

PRIVATE EQUITY

AT A GLANCE

We aim to be the provider of choice for sub-£5 million investments into UK SMEs, investing across a broad range of sectors.

Sectors

Business services

Consumer & leisure

Engineering & industrials

Healthcare

Specialist lending

Technology, media & telecommunications

Foresight Private Equity offers a variety of fund structures to facilitate investment from both institutional and retail investors. It provides venture, growth capital and replacement capital investments through its growing network of seven regional UK offices. In addition, Foresight Private Equity provides funding lines to specialist lending companies, the majority of which service the UK SME market.

£930m

AUM

131

portfolio companies

2,200

business plans reviewed

13

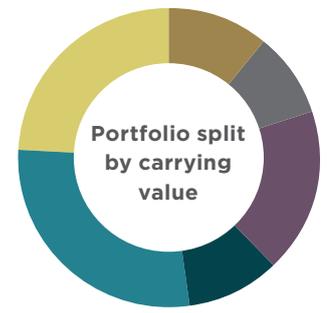
investment vehicles

7

UK offices

30

investment professionals



- Business services 11%
- Consumer & leisure 9%
- Engineering & industrials 18%
- Healthcare 10%
- Specialist lending 28%
- Technology, media & telecommunications 24%

MARKET OPPORTUNITY

Foresight Private Equity has a UK regional focus, which we believe is a key strength and differentiator. We target investment in sectors with favourable long-term trends and structural growth drivers. Investments cover a range of maturity profiles, from early stage to more mature small companies. Annual revenues at portfolio companies are typically in the £2 million to £20 million range, although venture and seed investments can be into high tech, pre-revenue companies, which include university spin-outs.

Our analysis shows that more than 80% of all UK SMEs are based outside London and the South East

Foresight's regional focus aligns with the UK Government's agenda to invest in and grow regional economies outside London and the South East

Foresight believes transactions requiring between £1 million and £5 million are the least competitive and most attractive in the UK private equity market, from a value creation perspective

The funding gap for SMEs has further widened in the aftermath of COVID-19

Opportunities are increasing in the specialist lending market, as SMEs look for alternatives to the high street banks for borrowing

BUSINESS REVIEW CONTINUED

Overview

Foresight Private Equity manages investments in 131 UK SMEs, across a range of sectors. AUM at 31 March 2022 stood at £930 million, up 30% from £714 million at 31 March 2021.

We use a broad mix of product types to facilitate fundraising from both institutional and retail investors, with 11 different investment vehicles including Venture Capital Trusts, regional institutional funds, Enterprise Investment Schemes and Inheritance Tax Solutions.

ESG considerations are core to Foresight's investment management approach. Our Private Equity Team makes sustainable growth investments into SMEs that have the potential to create broad, long-term ESG benefits through their operations and continuous improvement.

We understand that many SMEs struggle to adopt ESG best practices and we work in partnership with our portfolio companies to put ESG principles at the heart of their decision making. This improves performance, differentiates them from their competitors and drives real value at the time of exit.

The Private Equity Team's approach to ESG is under continuous review and development, with a view to making regular improvements reflecting market best practice. The Private Equity Team reviews investments across four Sustainable Development Goal aligned Themes, to understand where each investment may have the greatest impact:

- Health
- Research and Innovation
- Quality employment at scale
- Local infrastructure and the environment

The investment team then use five ESG principles to evaluate, monitor and encourage portfolio companies to make improvements:

1. Awareness: ESG/sustainability issues on the agenda at board meetings
2. Environmental: Environmental policies and track record
3. Social engagement: Community and stakeholder engagement
4. Governance: Policies and risk management
5. Third-party interactions: Supply chain transparency, including modern slavery

Foresight Private Equity received ESG Champion of the Year at the Growth Investor Awards 2021, reflecting its ongoing success with driving ESG performance.

Performance

The Private Equity Team had another active year, with SMEs more able to focus on their corporate strategies as the uncertainties created by COVID-19 eased. In total, the team deployed £81 million across 53 equity transactions (FY21: £59 million deployed across 39 businesses, through 41 equity transactions). Foresight Private Equity also significantly increased its provision of capital to specialist lenders to SMEs, investing £47 million in the year, up from £13 million in FY21.

The funds deployed come from 13 vehicles of which 11 continue to make new investments and cover a wide variety of sectors and investment types. All our funds are making good progress with deployment, investing capital at the rate we expected, and our strong exit returns track record was further enhanced. This supports both our earnings and our ability to raise further money in the future.

