April 2024, concluding the second half of their £60.0million fundraise which closed to investors on 13 March 2024
- c.£15million raised by Mercia's EIS Knowledge-intensive 2023/24 fund at the start of April 2024
- On 29 May 2024, the Company completed the £5.0million share buyback programme announced on 28 November 2023.

Mark Payton, Chief Executive Officer of Mercia, commented:
"The year to 31 March 2024 was characterised by market volatility, high inflation and high interest rates driving up the costs of doing business, alongside geopolitical uncertainty and a thankfully short-lived recession. It is therefore pleasing to have come through these universal headwinds with record organic growth in our assets under management, driven by Mercia's diversified and differentiated approach to making a positive impact for our investors and investees.

"Over the next three years as Mercia continues its natural evolution, and subject to shareholders approving our proposed new investment approach, we will seek to drive AuM to in excess of £3.0billion whilst doubling EBITDA, focused on building value for shareholders and our other key stakeholders as a growing and sustainable, specialist alternative asset manager."

This announcement contains inside information for the purposes of Article 7 of the Market Abuse Regulation (EU) 596/2014 which is part of UK law by virtue of the European Union (Withdrawal) Act 2018. Upon publication of this announcement, this inside information is now considered to be in the public domain.

For further information, please contact:

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Analyst briefing
An analyst webcast will be given by Dr Mark Payton, Chief Executive Officer and Martin Glanfield, Chief Financial Officer at 9:30am on the day of the results. Analysts wishing to register are asked to contact mercia@fticonsulting.com. An audio webcast of this briefing will subsequently be available later in the day via Mercia's website.

Investor presentation
Mercia will also provide a live management presentation and Q&A via the Investor Meet Company ("IMC") platform at 3.00pm on the same day. Registration details for the online investor presentation can be accessed via:

https://www.investormeetcompany.com/mercia-asset-management-plc/register

About Mercia Asset Management PLC
Mercia is a proactive, specialist alternative asset manager focused on supporting regional SMEs to achieve their growth aspirations. Mercia provides capital across its four asset classes of venture, debt, private equity and proprietary capital: the Group's 'Complete Connected Capital'.

The Group has a strong UK footprint through its regional offices, university partnerships and extensive personal networks, providing it with access to high-quality deal flow.

Mercia Asset Management PLC is quoted on AIM with the EPIC "MERC".

Non-Executive Chair's statement

Natural evolution
Throughout the year under review, Mercia has continued to mature and advance.

In spite of the global and domestic market backdrop, across our equity investing and lending asset classes, the Group achieved record fund inflows of c.£562million during the year, taking our total assets under management to c.£1.8billion, almost double where we were three years ago.

In 2022, we welcomed Frontier Development Capital Limited into our Group. Mercia's third acquisition since its Initial Public Offering ("IPO") in 2014, FDC comprises an excellent, well-run team, with strong investor and lending relationships. FDC continues to perform well and we were all particularly pleased to see them be awarded their first British Business Bank ("BBB") debt mandate in February this year.

Board focus
Good governance is fundamental to the long-term success of any company, as well as maintaining a close watch on the horizon and evolving market dynamics. Since our early days as a public company, we have always recognised the importance of covering our total cost base with our revenues, thereby preventing annual shareholder value erosion and excessive cash burn. This has led to our increasing focus on growing the high quality, recurring revenues of our profitable fund management operations - both organically and by acquisition. During this final year of 'Mercia 20:20', in conjunction with external advisers, the Board spent a considerable amount of time focusing on the Company's most appropriate future direction of travel.

Proposed reclassification as a trading company
When Mercia was admitted to trading on the AIM Market of the London Stock Exchange ("AIM") in December 2014, it was

When Mercia was admitted to trading on the AIM Market of the London Stock Exchange ("AIM") in December 2014, it was established as a proactive, specialist asset manager focused on supporting regional small and medium-sized enterprises ("SMEs"), to achieve their growth aspirations. As such, under the AIM Rules, Mercia was treated as an investing company. At that time, Mercia's net assets were c.£81million, considerably greater than its c.£23million of third-party funds under management ("FuM").

Since its admission to AIM, the Company has successfully grown both its balance sheet and its FuM. As at 31 March 2024, Mercia had 22 direct investments fair valued at £116.9million, net assets of £189.2million and had grown its FuM to c.£1.6billion. FuM now dwarf net assets, the largest component of which is the direct investment portfolio.

As the Board looks to the future, and refreshes its three-year strategic plan, Mercia's intention is to focus much more on our profitable and fast-growing FuM. Our intention therefore is no longer to make new direct investments from our balance sheet. We will continue to support our existing direct investments, but anticipate that their number will reduce as these investments are realised.

In considering these proposed changes, we believe it is more appropriate to characterise Mercia as a trading business, whose principal business operation is one of asset management. If held for more than two years, the shares of most trading companies on AIM may currently be inheritance tax exempt. As such, at the Annual General Meeting ("AGM") on 26 September 2024, we will be proposing a resolution that the Company ceases to be an investing company under the AIM Rules.

As a Board, we unanimously believe that our proposed new strategic direction is the right one for all of our stakeholders, be they our many longstanding fund investors, our Venture Capital Trusts, our employees and, critically, our shareholders.

If the resolution is approved by our shareholders in September 2024, Mercia's new twin strategic objectives will be to increase AuM to in excess of £3.0billion whilst doubling EBITDA during the next three years to 31 March 2027.

Shareholder returns - dividends and share buyback

As part of our strategy to create value for shareholders, we have a strong desire to make cash returns to shareholders, funded from both our trading activities and direct investment realisations. We adopted our progressive dividend policy in December 2020, when the Group declared its maiden interim dividend of 0.10 pence per share. Since then, Mercia's continued progress has merited measured increases in both the interim and final dividends. Last December, the Group paid an interim dividend of 0.35 pence per share and is now recommending a final dividend of 0.55 pence per share, representing a total dividend of 0.90 pence per share for the full year (2023: 0.86 pence per share), a c.5% increase on the prior year. Given the overall strength of Mercia's business model and its excellent cash position, the Board's objective remains to maintain this progressive policy.

Following the successful exit from nDreams Limited ("nDreams") in November 2023, we announced a £5.0million share buyback. This buyback concluded in May 2024 and resulted in 15.7million shares being bought back into Treasury, at an average purchase price of 31.8 pence per share.

Taken together (and assuming that the proposed final dividend is approved by shareholders at this year's AGM), Mercia will have returned c.£18million in cash to shareholders since March 2020.

'Mercia 20:20'

Mercia's year to 31 March 2024 demonstrated the variability of venture investing, from the very successful and profitable sale of the Group's direct investment in nDreams for £30.2million (of which £26.4million was received in cash), to the difficult decision in May 2024 to cease further material investment into Impression Technologies Limited.

Across the three-year period, our many business activities have contributed to Mercia comfortably exceeding its three-year 'Mercia 20:20' growth in AuM target, whilst missing its three-year profit before tax target. It is these experiences, together with feedback from our shareholders, which have helped shape our thinking in terms of Mercia's proposed future direction.

Governance

Our commitment to the governance principles of the Quoted Companies Alliance ("QCA") Corporate Governance Code remains resolute and we have recently adopted the new QCA Code. Governance codes aside, our Directors have always regarded integrity and transparency as fundamental cornerstones to the way in which we do business. Succession planning is also an essential element of good governance and this is kept under review by our Nominations Committee.

At this year's AGM, having reached 78 years of age, our co-founder, first Chair and, together with family trusts, Mercia's largest overall shareholder group, Ray Chamberlain has decided to retire from our Board. Ray has been a serial and successful entrepreneur over many decades. In 2010, it was Ray who backed Mark Payton's fund management MBO and whose family trusts provided the follow-on capital thereafter to the most promising fund investees. This was the genesis of what became Mercia's 'funds-first' hybrid investment model.

Ray's measured and thoughtful Board contributions over the last 10 years, together with his unwavering long-term support, have provided the time and stability from which all businesses benefit. I would also like to thank him personally for his wise counsel during my time as Chair. We will all miss Ray's enthusiasm for venture investing and his support for young, regionally based technology-led businesses, such as Warwick Acoustics Limited. We are confident that Ray will remain a strong supporter of our Group, including our proposed new strategic direction.

With our Board currently comprising five Non-executive Directors and three Executive Directors, we do not feel that it is necessary to add an additional Non-executive Director once Ray steps down at our AGM in September 2024. Our Nominations Committee will of course keep the Board's composition and balance of skills and experience under review.

At the operating level, we appointed Jocelyne Bath during the year as our new Chief Operating Officer, and more recently appointed our first full-time heads of Environmental, Social and Governance ("ESG") and Information Systems/Information Technology ("IS/IT"), both reporting to Jocelyne. We remain as committed as ever to all three principles of ESG, including continuing to measure and offset our relatively small environmental impact, and promoting further diversity, equity and inclusion throughout Mercia, our investment committees and investee portfolio companies. Based upon our investment experience, diverse teams make good teams. The appointment of a dedicated IS/IT manager is an investment in our internal capabilities, so as to increase our efficiency as we continue to scale.

Maintaining good stakeholder relationships also remains critical to our future success, as does continuing to meet the investment objectives agreed with our many asset class fund investors. During the year, we have also continued to focus on our relationship with each of the three Northern VCT boards.

Proactive engagement with all of our stakeholder groups remains particularly important to our Board and I am always pleased to meet and engage with shareholders. In recent months, Diane Seymour-Williams, our Senior Independent Director and Remuneration Committee Chair, has also been in contact with our leading shareholders in connection with the one-year extension of the Executive Director's Long-Term Incentive Plan. We will, as last year, hold our forthcoming AGM in London - this year at Rothschild & Co's offices. I and my fellow Board members look forward to engaging with our stakeholders during the current financial year.

Responsible investing and culture

For Mercia, responsible investing with a clear purpose, a positive company culture and strong teamwork have always gone hand-in-hand. We always seek to invest to make a return for our investors, but we also aim to do so in a manner which treats with respect all of our stakeholders, and the environment in which we operate.

