Financial review

For the year ended 31 March 2024

"FY24 was a strong year for Foresight, growing revenue and Core EBITDA pre-SBP by c.18% year-on-year to £141.3m and £59.3m respectively."

Gary Fraser
Chief Financial Officer

£12.1bn
AUM[1]
(31 March 2023: £12.2bn)

86.6%
Recurring revenues[1]
(31 March 2023: 86.6%)

42.0%
Core EBITDA pre-SBP margin[1]
(31 March 2023: 42.1%)

Introduction

FY24 continued our positive progress since IPO with revenue and Core EBITDA pre share-based payments both growing in the period, as outlined below together with our other key financial metrics. The growth in Core EBITDA pre shared-based payments was supported by our strong cost discipline and was further enhanced by the acquisition of Wellspring Finance Company Limited during the year which is described later on in my review.

	31 March 2024	31 March 2023
Period-end AUM[1] (£m)	12,144	12,167
Retail	3,741	3,790
Institutional	8,403	8,377
Period-end FUM[1] (£m)	8,397	9,022
Retail	3,545	3,747
Institutional	4,852	5,275
Total revenue (£000)	141,326	119,155
Recurring revenue (£000)	122,372	103,208
Recurring revenue/total revenue (%)	86.6%	86.6%
Core EBITDA pre share-based payments[1] (£000)	59,297	50,158
Core EBITDA pre share-based payments margin[1] (%)	42.0%	42.1%
Total comprehensive income (£000)	24,755	20,905
Basic earnings per share before non-underlying items[1] (pence)	32.9	34.6
Dividend per share (pence)	22.2	20.1

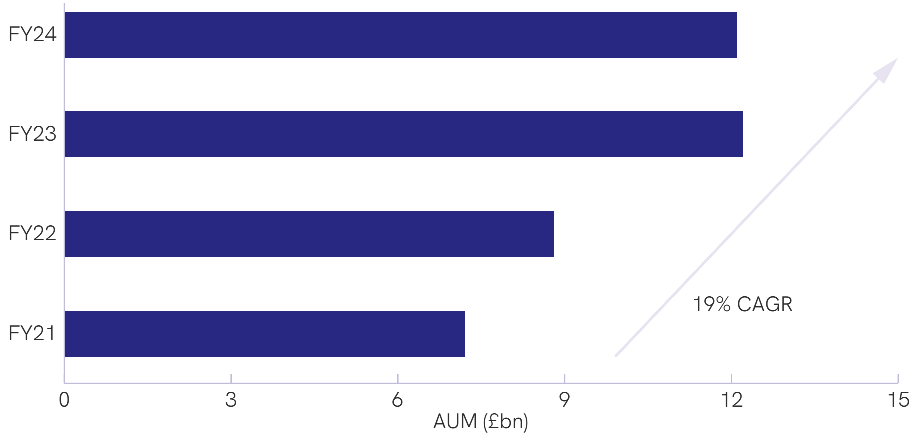
1. Alternative performance measures described and explained in the appendices to the financial statements on pages 185 to 197.

Financial review continued

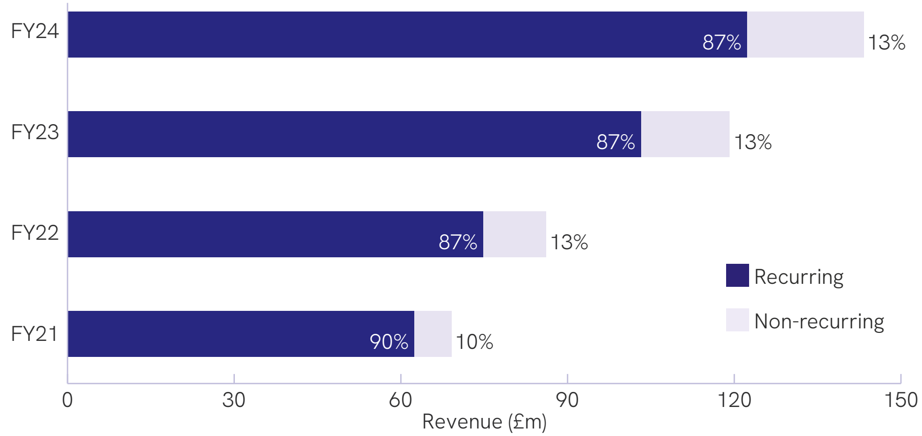
Performance against post-IPO targets

The Group set a number of targets following its IPO in February 2021. The Group has now completed three full years post-IPO and our performance against these targets are as follows.

