MIDDLETON
ENTERPRISES

Annual Report

FY21

CEO's Statement

We have successfully navigated the operational challenges arising from COVID-19 during the year; we safeguarded our staff, launched our first fund and achieved significant progress with our strategy across all business sectors.

Our long-term goal is to grow our NAV by 16% pa to play our part in creating wealth and prosperity. In FY20 COVID negatively impacted our portfolio businesses, causing our NAV to decline by 10%. However, FY21 we have fully recovered gaining +21% over the two years. This is a very positive result especially under the uniquely challenging times for the team.

In FY21 we positioned ourselves for faster growth. We have now invested all our cash into the markets allocating all our capital to the best businesses we can find in Listed Capital (LC), Venture Capital (VC) and Growth Capital (GC).

We fully committed to our proven listed capital strategy as the principal growth driver of the business. We started last year with only around ~20% of assets in LC and with one junior analyst. We end it with over 50% of assets in LC. The investment committee are now supported by a dedicated team of 3 based in our new London office. This team continues to produce market beating results for ME Ltd. I am optimistic that, over time, we will be able to match that success with our new fund, the conviction equities fund.

We have developed an exciting VC business working with Conviction Investment Partners capable of sourcing B2B SaaS businesses with unicorn potential. We have a very focussed strategy and a dedicated specialist team of 7 FTE in CIP. We have allocated over 10% of our assets to this part of the business which has the highest risk profile but also offers potentially the highest returns.

In FY21 we put in place a team to drive our GC portfolio. This team will aim to source and incubate a portfolio of profitable growing SME business. We are actively looking for established businesses (£10/£20m sales), that are growing, who are looking for growth capital, or entrepreneurs looking for a partial secondary exit.

Finally, although we believe that all our investments will help create jobs and add value to society in FY21, we have initiated a new Impact lead investment programme. Over time we hope to prove out our ability to help develop businesses where the primary driver is social or environmental benefits

Our assets are now fully allocated to our business teams, and I believe they have the talent and resources to realise the demanding growth targets the business has set.

I would like to thank Paul, my chairman, the board and all the staff for their continued support and commitment.