During the year, the Private Equity Team completed successful realisations from both retail and institutional funds. Notable examples include:

- Mologic, a health diagnostics company providing contract research services for clients and developing its own range of proprietary point-of-care diagnostics products. The company was sold to Global Access Health, a not-for-profit company financed by the Soros Economic Development Fund, returning 3.1x to Foresight funds, inclusive of expected deferred consideration.
- Poppy & Jacks, a nursery chain, was sold to national chain Kids Planet Day Nurseries, returning 2.5x the initial investment.
- DA Languages, a Manchester-based business providing translation and interpretation services.

Following the DA Languages disposal, and supported by the two previous strong exits, the Foresight Regional Investment Fund LP ("FRIF") has already delivered a gross cash return of 1.8x total fund cost, with 14 portfolio companies remaining. FRIF is based in the North West and was the first in a series of regional investment funds for Foresight, with different geographic remits across the UK (see Fundraising).

GROWTH HOMELINK

In March 2022, Foresight made a £2.15 million investment into HomeLink Healthcare Limited (“HomeLink” or “the company”) from Foresight VCT plc and Foresight Enterprise VCT plc. Formed in 2015, HomeLink has provided Hospital-at-Home services since 2019. The company employs highly qualified and experienced nurses and rehabilitation teams to deliver contracts with the NHS to provide services to patients in their own homes. Services provided include wound care, intravenous therapies, physiotherapy and rehabilitation.

By delivering critical services to the NHS, HomeLink relieves pressure on the NHS, provides a better experience for patients at home, reduces hospital admissions and facilitates the efficient discharge of patients, thereby freeing up vital hospital bed space. Bed-blocking is an endemic issue across the NHS with significant delays in the discharge of patients and increasing hospital admissions due to a lack of viable alternatives, exacerbated by demographic shifts and the elective surgery backlog following the pandemic.

In the 12 months to March 2022, HomeLink delivered in excess of 30,000 appointments to 1,352 patients saving the NHS 38,000 bed days.

The investment aligns with Foresight’s ESG themes of health and quality employment at scale. The quality of service provided by HomeLink is evidenced by the fact that only one complaint has been received after 55,000 appointments. The company also provides an alternative route of employment for nurses from the NHS. In addition, by being dedicated to ongoing training, it provides paid leave for study and hopes to provide a wellness programme for staff in the near future. The superior work environment is demonstrated by the retention rate of HomeLink at over 95%, with only one departure in then 12 months prior to investment.

Foresight’s investment will support the scaling of the business by expanding the clinical team, allowing HomeLink to meet the demands of clients and prospects, whilst also investing in supportive technologies. HomeLink plans to expand outside its current client geography into new hospitals and regions. The company also aims to explore additional treatment pathways and grow its virtual ward offering which is a key pillar of NHS England’s strategy of delivering over 25,000 additional beds.

£2.15m

Investment



BUSINESS REVIEW CONTINUED

During the year, portfolio companies have had to continue to adapt to challenges stemming from COVID-19 and the Brexit transition, including disruptions to supply chains which are leading to longer lead times for certain goods and inflationary pressures. At the same time, so far portfolio companies are generally proving able to maintain their gross margins through price increases, while some leisure and industrial companies are currently benefiting from the substantial pent-up demand caused by the COVID-19 shutdowns.

Our analysis of the portfolio has shown very limited direct impact of the Russia-Ukraine war on our portfolio companies. However, all businesses will face the indirect impact of increasing inflation, including energy costs, over the coming months.

As a result of these economic conditions, we have encouraged companies to closely monitor cost pressures in the supply chain and to implement long-term pricing strategies, ensuring they have plans to manage a variety of future inflation scenarios.

Fundraising

In the retail funds market, Foresight VCT plc and Foresight Enterprise VCT plc launched offers for subscription during the year. At the date of this report, these offers had raised approximately £24 million, with the Foresight Enterprise VCT offer for subscription remaining open.

In May 2021, Foresight held the first close of its latest regional private equity fund, the North West-focused Foresight Regional Investment Fund III LP. The Fund raised an initial £66 million from institutional investors, exceeding the size of the previous Foresight fund focused on this region, and increased to £83 million with a second close post year end. The Greater Manchester Pension Fund is the cornerstone investor, with support from Clwyd and Merseyside Pension Funds. Like its predecessor, the Fund is targeting investments in established SMEs valued at up to £30 million in

North West England, North Wales and beyond. This is the third fund in the series of regional investment funds, following the initial North West fund and a second fund focused on the East of England.