One recent example of this culture and shared purpose was the significant effort put into the BBB tenders by many staff across all parts of our business. They worked tirelessly over many months, often at unsociable hours. Their exceptional efforts, in conjunction with the Group's investment track record, resulted in the BBB awarding our Group five new fund management mandates totalling £360.0million. 'Leaning in' to help others, be it internally or externally, is what defines a #OneMercia employee. We are hugely grateful to the BBB for the vote of confidence placed in us and we are really excited to have won these new and significant regional equity and debt mandates across the Midlands, Yorkshire and the Humber. We have already built new deal pipelines for all five mandates and completed both equity and debt transactions.

The office working environment post COVID continues to evolve and we are constantly looking at how best to combine employee well-being and support with the collaboration, career development and training that is vital in remaining a successful, specialist alternative asset manager. We do this through proactive engagement with our staff, whilst actively monitoring trends across the asset management sector. In everything that we do and say, we seek to be a valuable and well-respected citizen in the many communities in which we are based and whom we serve.

Looking forward
Finishing where I started, we continue to live in uncertain times. Whilst the political and economic backdrop creates investment returns uncertainty, it also creates opportunities for those with the liquidity, local deal flow networks and investment experience to make good equity investment and lending decisions, whilst proactively managing and realising investment returns from existing portfolios.

The Group's future growth is likely to be driven by a structural shift in investor allocations and Mercia, with its strong capital base, regional presence and investment track record, is well positioned to benefit from this emerging trend. Our profitable SME lending operations have also now grown to FuM of £687.0million, demonstrating our broader investment skills, investor base and reach across the UK. Coupled with our financial discipline and resilient capital and liquidity base, Mercia is in a strong position to support initiatives such as the Mansion House Compact, and we look forward to reporting further progress in due course.

I remain immensely proud to be Chair and part of #OneMercia, a community which works together every day to fulfil our purpose, our investment mandates and our strategic objectives. On behalf of our Board, I sincerely thank each and every person connected with our Group for your continuing support.

Ian R Metcalfe OBE
Non-executive Chair

Chief Executive Officer's Review

Powering growth

Overview
The year to 31 March 2024 was characterised by market volatility, high inflation and high interest rates driving up the costs of doing business, alongside geopolitical uncertainty and a thankfully short-lived recession. It is therefore pleasing to have come through these universal headwinds with record organic growth in our assets under management, driven by Mercia's diversified and differentiated approach to making a positive impact for our investors and investees.

Since our IPO in 2014, Mercia has naturally evolved into a specialist alternative asset manager, focusing on impactful investing throughout the UK, sourced via our established local relationships, extensive non-executive director ("NED") and entrepreneurial networks, and one of the UK's largest venture capital and SME lending footprints across our 11 offices. Our capital is long term in nature and not subject to redemptions, enabling us to both equity invest and lend capital consistently through market cycles. Our retail capital is raised exclusively via EIS and VCTs - tax-efficient structures designed to mitigate the market challenges of low levels of capital availability in early-stage venture investment. We predominantly manage public sector capital on behalf of the British Business Bank, to help business owners access funding outside of London. Additionally, our institutional capital is mainly raised from regional pension funds which aim to support regional businesses from their impact allocations. Where others have faced challenges, we have delivered commercial returns that meet the specific impact requirements of our fund investors. This successful strategy and resulting capital returns have been the primary drivers behind this year's significant organic inflows.

Performance
For our financial year to 31 March 2024, we achieved revenues of £30.4million (2023: £25.9million) and EBITDA of £5.5million (2023: £5.2million). We closed the financial year with £46.9million (2023: £37.8million) cash on hand, no debt and assets under management of c.£1.8billion (2023: c.£1.4billion), up c.27% overall, exclusively driven by organic growth in the year. As at 31 March 2024, we had completed c.64% of the £5.0million share buyback and are pleased to recommend a proposed final dividend of 0.55 pence per share (2023: 0.53 pence per share) which, if approved by shareholders, will take the full-year dividend to 0.90 pence per share, a year-on-year increase of c.5%.

In December 2022, we welcomed FDC into our Group. The company continues to perform well, securing their first BBB fund mandate in February 2024, being the £44.0million Midlands Engine Investment Fund II debt mandate for the West Midlands. The acquisition of FDC has also marked the beginning of our deliberate shift towards adjacent asset classes to venture capital.

Mercia's direct investment portfolio was fair valued at £116.9million as at 31 March 2024 (2023: £136.6million), with the highlight during the year being the sale of nDreams Limited for £30.2million in total, with £26.4million in cash returned back to the balance sheet and a £4.5million realised gain. The overall results were impacted, however, by the post-year end decision to cease further material funding for Impression Technologies Limited and we therefore fully impaired our investment fair value as at 31 March 2024. This was an extremely tough decision to make as we have supported the business since 2014 via our funds and since 2015 from our balance sheet, because its novel HFQ® technology works and it had a cornerstone customer. Ultimately however, after 10 years of investment support, its licensing revenue model was unable to reach critical mass and profitability. Two separate sale processes either side of last Christmas both generated firm interest in the business, but ultimately no sale transaction occurred.

'Mercia 20:20' outturn
This financial year also brings to an end our three-year 'Mercia 20:20' strategic plan, with AuM growing over the period by c.94%, driven by £415.0million of acquired third-party FuM with the purchase of FDC in December 2022, and c.£464million via organic growth.

'Mercia 20:20' focused on both sides of our hybrid investment model, firstly seeking ambitious growth in total AuM of 20% on average per annum from c.£940million to a three-year target of c.£1.6billion and secondly, delivering three-year cumulative profit before tax ("PBT") of £60.0million. Despite the tough economic and new fund-raising backdrop, we managed to grow AuM to c.£1.8billion, beating that three-year target. We did not reach the cumulative PBT target of £60.0million, predominantly due to fewer upward fair value movements, the full impairment of our investment in Impression Technologies and fewer profitable realisations from the direct investment portfolio and instead delivered £21.6million, although cash realisations during the three-year period did total c.£47million.

During the year as a regionally focused investor, we invested c.£247million (2023: c.£165million) from our third-party funds and balance sheet, with over 90% allocated outside of London. During the same period, we generated c.£93million of returns across both equity and debt asset classes. Over the 'Mercia 20:20' period, we realised returns of c.£0.4billion. There has been a consistent theme throughout this three-year period; over 90% of the capital invested, the portfolio companies managed and the returns generated (both equity and debt) were spread widely across the UK, excluding London.

New investment focus and impact
In our interim results announcement in November 2023, I said that we would take a more cautionary approach to direct investing from our balance sheet capital and reflecting this caution, we would pause adding new companies to our direct investment portfolio.

Following Mercia's interim results announcement, we conducted an in-depth review to determine our next three-year strategy, in conjunction with support from external advisers. Consistent with our Board's own conclusions, all advisers were firmly aligned with management's belief that Mercia's next phase should focus on growing our profitable FuM, with cash proceeds from direct investment portfolio exits being used to wholly/partly fund inorganic FuM growth, instead of investing into any new direct investments. Existing direct investments will continue to be fully supported in line with our current approach.

We now transition to 'Mercia 27: 100% growth'. Over the next three years as Mercia continues its natural evolution (and subject to shareholders approving our proposed new investment approach as set out in Ian Metcalfe's Chair statement), we will seek to drive AuM to in excess of £3.0billion whilst doubling EBITDA, focused on building value for shareholders and our other key stakeholders as a growing and sustainable, specialist alternative asset manager. During this new three-year period, we will focus on investing in our people and platforms to build a scalable, efficient and sustainable long-term Group.

Mercia has come a long way since it was established in 2010, starting with three employees, one office and c.£12million in third-party FuM. Today, we have built a leading national specialist, alternative asset management operation characterised by strong organic inflows, robust funds' performance, the high quality of our team and our ability to source a significant number of interesting investments that, over time, lead to investment returns that meet our fund investors' expectations.

Mercia's 'capital-light' investment philosophy was designed to minimise risks throughout the investment journey - from sourcing to capital return. For example, Mercia Ventures, which represents c.50% of Mercia's AuM, focuses on building diverse investment portfolios by sector, geographic location, business stage and by utilising our proprietary value-creation support. As most of Mercia's venture investments yield returns through trade sales ranging from £10.0million to £200.0million, we predominantly target young businesses with relatively modest capital needs. This focus ensures that even if syndicate venture capital availability decreases, as is currently the case, we can continue to support viable businesses using our own substantial funds.

Talent and culture
Our #OneMercia team has grown this year alongside the increase in our third-party FuM, with average staff numbers across the year increasing to 138 (2023: 116). This measured expansion reflects our commitment to investing in top-quality equity investment and lending talent, as well as operational support expertise. Direct share and share option ownership is widespread throughout Mercia, directly aligning the interests of employees and the Board with shareholders. According to a recent internal staff survey, 89% of staff would recommend Mercia as a great place to work. We remain committed to enhancing diversity, equity and inclusion throughout the Group, undertaking specific steps to achieve this goal through our participation in the Women in Finance Charter and the Investing in Women Code.

Outlook
Subject to shareholder approval at our Annual General Meeting in September 2024, the next three years sets Mercia on an evolutionary path towards becoming a leading UK specialist alternative asset manager, focused on impactful capital deployment of third-party FuM in our target markets. I have always firmly believed that our long-term success depends on diversification and cash returns, rather than unrealised fair value movements. Having returned c.£0.4billion across all of our asset classes during 'Mercia 20:20', we have demonstrated our ability to both source and exit well - generating cash returns for our fund investors and shareholders. It is this cash-on-cash performance that has enabled Mercia to achieve record organic inflows during the financial year.

We believe that the ambitious goal of 100% EBITDA growth over the next three years, whilst making continued progress with our progressive dividend policy, provides a clear framework for shareholder value creation. The world faces continued volatility driven by political change, geopolitical challenges and caution across both public and private markets. Amidst this, initiatives such as the Mansion House Compact and an increasing focus by investors on domestic deployment, coupled with our continued investment performance as a specialist alternative asset manager, puts Mercia in a strong position as investors shift capital allocations toward impact investing and private markets.

Our differentiation is one of being close to deal origination, made possible by our physical presence near to or in all major areas of the UK through our 11 offices. On tracking our own performance returns, we see no difference in the level and quality of returns comparing our portfolio companies in London to our broader portfolio across the UK's regions. As we advance our journey to scale, we will harness our local knowledge and presence to expand into adjacent asset classes and sustain our resilient financial performance.

Mercia's alignment with our fund investors' core values and beliefs, delivered by our exceptional team of talented individuals developed over our 14-year history, affirms our proven formula of investment returns and FuM growth. We are committed to providing impactful capital and support based on meritocracy, not geography.

