

Fund management pivot bears fruit: EBITDA +37%

1 July 2025

A year ago, the [Mercia 27](#) strategy was announced, which prioritised scaling the highly profitable fund management business and targeted EBITDA of c£10m by FY27 (£5.5m in FY24). Mercia is flying along. FY25 (to 31 Mar 25) has seen FUM (funds managed for 3rd parties) increase 10% y-o-y to £1.80bn (+46% over 2 years) and EBITDA jump 37% from £5.5m to £7.6m. Its net inflow rate has been the highest among London-listed peers for two years ([page 4](#)).

Much of that FUM growth came from c. £250m of inflows in Q425 (existing mandate increases, new fund management contracts, and successful VCT and EIS fund raises, [page 3](#)), so the revenue benefit is still to come. Mercia is also finding further cost efficiencies. Our FY26 EBITDA forecast rises from £6.2m to £7.2m. Our fundamental value rises from 52p to 56p.

FY25 revenue was up 13% from £30.4m to £34.4m, with PBT moving from a loss of -£8.2m in FY24 (mostly as a result of one large impairment of an on-balance-sheet 'direct investment') to +£5.4m.

Mercia's balance sheet remains strong with **net cash of £40m** (29% of market cap), and no debt. The NAV of its direct investment portfolio closed at £126m (93% of market cap), up from £117m on 31 Mar 24). As previously announced, Mercia intends to sell c70% these direct investments over the next few years. It has modelled up to c£10m of exit returns for FY26 and the remainder of the 70% for FY27. **We therefore expect exit activity to ratchet up.** A full-year dividend of 0.95p per share is proposed (giving a yield of 3.0%), up 6% y-o-y.

Growth is expected to remain strong in its existing equity and debt funding businesses, although some mandates are moving into the realisation phase which pegs back growth slightly in the short term. As previously announced, Mercia is planning to enter the 'real assets' investment market shortly. One of its initial targets in this space will be social and affordable regional UK housing, which is growing at c30% per annum, with over £3.8bn being deployed annually.

Mercia shares look mispriced on fundamental analysis

We value Mercia on a sum-of-the-parts basis at 56p per share ([page 14](#); direct investments: 29p; fund management business: 18p; net cash 9p). And we stress that we see no reason to discount the direct portfolio NAV given Mercia's **record of exiting at a premium to holding NAV** ([page 16](#)). This valuation also looks conservative when compared to our DCF model valuation of 66p/share.

Company data

EPIC	MERC.L
Price (last close)	31.5p
52 weeks Hi/Lo	37p/23p
Market cap	£136m
ED Fair Value / share	56p
Net cash** 2025A	£40m
Avg. daily volume (3m)	337k

Share price, p



Source: Investing.com

Description

Mercia Asset Management (Mercia) was founded in 2010 and listed on the AIM market of the London Stock Exchange in Dec 2014.

It provides venture capital, debt and private equity to mostly regional (ex-London) UK businesses, investing between £100k and £20m.

It manages c.£1.8bn of funds for third parties and has net assets of c. £188m of its own.

Next event

Interim results Nov 2025

Paul Bryant (Analyst)

0207 065 2690
paul.bryant@equitydevelopment.co.uk

Hannah Crowe

0207 065 2691
hannah@equitydevelopment.co.uk

Key financials & valuation metrics

Year to 31 Mar (£m)	FY23A	FY24A	FY25A	FY26E	FY27E
AUM, £bn	1.44	1.82	2.01	2.00	2.05
Third-party FUM, £bn	1.23	1.63	1.80	1.78	1.82
Direct investments	136.6	116.9	126.0	124.0	52.0
Rev (excl. perf. fees)	25.9	30.4	34.4	34.1	35.0
EBITDA	5.2	5.5	7.6	7.2	7.7
EBITDA margin	20.0%	18.2%	22.1%	21.2%	22.1%
PBT	2.4	-8.2	5.4	4.8	5.0
EPS basic, p	0.6	-1.7	0.8	0.8	0.8
Div, p	0.86	0.90	0.95	0.99	1.04
Yield	2.7%	2.9%	3.0%	3.2%	3.3%
Net assets	202.9	189.2	187.9	185.0	182.2
Net cash	37.6	46.9	40.1	42.6	115.8

Source: Company data, Equity Development, priced at 30/06/25

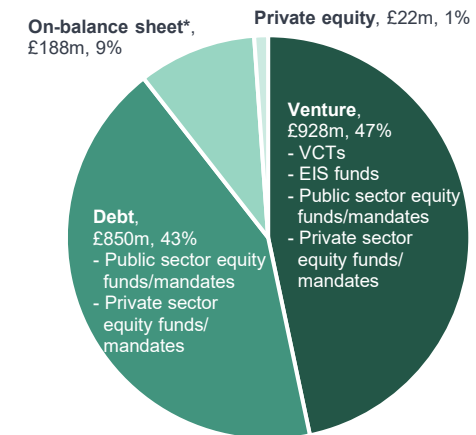
Mercia at a glance

History, market positioning, strategic focus

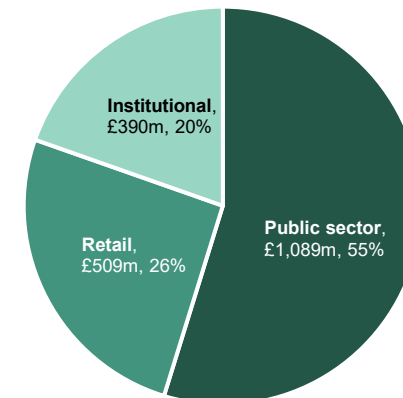
- Mercia was founded in 2010 and listed on AIM in December 2014. In FY25 it had an average of c.143 employees based in 11 offices across the UK.
- It is a specialist alternative asset manager. Mercia funds provide venture capital finance, private equity, and debt finance to high-growth UK SMEs based mostly in the 'regions' i.e. outside London. Equity funds typically deploy between £100k & £10m per investment, debt funds between £250k & £20m.
- Its business model is designed to meet the needs of and be highly attractive to entrepreneurs and their companies, as well as investors.
- From an investee company perspective, Mercia fulfils a crucial financing role in the UK regional high-growth ecosystem, which is characterised by a chronic undersupply of capital. This is in sharp contrast to London and surrounds which enjoys access to a hugely concentrated pool of capital. Mercia also plays an active role post-investment, helping its investee companies succeed and exit.
- From an investor's perspective, Mercia offers exposure to an attractive asset class that is not easy to access and requires a highly specialised skillset to succeed in. Regional businesses typically have lower pre-investment valuations compared to London, despite significant areas of thriving and highly sophisticated start-up and scale-up activity.
- Mercia is undergoing a strategic shift to 1) focus on highly profitable and fast-growing 3rd party fund management; and 2) realise the c.£126m (NAV) of on-balance-sheet investments (with 70% realisation targeted by 2027), to deploy to grow its fund management business.

