

# Northern 2 VCT PLC

Interim Financial Report  
**30 September 2022**



## Welcome

Northern 2 VCT PLC is a Venture Capital Trust (VCT) managed by Mercia Fund Management Limited.

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

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## Financial summary

	Six months ended 30 September 2022	Six months ended 30 September 2021	Year ended 31 March 2022
<b>Net assets</b>	£113.1m	£112.7m	£104.9m
<b>Net asset value per share</b>	60.2p	69.2p	64.4p
<b>Return per share</b>			
Revenue	(0.2)p	0.2p	0.2p
Capital	(2.4)p	3.2p	0.4p
Total	(2.6)p	3.4p	0.6p
<b>Dividend per share declared in respect of the period</b>	2.0p	2.0p	3.6p
<b>Cumulative return to shareholders since launch</b>			
Net asset value per share	60.2p	69.2p	64.4p
Dividends paid per share*	134.0p	130.4p	132.4p
Net asset value plus dividends paid per share	194.2p	199.6p	196.8p
<b>Mid-market share price at end of period</b>	58.0p	64.0p	61.5p
<b>Share price discount to net asset value</b>	3.7%	7.5%	4.5%
<b>Annualised tax-free dividend yield (based on net asset value per share)**</b>			
Excluding special dividend	5.2%	5.4%	5.0%
Including special dividend	N/A	11.7%	N/A

\* Excluding interim dividend not yet paid.

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

### Key dates

# 23 November 2022

Interim results announced

# 8 December 2022

Shares quoted ex dividend

# 13 January 2023

Interim dividend paid  
(to shareholders on register on  
9 December 2022)



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information  
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[www.mercia.co.uk/vcts/](http://www.mercia.co.uk/vcts/)

# Interim management report

for the six months ended 30 September 2022



David Gravells

Chair

While the economic climate, dominated by supply side shortages, inflationary pressures and political turmoil, has introduced volatility into the financial markets, your company has continued to invest in early stage companies, support existing portfolio companies and generate returns from realisations.

The proceeds of portfolio investments sold during the period totalled £3.6 million, compared with an initial cost of £1.8 million. Investment activity continued in the period, with £4.4 million invested across 10 existing and new portfolio companies, with a further £4.2 million invested since the end of the reporting period. The cash generated from investment disposals, in combination with the proceeds from the 2021/22 fully subscribed £17.0 million public share offer, has resulted in your company being well positioned to pursue new opportunities.

### Investment portfolio

The prevailing macroeconomic conditions have been challenging for some of our portfolio companies, with valuations of companies in some sectors reducing on the prospect of lower consumer disposable income, higher interest rates and increases in raw materials and labour costs. Your directors take great care when considering the valuations of the unquoted venture portfolio and whenever necessary have reflected the uncertain market conditions in the valuations as at 30 September 2022.

Over the course of 2022 quoted markets have reacted to the economic situation by falling from the highs seen in 2021. The quoted portfolio ended the six month period £3.0 million lower than March 2022, a 25% fall. This lower figure was predominantly due to musicMagpie plc, where the valuation of the AIM listed shares held following our partial realisation at IPO fell by £1.6 million. Notwithstanding this reduced value, the combined realised and unrealised lifetime return on cost from our investment in musicMagpie plc was 6.6 times as at 30 September 2022.

We have continued to see positive realisations from portfolio companies. So far this financial year we have disposed of our holding in an early stage investment, Knowledgemotion, for initial net proceeds of £3.0 million, representing 1.7 times return on the original cost, and one of our listed holdings, Ideagen, for net proceeds of £429,000, versus an original cost of £42,000.

### Results and dividend

The unaudited net asset value (NAV) per share on 30 September 2022 was 60.2 pence (64.4 pence (audited) on 31 March 2022) and is stated after deducting the final dividend of 1.6 pence per share in respect of the 2021/22 financial year, which was paid in August 2022. The return per share as shown in the income statement for the six months ended 30 September 2022 was minus 2.6 pence, compared with 3.4 pence in the corresponding period last year.