Dr Mark Payton
Chief Executive Officer

Chief Investment Officer's review

Powering forward

Assessing market dynamics
In our November 2023 interim report, I discussed prevailing market conditions and importantly, Mercia's strategic response. I noted: "...we have advised our investees to remain focused on their strategies, bolstered by adequate cash reserves and our disciplined support, to concentrate on the controllable elements and run their businesses efficiently." This focus has served our portfolios well throughout the year.

Dedicated long-term efforts from our talented equity and lending teams
In a year of market volatility and economic uncertainties, Mercia achieved a record organic increase in funds under management with fund inflows exceeding £0.5billion. This substantial growth in FuM, without any redemptions, underlines the trust that investors place in our financial stewardship and is testament to our teams' sustained commitment, capital deployment and disciplined approach to adding value to our investees and the communities in which we operate.

Asset class	1 April 2023 £'m	Transition to realisation phase £'m	Inflows £'m	Performance £'m	Distributions £'m	31 March 2024 £'m	Post-year end inflows £'m
Venture	630	(47)	365	(9)	(26)	913	44
Debt	556	(65)	197	4	(5)	687	-
Private equity	48	(16)	-	-	(2)	30	-
Total FuM	**1,234**	**(128)**	**562**	**(5)**	**(33)**	**1,630**	**44**
Proprietary capital	203	-	-	(10)	(4)	189	-
Total AuM	**1,437**	**(128)**	**562**	**(15)**	**(37)**	**1,819**	**44**

Asset class	Liquidity 31 March 2024 £'m	Liquidity 31 March 2023 £'m
Venture	404	161
Debt	262	166
Private equity	-	13
Total FuM	**666**	340
Proprietary capital	47	38
Total AuM	**713**	378

Significant contributions from five new British Business Bank ("BBB") mandates

Significant contributions from five new British Business Bank ("BBB") mandates

A considerable proportion of this year's FuM inflows came from existing strategic partnerships, principally with the BBB. This long-term collaboration resulted in £360.0million of new regional mandates, awarded in February and March 2024:

In February 2024:

- **Midlands Engine Investment Fund ("MEIF") II - Equity ESEM**: £83.0million allocated for investments in the East Midlands and South East Midlands;
- **MEIF II - Equity WM**: £80.0million allocated for investments in the West Midlands; and
- **MEIF II - Debt WM**: £44.0million allocated for lending in the West Midlands, managed by Frontier Development Capital Limited ("FDC").

In March 2024:

- **Northern Powerhouse Investment Fund ("NPIF") II - Equity YH**: £100.0million allocated for investments in Yorkshire and the Humber; and
- **NPIF II - Debt YH**: £53.0million allocated for lending in Yorkshire and the Humber.

	Second generation BBB funds			First generation BBB funds					
Fund	**Original fund size £'m**	**Mercia mandates awarded £'m**	**%**	Original fund size £'m	Mercia mandates awarded £'m	%	Final fund size £'m	Mercia mandate £'m	%
NPIF YH Equity		**100**	**15.2%**		57	14.3%		122	24.4%
NPIF YH Debt		**53**	**8.0%**		50	12.5%		92	18.4%
	660	**153**	**23.2%**	400	107	26.8%	500	214	42.8%
MEIF Equity POC		**163**	**40.8%**		23	9.2%		54	18.0%
MEIF Debt		**44**	**11.0%**		-	-		-	-
	400	**207**	**51.8%**	250	23	9.2%	300	54	18.0%
Total	**1,060**	**360**	**34.0%**	650	130	20.0%	800	268	33.5%

As can be seen from the table above, Mercia has increased its initial share of the key Northern Powerhouse and Midlands Engine mandates from c.20% in 2017 via the previous mandate awards, to c.34% and in size from c.£130million to c.£360million. In the first generation NPIF YH and MEIF Proof of Concept ("POC") mandates, Mercia's mandate sizes more than doubled (c. £138million) during the funds' five-year investment phase.

The new recent commitments have increased Mercia's total mandates from the BBB to c.£0.5billion, net of the valuation methodology change (from mandate size to fund net asset value), now that the 2017 NPIF YH Equity and Debt and MEIF POC mandates have moved into their realisation phase.

Other fundraising successes

Our EIS and VCT teams also successfully raised substantial new funds. The Northern VCTs' successful £60.0million fundraise was significant in the context of a more challenging fundraising environment. This fundraise underscores the trust Mercia has built in managing the Northern VCTs, which remain a vital catalyst for growth, empowering businesses to thrive across the UK, even in challenging times.

Our EIS team raised c.£14million during the financial year, growing market share against a much softer fundraising environment. Additionally, during the financial year we were awarded a further c.£16million in capital from the North East Venture Fund ("NEVF").

Since 31 March 2024, c.£15million has been successfully raised by our EIS team, as well as shares totalling £29.2million in value being allotted by the Northern VCTs on 4 April 2024, as part of the second half of their £60.0million fundraise.

Achievements of Frontier Development Capital

FDC 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, with the addition of £100.0million in FuM via a new Brownfield Regeneration Fund for the West Midlands.

These new inflows have significantly increased our financial dry powder and at the year end, we had c.£713million (2023: c. £378million) of liquidity across all our funds and balance sheet, c.£157million (2023: c.£128million) of which sits within FDC's debt funds.

Direct investments: current standing and market dynamics

The downward re-rating of listed technology companies which began in 2022 persisted into 2023, reducing appetite for venture investment from private market funds. This continued to impact valuations as new funding rounds became more challenging to close, with new money either 'sitting on the fence' or negotiating advantageous terms. The impact of this was particularly felt by those existing investors who were unable to follow their money. Mercia, largely protected by significant liquidity, has navigated these challenges by selectively supporting portfolio companies through co-investment from across our funds. This strategy was evidenced by the substantial capital raises completed by Warwick Acoustics Limited ("Warwick Acoustics"), Tozaro Limited (formerly MIP Discovery Limited) and Locate Bio Limited ("Locate Bio") early in 2024, ensuring operational stability for each investee for approximately 24 months.

The table below lists Mercia's top 20 investments by fair value as at 31 March 2024, including the net cash invested, realisation proceeds, realised gain, fair value movements and the fully diluted equity percentage held.

	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

* 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

As at 31 March 2024, the fair value of our direct investment portfolio was £116.9million (2023: £136.6million), with a net £19.6million invested during the year. As a whole, the year saw positive fair value movements of £7.9million across 10 assets offset by downward movements of £25.2million on eight assets, giving a net fair value decrease of £17.3million.

Significant upward movements in Voxpopme Limited, resulting from the structuring of April 2023's funding round, and Pimberly Limited, alongside smaller uplifts in the software businesses Forensic Analytics Limited ("Forensic Analytics") and Intelligent Positioning Limited, were offset principally by Impression Technologies, Eyoto Limited ("Eyoto"), VirtTrade Limited ("VirtTrade") and Akamis Bio Limited ("Akamis Bio").

Investment discipline, support and strategy
Having supported Impression Technologies for a decade in both our funds and balance sheet, at the end of May 2024 we made the very difficult decision to cease further material financial support. Mercia had reduced its direct investment carrying value for Impression Technologies at the time of its interim results, reflecting increased uncertainty following a sale process which did not ultimately succeed. Since that time, as announced, Impression Technologies had continued to explore options including further funding or a sale. Ultimately however, no successful new external funding or a sale of Impression Technologies was achieved. Mercia therefore reduced the full remaining carrying value of Impression Technologies.

Eyoto, in consultation with the US Food and Drug Administration ("FDA") for its slit lamp product approval, now faces delays due to additional trials, so has shifted its focus to Europe where approval is already secured. Whilst we continue to provide financial and operational support, we have recognised this setback through a reduction in the carrying value of our investment. VirtTrade has experienced slower growth than planned in its CUE game, also reducing its enterprise value as industry multiples have stagnated. Akamis Bio, now included outside of the top 20, predominantly accounts for the remainder of the downward movement following an indicative funding round which significantly reduces the value of Mercia's minority equity holding.

Cybersecurity firms like Forensic Analytics, which support UK police investigations and Netacea Limited, specialising in automated attack detection and mitigation, are making commercial progress as they adapt to and counter rising AI-related threats. Meanwhile, in the Life Sciences sector, promising developments continue. Medherant's innovative testosterone patch for menopausal women is moving forward. The company has also signed a development partnership with Bayer. Locate Bio, benefiting from a £9.0million investment in early 2024, is showing success in its early clinical trials. Additionally, Warwick Acoustics has broken new ground, securing its first automotive contract for production in 2025 and is progressing multiple proof of concept projects with leading automotive OEMs.

In the year, we paused on adding new companies to our direct investment portfolio, whilst also ensuring that we retain capacity to continue supporting our existing portfolio companies on their journey to exit across the next three years.

Progress through strategic sales
The notable sale of nDreams in November 2023, having transacted at a 17.3% uplift to the 31 March 2023 carrying value, returned £26.4million of cash to the Group's balance sheet. This transaction not only returned substantial cash but also allowed us to maintain a direct interest in the ongoing development of nDreams and the augmented reality ("AR")/Virtual Reality ("VR") market, with £3.8million of the £30.2million total consideration invested into the pan-European Aonic group. This sale was just one of the realisation events in the year that contributed to total realisation proceeds of c.£93million across our funds and balance sheet.

Investment overview - managed funds
During the year we invested c.£227million (2023: c.£144million) across the funds which we manage, into 155 businesses including 75 new companies.

Asset class	FuM 31 March 2024 £'m	Companies in portfolio No.	Amount invested £'m	Company exits No.
EIS	99	81	28	4
Regional venture	458	89	37	10
VCT	356	58	45	4
Debt	687	287	116	26
Private equity	30	5	1	2
Totals	**1,630**	**520**	**227**	**46**

Mercia Ventures

Strengthening our position as one of the UK's most active investors
Mercia Ventures has reinforced its position as one of the leading venture capital firms in the UK. The basis of our success over the past year has been our ability to secure and expand the regional investment mandates from the BBB, additional NEVF funds plus new funds raised by our Northern VCTs and the EIS team. With record levels of capital raised by UK VCT and EIS managers in previous years, we noted that entry valuations in the pre-series A space remained competitive throughout the year. At Mercia, we leverage our predominantly regionally based investment staff to source new deals and maintain a competitive edge against other funders. Our network of over 1,000 successful NEDs and proven entrepreneurs provide good quality deal flow and critical insight, which is helpful in winning mandates in competitive situations.