Split in AUM and FUM

AUM (incl. own funds) by asset class (100% = £2.0bn)



AUM by investor type (100% =£2.0bn)



Source: Company, as at 31 Mar 25. Totals may not sum to 100% due to rounding.
*Including cash of £40m

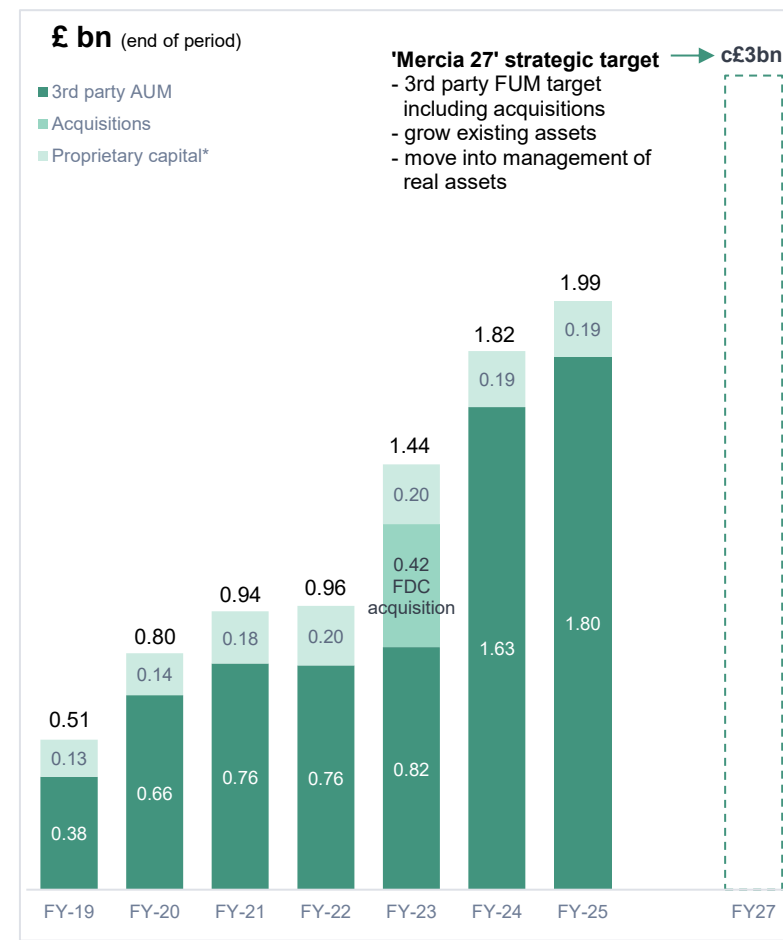
Assets under management

AUM continues to rise with further fundraises following huge growth in FY23 & FY24

More mandate winds, new raises for VCTs, EIS funds

- Mercia's strategic shift towards focusing on third party funds under management (FUM) gained further momentum during the year with a **10% increase in FUM from £1.63bn to £1.80bn**. There were no redemptions.
- Significant increases included:
 - An additional £90.0m allocated to the West Midlands Combined Authority Commercial and Residential Investment Funds, managed by Mercia's subsidiary Frontier Development Capital (FDC) which is focused on SME lending.
 - £81.5m for the Mercia Evolution Fund (FDC). These two raises contributed to **debt FUM increasing 24% from £687m to £850m**.
 - Award of a new £35.0m equity fund in the North East of England.
 - £29.2m raised by the three Northern Venture Capital Trusts (VCTs), plus £2.4m of shareholder dividend reinvestment inflows.
 - Four Enterprise Investment Scheme (EIS) funds raised £23.0m.
 - An additional £10.0m equity allocation was received under the Northern Powerhouse Investment Fund I.
- The value of the on-balance-sheet portfolio of 'direct investments' increased to £126m from £117m with around £9.7m of additional investments made (realisations and fair value movements were small, see page 7).
- Net cash closed the year on £40m. This, together with the direct investment portfolio, makes up the bulk of 'proprietary capital' used in the group's Assets under Management (AUM) figure, bringing total 'proprietary capital' to £0.19bn and group AUM to £2.0bn.

AUM growth history and target

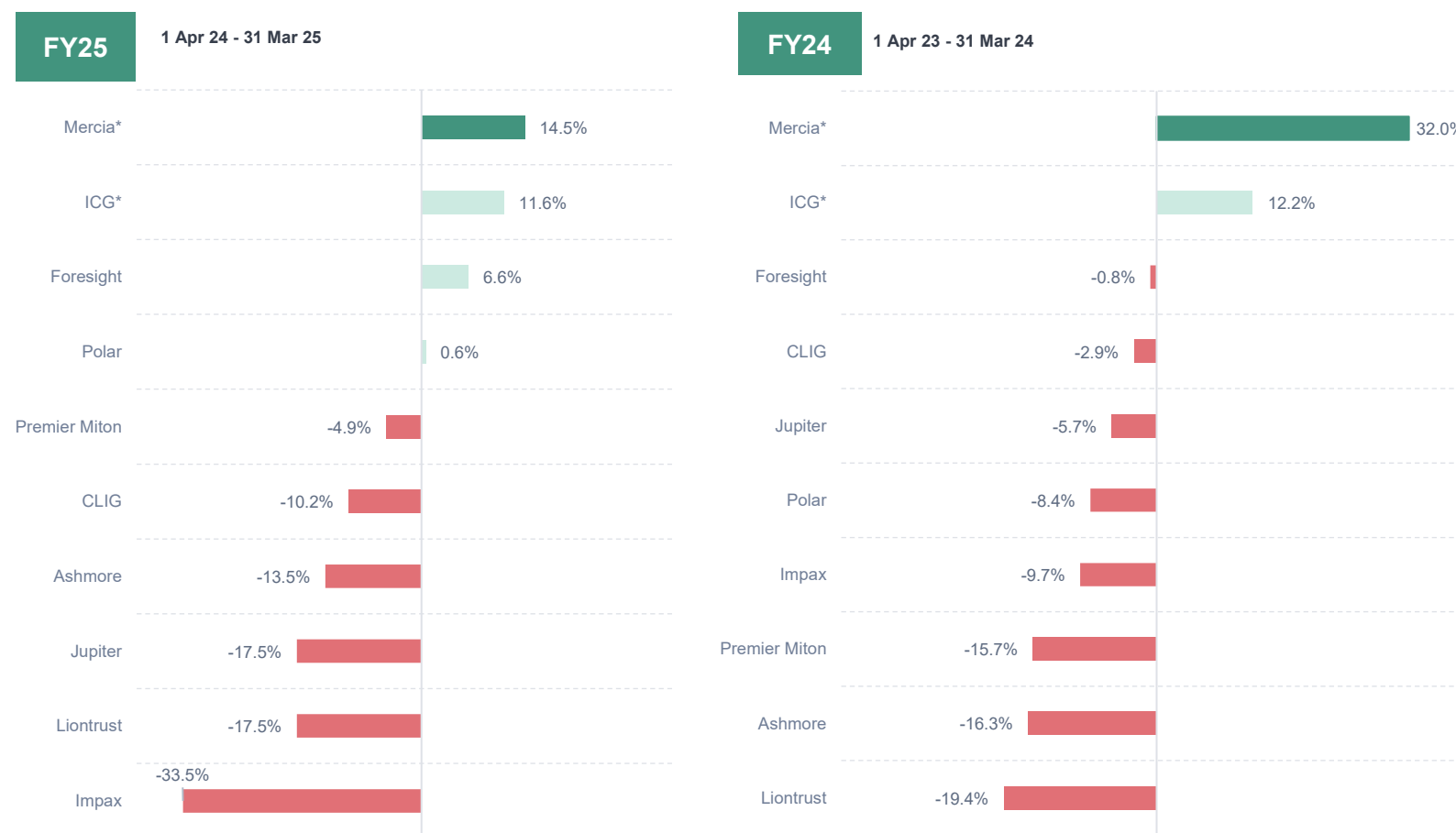


Source: Company, as at 31 Mar 25. Totals may not sum to 100% due to rounding.
 *Includes cash (£40m on 31 Mar 25)

For the last two years, Mercia has attracted capital at a rate faster than other London-listed asset managers

Compared to other small and medium sized London-listed asset managers (AUM < £100bn), Mercia has been a standout in terms of attracting assets with the **highest net flow rate for two years in a row (14.5% in FY25, 32.0% in FY24)**. Admittedly, this is off a relatively small base (£1.8bn FUM, next smallest is CLIG at c£7.4bn), but the achievement is nonetheless impressive. It shows that **Mercia has developed a range of highly attractive investment propositions**.

