

BUSINESS REVIEW CONTINUED

PRIVATE EQUITY



We aim to be the capital provider of choice for small companies in the UK, Ireland and beyond. We provide equity and credit across a broad range of sectors and development stages, partnering with promising companies to help them achieve their ambitions and create long-term sustainable growth.

£1.4bn

ASSETS UNDER
MANAGEMENT

250+

PORTFOLIO COMPANIES

2,500+

BUSINESS PLANS
REVIEWED EVERY YEAR

21

DIFFERENT INVESTMENT
VEHICLES

9

UK AND IRELAND
OFFICES

47

INVESTMENT
PROFESSIONALS

£174m

INVESTED IN EQUITY
AND PRIVATE CREDIT
TRANSACTIONS IN FY23

69

EQUITY TRANSACTIONS
DURING FY23

What we do

Growth Private Equity

Venture Capital

Private Credit

200 DEGREES COFFEE

a collection of distinctly independent coffee shops, part of the Private Equity portfolio.

BUSINESS REVIEW CONTINUED

Foresight's Private Equity division offers a variety of fund structures to facilitate investment by both institutional and retail investors. We make venture capital, growth private equity and private credit investments through our growing network of eight UK offices and our Dublin office. In addition, we provide private credit to secured lending companies, the majority of which service the UK SME market.

Overview

Our Private Equity division manages investments in over 250 small companies across the UK and Ireland. In line with the Group's diversified business model, investments cover a wide range of sectors, including healthcare, business services and Telecommunications, Media and Technology ("TMT"), providing greater portfolio resilience throughout economic cycles.

AUM at 31 March 2023 was £1.4 billion, a significant increase of 54% on the prior year (2022: £0.9 billion), representing our strongest performance to date through both organic and acquisition activity.

In the year we grew our distinctive regional footprint further; increased our investment team by 15 (+47%), we opened a new office in Leeds and partnered with the AIB in Ireland to open our first office outside the UK. This ongoing commitment to growing the division reflects the confidence we have in our investment decisions and alignment with key growth markets. Whilst we recognise the impact that consumer pressures have had, including the softening of some of our end markets, we are still achieving strong returns that evidence the strength, capabilities and experience of our Private Equity division.

The successful acquisition and integration of the technology ventures division of Downing LLP substantially increased Foresight's existing ventures offering and added £275 million of AUM, with these funds complementing the Foresight Williams Technology fund's hard tech and industrial software focus. The investment teams focusing on these funds complement each other and have created a larger and more resilient centre of excellence focused on venture investing within the Foresight Private Equity division.

Division AUM split



- Growth Private Equity: £837m
- Venture Capital: £391m
- Private Credit: £201m

Portfolio split by carrying value



- Business services: 9%
- Consumer/leisure: 10%
- Engineering/industrials: 9%
- Healthcare: 14%
- Industrial and manufacturing: 11%
- Technology, media and communications: 26%
- Private credit: 21%

Division investment vehicles

13

**GROWTH PRIVATE
EQUITY FUNDS**
(FY22: 9 funds)

6

VENTURE CAPITAL FUNDS
(FY22: 3 funds)

2

PRIVATE CREDIT FUNDS
(FY22: 2 funds)

BUSINESS REVIEW CONTINUED

MARKET OPPORTUNITY

Foresight Private Equity is one of the most active regional small company investors in the UK and Ireland. We target investment in sectors with favourable long-term trends and structural growth drivers, partnering with promising companies to achieve long-term sustainable growth. Investments cover a range of maturity profiles, from early stage to more established 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 spinouts.

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

We believe transactions requiring up to £10 million are the most attractive in the UK market from a value creation perspective

Opportunities are increasing in the secured lending and private credit market, as SMEs look for alternatives to the high street banks for borrowing

We target sustainable companies that can deliver local impact. Progress on ESG is synergistic with value creation

We are well placed to capitalise on the SME funding gap and cyclical nature of banking appetite

Sustainable investment approach

As the Group's ethos, sustainability is key to our investment management approach. We look to invest in those small companies that can deliver impact and demonstrate a continuous improvement approach to environmental, social and governance practices. Our expertise in growing businesses has long been recognised, but central to this is our ability to grow responsible, self-sufficient, sustainable businesses. We believe this not only improves business performance, but helps companies stand out from their peers and enables us to drive real additional value through to an exit.

