

Draper Esprit VCT

Investor Guide

Draper Esprit VCT is a leading venture capital investor which has been making investments in unquoted UK companies since 1998.

Draper Esprit VCT - an award-winning Generalist VCT

Draper Esprit VCT is co-investing with the Draper Esprit plc and EIS funds. The managers, Elderstreet, formed a close association with Draper Esprit, the award-winning and successful technology investment manager, starting from 16 November 2016 thus transforming the prospects of this VCT.

Draper Esprit has a historical track record of delivering returns in excess of 20% over nine years (across its aggregate portfolio return since 2008), has completed over 125 deals since 2006, had over \$5bn value of exits since 2010, and core strategic aim of targeting a portfolio return of 20% per annum. The VCT targets a potential tax free yield of 6% to 7% per annum.*

The recent changes to the VCT legislation designed to encourage more investment into fast growing companies has had a significant impact on the VCT industry.

The Board believes that many established VCT managers can no longer access the type of deal flow which they have nurtured over many years. This has led to a significant reduction in their ability to invest money. A typical Draper Esprit investment, by contrast, would be largely unaffected by these changes, allowing them to continue to invest into the sectors they have nurtured a strong deal flow presence in. This is illustrated by the notable increase in the number of deals the VCT has invested in since the Manager's co-investment agreement with Draper Esprit was enacted.

The VCT Board believe that investing in knowledge intensive, high growth technology companies inside a VCT tax wrapper is an attractive investment offering. These technology companies have the potential to grow into valuable companies as shown by the Draper Esprit investment into portfolio company Graphcore.

GRAPHCORE

Graphcore is a Bristol based silicon chipmaker developing AI Processors. The Draper Esprit plc and EIS funds had invested into Graphcore earlier in 2016. In December 2018 Graphcore gained 'unicorn' status when it closed a \$200m funding round with a valuation above \$1.5bn.

Investors into Graphcore alongside the Draper Esprit funds included well known names in the venture capital and corporate investment world such as Sequoia Capital, Atomico, Amadeus Capital, Robert Bosch Ventures, C4 Ventures, Dell Technologies Capital, Foundation Capital, and AI experts such as Demis Hassabis (co-founder of DeepMind) as an angel investor.

Draper Esprit has been the highest rated EIS by 'Tax Efficient Review' in 2014, 2015, 2016, 2017, 2018

Since joining with Draper Esprit in late 2016 the VCT has raised a further £21m and committed to fourteen new investments totalling £11.25m.

At the time of writing, twelve investments have completed and the other two are subject to receiving HMRC Advance Assurance.

Together with other syndicate funds these companies raised a total of over £100m.

Knowledge intensive companies

Draper Esprit plc, the Draper Esprit EIS and the Draper Esprit VCT all invest in companies that are deemed 'knowledge intensive' - this has several advantages over non-knowledge intensive companies (NKI) but the key points are:

- You can invest in older companies - 10 years since first commercial sale vs seven years for NKI
- Companies can raise £10m of state aid monies per year vs £5m for NKI
- Companies can raise £20m of state aid monies over the lifetime of the business vs £12m for NKI
- Investors can utilise the full £2m per annum investment limit as £1m can be invested in knowledge intensive companies and £1m in NKI.

Draper Esprit completed deals

	Company name	Sector	Description	Draper Esprit VCT Cost £000s
 PUSH DOCTOR	Push Doctor	Digital health	Push Doctor is Europe's largest online GP marketplace	£724
	StreetTeam t/a Verve	Software	Leading peer-to-peer sales and marketing software for live entertainment	£1,285
	IXL Premfina	Fintech	Insurance broking software SaaS solution	£755
	IESO	Digital health	IESO delivers one-to-one clinically led online therapy	£1,500
	Blue Light Optics t/a Kaptivo	Hardware and software	Cloud connected online collaboration tool for whiteboards	£311
	Appux t/a Droplet	Software	Software to run PC applications on any operating system	£326
	Pod Point	Hardware and software	Electronic vehicle charging points	£860
	Endomagnetics	Hardware and software	Cancer detection solutions	£912
	Evonetix	Software	DNA sequencing technology	£793
	Resolving	Software	Digital customer resolution software	£799
	Apperio	Software	Legal tech software	£500
	Roomex	Software	B2B hotel room booking platform	£612

Key features

Draper Esprit target a portfolio return of 20% per annum, and the VCT targets a potential tax free yield of 6% to 7% per annum.

Investment into an existing portfolio

Investors gain immediate exposure to the Company's existing technology portfolio, including a number of mature companies. As at 30 September 2018, the Company had distributable reserves of £3.8m.