Net flows as % of opening AUM (Small & medium London-listed asset managers, < £100bn AUM)



Source: Company reports, ED analysis. *Mercia data for third party FUM only (flow rate includes £79m of inflows achieved/awarded during the year, but 'on fee' post year-end), ICG data for Fee Earning AUM only

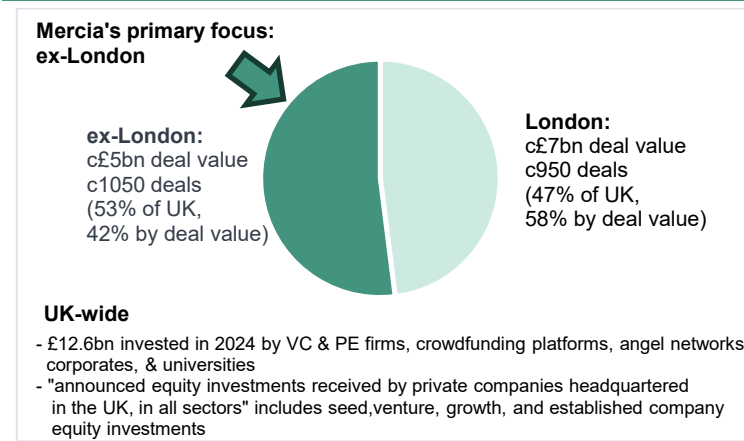
An active period for capital deployment

With the significant fundraisings made in late-FY24 and during FY25, Mercia had ample capital to deploy, which it has done, once again with a primary focus on the UK 'regions'.

Capital deployment up, bucking broader VC trend

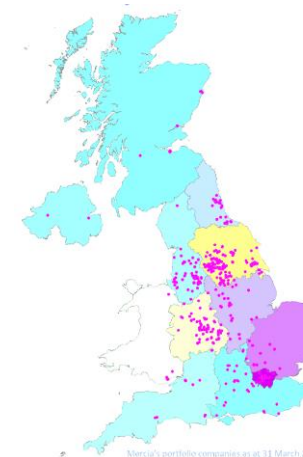
- Mercia started FY25 with £715m of 'dry powder' to deploy, from its third-party funds and own balance sheet. A significant proportion of that was third-party fund capital raised relatively late in FY24.
- In turn, its capital deployment is growing. **In FY25 Mercia invested £284m of equity and debt funding (FY24: £247m) into 165 businesses.** Of the capital deployed from third party funds, the equity/debt split was around 50/50.
- This was in a context of a weak period of capital deployment for the VC market more generally, indicating that **Mercia is becoming a more significant player and growing market share:**
 - Across Europe, total VC deal value fell 8% in calendar-2024 from EUR61.6bn in 2023 to EUR56.7bn, while deal count fell 16% from 11.4k to 9.6k (Pitchbook: 2024 Annual European Venture Report).
 - In the UK, deal value fell 17% in 2024 from £15.2bn to £12.6bn, while deal count fell 18% from 2.5k to 2.0k (Beauhurst: The Deal 2024 – announced equity investments into private companies headquartered in the UK,).
- Mercia's debt finance deployment takes place within the huge UK SME lending market, where it has a tiny share of the overall market. But it is growing rapidly in its highly focused niche areas, concentrating on SME lending in the regions.
- Mercia ended FY25 with around £600m of liquidity or 'dry powder' on 31 Mar 25 so **we would expect continued strong momentum in capital deployment** (from Mercia's managed funds, not from its own balance sheet).
- We also expect to see the first moves into 'real assets' investment space soon.

UK Venture Capital market, capital deployed, 2024



Beauhurst: The Deal 2024

Location of portfolio companies (31 Mar 25)



Source: Company

FY25 exits and exit-outlook

FY25 exits from companies held by Mercia's funds were up on FY24. Two small exits were made from direct investments; with **exit activity from this portfolio expected to ramp up**. Mercia has stated: "We have modelled up to c.£10million of exit returns in the new financial year, with the remainder of our 70% target in the following financial year." [Current portfolio NAV c. £126m (see next page)].

Solid period of exits for Mercia's funds

- In FY25 Mercia's funds had a steady stream of exits (number of exits shown):
 - Regional venture: 13 (FY24: 10)
 - VCT: 8 (FY24: 4)
 - EIS: 5 (FY24: 4)
 - Private Equity: 2 (FY24: 2)
- From the above, a total of £26m was realised
- Exits included:
 - a £14.8m exit with a 4.5x return on VCT asset Gentrionix;
 - £7.5m from the sale of Smartgate Solutions Ltd (trading as Radar Healthcare), out of Northern Powerhouse Investment Fund I (enterprise value £53m, return multiple 4.1x);
 - a refinancing at PE asset Imail realising £6.4m
- In its direct portfolio, Mercia previously commented that it did not expect any exits during FY25. However, it did realise two small exits, selling its two smallest holdings: Artesian Solutions for £0.6m **against a holding value of £0.5m**; Sherlock Biosciences was written off with a £0.3m loss realised.
- It has also announced that post year-end, it realised £0.4m from the ongoing liquidation of the fully provisioned Impression Technologies.

Source: Company

Exit environment conducive but not booming

- A little over a year ago, Mercia announced that it would look to exit the bulk of its direct investments over a c3-year period.
- While the market for exits would probably not be described as strong as it is still far weaker than the recent peak in 2021, it is certainly solid.
- Pitchbook described 2024 as the 'year of the exit comeback' in its *2024 Annual European Venture Report*, with its estimated exit count increasing slightly from 958 to 984 while total exit values doubled from EUR16.9bn to EUR 33.6bn (excluding the largest single exit of Puig, total exit values increased 24%, reaching EUR20.9bn).
- Also, 'adjacent' UK companies with larger portfolios than Mercia achieved a steady exit stream over the last year or so, for example:
 - IP Group: from a total investment portfolio of 82 companies with an NAV of £1.0bn (31 Dec 24), it achieved £183m in realisations (up from £39m in 2023).
 - Molten Ventures: from a total investment portfolio of 113 companies with an NAV of £1.4bn (31 Mar 25), it achieved £135m in realisations in the year to 31 Mar 25 (up from £39m in the prior year).

Source: Pitchbook, ED research

Limited changes to direct (on-balance sheet) portfolio in FY25

Other than £9.7m made in follow-on funding to existing direct investments (as expected), there was little activity in the portfolio, with only small fair value moves. These moves were not inconsistent with broader market trends: Pitchbook data* shows that in 2024, median early-stage VC pre-money valuations rose by c. 10% in UK & Ireland (to EUR 5.5m), while median late-stage VC valuations rose by 16% (to EUR 12.9m). And Beauhurst commented on its research: *"We're still seeing similar pre-money valuations across companies as we have seen in previous years. This tells us that investor confidence in the underlying value and growth prospects of UK companies remains steady, even in a more challenging funding environment. While there may be fewer deals or lower overall investment volumes, the market continues to recognise strong business potential."*

