

FINANCE WALES
GROUP



ANNUAL REVIEW
2013-14

Welcome to the Finance Wales Group

Foreword from our Chairman, Ian Johnson

The Finance Wales Group invested a record £50m for the first time in 2013-14, with combined investments by Finance Wales and xénos up to over £35m, while FW Capital's investment levels also rose to £15.5m. These investments have leveraged an additional £42.7m

The Finance Wales Group is a pioneering Welsh company that has grown into a key Welsh financial institution since it was established in 2001. We've built up significant expertise to become a strong, focussed organisation. Added to this, we've launched a number of new funds, which now allow us to offer SMEs both short and long-term funding options.

We launched 2 new Welsh Government funds, the £10m Wales Property Development Fund and £20m Wales Capital Growth Fund in 2013-14 as well as the £7.5m Wales Technology Seed Fund early in 2014-15. While considerably increasing our reach, I'm pleased that they resulted from new fund proposals we developed in response to market needs.

Our investments play an important role in building a strong economy by helping to create and safeguard jobs. They also impact the economy by creating opportunities for local suppliers and encouraging businesses to invest in research and development. Our funding and expertise is also attracting businesses to Wales and in 2013-14 four young technology businesses moved to Wales to take advantage of investment from Finance Wales.

I'm also pleased that the impact of the Wales JEREMIE Fund was recently recognised by Business in the Community at the Wales Responsible Business Awards and being named Funder of the Year at the Wales Dealmakers Awards clearly reinforces Finance Wales' contribution to the future growth of the Welsh economy.

2013-14 highlights

A record £50m invested

The Finance Wales Group achieved a significant milestone in 2013-14, investing a record £50m – up £5m on the previous year as investment levels at Finance Wales, FW Capital and xénos all increased. Investments made by Finance Wales helped Welsh SMEs create or safeguard 3,435 jobs



£33.1m invested through 205 investments
£27.4m additional investment leveraged
3 exits/investment realisations
4 young technology businesses attracted to Wales



Cefnogiwr gan
Llywodraeth Cymru
Supported by
Welsh Government

Launched January 2014
61 builders registered
505 applications received from homebuyers
71 new homes purchased with an average shared equity loan of £35,344



£2.35m business angel investment facilitated
17 investments
£954,000 additional investment leveraged



£15.5m invested through 70 investments
£14.3m additional investment leveraged
1 exit/investment realisation

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£353m
invested between 2001
and September 2014
creating or safeguarding
39,085 jobs
3,425 investments
leveraging **£510m**
additional investment



Funds we're currently investing

Fund	Size	Stakeholders
Wales JEREMIE Fund	£150m	European Investment Bank Welsh Government European Regional Development Fund
Wales SME Investment Fund	£40m	Welsh Government, Barclays
Wales Capital Growth Fund	£20m	Welsh Government
Wales Property Development Fund	£10m	Welsh Government
Wales Technology Seed Fund	£7.5m	Welsh Government
Wales Micro-business Loan Fund	£6m	Welsh Government

