

news//views November 2018

newsletter

This issue:

Welcome

MBO Portfolio

Creating Luck and NVM Network

Venture Portfolio

New Investments

New Talent

Share Issue



Welcome.



Dear VCT shareholders

Many of you have been investors in the Northern VCTs over a long period of time, some of you have joined us more recently, but I would like to begin by thanking all of you for your support. NVM never takes your loyalty for granted, and following the changes in legislation which have moved the emphasis of VCT investment towards younger, potentially high-growth companies, we are strongly focused on building a portfolio of growth investments which will deliver good long term total returns.

In this series of annual newsletters we will try to set out the background to our investment activities as well as looking in closer detail at some of the companies we have invested in.

VCT investment is a fast-moving scene, as evidenced by some of the developments over the past four years:

- We have sold 22 of our VCT portfolio companies, generating £132 million in sale proceeds
- All three of our VCTs have delivered increases in total return (the movement in net asset value plus dividends paid): from 1 October 2014 up to 30 September 2018 Northern Venture Trust has achieved 24.0 pence per share, Northern 2 VCT 22.7 pence per share and Northern 3 VCT 31.1 pence per share
- Adapting to the new VCT rules, we have invested £64 million in 22 innovative companies with exciting growth potential
- NVM's VCT investment team has grown from 14 executives to 21, adding people with skills in new fast-emerging technology sectors, finance and corporate law to our team of proven investors
- We have expanded our regional network – NVM now has investment teams based in Newcastle, Manchester, Birmingham, Reading and London.

As we approach the end of 2018, our VCT portfolio combines mature “legacy” investments made under the old VCT rules, which we expect to generate income yield and steady capital growth to fund future dividend payments and an increasing number of earlier-stage high-growth companies covering a wide range of sectors.

We are building our new sector-diverse portfolio at a time when the business environment is evolving more quickly than ever. Change is being driven by advances in information technology (particularly big data analysis, artificial intelligence, machine learning capability and blockchain), leading to

greater productivity and rapid growth in ecommerce. The social media phenomenon has changed the way in which people communicate and share information, and has opened new channels for marketing. Some commentators have even compared the impact to that of the Industrial Revolution. NVM is seeing a healthy flow of potential new investments in companies in all of these sectors, which enables us to pick the best available opportunities.

High-growth businesses need patient investment capital. In order to create long-term value, we must be prepared to provide multiple rounds of investment funding to many of our investee companies, and our own investment team needs to understand and relish the challenges of starting small and growing fast. NVM recognised this need very early and as far back as 2016 we brought on board Charlie Winward, previously a senior investor with IP Group and now an NVM partner, who has a proven track record of value creation in earlier stage businesses. Subsequently we have invested considerable time and resources in building a dedicated and focused VCT team, skilled in developing our business in the changed environment.

The history of long-term investment in high-tech companies shows that early-stage investors tend to reap their rewards in the form of increased capital value rather than regular income yield. This is likely to be our experience with our growing number of early-stage investments. Over the next few years the overall make-up of our portfolio will change noticeably as the legacy investments mature and the newer investments become more numerous, and we expect this to lead to a less predictable pattern of capital gains. As a result, there may in future years be a greater degree of fluctuation in our VCTs' dividend payments than we have previously been used to.