Direct (on-balance-sheet) investment portfolio – year to 31 March 2025, £'000

	First investment	Net value 1/4/24	Net cash invested	Realisation	Realised gain/(loss)	FV movement	Net value 31/3/25	% held
Netacea Group Ltd	2022	14,661	2,000	-	-	-	16,661	32.4
Voxpopme Ltd	2018	15,849	-	-	-	25	15,874	20.2
Warwick Acoustics Ltd	2014	11,934	-	-	-	-	11,934	35.8
VirtTrade Ltd **	2015	10,223	1,300	-	-	24	11,547	61.4
Medherant Ltd	2016	10,934	587	-	-	-	11,521	36.9
Eyoto Group Ltd	2017	7,142	2,500	-	-	-	9,642	24.7
Invincibles Studio Ltd	2015	8,567	750	-	-	-	9,317	35.5
Locate Bio Ltd	2018	7,837	-	-	-	-	7,837	19.4
Ton UK Ltd ***	2015	6,609	-	-	-	-	6,609	40.4
Aonic Founder SCS	2023	3,784	-	-	-	1,916	5,700	0.0
Axis Spine Technologies Ltd	2022	3,000	1,000	-	-	-	4,000	11.5
Tozaro Ltd	2020	2,734	-	-	-	-	2,734	11.2
Pimberly Ltd	2021	2,612	-	-	-	116	2,728	4.9
Nova Pangaea (Holdings) Ltd	2022	2,250	-	-	-	-	2,250	0.0
Forensic Analytics Ltd	2021	2,264	-	-	-	(514)	1,750	6.7
sureCore Ltd	2016	2,416	250	-	-	(1,268)	1,398	22.0
MyHealthChecked PLC	2016	782	-	-	-	170	952	13.1
Uniphy Ltd	2022	727	-	-	-	-	727	3.9
Artesian Solutions Ltd ****	2023	539	-	(601)	62	-	-	0.0
Sherlock Biosciences Inc	2023	340	-	-	(340)	-	-	0.0
Other direct investments	n/a	1,657	1,317	-	-	(195)	2,779	n/a
Total		116,861	9,704	(601)	(278)	274	125,960	n/a

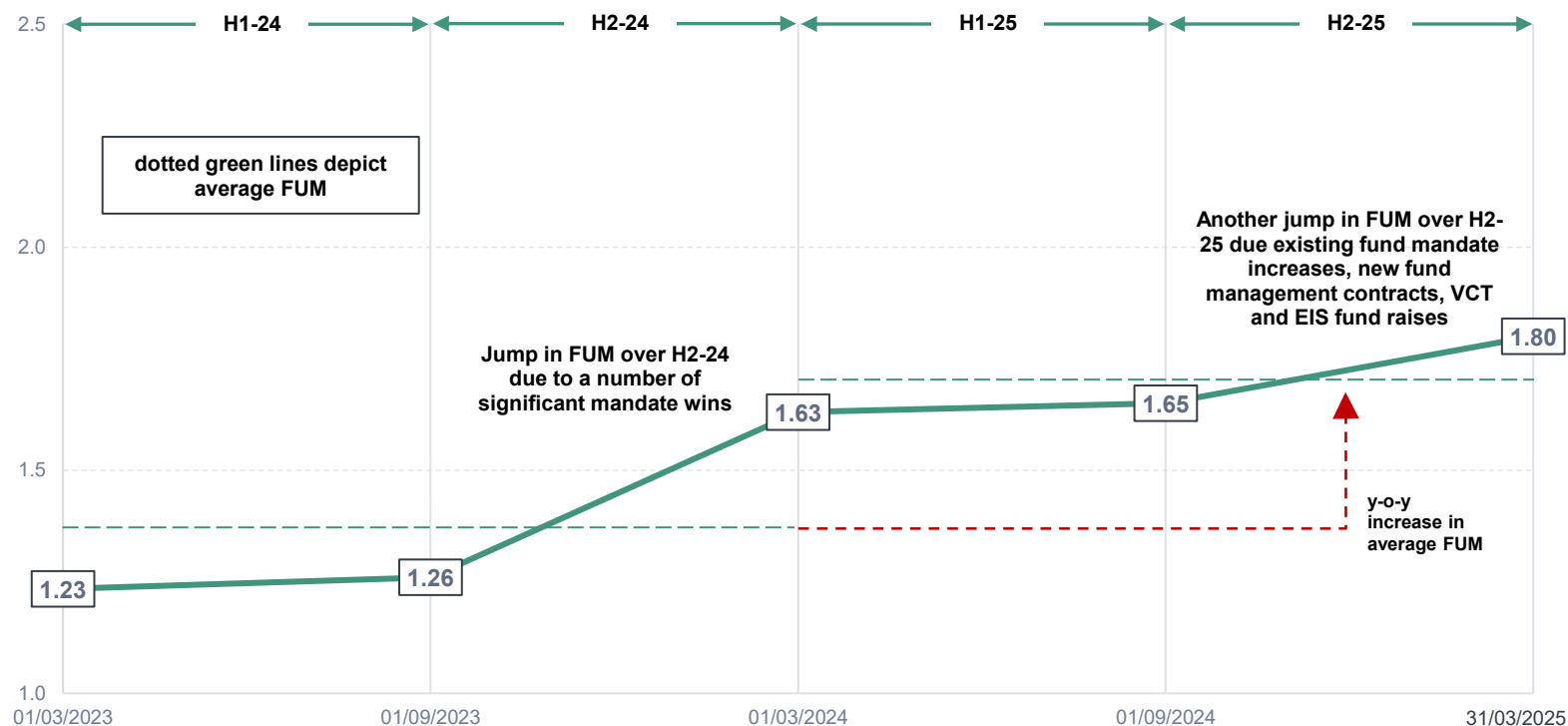
Source: company. *Pitchbook: European VC Valuations Report 2024 ** Trading as Avid Games. *** Trading as Intelligent Positioning. **** Trading as FullCircl.

Analysis of FY25 financials

Year-on-year jump in average FUM

Average FUM (3rd party funds under management) is the main driver of Mercia's largest source of revenue, fund management fees (68% of revenue in FY25 versus 69% in FY24, although this proportion can vary across periods depending on factors such as: capital deployed which drives initial management fees; capital raised in VCTs which drives share offer fees; and performance fees). As such it is important to understand FUM development and averages to provide a context for period comparisons. It can be seen in the chart that FUM growth has resulted in higher average FUM in FY25 over FY24.

FUM profile last 2Y, £bn (funds managed for third parties)



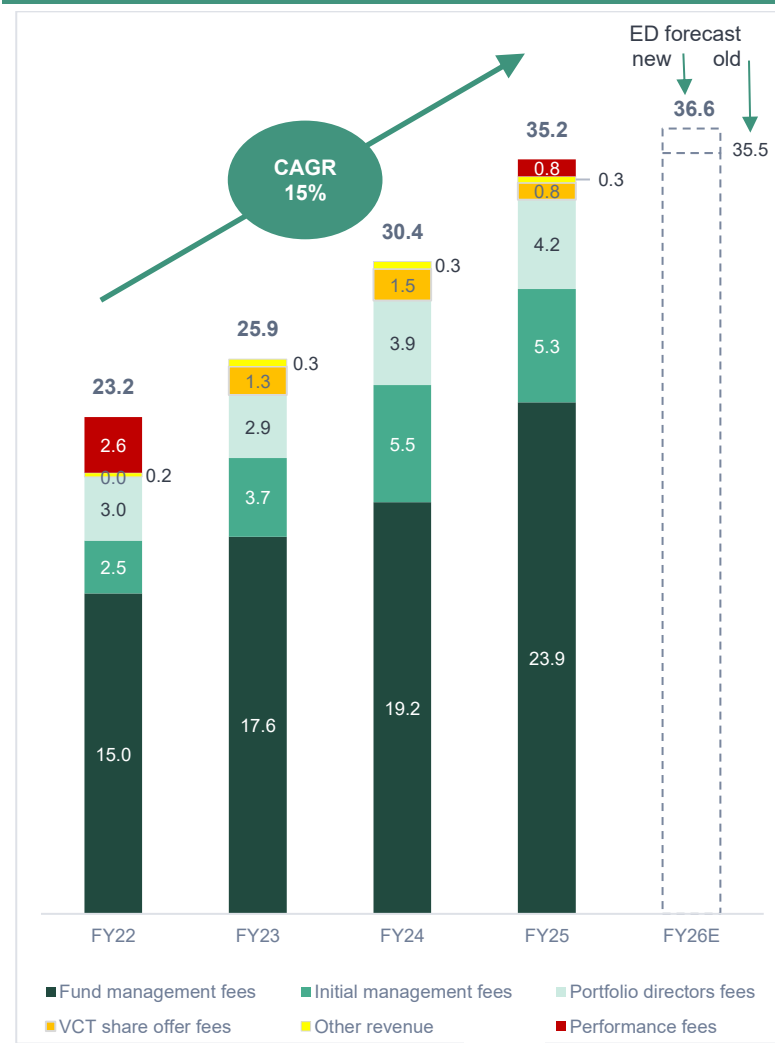
Source: Company reports, ED analysis

Revenue growth momentum maintained (+16%), driven by jump in fund management fees

