OAKLEY CAPITAL INVESTMENTS LTD

2020 results: sustained and sustainable NAV growth

OCI's 2020 results were strong. Through this challenging year, i) the total NAV return reached 18%, ii) 10 companies representing 44% of NAV met or exceeded pre-COVID-19 expectations, and only three (13% of NAV) were significantly impacted, iii) both investments and realisations continued strongly (£152m and £341m, respectively), iv) year-end cash was £223m, giving huge firepower to take current opportunities, and v) potentially disruptive large share overhangs have been sold out. The digital focus, concentration on structural growth markets and Oakley's unique repeatable origination from its network of entrepreneurs bode well for the future.

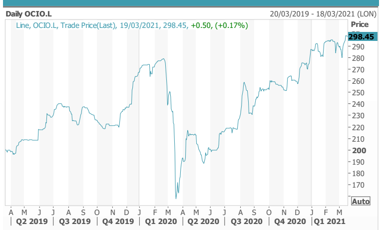
- **Growth sustained through COVID-19:** Oakley's focus on tech-enabled, structural-growth, recurring-revenue-stream businesses meant that its portfolio companies delivered, on average, 2020 EBITDA growth of 20%. OCI benefited from realisations 89% above their book values and a value-enhancing buyback.
- **Sustainable growth outlook:** The key drivers to continued strong performance are i) the unique origination at a time of increased opportunities from carve-outs and family business sales, ii) value added to the newly acquired businesses, iii) continued realisations above book value, and iv) no recurrence of the 2020 drags.
- **Valuation:** Against the end-December NAV, OCI trades at a 26% discount, despite its absolute (five-year CAGR 16% total NAV return) and relative (Oakley Funds II & III top-quartile/5% by different measures) performance. OCI yields nearly 2%. Relative to both historical and peer levels, the discount is unusually high.
- **Risks:** While OCI's costs are slightly above-average, post-expense returns are still market-beating. Sentiment towards the global economic cycle is likely to be adverse, even though outperformance has been delivered in downturns. OCI's portfolio is concentrated. Its permanent capital is right for private assets.
- **Investment summary:** OCI provides investors with liquid access to the attractive PE market, enhanced by Oakley's incremental origination and management skills. The Oakley Funds are focused on mid-market, tech-enabled Western European companies that operate in the consumer, education and technology sectors. Accounting and governance appear conservative. There are risks – primarily sentiment-driven – around costs and cyclicality, as well as the liquidity and valuation of the underlying private assets. Previously large shareholder overhangs have now been sold completely. Buying a business with a consistent record of outperformance at a material discount to NAV is an additional attraction, we believe.

Financial summary and valuation (£000)

Year-end Dec	2017	2018	2019	2020	2021E	2022E
Interest income	7,722	6,629	9,218	10,466	12,253	11,415
Realised gains	23,991	102,314	17,840	208,536	11,360	16,858
Unrealised gains	20,316	-23,877	127,741	-133,086	56,799	67,432
Total income	51,496	88,432	153,157	100,006	80,802	96,096
Costs	-6,571	-6,434	-17,888	-7,620	-18,632	-21,858
EPS (p)	22.0	40.0	66.3	47.9	34.4	41.1
NAV per share (£)	2.45	2.81	3.45	4.03	4.33	4.70
S/P disc. to NAV	-33%	-38%	-22%	-29%	-31%	-37%
Investments (£m)	420	470	661	505	681	821
DPS (p)	4.5	4.5	4.5	4.5	4.5	4.5

Note: 2017 costs restated to include interest per 2018/2019 treatment
Source: OCI, Hardman & Co Research

Closed-Ended Investment Funds



Source: Refinitiv

Market data

EPIC/TKR	**OCI**
Price (p)	**297**
12m High (p)	300
12m Low (p)	155
Shares (m)	180.6
Mkt Cap (£m)	536
NAV p/sh (Dec, p)	403
Disc. to NAV	26%
Country of listing	UK
Market	Main Market SFS

Description

Oakley Capital Investments (OCI) has generated market-beating returns from its concentrated, three-sector-focused portfolio of private equity (PE) investments via Oakley Capital (Oakley) PE funds. Oakley has a proven model for sourcing investments, and an excellent track record of identifying resilient value opportunities and delivering superior returns.

Company information

Chairman	Caroline Foulger
Ind. NED	R Lightowler, F Beck
NED	P Dubens, S Porter
Inv. Mgrs.	Oakley Capital
Contact	Steven Tredget

investorrelations@oakleycapital.com

Key shareholders

Asset Value Investors	14%
Peter Dubens/Directors	10%
Sarasin	7%
City of London IM	7%
Barwon	6%
Lombard Odier & Fidelity	5%
Jon Wood & family	4%
Hawksmoor	3%

Diary

18 May	Cap. Markets day

Analyst

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Shares in OCI are traded on the Specialist Fund Segment of the main market of the London Stock Exchange and are intended for institutional, professional, professionally advised and knowledgeable investors primarily seeking exposure to private mid-market UK and Western European businesses through investment in the Oakley Capital Private Equity Funds (or successor Funds) and: (a) who understand and are willing to assume the potential risks of capital loss associated with investments in such companies, (b) who understand the illiquid nature of private equity compared to other asset classes, (c) for whom an investment in OCI's shares would be of a long-term nature constituting part of a diversified portfolio, and (d) who understand, or who have been advised of, the potential risk from investing in companies admitted to the Specialist Fund Segment.

OCI is not subject to the UK City Code on Takeover and Mergers.

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2020 results summary

In 27 January trading update, OCI pre-announced number of key facts, including NAV, cash and commitments

In its 27 January 2021 trading update, OCI announced highlights including i) NAV per share of 403p, ii) total NAV return per share of 18% since 31 December 2019 (despite COVID-19 and ahead of the five-year CAGR of 16%), iii) that OCI had invested £152m and received proceeds of £341m, iv) year-end cash of £223m (31% NAV), v) outstanding Oakley Funds' commitments of £534m (which are likely to be deployed over five years), including the Origin Fund commitment (£116m), and vi) the buyback and cancellation of 18m shares.

