MIDDLETON
ENTERPRISES

Annual Report on the 2020 Financial Year

Report on the 2020 Financial Year

CEO's Statement

Middleton Enterprises performed well in FY20 and despite the impacts of COVID, we are on track to deliver our long-term vision - to build a £bn private investment company based in the North East of England creating jobs, wealth, and prosperity.

We have a single-minded strategy - to back a concentrated group of high growth, predictable, highly cash generative businesses we can be proud of. We invest in disruptive businesses at all stages in the investment cycle from very early through to listed companies.

Our flagship listed equities portfolio has continued its excellent performance outperforming its benchmark, the FTSE All Share by 19% in 2019/20. Over the past 7 years, this strategy has returned a compound annual growth rate of 17% while the boarder UK stock market has merely broken even. This makes us a top percentile performer worldwide over this period.

As a result, we have committed to launching our first listed equity fund, making available this highly successful and proven strategy to external investors for the first time. The Conviction Equity Fund will be launched in partnership with the business angel group Conviction Investment Partners in the coming months.

We continue to retain an outsized position in HomeServe plc, the business I backed from start-up 30 years ago. The company has just joined the FTSE 100 - a remarkable achievement for Richard Harpin, my friend and colleague. The business is stable, resilient and cash generative. HomeServe's performance sets an excellent benchmark for the rest of our portfolio!

Our direct investments in VC have also performed well. The portfolio generated a return for 2019/20 of 41%. Over the last 7 years the VC portfolio has generated an IRR of 25%.

In addition, our VC business partner, Conviction Investment Partners, has raised and invested over £50m over the last 2 years, and has now raised its first VC fund. The Founders Fund will invest in early-stage, fast growing B2B SaaS companies driving disruptive digital change and creating high value business and jobs.

Our PE portfolio suffered when COVID shut retail stores and closed the property market. However, we feel the virus will have little long-term impact on our portfolio. Once again, we learn that great businesses can overcome severe market shocks and go on to be bigger, better, and more resilient.

We have continued to support Charity Escapes through the Middleton Foundation. The business has secured gifts from more than 150 companies, helped 250 charities, and raised over £350k. The business was at the apex of 2 imploding markets (hotels and events) but has relaunched as an online fundraiser. I am optimistic that we will soon be raising more and more for numerous charities.

We have made three significant new appointments. We have added James Middleton and Charlie Staite to boost our team of analysts and Paul Fung has joined the Middleton foundation team to develop our digital marketing capabilities.

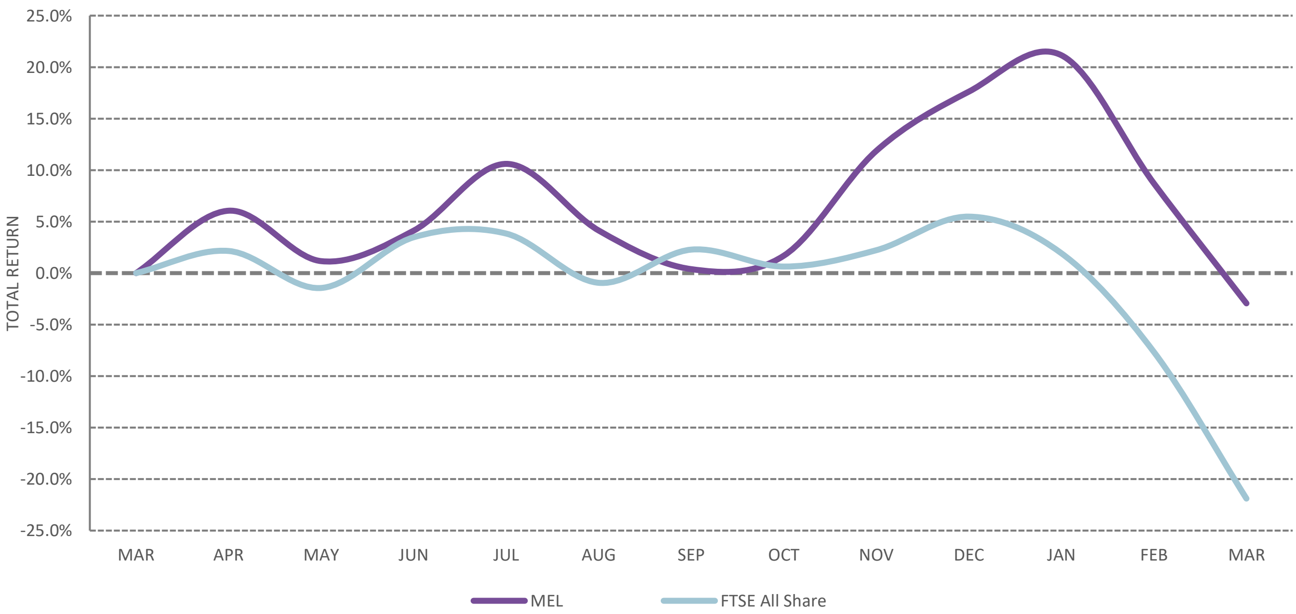
I am indebted to everyone at Middleton Enterprises for their intelligence and commitment. I would like to thank the top team of David Alprovich (COO), Mike Elliot (FD) and Brett Rogers (Portfolio Manager). I am also indebted to Paul Woolston, our chairman, for his invaluable support and advice.