Post period end

Since the end of the financial year, we have announced our appointment by Allied Irish Banks ("AIB") to manage a new equity fund which will support SMEs across Ireland. AIB will be a cornerstone investor in the fund, which aims to stimulate job creation and deliver a more sustainable future. The fund will typically provide equity investments of €2 million to €5 million and should close imminently, subject to customary regulatory approvals.

AIB has signed an initial commitment of €30 million to the fund, which will target a total raise of €75 million over time. Foresight will shortly open an office in Dublin to support the delivery of the fund and is actively seeking investment opportunities. This is our first expansion into Ireland and the first fund outside the UK for the Private Equity Team. The fund is positioned to benefit from Foresight's breadth of experience across both private equity and infrastructure, leveraging their specialisms to deliver attractive risk-adjusted returns to its investors.

We had further significant success in our fundraising activity with the launch of two new UK regional funds covering the North East, Yorkshire and West Yorkshire regions. These strategically important funds will support the establishment of new offices in Leeds and Newcastle.

We were also able to announce the acquisition of the investment mandates of Downing's ventures businesses, which provide an excellent strategic fit for our business, complementing our existing ventures portfolio and adding scale. The transaction represents a significant strategic step and, in conjunction with the new funds, takes our private equity AUM to over £1.2 billion.

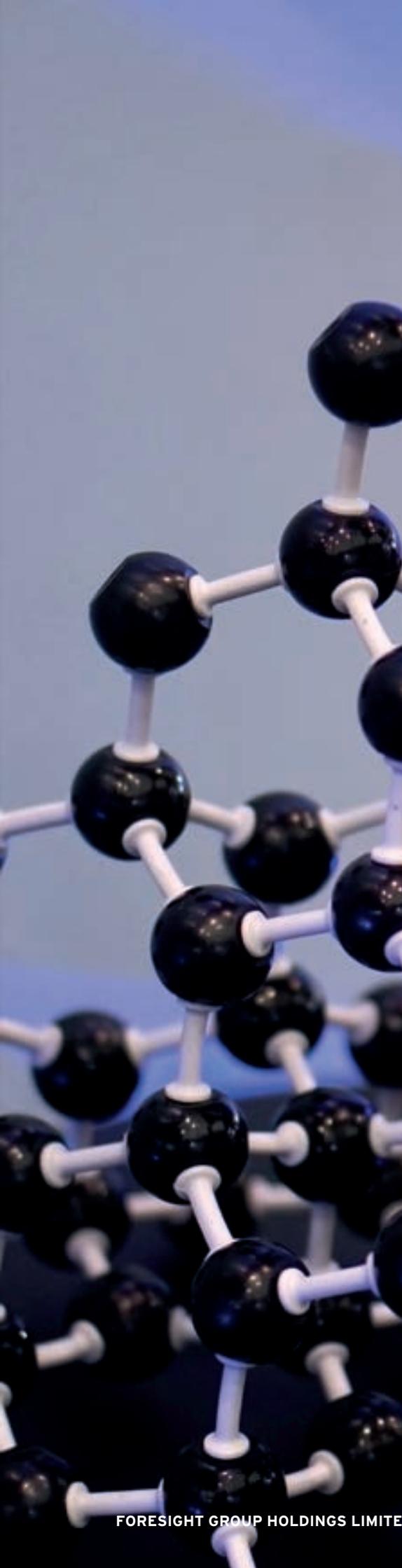
Private equity market outlook

The UK remains an excellent place to start, scale and sell a business, with broad pools of talent and an entrepreneurial culture. Our analysis shows that more than 80% of the UK's SMEs are outside London and the South East, presenting a significant base of potential investments for us. The markets we target have varying levels of competition and we continue to be a leader in the provision of capital in those markets, particularly for sub-£5 million investments.

The government remains supportive of driving investment in businesses throughout the UK regions, through the British Business Bank among other mechanisms. The Chancellor of the Exchequer has also encouraged local government pension schemes to invest more locally, although it remains to be seen if this will lead to greater activity.

The equity gap we fill with our investments remains firmly in place and has only been increased by COVID-19. Forward-thinking companies that used government support during the pandemic, which was primarily in the form of debt, are now looking to raise equity to strengthen their balance sheets ahead of expansion. New investments will be well positioned to benefit from the growth phase of the next economic cycle. SMEs are also looking for alternatives to the high street banks for borrowing, increasing the potential for us in the specialist lending market.