Also reported core business lines, such as investee company performance, investments and realisations, impact of buybacks

We also learned from the announcement that i) expectations were met or exceeded at 10 companies, at 44% of NAV, with a modest impact at four, at 14%, and a significant impact at just three, at 13%, ii) total proceeds of £341m consisted of £264m from realisations (average gross money 3.3x), refinancing of £37m and debt repayments of £40m, iii) look-through total investment over eight deals (including four bolt-ons) was £152m, including platform investments of £90m, follow-on investments £21m and direct investments of £41m, and iv) the NAV saw an uplift of 12.6p from the 18m share buyback programme.

With the results, we learnt underlying company EBITDA growth had accelerated vs. interim stage to 20%, average EV/EBITDA was unchanged at 11.8x, and debt to EBITDA increased marginally to 3.9x

With the more detailed results announced on 11 March 2021, and the portfolio announcements since the start of the year, we also learnt that:

- 70% of portfolio companies deliver their products or services digitally.
- Average portfolio company year-on-year EBITDA growth was 20%. This growth reflects the right choice of sector, the tech-enabled business models, and the value added by the Oakley Capital team and network of entrepreneurs. It represents an acceleration on the 18% reported for the 12 months to June 2020 but is well below the levels of 2019 (30%), 2018 (39%) and 2017 (25%).
- The average portfolio company EV/EBITDA valuation was 11.8x. Despite the rise in tech valuations through 2020, and Oakley Capital/OCI's market-beating investee company growth, the rating was unchanged on June.
- The average uplift to the last disclosed book value on exit was 89%.
- Average net debt to EBITDA was 3.9x (marginally up on 3.7x for both June 2020 and December 2019).
- The key drivers of NAV movement in the period were Career Partner Group (+34p), Inspired (+10p), Casa.it (+10p) and Time Out (-30p). A number of businesses saw organic growth-driven valuation increases.
- Activity levels have remained high so far in 2021, with the completion of two new investments (idealista and Dexters), the agreed sale of the Digital Wholesale Solutions division of Daisy Group and a further refinancing of Career Partner Group. Feedback from other listed PE vehicles is consistent with this, in reporting that areas that benefited from, or were largely unaffected by, COVID-19 (i.e. most of OCI's portfolio) have continued to see deal activity. Where COVID-19 has had a major impact, establishing long-term value is difficult, and it is these areas that have seen less activity. Given its focus, Oakley Capital/OCI is not affected materially by this.
- Of the £534m commitments, £95m in Funds I-III are not expected to be drawn.

For us, the key message, which we explore below, was the sustainability through a crisis across OCI's portfolio, and why that is likely to continue going forward.

Sustained returns in 2020

Summary

OCI delivered 18% total NAV return from tech-enabled businesses in structural growth markets, supporting businesses through COVID-19, continued realisations at well above carry value and buying back shares at large discount to NAV

The reasons OCI was able to deliver a total NAV return of 18% in 2020 – above the five-year (2016-20) CAGR of 16% – include:

- Oakley having focused on areas with structural growth prospects;
- having tech-enabled businesses, many of which saw stable/improved business through the COVID-19 crisis and whose valuation rose accordingly;
- stable overall valuation ratings, despite the market rise in tech stocks;
- the expertise, business model, supply chain management and financial support that OCI provided to its investee companies;
- continued strong realisations at values well above carrying costs; and
- 18m shares bought back at an average 34% discount to prevalent NAV, which enhanced the NAV by 12.6p (4% uplift on opening NAV).

Businesses with structural growth

Being in markets with structural growth helped drive the 20% average EBITDA growth of investee companies

Oakley is focused in just three sectors – consumer, education and technology – but, importantly, within these sectors, it targets sub-sectors and businesses that have structural growth opportunities. These are driven by socio-economic trends across a range of factors, including:

- ageing populations with greater needs for healthcare, including self-medication;
- increasing demand for higher education; and
- experience-based leisure demands.

Earnings growth drove valuation increases across number of tech and education investments

The average 20% EBITDA growth shows how strongly the businesses performed. Organically, some of the largest increases in valuations were driven by earnings growth from tech names such as Contabo, and WebPros, but also from the education businesses, AMOS and Ocean Technologies.