FUM level, capital deployment & raises contribute to growth

- Mercia maintained its impressive revenue growth trend, with **total revenue up 16%** from £30.4m in FY24 to £35.2m in FY25.
- **Fund management fees were the main driver of revenue growth, increasing 24%** from £19.2m in FY24 to £23.9m in FY25. These are typically a fixed % of FUM, paid by investors in funds/VCTs, and are mostly driven by average FUM levels (see previous page). Note also that a full-year of fees from the mandate wins of late-FY24 contributed to the revenue increase.
- **Importantly, the FUM increase in FY25 was mostly because of mandate increases, new mandate wins and capital raises late in Q4 so had little impact on FY25 revenue. These will however boost revenue in FY26** (see chart with revenue forecast increased from £35.5m to £36.6m).
- Although capital deployment was up from £247m in FY24 to £284m, initial management fees (fixed % of amounts invested, paid by investee companies) fell slightly from £5.5m in FY24 to £5.3m due to a higher proportion of total capital deployment originating from British Business Bank funds (where initial management fees are not charged).
- Portfolio directors' fees (annual fees, paid by investee companies) increased 6% from £3.9m in FY24 to £4.2m, driven by the larger portfolio.
- VCT share offer fees ('% of funds raised' basis) were down from £1.5m to £0.8m, in line with the lower amount of capital raised by Northern VCTs (FY25: 29m; FY24: £49m).
- Mercia earned **£0.8m of performance fees in FY25** (FY24: nil). Other revenue (Custodian fees and Business services fees) totalled £0.3m.

Revenue breakdown, historical & forecast £m



Source: Company reports. Totals may not tally exactly due to rounding.
 *Other revenue = custodian fees and business services fees.

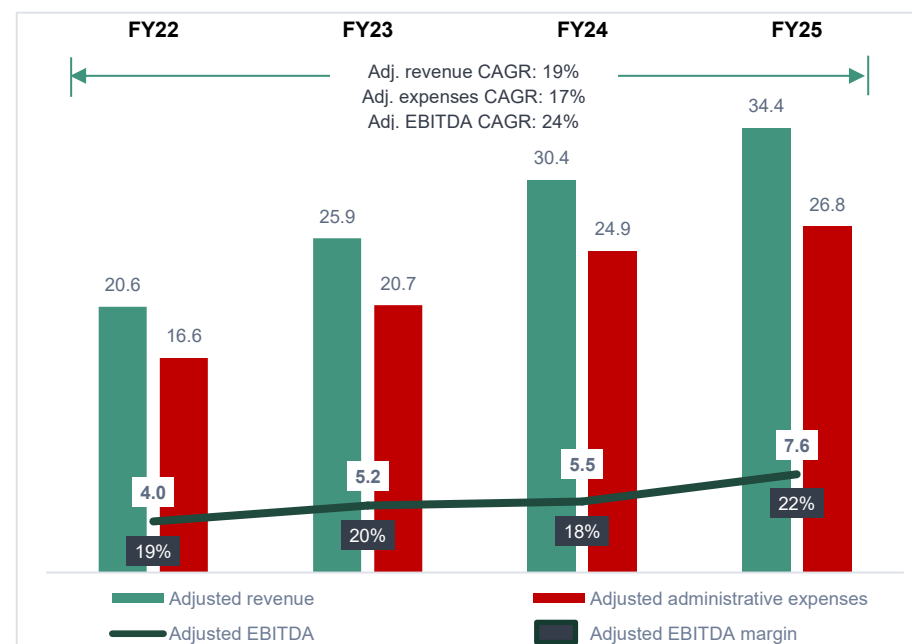
EBITDA jumps 37%, despite headcount increases to service mandate wins in late FY24

Business scaling, expenses well under control

- IFRS accounts include items that are potentially large, volatile, or non-cash, most significantly: performance fee revenue and associated costs; profits or losses from the sale of or fair value movements of direct investments; amortisation (largely related to the acquisition accounting requirement of amortising intangible assets); depreciation; share based payments; and tax.
- Therefore, Mercia also produces an *EBITDA* metric, (revenue less adj. expenses) which excludes the above items, and is a good measure of cash operating profit. It is also a useful measure of assessing scale benefits and Mercia's profitability as a standalone fund management business.
- In FY25, **adj. expenses were up only 8% y-o-y**, from £24.9m in FY24 to £26.8m, despite the business increasing headcount following the new mandate wins in H2-24.
- With cost growth far less than revenue growth, EBITDA was up 37% from £5.5m to £7.6m with EBITDA margin increasing y-o-y from 18.2% to 22.1%.**
- Net finance income was down y-o-y from £4.2m to £2.57m, with interest on cash deposits up from £1.9m to £2.0m but income from investee company loans down from £2.3m to £0.6m.

Y-o-y adjusted income statement & longer-term trend, £m

	FY25	FY24
Adjusted revenue (excl. perf. fees)	34.42	30.43
Staff costs (excl. perf. fee allocations)	(19.72)	(17.53)
Other admin expenses	(7.09)	(7.37)
Adj. expenses¹	(26.81)	(24.90)
EBITDA	7.61	5.54
Net finance income	2.57	4.16
Adj. operating profit	10.18	9.70



Source: Company reports

Statutory PBT moves back into positive territory after impact of fair value movement in FY24

Statutory income statement developments

- Mercia's full statutory income statement is more complex and volatile, bringing back the abovementioned items which are excluded from EBITDA.
- Gross performance fees were £0.79m, with net fees of £0.63m (FY24: nil).
- There was a small loss of £0.28m on the sale of direct investments (+£62k on Artesian Solutions Limited, -£340k on Sherlock Biosciences). We remind readers that in FY24, a profitable exit from nDreams generated a realised gain of £4.5m).
- The fair value movement of the on-balance sheet portfolio was negligible at +£0.27m (FY24: -£17.34m, mainly as a result of the £18.6m write-down of the Impression Technologies investment), with per-company adjustments shown on page 7).
- The amortisation of intangible assets and share-based payment charges were largely unchanged y-o-y. Depreciation was up from £0.49m to £0.60m, mainly because of change in the charge on right-of-use assets.
- **Profit before tax increased from -£8.21m in FY24 (impacted heavily by the Impression Technologies write-down) to £5.35m.**
- Profit after tax also turned from a loss to a profit: -£7.59m in FY24; +£3.46m in FY25. Mercia's tax charge moved from a credit in FY24 of £0.63m to a charge of £1.90m in FY25.
- Basic EPS moved from -1.71p in FY24 to +0.80p in FY25, while diluted eps moved from -1.71p to +0.80p.

