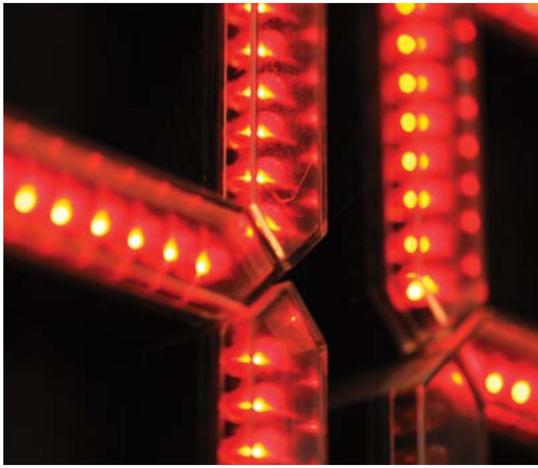
Northern Investors Company PLC

Half-yearly financial report

30 September 2017



nvm
private equity

Northern Investors Company PLC is a private equity investment trust managed by NVM Private Equity LLP. The trust was launched in 1984 and has been listed on the London Stock Exchange since 1990.

In July 2011 shareholders approved a change in investment strategy whereby the trust ceased making new investments and began an orderly realisation of its portfolio with a view to returning capital to shareholders. Since then the trust has returned a total of £90.7 million to shareholders through dividends and capital distributions.

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Financial summary

	Six months ended 30 September 2017	Six months ended 30 September 2016	Year ended 31 March 2017
Net assets	**£5.8m**	£18.2m	£12.7m
Number of shares in issue at end of period	**2,496,767**	2,496,767	2,496,767
Net asset value per share (after capital distributions of 250.0p per share in January 2017 and 257.5p per share in June 2017)	**233.4p**	728.6p	508.4p
Cash distributions to shareholders (dividends paid plus share buy-backs):			
During the period	**£7.2m**	£0.6m	£6.8m
Since change in investment policy in July 2011	**£90.7m**	£77.3m	£83.5m
Return for the period:			
Pence per share	**16.0p**	67.2p	99.6p
As % of opening net asset value	**3.1%**	9.8%	14.5%
Dividend per share declared in respect of the period	**–**	–	30.0p
Mid-market share price at end of the period	**236.0p**	845.0p	525.0p
Share price (premium)/ discount to net asset value	**(1.1)%**	(16.0)%	(3.3)%

Half-yearly management report

for the six months ended 30 September 2017

The company has returned a total of £90.7 million to shareholders since the run-off strategy was adopted.

Overview

Consistent with the now well-established orderly realisation strategy, a further £7.2 million was distributed to shareholders during the six months ended 30 September 2017, taking the cumulative amount since 2011 to £90.7 million. The unaudited net asset value (NAV) per share at 30 September 2017 was 233.4 pence which, after adding back distributions to shareholders during the period totalling 287.6 pence per share, represents a modest improvement of 2.5% on the 508.4 pence reported at 31 March 2017. The remaining portfolio now comprises five investments with a total carrying value of £5.8 million. As noted in our last report to shareholders in May 2017, the orderly realisation process will continue through 2018 as we seek to realise acceptable value from the last remaining holdings. We will keep shareholders updated as matters progress. However with cash distributions to date already having exceeded 150% of the company's net assets at the start of the process in 2011, we believe the overall outcome will be highly satisfactory.

Investment portfolio

Our largest holding at 31 March 2017, Optilan Group, was sold in April 2017 for £4.2 million, in line with the March carrying value. There were no other outright disposals during the half year, but the income statement includes a further £0.6 million in respect of deferred proceeds from earlier investment sales which have either been received or where payment is now reasonably certain. A further £0.2 million of potential receipts have not yet been recognised due to uncertainty.

Two of the five remaining investments are currently the subject of active discussions with a view to sale and we would hope to complete exits during the current financial year. In each of the other cases NVM is working with management teams and, where applicable, other external investors to agree on a realistic timescale and strategy for exit. It is still our objective to complete the realisation process by the end of the calendar year 2018, but this will depend on market conditions, the trading performance of individual companies and the attitude of the other investors.