Tech-enabled businesses

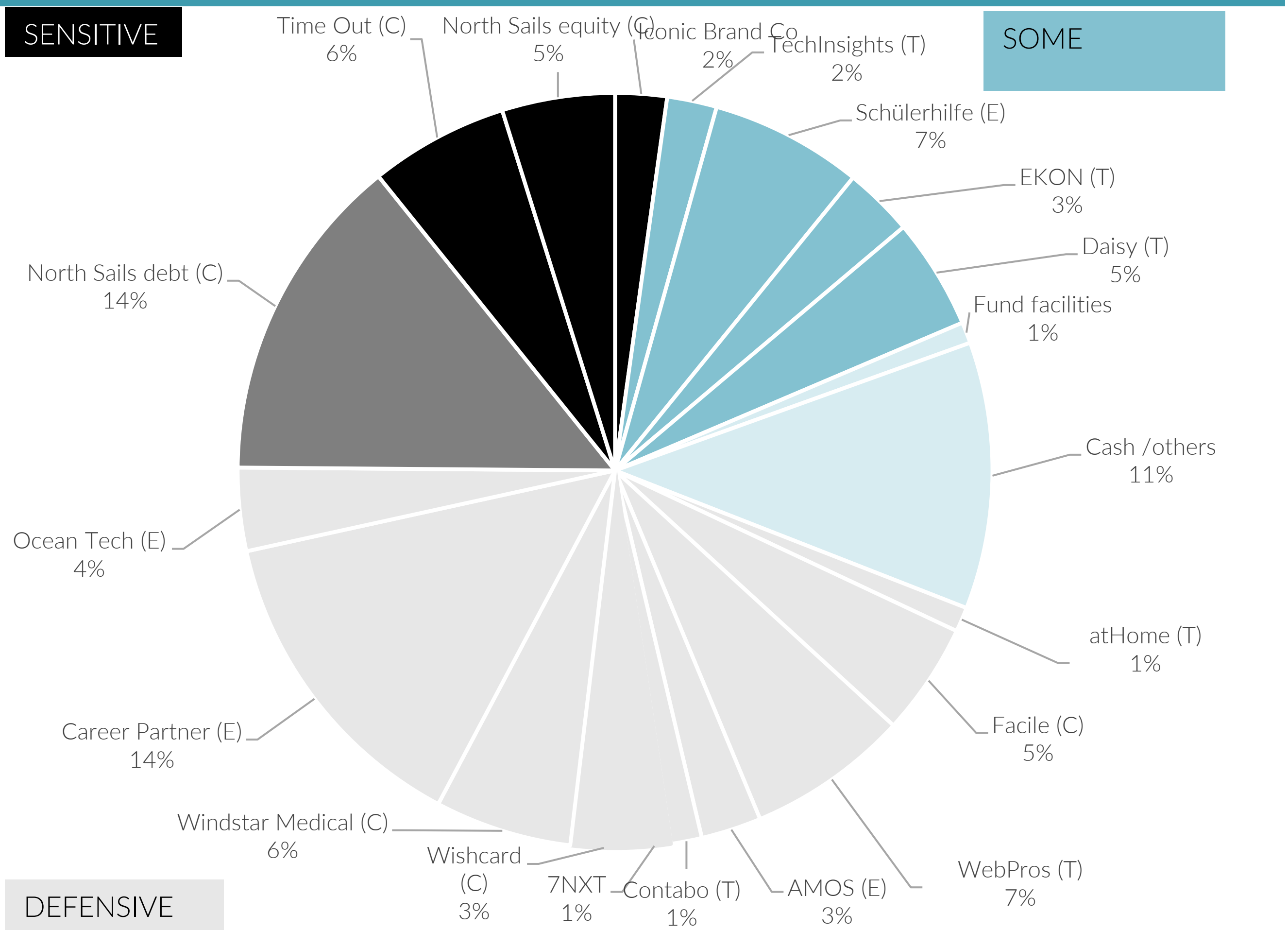
Most of Oakley investee businesses are tech-enabled, with recurring revenue streams

The portfolio investments of Oakley Funds – and so of OCI – have, for some time, been focused on businesses with a strong digital presence (65% at June 2020, subsequently increasing to ca.70%) and where revenue streams are on a subscription basis (around three quarters at end-2020). Such businesses showed considerable resilience and, indeed, may see market share gains. As we noted in the summary on the previous page, expectations were met or exceeded at 10 companies (44% of NAV), there was a modest impact at four (14%) and a significant impact at just three (13%). One reason the companies proved so resilient is that their business models were tech-enabled and so, in many cases, saw an uplift in customer interest, when physical interaction was not available.

Low sensitivity to COVID-19

In the table below, we have analysed the exposure in a slightly different way from the company. In addition to its analysis (as noted, 44% of NAV saw expectations met or exceeded, 14% saw a modest impact and 13% a significant impact), we highlight North Sails' debt, which we include in the category "sensitive", and we also show cash (net of other assets/liabilities) and fund facilities as separate blocks of defensive sensitivity.

Portfolio COVID-19 resilience as at December 2020 (% NAV)



Note: cash/others primarily reflects OCI's year-end cash of £223m and OCI's share of Oakley Fund liabilities, including debt at this level Source: OCI, Hardman & Co Research

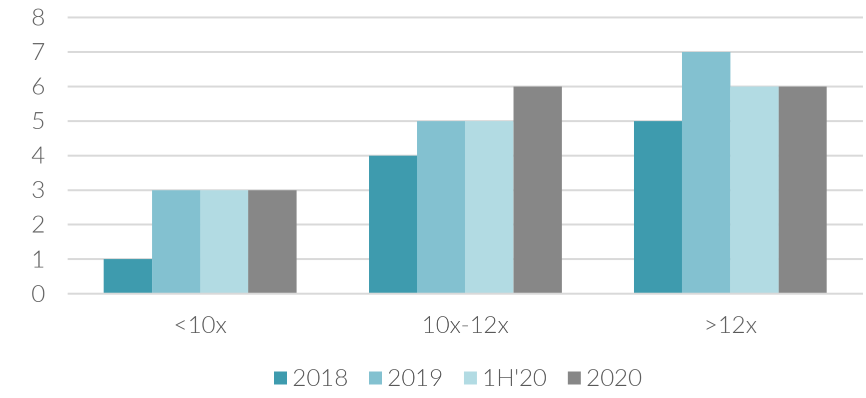
Stable valuation ratings

2020 saw market re-rating for such businesses. For OCI, valuation ratings, on average, were below 2018 and 2019 levels – driven by mix effects of new businesses

2020 saw the market re-rating many technology companies, and OCI has a focus on tech-enabled companies. Despite this, the number of companies on multiples of more than 12 rose from five to seven, dropping back to six in June 2020 and December. The overall average EV/EBITDA fell from 12.9x in 2018 to 12.1x in 2019 and 11.8x in both June 2020 and December 2020. This was driven by mix effects, most notably the addition of lower-rated companies early in their PE life cycle. As we detailed in our initiation, Oakley improves operational efficiency, management, growth prospects and the strategic positioning of businesses, resulting in investments being sold on higher ratings than those on which they are acquired. Some of the improvements are reflected during the holding period of the investment

– so material realisations/new investments have the mix effect of increasing the weightings of lower-rated businesses and so dragging down the overall average.

Spread of EV/EBITDA multiples by number of companies



Source: OCI, Hardman & Co Research

Oakley support for investee companies

Being backed by Oakley Funds and OCI gives investee companies financial strength, incremental expertise and advice in financial planning, supply chain management, preparing for operational disruption and best practice

In *our initiation,* we highlighted why Oakley's investments outperformed throughout the COVID-19 pandemic. At the OCI level, there is the liquidity to support commitments to Oakley Funds and direct investments, should capital injections be necessary/desirable for M&A or to strengthen balance sheets. Oakley Funds' committed capital structure gives much more certain access to capital than a non-PE-backed company. For investee companies, there is operational support that is simply not available to standalone entities to assist in the assessment, management and mitigation of risks as conditions evolve. With interests in a range of countries at varying stages of the virus development, lessons learnt in one country may be useful in preparing others for the effects of both lockdowns and re-openings. What this means, in practice, is that Oakley has provided expertise and best-practice advice on ensuring financial resilience, improving supply-chain robustness (including using the entrepreneur network to identify other suppliers), preparing for operational disruption, and providing advice and best-practice transfers to protect employees and customers.