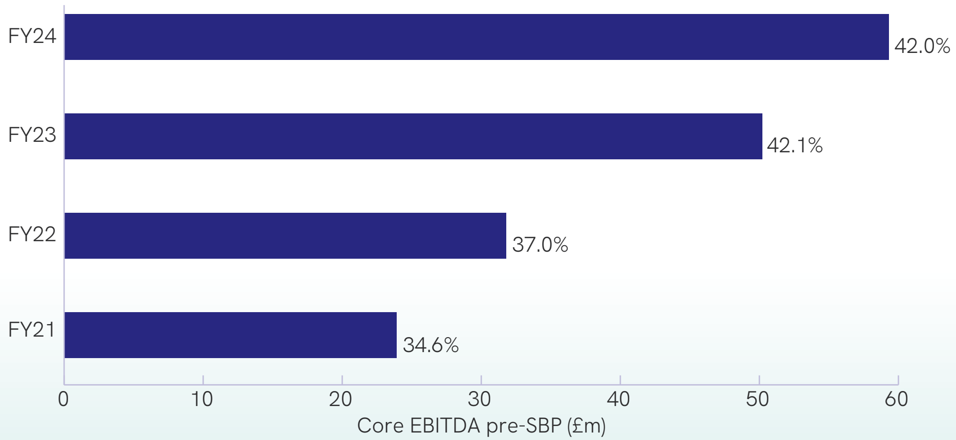
Growth – 20-25% growth in AUM over a rolling three year period (£bn)



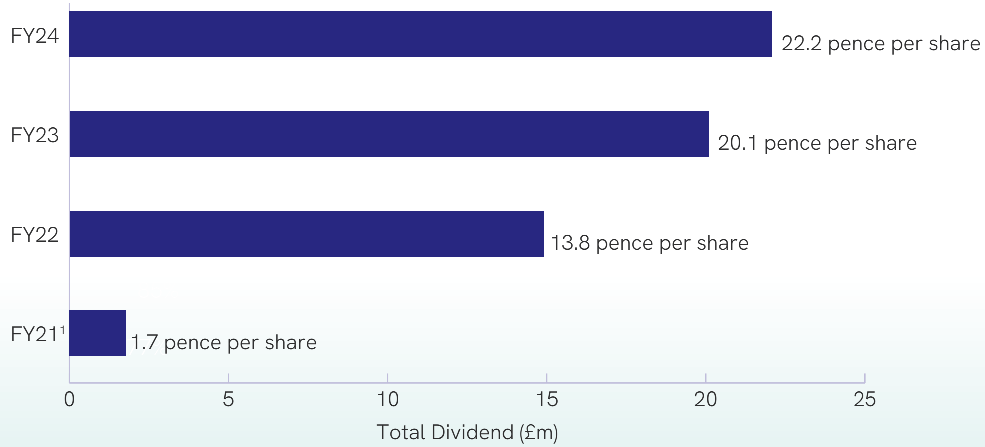
High quality earnings – 85-90% recurring revenue (£m)



Operating leverage – c.43% Core EBITDA pre-SBP margin over medium term (£m)



Shareholder alignment – 60% dividend payout (£m)



1. FY21 total dividend for stub period from date of IPO to 31 March 2021

Financial review continued

Assets Under Management/Funds Under Management ("AUM/FUM")

AUM remained flat at £12.1 billion year-on-year, although on a constant currency basis it increased by £0.2 billion. FUM decreased by 7% to £8.4 billion (FY23: £9.0 billion) year-on-year.