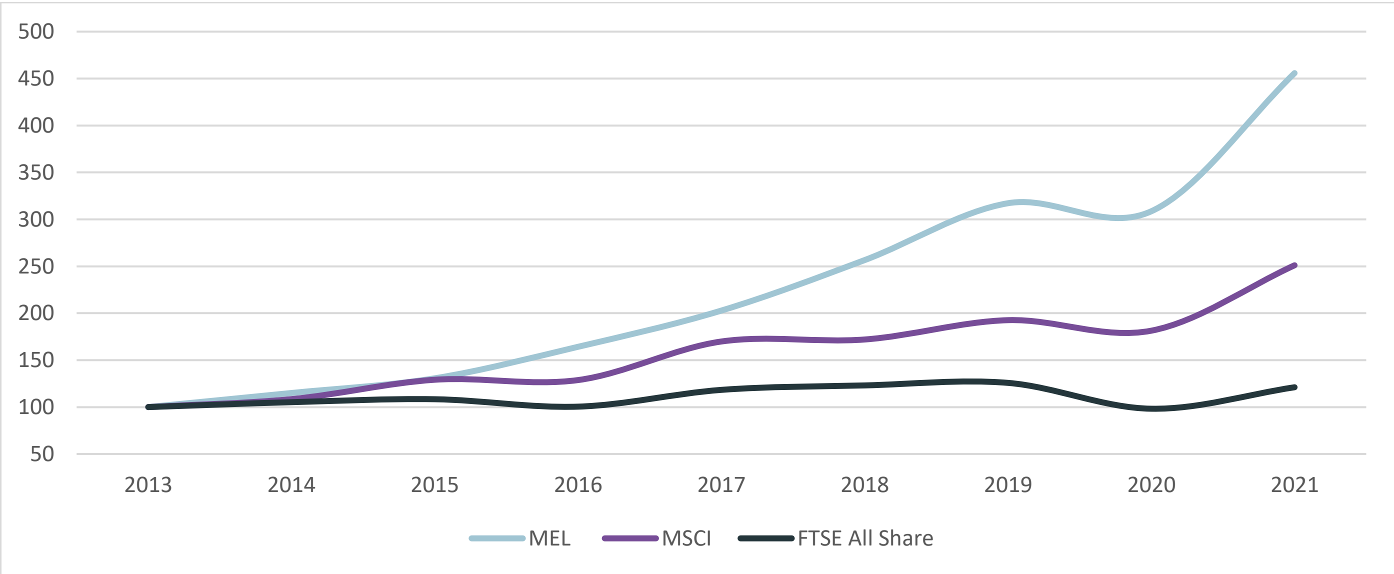
Jeremy Middleton
CEO

Year	Listed Capital	Venture Capital	Growth Capital	NAV
FY19/20	-3%	+37%	-19%	-10%
FY20/21	+48%	+11%	+30%	+34%
FY19-21	**+46%**	**+49%**	**+4%**	**+21%**

Listed Capital

The below table outlines the performance of the MEL stock market strategy since inception and compares this to the MSCI World Index (GBP) and the FTSE All Share. Over the past 8 years, the strategy has returned a compound annual growth rate of 21% vs the MSCI's 12% and the FTSE All Share's 2%. This equates to a total return of 356%.

Annual Percentage Gain			
YE March	**MEL (GBP)**	**MSCI (GBP)**	**FTSE All Share (GBP)**
2014	15%	8%	5%
2015	14%	19%	3%
2016	26%	0%	-7%
2017	23%	32%	18%
2018	27%	1%	4%
2019	24%	12%	2%
2020	-3%	-6%	-22%
2021	48%	38%	23%
CAGR	**21%**	**12%**	**2%**
Total Return	**356%**	**151%**	**21%**

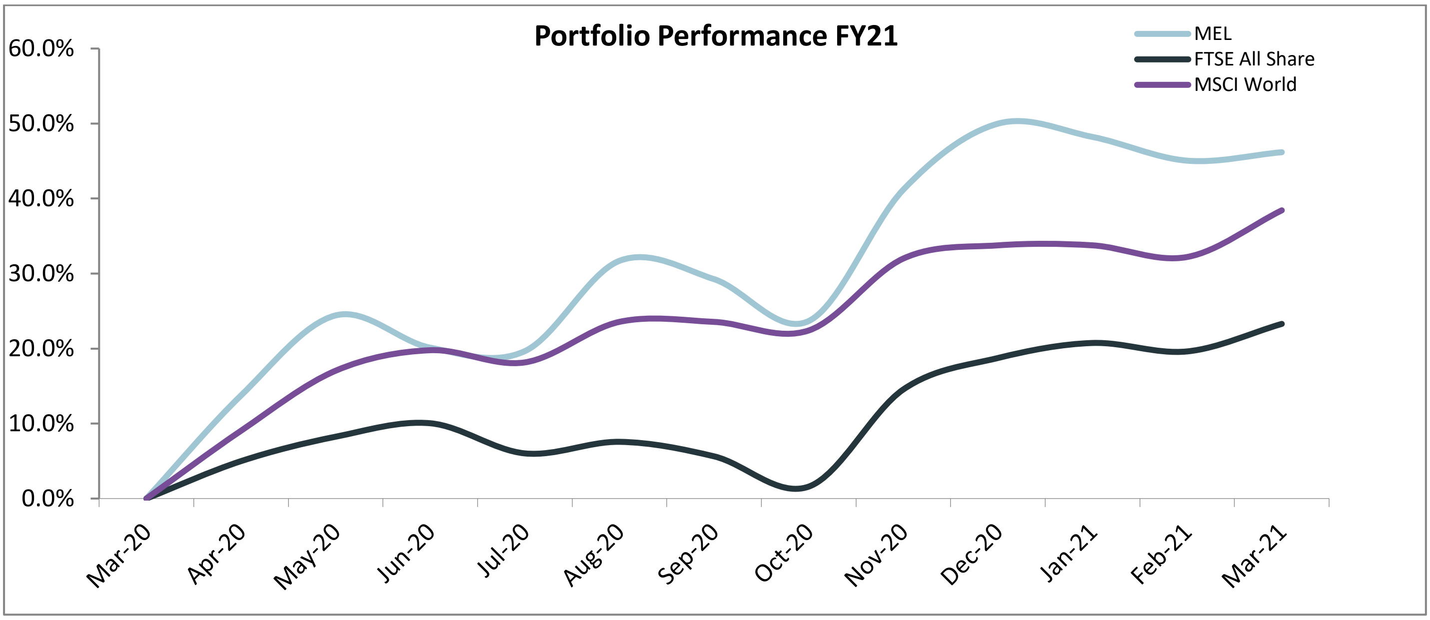


In summary, the portfolio has generated a 4.5x return over the last 8 years. The MSCI has returned a 2.5x return and the FTSE All Share a 1.2x return.