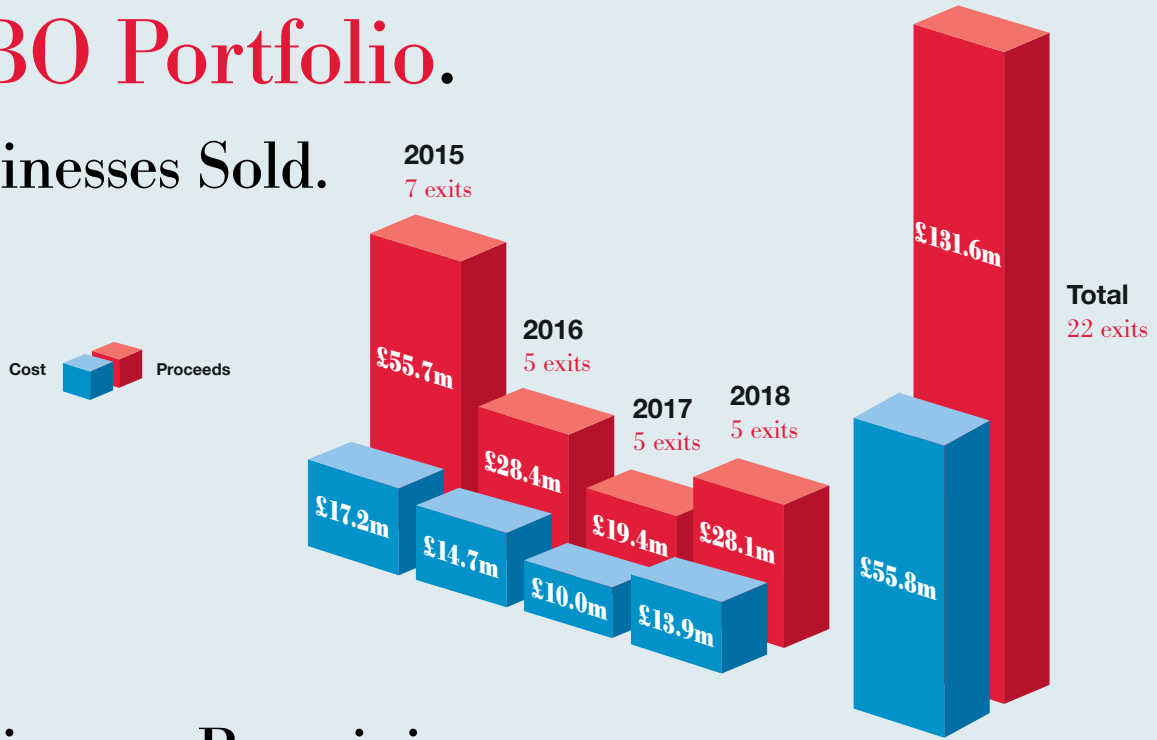
In September the Northern VCTs announced that they intended to launch top-up offers of new ordinary shares in January 2019. We have now finalised our plans and have formally announced a £20 million joint fund-raising which will open on 7 January 2019. The decision to raise additional funds was driven by our strong recent investment rate, the volume of new deal opportunities being introduced to us and the significant capacity and capabilities of our enlarged VCT investment team.

Finally, I look forward to seeing many of you at our annual VCT shareholder seminar which will take place on Friday 22 March 2019 in London. Invitations will be posted in January 2019.

Tim Levett
Chairman, NVM

MBO Portfolio.

Businesses Sold.



Businesses Remaining.

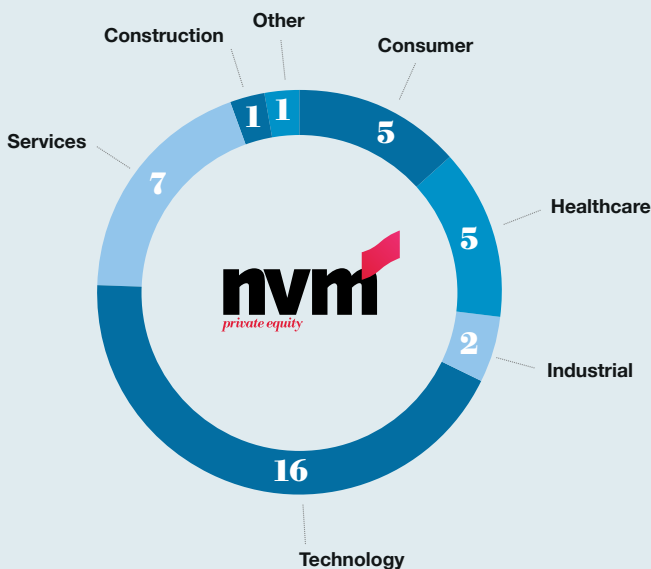
Companies



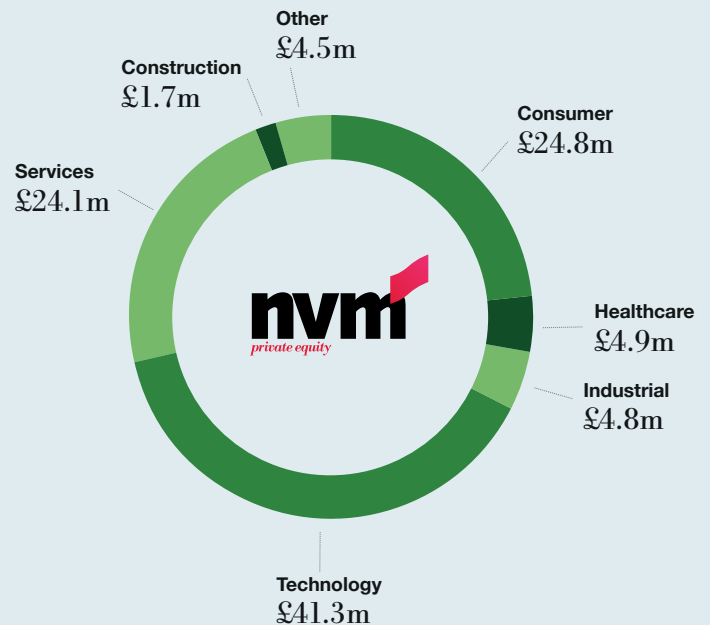
Value



Sectors



Sectors by Value



Creating Luck.