The recent period of higher interest rates impacted our FCM division, with net outflows and performance leading to a £0.6 billion decrease in AUM to £0.7 billion. However, the Group once again benefited from its diversified business model, with strong inflows into higher margin retail vehicles of £0.44 billion.

We generated strong inflows of £359 million into our ITS product, a significant increase on the same period last year. This was accompanied by a further raise of £77 million from our VCT and EIS products, including the Foresight VCT Plc and Foresight Enterprise VCT Plc offerings closing fully subscribed only a few weeks after launch. As noted above, within FCM, our OEIC products experienced net outflows over the period of -£446 million, reflecting the wider macroeconomic factors resulting from the rapid increase in interest rates impacted by higher rates of inflation in the UK.

Net institutional inflows totalled £0.1 billion, with two new fund launches within our Private Equity division being offset by return of capital to investors following successful realisations, which generated significant positive returns for investors and performance fees for the Group. Further detail on these areas is provided later in my report.

As previously reported, the two new funds referred to above continued our regional strategy within our Private Equity division, with successful closes in Wales (£51 million) and Northern Ireland (£15m). In addition to this, we also achieved further closes for a number of our other regional funds, giving rise to an additional £68.1 million of inflows.

As noted in the Executive Chairman's statement, whilst institutional fundraising within our Infrastructure division was challenging during the year, we were very pleased to report the first close of FEIP II in June 2024 for €300 million.

Financial review continued

Financial performance

Alternative performance measures ("APMs")

In line with previous periods, and for comparability, we continue to quote Core EBITDA pre-SBP to assess the financial performance of the business. This measure was introduced as our key performance measure because the Group believes this reflects the trading performance of the underlying business, without distortion from the variability in the fair value measurement of the share-based payments charge.

Following its introduction for FY23, the Group also presents profit before non-underlying items as an APM, which excludes non-underlying items from statutory measures. In particular, this removes the impact of the IFRS 3 acquisition accounting. Consequently, the Group calculates earnings per share before non-underlying items.

All of the Group's APMs are set out in the appendix to the financial statements on pages 185 to 197, including explanations of how they are calculated and how they are reconciled to a statutory measure where relevant. A full reconciliation of statutory profit, profit before non-underlying items and Core EBITDA pre-SBP is provided in the appendix.

While the Group appreciates that APMs are not considered to be a substitute for or superior to IFRS measures, we believe the selected use of these provides stakeholders with additional information which will assist in the understanding of the business.

Whilst not alternative performance measures, this review uses the terminology "organic" and "inorganic" for the purposes of the year-on-year analysis of financial performance. This is due to the impact of our acquisitions; "organic" reflects the Group's operations without the impact of acquisitions in either the current or prior year, whereas "inorganic" is purely the results of the acquired businesses in the current or prior year.

Summary Statement of Comprehensive Income and Core EBITDA pre-SBP reconciliation before non-underlying items

	31 March 2024 Before non-underlying items £000	31 March 2023 Before non-underlying items £000
Revenue	141,326	119,155
Cost of sales	(7,304)	(6,303)
Gross profit	134,022	112,852
Administrative expenses	(88,992)	(70,630)
Operating profit	45,030	42,222
Other non-operating gains and losses	1,023	378
Profit on ordinary activities before taxation	46,053	42,600
Tax on profit on ordinary activities	(7,878)	(3,696)
Profit	38,175	38,904
Other comprehensive income		
Translation differences on foreign subsidiaries	(1,679)	(2,720)
Total comprehensive income	36,496	36,184
Adjustments:		
Redundancy payments	1,615	—
Non-operational staff costs	740	760
Depreciation and amortisation	6,438	5,214
Impairment	2,895	—
(Profit)/loss on disposal of tangible fixed assets	5	(10)
Finance income and expense (excluding fair value gain on derivatives)	(311)	733
Foreign exchange on acquisitions	1,331	2,436
Tax on profit on ordinary activities	7,878	3,696
Core EBITDA	57,087	49,013
Share-based payments	2,210	1,145
Core EBITDA pre share-based payments	59,297	50,158

Financial review continued

Financial performance continued

Revenue

	31 March 2024 £000	31 March 2023 £000
Management fees	115,580	97,373
Secretarial fees	3,152	2,719
Directors' fees	3,640	3,116
Recurring fees	122,372	103,208
Marketing fees	9,931	6,129
Arrangement fees	5,139	4,054
Performance and other fees	3,884	5,764
Total	141,326	119,155

Business model – case study

Our business model is to attract and retain FUM on which we receive different categories of revenue. Please see the business model on page 10 for more information. For example, the Group manages a number of Venture Capital Trusts ("VCTs"), publicly traded private equity funds. For each VCT the Group will receive different fees as follows.