Fully invested funds: £30m Interim, £45m Objective 1 and £35.9 Objective 2 Funds

Help to Buy – Wales: Shared Equity Loan Fund	£170m	Welsh Government
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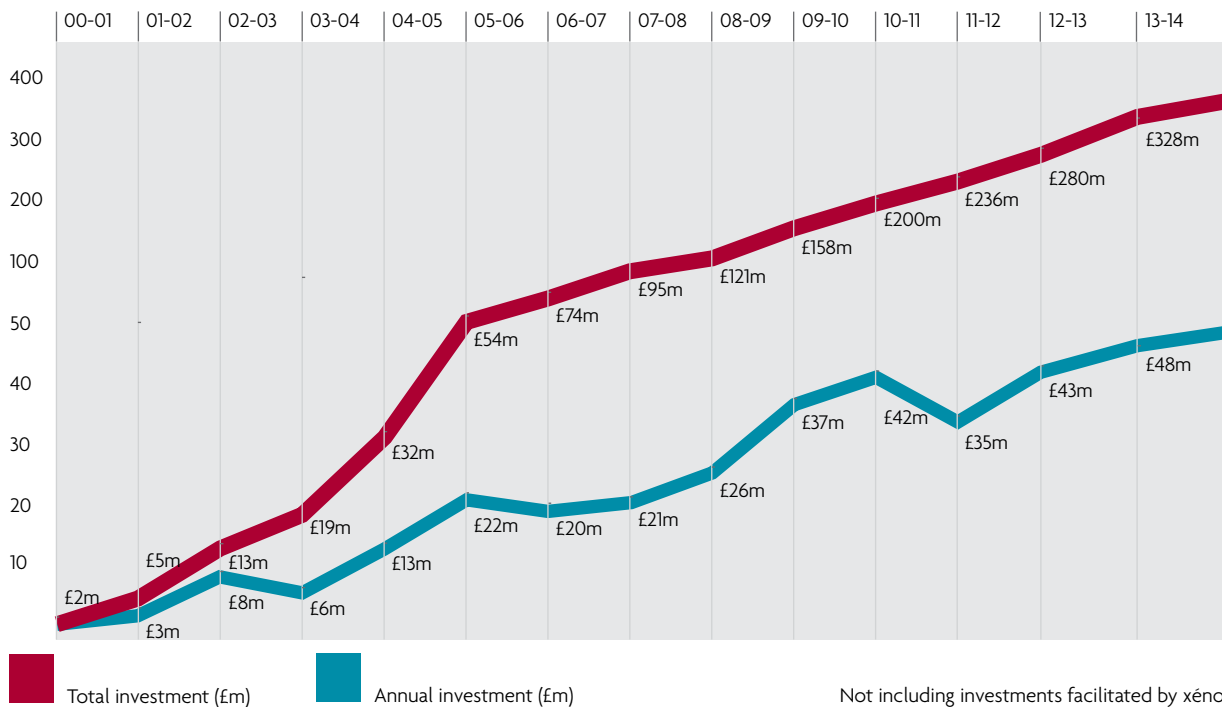
The North West Fund for Loans Plus	£45m	European Investment Bank European Regional Development Fund North West Business Finance
North East Growth Plus Fund	£20m	European Investment Bank European Regional Development Fund North East Finance
Tees Valley Catalyst Fund	£10m	Tees Valley Unlimited Stockton-on-Tees Borough Council Regional Growth Fund

£170m
 Help To Buy – Wales Scheme,
£10m
 Wales Property Development Fund
 and **£20m**
 Wales Capital Growth Fund
 launched in
2013-14

Investment history

Managing investment funds for over 10 years

We currently manage 10 funds and launched 2 new Welsh Government SME investment funds with a combined value of £30m in 2013-14 as well as the £170m Help To Buy – Wales scheme. The 2 new SME funds resulted from new fund proposals we developed in response to market needs



Finance Wales and xénos



Investments

Single-round £1,000 - £2m
 Up to £5m in one company
 Loans, mezzanine and equity
 Short and long-term growth funding
 Wales

2013-14 highlights

£33.1m invested through 205 debt and equity investments
 £27.4m additional investment leveraged
 £8m invested in high-growth, IP-rich technology-based businesses
 £5.5m co-investments through 18 investments
 3 exits/investment realisations
 4 young technology businesses attracted to Wales
 3,435 jobs created or safeguarded



Cefnogir gan Lywodraeth Cymru
 Supported by Welsh Government

Providing eligible homebuyers with a shared equity loan
 Wales

61 builders registered
 505 applications received from homebuyers
 71 new homes purchased with an average shared equity loan of £35,344



Matches business angels to businesses seeking growth investment
 Wales

£2.35m business angel investment facilitated through 17 investments
 £954,000 additional investment leveraged
 114 registered business angels investing in all types of businesses
 £21m of private investment in 200 Welsh SMEs facilitated since 1997

FW Capital

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THE NORTH WEST
FUND / +
LOANS PLUS

Investments

Single-round £50,000 -
£750,000 investments
Follow-on investments
Loans and mezzanine
Long-term growth funding
North West of England

2013-14 highlights

£8.8m invested through 56 debt and
mezzanine investments
£800,000 additional investment
leveraged
£2.9m through 17 follow-on
investments
750 jobs created or safeguarded

Finance | North East
For Business | Growth Plus Fund

Single-round £350,000 -
£1.25m loans, mezzanine
and equity
Long-term growth funding
North East of England

£5.6m invested through 11 debt and
equity investments
£12.3m additional investment
leveraged
£350,000 through 2 follow-on
investments
194 jobs created or safeguarded

Tees Valley
Catalyst Fund

£100,000 - £2m loans
Funds advance payment
guarantees; performance
and warranty bonds;
extending existing bond
facilities
Short-term funding
Tees Valley

