9 February 2022

HARDMAN & CO.

OAKLEY CAPITAL INVESTMENTS LTD

Educating on education

Following the strengths in education investments reported in OCI's *January trading statement*, we note that the sector's attractions include i) structural growth, ii) defensive revenue, iii) high barriers to entry, iv) strong ESG credentials and v) scarcity of scale assets. The sector benefits from PE's value-creation toolkit, with i) bolt-on strategies in highly fragmented markets, ii) tech-enablement and digitalisation skills, iii) transferability of expertise, and iv) increasing commercialisation of returns. Oakley was an early and active education investor, and now has proven case studies showing all these advantages. Education investments were 27% of OCI's NAV as at June 2021. The most recent exit was at an IRR of 43%.

- **Education as the new healthcare:** Education is similar to healthcare in that it constitutes a huge part of the economy and has defensive cashflows. Listed and PE involvement in healthcare has grown substantially, and is growing in education, where there are few global scale/reach businesses. Oakley is leading the charge.

- **Why Oakley/OCI?** Oakley has a strong track record as one of Europe's most prolific PE investors in this sector. Leveraging experience in technology, internationalisation and M&A, it has successfully grown offline and online platforms across primary, secondary and tertiary education, as well as in professional learning.

- **Valuation:** Against the December NAV, OCI trades at a 19% discount, despite its absolute (five-year CAGR 19% total NAV return to December 2021) and relative performance. The *December trading statement* reported that the 2021 total NAV return was 35% and the TSR 48%, both more than the discount. OCI yields 1.2%.

- **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, and we believe its permanent capital is right for private assets.

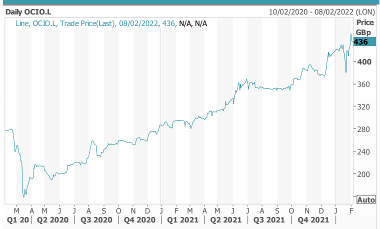
- **Investment summary:** OCI provides investors with liquid access to the attractive PE market, enhanced by Oakley's incremental origination and active management skills. Oakley Funds focus on mid-market, tech-enabled European companies that operate in the technology, consumer and education sectors. Accounting and governance appear conservative. There are risks – primarily sentiment-driven – around costs and cyclicality, as well the liquidity and valuation of the underlying private assets. We believe buying long-term, compounding growth is the key attraction, with any further closing of the discount to NAV an added bonus. The current 19% discount is about one-year's average recent NAV total return.

Financial summary and valuation

Year-end Dec (£000)	2017	2018	2019	2020	2021E	2022E
Interest income	7,722	6,629	9,218	10,466	11,753	11,415
Realised gains	23,991	102,314	17,840	208,536	38,366	22,140
Unrealised gains	20,316	(23,877)	127,741	(133,086)	206,369	110,702
Total income	51,496	88,432	153,157	100,006	252,793	144,508
Costs	(6,571)	(6,434)	(17,888)	(7,620)	(4,000)	(4,000)
EPS (p)	22.0	40.0	66.3	47.9	139	79
NAV per share (£)	2.45	2.81	3.45	4.03	5.38	6.13
S/P disc. to NAV*	-33%	-38%	-22%	-29%	-22%	-29%
Investments (£m)	420	470	661	505	857	1,046
DPS (p)	4.5	4.5	4.5	4.5	4.5	4.5

*Note 2021 Dec NAV known, but rest of numbers estimated; *2017 costs restated to include interest per 2018/19 treatment; Source: Hardman & Co Research*

Inv. Banking & Brokerage Services



Source: Refinitiv

Market data

EPIC/TKR	**OCI**
Price (p)	**436.5**
12m High (p)	454
12m Low (p)	278
Shares (m)	178.6
Mkt Cap (£m)	780
NAV p/sh (Dec, p)	538
Disc. to NAV	19%
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

Peter Dubens/Directors	11%
Asset Value Investors	9%
Lombard Odier	8%
City of London IM, HL	6%
Sarasin	5%
Jon Wood & family, Fidelity	4%
Hawksmoor, II	3%