Financial performance

The unaudited NAV as at 30 September 2017 was 233.4 pence, compared with 508.4 pence (audited) as at 31 March 2017. The movement in the period reflects the cash distribution of 257.5 pence per share in June 2017, by means of a bonus issue and subsequent redemption of B shares, and the payment of a final dividend of 30.0 pence per share in July 2017 in respect of the preceding financial year. After adjusting for these items the operating outcome, as shown in the income statement, was positive with a reported return per share of 16.0 pence per share for the period.

The level of regular investment income is now very low and there were no significant non-recurring receipts during the half year. Against this background the directors are conscious of the potential for running costs to erode the capital value attributable to shareholders, and whilst acknowledging that there is a residual fixed cost to managing the portfolio and retaining the listing, we will be looking at the overall cost base to identify areas of potential saving.

A further performance fee instalment of £0.8 million was paid to NVM in May 2017, taking the cumulative payment to £3.6 million. The remaining performance fee provision in the balance sheet as at 30 September 2017 was £1.7 million; £0.4 million of this is due for payment in May 2018 based on amounts already distributed to shareholders, but the balance will only become payable once the residual investments are converted into cash.




Nigel Guy *Chairman*

Dividend
As is now usual, no interim dividend has been declared. Given the company's reducing size and unpredictable investment income, it is not possible at this stage to say whether a final dividend will be proposed in respect of the current financial year. However the company will pay a dividend should this be necessary to maintain the company's authorised investment trust status.

Corporate strategy
The company has now returned a total of £90.7 million to shareholders since the run-off strategy was adopted in July 2011. This has been effected through a combination of tender offers, B share redemptions and annual dividends. The financial projections prepared by our managers and reviewed by the board suggest that when the five remaining investments have been realised, the further amount available for distribution to shareholders (including the existing cash balance of £1.5 million and net of forecast costs including the NVM performance fee) will be in the range from £5 million to £9 million – equivalent to between 200 pence and 360 pence per share. This would represent a final cash return of between 163% and 169% of the net assets at the start of the process, substantially in line with our previous estimates. It is emphasised that this is no more than an illustrative projection which is designed to give shareholders an indication of the eventual outcome and is clearly subject to various uncertainties.

Our preferred strategy for completing the run-off is to realise as many as possible, if not all, of the remaining investments before putting the company into members' voluntary liquidation so that the liquidator can distribute cash in a tax-efficient manner. Following the recent series of tender offers and B share redemptions, the company's capacity for making further distributions which qualify for capital gains tax treatment is extremely limited, but the board has been advised that future distributions by a liquidator should be treated as capital receipts in the hands of shareholders. Shareholders should also bear in mind that the company's Stock Exchange listing will be cancelled when a liquidator is appointed, at which point the shares will cease to be marketable and those investors holding shares through ISAs are likely to be required by their ISA manager to remove them from their account to maintain compliance with the ISA regulations. Whilst none of these events is yet imminent, we will aim to keep shareholders informed as to likely future developments on a continuing basis.

Outlook
The process of realising the company's investments is now well advanced and the directors and manager are focussed on resolving the outstanding issues. The current political and economic uncertainty does not create an ideal backdrop for the small company M&A market but, whilst we do not expect all of the remaining realisations to be entirely straightforward, we should be in a position to report further progress during 2018.