Early-stage investment
Geographically positioned to secure top-tier, early-stage venture deals across the regions, the new BBB mandates permit a wide range of funding solutions that include 'cash out' components for high-growth businesses across the UK regions. These mandates provide a secure pool of capital for early-stage investments over the next five years across these regions. Our focus on both

provide a secure pool of capital for early stage investments over the next five years across these regions. Our focus on both capital deployment and value creation enables us to attract businesses seeking a sustained partnership across multiple funding rounds. We aim to build a balanced portfolio for our investors that range from start-ups, including management breakouts such as Fourteen IP Limited and Secure Empty Property Limited, to businesses experiencing profitable growth phases, such as Azzure IT Limited. We also focus on generating returns for our EIS investors by investing in early and expansion-stage businesses like Sheffield-based Sitehop Limited and Liverpool-based Ulemco Limited, across the UK.

Our Early Stage Venture ("ESV") team deployed c.£65million during the year, c.120% of target, highlighting an outstanding team effort given that it marks the first year of operations for ESV within Mercia Ventures. Furthermore, this was achieved in a year of transition with the ending of the five-year investment period of the first-generation BBB regional funds, and the beginning of the five-year investment period for the second-generation programme.

Scaleup investment

In companies seeking later-stage venture capital, we invested c.£45million on behalf of the Northern VCTs. Given the economic uncertainties, our team maintained a cautious approach to new investments, emphasising disciplined entry pricing. From a fundraising perspective, the Northern VCTs raised £60.0million, matching the largest fundraise ever by the Northern VCTs, with shares allotted in December 2023 and April 2024.

During the year, we also enhanced our investee partnership model, known as Nucleus, which focuses on four key areas; talent acquisition, specialist expertise introduction, growth partnership and expertise sharing across our portfolio. In doing so, our focus remains on portfolio performance and value creation. The successful Evotix Limited exit (£35.7million at a 4.6x return) by the Northern VCTs, demonstrates Mercia's ability to foster significant returns on later-stage investments.

Mercia Debt

Supporting the UK's small business community amidst economic shifts

The past 12 months have posed significant challenges for small businesses across the UK. Although the COVID pandemic has subsided, its lingering effects are still being felt, with many businesses grappling with high levels of debt, high interest rates and cost inflation.

Demand for growth capital has been subdued, with the majority of businesses focusing on internal challenges such as debt reduction, margin improvement and overhead cuts rather than on growth or acquisitions. Many funding requests are now to support cash flow or working capital as opposed to expansion projects. These challenges are further compounded as traditional lenders continue to consolidate their centralised models, including the closure by banks of high street branches and an increased aversion to SMEs and more generally, risk.

Mercia is very active in providing transactional debt such as for management buyouts and acquisitions. During the pandemic many of these transactions were paused, however in 2023 we experienced a strong inflow of new lending opportunities as a wave of pent-up deals finally came to market. More latterly, deal flow has returned to more 'normal' levels and although businesses remain focused on internal challenges, there will always be a level of exits driven by retiring shareholders or other events.

Mercia's Debt funds have consistently filled the funding gap for viable businesses across the UK. During the last financial year, our response to market conditions and support for companies with strong financial controls and sustainable business models have solidified our position. Despite a challenging environment, our Northern Debt team completed 50 deals, a decrease from the 82 deals in 2023, with total lending down to £17.3million from £34.1million. This reduction not only reflects a reduced demand from SMEs but also a more cautious lending approach. It also coincides with the transition from NPIF to NPIF II at the end of December 2023.

Frontier Development Capital Limited

It has been a very successful year for FDC, achieving its highest revenue to date, driven by an experienced and talented leadership team.

The integration into Mercia has been highly successful, thanks to the cultural compatibility between the two organisations. FDC's strengthened relationship with Mercia's Northern Debt team has been advantageous in fostering mutual deal referrals. Similarly, Mercia's track record and expertise has supported FDC in securing the MEIF II Debt WM mandate. FDC can already offer up to £7.5million in growth capital nationally and up to £20million in property finance across the West Midlands region through its existing mandates. Winning the new BBB mandate has added to that capability, with FDC now providing essential debt finance solutions ranging from £250,000 to £2.0million throughout the region.

During the year, FDC's assets under management grew from c.£441million to over £540million. This excellent growth is a testament to FDC's reputation and track record for delivering strong results for its fund investors.

Higher interest rates have presented a significant challenge for SMEs during the past 12 months; however, FDC's property team have continued to support known, well capitalised and capable developers on both residential and commercial development transactions. Market and occupier confidence continues to improve and the team are in the process of raising additional new funds. The property portfolio remains in good shape, generating strong investor returns.

With the securing of both the MEIF II Debt West and NPIF II Y&H Debt mandates totalling £97.0million, Mercia can continue to deliver these key UK Government schemes across the regions. Our ability to act swiftly, leveraging both government-backed schemes and privately raised funds, positions us as a leading SME lender in the regional debt market. With a loan range that spans from £250,000 to £20million, we are optimistic for increased activity in the coming year.

Mercia PE

Pathways to growth

Mercia identifies high-quality small businesses by their ambitious, motivated management teams who possess a sense of ownership and responsibility. Building a successful small company demands unwavering focus and Mercia values the opportunity to align with such committed individuals.

Despite ongoing high interest rates leading to lower levels of gearing and an uncertain economic environment leading to lower deal volumes across the lower mid-market PE market, Mercia has remained proactive both in its existing EV Growth Fund II ("EVGII") and FDC's own growth fund. During the last year Mercia's focus has been on improving performance within our portfolios. This approach was successfully demonstrated with two exits in the year - the 1.6x exit from ParkCloud Holdings Limited returning £7.2million and the 2.5x sale back to management of Winder Power Limited, returning £3.2million. These successful exits enabled one of our legacy funds to close with an overall 3x return on its portfolio.

As EVGII has now concluded its investment phase, the focus shifts towards collaborating with our portfolio companies to maximise value, with further cash returns anticipated in the near future.

Summary and look forward

Following our successful fundraising activities and realisations, Mercia now possesses over £660million of managed fund capital to deploy, setting a solid foundation for increased equity investment and lending activities in this new financial year. We've become a leading provider of capital across the UK, supporting innovative businesses with venture capital, debt and private equity.

Whilst I'm disappointed that we have fallen short in achieving the average £20.0million per annum profit before tax element of our 'Mercia 20:20' vision, this has been partly due to the uncertain macro-economic and subdued public and private markets environment we still find ourselves in. Our realisations over the past three years have however exceeded £0.4billion across our funds and balance sheet, a significant accomplishment. I reiterate that our portfolios are well run and contain many resilient and promising assets. I remain confident that we are positioned to deliver significant value over the medium term for both our fund investors and shareholders.

Looking ahead, two prominent themes are emerging in business funding. Investors, especially institutional ones, are increasingly seeking to generate not only robust financial returns but also meaningful societal impact. Concurrently, businesses are gravitating towards innovative, 'hybrid' funding models that offer the necessary flexibility, support and motivation to prosper. As Mercia grows, it will continue with its mission as a partner known for impactful and adaptable funding solutions.

I would like to thank all the team members of #OneMercia who played key roles in our record fundraising year. I am also pleased that all our equity investing and lending teams have such liquidity to be able to make new investments from our funds in the years to come, together with continuing to support existing ones where merited. Their efforts over many years have helped Mercia become the go-to investor for SMEs across the UK.

Julian Viggars
Chief Investment Officer

Chief Financial Officer's review

Strong progress

Overall financial performance
Notwithstanding the inflationary challenges affecting the UK economy in general and more specifically the financial services sector during Mercia's financial year to 31 March 2024, the Group was able to increase its EBITDA compared with the prior year. This was due in part to the continuing positive performance of FDC.

A significant increase in bank interest receivable has also enabled the Group to report a higher adjusted operating profit than the prior year.

Proposed final dividend
The Board adopted Mercia's progressive dividend policy in December 2020 and since then has declared and paid interim and final dividends totalling 2.41 pence per share, equating to dividend payments to shareholders of £10.7million.

Given the Group's twin sources of profitability and cash inflow, being regionally focused proactive specialist asset management, plus direct investment with periodic cash realisations, the Group's dividend policy does not need to be anchored to one or other source of liquidity, hence the Board's continuing intention to grow total dividends year on year.

The continuing positive overall trajectory of the Group has enabled Mercia's Board to recommend a proposed final dividend of 0.55 pence per share (2023: 0.53 pence per share). If approved by shareholders at the Annual General Meeting in September 2024, the total dividend for the year will be 0.90 pence per share (2023: 0.86 pence per share), a year-on-year increase of c.5% (2023: increase of 7.5%).

If approved by shareholders, the final dividend will be paid on 1 November 2024 to shareholders on the register at the close of business on 4 October 2024.

Share buyback
Although recent share buybacks in the specialist asset management sector have done little to positively affect share price performance (if at all) and a resultant reduction in discounts to net asset value, Mercia has always said that if it enjoyed a significant cash realisation it would consider how best to distribute a proportion of those proceeds to shareholders. Mercia's realisation of its direct investment in nDreams Limited in November 2023, significantly increased the Group's cash position. Given that the Group also has no debt, Mercia announced an up to £5.0million share buyback programme at the time of its interim results at the end of November 2023. As at 31 March 2024, Mercia had bought back 10,379,708 shares into Treasury at an average overall cost per share of 30.8p, and at a total cost of £3,194,000. The buyback concluded on 29 May 2024, with 15,706,088 shares bought back in total at an average price of 31.8 pence per share.

Alternative performance measures ("APM")
The Directors believe that the reporting of both EBITDA and adjusted operating profit assist in providing insightful measures of operating performance for businesses such as Mercia and are APMs of interest to both current and potential shareholders.

EBITDA is defined as operating (loss)/profit before exceptional item, depreciation, realised gains/(losses) on the sale of direct investments, fair value movement in direct investments, share-based payments charge, amortisation of intangible assets and movement in fair value of deferred consideration.

Adjusted operating profit is defined as EBITDA plus net finance income.

Results reported on an APM basis are denoted by [1] throughout this review.