Y-O-Y IFRS summarised income statements, £m

	<u>FY25</u>	<u>FY24</u>
Revenue	35.20	30.43
Adj. admin expenses	(26.81)	(24.90)
Staff share of perf. fee interests	(0.63)	-
Depreciation	(0.60)	(0.49)
P/L on sale of direct investment	(0.28)	4.45
FV move, direct investments	0.27	(17.34)
Share-based payments charge	(0.94)	(1.00)
Amort. Of intangible assets	(2.99)	(2.99)
FV move on def. consideration	(0.45)	(0.54)
Exceptional costs	0.00	0.00
Net finance income	2.57	4.16
Profit before tax	5.35	(8.21)
Tax	(1.90)	0.63
Profit after tax	3.46	(7.59)
Basic eps	0.80p	(1.71p)
Diluted eps	0.80p	(1.71p)

Source: company reports

Balance sheet strong with net cash of £40m (29% of market cap)

Net assets largely unchanged, no debt

- Mercia maintains its exceptionally strong balance sheet, with net assets slightly down over FY25 from £189.2m on 31 Mar 24 to £187.9m.
- **Net cash remained high at £40.1m (31 Mar 24: £46.9m), making up 29% of the group's market cap (on 30 Jun 25). Mercia has no borrowings.**
- Cash generated from operations (pre-tax) was £9.4m (FY24: £7.9m).
- The group **invested £9.7m into its existing portfolio of direct investments, which was largely responsible for the increase in NAV of on-balance-sheet investments to £126.0m (93% of market cap) from £116.9m on 31 Mar 24.**

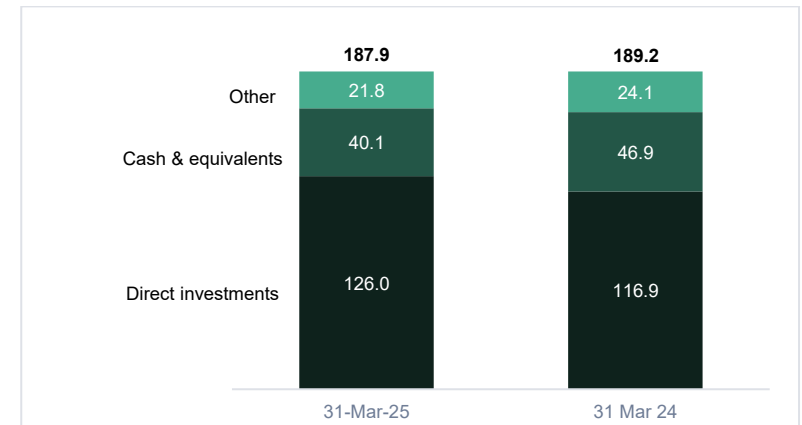
Source: Company

Dividend increased by 6%, yield 3.0%

- Mercia first started paying a dividend in FY21 (year to end-Mar 21) and follows a progressive dividend policy. The progress is shown in the chart on the right.
- A final FY25 dividend 0.58p per share is proposed (FY24: 0.55p) in addition to the interim dividend of 0.37p (FY24: 0.35p). This results in a **total FY25 dividend of 0.95p, 6% up on the 0.90p of FY24, producing a yield of 3.0%** based on the share price on 30 Jun 25.

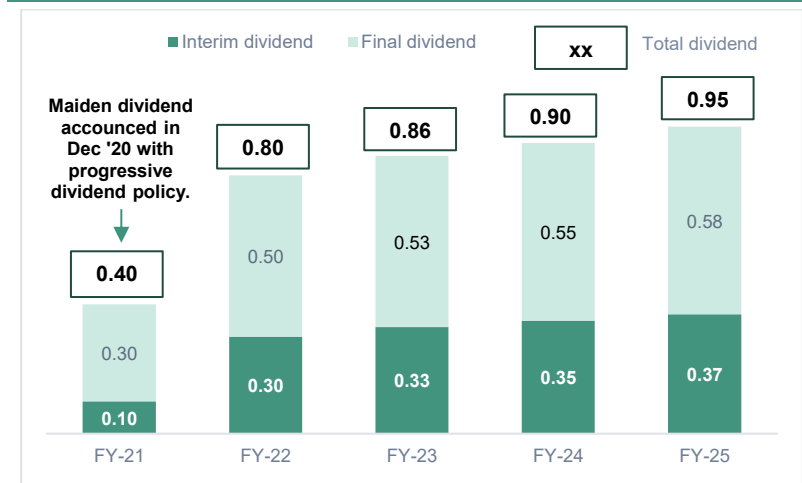
Source: Company

Summarised net asset composition, £m



Source: Company

Dividend history



Source: Company

Updated forecasts

- Our revenue forecast is impacted on the positive side by the new mandate increases, new mandate wins, and VCT & EIS capital raises in late-FY25 which filter through to increased fee income for FY26 and especially FY27 and beyond. It is pegged back by some mandates moving into the realisation phase with a subsequent loss of that fee income.
- The additional efficiencies captured during the year also reduce our previous costs estimates for FY26.
- This results in our adjusted EBITDA forecast increasing from £6.2m to £7.2m with our adjusted EBITDA margin also forecast to increase from our previous forecast of 17.5% to 21.2%.

Performance v forecast and Forecast changes

Year to 31 Mar (£m)	FY25	FY25E	above/below	FY26E	FY26E	Change
	Actual	Old	forecast	Revised	Old	
AUM*, £bn	2.01	2.16	-7%	2.00	2.00	0%
Third-party AUM, £bn	1.80	1.97	-8%	1.78	1.78	0%
Direct investments	126.0	124.4	1%	124.0	136.9	-9%
Rev (excl. perf. fees)	34.4	34.5	0%	34.1	35.5	-4%
EBITDA**	7.6	7.7	-1%	7.2	6.2	16%
EBITDA margin	22.1%	22.2%	-1%	21.2%	17.5%	21%
PBT	5.4	4.8	12%	4.8	2.7	78%
EPS basic, p	0.8	0.8	1%	0.8	0.4	94%
Div, p	0.95	0.95	0%	0.99	0.99	0%
Yield	3.0%	3.0%		3.2%	3.2%	
Net assets	187.9	187.9	0%	185.0	185.7	0%
Net cash	40.1	40.0	0%	42.6	27.9	53%

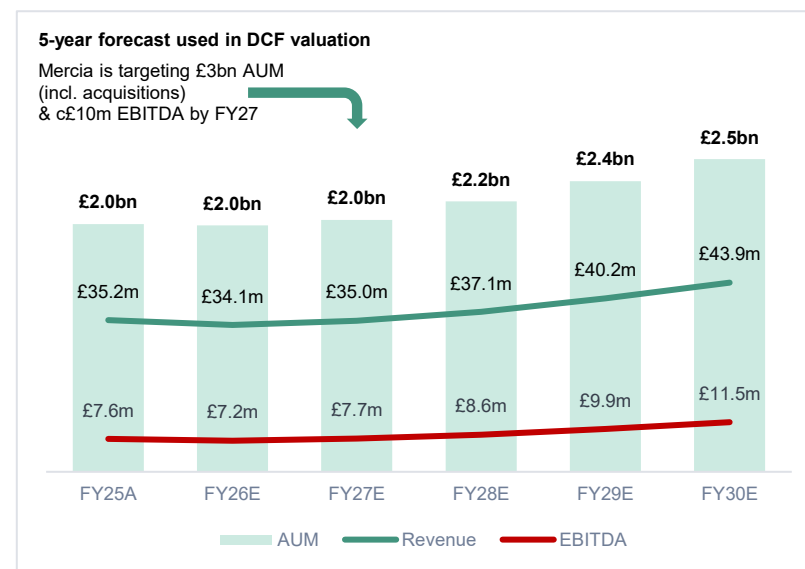
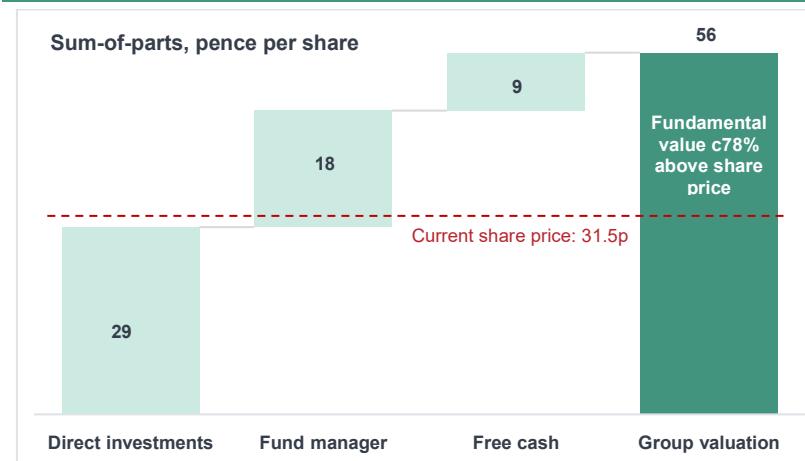
Source: Equity Development, Priced at 30/06/2025