Recurring fees

Management fees – an annual management fee driven by FUM and calculated as a percentage of NAV. For VCTs, the Group normally charges fees of 2% of NAV.

Secretarial fees – are fees received for services provided to the funds (such as secretarial, accounts preparation, administration). These are generally driven by FUM and calculated as a percentage of NAV, typically 0.3% or as a fixed fee depending on the terms of the individual contract agreements.

Directors' fees – are fees earned principally from investee companies where Group staff are appointed as Directors.

Re-occurring fees

Marketing fees – VCT investors pay a fee for entry into the VCT of approximately 2.5% of the amount invested. VCTs typically fundraise on an annual basis and so this fee is re-occurring.

Arrangement fees – these are fees earned by the Group for its role in arranging certain deals (including capital deployments, fundraisings and refinancings). For VCTs, the fees are charged to the portfolio companies rather than the VCT itself. As the VCTs typically fundraise on an annual basis, they have funds to deploy which will give rise to these fees. Therefore, these fees are also re-occurring.

Non-recurring fees

Performance fees – For a VCT, the Group will potentially be entitled to a performance fee where the VCT achieves a certain level of performance. An example is where an average annual NAV Total Return per share over a rolling five-year period exceeds an average annual hurdle. If the hurdle is met, the Group is entitled to an amount equal to 20% of the excess over the hurdle subject to a cap of 1% of the closing NAV for the relevant financial year.

Revenue analysis:

Total revenue increased by c.19% year-on-year to £141.3 million (31 March 2023: £119.2 million) with high-quality recurring revenue also increasing by 19% to £122.4 million (31 March 2023: £103.2 million). Our recurring revenue percentage was 86.6% (31 March 2023: 86.6%) and remained within our 85-90% target range. Recurring revenue increased due to both organic and inorganic growth, with organic growth contributing £9.6 million and inorganic growth £9.6 million of the additional recurring revenue (of which ICG totalled £7.8 million, Downing £0.9 million and Wellspring £0.9 million).

Management fees: Grew by £18.2 million (of which £9.0 million was organic and £9.2 million inorganic). The organic increase was driven by FUM growth in our ITS product, driving an additional £6.8 million of revenue, whilst additional revenue of £5.8 million arose from our Private Equity regional funds, alongside a £1.0 million increase from FEIP. The continuing challenging market conditions for our Foresight Capital Management division resulted in its revenue contribution decreasing by c.£3.7 million. The remaining balance of c.-£0.9 million was spread across small movements from our other funds.

Secretarial fees: Increased 16% primarily from inorganic growth.

Directors' fees: Increased 17% year-on-year as a result of the larger number of companies within the Private Equity portfolio as a result of continued deployment and the Downing acquisition.

Financial review continued

Financial performance continued

Revenue analysis: continued

Marketing fees: Increased year-on-year as a result of record annual retail fundraising as noted earlier in the report.

Arrangement fees: £1.1 million higher year-on-year as a result of continued strong deployment.

Performance fees: Were generated in the period following further successful realisations from two of our Private Equity regional funds and fees from Foresight VCT plc and Foresight Enterprise VCT plc.