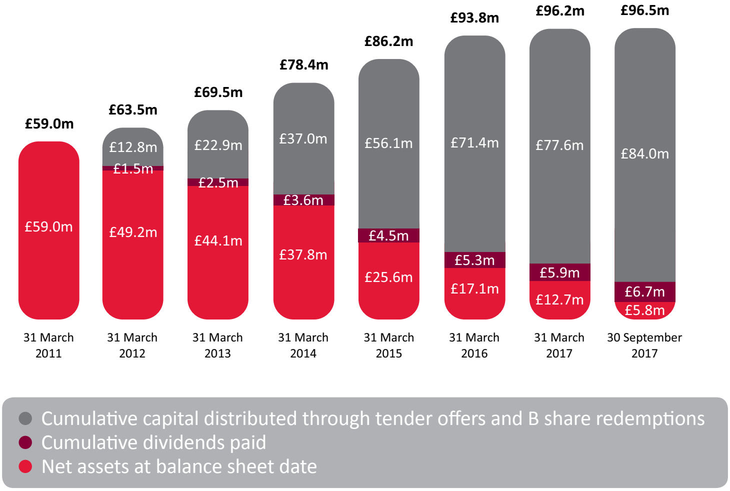
On behalf of the Board

Nigel Guy
Chairman

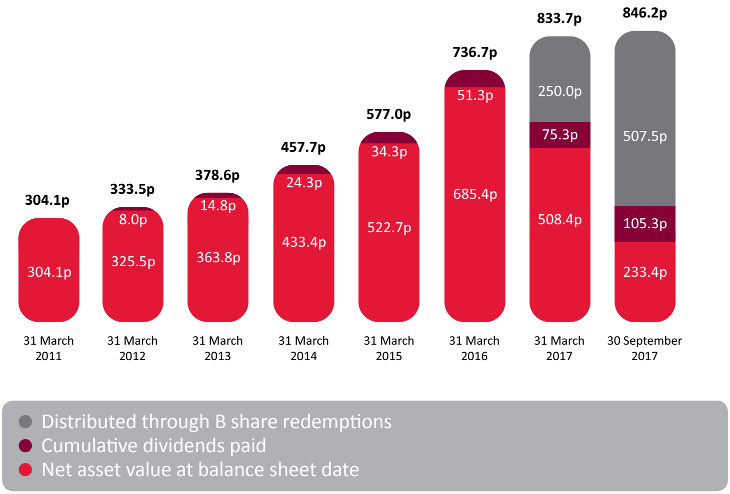
14 November 2017

Financial performance since change in investment policy

Net assets and cumulative distributions to shareholders since March 2011



Net asset value and cumulative dividends paid per share since March 2011



Investment portfolio

as at 30 September 2017

Company	Cost £000	Valuation £000	% of net assets by valuation
Axial Systems Holdings	2,311	1,977	33.9
Weldex (International) Offshore Holdings	3,252	1,921	33.0
CGI Group Holdings	1,908	1,165	20.0
Lanner Group	561	747	12.8
S&P Coil Products	66	–	–
Total fixed asset investments	**8,098**	**5,810**	**99.7**
Net current assets		18	0.3
Net assets		**5,828**	**100.0**

Income statement

(unaudited) for the six months ended 30 September 2017

	Six months ended 30 September 2017 Revenue £000	Capital £000	Total £000
Gain on disposal of investments	–	653	653
Movements in fair value of investments	–	9	9
	–	662	662
Income	65	–	65
Investment management fee	(23)	(91)	(114)
Other expenses	(171)	(42)	(213)
Return on ordinary activities before tax	(129)	529	400
Tax on ordinary activities	–	–	–
Return on ordinary activities after tax	(129)	529	400
Return per share	(5.2)p	21.2p	16.0p

- The Total column of this statement is the profit and loss account of the company. The supplementary Revenue and Capital columns have been prepared in accordance with guidance published by The Association of Investment Companies.
- There are no recognised gains or losses other than those disclosed in the income statement.
- All items in the above statement derive from continuing operations.

Six months ended 30 September 2016 Revenue £000	Capital £000	Total £000	Year ended 31 March 2017 Revenue £000	Capital £000	Total £000
–	277	277	–	2,056	2,056
–	1,758	1,758	–	305	305
–	2,035	2,035	–	2,361	2,361
227	–	227	1,093	–	1,093
(27)	(349)	(376)	(55)	(568)	(623)
(185)	(22)	(207)	(322)	(22)	(344)
15	1,664	1,679	716	1,771	2,487
(3)	3	–	(143)	143	–
12	1,667	1,679	573	1,914	2,487
0.5p	66.7p	67.2p	22.9p	76.7p	99.6p

Balance sheet

(unaudited) as at 30 September 2017

	30 September 2017 £000	30 September 2016 £000	31 March 2017 £000
Fixed asset			
Investments	5,810	13,478	9,981
Current assets			
Debtors	383	32	791
Cash and cash equivalents	1,516	7,182	4,570
	1,899	7,214	5,361
Creditors (amounts falling due within one year)	(1,881)	(2,500)	(2,649)
Net current assets	18	4,714	2,712
Net assets	5,828	18,192	12,693
Capital and reserves			
Called-up equity share capital	624	624	624
Capital redemption reserve	–	–	6,242
Capital reserve	(10,688)	(2,987)	(7,018)
Special reserve	17,141	17,183	10,941
Revaluation reserve	(2,288)	2,009	(17)
Revenue reserve	1,039	1,363	1,921
Total equity shareholders' funds	5,828	18,192	12,693
Net asset value per share	233.4p	728.6p	508.4p