Investment income fell to £146,000 from £835,000 during the same period last year, reflecting the disposal of higher yielding income investments as the portfolio mix continued to pivot towards earlier stage venture capital opportunities, following the 2015 change to the definition of VCT qualifying assets. Income from our liquid cash portfolio is expected to rise over the next year, as the increase in the Bank of England base rate filters through.

After careful consideration, the board has declared an unchanged interim dividend for the year ending 31 March 2023 of 2.0 pence per share, which will be paid on 13 January 2023 to shareholders who are on the register on 9 December 2023. It remains our objective to pay a dividend at least equivalent to 5% of the opening NAV in each year.

### Shareholder issues

As a result of the fully subscribed public share offer launched in January 2022, 25,597,510 new ordinary shares were issued in April 2022 for gross proceeds of £17.0 million.

Our dividend investment scheme, which enables shareholders to invest their dividends in new ordinary shares free of dealing costs and with the benefit of the tax reliefs available on new VCT share subscriptions, continues to operate, with around 14% of total dividends reinvested by shareholders during the year.

We are experiencing a sustained demand for long-term growth capital for smaller companies in the UK. In order to continue to support our existing portfolio through challenging economic conditions and invest in new early stage opportunities, we announce our intention to fundraise in the 2022/23 and 2023/24 tax years in conjunction with the other Northern VCTs. Full details of how to participate in the up to £6 million 2022/23 fund raise will be published in January 2023.

We have maintained our policy of being willing to buy back the company's shares in the market when necessary in order to maintain liquidity, at a 5% discount to NAV. During the period, a total of 1,529,356 shares were repurchased for cancellation, equivalent to approximately 0.9% of the opening share capital.

### **VCT qualifying status and legislation**

The company has continued to meet the stringent qualifying conditions laid down by HM Revenue & Customs for maintaining its approval as a VCT. Our investment manager monitors the position closely and reports regularly to the board. Philip Hare & Associates LLP has continued to act as independent adviser to the company on VCT taxation matters.

We welcomed the UK Government's announcement of its commitment to the extension of the VCT sunset clause beyond the existing 2025 deadline. The 'sunset clause' was a European state aid requirement when the VCT scheme received state aid approval in 2015, requiring a small change in UK legislation to enable VCT investors to continue to receive upfront tax relief after April 2025. The Board considers that the company, and VCTs more generally, are successfully delivering against the government's mandate, which is to channel money into higher-risk, early-stage businesses. Mercia is represented on the relevant committees of the various trade bodies, working to continue to demonstrate to government the positive contributions that VCTs play in society.

Given the current political climate it is possible that further changes will be made in the future. We will continue to work closely with Mercia to maintain compliance with the scheme rules at all times.

### **Outlook**

While macroeconomic conditions continue to cause considerable uncertainty and challenges for early stage businesses, your company is well-capitalised and continues to invest in a strong pipeline of exciting opportunities. We will continue to work with our investment manager to support our existing portfolio, taking opportunities as they arise to realise returns for shareholders. Your company is invested in a diversified portfolio of businesses with medium-term prospects in which we remain confident.

The board very much appreciates the continuing support of shareholders.