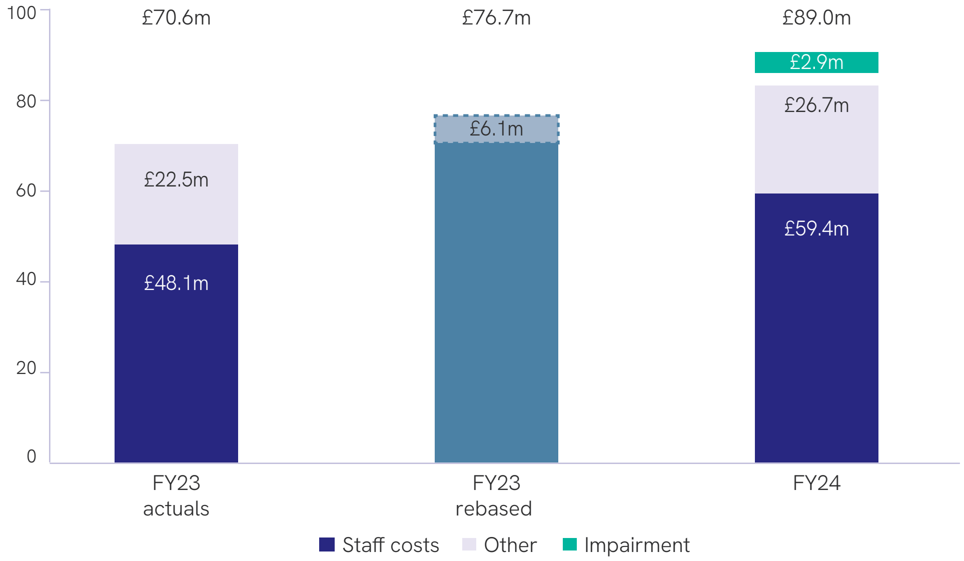
Cost of sales

Cost of sales comprises insurance costs associated with our Accelerated ITS ("AITS") product, authorised corporate director costs payable to a third party in relation to our OEIC products and asset management costs. The increase year-on-year is due to the continued growth of the AITS product, plus higher asset management costs associated with the Wellspring acquisition, offset by lower costs on our OEIC products due to the reduced FUM in this division.

Administrative expenses before non-underlying items

	31 March 2024 Before non-underlying items £000	31 March 2023 Before non-underlying items £000
Staff costs	59,407	48,144
Depreciation and amortisation (excluding amortisation in relation to intangible assets (customer contracts))	3,227	2,800
Amortisation and impairment in relation to intangible assets (customer contracts)	6,106	2,414
Legal and professional	5,908	5,288
Other administration costs	14,344	11,984
Total	88,992	70,630

Year-on-year, underlying administrative expenses increased by c. 26% but this was partly due to a full year of the operating costs of the FY23 acquisitions and an impairment charge of £2.9m in FY24. An analysis of the variance is shown in the chart below:



FY23 costs have been rebased to allow for a the annualization of the operating costs arising from the acquisitions and the impairment charge has been excluded. Overall, FY24 has increased c.12% on rebased FY23 which is marginally greater than our guidance of 10%. The reasons behind this are set out below.

Staff costs increased by c.£11.3 million of which £4.4 million was due to the annualization of staff costs arising from the acquisitions. Otherwise the increase was due an increase in FTE, above average salary increases, share-based payments and one-off expenses of £1.6 million associated with cost saving initiatives. Total FTE increased by 35.1 over the last 12 months, with approximately one-third of this increase from within our Private Equity division to support the launch of our new funds and growth in FUM over the last 12 months. Our Retail Sales team grew in the year to help deliver our record year of fundraising and central functions were strengthened to reflect continued growth of the business.

Financial review continued

Financial performance continued

Administrative expenses before non-underlying items continued

At the start of the current financial year, a benchmarking review of base remuneration for senior management was undertaken, with increases enacted from 1 April 2023 where necessary to bring people in line with market standards. This contributed an increase of £0.8 million to staff costs. Other factors contributing to the increase in staff costs were the increased cost of the PSP scheme as it entered its third year following implementation post-IPO, above average salary increases to allow for inflation and enhanced pension offering for our staff.

Legal and professional costs increased by c.£0.6 million, reflecting the growth of the business plus inflationary increases.

Other administration costs increased by c.20%, principally due to increases associated with the growth in our FTE (e.g. subscriptions and IT-related costs) plus the annual marketing spend this year included a re-branding of our website and wider marketing literature, in addition to us hosting our successful Foresight Sustainability Forum event in partnership with the Eden Project.