Statement of changes in equity

(unaudited) for the six months ended 30 September 2017

	Non-distributable reserves			Distributable reserves			Total
	Share capital £000	Capital redemption reserve £000	Revaluation reserve £000	Capital reserve £000	Special reserve £000	Revenue reserve £000	£000
At 1 April 2017	624	6,242	(17)	(7,018)	10,941	1,921	12,693
Return on ordinary activities after tax	–	–	(2,271)	2,842	(42)	(129)	400
Bonus issue of B shares	–	–	–	–	(6,429)	–	(6,429)
Redemption of B shares	–	6,429	–	(6,429)	–	–	–
B share redemption expenses	–	–	–	(83)	–	–	(83)
Cancellation of capital redemption reserve	–	(12,671)	–	–	12,671	–	–
Dividends paid	–	–	–	–	–	(753)	(753)
At 30 September 2017	624	–	(2,288)	(10,688)	17,141	1,039	5,828
Six months ended 30 September 2016							
At 1 April 2016	624	4,531	251	(2,918)	12,674	1,950	17,112
Return on ordinary activities after tax	–	–	1,758	(69)	(22)	12	1,679
Cancellation of capital redemption reserve	–	(4,531)	–	–	4,531	–	–
Dividends paid	–	–	–	–	–	(599)	(599)
At 30 September 2016	624	–	2,009	(2,987)	17,183	1,363	18,192
Year ended 31 March 2017							
At 1 April 2016	624	4,531	251	(2,918)	12,674	1,950	17,112
Return on ordinary activities after tax	–	–	(268)	2,204	(22)	573	2,487
Cancellation of capital redemption reserve	–	(4,531)	–	–	4,531	–	–
Bonus issue of B shares	–	–	–	–	(6,242)	–	(6,242)
Redemption of B shares	–	6,242	–	(6,242)	–	–	–
B share redemption expenses	–	–	–	(62)	–	–	(62)
Dividends paid	–	–	–	–	–	(602)	(602)
At 31 March 2017	624	6,242	(17)	(7,018)	10,941	1,921	12,693

Statement of cash flows

(unaudited) for the six months ended 30 September 2017

	Six months ended 30 September 2017 £000	Six months ended 30 September 2016 £000	Year ended 31 March 2017 £000
Cash flows from operating activities			
Return on ordinary activities before tax	400	1,679	2,487
Adjustments for:			
Gain on disposal of investments	(653)	(277)	(2,056)
Movements in fair value of investments	(9)	(1,758)	(305)
(Increase)/decrease in debtors	783	(7)	(766)
Increase/(decrease) in creditors	(768)	(2,597)	(2,448)
Net cash outflow from operating activities	(247)	(2,960)	(3,088)
Cash flows from investing activities			
Purchase of investments	–	–	–
Sale/repayment of investments	4,458	277	4,100
Net cash inflow from investing activities	4,458	277	4,100
Cash flows from financing activities			
Redemption of B shares	(6,429)	–	(6,242)
B share redemption expenses	(83)	–	(62)
Dividends paid on ordinary and B shares	(753)	(599)	(602)
Net cash outflow from financing activities	(7,265)	(599)	(6,906)
Net decrease in cash and cash equivalents	(3,054)	(3,282)	(5,894)
Cash and cash equivalents at beginning of period	4,570	10,464	10,464
Cash and cash equivalents at end of period	1,516	7,182	4,570

Notes to the financial statements

(unaudited) for the six months ended 30 September 2017

1 The financial statements have been prepared under FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" and in accordance with the Statement of Recommended Practice "Financial Statements of Investment Trust Companies and Venture Capital Trusts", issued in November 2014 and updated in January 2017 with consequential amendments by The Association of Investment Companies (AIC SORP).

