

British Smaller Companies VCT2 plc
Interim Management Statement
For the quarter ended 30 September 2021

British Smaller Companies VCT2 plc (the “Company”) presents its interim management statement for the quarter ended 30 September 2021. The statement also includes relevant financial information between the end of the quarter and the date of this statement. A copy of this interim management statement can be found at www.bscfunds.com.

Overview

The Company’s Total Return at 30 September 2021 was 138.2 pence per ordinary share, representing an increase of 3.2 pence per ordinary share over the Total Return of 135.0 pence per ordinary share as at 30 June 2021. The increase represents 5.0 per cent of the opening net asset value of 63.5 pence per ordinary share.

Cumulatively this takes the increase in the Total Return for the nine months to 30 September 2021 to 13.2 pence per share representing 24.0 per cent of the opening Net Asset Value (“NAV”) of 55.0 pence per share.

In the quarter one new investment of £1.4 million was made into Vuealta, together with three follow-on investments totalling £0.3 million into Arraco, Ncam and Biz2Mobile. Vuealta delivers scenario planning and forecasting solutions for supply chain, finance and operations, with the investment enabling the business to continue its global expansion strategy and product development.

The Company completed the sale of its shareholding in Deep Secure in July. The exit generated capital proceeds of £3.3 million delivering a profit of £2.8 million above cost, and an uplift of £1.3 million on the carrying value at the beginning of the financial year. Including income, the total return from this investment was £3.8 million over an 11.6 year holding period, producing an internal rate of return of 23 per cent and a multiple of 7.7x cost.

In October 2021 the Company also completed the partial sale of 20 per cent of its holding in Matillion, generating capital proceeds of £5.9 million. The partial realisation, which was in line with the related valuation recognised at 30 September 2021, crystallised a profit on the partial realisation of £5.6 million above cost with the proceeds being equivalent to 3.3x the total investment of £1.8 million made by the Company into Matillion.

As a consequence of the above, on 7 October 2021 the directors announced the payment of a third interim dividend for the current year of 5.0 pence per ordinary share (“Third Interim Dividend”), which was paid on 16 November 2021 to shareholders on the register at the close of business on 15 October 2021. This brought total dividends paid in the current financial year to 8.0 pence per ordinary share. These cumulative dividends equate to a yield of 14.5 per cent of the NAV at 31 December 2020.

Your Company’s portfolio has delivered a strong performance over the nine-month period to 30 September 2021, generating a return of £23.5 million. The cumulative increase in Total Return of 13.2 pence since the start of the year maintains the Total Return above the hurdle at which a performance fee becomes payable, provided that the Total Return is maintained through to 31 December 2021. As a result the Company has taken into account £4.1 million for a performance incentive (of which £0.8 million was recognised in the quarter). All returns are stated after taking into account the provision.

Performance

The movement in **Total Return** in pence per ordinary share is set out in the table below:

	30 June 2021	<i>Increase in Value</i>	<i>Buyback of shares</i>	Movement In Period	30 September 2021
Net Assets (£m)	89.0	4.5	(0.4)	4.1	93.1
NAV per share (PPS)	63.5p	3.2	-	3.2	66.7p
Cumulative dividends paid (PPS)	71.5p	-	-	-	71.5p
Total Return (PPS)	135.0p	3.2	-	3.2	138.2p
Shares in issue	140,231,049	-	(675,308)	(675,308)	139,555,741

The unaudited NAV per ordinary share increased from 63.5 pence per share to 66.7 pence per share, equivalent to 5.0 per cent in the period. Cumulative dividends paid at 30 September 2021 were 71.5 pence per ordinary share (30 June 2021: 71.5 pence per ordinary share).