The depreciation, amortisation and impairment costs in the year included a £2.9 million impairment charge against intangible assets – customer contracts for the Downing acquisition. Amortisation charges before impairment were also higher in FY24 due to a full year of charges associated with the intangible assets – customer contracts acquired in FY23.

Core EBITDA pre share-based payments ("SBP")

The Group uses Core EBITDA pre-SBP as one of its key metrics to measure performance as it views this as the profitability number that is most comparable to the Group's recurring revenue model (i.e. a cash profit number after taking out any one-offs, both positive and negative).
In addition to the adjustments for the acquisitions as explained previously, the other principal items adjusted for in calculating Core EBITDA pre-SBP relate to retention payments made to key members of staff and the SIP, PSP and overseas phantom share plan schemes implemented post-IPO. See the appendices to the financial statements on pages 185 to 197 for further explanation of the adjustments made when calculating Core EBITDA.

Core EBITDA pre share-based payments increased 18.2% year-on-year to £59.3 million (31 March 2023: £50.2 million) with the associated margin percentage being 42.0% (31 March 2023: 42.1%). As set out at half year, the high inflationary environment, together with the challenging infrastructure fundraising markets across the globe, has led to a slightly lower margin versus the same period last year. However, following a margin of 40.7% in H1, cost-saving initiatives were implemented which led to an improved margin in H2 of 43.1%.

Organic Core EBITDA pre-SBP was £48.6 million with the acquisitions contributing £10.7 million.

Segmental Core EBITDA pre-SBP is set out below:

	31 March 2024 £000	31 March 2023 £000
Infrastructure	35,092	30,320
Private Equity	22,621	15,936
Foresight Capital Management	1,584	3,902
Total	59,297	50,158

Financial review continued

Financial performance continued

Non-underlying items

Items which are not considered part of the normal operations of the business, are non-recurring or are considered exceptional because of their size, nature or incidence, are treated as non-underlying items and disclosed separately. Further detail can be found in note 8 of these accounts.

	31 March 2024 £000	31 March 2023 £000
Administrative expenses		
Staff costs – acquisitions excluding SBP	427	3,153
Staff costs – acquisitions SBP	11,520	9,514
Other administration costs – foreign exchange	—	(782)
	11,947	11,885
Acquisition-related costs	—	3,721
Fair value gains on contingent consideration (incl. finance expense)	(190)	(327)
Gain on business combination	(16)	—
Total	11,741	15,279

Administrative expenses

Staff costs – acquisitions of c.£11.9 million reflects the IFRS 3 accounting treatment of the contingent consideration from the ICG acquisition. This is being treated as remuneration for post-combination services under IFRS 2 for consideration that is settled with shares and IAS 19 for consideration that is settled in cash. Both continue to accumulate over the vesting period (see note 8).

The cost in FY24 was affected by a reassessment of the overall fair value of the contingent consideration and accelerated costs arising from a good leaver.

Acquisition-related costs

The charge of £3.7 million for FY23 related to legal and professional costs incurred on the two acquisitions completed in that year. There were no costs associated with the Wellspring acquisition in the Group financial statements, please see note 32 for further information.

Fair value gains on contingent consideration (incl. finance expense)

A fair value gain on contingent consideration of £0.2 million has arisen as the Group has reassessed the fair value of the contingent consideration arising from the Downing acquisition at 31 March 2024 (see Acquisition-related liabilities) later in the report.

Gain on business combination

On 20 June 2023, the Group completed the acquisition of 100% of the issued share capital of Wellspring Finance Company Limited and its 100% owned subsidiary Wellspring Management Services Limited ("WMS") for £4.8 million. WMS holds the asset management contracts for seven operational PFI projects in Scotland. The acquisition allowed the Group to increase recurring revenue at an attractive Core EBITDA margin on contracts that have a final expiry of May 2045. The Group carried out a purchase price allocation which fair valued the assets and liabilities on the date of acquisition and gave rise to a small gain on business combination.