Report on the 2020 Financial Year

Listed Equity Annual Review

Our most recent financial year can be split into two distinct periods. The first ten months of the year saw our portfolio and constituent companies perform in line with recent trends, with operating performance in line with our expectations and share price gains driving a 22% gain by January.

In the remaining two months of our financial year, both the portfolio and its benchmark decreased significantly, driven by the market's reaction to worldwide lockdowns and the uncertainty surrounding the economic impact of such measures. By the year end, our portfolio had posted a loss of 3%. These sudden and drastic share price declines were initially experienced across markets and sectors, resulting in our benchmark declining by 22% over the year.



It would be inappropriate to write about the investment implications of the coronavirus without first acknowledging the tragedy the virus has brought. Health and wealth are highly correlated and therefore a solution to this crisis is at the forefront of our Investment wishes, irrespective of the opportunities the current climate may bring.

In general, it is not part of our investment strategy to trade around macro-economic events. However, due to the quantifiable and predictable nature of the CV-19 epidemic, we chose to reduce our equity exposure to several of our businesses as the future economic consequences were clearly drastic and negative. We were able to redeploy much of this capital in the final weeks of the financial year at prices that reflected exceptionally strong value.

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Moving forward, it Is likely CV-19 will create further stock market volatility which may present short term difficulties in the portfolio but also present great buying opportunities. As such we have stress tested all our investee and prospective business for various outcomes regarding CV-19, including a prolonged lockdown where many businesses are unable to effectively operate for up to 12 months. Within these stress tests we have become comfortable that all our businesses have either the ability to continue generating revenues through this period or have sufficient cash flows to survive until lockdown measures are likely to end. Indeed, several of these businesses may benefit over the long term due to the worsening of their competitors positioning.

Despite a real decline in value, the portfolio has experienced another year of outperformance vs the benchmark, for the 7th consecutive year. Next year is likely to possess bouts of volatility as we encroach upon the US election, Brexit, and the continuation of the CV-19 epidemic. This will undoubtedly provide great opportunities to buy great businesses at reasonable prices.

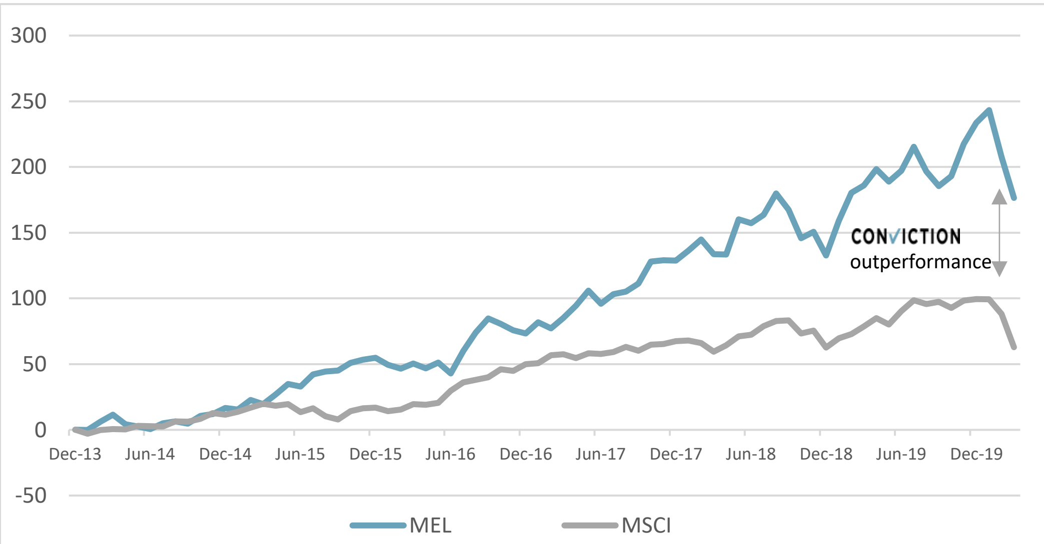
The Conviction Equity Fund

In response to investor demand, Conviction have created an open-ended fund to enable its investors to co-invest in our proven and highly successful equity strategy.