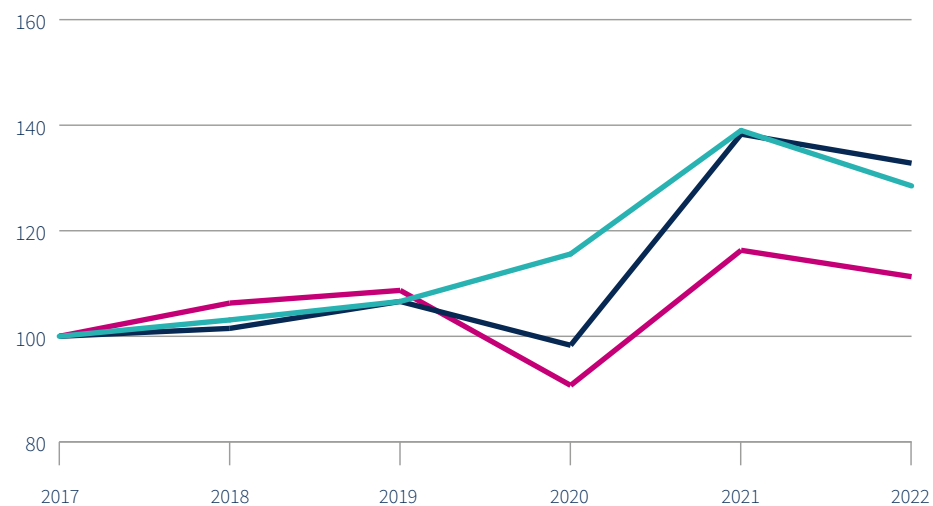
On behalf of the board

**David Gravells**  
Chair

# Five-year performance

## Comparative return to shareholders (assuming dividends re-invested)

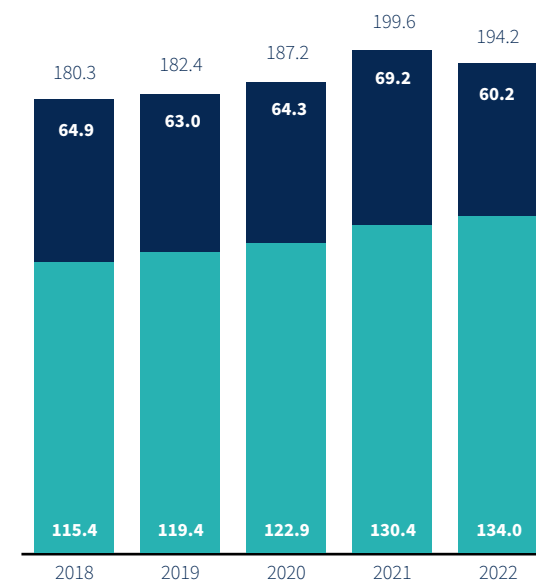
Five years to 30 September 2022 (30 September 2017 = 100)



- Northern 2 VCT NAV total return
- Northern 2 VCT share price total return
- UK equity market index total return

## Net asset value and cumulative dividends per share

As at 30 September (pence per share)



- Net asset value per share
- Cumulative dividends paid since launch

# Investment portfolio

## As at 30 September 2022

	Cost £000	Valuation £000	% of net assets by value
<b>Fifteen largest venture capital investments</b>			
Evotix (formerly SHE)	2,518	<b>8,751</b>	7.7%
Lineup Systems	975	<b>7,267</b>	6.4%
Volumatic Holdings	216	<b>3,360</b>	3.0%
Grip-UK (t/a Climbing Hangar)	3,213	<b>3,213</b>	2.8%
Newcells Biotech	2,257	<b>2,564</b>	2.3%
Gentronix	1,164	<b>2,166</b>	1.9%
Biological Preparations Group	2,166	<b>2,082</b>	1.8%
Rockar	1,716	<b>1,929</b>	1.7%
Clarilis	1,828	<b>1,921</b>	1.7%
Tutora (t/a Tutorful)	1,843	<b>1,733</b>	1.6%
Eenate	1,394	<b>1,595</b>	1.5%
Project Glow Topco (t/a Currentbody.com)	1,544	<b>1,544</b>	1.4%
Netacea	1,361	<b>1,524</b>	1.3%
Fresh Approach (UK) Holdings	1,454	<b>1,402</b>	1.2%
Broker Insights	1,318	<b>1,320</b>	1.2%
<b>Fifteen largest venture capital investments</b>	<b>24,967</b>	<b>42,371</b>	37.5%
Other venture capital investments	37,893	24,362	21.5%
<b>Total venture capital investments</b>	<b>62,860</b>	<b>66,733</b>	<b>59.0%</b>
Listed equity investments	6,224	6,728	5.9%
Listed interest-bearing investments	1,523	1,306	1.2%
<b>Total fixed asset investments</b>	<b>70,607</b>	<b>74,767</b>	<b>66.1%</b>
Net current assets		38,343	33.9%
<b>Net assets</b>		<b>113,110</b>	<b>100.0%</b>