Reconciliation of total comprehensive income before non-underlying items to total comprehensive income

	31 March 2024 £000	31 March 2023 £000
Total comprehensive income before non-underlying items	36,496	36,184
Non-underlying items	(11,741)	(15,279)
Total	24,755	20,905

Financial review continued

Financial position

Summary Statement of Financial Position

	31 March 2024 £000	31 March 2023 £000
Assets		
Property, plant and equipment	2,330	2,522
Right-of-use assets	5,768	7,281
Intangible assets	61,364	62,911
Investments	4,726	3,967
Deferred tax asset	1,563	1,742
Derivative asset	473	648
Contract costs	3,375	3,965
Trade and other receivables	28,728	21,742
Cash and cash equivalents	45,004	39,761
Net assets of disposal group	—	64
Total assets	153,331	144,603
Liabilities		
Trade and other payables	(38,028)	(35,382)
Loans and borrowings	(509)	(3,131)
Lease liabilities	(7,262)	(9,251)
Acquisition-related liabilities	(4,830)	(5,973)
Deferred tax liability	(13,273)	(12,827)
Provisions	(855)	(800)
Total liabilities	(64,757)	(67,364)
Net assets	88,574	77,239

Key movements in the Statement of Financial Position are summarised below, together with an analysis of cash flow in the year.

Intangible assets and deferred tax liability

The decrease in intangible assets of £1.5 million year-on-year was due to £7.9 million of amortisation and impairment charges and foreign exchange on assets and goodwill arising from acquisitions in prior year additions, offset by £6.4 million of intangible assets in respect of customer contracts related to the Wellspring acquisition. Within the £7.9 million, the Group has recognised an impairment charge of £2.9 million against the Downing customer contracts as mentioned earlier. Deferred tax liabilities have been accounted for in line with the movement in intangible assets in respect of customer contracts recognised during the year at the prevailing tax rate.

Acquisition-related liabilities

Acquisition-related liabilities include the contingent consideration arising from the Downing acquisition and liabilities related to the remuneration for post-combination services arising from the ICG acquisition.

The Downing acquisition included contingent consideration of £4.2 million, conditional on the valuation of the AUM acquired being maintained at future dates. On acquisition, the discounted fair value of the consideration was £3.8 million. The first annual payment was made in July 2023 for £1.2 million and at year end the fair value of the consideration was reviewed, resulting in a net reduction of £0.2 million due to a reduction in value of the AUM acquired, less unwinding of the discount. The liability was £2.1 million at 31 March 2024.

As explained earlier in non-underlying items, certain components of the consideration for the ICG acquisition are accounted for as remuneration for post-combination services. Where this remuneration will be paid in cash, the remuneration is accounted for under IAS 19, which gives rise to a liability in the Statement of Financial Position and this is included in acquisition-related liabilities. Based on the fair value assessed at the end of the previous reporting period, plus an accelerated liability for a good leaver, the liability increased by £4.4 million in the year. The fair value was reassessed at the end of current reporting period, reducing this liability by £4.0 million together with a foreign exchange gain of £0.2 million. The resulting position at 31 March 2024 was a liability of £2.8 million.

Financial review continued

Financial position continued

Cash and cash equivalents

The cash position remains healthy and has increased by £5.2 million year-on-year. In line with our positive trading performance during the period and continued strong cash conversion. Operating activities generated £49.8 million in cash versus £59.3 million Core EBITDA pre-SBP; at year end there were a number of non-recurring investment advisory fees, performance fees and caught up management fees which were largely recovered in Q1 of FY25.

The strong cash position facilitated the completion of the Wellspring acquisition for £4.8 million in June 2023. It also allowed for the repayment of four out of the five PiP founder loans in May 2023 and the annual repayment of the remaining loan in July 2023. Additionally, as noted above, contingent consideration was paid of £1.2 million.