Realisations above book values

Oakley (and so OCI) have a long track record of selling at prices well above carry values

Oakley has a long and sustained track record of making sales at prices well above the carry cost of investments. This continued through 2020, with the combined exits at an 89% premium to book value. The most significant gains above book were from WebPros, Inspired and Casa.it (totalling 26p NAV per share uplift). The re-financing at Career Partner Group saw a further 34p NAV per share uplift.

Share buybacks

Bought back 9% of company at average discount to NAV of 36% => 12.6p, 4% NAV uplift

Through 2020, OCI bought back 18m shares (9% of opening shares in issues), giving an NAV uplift of 12.6p. As can be seen in the table below, the shares were bought on significant discounts to the latest reported NAV, especially those bought in March (below half NAV). We believe the purchases reflected not only attractive prices, but also the availability of large lines of stock, as two large, non-core investors sold out completely. Removing the potential share overhang should also be good for sentiment.

OCI share buybacks in 2020

Month	No shares (£)	Price (p)	Cost (£m)	NAV benefit (p)	% discount to NAV
Dec	6.97	257.5	17.9	4.2	30%
Oct	3.05	252.5	7.7	1.8	31%
July	3.66	225.0	8.2	2.5	37%
June	1.34	205.0	2.7	1.1	43%
March	3.00	159.0	4.8	2.9	54%
Total	**18.00**	**229.7**	**41.3**	**12.6**	**36%**

Note: NAV taken as last reported number unadjusted for disposals
Source: OCI RNS announcements, Hardman & Co Research

Sustainable returns going forward

Summary

Returns going forward should be sustained by similar factors to those during COVID-19, as well as uniquely strong origination, value added during ownerships, continued realisations and non-recurrence of 2020 Time Out drag

Many of the features that sustained NAV growth through the COVID-19 crisis position OCI well for the future, most notably the focus on tech-enabled businesses and being in businesses with structural growth. In addition, we note:

- its unique origination platform through entrepreneurs;
- that 2021 is likely to be a good year for investment opportunities;
- the value added to new and recently acquired businesses;
- the non-recurrence of the drags on 2021 performance;
- continued realisations from the historical portfolio; and
- the fact that part of OCI's cash pile will fund deals already done by Oakley Funds – initially financed with debt.

Multiple director buying

The early 2021 multiple director buying of shares in the market is indicative of directors' confidence in OCI's future returns to investors.

Entrepreneur relationship origination

Unique network also brings in attractive business, because they know, and are well-known to, the market and all the participants

We have previously reviewed how Oakley Capital has a unique network of actively engaged entrepreneurs, bringing both origination and ongoing management advantages. We noted, in our initiation, that Oakley Funds' investments were purchased below comparable deal valuation multiples, and that more than 75% of deals were uncontested. We believe the network is hard to duplicate; it is driven by culture, being engaged but not over-bearing, its proven track record and direct financial alignment (the entrepreneurs are major investors in Oakley Funds).

Re-investment opportunities

Attractive opportunities this year from carve-out, family businesses and weaker competition seeking support. Already seen deals announced.

In Oakley/OCI's core mid-market area, we see a number of opportunities in 2021/2022. Management notes a stronger pipeline than a year ago, and it commented, in the results, that "COVID-19 has become a catalyst, if not the direct cause, of more high-quality companies seeking private equity backing. Many have recognised during the pandemic that they lack the valuable support, expertise and capital resources that we can offer, as well as the security that being part of a bigger organisation can provide." It also stated that "post-crisis vintage private equity funds have historically proven to be some of the best performing".

In particular, we see opportunities in the following areas:

- Carve-out of businesses to strengthen group balance sheets. Oakley has a core competency in structuring such deals, which can be much more complex than a standard acquisition.
- The incremental strains of managing businesses through COVID-19 may be the final straw that breaks the back of family-owned businesses.
- Weaker competition is looking for a strong financial backer, which may assist not only first deals, but also roll-up strategies.

- In some areas, price expectations have become more realistic.

We note that, since the year-end, Oakley Capital Fund IV (and so OCI will participate in this) has agreed i) to make a minority investment in idealista, the leading online real estate classifieds platform in Southern Europe (OCI's share is ca.£43m), and ii) to invest in Dexters, London's independent Chartered Surveyors and Estate Agents (OCI's share £13m).

We also note that the interest rate on the remaining debt position in North Sails has been increased from a blended rate of 8% to 10%, which should add £2m to income in a full year (debt £102.6m).

Value added to new businesses

Value creation typically sees EBITDA growth accelerate over time

In previous notes, we have outlined how value is incrementally created to businesses owned by Oakley Funds. The driving factors include i) applying market-leading processes, practices and play books using the experience of the entrepreneur network, ii) assisting with global networking/supply chains, iii) helping digitise less tech-enabled operations, iv) treasury advice, and v) sourcing and helping to finance bolt-on acquisitions. In practice, this means that EBITDA growth is expected to accelerate through the life of Oakley's involvement and that new businesses will, like-for-like, have slower growth than those that have been in the portfolio for a couple of years. The new businesses added in 2019/2020 thus have an embedded value of probable future value creation.

Continued realisations

Expect business-as-usual realisations, with uplift to NAV on sale

We expect further NAV uplifts with a normal level of realisations from Oakley Funds/OCI's historical portfolio. Since the year-end, it has already announced the partial sale of an Oakley Capital Fund II portfolio company, Daisy Group (which is selling its stake in the Digital Wholesale Solutions division). OCI's share of proceeds will be ca.£22m – a ca.33% premium to the last reported carrying value. As OCI invests the cash pile, its portfolio will shift to a mix of much newer business, and so realisations as a proportion of the opening book are likely to be below-average for at least a couple of years.