	Year ended 31 March 2024 £'000	Year ended 31 March 2023 £'000
Revenue	**30,434**	25,881
Administrative expenses	**(24,897)**	(20,692)
EBITDA[1]	**5,537**	5,189
Net finance income	**4,160**	2,397
Adjusted operating profit[1]	**9,697**	7,586
Depreciation	**(489)**	(309)
Net finance income	**(4,160)**	(2,397)
Realised gain/(loss) on sale of direct investments	**4,450**	(849)
Fair value movement in direct investments	**(17,338)**	1,201
Share-based payments charge	**(1,002)**	(1,049)
Amortisation of intangible assets	**(2,989)**	(2,337)
Movement in fair value of deferred consideration	**(540)**	(1,462)
Operating (loss)/profit before exceptional item	**(12,371)**	384
Exceptional item	-	(372)
Operating (loss)/profit	**(12,371)**	12
Net finance income	**4,160**	2,397
(Loss)/profit before taxation	**(8,211)**	2,409
Taxation	**626**	427
(Loss)/profit and total comprehensive (expense)/income	**(7,585)**	2,836

A reconciliation of these results prepared in accordance with International Financial Reporting Standards ("IFRS") to those presented on an APM basis are as follows:

Year ended 31 March 2024

	IFRS as reported £'000	Depreciation £'000	APM basis[1] £'000
Administrative expenses	**(25,386)**	**489**	**(24,897)**
Depreciation	**-**	**(489)**	**(489)**

	Year ended 31 March 2023		
	IFRS as reported £'000	Depreciation £'000	APM basis[1] £'000
Administrative expenses	(21,001)	309	(20,692)
Depreciation	-	(309)	(309)

Revenue

Revenue increased 17.6% to £30,434,000 (2023: £25,881,000) and comprised fund management related fees, initial management fees from investment rounds, arrangement fees from loans, investment director monitoring fees, sundry business services income and VCT share offer fees.

Administrative expenses[1]

Administrative expenses, excluding depreciation, increased 20.3% to £24,897,000 (2023: £20,692,000) and comprised predominantly staff-related, office, marketing, professional adviser and VCT share offer-related costs.

Mercia anticipates that the financial benefits of operational leverage will be realised as its funds under management increase, by both its future organic and inorganic initiatives.

EBITDA

EBITDA increased 6.7% to £5,537,000 (2023: £5,189,000), equating to an EBITDA margin of 18.2% (2023: 20.0%). The Group has therefore largely been able to offset the inflationary impact during the financial year on its cost base.

Net finance income

Total gross finance income of £4,216,000 (2023: £2,428,000) arose largely from a material increase in interest receivable on cash deposits (as shown in note 8 of the summary financial information) following Bank of England base rate increases during the year, together with the crystallisation of convertible loan interest within the direct investment portfolio. Finance costs of £56,000 (2023: £31,000) comprised interest payable on office leases and the Group's staff electric car scheme.

Fair value movement in direct investments

	Year ended 31 March 2024 £'000	Year ended 31 March 2023 £'000
Investment movements excluding cash invested and realisations:		
Unrealised gains on the revaluation of direct investments*	**7,877**	11,324
Unrealised losses on the revaluation of direct investments*	**(25,215)**	(10,123)
Net unrealised fair value movements	**(17,338)**	1,201

* Excluding the impact of the demerger of Netacea Limited from Intechnica Holdings Limited in the year ended 31 March 2023.

The net unrealised fair value movement in direct investments resulted in a £17,338,000 decrease (2023: £1,201,000 increase) and as at 31 March 2024, the fair value of the Group's direct investment portfolio was £116,861,000 (2023: £136,550,000).

Unrealised fair value gains arose in 10 (2023: five*) of the Group's direct investments. The largest unrealised fair value gain was in respect of Voxpopme Limited, which accounted for £3,973,000 of the total (2023: £4,145,000 unrealised fair value gain in respect of VirtTrade Limited).

There were eight (2023: six*) unrealised fair value decreases, the largest being £18,558,000 which arose in respect of Impression Technologies (2023: £3,511,000 unrealised fair value decrease in Netacea Group). As more fully set out in the Chief Investment Officer's review, Mercia ceased further material investment into Impression Technologies in May 2024, resulting in the full impairment of the Group's direct investment fair value as at 31 March 2024.

Share-based payments charge

The £1,002,000 non-cash charge (2023: £1,049,000) arises from the total number of issued and vested share options held by employees throughout the Group, ranging from 28 January 2020 to 31 March 2024.

Amortisation of intangible assets

The amortisation charge for the period of £2,989,000 (2023: £2,337,000) represents amortisation of the acquired intangible assets of FDC and the VCT fund management business.

Movement in fair value of deferred consideration

The purchase price of FDC in December 2022 included an element of contingent deferred consideration which is subject to a number of targets being met. Movement in the fair value of this contingent deferred consideration during the year to 31 March 2024 has resulted in a charge to the consolidated statement of comprehensive income of £540,000 (2023: £131,000).

In the prior year to 31 March 2023, a charge to the consolidated statement of comprehensive income of £1,331,000 represented the unwinding of the discount on the final deferred consideration payment relating to the acquisition of the VCT fund management business in December 2019. This was settled in cash in December 2022 and new Mercia Asset Management PLC Ordinary shares issued in January 2023.

Taxation

The components of the Group's tax credit are shown in note 9 of the summary financial information. The overall tax credit for the year comprises 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.

Loss and total comprehensive expense for the year

The adjusted operating profit plus the realised gain, less the net unrealised fair value decrease for the year and other non-cash charges, led to a consolidated total comprehensive expense of £7,585,000 (2023: income of £2,836,000). This has resulted in a basic loss per Ordinary share of (1.71) pence (2023: basic earnings per Ordinary share of 0.64 pence).

Summarised statement of financial position

	As at 31 March 2024 £'000	As at 31 March 2023 £'000
Goodwill and intangible assets	**36,296**	39,285
Direct investment portfolio	**116,861**	136,550
Other non-current assets, trade and other receivables	**4,810**	4,751
Cash and cash equivalents	**46,940**	37,834
Total assets	**204,907**	218,420
Trade, other payables and lease liabilities	**(9,595)**	(7,720)

Deferred consideration	**(2,279)**	(3,239)
Deferred taxation	**(3,792)**	(4,540)
Total liabilities	**(15,666)**	(15,499)
Net assets	**189,241**	202,921
Net assets per share (pence) **	**43.4p**	45.4p

** 436,319,815 Ordinary shares, excluding those held in treasury, has been used as the denominator for calculating net assets per share as at 31 March 2024. 446,581,202 Ordinary shares were in issue as at 31 March 2023 and therefore used as the denominator for calculating the comparative net assets per share.

Intangible assets
The Group's intangible assets consist of goodwill and the intangible assets recognised on the acquisition of FDC and the VCT fund management business.

Direct investment portfolio
During the year, Mercia's direct investment portfolio reduced from £136,550,000 as at 1 April 2023 (2023: £119,558,000 as at 1 April 2022) to £116,861,000 as at 31 March 2024 (2023: £136,550,000 as at 31 March 2023), a c.14% decrease (2023: c.14% increase).

The Group invested £19,626,000 net (2023: £20,653,000 net) into 11 existing direct investments (2023: 10 existing and three new direct investments), with the top 20 direct investments representing 98.6% of the total direct investment portfolio value (2023: 98.4%).

Cash, cash equivalents and short-term liquidity investments
At the year end, Mercia had cash and cash equivalents totalling £46,940,000 (2023: £37,834,000).

The Group continues to have limited working capital needs due to the nature of its business and during the year cash generated from operating activities totalled £7,872,000 (2023: £3,019,000).

As at 31 March 2024, the Group's cash and cash equivalents were spread across four leading United Kingdom banks and a BlackRock Sterling money market fund, earning an average overall yield of c.5%.

The summarised movements in the Group's cash and cash equivalents during the year are shown below.

	Year ended 31 March 2024 £'000	Year ended 31 March 2023 £'000
Opening cash and cash equivalents	**37,555**	56,049
Cash generated from operating activities	**7,872**	3,019
Corporation tax paid	**(788)**	(1,819)
Net cash generated from/(used in) direct investment activities	**9,360**	(14,930)
Acquisition of Frontier Development Capital Limited	**-**	(6,951)
Cash acquired with Frontier Development Capital Limited	**-**	2,882
Deferred consideration paid in respect of acquisitions	**(1,500)**	(2,100)
Cash inflow from other investing activities	**1,991**	5,327
Repurchase of own shares into treasury	**(3,194)**	-
Net cash used in financing activities	**(4,356)**	(3,922)
Closing cash and cash equivalents	**46,940**	37,555

Outlook
Once again, these results demonstrate Mercia's robust business fundamentals, despite the significant salary and general inflation experienced in the asset management sector during the financial year, and the impact of its decision to cease further investment into Impression Technologies.

Set against another year of subdued inflows by the asset management sector, Mercia achieved record fund inflows of c. £562million during the year and increased revenues, EBITDA, adjusted operating profit, dividends and cash.

Whilst always keeping a careful eye on the horizon, Mercia's cautious optimism at the time of its interim results in November 2023 has been borne out by significant new fund mandate wins and successful VCT and EIS fundraises. Taken together, they point to the potential for further positive progress in the current financial year.

With new long-term fund management contracts secured, Mercia has never been financially stronger and for this we remain grateful to our excellent staff for their continuing efforts and our many long-term supportive fund investors and shareholders.

Martin Glanfield
Chief Financial Officer

Summary Financial Information

Consolidated statement of comprehensive income

For the year ended 31 March 2024

	Note	**Year ended 31 March 2024 £'000**	Year ended 31 March 2023 £'000
Revenue	5	**30,434**	25,881
Administrative expenses	7	**(25,386)**	(21,001)
Realised gain/(loss) on sale of direct investments	6	**4,450**	(849)
Fair value movements in direct investments	6	**(17,338)**	1,201
Share-based payments charge		**(1,002)**	(1,049)
Amortisation of intangible assets	13	**(2,989)**	(2,337)
Movement in fair value of deferred consideration		**(540)**	(1,462)
Operating (loss)/profit before exceptional item		**(12,371)**	384
Exceptional item		**-**	(372)
Operating (loss)/profit		**(12,371)**	12
Finance income	8	**4,216**	2,428
Finance expense		**(56)**	(31)
(Loss)/profit before taxation		**(8,211)**	2,409
Taxation	9	**626**	427

Taxation	9	[illegible]	427
(Loss)/profit and total comprehensive (expense)/income		**(7,585)**	2,836
Basic (loss)/earnings per Ordinary share (pence)	10	**(1.71)**	0.64
Diluted (loss)/earnings per Ordinary share (pence)	10	**(1.71)**	0.63

All results derive from continuing operations.