# Income statement

## (Unaudited) for the six months ended 30 September 2022

	Six months ended 30 September 2022			Six months ended 30 September 2021			Year ended 31 March 2022		
	Revenue £000	Capital £000	Total £000	Revenue £000	Capital £000	Total £000	Revenue £000	Capital £000	Total £000
<b>Gain on disposal of investments</b>	-	126	126	-	1,194	1,194	-	4,491	4,491
<b>Movements in fair value of investments</b>	-	(3,887)	(3,887)	-	4,731	4,731	-	(2,265)	(2,265)
	-	(3,761)	(3,761)	-	5,925	5,925	-	2,226	2,226
Income	146	-	146	835	-	835	1,314	-	1,314
Investment management fee	(248)	(745)	(993)	(274)	(822)	(1,096)	(541)	(1,621)	(2,162)
Other expenses	(246)	-	(246)	(222)	-	(222)	(455)	-	(455)
<b>Return before tax</b>	<b>(348)</b>	<b>(4,506)</b>	<b>(4,854)</b>	339	5,103	5,442	318	605	923
Tax on return	-	-	-	(33)	33	-	(3)	3	-
<b>Return after tax</b>	<b>(348)</b>	<b>(4,506)</b>	<b>(4,854)</b>	306	5,136	5,442	315	608	923
<b>Return per share</b>	<b>(0.2)p</b>	<b>(2.4)p</b>	<b>(2.6)p</b>	0.2p	3.2p	3.4p	0.2p	0.4p	0.6p

- The total column of the income statement is the statement of total comprehensive income of the company prepared in accordance with FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland". The supplemental revenue return and capital return columns have been prepared in accordance with the Statement of Recommended Practice "Financial Statements of Investment Trust Companies and Venture Capital Trusts" issued in July 2022 by the Association of Investment Companies ("AIC SORP").
- There are no recognised gains or losses other than those disclosed in the income statement.
- All items in the above statement derive from continuing operations.
- The accompanying notes are an integral part of this statement.



# Balance sheet

(Unaudited) as at 30 September 2022

	30 September 2022 £000	30 September 2021 £000	31 March 2022 £000
<b>Fixed assets</b>			
Investments	74,767	86,164	77,878
<b>Current assets</b>			
Debtors	60	297	43
Cash and deposits	38,371	26,349	27,086
	38,431	26,646	27,129
<b>Creditors (amounts falling due within one year)</b>	(88)	(94)	(153)
<b>Net current assets</b>	38,343	26,552	26,976
<b>Net assets</b>	113,110	112,716	104,854
<b>Capital and reserves</b>			
Called-up equity share capital	9,388	8,150	8,145
Share premium	37,658	21,490	21,952
Capital redemption reserve	692	570	615
Capital reserve	61,151	61,946	63,642
Revaluation reserve	4,160	19,434	9,765
Revenue reserve	61	1,126	735
<b>Total equity shareholders' funds</b>	113,110	112,716	104,854
<b>Net asset value per share</b>	60.2p	69.2p	64.4p

# Statement of changes in equity

## (Unaudited) for the six months ended 30 September 2022

	Non-distributable reserves				Distributable reserves		Total £000
	Called-up share capital £000	Share premium £000	Capital redemption reserve £000	Revaluation reserve* £000	Capital reserve £000	Revenue reserve £000	
<b>At 1 April 2022</b>	8,145	21,952	615	9,765	63,642	735	104,854
Return after tax	-	-	-	(5,605)	1,099	(348)	(4,854)
Dividends paid	-	-	-	-	(2,682)	(326)	(3,008)
Net proceeds of share issues	1,320	15,706	-	-	-	-	17,026
Shares purchased for cancellation	(77)	-	77	-	(908)	-	(908)
<b>At 30 September 2022</b>	<b>9,388</b>	<b>37,658</b>	<b>692</b>	<b>4,160</b>	<b>61,151</b>	<b>61</b>	<b>113,110</b>