Non-recurrence of 2020 Time Out drag

Time Out's share price up 20% from year-end, well below other leisure companies – so repetition of 30p per share NAV drag seen in 2020 is unlikely

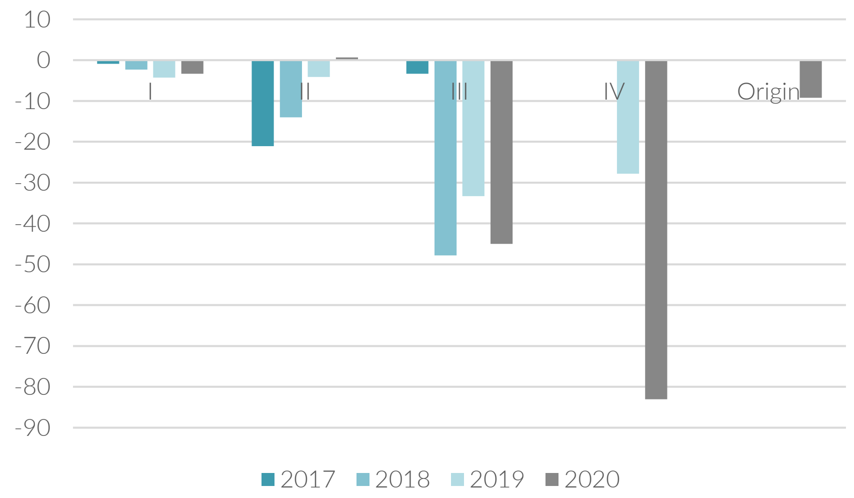
As noted above, the majority of OCI's investee companies performed well through 2020. Overall performance was held back by the share price of Time Out (ticker: TMO), which fell from 111p on 25 February to 39.5p at end-June 2020 and 35.5p at end-December 2020 (current level 41.5p). This one company alone saw an impact on NAV of -30p. Time Out has not yet participated in the rally seen in many leisure stocks (e.g. since mid-October 2020, Fulham Shore's share price has risen from 7.25p to 16.25p, Restaurant Group's from 43p to 111p and Cineworld's from ca.26p to 121p).

Commitment and liquidity

OCI's liquidity needs to include its share of debt at Oakley Funds. If fully repaid, this would reduce cash and commitments by over £100m.

Given the timing of realisations in 2020, and their substantial nature, OCI had material cash balances at end-2020 (£223m), which are available to deploy. This has started already, as Oakley Funds has borrowed to make investments, and will, in due course, make the call on OCI. This is a standard practice, whereby the PE funds make intermittent calls on their investors, rather than making a call every time there is an expense or investment made. OCI discloses its share of other assets and liabilities in each Oakley Fund, and these primarily reflect borrowing at the Fund level. These now total a net liability of £140m, against £70m at end-2019 and £65m in 2018. These other liabilities, including £83m at Fund IV (2019 £28m), £9m at the Origin Fund (nil) and £45m in Fund III (£33m,) reflect their relative stage of development.

OCI's share of each Oakley Capital Funds' other assets and liabilities (£m)



Source: OCI, Hardman & Co Research

The fund debt is normal course of business and reflects deployment of capital at an optimal time. It gears returns for OCI shareholders and will reduce perceived cash drag.

When the Oakley Capital Fund makes the call on OCI, it will reduce both cash and outstanding commitments. From our perspective, the key points are i) historically, capital deployed immediately after crises has generated some of the best-performing PE cohorts, and so deployment in 2020 is likely to be a good thing, ii) borrowing at the Fund level increases the long-term returns for OCI's investors, iii) some borrowing is always likely to be present at the Fund level, iv) Oakley Capital controls the calls from the Funds, and it would be improbable that it would do anything to stretch OCI's financial position, v) the cash at the OCI level will be perceived as a drag on performance until it is deployed (as Oakley Funds make the calls on OCI, and so reduce cash levels, this perceived drag will reduce), and vi) given the opportunities in Oakley Funds' pipeline, a buyback would not appear the most sensible option.

Director/senior manager dealing

Management and directors have been buying in the market

Following the 27 January trading update, there has been multiple insider buying: D Till (6,750 @ 292p), F Beck (10,400 @ 293p) and R Lightowler (30,000 @ 291.61p). We believe buying by multiple directors is a strong sign of their confidence in the sustainable growth opportunity for the busines.

Results in some more detail

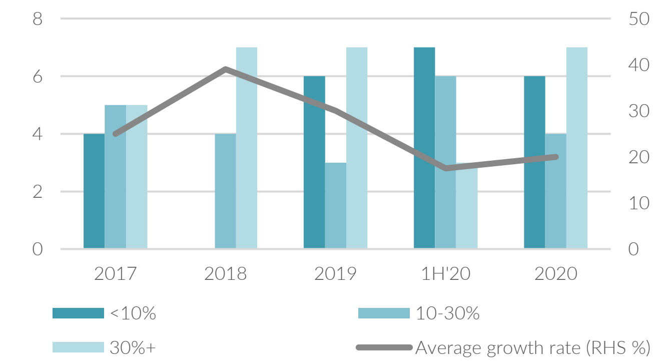
EBITDA growth at underlying companies accelerated in 2H'20

The left-hand chart below shows the EBITDA growth of OCI's investee companies. They averaged a very impressive 20% in 2020 and, despite FY'20 including nine months of COVID-19 effects, the growth rate has accelerated on 1H'20 (when it was 18%, including three months of the pandemic).