2 In July 2011 shareholders approved a change in the investment policy of the company, with the objective of conducting an orderly realisation of the assets of the company in a manner that seeks to achieve a balance between an efficient return of cash to shareholders and maximising the value of the company's investments. As it is likely that this process will ultimately lead to the liquidation of the company, the financial statements have not been prepared on the going concern basis. No adjustments were necessary to the investment valuations or other assets and liabilities included in the financial statements as a consequence of the change in the basis of preparation.

3 The calculation of the revenue and capital return per share is based on the return on ordinary activities after tax for the six months ended 30 September 2017 and on 2,496,767 (2016 2,496,767) ordinary shares, being the weighted average number of shares in issue during the period.

4 The calculation of net asset value per share is based on the net assets at 30 September 2017 divided by the 2,496,767 (2016 2,496,767) ordinary shares in issue at that date.

5 The unaudited half-yearly financial statements for the six months ended 30 September 2017 do not constitute statutory accounts within the meaning of Section 434 of the Companies Act 2006, have not been audited or reviewed by the company's independent auditor and have not been delivered to the Registrar of Companies. The comparative figures for the year ended 31 March 2017 have been extracted from the audited financial statements for that year, which have been delivered to the Registrar of Companies. The independent auditor's report on those financial statements (i) was unqualified, (ii) drew attention by way of emphasis of matter to the fact that the financial statements had not been prepared on the going concern basis and (iii) did not contain a statement under Section 498(2) or (3) of the Companies Act 2006. The half-yearly financial statements have been prepared on the basis of the accounting policies set out in the annual financial statements for the year ended 31 March 2017.

6 Copies of this half-yearly report have been mailed to shareholders and are available to the public at the company’s registered office, and on the NVM Private Equity LLP website, www.nvm.co.uk.

Risk management

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

Investment and liquidity risk: the majority of the company's investments comprise minority holdings in small and medium-sized unquoted companies, which by their nature entail a higher level of risk and lower liquidity than investments in large quoted companies. ***Mitigation:*** The investment manager aims to limit the risk attaching to the portfolio as a whole by close monitoring of individual holdings, including the appointment of investor directors where appropriate. The board reviews the portfolio, including the schedule of projected exits, with the investment manager on a regular basis with a view to ensuring that the orderly realisation process remains on track.

Portfolio concentration risk: following the adoption of the company's revised investment policy in July 2011, the portfolio has and will continue to become more concentrated as investments are realised and cash is returned to shareholders. This will increase the proportionate impact of changes in the value of individual investments on the value of the company as a whole. The directors' valuation of the company's investments represents their best assessment of the fair value of the investments as at the valuation date and the amounts eventually realised from such investments may be more or less than the directors' valuation. ***Mitigation:*** the directors and the investment manager keep the changing composition of the portfolio under review and focus closely on those holdings which represent the largest proportions of total value.

Financial risk: most of the company's investments involve a medium- to long-term commitment and many are relatively illiquid. ***Mitigation:*** the directors consider that it is inappropriate to finance the company's activities through borrowing except on an occasional short-term basis. Accordingly they seek to maintain a proportion of the company's assets in cash or cash equivalents in order to be in a position to meet expenditure commitments, including any investments which may be made under the company's revised investment policy. The company has very little exposure to foreign currency risk and does not enter into derivative transactions.

Economic risk: events such as economic recession or general fluctuations in stock markets and interest rates may affect the valuation of investee companies and their ability to access adequate financial resources, as well as affecting the company's own share price and discount to net asset value. ***Mitigation:*** the company invests in a diversified portfolio of investments spanning various industry sectors, and maintains sufficient cash reserves to be able to provide additional funding to investee companies should this be necessary.

Credit risk: the company holds a number of financial instruments and cash deposits and is dependent on the counterparties discharging their commitment. ***Mitigation:*** the directors review the creditworthiness of the counterparties to these instruments and cash deposits and seek to ensure there is no undue concentration of credit risk with any one party.

Internal control risk: the company's assets could be at risk in the absence of an appropriate internal control regime. ***Mitigation:*** the board regularly reviews the system of internal controls, both financial and non-financial, operated by the company and the investment manager. These include controls designed to ensure that the company's assets are safeguarded and that proper accounting records are maintained.

Company information

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Mark Nicholls

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