Diary

10 Mar	Full-year results

Analyst

Mark Thomas +44 (0)203 693 7075
mt@hardmanandco.com

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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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Education sector within OCI

Key metrics for education sector portfolio companies, as at June 2021					
Company	Country	Investment date	Fund	Cost (£)	June valuation (£m)
IU Group	Germany	2018	III	0.0*	99.0
Schülerhilfe	Germany	2017	III	30.0	45.9
ICP Education	UK	2021	IV	26.9	26.9
Ocean Technologies	Norway/UK	2019	IV	20.8	26.6
ACE Education	France/Spain	2017	III	6.9	15.8

**cost reduced to zero as a result of refinancings received; Source: OCI, Hardman and Co Research*

IU Group the largest and fastest-growing university group in Germany

IU Group (formerly CPG) is the fastest-growing university group in Germany, with over 75,000 students enrolled across four types of programme: online degree courses, part-time studies, dual studies (private onsite education in cooperation with corporate partners) and on-campus studies. Oakley Funds acquired a majority stake in the company in 2018, partnering with the entrepreneurial management team and acquiring the business in a carve-out from Apollo Education Group, a leading US corporate in the higher education space. The market for online and dual studies degrees continues to grow rapidly (IU student numbers: 2012 less than 2k students, 2018 17k students, 2021 >75k students, target 2024 >175k students)[1]. As a digitally native business, IU Group has benefited from the growing appetite for online education, and has achieved student intake growth of 98% for 2020 versus the prior year. IU has ambitions to become the world's largest university. More details can be found on its website, https://www.iu-group.com/who-we-are.

Schülerhilfe provides after-school tutoring across Germany and Austria

Established in 1974, Schülerhilfe provides tutoring to over 125,000 primary and secondary school students in 1,100 centres across Germany and Austria. Lessons are given in small groups, a method shown to produce better results at a much lower cost than 1:1 tutoring. Oakley Funds acquired a majority stake in Schülerhilfe in July 2017, partnering with CEO, Dieter Werkhausen, who also invested in the new structure. Germany is home to a large tutoring market worth approximately €1.1bn, the large majority of which is provided by private individuals within the home. Schulerhilfe is now professionalising this market. The sector enjoys growing and non-cyclical demand from parents who want to help their children meet annual exam requirements. Schülerhilfe holds a strong position as the clear market leader. More details can be found on its website, https://www.schuelerhilfe.de/.

ICP Education a leading independent group of UK children's nurseries

ICP Education (ICP) is one of the largest nursery operators in the UK, serving nearly 6,000 children at 44 nurseries across England, predominantly in London and the South East. The group is one of the highest-quality large nursery operators in England, with a third of nurseries rated Oftsed Outstanding and 98% rated Outstanding or Good. In 2020, ICP was ranked as the 14th Best Place to Work in the UK by Glassdoor, across all categories. In May 2021, Oakley signed the acquisition of a majority stake in ICP. The UK nursery sector is worth £6.7bn. The market has grown steadily, at a 4.5% CAGR between 2010 and 2019, driven by rising female labour market participation and an increasing awareness of the importance of early years education. This is seen as a buy-and-build opportunity, in a largely un-professionalised market of 15,000 nurseries significantly owned and operated on a single-site basis. ICP can aid greenfield development, knowledge sharing, professionalisation and systems/software that can be rolled out across the group with enhanced buying power. More details on the group can be found on ICP's website, https://icpnurseries.com/.

Ocean Technologies Group leading maritime e-learning business globally

Ocean Technologies Group (Ocean) serves almost 20,000 ships and installations with comprehensive and up-to-date compliance, risk and health & safety training, and software tools that ensure adherence to International Maritime Organisation

[1] https://www.iu-group.com/who-we-are

requirements. The group has brought together market leaders, Seagull and Videotel, and, during Oakley's ownership, it has expanded its team to include global Maritime English language leader, Marlins, and Seattle-based MTS, a learning brand. The addition of Fleet Management operational software innovators, Tero Marine and COEX, together with crew management software provider COMPAS, has further broadened the options for the group to drive performance optimisation for its customers. The digital transformation taking place in the shipping industry, as well as the increasingly complex regulatory framework, offers a significant opportunity for e-learning and software providers. With both Seagull and Videotel able to collaborate, and share knowledge and resources, Ocean is providing its customers with a significantly enhanced suite of complementary products and services. Today, Ocean is the largest independent software provider to the maritime industry. More details can be found on its website, https://oceantg.com/.