Experienced manager with strong track record

Elderstreet Investments is one of the oldest VCT managers having made its entry into the VCT market in 1998. The Manager has previously won the 2014 'VCT Investment Company of the Year' award, and 'VCT Fund Manager of the Year' in 2009 and 2010 organised by the Growth Company Awards. Draper Esprit were nominated for 'Investor Allstars VC Fund of the Year 2018', Simon Cook the CEO Draper Esprit was Nominated for Investor Allstars 'Investor of the Year 2018'. The Draper Esprit EIS is the top-rated EIS Fund by 'Tax Efficient Review' for the last five years.

Potential yield

The following table gives an illustration of potential returns to Ordinary Shareholders, assuming a dividend of either 2 pence, 3 pence or 4 pence per annum is paid, and the equivalent taxable yield grossed up for a taxpayer paying 40% or 45% tax on his income. Dividends of 3 pence per Share have been paid in the year ending March 2018. These illustrations do not include initial VCT tax reliefs.

Offer Price* (gross of tax relief)	Target annual dividend	Tax free yield per annum	Grossed up yield per annum	
			40% taxpayer	45% taxpayer
61.9	2.0p	3.2%	5.4%	5.9%
61.9	3.0p	4.8%	8.1%	8.8%
61.9	4.0p	6.5%	10.8%	11.8%

*Using an Estimated Offer Price of 61.9p. The September 2018 NAV of 60.1p has been adjusted down by the 1.5p dividend payable in March 2019 and for the issue costs of 5.5%. No forecast or projection should be implied or inferred.

Access to larger more mature growth opportunities

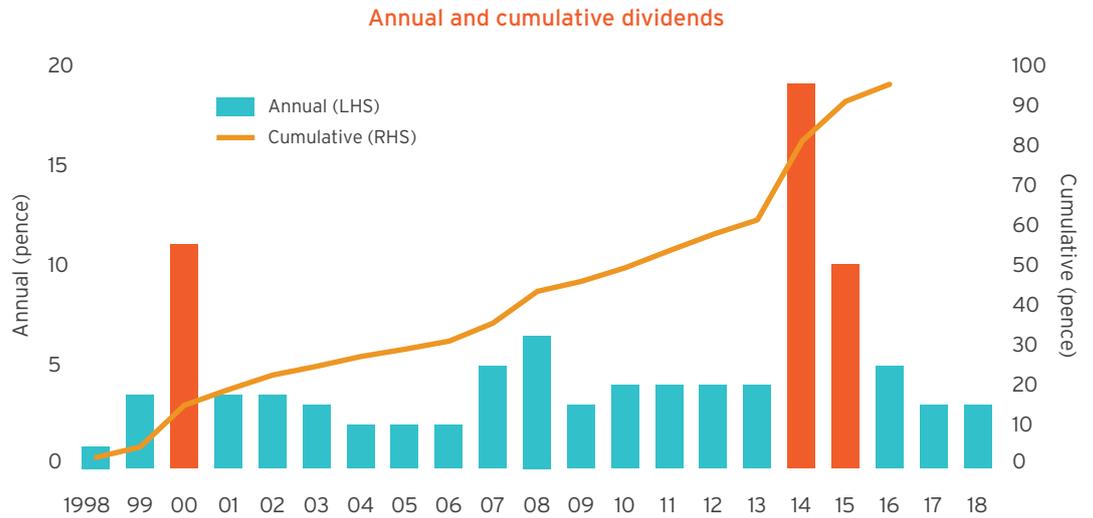
Draper Esprit plc has access to quality growth opportunities often in much larger and more mature companies compared to other VCT managers. By co-investing alongside the Draper Esprit plc and the EIS, they gain access to some companies requiring funds in excess of \$10m. There are many other VCTs without access to such deal flow. These deals typically have relatively shorter investment holding periods and are not as prone to fail completely. For example Draper Esprit plc has only had one complete write-off since its IPO in 2016.

Target tax-free income of around 5%

It is the Board's objective to maximise dividends to Shareholders, subject to liquidity, the availability of sufficient distributable profits, capital resources and VCT regulations, and to target a dividend return of 3 pence per annum (equivalent to a 4.8% tax free return based on the Estimated Offer Price, and a 6.9% tax free return after factoring in initial tax reliefs). Further details on the potential yields are shown in the table below.

Historic dividends

The VCT has paid a total of 99 pence in dividends since inception. These include special dividends when meaningful exits have occurred. These can be seen in the chart opposite as orange bars.



Portfolio allocation

The Company will continue to invest predominantly in a diversified portfolio of companies predominantly in the technology sector. Draper Esprit is one of the leading venture capital investors involved in the creation, funding and development of high-growth technology businesses with an emphasis on digital technologies. Draper Esprit IPO'd on the AIM market in 2016 and at the time of writing has a market capitalisation of over £500m.

Since April 2017 the average investment size committed by the VCT into each new technology investment has been £0.8m which has been circa 10% of the funds invested by the combined Draper Esprit investment vehicles.