£1m invested through 2 performance
bond loans
£1.2m additional investment leveraged
40 jobs created or safeguarded
Tees Valley companies secure
contracts totalling £10.8m with
Catalyst Fund's backing

Investing in growing SMEs

Flexible growth funding tailored to SMEs' needs

The Finance Wales Group backs growing SMEs in Wales, the North East and North West of England, providing them with short and long-term investment options from the most comprehensive range of funds we've ever managed. We invest in young as well as more established businesses operating in a wide range of sectors

£42.7m
additional investment
leveraged in
2013-14
£28.4m by
Finance Wales and xénos
and **£14.3m**
by FW Capital

When we invest, it's the start of a long-term relationship because we know SMEs are more likely to succeed by combining an ambitious business plan with our capital and expertise. We provide micro loans and loans as well as mezzanine and equity investments which we tailor to suit individual businesses' growth plans. Our loan repayment terms range from 1 to 5 years and our interest rates are based on an SME's individual circumstances and fixed for the loan term.

Our locally based staff build constructive relationships with business owners and managers to understand their growth requirements and use their expertise and experience to help them build strong, successful businesses. We can also provide further investment and additional working capital as a business expands.

Our portfolio team has a unique insight into the growth challenges many SME management teams face and can help with a wide range of practical strategies to maximise the impact of our investment. We encourage the sharing of best practice and can also call upon our extensive network of trusted advisers, non-executive directors, sector experts and co-investors.

Since the 2009 launch of the Wales JEREMIE Fund, we've launched a number of new SME funds, which has increased the number of businesses potentially eligible for investment. In 2013-14 we launched two new Welsh Government funds – the £10m Wales Property Development Fund and the £20m Wales Capital Growth Fund – further increasing our reach.

Attracting additional investment

Proud co-investors

We're a committed co-investor, partnering with leading UK fund managers, banks, business angels and others. By the end of 2013-14, Welsh SMEs had benefitted from £289m of investment from Finance Wales, leveraging an additional £463m of investment, taking our total impact on the Welsh economy to £752m



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Our investments help SMEs create and safeguard jobs. They also attract additional investment and encourage businesses to invest in research and development

Mike Owen
Group Investment Director

Help To Buy – Wales

£170m to boost home ownership in Wales

The Welsh Government aims to promote sustainable home ownership by improving housing standards as well as increasing the supply and affordability of housing. The Help To Buy – Wales shared equity loan scheme is boosting the Welsh housing sector by supporting home ownership and stimulating construction



Help To Buy – Wales aims to support the purchase of around 5,000 new homes in Wales

Catherine Lewis-Jones

Fund Manager, Help To Buy – Wales

In September, 2013, the Welsh Government asked Finance Wales to set up and run the Help To Buy – Wales scheme, a £170m shared-equity loan scheme designed to provide a boost to the Welsh housing sector by supporting home ownership and stimulating house-building. The scheme makes home ownership easier for homebuyers with small deposits wishing to purchase new-build homes valued up to £300,000.

Help To Buy – Wales is open to home-movers as well as first-time buyers who can combine a shared-equity loan for up to 20% of the purchase price with a minimum 5% deposit and a mortgage to purchase new-build homes in Wales. Large and small builders can participate in the scheme which aims to support the purchase of around 5,000 new homes in Wales by March 2016.

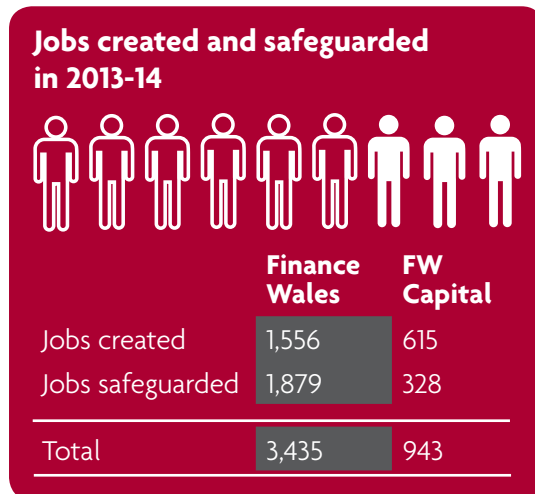
Builder registration commenced at the end of November, 2013 and the first homebuyers were able to apply to the scheme on 2nd January, 2014. By the end of 2013-14, we'd received 505 applications and the scheme had helped homebuyers purchase 71 new homes. We'd also registered 61 builders for the scheme.