Consolidated statement of financial position

As at 31 March 2024

	Note	**As at 31 March 2024 £'000**	As at 31 March 2023 £'000
Assets			
Non-current assets			
Goodwill	12	**21,126**	21,126
Intangible assets	13	**15,170**	18,159
Property, plant and equipment		**128**	122
Right-of-use assets		**711**	842
Investments	14	**116,861**	136,550
Total non-current assets		**153,996**	176,799
Current assets			
Trade and other receivables		**3,971**	3,787
Short-term liquidity investments	15	**-**	279
Cash and cash equivalents	15	**46,940**	37,555
Total current assets		**50,911**	41,621
Total assets		**204,907**	218,420
Current liabilities			
Trade and other payables		**(8,893)**	(6,813)
Lease liabilities		**(376)**	(333)
Deferred consideration	16	**(2,279)**	(1,227)
Total current liabilities		**(11,548)**	(8,373)
Non-current liabilities			
Lease liabilities		**(326)**	(574)
Deferred consideration	16	**-**	(2,012)
Deferred taxation	17	**(3,792)**	(4,540)
Total non-current liabilities		**(4,118)**	(7,126)
Total liabilities		**(15,666)**	(15,499)
Net assets		**189,241**	202,921
Equity			
Issued share capital	18	**4**	4
Share premium	19	**83,775**	83,744
Treasury reserve	20	**(3,188)**	-
Other distributable reserve	21	**59,338**	63,266
Retained earnings		**43,756**	51,341
Share-based payments reserve		**5,556**	4,566
Total equity		**189,241**	202,921

Consolidated statement of cash flows

For the year ended 31 March 2024

	Note	**Year ended 31 March 2024 £'000**	Year ended 31 March 2023 £'000
Cash flows from operating activities:			
Operating (loss)/profit		**(12,371)**	12
Adjustments to reconcile operating (loss)/profit to net cash generated from operating activities:			
Depreciation of property, plant and equipment		**104**	68
Depreciation of right-of-use assets		**385**	239
(Gain)/loss on sale of direct investments	6	**(4,450)**	849
Fair value movements in direct investments	6	**17,338**	(1,201)
Share-based payments charge		**1,002**	1,049
Amortisation of intangible assets	13	**2,989**	2,337
Movement in fair value of contingent consideration	16	**540**	1,462
Working capital adjustments:			
Decrease/(increase) in trade and other receivables		**800**	(1,087)
Increase/(decrease) in trade and other payables		**1,535**	(709)
Cash generated from operating activities		**7,872**	3,019
Corporation tax paid		**(788)**	(1,819)
Net cash generated from operating activities		**7,084**	1,200
Cash flows from direct investment activities:			
Sale of direct investments	14	**26,696**	3,744
Purchase of direct investments	14	**(19,926)**	(20,778)
Investee company loan repayments	14	**300**	125
Investee company loan interest and redemption premium received	8	**2,290**	1,979
Net cash generated from/(used in) direct investment activities		**9,360**	(14,930)
Cash flows from other investing activities:			
Interest received from cash and cash equivalents		**1,813**	404
Purchase of property, plant and equipment		**(110)**	(77)
Acquisition of subsidiary undertaking		**-**	(6,951)
Cash acquired with purchase of subsidiary undertaking		**-**	2,882
Deferred consideration paid in respect of acquisitions	16	**(1,500)**	(2,100)
Decrease in short-term liquidity investments		**288**	5,000
Net cash generated from/(used in) other investing activities		**491**	(842)
Net cash generated from/(used in) total investing activities		**9,851**	(15,772)
Cash flows from financing activities:			
Dividends paid	11	**(3,928)**	(3,653)
Purchase of shares into treasury		**(3,194)**	-
Proceeds received from the exercise of employee share options		**26**	-
Interest paid		**(56)**	(31)

	Note	2024	2023
Interest paid		[illegible]	[illegible]
Payment of lease liabilities		**(398)**	(238)
Net cash used in financing activities		**(7,550)**	(3,922)
Net increase/(decrease) in cash and cash equivalents		**9,385**	(18,494)
Cash and cash equivalents at the beginning of the year		**37,555**	56,049
Cash and cash equivalents at the end of the year	15	**46,940**	37,555

Consolidated statement of changes in equity

For the year ended 31 March 2024

	Issued share capital £'000	Share premium £'000	Treasury Reserve £'000	Other distributable reserve £'000	Retained earnings £'000	Share-based payments reserve £'000	Total £'000
As at 1 April 2022	4	81,644	-	66,919	48,505	3,517	200,589
Issue of share capital	-	2,100	-	-	-	-	2,100
Profit and total comprehensive income for the year	-	-	-	-	2,836	-	2,836
Dividends paid	-	-	-	(3,653)	-	-	(3,653)
Share-based payments charge	-	-	-	-	-	1,049	1,049
As at 31 March 2023	**4**	**83,744**	**-**	**63,266**	**51,341**	**4,566**	**202,921**
Purchase of Ordinary shares into treasury	**-**	**-**	**(3,194)**	**-**	**-**	**-**	**(3,194)**
Loss and total comprehensive expense for the year	**-**	**-**	**-**	**-**	**(7,585)**	**-**	**(7,585)**
Dividends paid	**-**	**-**	**-**	**(3,928)**	**-**	**-**	**(3,928)**
Exercise of share options	**-**	**31**	**6**	**-**	**-**	**(12)**	**25**
Share-based payments charge	**-**	**-**	**-**	**-**	**-**	**1,002**	**1,002**
As at 31 March 2024	**4**	**83,775**	**(3,188)**	**59,338**	**43,756**	**5,556**	**189,241**

1. General information

Mercia Asset Management PLC (the"Group", "Mercia") is a public limited company, incorporated and domiciled in England, United Kingdom, and registered in England and Wales with registered number 09223445. Its Ordinary shares are admitted to trading on the AIM market of the London Stock Exchange. The registered office address is Mercia Asset Management PLC, Forward House, 17 High Street, Henley-in-Arden, Warwickshire B95 5AA.

2. Basis of preparation

The summary financial information included in this announcement has been extracted from the audited financial statements of the Group for the year ended 31 March 2024, which have been approved by the Board of Directors. The Group's auditor has consented to the publication of this announcement. The summary financial information does not constitute statutory accounts as defined in Section 434 of the Companies Act 2006 (the"Act"). The auditor's report on the financial statements for the year ended 31 March 2024 was unqualified and did not contain any statement under section 498 of the Act. The Group's Annual Report and financial statements will be delivered to the Registrar of Companies in due course.

The financial statements have been prepared on an historical cost basis, as modified by the revaluation of certain financial assets and financial liabilities in accordance with International Financial Reporting Standard ("IFRS") 9 Financial Instruments. The accounting policies presented in the summary financial information are consistent with those set out in the audited financial statements.

3. Going concern

Based on the Group's balance sheet, including its liquidity position at the year end, its forecast future operating and investment activities, the Directors have a reasonable expectation that the Group has adequate financial resources to manage business risks in the current economic environment, and continue in operational existence for a period of at least 12 months from the date of this announcement. Accordingly, the Directors continue to adopt the going concern basis in preparing these consolidated financial statements.

4. Significant accounting policies

Basis of consolidation
Subsidiary undertakings are consolidated from the date of their acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. The financial statements of entities held within the Group's direct investment portfolio are not included within the consolidated financial statements as the Group accounts for these in accordance with the IFRS 10 Investment Entity exemption.

The Group accounts for business combinations using the acquisition method from the date that control is transferred to the Group. Both the identifiable net assets and the consideration transferred in the acquisition are measured at fair value and transaction costs are expensed as incurred. Goodwill arising on acquisitions is tested annually for impairment. Deferred consideration payable to vendors is measured at fair value at acquisition and re-assessed annually, with particular reference to the conditions upon which the consideration is contingent.

New standards, interpretations and amendments effective in the current financial year
No new standards, interpretations and amendments effective in the year have had a material effect on the Group's financial statements.

Critical accounting judgements and key sources of estimation uncertainty
In the application of the Group's accounting policies, the Directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The Directors have made the following judgements and estimates, which have had the most significant effect on the carrying amounts of the assets and liabilities in this summary financial information.

Fair value measurements and valuation processes
The judgements required to determine the appropriate valuation methodology of unquoted equity investments mean there is risk of a material adjustment to the carrying amounts of assets and liabilities. These judgements include a decision on whether or not to impair or uplift investment valuations.

The fair value of unlisted securities is established using the International Private Equity and Venture Capital Valuation Guidelines ("IPEVCVG") as updated in December 2022.

Investments are measured at fair value at each measurement date. Fair value is the price that would be received to sell an asset in

Investments are measured at fair value at each measurement date. Fair value is the price that would be received to sell an asset in an orderly transaction between market participants at the measurement date. A fair value measurement assumes that a hypothetical transaction to sell an asset takes place in the principal market or, in its absence, the most advantageous market for the asset. For quoted investments, available market prices will be the exclusive basis for the measurement of fair value for identical instruments. For unquoted investments, the measurement of fair value requires the valuer to assume the underlying business or instrument is realised or sold at the measurement date, appropriately allocated to the various interests, regardless of whether the underlying business is prepared for sale or whether its shareholders intend to sell in the near future.

In estimating fair value for an investment, the valuer should apply a methodology that is appropriate in light of the nature, facts and circumstances of the investment in the context of the total investment portfolio and should use reasonable current market data and inputs, combined with reasonable market participant assumptions.

The price of recent investment can be used to estimate the enterprise value, before allocating to the various interests. The Group believes that this is still the most relevant technique to measure fair value for early-stage investments. However, it has also taken into consideration time elapsed, performance since the investment round and external market events to help inform its judgements.

0-6 months post last funding round

The Group will apply the price of a recent investment for up to six months post the last funding round, subject to there being no material change to the investee company's prospects (which would include the prospects of drawing down the next tranche or raising the next round of funding).