We review 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

Our investment team also apply 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 and interactions with other stakeholders

We are delighted that our achievements in this field continue to be acknowledged by the industry, and we received several awards during the year. This allows us time to reflect on our success at establishing our division as leading sustainability investment specialists. Investing sustainably is core to our investment approach – we do business responsibly and help our portfolio companies do the same.



BECKETT INVESTMENT MANAGEMENT
one of the UK's largest regional providers of financial advice, part of the Private Equity portfolio.

BUSINESS REVIEW CONTINUED

Performance

The division delivered an outstanding performance across the year. We demonstrated our capabilities in sourcing and completing investments, and delivered strong exits despite the volatility in the economic environment.

The funds deployed came from 21 vehicles, of which 17 continue to make new investments, and cover a wide variety of sectors and investment types. All our funds are making good progress with deployment and are investing capital at the rates we anticipated.

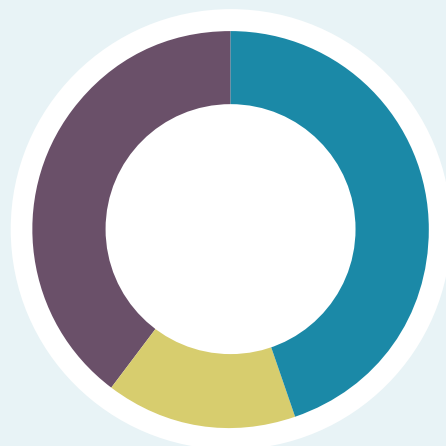
Throughout the year we have made 21 exits at an average cash-on-cash return of 3.7x. The most recent exits in Q4 FY23 included the following portfolio companies:

- Datapath is a true global market leader in the design and development of video wall, multiscreen displays and control room solutions. Foresight supported the company through a period of material growth, which saw revenue rise from £7 million to £25 million. The exit delivered an 11.7x cash-on-cash return for Foresight managed funds.
- Innovation Consulting Group Limited (Gov Grant) is a leading innovation tax specialist which utilised Foresight's experience to help it through a period of considerable growth, strengthen the management team and get it ready for the next stage of its growth journey. The sale delivered a 4.5x cash-on-cash return for Foresight managed funds.

- Mowgli has become one of the UK's most popular restaurant chains, thanks in part to investment from Foresight. The Group invested when there were only three restaurants and helped the company grow to become the leading Indian casual dining group in the UK, with 15 sites now nationally. The exit returned 3.5x cash-on-cash to Foresight managed funds. Please see page 34 for further details.

These exits build on the strong track record evidenced in the prior year and reflects our insight into market trends and understanding of the investment lifecycle despite the currently challenging macroeconomic backdrop.

Capital deployed (£m)



- Growth Private Equity: £78m (FY22: £61m)
- Venture Capital: £27m (FY22: £20m)
- Private Credit: £69m (FY22: £49m)



BUSINESS REVIEW CONTINUED

MOWGLI CASE STUDY

Established in 2014, Mowgli is a fast-growing chain of casual, authentic Indian street food restaurants, that offers a home-from-home environment for customers. We invested in Mowgli in 2017 when it had two sites in Liverpool and one in Manchester, due to its differentiated market proposition, market-leading financials and brand proposition.

The hands-on approach we take with our SME investments let us work together with Mowgli to strengthen the management team, shape their strategy and site rollout plan, and support improved governance at board level.

We also shared a common passion for sustainability with them, with ESG principles a key aspect of our investment ethos and core to the Mowgli brand proposition. In alignment with our "Quality Employment at Scale" theme, we helped Mowgli create more than 500 new sustainable jobs. The restaurants raise money for both The Mowgli Trust and local charities and follow environmentally friendly policies, including sustainable sourcing and energy usage.

Through our Mowgli investment we have generated strong returns for our investors, including local authority pension funds. Hands-on management has helped the company through COVID-19 and the recent downturn in the consumer economy. Mowgli is now established as one of the UK's most popular restaurant chains.