The strategy has been developed, tested, and run over the last 6 years at Middleton Enterprises (MEL) – the family office of Conviction's co-founder, Jeremy Middleton.

Over these 6 years the strategy has generated an annualised return of almost twice the market, putting it comfortably in the top decile of global funds over this period.

The fund is a concentrated portfolio of global best ideas across the market cap scale and looks to invest in quality, high growth businesses which are at the forefront of long term, technology induced, structural drivers.



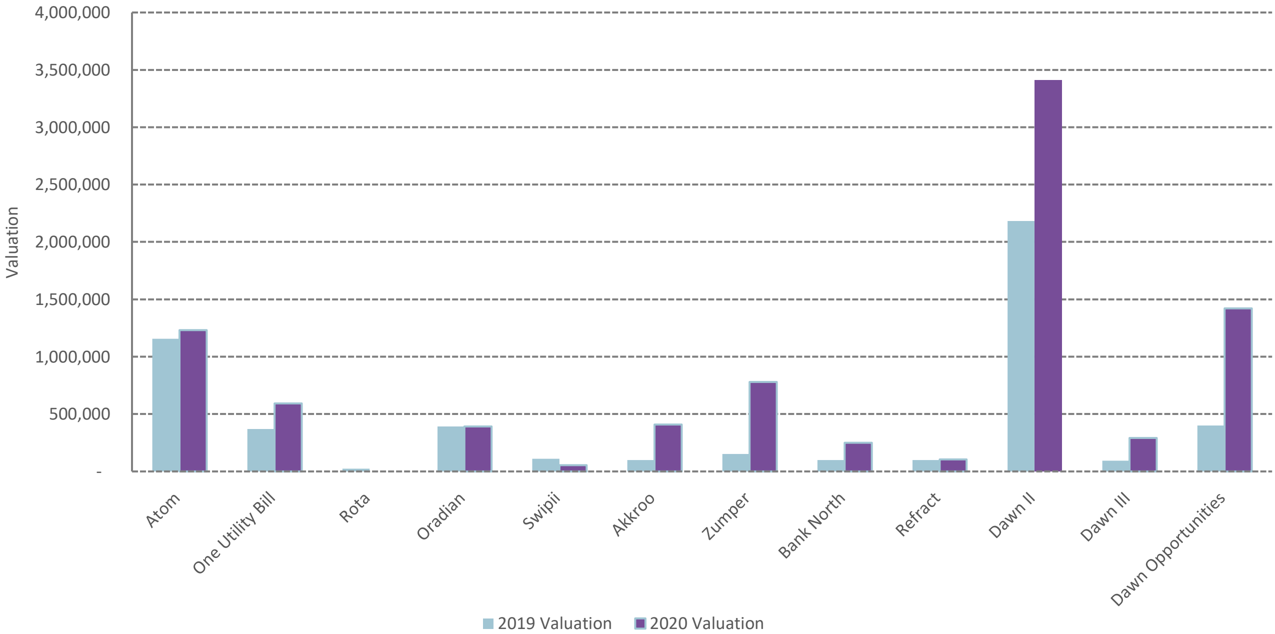
Year %	Total Return	CAGR
MEL STRATEGY	-17	**178**
MCSI WORLD (GBP)	-16	**68**
OUTPERFORMANCE	-1	**110**

