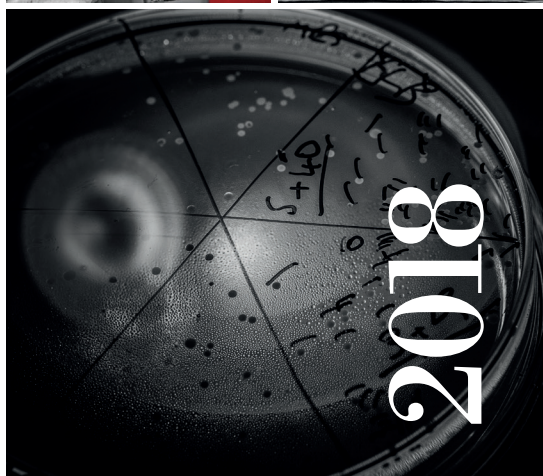


# Northern 3 VCT PLC

Half-yearly financial report

30 September 2018



Northern 3 VCT PLC is a Venture Capital Trust (VCT) managed by NVM Private Equity LLP.

It invests mainly in unquoted venture capital holdings and aims to provide high 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 2018	Six months ended 30 September 2017	Year ended 31 March 2018
<b>Net assets</b>	<b>£84.8m</b>	<b>£68.7m</b>	<b>£84.3m</b>
<b>Net asset value per share</b>	<b>94.6p</b>	<b>98.0p</b>	<b>94.0p</b>
<b>Return per share</b>			
Revenue	0.8p	1.5p	1.9p
Capital	3.3p	(1.2)p	(4.0)p
Total	4.1p	0.3p	(2.1)p
<b>Dividend per share declared in respect of the period</b>	<b>2.0p</b>	<b>2.0p</b>	<b>5.5p</b>
<b>Cumulative return to shareholders since launch</b>			
Net asset value per share	94.6p	98.0p	94.0p
Dividends paid per share*	89.4p	83.9p	85.9p
Net asset value plus dividends paid per share	184.0p	181.9p	179.9p
<b>Mid-market share price at end of period</b>	<b>87.0p</b>	<b>93.0p</b>	<b>89.5p</b>
<b>Share price discount to net asset value</b>	<b>8.0%</b>	<b>5.1%</b>	<b>4.8%</b>
<b>Tax-free dividend yield (based on the net asset per share)**</b>	<b>5.6%</b>	<b>5.1%</b>	<b>5.2%</b>

\*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

Half-yearly results announced

12 November 2018

Shares quoted ex dividend

3 January 2019

Interim dividend paid (to shareholders  
on register on 4 January 2019)

25 January 2019

# Half-yearly management report

for the six months ended 30 September 2018

*We are continuing to build a portfolio of investments in innovative earlier stage UK companies with significant growth potential.*

The unaudited net asset value (NAV) per share at 30 September 2018 was 94.6 pence (31 March 2018 (audited) 94.0 pence). The September figure is stated after deducting the final dividend totalling 3.5 pence per share in respect of the year ended 31 March 2018, which was paid in July 2018 and therefore recognised in the September 2018 half-yearly accounts.

The return per share for the half year as shown in the income statement, before deducting the dividend, was 4.1 pence, compared with 0.3 pence in the six month period ended 30 September 2017.

The directors have declared an interim dividend of 2.0 pence per share for the year ending 31 March 2019, which will be paid on 25 January 2019 to shareholders on the register at the close of business on 4 January 2019.

We are continuing to build a portfolio of investments in innovative earlier stage UK companies with significant growth potential, which are typically structured with a view to achieving a capital return rather than income generation. The potential returns are attractive, however the timing of realisations may be less predictable, giving rise to greater fluctuations in annual results. Paying regular dividends whilst seeking to sustain the NAV per share is a priority for your board and future distributions will continue to have regard to the level of returns generated. Our medium term aim, subject to regular review, is to provide a dividend yield of not less than 4% per annum, which if achieved, would equate to a total dividend for the current year of around 4 pence per share.