An experienced fund manager, Finance Wales manages numerous funds, including the pioneering Wales JEREMIE Fund which was the first of its kind in Europe. Our staff have built up considerable investment expertise which enables us to provide specialist financial services such as launching and running Help To Buy – Wales for the Welsh Government. Help To Buy – Wales is currently the largest fund we manage.

Our economic impact

Helping to build a strong economy

In addition to attracting additional investment and helping SMEs create and safeguard jobs, our investments attract businesses to Wales. They also help build strong businesses and encourage innovation, R&D and the development of new products and services as well as creating opportunities for local suppliers



New products and services

103 SMEs have introduced new or developed existing products and services thanks to Wales JEREMIE, Wales SME Investment and the Wales Micro-Business Loan Fund investments




Research and development

Nearly 60% of the Welsh technology ventures we have invested in have used our finance to undertake R&D




By the end of September 2014, our investments have helped create or safeguard 39,085 jobs



Help To Buy – Wales

Since launch and by the end of September 2014:

- 1,365 applications received
- 86 builders fully registered
- 640 new homes purchased
- Average shared equity loan of £35,344



We raise funds from private and public sources and aim to create legacy funds for future investment and economic development from the returns we achieve

Ian Johnson
Chairman, Finance Wales

2014-15 half-year update

Continuing to back SMEs

We're continuing to increase our impact and by the end of the first six months of 2014-15, our investment levels are ahead of target in Wales. We've also achieved 2 of our most profitable exits to date



Wholebake's profits more than trebled since Finance Wales invested and they've also more than tripled their workforce in Corwen

Jerry Mobbs
Deputy Fund Manager

First 4
Wales Capital Growth Fund investments completed

7
business breakfast briefings held across Wales

BIG TICK 2014
BUSINESS IN THE COMMUNITY
The Wales JEREMIE Fund was recognised with a 'Big Tick' for supporting the growth of Welsh SMEs

Exits from Vista (4.5X return) and Wholebake (5.5X return)
These Welsh businesses grew with our backing and are continuing to grow

Wales Capital Growth and Wales Technology Seed Funds launched

1,263
jobs created and safeguarded by our investments in Wales

Finance Wales' investment levels ahead of annual target
Annual investment rate increased
£19.8m invested in Welsh SMEs by the end of September 2014

Future developments

Securing and launching new funds

Working with the Welsh Government and other stakeholders, we're seeking opportunities to expand our range of investment funds from both commercial and public sources. We want to secure the capital to continue backing SMEs, helping them to grow, create and safeguard jobs and create a strong economy

£25m Wales Management Succession Fund

This fund, which we're aiming to launch in 2015, will provide the next generation of Welsh business owners with the backing to take over the reins of established Welsh SMEs when their owners retire or want to move on. This £25m fund resulted from proposals we developed in response to market needs

£60m Wales Mid-Market Fund

We're developing a £60m fund which will make investments of between £2m and £6m in established Welsh SMEs. Developed as part of the UK Government's British Business Bank initiative, we aim to launch this £60m fund in 2015

Wales JEREMIE Fund successor

With an anticipated launch date in 2015/early 2016, we're developing proposals for a successor to the current Wales JEREMIE Fund as our principal investment fund in Wales. We're actively pursuing a number of potential funding sources for this new fund

Financial summary 2013-14

Reduction in Welsh Government support and lower provisions

In 2013-14 the fees we earned helped reduce our reliance on Welsh Government support to £2.3m – its lowest level since Finance Wales was established. Our impairments/provisions were also £4m lower than in 2012-13. Our administrative costs rose as we recruited staff to run new funds

	2012-13	2013-14
	£000	£000
Investment and fee income	8,767	10,192
Profit/(loss) on disposal of equity investments	457	(1,758)
Other income/ERDF grant release	7,631	7,956
Welsh Government support	3,147	2,276
Total income	20,002	18,666
Administrative costs	(13,679)	(14,361)
Impairments/provisions	(13,372)	(9,291)
Operating profit/(loss)	(7,049)	(4,986)
Net interest and other movements	(1,593)	479
Profit/(loss) before taxation	(8,642)	(4,507)

Find out more

The Finance Wales Group is committed to investing in SMEs and helping them to maximise their growth plans by providing the right investment at the right time from the widest range of funds we've ever managed. To find out more about us, please visit one of our web sites

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Available in Welsh and other formats. Please contact us to discuss your needs.