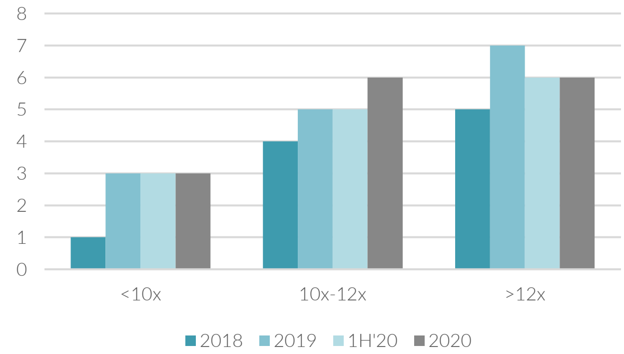
Valuation ratings stable

Average EBITDA has declined from the 30% seen in 2019 because of the pandemic, but also because OCI has made a number of new investments, which are early in their life for PE support. History suggests that EBITDA growth will accelerates once Oakley Capital's and OCI's operational and financial support bear fruit. The right-hand chart shows the valuation ratings (measured as EV/EBITDA). There has been growth in more highly-rated companies, reflecting the fact that Oakley Funds is (and so OCI also is) invested in sectors that have structural growth and relatively little pandemic impact. Listed company ratings in these sectors have also been robust.

EBITDA by number of companies (LHS) and average growth (%, RHS)



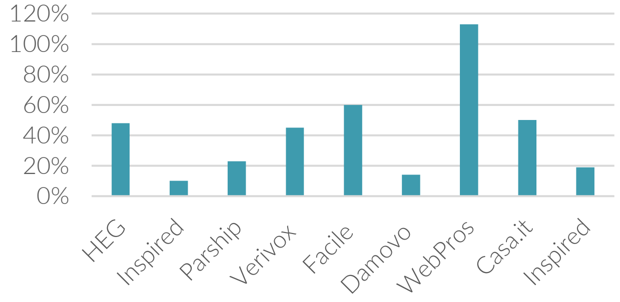
EV/EBITDA by number of companies



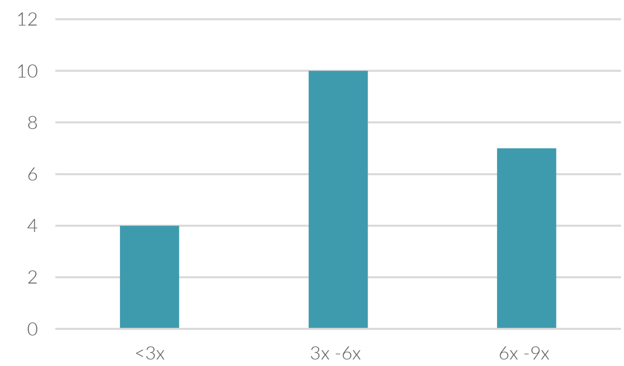
Source: OCI presentations, Hardman & Co Research

The next two charts show the continued uplift on exit (2020 89% premium to book value) measured against the last reported carry value. As can be seen, OCI remains conservative in accounting, with strong gains on exits. The right-hand chart shows the net cash/indebtedness by number of companies. Those with the highest gearing typically have the greatest concentration in recurring revenue streams.

Uplift on exit (%)



Net debt/EBITDA by number of companies



Source: OCI presentations, Hardman & Co Research

We estimate that over-commitments, which may be drawn over up to five years, could be covered by around one year's realisations or acceptable debt facilities

Outstanding commitments at end-2020 were £534m, of which £14.5m was to Oakley Funds I (2013) and II (2016), £107.9m to Fund III (2016), £299m to Fund IV (2019) and £113m to the Origin Fund (2020).

- The newer Funds, in particular, may be expected to be drawn over several years, and we note that £95m of the earlier Funds is not expected to be called.
- Adjusting for OCI's share of debt in Oakley Funds, both cash and commitments are likely to be ca.£100m lower.
- We therefore believe that the look-through position is likely to draw commitments of just over £325m, against free cash of ca.£125m. The gap may be expected to be closed by just over one year's realisations (average £174m p.a. 2015-2020) or debt (under 30% of current NAV if no realisations) but, with the drawings spread over several years, we do not see any liquidity issues with OCI's level of commitments.
- Unlike investors in third-party funds, the timing of any call by an Oakley Fund on OCI will be decided by Oakley management.

More discount management actions

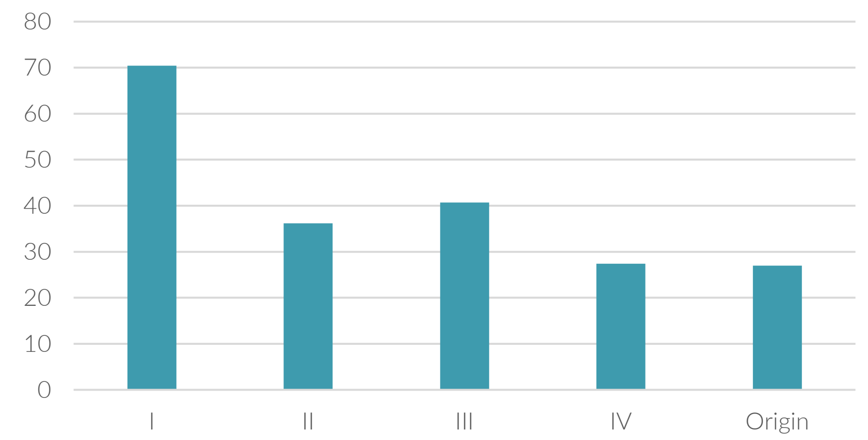
OCI looking to report quarterly and, in due course, move listing from restricted SFS and onto main market

We also note the comments made in the results presentation about future actions to reduce the discount. In particular, OCI is aiming to move to quarterly reporting (if not 3Q'21, then 1Q'22), rather than the current six-monthly schedule. This would allow a steady stream of NAV updates into the market. Given the restrictions that some platforms (e.g. Barclays) apply to shares listed on the Specialist Fund Segment of the LSE, it is looking in time to move to the main market. Previous restrictions around concentration by Fund should moderate with new investments in later Funds.

OCI ownership of different Oakley Funds

The chart below shows OCI's ownership of the different Oakley Capital Funds, which may help investors when OCI makes announcements of investments/exits. The reduction over time represents the success Oakley has had in attracting other investors, including its entrepreneur network, whose holdings at end-2020 were €200m.