## Investment portfolio

Six new investments were completed during the period for a total consideration of £4.0 million:

- **Clarilis (£981,000)** – automated document preparation solutions for the legal sector, Leamington Spa
- **Grip-UK (£952,000)** – indoor climbing wall facility operator, Liverpool
- **Ridge Pharma (£870,000)** – provider of branded generic prescription medicines, Reading
- **Seahawk Bidco (£433,000)** – business-to-business energy cost comparison and procurement service, Bolton
- **Newcells Biotech (£478,000)** – specialist testing services for the drug development sector, Newcastle upon Tyne
- **Ablatus Therapeutics (£318,000)** – developer of tissue ablation technology for the treatment of tumours, Cambridge

Many of the entrepreneurial businesses we are backing will require multiple rounds of funding in order to deliver their business plans and the level of follow-on investment activity is increasing as expected. Growth capital totalling £0.7 million was invested in three existing portfolio businesses during the period to support their continued development.

Proceeds from investment sales and repayments from the venture capital portfolio amounted to £5.8 million during the period, producing a gain of £1.7 million over the 31 March 2018 carrying values. **Love Saving Group** was the subject of a secondary management buy-out financed by Lloyds Development Capital (LDC), delivering a return of over 3.5 times the original cost over the life of the investment.

The opportunity was taken to re-invest £0.4 million alongside LDC in the newly formed acquisition vehicle, **Seahawk Bidco**, which will continue the group's activities. **Wear Inns** was sold to Aprirose, a specialist investment fund, delivering over two times the original cost over the life of the investment. In the quoted venture capital portfolio, **Cityfibre Infrastructure Holdings** was the subject of an agreed takeover by a consortium of institutional investors, resulting in sales proceeds of approximately two times the carrying value as at 31 March 2018.

The venture capital portfolio has generally made progress during the period. In the quoted venture capital portfolio the valuation of **Sinclair Pharma** increased sharply following the announcement of an agreed takeover by a Chinese corporate acquirer. However, both our AIM and quoted equity portfolios have been affected by the recent market weakness since the end of the period under review. The valuations of unquoted investments have increased modestly overall as a result of positive underlying trading trends reported by a number of portfolio companies. The unquoted portfolio is well-diversified comprising over 60% by value of investments in mature businesses acquired under the previous VCT rules, complemented by investments in earlier stage innovative companies operating in a range of high growth sectors.

## Shareholder issues

NVM currently reports a healthy flow of attractive opportunities both to invest in new innovative businesses and to support our existing portfolio with follow-on capital. Recent legislative changes mean that VCTs will be required to invest 30% of new funds by the end of the year following the year in which they are raised, which is likely to lead us to make smaller and more frequent share offers. Shareholders will recall that we last launched a public offer of new shares in September 2017 to raise up to £20 million, which was fully subscribed. Having reviewed the likely cash requirements over the coming years, we do not see any need for a significant public share offer in the 2018/19 tax year. However in order to maintain a comfortable margin of liquidity for future investment activity, we intend in conjunction with Northern Venture Trust and Northern 2 VCT to launch a 'top-up' share issue in January 2019 which will raise up to approximately £6.6 million for each VCT, without the requirement for a prospectus.

It remains our policy to buy back the company's shares in the market at a discount of 5% to NAV, and 513,945 shares were re-purchased for cancellation during the six months ended 30 September 2018 at a cost of £454,000.

## VCT qualifying status

The company has continued to comply with the conditions laid down by HM Revenue & Customs for the maintenance of approved venture capital trust status. Our manager monitors the position closely and the board also receives regular reports from our taxation advisers, Philip Hare & Associates LLP.

## VCT legislation

The Finance Bill 2018 was enacted in March 2018 confirming amendments to the VCT legislation announced last autumn. As previously reported, the main change in the short term is that the minimum proportion of investments required to be held in VCT-qualifying holdings will increase from 70% to 80%. This new threshold will apply to Northern 3 VCT from April 2020. The VCT industry continues to play a vital role in supporting smaller companies in need of capital and following recent changes, we hope that the current regime will now be stable.

## Prospects

In recent months financial markets have been affected by continued uncertainty surrounding the nature of Britain's future relationship with the EU and international trade disputes further afield. Our venture capital portfolio is diversified across a broad range of sectors and our manager has a good record of navigating periods of change.