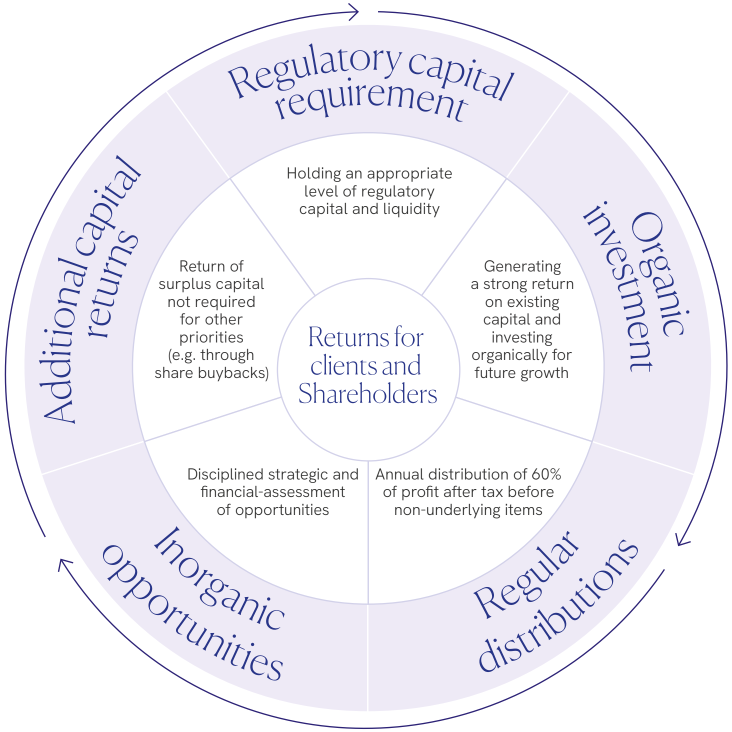
The Group commenced a share buyback programme in October 2023. The bought-back shares are held in treasury and have no voting rights or entitlement to dividends. At 31 March 2024, 236,492 shares had been repurchased for a cash outflow of £967,000. The Group also continues to purchase shares for its Share Incentive Plan with a further cash outflow in the year of £466,000.

Overall, we are in a position of strength with £45 million in cash and cash equivalents at 31 March 2024 having maintained significant headroom above our regulatory liquidity requirement without any third-party debt over the course of the year.

Financial review continued

Capital allocation priorities

We maintain a disciplined approach to capital allocation in order to support the following priorities:



The combination of our consistently strong free cash flow generation, and clear approach to capital allocation, enables us to effectively allocate capital to these priorities and generate value for Shareholders.

Dividend

The Board have introduced a further alternative performance measure for the purposes of calculating the dividend; in FY23 the dividend was calculated on profit before non-underlying items whereas in FY24 we have now updated this to exclude the impact of any impairment charge and associated deferred tax due to their one-off nature. This measure will be known as adjusted profit before non-underlying items and its calculation is shown in note A9 in the appendix to the financial statements.

An interim dividend of 6.7 pence per share was paid on 26 January 2024 and to reflect the strong performance by the Group this year, the Board has recommended a final dividend payment of 15.5 pence per share be approved by Shareholders at the upcoming AGM. This figure matches last year's final dividend and if approved, will be paid on 4 October 2024 based on an ex-dividend date of 19 September 2024, with a record date of 20 September 2024. This would result in a total dividend for the year of 22.2 pence per share (FY23: 20.1 pence per share), a 10.4% increase year-on-year, with the payout ratio increasing to 64% (FY23: 60%).

We will continue to pay an interim dividend as 33% of the total dividend from the prior year in January of each year. The balance of the total dividend will then be recommended to Shareholders each year at the AGM as a final dividend, with payment planned for each October.

Going concern

The financial statements have been prepared on a going concern basis. In adopting this basis, the Directors have reviewed the financial processes and controls embedded across the business and examined the three-year plan. They have considered the business activities as set out on pages 15 to 35, and the principal risks and uncertainties disclosed within this report on pages 55 to 63 and concluded that the adoption of a going concern basis, covering a period of at least 12 months from the date of this report, is appropriate.

Outlook

We carry strong earnings momentum into the current financial year and our profitable strategies, together with our scalable, diversified business model provides me with confidence in creating further Shareholder value in FY25 and beyond.

Gary Fraser
Chief Financial Officer

26 June 2024