Consumer Technology

Companies with exceptional growth opportunities in international markets that are underpinned by new consumer facing products, innovative business models and proven execution capabilities.



Enterprise Technology

Companies developing the software infrastructure, applications and services that drive productivity improvements, convenience and cost reduction for enterprises.



Hardware & Deep Tech

Companies developing differentiated technologies that underpin advances in computing, consumer electronics and other industries.



Healthcare & Wellness

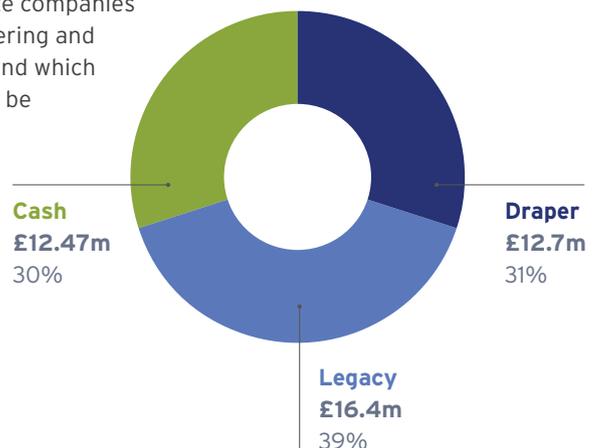
Companies leveraging digital and other technologies to create new products and services for the health and wellness markets.

Today, by percentage of net asset value, new subscribers would be buying into a portfolio made up of 31% Draper Esprit technology investments (including committed but not completed investments), cash of 30% to be invested in further technology investments and a legacy portfolio representing 39% of the total.

Consequently, if this offer is taken up in full, once invested, the Company will have over £30m allocated to technology investments which will be driven by one of the UK's leading technology investment managers.

91% of the legacy portfolio is made up of four companies. Two are AIM quoted and the other two are private companies which are profitable engineering and manufacturing businesses and which the Board are confident can be realised in the future.

Split of the VCT by value - at 30 September 2018



Performance

Since its launch in 1998 income from investments and proceeds of profitable realisations have enabled the Board to pay cash dividends of £25.8m, a total of 99.0p per Ordinary Share to original investors who subscribed at £1.00 (80p after the initial tax relief) at the Company's launch in 1998.

Draper Esprit track record

Draper Esprit has a historical track record of delivering returns in excess of 20% over nine years (across its aggregate portfolio return since 2008), has completed over 125 deals since 2006, had over \$5bn value of exits since 2010, and core strategic aim of targeting a portfolio return of 20% per annum.

The track record of Draper Esprit exits since its IPO in 2016 is as follows:

Realisation post Draper Esprit IPO	Investment year	Divestment year	Amount invested	Cash return	Exit multiples
Return Above 2x					
Grapeshot	2015	2018	£1.4m	£11.5m	8.3x
Movidus	2013	2016	£3.6m	£27.4m	7.6x
Tails	2013	2018	£0.4m	£3.0m	7.1x
Horizon	2010	2017	£1.1m	£2.9m	2.6x
Return 0.1 - 2x					
Clavis	2016	2017	£8.1m	£15.3m	1.9x
Qosmos	2011	2016	£4.1m	£8.0m	1.9x
DataHug	2012	2016	£2.2m	£3.6m	1.6x
MoviePilot	2012	2017	£1.2m	£0.5m	0.4x
Aveillant	2011	2017	£1.9m	£0.2m	0.1x
No Return					
Worldstore	2012	2016	£4.3m	£0.0m	0.0x

Source: Draper Esprit, September 2018 interim results presentation.

Sample exits

In 2018 Draper Esprit exited **Tails.com** the direct-to-consumer, tailor-made dog nutrition business to Purina Petcare, a subsidiary of Nestlé SA. Draper Esprit has a long history with Tails.com, having backed its founder, serial entrepreneur, Graham Bosher, first at Lovefilm and then at Graze. The exit realised a 7.1x multiple on cost.



The VCT was runner-up in the 'Growth Investor Awards Exit of the Year 2015'. That award followed a successful exit from the portfolio of **Wessex Advanced Switching Products**, a manufacturer of military and aerospace switches and lighting products, an investment which returned a profit of £9.7m and an IRR of over 30%.



Details of the Offer

Minimum Investment

£6,000 per investor and applications should be in multiples of £1,000.

Maximum Investment

£200,000 per investor in VCTs, in total, for the current tax year.

Initial Charge

3.0% of the amount subscribed.

Annual Costs

Total running costs (excluding performance fees) capped at 3.5%.

Any excess will be borne by the Manager and Administrator through a reduction in their fees.

For the year ending March 2018 (15 months period) the Total Expenses Ratio (TER) was 3.4%, equivalent to 2.73% on a weighted 12-month basis.

Further information regarding the management of the VCTs and the performance fees are set out in the Prospectus.

For IFA enquiries

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