## Six months ended 30 September 2021

<b>At 1 April 2021</b>	8,102	20,175	511	22,343	63,547	822	115,500
Return after tax	-	-	-	(2,909)	8,047	304	5,442
Dividends paid	-	-	-	-	(8,855)	-	(8,855)
Net proceeds of share issues	107	1,315	-	-	-	-	1,422
Shares purchased for cancellation	(59)	-	59	-	(793)	-	(793)
<b>At 30 September 2021</b>	<b>8,150</b>	<b>21,490</b>	<b>570</b>	<b>19,434</b>	<b>61,946</b>	<b>1,126</b>	<b>112,716</b>

## Year ended 31 March 2022

<b>At 1 April 2021</b>	8,102	20,175	511	22,343	63,547	822	115,500
Return after tax	-	-	-	(12,578)	13,186	315	923
Dividends paid	-	-	-	-	(11,703)	(402)	(12,105)
Net proceeds of share issues	147	1,837	-	-	-	-	1,984
Shares purchased for cancellation	(104)	(60)	104	-	(1,388)	-	(1,448)
<b>At 31 March 2022</b>	<b>8,145</b>	<b>21,952</b>	<b>615</b>	<b>9,765</b>	<b>63,642</b>	<b>735</b>	<b>104,854</b>

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

# Statement of cash flows

(unaudited) for the six months ended 30 September 2022

	Six months ended 30 September 2022 £000	Six months ended 30 September 2021 £000	Year ended 31 March 2022 £000
<b>Cash flows from operating activities</b>			
Return before tax	(4,854)	5,442	923
Adjustments for:			
Gain on disposal of investments	(126)	(1,194)	(4,491)
Movements in fair value of investments	3,887	(4,731)	2,265
Decrease/(increase) in debtors	(17)	1,365	1,619
(Decrease)/increase in creditors	(65)	(1,713)	(1,654)
<b>Net cash outflow from operating activities</b>	<b>(1,175)</b>	<b>(831)</b>	<b>(1,338)</b>
<b>Cash flows from investing activities</b>			
Purchase of investments	(5,503)	(7,547)	(16,414)
Sale/repayment of investments	4,853	14,386	27,840
<b>Net cash inflow/(outflow) from investing activities</b>	<b>(650)</b>	<b>6,839</b>	<b>11,426</b>
<b>Cash flows from financing activities</b>			
Issue of ordinary shares	17,042	1,430	1,984
Share issue expenses	(16)	(8)	(60)
Purchase of ordinary shares for cancellation	(908)	(793)	(1,388)
Equity dividends paid	(3,008)	(8,855)	(12,105)
<b>Net cash (outflow)/inflow from financing activities</b>	<b>13,110</b>	<b>(8,226)</b>	<b>(11,569)</b>
<b>Net (decrease)/increase in cash and cash equivalents</b>	<b>11,285</b>	<b>(2,218)</b>	<b>(1,481)</b>
Cash and cash equivalents at beginning of period	27,086	28,567	28,567
<b>Cash and cash equivalents at end of period</b>	<b>38,371</b>	<b>26,349</b>	<b>27,086</b>

# Notes to the financial statements

(unaudited) for the six months ended 30 September 2022

## 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 July 2022 by the Association of Investment Companies (“AIC SORP”).

## 2.

The calculation of return per share is based on the return after tax for the six months ended 30 September 2022 and on 187,721,836 (2021: 161,752,727) ordinary shares, being the weighted average number of shares in issue during the period.

## 3.

The calculation of net asset value per share is based on the net assets at 30 September 2022 divided by the 187,760,850 (2021: 162,993,971) ordinary shares in issue at that date.

## 4.

The interim dividend of 2.0 pence per share for the year ending 31 March 2023 will be paid on 13 January 2023 to shareholders on the register at the close of business on 9 December 2023.

## 5.

The unaudited interim financial statements for the six months ended 30 September 2022 do not constitute statutory financial statements within the meaning of Section 434 of the Companies Act 2006, have not been reviewed or audited by the company’s independent auditor and have not been delivered to the Registrar of Companies. The comparative figures for the year ended 31 March 2022 have been extracted from the audited financial statements for that year, which have been delivered to the Registrar of Companies; the independent auditor’s report on those financial statements (i) was unqualified, (ii) did not include any reference to matters to which the auditor drew attention by way of emphasis without qualifying the report and (iii) did not contain a statement under Section 498 (2) or (3) of the Companies Act 2006. The interim 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 2022.