The movements in NAV per ordinary share are set out in the table below:

	£m	Pence per ordinary share
NAV at 30 June 2021	89.0	63.5
Increase in portfolio value	5.6	4.0
Net operating costs	(0.3)	(0.2)
Incentive fee	(0.8)	(0.6)
Issue/buy-back of shares	(0.4)	-
	<u>4.1</u>	<u>3.2</u>
NAV at 30 September 2021	93.1	66.7

Following payment of the second interim dividend of 1.5 pence per ordinary share for the year ending 31 December 2021 on 25 October 2021 and the third interim dividend of 5.0 pence per ordinary share on 16 November 2021 the unaudited net asset value is 60.2 pence per ordinary share.

Dividends and shares in issue

On 27 September 2021 the Company purchased 675,308 ordinary shares of 10 pence each at a price of 59.40 pence per ordinary share. These shares were placed in treasury.

The number of ordinary shares in issue at 30 September 2021 was 139,555,741 (30 June 2021: 140,231,049). In addition, at 30 September 2021 the Company held 15,276,543 ordinary shares in treasury (30 June 2021: 14,601,235).

Following the payment of the second interim dividend of 1.5 pence per ordinary share on 25 October 2021 the Company issued 760,733 ordinary shares under the DRIS, and following the payment of the third interim dividend of 5.0 pence per ordinary share on 16 November 2021 the Company issued 2,491,956 ordinary shares under the DRIS, taking cumulative dividends paid to 78.0 pence per ordinary share and the number of ordinary shares in issue to 142,808,430 at that date.

Net assets

Net assets at 30 September 2021 comprised the following:

	£000	% of net assets
Unquoted investments at fair value	75,180	80.8%
Cash and cash equivalents	21,353	22.9%
Other net current liabilities	(3,449)	(3.7%)
Net assets	93,084	100.0%

Investments

The investment portfolio at 30 September 2021 comprised:

	Valuation £000	Cumulative valuation as a % of net assets
Matillion Limited	30,231	32.5%
Springboard Research Holdings Limited	4,124	36.9%
Intelligent Office UK	3,067	40.2%
Wooshii Limited	2,933	43.3%
KeTech Enterprises Limited	2,904	46.5%
Elucidat Ltd	2,791	49.5%
Unbiased EC1 Limited	2,786	52.5%
SharpCloud Software Limited	2,666	55.3%
Force24 Ltd	2,569	58.1%
ACC Aviation Group Limited	2,392	60.7%
	56,463	60.7%
Other investments	18,717	20.1%
Total investments	75,180	80.8%

Investments made since November 2015 represented 78 per cent of the value of the unquoted portfolio at 30 September 2021.

Portfolio performance

Over the quarter to 30 September 2021 the aggregate portfolio valuation has increased by £5.6 million which incorporates a number of increased valuations including Matillion (£3.2 million) and Springboard (£1.3 million).

Fundraising

The Company launched a Joint Fundraising with British Smaller Companies VCT plc in the 2021/22 tax year on 22 September 2021, seeking to raise in aggregate £40 million, with an over-allotment facility of £20 million (the "Offers"). The Company announced on 11 October 2021 that the over-allotment facility would be utilised in relation to the Offers, and the Company is pleased to report that the Offers were fully utilised and that the Offers were closed to new applications on 12 November 2021. The Company anticipates that the first and final allotment in relation to the Offers will be made on or around 7 January 2022, with share certificates dispatched within 10 working days thereafter.

Outlook

Your Company is continuing to support those businesses in the portfolio that are investing for accelerated growth. This has been an increasing trend in the current year and one that is anticipated to continue through to 2022.

Whilst the pandemic and the new trading relationship with the EU have provided some uncertainty to the overall economic climate there remains a strong demand from the UK's smaller companies seeking to innovate their business models and management teams to drive further growth. The plans to add additional investment capacity are intended to ensure that your Company remains well funded to take advantage of the investment opportunities as they arise.

The information contained within this announcement is deemed by the Company to constitute inside information as stipulated under the Market Abuse Regulations (EU No. 596/2014). Upon the publication of this announcement via Regulatory Information Service this inside information is now considered to be in the public domain.

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