7-18 months post last funding round

Beyond the six months point, the Group seeks assurance that the investee company is progressing against the development milestones which were set out in the initial assessment. Failing to hit milestones will not necessarily impact the valuation - this may simply be an indicator that incremental value will take longer to deliver, but the performance against milestones is assessed as an indicator of a potential change in value. The Group will be cautious about increasing the valuation of an early-stage investee company unless it is based on a new market price or maintainable revenues and/or earnings.

19+ months post last funding round

From this point onwards, the Group looks for additional support for the 'price of recent investment' by calibrating back to that using a discounted cash flow ("DCF") methodology. However, unless the investee company has become established with maintainable revenues and/or earnings and can be valued on an earnings basis, given the inherent risk in early-stage investing and the lack of reliability of using estimates yet to be delivered a number of years into the future, the Group is unlikely to increase the fair value, even if a DCF calculation suggests a higher value. Nevertheless, the DCF calculation helps support the proposed fair value at the valuation point.

The recent macroeconomic uncertainty has created uncertainty in the fair value of the direct investment portfolio. The Directors believe that they have reflected this uncertainty in a balanced way through the assumptions used in the valuation of each investee company. The Directors have assessed the estimates made in relation to each individual valuation and do not believe that a reasonable possible change in estimate would result in a material change in the value of each investment.

Valuation of deferred contingent consideration

The fair value of the deferred consideration payable in respect of the acquisition of FDC in December 2022 is conditional upon certain conditions being met.

The first of the three first deferred consideration conditions was met during the year, resulting in £1,500,000 being paid to the vendors.

The fair value of the second condition has been derived from the assessed probability of the revenue target occurring at 90.0%, discounted at an annual rate of 15.0%. Should the probability of this condition be reduced by 10.0%, the discounted value of contingent consideration as at 31 March 2024 would reduce by £91,000. The discount rate used to fair value the second contingent consideration liability is reflective of the risk surrounding the conditions being met. Should the discount rate be increased by 1.0%, the discounted value of the contingent consideration as at 31 March 2024 would reduce by £5,000.

The fair value of the final condition has been derived from the assessed probability of the net third-party fundraising target occurring at 90.0%, discounted at an annual rate of 15.0%. Should the probability of this condition be reduced by 10.0%, the discounted value of contingent consideration as at 31 March 2024 would reduce by £136,000. Should the discount rate be increased by 1.0%, the discounted value of the contingent consideration as at 31 March 2024 would reduce by £12,000. The condition has currently been met, although the measurement date is not until 4 December 2024.

Further detail on the contingent consideration conditions is included in note 16.

5. Segmental reporting

The Group's revenue and profits are derived from its principal activity within the United Kingdom.

IFRS 8 Operating Segments defines operating segments as those activities of an entity about which separate financial information is available and which are evaluated by the Chief Operating Decision Maker to assess performance and determine the allocation of resources. The Chief Operating Decision Maker has been identified as the Board of Directors. The Directors are of the opinion that under IFRS 8 Operating Segments the Group has only one operating segment, being proactive specialist asset management, because the results of the Group are monitored on a Group-wide basis. The Board of Directors assesses the performance of the operating segment using financial information which is measured and presented in a consistent manner.

An analysis of the Group's revenue is as follows:

	Year ended 31 March 2024 £'000	Year ended 31 March 2023 £'000
Fund management fees	**19,214**	17,593
Initial management fees	**5,465**	3,680
Portfolio directors' fees	**3,933**	2,934
Other revenue	**341**	343
VCTs share offer fees	**1,481**	1,331
	30,434	25,881

6. Realised gain/(loss) and fair value movements in direct investments

	Year ended 31 March 2024 £'000	Year ended 31 March 2023 £'000
Realised gain/(loss) on sale of direct investments (note 14)	**4,450**	(849)
Net fair value movements in direct investments (note 14)	**(17,338)**	1,201
	(12,888)	352

7. Operating (loss)/profit

Operating (loss)/profit is stated after charging:

	Year ended 31 March 2024 £'000	Year ended 31 March 2023 £'000
Staff costs	**17,530**	14,366

Other administrative expenses	**7,856**	6,635
Total administrative expenses	**25,386**	21,001

8. Finance income

Finance income is derived from:

	Year ended 31 March 2024 £'000	Year ended 31 March 2023 £'000
Cash deposits	**1,917**	404
Short-term liquidity investments	**9**	45
Investee company loans (interest and redemption premium)	**2,290**	1,979
Total interest income	**4,216**	2,428

9. Taxation

	Year ended 31 March 2024 £'000	Year ended 31 March 2023 £'000
Current tax		
UK corporation tax	**(122)**	(157)
Deferred tax		
Origination and reversal of temporary timing differences	**748**	584
Total tax credit	**626**	427

The UK standard rate of corporation tax is 25% (2023: 19%). The deferred tax credit of £748,000 (2023: £584,000) represents the unwinding of the deferred tax liabilities recognised in respect of the intangible assets arising on the acquisition of the VCT fund management business and Frontier Development Capital Limited.

A reconciliation from the reported (loss)/profit to the total tax credit is shown below:

	Year ended 31 March 2024 £'000	Year ended 31 March 2023 £'000
(Loss)/profit before taxation	**(8,211)**	2,409
Taxation at the standard rate of corporation tax in the UK of 25% (2023: 19%)	**2,053**	(458)
Effects of:		
Income not subject to tax	**1,113**	589
Expenses not deductible for tax purposes	**(2,131)**	(318)
Share of partnership profits	**(1,134)**	(509)
Capital losses	**-**	234
Remeasurement of deferred tax for changes in tax rates	**-**	140
Other timing differences not recognised	**725**	749
Total tax credit	**626**	427

The Group's deferred tax liability has been calculated at a rate of 25% as at 31 March 2024 (2023: 25%).

A total deferred tax liability of £3,792,000 (2023: £4,540,000) as at 31 March 2024 relates to the intangible assets recognised on the acquisition of FDC in December 2022 and on the acquisition of the VCT fund management business in 2019.

A potential deferred tax asset of £3,392,000 (2023: £3,436,000) for cumulative unrelieved management expenses and other tax losses has not been recognised in these consolidated financial statements as their future use is uncertain.

10. (Loss)/earnings per share

Basic (loss)/earnings per share is calculated by dividing the (loss)/profit for the financial year by the weighted average number of Ordinary shares in issue during the year. Diluted (loss)/earnings per share is calculated by dividing the (loss)/profit for the financial year by the weighted average number of Ordinary shares outstanding and, when dilutive, adjusted for the effect of all potentially dilutive shares, including share options, on an as-if-converted basis. The potential dilutive shares are included in diluted (loss)/ earnings per share calculations on a weighted average basis for the year. The (loss)/profit and weighted average number of shares used in the calculations are set out below:

	Year ended 31 March 2024	Year ended 31 March 2023
(Loss)/profit for the financial year (£'000)	**(7,585)**	2,836
Basic weighted average number of Ordinary shares ('000)	**444,716**	441,156
Basic (loss)/earnings per Ordinary share (pence)	**(1.71)**	0.64
Diluted weighted average number of Ordinary shares ('000)	**444,716**	449,348
Diluted (loss)/earnings per Ordinary share (pence)	**(1.71)**	0.63

The calculation of basic and diluted earnings per share is based on the following weighted average number of Ordinary shares:

	Year ended 31 March 2024 '000	Year ended 31 March 2023 '000
Weighted average number of shares		
Basic	**444,716**	441,156
Dilutive impact of employee share options	**-**	8,192
Diluted weighted average number of Ordinary shares	**444,716**	449,348

The dilutive impact of employee share options for the year ended 31 March 2024 has been excluded from the weighted average number of diluted Ordinary shares, as including them is anti-dilutive to diluted earnings per share.

11. Dividends

	Year ended 31 March 2024		Year ended 31 March 2023	
Dividends declared/proposed in respect of the year	**Pence per share**	**£'000**	Pence per share	£'000
Interim dividend declared in relation to year ended 31 March 2023	**-**	**-**	0.33	1,452
Final dividend declared in relation to year ended 31 March 2023	**-**	**-**	0.53	2,367
Interim dividend declared in relation to year ended 31 March 2024	**0.35**	**1,561**	-	-
Final dividend proposed in relation to year ended 31 March 2024 **	**0.55**	**2,371**	-	-
	0.90	**3,932**	0.86	3,819

Dividends paid during the year	Year ended 31 March 2024 Pence per share	£'000	Year ended 31 March 2023 Pence per share	£'000
Final dividend paid in relation to year ended 31 March 2022	-	-	0.50	2,201
Interim dividend paid in relation to year ended 31 March 2023	-	-	0.33	1,452
Final dividend paid in relation to year ended 31 March 2023	**0.53**	**2,367**	-	-
Interim dividend paid in relation to year ended 31 March 2024	**0.35**	**1,561**	-	-
	0.88	**3,928**	0.83	3,653

** The share buyback programme completed on 29 May 2024, with a total of 15.7million shares purchased by the Company and held in treasury. If approved by shareholders at the AGM on 26 September 2024, the total final dividend payable in relation to the year ended 31 March 2024, to shareholders on the register on 4 October 2024, is estimated to be £2,371,000.

The proposed final dividend for the year ended 31 March 2024 is subject to shareholder approval at the AGM on 26 September 2024, and as such has not been included as a liability in these financial statements in accordance with IAS 10.

12. Goodwill

Goodwill arising on the businesses acquired to date is set out in the table below.

	Mercia Fund Management £'000	Enterprise Ventures Group £'000	VCT fund management business £'000	Frontier Development Capital £'000	Total £'000
Cost					
As at 1 April 2022	2,455	7,873	6,314	-	16,642
Addition	-	-	-	4,484	4,484
As at 31 March 2023 and 31 March 2024	**2,455**	**7,873**	**6,314**	**4,484**	**21,126**

Goodwill for each business acquired has been assessed for impairment as at 31 March 2024. Recoverable amounts for each cash generating unit ("CGU") are based on the higher of value in use and fair value, less costs of disposal ("FVLCD").

The value in use calculations are based on future expected cash flows generated by each CGU, as derived from the approved budget for the year ended 31 March 2025. Key assumptions are post-tax discount rates of 13.0% and 15.0% (pre-tax discount rates of 17.8% and 20.6%) and the growth rates used in forecasting future operating results. Where the fund management contracts are 'evergreen', a value into perpetuity has been used based on a zero growth rate beyond a five-year forecast period.

