Draper Esprit

Early-Bird Incentive
1.5% until 16 December 2019
1.0% until 31 January 2020

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:

Joint highest rated VCT (86)
by 'Martin Churchill', as at 14.10.19

Highest joint score (86)
by 'MJ Hudson Allenbridge' for VCT offers launched in the 2018/19 tax year

Highest rated EIS
by 'Tax Efficient Review' in 2014, 2015, 2016, 2017, 2018

Draper Esprit VCT – a Top Rated VCT

Since the investment manager, Elderstreet, formed a close association with Draper Esprit plc ('Draper Esprit') in November 2016, the prospects of this VCT have been transformed. Draper Esprit VCT plc is now an investor in new technology led by a highly regarded investment management team with a record of success in knowledge intensive technology investing.

Draper Esprit IPO'd on the AIM market in 2016. Since then they have scaled up their capital base and resources, invested in five unicorns (companies subsequently worth over $1.0bn), and returned over £81.6m (including £15.3m post period end) of cash to the plc balance sheet. Draper Esprit is one of the most active venture capital firms in Europe, investing in high growth technology companies with global ambitions. Draper believe the best entrepreneurs in Europe can build the businesses of the future.

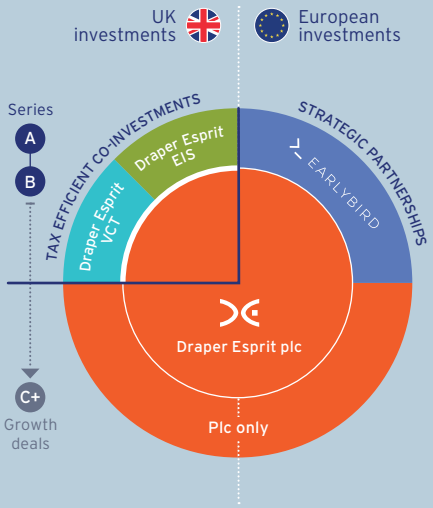
Draper Esprit has a historical track record of delivering returns in excess of 20% (across its aggregate portfolio return since 2008), and core strategic aim of targeting a portfolio return of 20% p.a. The VCT targets a potential tax-free yield of c. 5% p.a.[1]

Draper Esprit fuel their growth with long-term capital, access to international networks and decades of experience building businesses. Draper Esprit IPO'd on the AIM market in 2016. Since then, Draper have scaled up their capital base and resources, invested in five unicorns (companies subsequently worth over $1.0bn), and returned over £81.6m (including £15.3m post period end) of cash to the plc balance sheet. Draper Esprit is actively involved with its investments, taking non-executive positions where appropriate, and has the ability and experience to add value to the investments. Draper Esprit receive circa 2,500 business plans per annum, meet about 1,000 companies, and make approximately 20 new investments a year.

In the past three years, Draper Esprit have scaled their platform to enable access to some of the best deal flow across Europe. Our VCT is one of the funds which, together with Draper Esprit plc and the Draper Esprit EIS Fund, make up this platform. These co-investment partners bring third party capital, enabling the VCT to obtain investment access into high technology companies that are rarely available to individual investors.

The VCT Board believes that the VCT, through the co-investment agreement, provides an excellent opportunity for Shareholders to participate in leading edge investments alongside the widely experienced network of Draper Esprit associated funds and partners into bigger, as well as better, technology companies.

Draper co-investment structure



The Company (along with Draper Esprit EIS and Draper Esprit's strategic partner Earlybird), will invest in Series A and B rounds but, due to the VCT regulations, is unlikely to participate in Series C and beyond.

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 7 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 p.a. investment limit as £1m can be invested in knowledge intensive companies and £1m in NKI

1 After factoring in initial tax reliefs.

Draper Esprit completed deals

Sector split as % of the Fund		Companies
Consumer Technology	31%	Verve, resolver, crowdcube
Enterprise Technology	17%	Roomex.com, Apperio, PremFina, FORM3 Financial Cloud
Hardware and Deeptech	18%	hadean, kaptivo, pod POINT, Droplet Computing
Digital Health and Wellness	34%	Push Doctor, evonetix, endomag, ieso digital health

Key features

Draper Esprit target a portfolio return of 20% per annum, and the VCT targets a potential tax free yield of 3p per annum (equivalent to a 7.4% tax free return based on the Estimated Offer Price after factoring in initial tax reliefs).

Investment into an existing mature portfolio

Investors gain immediate exposure to an existing portfolio. As at 31 August 2019, the Company had distributable reserves of £25.3m. Future dividends are expected to be funded primarily from the Company's distributable reserves, augmented by portfolio exits, rather than loan interest income.

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 Company was delighted to receive the highest joint score by MJ Hudson Allenbridge (86) for VCT offers launched in the 2018/19 tax year, and has recently been rated 86 by Martin Churchill. The Manager has previously won the 2014 'VCT Investment Company of the Year Awards', 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'. Draper Esprit EIS Funds have been the top rated EIS by the Tax Efficient Review for the past five years running (89/100) and have the highest current MJ Hudson Allenbridge EIS rating (87/100).

Access to larger growth opportunities

The Board believes that the VCT, through the co-investment agreement, provides an excellent opportunity for Shareholders to participate in leading edge investments alongside the widely experienced network of Draper Esprit associated Funds and partners into bigger, as well as better, technology companies.

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 3p per annum of c. 5% (equivalent to a 7.4% tax-free return based on the Estimated Offer Price after factoring in initial tax reliefs).

Further details on the potential yields are shown below.