OCI's ownership of Oakley Capital Funds (% total fund size)



Source: OCI, Hardman & Co Research

Portfolio

The details of the portfolio are given below.

Key metrics for portfolio companies, as at December 2020

Company	Country	Investment date	Fund	Cost (£)	June valuation (£m)	Sector
TechInsights	Canada	2017	III	0.4	15.5	Technology
Daisy Group	UK	2015	II and direct	29.5	34.6 (debt 17.3)	Technology
Ekon	Spain	2019	III	22.5	21.7	Technology
Contabo	Germany	2019	IV	5.0	9.7	Technology
7NXT	Germany	2020	Origin	10.3	10.3	Technology
WebPros	Switzerland / UK	2020	IV	45.3	50.4	Technology
atHome	Italy	2017	III	0.0	7.7	Technology
Facile	Italy	2018	III	20.8	35.0	Consumer
Time Out	Global	2010	I and direct	60.4	43.3	Consumer
North Sails	Global	2014	II and direct	147.7	137.8 (102.6 debt)	Consumer
Iconic BrandCo	Italy	2019	III	16.1	16.1	Consumer
Wishcard Technologies Group	Germany	2019	III	17.3	20.7	Consumer
Windstar Medical	Germany	2020	IV	42.7	42.7	Consumer
Career Partner Group	Germany	2018	III	0.0	100.5	Education
Schülerhilfe	Germany	2017	III	31.3	47.5	Education
AMOS	France	2017	III	7.2	18.8	Education
Ocean Technologies	Norway/ UK	2019	IV	21.9	25.9	Education
Fund facilities					6.6	
Cash					223	
Other assets & liabilities					-138.9	

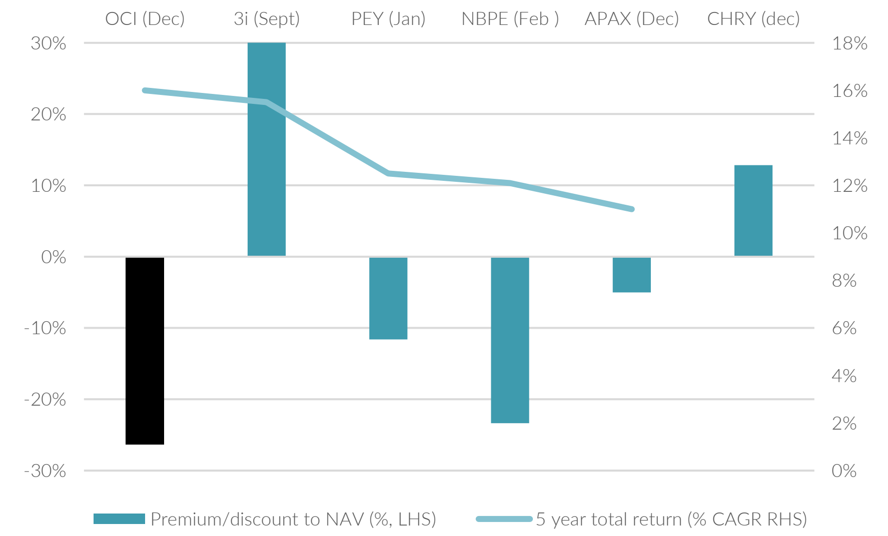
Source: OCI, Hardman and Co Research

Valuation

OCI's discount appears anomalous with its market and peer-beating, long-term performance

The charts below show the premium/discount ratings of OCI's closest competitors, together with their five-year total NAV return. Despite having one of the best five-year returns, OCI has the highest discount. Indeed, the two peers with comparable returns are trading on material premiums to NAV. To have such a relative discount appears anomalous with historical performance, where both Fund II and Fund III are top-quartile/5% by different measures. Taking an absolute rating perspective, it also appears anomalous that a company with a strong track record of growth and value-added should trade at any discount to NAV at all.

Discount to NAV and five-year total return for OCI and peers (%)



Note: 3i total shareholder return per webpage
Source: Company presentations and websites, Hardman & Co Research

Financials

Profit and loss summary								
Year-end Dec (£000)	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**	**2021E**	**2022E**
Interest income	5,053	11,637	7,722	6,629	9,218	10,466	12,253	11,415
Net realised gains at FV through P&L	29,041	8,545	23,991	102,314	17,840	208,536	11,360	16,858
Net unrealised gains/losses through P&L	-3,561	46,196	20,316	-23,877	127,741	-133,086	56,799	67,432
Net foreign currency gains/(losses)	-2,000	4,733	-839	3,149	-2,715	13,700	0	0
Other income	597	140	306	217	1,073	390	390	390
Total income	29,130	71,251	51,496	88,432	153,157	100,006	80,802	96,096
Costs	-7,319	-4,519	-6,529	-6,045	-17,888	-7,620	-18,632	-21,858
Operating profit	21,811	66,732	44,967	82,387	135,269	92,386	62,050	74,203
Interest expenses	-2	-55	-42	-389	0	0	0	0
Pre-tax profit	21,809	66,677	44,925	81,998	135,269	92,386	62,050	74,203
Tax	-235	0	0	0	0	0	0	0
Attributable profit	21,574	66,677	44,925	81,998	135,269	92,386	62,050	74,203
Average no shares (000s)	174,008	189,901	203,859	204,804	204,113	192,707	180,600	180,600
EPS (£)	12.4	35.1	22.0	40.0	66.3	47.9	34.4	41.1
DPS (p)		4.5	4.5	4.5	4.5	4.5	4.5	4.5