In January 2023 we announced our successful exit from Mowgli, delivering a 3.5x cash-on-cash return to Foresight managed funds. Having supported the group to grow from three sites to 15, we helped position the company for success in the next stage of its journey.



BUSINESS REVIEW CONTINUED

EKKOSENSE CASE STUDY

EkkoSense, headquartered in Nottingham, is a leading provider of thermal consultancy services, monitoring software and sensors for data centres.

The world is creating more data than ever before and as demand continues to grow this is putting more strain on the data centres that gather, store and share data. The processing systems in data centres are very energy-intensive and generate a lot of heat. This in turn requires a lot of energy to cool the servers to the optimum operating temperatures. Providers are under pressure to run cost-efficient centres with reduced power consumption and lower carbon emissions. This is a key area where EkkoSense solutions make a real difference. As the amount of data increases exponentially, so too does the market opportunity for EkkoSense.

In November 2016, we made our initial investment in the company to enhance and fully develop its market-leading software. In line with our sustainability ethos and objectives, EkkoSense solutions are helping reduce the energy used to cool data centres by up to 30%, with the equivalent reduction in carbon emissions. Given the scaling up needed in data centres to meet future demands, these emission savings will play an even bigger part in reducing the future impact data centres have on the environment.

Utilising our international expertise we have worked with EkkoSense to help strengthen its management and leadership capabilities, encouraged further investment into sales and marketing channels and supported expansion into the US. We believe there are further expansion opportunities for the company globally, helping the world's largest data centre companies and operators manage risk, increase capacity, reduce energy consumption and lower carbon emissions.



BUSINESS REVIEW CONTINUED

Fundraising

During the period we delivered exceptional organic fundraising primarily through our private equity Limited Partner vehicles, with retail inflows also achieved across our venture capital and private credit offerings.

Private equity institutional inflows were driven by successful first closes of four new funds (+£132 million)¹, with additional commitments to existing and new institutional funds totalling £40 million¹. As a result of these fundraising activities, offices have now opened in Dublin and Leeds, with a presence established in each region.

- The Foresight Regional Investment IV LP is a continuation of our regional investment strategy and will support the growth of smaller companies throughout the North-East of England, North Yorkshire, West Yorkshire, the East Riding of Yorkshire and North Lincolnshire. The fund is cornerstoned by Durham County Council, with support from Teesside Pension Fund and the British Business Investment Bank (the commercial arm of the British Business Bank) at second close. First and second closes totalled £24 million¹ and £20 million respectively.
- We have also been appointed by the West Yorkshire Combined Authority to manage a new £20 million fund to support SMEs throughout West Yorkshire. The Foresight West Yorkshire SME Investment Fund will make a significant contribution to West Yorkshire's economy by supporting companies' growth plans and creating high-quality, local jobs.
- AIB, Ireland's largest financial services provider, appointed Foresight to manage a new SME equity fund. The AIB Foresight SME Impact Fund, which is aiming to raise €75 million, raised €30 million at first close and will support small and medium enterprises in building a greener future for Ireland.

- Foresight Regional Investment Fund V LP, our second fund focused on SMEs in Scotland, achieved a £62 million first close from institutional investors. This Fund is dedicated to investment in Scotland and has cornerstone support from Strathclyde Pension Fund and British Business Investments, a wholly owned commercial subsidiary of the British Business Bank. The Fund will invest into SMEs across Scotland; supporting the local Scottish economy, delivering a positive social impact and creating high-quality, local jobs.
- Additional commitments were raised in two further institutional funds. The Foresight Regional Investment III LP secured additional capital of £4 million¹ from both existing and new investors, enabling it to further its impact and support of established, profitable small cap companies in the North-West region. Foresight manage part of the Midlands Engine Investment Fund, focused on the East Midlands, and received a further £16 million additional commitment this year from the British Business Bank, evidencing the strength of this important strategic relationship.

Retail inflows in the period included a number of our venture capital funds launching offers for subscription, successfully raising £64 million in aggregate.