Sum-of-parts and DCF valuations suggest deep discount to fundamental value

Underlying assumptions of fundamental valuation

- We believe Mercia's current share price significantly misprices its fundamental value. Two separate valuation methodologies back this up.
- On a sum-of-parts basis, we split Mercia's value into three components:
 - A fund management business, where fees are charged for managing funds for third party investors, which we value at 18p per share (see next page).
 - A significant direct investment portfolio, which is disproportionately large compared to most on-balance sheet investments of other asset managers, and which is valued at 29p per share (see page 7 and Appendix 1).
 - A cash pile of £40m which is also extremely large in relation to its size, translating to a per-share value of 9p.
- This methodology produces a **fundamental valuation of 56p per share, 78% above the 31.5p share price on 30/06/25.**
- We also value Mercia on a DCF basis. Key assumptions include:
 - A 5-year explicit growth forecast (right), noting that this is more conservative than the *Mercia 27* ambition – which is to achieve £3bn AUM and c£10m EBITDA by FY27 – an ambition the company has reiterated in its outlook statement contained in the FY25 results. Our forecast does not consider acquisitions, which is in the strategy.
 - A terminal value based on a profitability growth rate of 2.5%, which we believe is conservative.
 - A discount rate of 11%.
- This produces a slightly higher value of **66p per share**. Conservatively, we use the sum-of-parts value of 56p as our fundamental value.

Sum-of-parts and DCF summaries



Source: Company historic data, ED forecasts and analysis

Back-up to sum-of-parts valuation: Valuation of fund managers (excluding cash & direct investments)

Underlying assumptions of valuation

- Mercia's fund management business on a standalone basis can be valued using sector multiples. But PE multiples using statutory profits are distorted in the sector by large on-balance sheet investments and large cash piles.
- We therefore calculate an 'adjusted PER' for peers, to see what a sensible multiple would be to value fund managers on a standalone basis excluding 1) the value of on-balance sheet investments and 2) net cash:
 - First, we strip the per share value of these two items out of share prices.
 - We then calculate an adjusted EBITDA per share metric for each asset manager (as close as possible to Mercia's definition of EBITDA). This is a good (albeit not perfect) measure of pre-tax cash profitability of fee-earning fund management businesses.
 - We then calculate an adjusted PER for each asset manager by dividing the adjusted share price (1st bullet above) by its adjusted EBITDA per share (2nd bullet above) with the results shown on the chart to the right.
- First, it is clear that **asset managers in the private assets space command a premium adjusted PER** (top 4 positions in the chart). Second, **Mercia is growing at a faster rate than most of these asset managers**, and we believe it is fully justified that it will command a premium adjusted PER ratio. We use a value of 10 in our calculation which is mid-range for private assets specialists.
- We therefore value Mercia's asset management business on a standalone basis at 18p per share (Adjusted EBITDA in FY25 = £7.6m or 1.76p per share x adjusted PER of 10).

Adjusted PER* ratios of asset management peers



Source: Company reports, ED analysis. All calculations done using share price on 26/06/25 (**except Gresham House where we use the share price at the time of its de-listing in Dec 23) and financial data on a trailing twelve months (TTM) basis. Only asset managers with AUM < £100bn used in the peer group. *Adjusted PER = share price less on-balance sheet investments value per share less net cash per share divided by adjusted EBITDA (or closest measure) per share.

Appendix 1: Direct investment exits, % above NAV

Mercia has a long record of valuing portfolio businesses conservatively, with every single exit since IPO concluded at a premium to holding-NAV, with a weighted average premium of 41%. A portfolio NAV of c£126m on 31 Mar 25 would be around 94% of Mercia's market cap of £132m (on 30 Jun 25). This would certainly imply that the market is applying a significant discount to the direct investment portfolio NAV, which seems strange, if not patently incorrect to us, given Mercia's record of exiting investments well above holding NAV.

Direct-investment exits since IPO: Exit value to holding-NAV				
Company	Exit date	Pre-exit NAV	Exit value realised	Exit-surplus to NAV
Sherlock Biosciences	Dec '24	£0.34m	nil	(-£0.34m)
Artesian Solutions	Oct '24	£0.54m	£0.60m	+12% (+£0.06m)
nDreams	Nov '23	£25.8m	£30.2m	+17% (+£4.4m)
Intechnica	Jan '23	£2.2m	£4.0m	+81% (+£1.8m)
Faradion	Jan '22	£12.9m	£19.4m	+50% (+£6.5m)
Oxford Genetics	Mar '21	£16.1m	£30.7m	+91% (+£14.6m)
Clear Review	Oct 20	£1.0m	£1.0m	+1% (+£0.01m)
Native Antigen	Jul '20	£3.5m	£5.2m	+49% (+£1.7m)
Science Warehouse	Mar '18	£9.9m	£10.5m	+6% (+£0.6m)
Abzena	Feb '17	£0.15m	£0.17m	+13% (+£0.02m)
Allinea Software	Dec '16	£1.9m	£3.0m	+58% (+£1.1m)
Weighted-average Exit-surplus to holding NAV				+41%

Source: Company, ED analysis

Summary financials

Income statement					
Year to 31 Mar (£m)	FY23A	FY24A	FY25A	FY26E	FY27E
Revenue (excl. performance fees)	25.9	30.4	34.4	34.1	35.0
Adjusted administrative expenses	(20.7)	(24.9)	(26.8)	(26.9)	(27.3)
EBITDA	5.2	5.5	7.6	7.2	7.7
Net finance income	2.4	4.2	2.6	2.2	1.9
Adjusted operating profit	7.6	9.7	10.2	9.4	9.7
Gross performance fees	-	-	0.8	-	-
IFRS Revenue	25.9	30.4	35.2	34.1	35.0
Adjusted administrative expenses	(20.7)	(24.9)	(26.8)	(26.9)	(27.3)
Performance fee costs	-	-	(0.6)	-	-
Depreciation	(0.3)	(0.5)	(0.6)	(0.6)	(0.6)
Realised P/(L) on sale of direct investments	(0.8)	4.5	(0.3)	-	-
FV movement in direct investments	1.2	(17.3)	0.3	-	-
Share-based payments charge	(1.0)	(1.0)	(0.9)	(1.0)	(1.0)
Amortisation of intangible assets	(2.3)	(3.0)	(3.0)	(3.0)	(3.0)
Movement in FV of deferred consideration	(1.5)	(0.5)	(0.5)	-	-
Operating P/(L) before exceptional items	0.4	(12.4)	2.8	2.6	3.1
Exceptional items	(0.4)	-	-	-	-
Operating profit/(loss)	0.0	(12.4)	2.8	2.6	3.1
Net finance income	2.4	4.2	2.6	2.2	1.9
Profit before tax	2.4	(8.2)	5.4	4.8	5.0
Taxation	0.4	0.6	(1.9)	(1.4)	(1.5)
Profit & total comprehensive income	2.8	(7.6)	3.5	3.4	3.5
Basic EPS, p	0.6	(1.7)	0.8	0.8	0.8
Diluted EPS, p	0.6	(1.7)	0.8	0.8	0.8

Source: Company data, Equity Development.