## 6.

Each of the directors confirms that to the best of their knowledge the interim financial statements have been prepared in accordance with the Statement “Half-yearly financial reports” issued by the UK Accounting Standards Board and the interim financial report includes a fair review of the information required by (a) DTR 4.2.7R of the Disclosure Rules and Transparency Rules, being an indication of important events that have occurred during the first six months of the financial year and their impact on the condensed set of financial statements, and a description of the principal risks and uncertainties for the remaining six months of the year, and (b) DTR 4.2.8R of the Disclosure Rules and Transparency Rules, being related party transactions that have taken place in the first six months of the current financial year and that have materially affected the financial position or performance of the entity during that period, and any changes in the related party transactions described in the last annual report that could do so.

## 7.

Copies of this interim report are available to the public at the company’s registered office, and on the company’s website.

# Risk management

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

**Investment and liquidity risk:** investment in smaller and unquoted companies, such as those in which the company invests, involves a higher degree of risk than investment in larger listed companies because they generally have limited product lines, markets and financial resources and may be more dependent on key individuals. The securities of smaller companies in which the company invests are typically unlisted, making them illiquid, and this may cause difficulties in valuing and disposing of the securities. The company may invest in businesses whose shares are quoted on AIM – the fact that a share is quoted on AIM does not mean that it can be readily traded and the spread between the buying and selling prices of such shares may be wide.

**Mitigation:** the directors aim to limit the risk attaching to the portfolio as a whole by careful selection, close monitoring and timely realisation of investments, by carrying out rigorous due diligence procedures and maintaining a wide spread of holdings in terms of financing stage and industry sector within the rules of the VCT scheme. The board reviews the investment portfolio with the investment manager on a regular basis.

**Financial risk:** most of the company's investments involve a medium to long-term commitment and many are illiquid.

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

**Economic risk:** events such as economic recession or general fluctuation in stock markets, exchange rates and interest rates may affect the valuation of investee companies and their ability to access adequate financial resources, as well as affecting the company's own share price and discount to net asset value. The level of economic risk has been elevated most recently by inflationary pressures, interest rate increases, and supply shortages.

**Mitigation:** the company invests in a diversified portfolio of investments spanning various industry sectors, and maintains sufficient cash reserves to be able to provide additional funding to investee companies where it is appropriate and in the interests of the company to do so. The manager typically provides an investment executive to actively support the board of each unquoted investee company. At all times, and particularly during periods of heightened economic uncertainty, the investment executives share best practice from across the portfolio with investee management teams in order to mitigate economic risk.

**Stock market risk:** some of the company's investments are quoted on the London Stock Exchange or AIM and will be subject to market fluctuations upwards and downwards. External factors such as terrorist activity, political activity or global health crises, can negatively impact stock markets worldwide. In times of adverse sentiment there may be very little, if any, market demand for shares in smaller companies quoted on AIM.

**Mitigation:** the company's quoted investments are actively managed by specialist managers, including Mercia in the case of the AIM-quoted investments, and the board keeps the portfolio and the actions taken under ongoing review.

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

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

**Legislative and regulatory risk:** in order to maintain its approval as a VCT, the company is required to comply with current VCT legislation in the UK. Changes to UK legislation in the future could have an adverse effect on the company's ability to achieve satisfactory investment returns whilst retaining its VCT approval.

**Mitigation:** the board and the investment manager monitor political developments and where appropriate seek to make representations either directly or through relevant trade bodies.

**Internal control risk:** the company's assets could be at risk in the absence of an appropriate internal control regime which is able to operate effectively even during times of disruption.

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

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

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

### Directors

David Gravells (Chairman)  
Simon Devonshire  
Ranjan Ramparia  
Cecilia McAnulty  
Frank Neale

### Secretary

Mercia Company Secretarial Services Limited

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### Investment manager

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### Registrars

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[www.mercia.co.uk/vcts/n2vt/](http://www.mercia.co.uk/vcts/n2vt/)