I'm often asked whether Venture Capital Trusts can transition to earlier-stage investing, as mandated by the Chancellor when he changed the VCT rules in November 2015. I joined Tim, Martin and the team at NVM in early 2016. I'd been investing in venture for 15 years, and had spent a good part of the previous decade as a Director of IP Group PLC. In suffering a fair amount of early-stage scar tissue over these years, I learnt that the best attribute for successful early-stage investing is a good slice of luck.

That luck is foremost about backing great management. I was fortunate in investing with John MacArthur in Tracsis, which he grew from a 4-person start-up into a profitable, public company with several hundred staff and a market capitalisation north of £150 million, providing excellent returns for his shareholders along the way. It was also personally lucky for me as John did not need too much input from his investment director, while I learnt a lot – if only they could all be like that. While finding great people has an element of chance, at NVM we also recognise that we can improve the odds by being diligent in how we seek out and evaluate the entrepreneurs of the future. You will see we have recently appointed Sam Sinclair as NVM's first Director of Talent.

While we cannot guarantee outcomes in early stage investing, we can foster a culture that improves our chances. Living in Silicon Valley for two years, I learnt that their brilliance lies in developing businesses with culture as their bedrock. It's critical. Back in the UK, I guess I was lucky running into NVM, which has its own culture built on long-term success in providing its shareholders with strong dividends, while accepting the need to evolve to meet the challenge of building a high growth portfolio.

Since 2016, we have employed eight software, biotechnology and engineering recruits, all of whom had built successful operational careers in blue chip organisations. They have broadened our DNA, which is crucial when evaluating and supporting earlier-stage technology companies, where the financials will only be part of the story. Today NVM is fusing this new expertise with its traditional investment discipline. This mix of skills and NVM's open culture gives us the opportunity to create some of our own luck.

There are numerous quotes along the lines of "the harder I work, the luckier I get". I'd suggest that an investor might more prosaically add that "a larger, more diverse portfolio, a longer time horizon and a clear strategic focus all greatly help to foster that luck too". We have these at NVM. We have now invested £64 million in 22 companies since the rule changes. Many of these companies are in their third and fourth years of working with us, having received multiple investment rounds already, and we expect to support them further.

We think our VCTs are ideal for patient capital, a new asset category that is becoming accepted as key to achieving long term growth for the UK. Our strategy is to be sector diverse, specialising in investing in the regions and supporting our companies from single to tens of millions of sales. Just like at Tracsis, and across the team we have experience of hundreds of these growth situations. At its simplest, we propagate best practice from one company to another, helping to mitigate the risks of growth. Back to that luck again.

Charlie Winward, *Investment Partner*



NVM Network.

As Talent Director, my primary remit will be to build, develop and evolve the network of Board Directors and advisors working closely with our portfolio. After 12 years in executive search building management teams for high-growth businesses, I understand that access to the right people and expertise can make all the difference when it comes to scaling.

Sam Sinclair, *Talent Director*



Venture Portfolio.

Companies

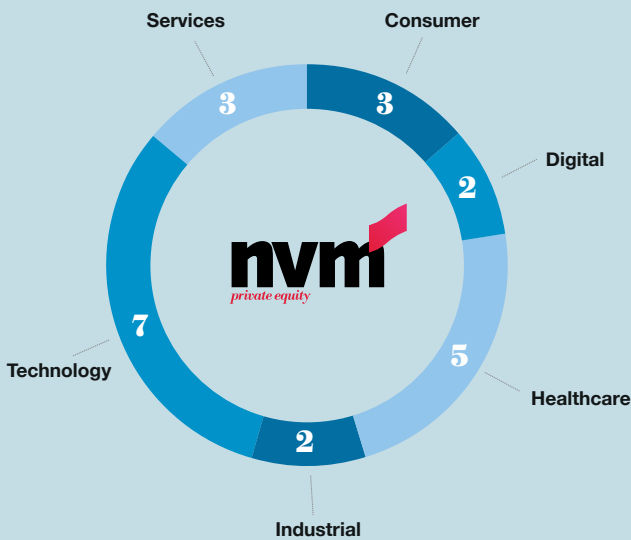
22



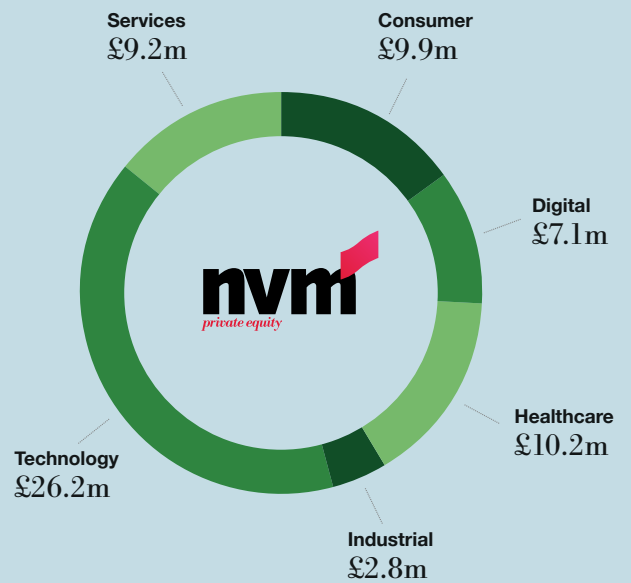
Value



Sectors



Sectors by Value



Locations



Employees

1,247



 = 100 employees

New Investments.