Balance sheet					
Year to 31 Mar (£m)	FY23A	FY24A	FY25A	FY26E	FY27E
Non-current assets					
Goodwill	20.9	21.1	21.1	21.1	21.1
Intangible assets	18.2	15.2	12.2	9.2	6.2
Property, plant and equipment	0.1	0.1	0.2	0.2	0.2
Right of Use Assets	0.8	0.7	0.7	0.7	0.7
Investments	136.6	116.9	126.0	124.0	52.0
Sub-total NCAs	176.6	154.0	160.1	155.2	80.2
Current assets					
Trade and other receivables	3.8	4.0	3.2	3.3	3.3
Restricted cash	-	-	-	-	-
Short-term liquidity investments	0.3	-	-	-	-
Cash and cash equivalents	37.6	46.9	40.1	42.6	115.7
Sub-total CAs	41.6	50.9	43.3	45.9	119.0
TOTAL ASSETS	218.2	204.9	203.5	201.1	199.2
Current Liabilities					
Trade and other payables	(6.8)	(8.9)	(11.8)	(13.0)	(14.8)
Lease liabilities	(0.3)	(0.4)	(0.4)	(0.3)	(0.1)
Deferred consideration	(1.2)	(2.3)	-	-	-
Sub-total CLs	(8.4)	(11.5)	(12.2)	(13.2)	(14.8)
Non-current Liabilities					
Lease liabilities	(0.6)	(0.3)	(0.3)	(0.5)	(0.7)
Deferred consideration	(1.8)	-	-	-	-
Deferred tax liability	(4.5)	(3.8)	(3.0)	(2.3)	(1.5)
Sub-total NCLs	(6.9)	(4.1)	(3.4)	(2.8)	(2.2)
TOTAL LIABILITIES	(15.3)	(15.7)	(15.6)	(16.0)	(17.1)
NET ASSETS	202.9	189.2	187.9	185.0	182.2
EQUITY					
Share capital	0.0	0.0	0.0	0.0	0.0
Share premium	83.7	83.8	83.8	80.8	77.8
Treasury reserve	-	(3.2)	(4.9)	(4.9)	(4.9)
Other distributable reserves	63.3	59.3	55.4	55.4	55.4
Retained earnings	51.3	43.8	47.2	46.4	45.4
Share based payments reserve	4.6	5.6	6.5	7.4	8.5
TOTAL EQUITY	202.9	189.2	187.9	185.0	182.2

Source: Company data, Equity Development

Cash flow statement

Year to 31 Mar (£m)	FY24A	FY24A	FY25A	FY26E	FY27E
Operating activities					
Operating profit	0.0	(12.4)	2.8	2.6	3.1
Adjustment for:					
Depreciation of property, plant & equipment	0.1	0.1	0.1	0.1	0.1
Depreciation of right-of use assets	0.2	0.4	0.5	0.5	0.5
Loss/(profit) on sale of direct investment	0.8	(4.5)	0.3	-	-
Fair value movement in direct investments	(1.2)	17.3	(0.3)	-	-
Share-based payment charges	1.0	1.0	0.9	1.0	1.0
Amortisation of intangible assets	2.3	3.0	3.0	3.0	3.0
Movement in fair value of contingent consideration	1.5	0.5	0.5	-	-
Working capital adjustments:	-	-	-	-	-
Decrease/(increase) in receivables	(1.1)	0.8	(0.0)	(0.0)	(0.0)
(Decr)/incr in trade and other payables	(0.7)	1.5	1.7	1.7	1.7
Cash generated from operations	3.0	7.9	9.4	8.8	9.4
Corporation tax paid	(1.8)	(0.8)	(0.7)	(2.6)	(2.2)
Net cash from operating activities	1.2	7.1	8.7	6.2	7.2
Investing activities					
Sale of direct investments	3.7	26.7	0.6	10.0	80.0
Purchase of direct investments	(20.8)	(19.9)	(9.7)	(8.0)	(8.0)
Investee company loan repayment	0.1	0.3	-	-	-
Investee co. loan redemption premium & interest received	2.0	2.3	0.6	0.5	0.4
Interest received on cash deposits	0.4	1.8	2.1	1.7	1.5
Purchase of property and equipment	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)
Acquisition of subsidiary	(7.0)	(1.5)	(2.7)	-	-
Cash acquired with purchase of subsidiary	2.9	-	-	-	-
Purchase of VCT fund management business	(2.1)	-	-	-	-
Decrease/(increase) in short term liquidity investments	5.0	0.3	-	-	-
Net cash used in investing activities	(15.8)	9.9	(9.3)	4.1	73.8
Financing activities					
Proceeds of issue of shares	-	-	-	-	-
Transaction costs relating to the issue of Ordinary shares	-	-	-	-	-
Dividends paid	(3.7)	(3.9)	(4.0)	(4.2)	(4.4)
Interest paid	(0.0)	(0.1)	(0.1)	(0.1)	(0.1)
Pmt of lease liabilities and initial direct costs	(0.2)	(0.4)	(0.5)	(0.5)	(0.5)
Redemption of subsidiary undertaking pref. shares	-	-	-	-	-
Purchase of own shares	-	(3.2)	(1.8)	(3.0)	(3.0)
Proceeds from exercise of employee share options	-	0.0	0.1	-	-
Net cash from / (used in) financing activities	(3.9)	(7.6)	(6.3)	(7.7)	(7.9)
Net (decr)/incr in cash & equivalents	(18.5)	9.4	(6.8)	2.5	73.1
Cash & equivalents beginning of year	56.0	37.6	46.9	40.1	42.6
Cash & equivalents at end of year	37.6	46.9	40.1	42.6	115.7

Source: Company data, Equity Development

Contacts

Andy Edmond

Direct: 020 7065 2691

Tel: 020 7065 2690

andy@equitydevelopment.co.uk

Hannah Crowe

Direct: 0207 065 2692

Tel: 0207 065 2690

hannah@equitydevelopment.co.uk

Equity Development Limited is regulated by the Financial Conduct Authority

Disclaimer

Equity Development Limited ('ED') is retained to act as financial adviser for its corporate clients, some or all of whom may now or in the future have an interest in the contents of this document. ED produces and distributes research for these corporate clients to persons who are not clients of ED. In the preparation of this report ED has taken professional efforts to ensure that the facts stated herein are clear, fair and not misleading, but makes no guarantee as to the accuracy or completeness of the information or opinions contained herein.

Any reader of this research should not act or rely on this document or any of its contents. This report is being provided by ED to provide background information about the subject of the research to relevant persons, as defined by the Financial Services and Markets Act 2000 (Financial Promotions) Order 2005. This document does not constitute, nor form part of, and should not be construed as, any offer for sale or purchase of (or solicitation of, or invitation to make any offer to buy or sell) any Securities (which may rise and fall in value). Nor shall it, or any part of it, form the basis of, or be relied on in connection with, any contract or commitment whatsoever.

Research produced and distributed by ED on its client companies is normally commissioned and paid for by those companies themselves ('issuer financed research') and as such is not deemed to be independent as defined by the FCA but is 'objective' in that the authors are stating their own opinions. This document is prepared for clients under UK law. In the UK, companies quoted on AIM are subject to lighter due diligence than shares quoted on the main market and are therefore more likely to carry a higher degree of risk than main market companies.

ED may in the future provide, or may have in the past provided, investment banking services to the subject of this report. ED, its directors or persons connected may at some time in the future have, or have had in the past, a material investment in the Company. ED, its affiliates, officers, directors and employees, will not be liable for any loss or damage arising from any use of this document to the maximum extent that the law permits.

More information is available on our website www.equitydevelopment.co.uk

Contact: info@equitydevelopment.co.uk | 020 7065 2690