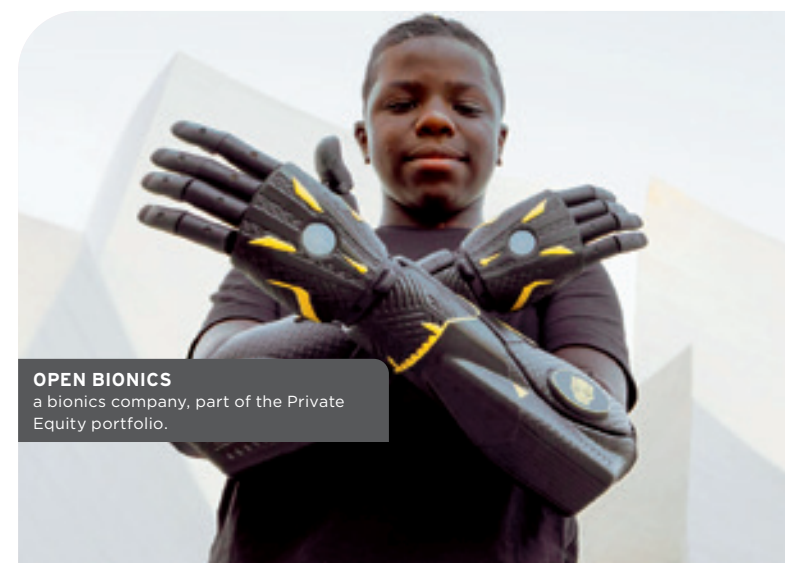
In addition, our Foresight Inheritance Tax Fund, which also invests into private credit assets which are then managed by the Private Equity division, allocated £51 million of total FY23 fundraising to our private credit strategy.

1. Excluding funds already under Foresight management.

Funds raised (£m)



- Growth Private Equity: £172m¹
- Venture Capital: £64m
- Private Credit: £51m



OPEN BIONICS
a bionics company, part of the Private Equity portfolio.

BUSINESS REVIEW CONTINUED

Private equity market outlook

We expect the coming year to build upon the exceptional performance and fundraising activity delivered in FY23. We will utilise our experience and differentiated operating model to remain one of the most active SME investors, whilst also benefiting from a full 12 months of revenues generated from the funds raised in FY23.

The investment portfolio is well diversified against the backdrop of a challenging economic environment, with a broad base of both well-established smaller companies and earlier-stage high-quality growth companies across a range of sectors. This diversification, as well as our experience of investing through various economic cycles and the low interest rate exposure of our portfolio companies, continues to enable us to successfully navigate the volatility that has been felt across many of our markets recently.

The investment pipeline for FY24 is strong, with the significant fundraising delivered during FY23 providing a platform to deploy capital into attractive investment opportunities that we source through our differentiated network, both regionally across the UK and Ireland and more internationally in the case of venture capital investments. By targeting markets supported by favourable long-term trends and structural growth drivers, such as the UK Government's levelling-up agenda, which aims to support business growth in the regions, our division is well positioned to continue to deliver strong performance. Current market conditions will also only widen the SME funding gap and suppress bank appetite, increasing the number of attractive opportunities available to our funds.

In line with the increasing global focus on decarbonisation, we recognise the opportunities that are arising as governments and companies look to progress their efforts to achieve their net-zero targets. For example, we appreciate the role of hydrogen in the broader energy market transition and therefore this is something we are following closely. Foresight Group has been developing its experience in hydrogen through the Infrastructure division, and we are working to utilise and build on this to put Private Equity in a position of strength to undertake venture deals in the hydrogen market. We believe that hydrogen is a long-term energy source that will come to prominence over the medium term. We are teaming up with the leading hydrogen investors and potential users to build our presence in this market and ensure that we are ready for this expansion. This knowledge-sharing is a key strength of being a part of the wider Foresight Group; we benefit from the wealth of experience and expertise in place across the business, allowing us to learn from the combined experience of our Infrastructure and Venture Capital approaches in the market. This is one of the factors that helps us secure a leading position in new and emerging markets.

We are confident that FY24 will deliver another year of strong performance for the division as the full-year effect of the progress delivered in FY23 becomes apparent. Our diverse business model, across investment stage sectors and end markets, remains well positioned to respond to new developments as the market adapts to a challenging macro landscape and also to take advantage of new opportunities as they arise.



200 DEGREES COFFEE

a collection of distinctly independent coffee shops, part of the Private Equity portfolio.