boclips

London based creators of boclips – a video platform designed specifically for the education sector in which NVM has invested £3.0 million.



The Team

David Bainbridge leads a team of 14 people split between developers and a sales team with experience of winning contracts in the global education market.

The Growth Plan

To further develop the interactive video platform to assist global educators to make learning more engaging for the 'Netflix' generation.



CLARILIS
INTELLIGENT DRAFTING

Leamington Spa based legal documents automation Software Company in which NVM has invested £3.1 million.



The Team

James Quinn leads a team of 37 with a track record of delivering software solutions to top 50 law firms.

The Growth Plan

Build on the track record to increase market share and enter the corporate in-house market with the goal of being market leader.



THE CLIMBING HANGAR

Liverpool based leisure business running indoor climbing facilities in the UK regional cities in which NVM has invested £3 million.



The Team

Ged Macdomhnaill leads a team of 52 staff with leisure experience and enthusiasm for the sport backed by a core team with property selection and management skills.

The Growth Plan

Roll-out the successful Liverpool formula across multiple sites across the UK and take a leading position in the fast growing market.



SHE
Health & Safety Software

East Kilbride based health and safety software business in which NVM has invested £2.8 million.



The Team

Matthew Elson leads a team of 91 who have an established track record of delivering software to small and medium sized companies.

The Growth Plan

Build on SHE's success in the UK to invest in people to open a new office in the USA and double the size of the sales team.



New Talent.

High-growth, high-risk investment is demanding and to make good investment decisions and add value to our portfolio companies we are building a team with technology and investment experience to meet this challenge. Our team have been drawn from the technology industry, leading technology funders and human resource companies adding both investment and operational development experience.

Left to right, top to bottom: Charlotte Clarke, Sam Sinclair, Chris Newman, Ishaan Chilkoti, Charlie Winward, Carmine Circelli, Jason Warren, James Bryce, Aaron Lawson-Clark, Simon John.

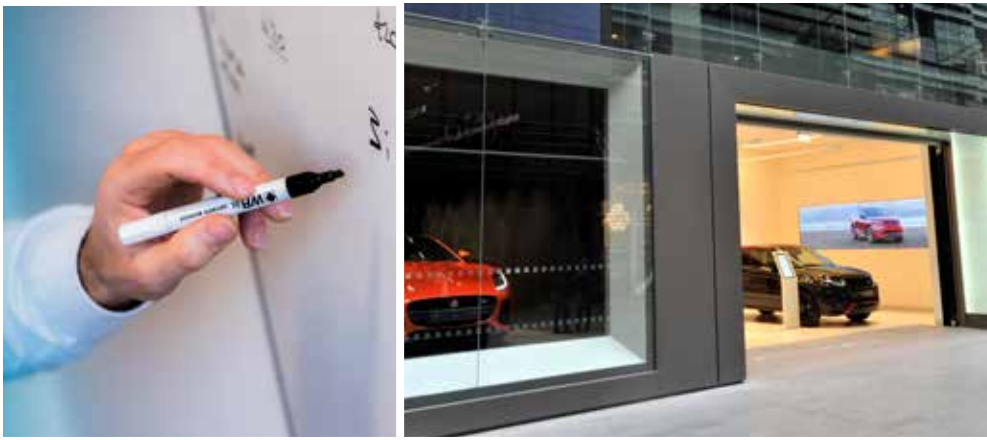
Share Offer.

A top-up share offer to be launched on 7 January 2019 will seek to raise up to £6.6 million for each of the Northern VCTs, a total fund-raising of up to £19.8 million, to be deployed not only to add new holdings to the growth company portfolio, but also, crucially to provide the necessary rounds of follow on investment for the fast growing existing companies in the portfolio.

Offers will open on or around 7 January 2019 and it is expected that new shares will be allotted in the first week of April 2019.

Further details of the Offer will be contained in the offer document which is expected to be published in early January 2019. Applications for the new shares in the Company will be dealt with on a "first come first served" basis, however, our existing shareholders on the register of members for any of the Northern VCTs at 14 November 2018, will have priority application rights for a period of fourteen days from the date of publication of the offer document.

In this offer investors can subscribe for any and all of NVT, N2VCT and N3VCT.



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