The Year in Review

Our 2021 financial year performance needs to be viewed in context with market conditions. Our financial year started on the 1st of April 2020, 7 days after the equity market trough following the arrival of the coronavirus pandemic.

Taking this into account, the portfolio had a great year gaining 48%. This performance offsets the prior year's -3% performance. In mid-March 2020, we relied on our systems and models to deploy capital into businesses we knew well, at prices that were dislocated from their underlying value. We were able to buy GYM at 25% of its prior valuation and FDM at less than 50%. These trades, as well as the quick recovery in equity markets, set the portfolio up for a strong year.



At the start of the year, the portfolio held 8 positions, excluding a minor position in OTB. During the year we have found and invested in 4 new names, in no small part to our two recent analyst hires. Their ability to identify and work through new ideas has had a noticeable impact on our returns, giving us the opportunity to invest a significant amount of new capital into the markets.

Best performers in the year	Worst performers in the year
MAB = +116%	MIME = -4%
DOTD = +82%	JET = +4%
GYM = +61%	FB = +15%

The Conviction Equity Fund

In October of 2020, we launched our first listed fund in partnership with CIP, The Conviction Equity Fund. The Fund will implement the same highly successful strategy we have developed and refined at Middleton Enterprises over the last 8 years.

At launch we selected 15 stocks weighted in line with their expected returns. As of the end of March, the portfolio has generated a 14% return, generating $800k of profit for investors.

We intend to go to market the Fund in the coming months, marketing to the CIP's investor network.

- **Conclusions**

This has been an extremely challenging year to manage a listed capital portfolio. For the majority of the year, we were either met with highly uncertain conditions, or elevated prices as markets were dominated by macroeconomic events. It is not our strategy to structure the portfolio to benefit in such an environment.

The reason for this has been illustrated well this past year – the world is a very unpredictable place, and the stock market even less so. Imagine you had been told at the start of last year there would be a macroeconomic event that would devastate the world economy, making UK and US GDP's decline by magnitudes not seen in modern history. It would be difficult to predict the MSCI would have returned over 12% with stock markets ending the year near all-time highs, and even more difficult to create a portfolio to benefit from such conditions.

Instead, we focus on finding businesses we think are predictable, and have proven this over time. We ensure the growth drivers benefiting the business are highly likely to remain for some time, and that these businesses have a competitive edge over their rivals.

It is our view that focusing on business operations and their subsequent profits is a far better use of our time than trying to predict market trends. I believe it is for this reason, I can present to you a year of healthy outperformance.

Brett Rogers
Investment Director
Middleton Enterprises.

Venture Capital

The VC portfolio generated a money weighted return for FY21 of 11.3%, meaning over the past 8 years the VC portfolio has returned an IRR of 22.5%.

Overall, the portfolio is 74% in later stage companies. These are generally companies with £50m+ revenue, which are growing at 30-50% and valued at £500m+. 26% is invested into early-stage companies. These range in revenue from £200k to £6m with valuations of £10-30m and growth rates of 100-300% pa.