The review concluded that the value in use of each CGU exceeds its carrying value. The Directors do not consider that a reasonably possible change in a key assumption would reduce the recoverable amount of the CGUs to below their carrying value.

13. Intangible assets

Intangible assets represent contractual arrangements in respect of the acquisition of Enterprise Ventures Group in 2016, the VCT fund management business in 2019 and the acquisition of FDC in December 2022, where it is probable that the future economic benefits that are attributable to those assets will flow to the Group and the fair value of the assets can be measured reliably.

	£'000
Cost	
As at 1 April 2022	21,835
Acquisition of a subsidiary	4,783
As at 31 March 2023 and 31 March 2024	**26,618**
Accumulated amortisation	
As at 1 April 2022	6,122
Charge for the year	2,337
As at 31 March 2023	**8,459**
Charge for the year	**2,989**
As at 31 March 2024	**11,448**
Net book value	
As at 1 April 2022	15,713
As at 31 March 2023	18,159
As at 31 March 2024	**15,170**

14. Investments

The net change in the value of investments for the year is a decrease of £19,689,000 (2023: increase of £16,992,000). The table below reconciles the opening to closing value of investments for both the current and prior years.

	Level 1 financial assets £'000	Level 3 financial assets £'000	Total financial assets £'000
As at 1 April 2022	1,632	117,926	119,558
Investments made during the year	-	20,736	20,736
Investments acquired during the year	-	42	42
Investee company loan repayment	-	(125)	(125)
Disposals	-	(4,862)	(4,862)
Unrealised fair value gains on investments	-	20,017	20,017
Unrealised fair value losses on investments	(663)	(18,153)	(18,816)
As at 31 March 2023	**969**	**135,581**	**136,550**
Investments made during the year	**-**	**19,926**	**19,926**
Investee company loan repayment	**-**	**(300)**	**(300)**
Disposal	**-**	**(30,211)**	**(30,211)**
Investment received as consideration	**-**	**3,784**	**3,784**
Realised gain on sale of direct investment	**-**	**4,450**	**4,450**
Unrealised fair value gains on investments	**-**	**7,877**	**7,877**
Unrealised fair value losses on investments	**(187)**	**(25,028)**	**(25,215)**
As at 31 March 2024	**782**	**116,079**	**116,861**

In May 2023, the Group received residual cash proceeds totalling £269,000 from the earlier sale of its equity holding in Intechnica Holdings Limited in January 2023.

In November 2023, the Group sold its investment in nDreams Limited, generating a realised gain of £4,450,000. Total consideration of £30,211,000 was received, comprising cash of £26,427,000 and an equity interest in Aonic Founder SCS of £3,784,000.

Investments held as part of the Group's direct investment portfolio are carried at fair value in accordance with the IFRS 10

Investment Entity exemption.

The measurement basis for determining the fair value of investments held at 31 March is as follows:

	As at 31 March 2024 £'000	As at 31 March 2023 £'000
Listed investment	**782**	969
Price of recent investment round	**79,847**	79,522
Enterprise value	**29,320**	52,912
Cost	**6,912**	3,147
Impaired value[1]	-	-
	116,861	136,550

[1] Valued using valuation methodologies consistent with the Group's accounting policy.

15. Cash, cash equivalents and short-term liquidity investments

	As at 31 March 2024 £'000	As at 31 March 2023 £'000
Total cash and cash equivalents	**46,940**	37,555
Total short-term liquidity investments	-	279

16. Deferred consideration

	As at 31 March 2024 £'000	As at 31 March 2023 £'000
Payable within one year	**2,279**	1,227
Payable within two to five years	-	2,012
	2,279	3,239

On 5 December 2022, Mercia completed the acquisition of Frontier Development Capital Limited for a total maximum cash consideration of £9,500,000, comprising an initial cash consideration of £5,500,000, plus up to a maximum of £4,000,000 contingent consideration payable upon certain post-acquisition conditions being met.

In the year ended 31 March 2024, the first deferred consideration condition was met resulting in a £1,500,000 payment to the vendors. The second and final deferred consideration conditions have a total fair value of £2,045,000 as at 31 March 2024, and are payable upon the following conditions being met:

- The second condition is satisfied if revenue for the 12-month period to 30 November 2024 exceeds a year-two revenue target. The value of contingent consideration payable is up to a maximum of £1,000,000.

- The final condition is met if a net new institutional third-party fundraising target, over a two-year period to 4 December 2024, is achieved. Satisfaction of this target triggers £1,500,000 contingent consideration payable to the vendors.

Identified within the post-acquisition measurement period, further consideration totalling £234,000 may become payable to the vendors and so has been included in the deferred consideration amount due and goodwill as at 31 March 2023 and 31 March 2024.

The undiscounted value of remaining contingent consideration payments that the Group could be required to make is up to £2,734,000. Movement in the fair value of the FDC deferred consideration during the year ended 31 March 2024 has resulted in a charge to the consolidated statement of comprehensive income of £540,000.

17. Deferred taxation

	As at 31 March 2024 £'000	As at 31 March 2023 £'000
Deferred tax liability	**3,792**	4,540

Under IAS 12 Income Taxes, provision is made for the deferred tax liability associated with the recognition of intangible assets arising as part of the acquisitions of the VCT fund management contracts and FDC.

As at 31 March 2024, the deferred tax liability has been calculated using the substantively enacted tax rate of 25%.

18. Issued share capital

	31 March 2024		31 March 2023	
	Number	**£'000**	Number	£'000
Allotted and fully paid				
As at the beginning of the year	**446,581,202**	**4**	440,109,707	4
Issue of share capital during the year	**98,321**	-	6,471,495	-
As at the end of the year	**446,679,523**	**4**	446,581,202	4

On 29 September 2023, 98,321 new Ordinary shares were issued to satisfy the exercise of employee share options. These new shares were admitted to trading on the AIM market of the London Stock Exchange on 5 October 2023.

During the year, 10,379,708 Ordinary shares were repurchased into a treasury reserve, see note 20. The outstanding Ordinary shares as at 31 March 2024, being 436,319,815, are entitled to one vote each and have equal rights as to dividends. The Ordinary shares are not redeemable.

19. Share premium

	As at 31 March 2024 £'000	As at 31 March 2023 £'000
As at the beginning of the year	**83,744**	81,644
Premium arising on the issue of Ordinary shares	**31**	2,100
As at the end of the year	**83,775**	83,744

The premium on the issue of Ordinary shares arises from 98,321 new Ordinary shares of £0.00001 each on 29 September 2023.

20. Treasury reserve

	31 March 2024		31 March 2023	
	Number	**£'000**	Number	£'000
Allotted and fully paid				
As at the beginning of the year	-	-	-	-
Purchase of Ordinary shares into treasury	**10,379,708**	**3,194**	-	-
Satisfaction of employee share options	**(20,000)**	**(6)**	-	-
As at the end of the year	**10,359,708**	**3,188**	-	-

21. Other distributable reserve

	As at 31 March 2024 £'000	As at 31 March 2023 £'000
As at the beginning of the year	**63,266**	66,919
Dividends paid (note 11)	**(3,928)**	(3,653)
As at the end of the year	**59,338**	63,266

22. Fair value measurements

The fair values of the Group's financial assets and liabilities are considered a reasonable approximation to the carrying values shown in the consolidated statement of financial position. Subsequent to their initial recognition at fair value, measurements of movements in fair values of financial instruments are grouped into Levels 1 to 3, based on the degree to which the fair value is observable. The fair value hierarchy used is outlined in more detail in note 2 to these consolidated financial statements.

The following table gives information about how the fair values of these financial assets and financial liabilities are determined and presents the Group's assets measured at fair value as at 31 March 2024. There have been no movements in financial assets or financial liabilities between levels during the current or prior years. The table in note 14 sets out the movement in the Level 1 and 3 financial assets from the start to the end of the year.

	As at 31 March 2024 £'000	As at 31 March 2023 £'000
Assets:		
Financial assets at fair value through profit or loss - direct investment portfolio		
Level 1	**782**	969
Level 2	-	-
Level 3	**116,079**	135,581
	116,861	136,550

	As at 31 March 2024 £'000	As at 31 March 2023 £'000
Liabilities:		
Financial liabilities at fair value through profit or loss - deferred consideration		
Level 1	-	-
Level 2	-	-
Level 3	**2,279**	3,239
	2,279	3,239

The Directors consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the financial statements approximate to their fair values.

Financial instruments in Level 1

The Group had one direct investment listed on the AIM market of the London Stock Exchange, MyHealthChecked PLC, which is valued using the closing bid price as at 31 March 2024.

Financial instruments in Level 3

If one or more of the significant inputs required to fair value an instrument is not based on observable market data, the instrument is included in Level 3. Apart from the one investment classified in Level 1, all other investments held in the Group's direct investment portfolio have been classified in Level 3 of the fair value hierarchy and the individual valuations for each of the companies have been arrived at using appropriate valuation techniques. The Group has adopted the IPEVCVG for determining its valuation techniques, which specify that the price of a recent investment represents one of a number of inputs used to arrive at fair value, and uses a single classification for all Level 3 investments. Note 2 to these consolidated financial statements provides further information on the Group's valuation methodology, including a detailed explanation of the valuation techniques used for Level 3 financial instruments.

A reconciliation of the movement in Level 1 and 3 financial assets from 1 April to 31 March is disclosed in note 14.

23. Availability of Annual Report

The Annual Report of Mercia Asset Management PLC will be made available to all shareholders on 26 July 2024. An electronic copy will be available on Mercia Asset Management PLC's website at www.mercia.co.uk.

24. Annual General Meeting

The Annual General Meeting of Mercia Asset Management PLC will be held at the offices of Rothschilds & Co, New Court, St Swithins Lane, London, EC4N 8AL on 26 September 2024 at 10:00 am.

Directors, secretary and advisers

Directors

Ian Roland Metcalfe OBE	(Non-executive Chair)
Dr Mark Andrew Payton	(Chief Executive Officer)
Martin James Glanfield	(Chief Financial Officer)
Julian George Viggars	(Chief Investment Officer)
Diane Seymour-Williams	(Senior Independent Director)
Raymond Kenneth Chamberlain	(Non-executive Director)
Dr Jonathan David Pell	(Non-executive Director)
Caroline Bayantai Plumb OBE	(Non-executive Director)

Company secretary
Sarah-Louise Anne Williams

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