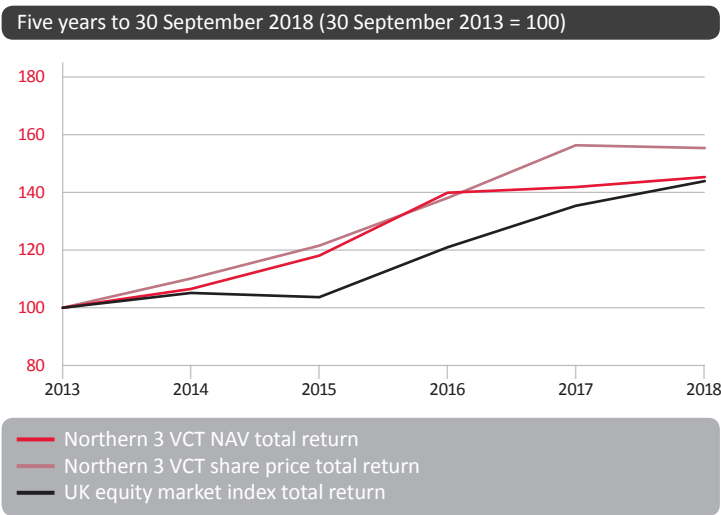
## On behalf of the Board

James Ferguson  
Chairman

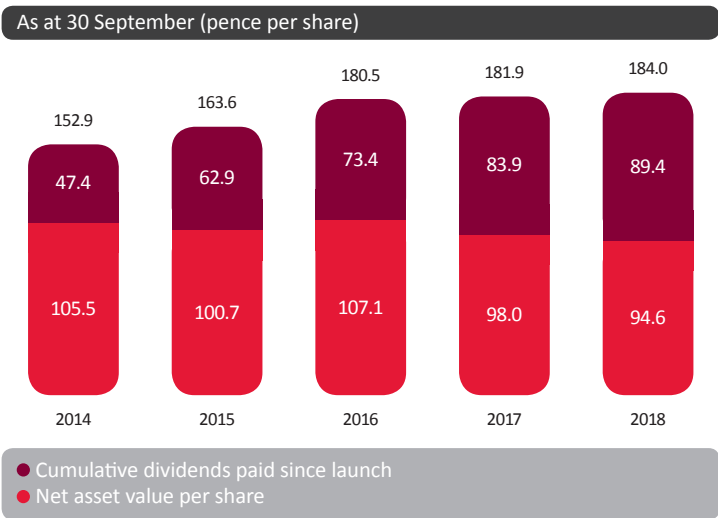
12 November 2018

# Five year performance

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



## Net asset value and cumulative dividends per share

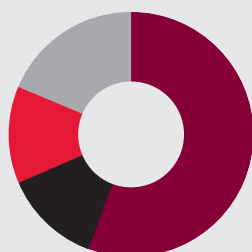


# Investment portfolio

as at 30 September 2018

	Cost £000	Valuation £000	% of net assets by value
<b>Fifteen largest venture capital investments</b>			
Lineup Systems	974	2,910	3.4
No 1 Lounges	1,748	2,800	3.4
Agilitas IT Holdings	1,448	2,764	3.3
Sorted Holdings	1,822	2,672	3.2
MSQ Partners Group	1,478	2,546	3.0
Ideagen*	541	2,385	2.8
Closerstill Group	1,520	2,238	2.6
Entertainment Magpie Group	1,360	1,693	2.0
It's All Good	1,131	1,566	1.8
Volumatic Holdings	1,251	1,543	1.8
Biological Preparations Group	1,915	1,535	1.8
Idox*	530	1,534	1.8
Medovate	1,432	1,432	1.7
Graza	1,375	1,375	1.6
Channel Mum	840	1,329	1.6
<b>Fifteen largest venture capital investments</b>	<b>19,365</b>	<b>30,322</b>	<b>35.8</b>
Other venture capital investments	29,575	27,619	32.6
<b>Total venture capital investments</b>	<b>48,940</b>	<b>57,941</b>	<b>68.4</b>
Listed equity investments	10,472	10,888	12.8
<b>Total fixed asset investments</b>	<b>59,412</b>	<b>68,829</b>	<b>81.2</b>
Net current assets		15,936	18.8
<b>Net assets</b>		<b>84,765</b>	<b>100.0</b>