We also see many corporates and large private equity investors looking to deploy capital. This means the M&A market for SMEs remains open and we have a promising pipeline of potential exits.



VENTURE REFEYN

In January 2019, Foresight made an initial EIS investment of £1 million into Refeyn Limited (“Refeyn” or “the company”) from its Foresight Williams Technology EIS fund. Refeyn was spun out of the University of Oxford in 2018 to commercialise its revolutionary patented technology, “Mass Photometry”, which, building on a decade of cutting-edge academic research, is able to determine molecular mass, for instance of proteins, using light. Identifying and measuring protein molecules is an integral part of life sciences research, particularly in the development of new medicines. Refeyn’s technology is disrupting this high value market.

The technology developed by Refeyn has now been packaged into a compact desktop instrument with a simple user interface. It can provide data within seconds, reducing the duration of biomolecule research projects or quality control checks by 40%.

The associated increase in productivity translates directly into cost savings which can lead to the acceleration of highly expensive drug development.

Foresight’s investment into Refeyn is a good example of the collaborative and value-add nature of Foresight’s partnership with Williams Advanced Engineering. Since the fund’s initial investment, Refeyn has worked with the Williams team on product design and manufacture, and electrical systems design and development.

Refeyn has grown rapidly and has achieved many of the milestones laid out in the original business plan. The company has grown from a lab in Oxford with less than ten employees, to a business with an international footprint and a staff of 100+. It has also attracted two further rounds of funding led by international VCs, both of which were oversubscribed and at a significant uplift in valuation to the initial investment.

40%

reduction in the duration of biomolecule research projects

100+

staff



BUSINESS REVIEW CONTINUED

SPECIALIST LENDING RETO

In September 2021, Foresight provided a £15 million senior secured debt facility into Reto Finance Limited (“Reto” or “the company”) from its Inheritance Tax Solutions Fund. Reto is a specialist lending business operating in the Channel Islands. The company was launched in 2019 following a buy-out from Shawbrook International. Reto has since served hundreds of consumer and SME borrowers across the Channel Islands and is increasingly seen as the “go-to” specialist lender offering a wider range of products to SMEs and consumers than many of its rivals.

Investment into lenders such as Reto Finance aligns with Foresight’s regional approach to investing, offering support to local economies and businesses that are unable to access traditional forms of financing.

By providing capital to a range of consumers and SMEs that are typically underserved by mainstream lenders, Reto promotes financial inclusion and is focused on supporting its local economy, with all borrowers located in Jersey and Guernsey.

Similar to the UK, the region is facing a housing crisis as demand for housing far outweighs the supply of new homes. Foresight’s investment was designed to expand Reto’s product suite, allowing it to offer a development finance product to the region’s SME property developers and increase the supply of homes in the region. Since investment, Reto has financed nine developments with 56 units either in the planning phase or under construction.

£15m

senior secured debt
facility provided

9

developments financed





PRIVATE EQUITY EXIT DA LANGUAGES

In December 2021, Foresight completed the successful sale of language services provider DA Languages Limited (“DAL” or “the company”) to IK Partners Small Cap Fund II, which typically invests in companies with enterprise values of between €50 million and €150 million. This was the third exit from the Foresight Regional Investment Fund which has returned c.1.8x gross cost to date, with 14 companies remaining in the portfolio. The average return for the first three exits is 9x.

Founded in 1998 and headquartered in Manchester, DAL is one of the fastest-growing language services providers in the UK, providing critical services to organisations communicating with non-English speakers. With a network of over 8,000 mother tongue interpreters and translators, DAL’s offering spans face-to-face, video and telephone interpretation along with written translation services.

Over 450 languages and dialects are served, including sign language, enabling better outcomes for all stakeholders. Promoting inclusivity and equality is at the heart of DAL’s operations, ensuring that language barriers are removed in critical situations, particularly in healthcare and legal settings.

Foresight originally invested in DAL in 2018. During Foresight’s ownership, DAL strengthened its management team, moved into modern new offices, substantially grew its employee base from 55 to 150+ and developed a highly diverse client base of NHS trusts, charities, city councils and corporates, while building a strong reputation for quality provision. The business also invested significantly in technology and IT infrastructure to support its clients, including the acquisition of Miton Systems, an interpreting technology specialist, enabling DAL to offer its own proprietary video and telephone remote interpreting products.

450+
languages provided

9x
average return for first
three exits (FRIF)