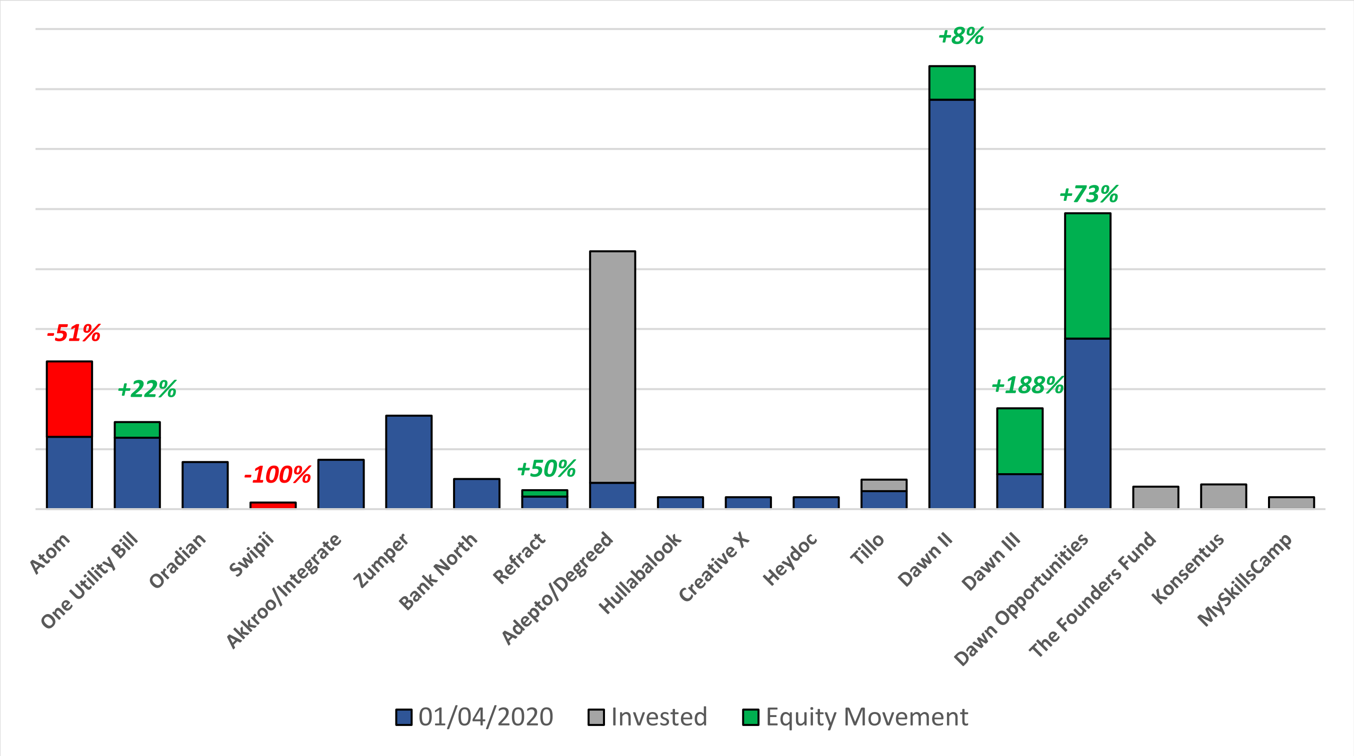
Most of our gains came from continuing strong performance in funds managed by Dawn Capital. Dawn II is now into its 8th year and shows 30% net IRR and 3.7x net TYPI. The fund sold 7 of its investments to a continuation fund and now has 4 remaining positions.

One Utility Bill successfully raised £1.5m at £10m pre-money valuation. This is 25% uplift on the last share price. This investment will be moved from our VC portfolio into our Private Equity portfolio in FY22, reflecting the maturity of the business which is approaching breakeven.

The Newcastle based sales software vendor, Refract, was acquired by a later stage US counterpart, Allego. We invested in 2018 a 60% uplift on exit. Allego plan to retain the Newcastle office and recruit 100+ developers in the region.

Atom Bank had a disappoint down round. The share price reduced from 115p to 60p. The company continues to progress towards profitability. They hope to IPO in 2022.

Our private market holdings are valued based on their last funding round. Due to the economic uncertainty a lot of companies deferred funding rounds or raised via convertible loan notes rather than a priced equity round. Integrate, Hullaballook, Heydoc, Degreed, Picasso Labs, and My Skills Camp all grew revenue substantially in 2020. We expect these companies to raise money at higher valuations in 2021. At which point we will see an uplift in our investment value.



The financial year from April 2020 to March 2021 was remarkable in many ways. It started in lockdown, with many businesses closed and 11m staff in the UK furloughed. At this point we expected a deep recession, mass business failures and down rounds. Our VC budget was to baton down the hatches and hopefully breakeven.

Fortunately, vast global government support saved many businesses and jobs. Entire industries transitioned to working remotely overnight. The venture capital market picked up very quickly meaning we saw uplifts in several portfolio companies.