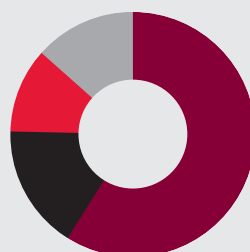
\*Quoted on AIM



30 September 2018

## Asset allocation

55.7%	● Venture capital – unquoted	58.8%
12.7%	● Venture capital – quoted	16.4%
12.9%	● Listed equity	11.2%
18.7%	● Cash and short-term deposits	13.6%



30 September 2017

# Income statement

(unaudited) for the six months ended 30 September 2018

	Six months ended 30 September 2018		
	Revenue £000	Capital £000	Total £000
Gain on disposal of investments	–	1,868	1,868
Movements in fair value of investments	–	1,563	1,563
	–	3,431	3,431
Income	1,161	–	1,161
Investment management fee	(188)	(563)	(751)
Other expenses	(186)	–	(186)
Return on ordinary activities before tax	787	2,868	3,655
Tax on return on ordinary activities	(94)	94	–
Return on ordinary activities after tax	693	2,962	3,655
Return per share	0.8p	3.3p	4.1p
Dividends paid/proposed in respect of the period	0.5p	1.5p	2.0p

- 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 November 2014 and updated in February 2018 with consequential amendments 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.



Six months ended 30 September 2017			Year ended 31 March 2018		
Revenue £000	Capital £000	Total £000	Revenue £000	Capital £000	Total £000
–	580	580	–	698	698
–	(986)	(986)	–	(2,892)	(2,892)
–	(406)	(406)	–	(2,194)	(2,194)
1,525	–	1,525	2,436	–	2,436
(187)	(562)	(749)	(384)	(1,150)	(1,534)
(156)	–	(156)	(335)	(11)	(346)
1,182	(968)	214	1,717	(3,355)	(1,638)
(152)	152	–	(209)	209	–
1,030	(816)	214	1,508	(3,146)	(1,638)
1.5p	(1.2)p	0.3p	1.9p	(4.0)p	(2.1)p
1.0p	1.0p	2.0p	1.5p	4.0p	5.5p

# Balance sheet

(unaudited) as at 30 September 2018

	30 September 2018 £000	30 September 2017 £000	31 March 2018 £000
<b>Fixed assets</b>			
Investments	68,829	58,867	62,770
<b>Current assets</b>			
Debtors	117	560	167
Cash and cash equivalents	15,903	9,324	21,458
	16,020	9,884	21,625
<b>Creditors (amounts falling due within one year)</b>	(84)	(76)	(135)
<b>Net current assets</b>	15,936	9,808	21,490
<b>Net assets</b>	84,765	68,675	84,260
<b>Capital and reserves</b>			
Called-up equity share capital	4,482	3,502	4,483
Share premium	624	7,011	214
Capital redemption reserve	197	141	171
Capital reserve	68,536	46,051	69,721
Revaluation reserve	9,416	10,345	8,463
Revenue reserve	1,510	1,625	1,208
<b>Total equity shareholders' funds</b>	84,765	68,675	84,260
<b>Net asset value per share</b>	94.6p	98.0p	94.0p

# Statement of changes in equity

(unaudited) for the six months ended 30 September 2018

	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 2018</b>	4,483	214	171	8,463	69,721	1,208	84,260
Return on ordinary activities after tax	—	—	—	953	2,009	693	3,655
Dividends paid	—	—	—	—	(2,741)	(391)	(3,132)
Net proceeds of share issues	25	410	—	—	—	—	435
Shares purchased for cancellation	(26)	—	26	—	(453)	—	(453)
<b>At 30 September 2018</b>	4,482	624	197	9,416	68,536	1,510	84,765
<b>Six months ended 30 September 2017</b>							
<b>At 1 April 2017</b>	3,290	2,223	113	12,124	50,850	1,292	69,892
Return on ordinary activities after tax	—	—	—	(1,779)	963	1,030	214
Dividends paid	—	—	—	—	(5,232)	(697)	(5,929)
Net proceeds of share issues	240	4,788	—	—	—	—	5,028
Shares purchased for cancellation	(28)	—	28	—	(530)	—	(530)
<b>At 30 September 2017</b>	3,502	7,011	141	10,345	46,051	1,625	68,675
<b>Year ended 31 March 2018</b>							
<b>At 1 April 2017</b>	3,290	2,223	113	12,124	50,850	1,292	69,892
Return on ordinary activities after tax	—	—	—	(3,661)	515	1,508	(1,638)
Dividends paid	—	—	—	—	(6,127)	(1,592)	(7,719)
Net proceeds of share issues	1,251	23,560	—	—	—	—	24,811
Shares purchased for cancellation	(58)	—	58	—	(1,086)	—	(1,086)
Cancellation of share premium reserve	—	(25,569)	—	—	25,569	—	—
<b>At 31 March 2018</b>	4,483	214	171	8,463	69,721	1,208	84,260