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 2019. 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
57.9	2.0p	3.5%	5.8%	6.3%
57.9	3.0p	5.2%	8.6%	9.4%
57.9	4.0p	6.9%	11.5%	12.6%

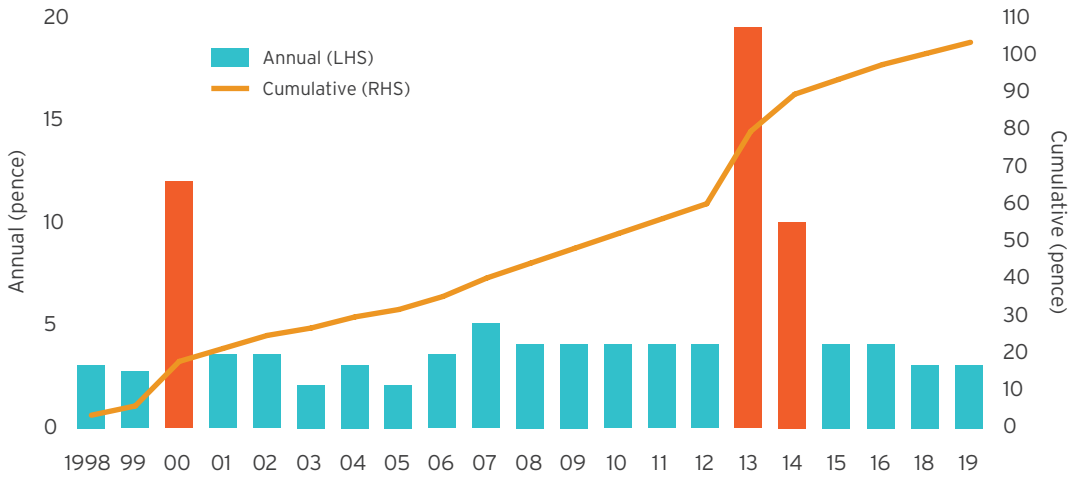
*Using an Estimated Offer Price of 57.9p. The August 2019 NAV of 56.2p has been adjusted down by the 1.5p dividend payable in October 2019 and for the maximum issue costs of 5.5%. No forecast or projection should be implied or inferred.

Historic dividends

The VCT has paid a total of 102p in dividends since inception on a cost price of 100p and has a carrying value at 31 August 2019 of 56.2p.

This Total Return of 158.2p represents a 97.8% tax-free uplift on the net investment (of 80p per share) for Shareholders who invested at inception. These include special dividends when meaningful exits have occurred. These can be seen in the chart opposite as orange bars.

Annual and cumulative dividends



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.

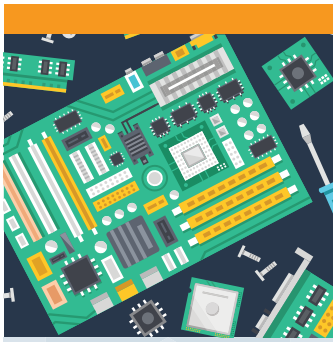
Going forward, on a successful fundraising, the average initial deal size is likely to rise to circa £1.4m with a focus on the following technology sectors:

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 and Deeptech

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

Digital Healthcare and Wellness

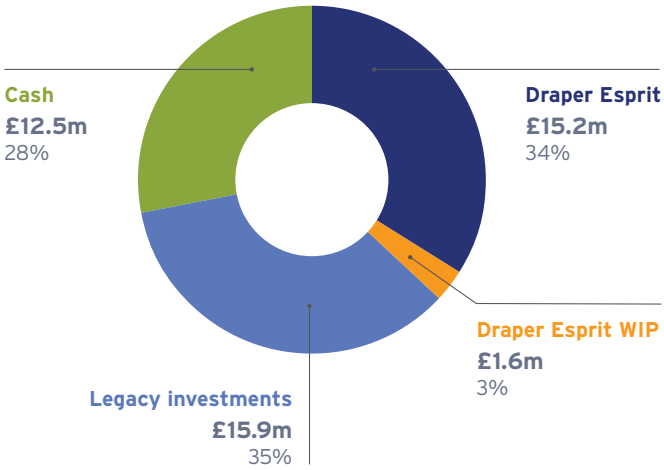
Companies leveraging digital and other technologies to create new products and services for the health and wellness markets.

Today, by percentage of net asset value, new subscribers would be buying into a portfolio made up of 37% Draper Esprit technology investments (including committed but not completed investments), cash of 28% to be invested in further technology investments and a legacy portfolio representing 35% of the total.

Consequently, if this offer is taken up in full, once invested, the Company will have over £49m 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.

Split of the VCT by value – at 31 August 2019



Performance

Since its launch in 1998 income from investments and proceeds of profitable realisations have enabled the Board to pay cash dividends of £27.9m, a total of 102p 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					
Worldstores	2012	2016	£4.3m	£0.0m	0.0x

*EIS Fund only. Source: Draper Esprit, March 2019 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.

Grapeshot was acquired by Oracle in April 2018. Grapeshot was a Cambridge-based software company. By analysing the text content of web pages as they load on-screen it adds enriched contextual information that is used by brand advertisers and advertising agencies to inform their placement of adverts.
The exit realised an 8.3x multiple on cost.

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 31 March 2019 the Total Expenses Ratio (TER) was 2.89%; for the 15 months period ending 31 March 2018 the TER was 3.4%, equivalent to 2.73% on a weighted 12-month basis. In 2016 the TER was 3.3%, 3.2% in 2015, and 3.3% in 2014.

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

Important: Early-Bird Incentive

For applications received before 4.00pm on **16 December 2019 – 1.5% extra shares**, and until **31 January 2020 – 1% extra shares** which are paid for by the manager in lieu of Promoters Fee.

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