One of the beautiful things about investing into early-stage technology companies is that most of the funds are used to recruit new staff in order to expand the businesses. The companies in our VC portfolio employ 883 people. The aggregate headcount increased by 36 in 2020/21. This group of companies employ 593 more people now than they did when we first invested. This only counts direct investments and not those via a fund.

David Alprovich
COO
Middleton Enterprises

Growth Capital

The Growth Capital portfolio gained 30% in the year, recovering from the disruption of COVID-19 which saw a significant write down in our holdings at the end of FY20. The GC portfolio has now recovered most of the initial losses from COVID-19. Since inception in 2019, the GC portfolio has delivered a total return of 3.9%.

At the start of FY21 the GC portfolio was comprised of our equity in D-Line, HBB and APEX as well as loans to portfolio companies and Woodville. COVID-19 has caused significant disruption throughout the financial year. All the businesses have so far proved extremely resilient to the health and economic crisis. Our continued holdings were all profitable in the year which is an excellent result given the challenges faced.

D-Line has also experienced a fantastic year with sales up 59% year on year and profit up over 150% as the business benefitted from the DIY boom that COVID inspired. 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. As a result, we increased the value of our holding by 511% from a depressed valuation in April 2020.

HBB re-based their business significantly, prioritising margin and risk management over revenue on the back of COVID. As such revenues were markedly down, while de-leveraging in the early part of the year resulted in a hit to profit. This resulted in MEL reducing the valuation of our HBB equity by 20%. The business emerged just profitable and was able to pay a dividend towards the year end. Recovery is expected to continue into FY22 with the budget showing a return to much healthier profit.

APEX undertook a de-leveraging strategy a year ago which saw the book drop by around 30% by the middle of the year. This was in line with plan and business ended the year very close to budget at top and bottom line, albeit at a reduced level from the previous year. The value of our equity almost recovered to pre-covid highs, increasing by 63%. The focus for the year ahead is to exit the legacy loan book and start to re-build back towards the scale we had previously achieved.

MEL made a new incubator investment in late 2020 into Market Mortgage, a business which enables banks to offer low deposit mortgages to home buyers without taking excessive risk.

The portfolio we have held through the year has seen headcount across the businesses increase by 17 from 74 to 91.

Middleton Enterprises hired Emma Borrie at the start of 2021 as an Investment Associate. Emma is a Durham graduate and chartered accountant who has spent the past 5 years at KPMG. Emma will lead the search for the next GC company as MEL plan to increase the focus and budget into the strategy over the next few years.

Mike Elliot
Financial Director
Middleton Enterprises

Impact Report

In FY21 MEL initiated an impact investment strategy focussed on allocating capital to businesses that can deliver social and environmental impact in a sustainable manner. MEL have allocated a budget of ~£180k towards the strategy in its first year, which was used in two investments;

VC Firm	Fund Name	Investment Size	Date
AgFunder	Carnivore Fund	$100k	July 2020
Acension Ventures	Fair By Design	£100k	March 2021
Total		**~£180k**	

The Carnivore Fund is a $20m fund that will invest into 15-25 start-up companies within the alternative protein industry, ranging from pre-seed to pre-IPO. Switching from animal agriculture to plant-based produce will significantly reduce the emissions related to agriculture, which generates 24% of global emissions. This fund will aim to find a unicorn within the space that could drastically change the consumptions habits of millions and therefore have a significant positive impact on the environment. The Fund is yet to receive a revaluation, but several of the portfolio companies are projected to raise capital in the next 12 months, at which point they will be revalued.

The “Fair by Design Fund EIS” is a £1m side-car of Acension’s £10m “Fair By Design” Institutional fund. The side-car fund will invest into 8 technology-based businesses ranging from early to late stage. These businesses are aiming to tackle the poverty premium in the UK which causes lower income households to overpay for essential products and services. The fund will invest across Energy, Finance, Food, Transport, Insurance and digital inclusion. The institutional fund has been running for 3 years, and the existing portfolio is already saving the poorest 340k people in the UK £12m per year. The side-car recently closed so MEL is yet to receive information on portfolio companies.

Moving forward into FY22, MEL will seek high quality sustainable direct impact investments that can positively impact the environment or reduce social inequality.

James Middleton
Investment Analyst
Middleton Enterprises