For more information please contact brett@cel.ltd

Venture Capital Annual Review

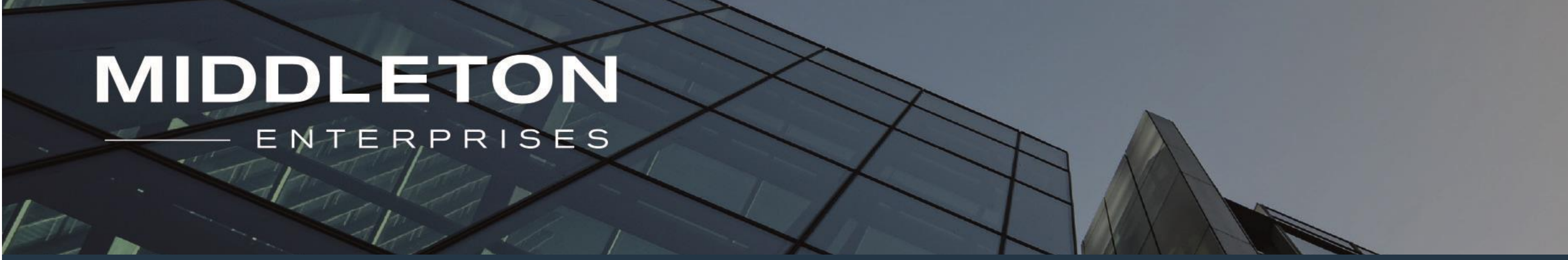
MEL's VC portfolio experienced another exciting year with strong performance, generating 41% return in 2019/20, taking our IRR to 25% since the inception of the strategy in 2013.

Middleton Enterprises invests in early stage, high growth, software companies. We focus on Seed and Series A rounds for B2B Saas and Fintech. These companies have recurring revenue, high profit margins and the potential to scale globally.



In the year we have seen valuation uplifts across several of our companies. Our strongest performers in the year were Dawn Opportunities, Zumper and Dawn III which saw uplifts of 102%, 95% and 97% respectively.

We aim to make a first round co-investments of £100-200k. Making larger £200-500k follow on investments into the most successful businesses. We work in close partnership with Conviction Investment Partners, the business angel group which has invested £50m since it was formed in 2018.



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FINTECH

Atom bank oradian iZettle

MED TECH

Heydoc

SALES/MARKETING ENABLEMENT

AKKROO Refract Hullabalook

INTEGRATE Picasso Labs

HR TECH

Adepto

degreed.

PROP TECH

zumper oneutilitybill.co

MARKETPLACE

ROTA tillo

FUNDS

dawn.

In 2019, events software company Akkroo, was acquired by the US marketing automation business, Integrate. This was at 57% premium to the 2018 Series A valuation.

Having made an initial investment into the US prop-tech company Zumper in 2018, Conviction Investment Partners contributed £10m to their recent Series E round.

One Utility Bill raised £1.7m with DSW Angels leading the round. Middleton Enterprises co-invested, continuing to build our equity position.

Portfolio company Adepto was acquired by US learning experience platform, Degreed. The transaction saw an uplift to the 2019 Series A.

We made a follow-on investment into BankNorth. The company is on track to be granted a banking licence and become a new, alternative, lender serving SME's across the North of England.

Conviction Investment Partners led a £2.3m fund raise for ecommerce software company Hullabalook. We also made first round incubator investments into Heydoc, Tillo and Picasso Labs.

In 2020/21 we plan to work closely with portfolio companies to help them navigate Covid-19 and the ensuing economic shock.

Conviction Investment Partners is raising The Founders Fund to back 10-20 new early stage Saas businesses.

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Private Equity Annual Review

Middleton Enterprises invests in established, profitable SME businesses and helps them to execute growth plans by providing capital and strategic input at board level. We look for businesses with quality management teams, a defensible competitive edge and high returns on capital.

We have been invested in HBB Relocation Services, Apex Bridging and D-Line for many years, assisting all the businesses to grow from start-up or very early stage.

All the businesses have enjoyed successful years. Covid-19 caused significant disruption at the very end of the financial year and has naturally caused reassessment of risk and deleveraging/cash conservation strategies to be adopted across the portfolio. All the businesses have so far proved extremely resilient to the health and economic crisis, and though there are uncertain times still to be navigated, we have confidence that all the businesses will ultimately emerge strongly profitable.

HBB saw record turnover (up 5%) and operating profit (up 25%) as gross margins were stronger than the previous year. Key team members were added in Operations and Marketing.

Apex has focussed on quality and profitability over top line growth, a strategy that paid dividends with our key profitability metric up 32.5% year on year even while top line revenue fell 8%.

D-Line has also experienced a strong year with sales up 19% year on year. Growth opportunities are particularly interesting in the USA where there is potential for significant sales growth both via online retail and more traditional distribution networks.

We value all our PE businesses on a multiple of the previous 6 months' profit and the forecast next 6 months' profit. Given the uncertainty around Covid-19, we forecast all the business to make no profit in H1 2020/21. As a result, we wrote down our holdings by £6.7m at year end showing a negative performance for the year of 19%.

We look forward to working with the portfolio to help see them through tough times and recover in the coming months and years.

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