# Statement of cash flows

(unaudited) for the six months ended 30 September 2018

	Six months ended 30 September 2018 £000	Six months ended 30 September 2017 £000	Year ended 31 March 2018 £000
<b>Cash flows from operating activities</b>			
Return on ordinary activities before tax	3,655	214	(1,638)
Adjustments for:			
Gain on disposal of investments	(1,868)	(580)	(698)
Movements in fair value of investments	(1,563)	986	2,892
Decrease in debtors	50	92	485
Decrease in creditors	(51)	(932)	(872)
<b>Net cash inflow/(outflow) from operating activities</b>	<b>223</b>	<b>(220)</b>	<b>169</b>
<b>Cash flows from investing activities</b>			
Purchase of investments	(11,378)	(3,703)	(10,117)
Sale/repayment of investments	8,750	7,146	7,870
<b>Net cash (outflow)/inflow from investing activities</b>	<b>(2,628)</b>	<b>3,443</b>	<b>(2,247)</b>
<b>Cash flows from financing activities</b>			
Issue of ordinary shares	447	5,117	25,357
Share issue expenses	(12)	(87)	(546)
Share subscriptions held pending allotment	–	(4,281)	(4,281)
Purchase of ordinary shares for cancellation	(453)	(530)	(1,086)
Equity dividends paid	(3,132)	(5,929)	(7,719)
<b>Net cash (outflow)/inflow from financing activities</b>	<b>(3,150)</b>	<b>(5,710)</b>	<b>11,725</b>
<b>Net (decrease)/increase in cash and cash equivalents</b>	<b>(5,555)</b>	<b>(2,487)</b>	<b>9,647</b>
Cash and cash equivalents at beginning of period	21,458	11,811	11,811
<b>Cash and cash equivalents at end of period</b>	<b>15,903</b>	<b>9,324</b>	<b>21,458</b>

# Notes to the financial statements

(unaudited) for the six months ended 30 September 2018

- 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 February 2018 with consequential amendments by the Association of Investment Companies (“AIC SORP”).
- 2 The calculation of return per share is based on the return on ordinary activities after tax for the six months ended 30 September 2018 and on 89,776,911 (2017 69,893,045) 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 2018 divided by the 89,642,232 (2017 70,043,146) ordinary shares in issue at that date.
- 4 The interim dividend of 2.0 pence per share for the year ending 31 March 2019 will be paid on 25 January 2019 to shareholders on the register at the close of business on 4 January 2019.
- 5 The unaudited half-yearly financial statements for the six months ended 30 September 2018 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 2018 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 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 2018.
- 6 Each of the directors confirms that to the best of their knowledge the half-yearly financial statements have been prepared in accordance with the Statement “Half-yearly financial reports” issued by the UK Accounting Standards Board and the half-yearly 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 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 website, [www.nvm.co.uk](http://www.nvm.co.uk).

# Risk management

The board carries out a regular and robust 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:** 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. The board reviews the investment portfolio with the manager on a regular basis.

**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 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. **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 appropriate.

**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 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 NVM in the case of AIM-quoted investments, and the board keeps the portfolio 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, which reflects the European Commission's State-aid rules. Changes to the UK legislation or the State-aid rules 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 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. **Mitigation:** the board regularly reviews the system of internal controls, both financial and non-financial, operated by the company and the 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.

## Company information

### Directors

James Ferguson (Chairman)  
Chris Fleetwood  
Tim Levett  
John Waddell

### Secretary

James Bryce LLB

### Registered office

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### Investment manager

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Newcastle upon Tyne NE1 4SN

### Registrars

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