Source: OCI Report and Accounts, Hardman & Co Research

Balance sheet								
@ 31 Dec (£000)	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**	**2021E**	**2022E**
Non-current assets								
Oakley Funds	158,369	211,254	282,663	298,581	420,316	354,718	540,267	691,264
Co. investment Fund	0	0	26,280	41,789	74,984	0	0	0
Quoted	0	43,854	41,182	22,320	38,510	23,940	23,940	23,940
Other unquoted	25,950	0	0	0	0	0	0	0
Debt	104,897	85,761	69,502	107,059	127,156	126,466	116,209	105,951
Total investments	289,216	340,869	419,627	469,749	660,966	505,124	680,416	821,155
Current assets								
Cash and cash equivalents	95,520	106,509	117,836	107,888	48,866	223,090	121,302	65,194
Receivables	5	673	668	11	40	33	100	100
Total assets	384,741	448,051	538,131	577,648	709,872	728,247	801,818	886,449
Creditors	2,591	9,619	36,091	2,826	23,864	297	19,945	38,500
Net assets	382,150	438,432	502,040	574,822	686,008	727,950	781,873	847,949
NAV per share (£)	2.00	2.31	2.45	2.81	3.45	4.03	4.33	4.70

Source: OCI Report and Accounts, Hardman & Co Research

Cashflow								
Year-end Dec (£000)	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**	**2021E**	**2022E**
Purchase of portfolio investments	-131,118	-178,228	-167,047	-165,302	-127,265	-95,983	-250,000	-200,000
Sale of portfolio investments	122579	173,554	167,773	158,712	90,005	332,595	155,000	155,000
Interest income	1,687	17,403	7,001	7,077	842	5,146	12,134	11,108
Expenses aid	-6,759	-4,704	-5,967	-4,196	-7,009	-21,050	-10,632	-13,926
Interest expense paid	-2	-55	-42	-389	0	0	0	0
Other income received	597	140	306	217	1,073	390	390	390
Net cash inflow/(outflow) from op. activities	-13,016	8,110	2,024	-3,881	-42,354	221,098	-93,108	-47,428
Cashflows from financing activities								
New shares issued	126,824	0	0	0	0	0	0	0
Purchase/sale of shares into treasury	-23,170	-1,854	23,291	0	-4,737	-51,894	0	0
Dividends	0	0	-13,149	-9,216	-9,216	-8,680	-8,680	-8,680
Net cash inflow from financing activities	103,654	-1,854	10,142	-9,216	-13,953	-60,574	-8,680	-8,680
Net increase in cash and cash equivalents	90,638	6,256	12,166	-13,097	-56,307	160,524	-101,788	-56,108
Opening cash and cash equivalents	6,882	95,520	106,509	117,836	107,888	48,866	223,090	121,302
FX effects	-2,000	4,733	-839	3,149	-2,715	13,700	0	0
Closing cash and cash equivalents	95,520	106,509	117,836	107,888	48,866	223,090	121,302	65,194

Source: OCI Report and Accounts, Hardman & Co Research

Investments' analysis								
Year-end Dec (£000)	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**	**2021E**	**2022E**
Total investments								
Opening	220,344	289,216	340,869	419,627	469,749	660,966	505,124	680,416
Additions	133,115	176,231	201,504	130,845	127,265	95,983	250,000	200,000
Sales	-94,651	-190,767	-175,042	-165,795	-91,813	-337,916	-155,000	-155,000
Realised gains	29,041	8,545	23,991	102,314	17,840	208,536	11,360	16,926
Change in unrealised revaluation	1,007	57,082	20,316	-23,877	127,741	-133,086	56,799	67,705
Other, incl. FX and interest	360	562	7,989	6,635	10,184	10,641	12,134	11,108
Closing	289,216	340,869	419,627	469,749	660,966	505,124	680,416	821,155
Oakley Funds								
Opening	151,857	158,369	211,254	282,663	298,581	420,316	354,718	537,996
Additions	27,146	41,846	124,590	58,829	64,776	54,469	220,000	170,000
Sales	-45,520	-48,636	-78,457	-130,526	-39,909	-203,486	-105,000	-105,000
Realised gains	29,041	9,403	15,591	102,314	17,840	133,800	11,360	16,858
Change in unrealised revaluation	-4,155	50,272	9,685	-14,699	79,028	-50,381	56,799	67,432
Other, incl. FX and interest	0	0	0	0	0	0	120	307
Closing	158,369	211,254	282,663	298,581	420,316	354,718	537,996	687,594
Co Investment Fund	Inspired							
Opening	0	0	0	26,280	41,789	74,984	0	0
Additions	0	0	39,932	5,825	672	0	0	0
Sales	0	0	-35,355	0	0	-94,210	0	0
Realised gains	0	0	8,400	0	0	74,736	0	0
Change in unrealised revaluation	0	0	13,303	9,684	32,523	-55,510	0	0
Other, incl. FX and interest	0	0	0	0				
Closing	0	0	26,280	41,789	74,984	74,984	0	0
Quoted	Time out							
Opening	0	0	43,854	41,182	22,320	38,510	23,940	23,940
Additions	0	47,155	0	0	0	12,625	0	0
Sales	0	0	0	0	0	0	0	0
Realised gains	0	0	0	0	0	0	0	0
Change in unrealised revaluation	0	-3,301	-2,672	-18,862	16,190	-27,195	0	0
Other, incl. FX and interest	0	0	0	0	0	0	0	0
Closing	0	43,854	41,182	22,320	38,510	23,940	23,940	23,940
Debt								
Opening	68,487	104,897	85,761	69,502	107,059	127,156	126,466	118,600
Additions	80,253	80,476	36,982	66,191	61,817	28,889	30,000	30,000
Sales	-49,131	-109,976	-61,230	-35,269	-51,904	-40,220	-50,000	-50,000
Realised gains	0	560	0	0	0	0	0	0
Change in unrealised revaluation	4,928	10,345	0	0	0	0	0	0
Other, incl. FX and interest	360	-541	7,989	6,635	10,184	10,641	12,134	11,108
Closing	104,897	85,761	69,502	107,059	127,156	126,466	118,600	109,708

Source: OCI Report and Accounts, Hardman & Co Research

Our base assumption is that 2021 will be a more normal year, with OCI achieving 3% realised gains and 15% unrealised gains. We assume that there will be a significant (record) deployment of cash into investments, but year-end cash balances will remain high. The overall NAV growth (7%) reflects above-normal cash balances (we expect full deployment of 2020 realisation proceeds in 2022) and the fact that many OCI investments will still be early in their investment holding period. Over time, we expect value creation to accelerate.

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