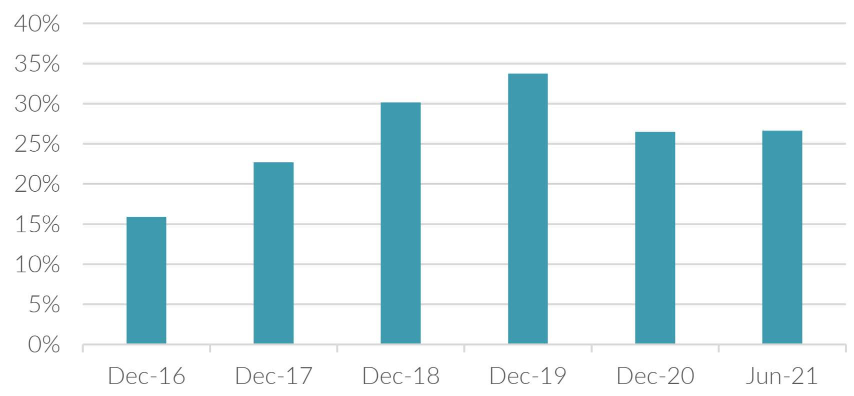
ACE Education a leading private vocational higher education platform in France and Spain

Fund III first invested in ACE Education (ACE) in 2017 through the platform acquisition of AMOS, the leading business school in France focused solely on sports management. Since then, the group has been transformed via three bolt-on acquisitions and five new campus openings. Today, ACE is a diversified higher education group with over 20 campuses and over 4,000 students, and it operates under four brands: AMOS (https://www.amos-business-school.eu/?lang=en), which remains the leading French business school focused entirely on sports management; ESBS (*https://www.esbs-spain.com/en/programas/master-international-sports-management.html*), a sports management school based in Valencia, Spain; ESDAC (https://ecole-esdac.com/esdac-montpellier/), the largest group of design schools in southeast France; and CMH (https://cmh-academy.com/en/), a leading higher education provider in the hotel management, luxury brand and tourism sectors. ACE has established a strong position in the sports and hospitality sectors, and the fast-growing subsectors of vocational training. Oakley believes this to be a fragmented market, with significant opportunities for further buy-and-build. ACE has synergies from having a central provision of supporting services, including HR, accounting, hiring, quality control and IT, as well as "locational synergies", with several design school campuses in locations where it has already had a sports management campus. The hospitality part of the business accounts for a small part of the group, and it retained the vast majority of its revenue through COVID-19.

Education investments have been around quarter to third of NASV for past five years

The chart below shows the percentage of OCI's NAV invested in education. Since 2017, there have been at least four holdings at any given time (currently five), and the carrying value has grown, with new holdings being added, bolt-on acquisitions and strong earnings growth. As we detail in the section below, OCI's NAV has also benefited from significant uplifts to carrying value on exit.

Percentage of OCI's NAV invested in education



Source: Company presentations, Hardman & Co Research

Why education?

Attractive market in own right

Growing global demand for quality and accessible education

Private education is a growing market. From 2005 to 2018, the average proportion of primary to post-secondary non-tertiary private spending on education as a percentage of GDP, across the OECD, rose from 0.26% to 0.35%; the proportion more than doubled in Ireland, Italy and Spain[2]. Since then, press reports suggest that the pandemic has further accelerated the trend[3]. In its 2021 Capital Markets Day presentation, OCI highlighted that the total spend on education in 2016 in OECD countries was over $3tr, close to the $4tr spend on food and $5tr on healthcare. In the section below, we cover some additional point structures, where PE skill sets add particular value to the sector. These include the sector's high fragmentation, low level of professionalism, including delivery by individuals in their homes, and early days of digital delivery. We believe this fundamental demand is driven by a number of factors, including:

- There is considerable academic research indicating that education is seen as increasingly important in a globally competitive environment (see, for example, *Higher Education as a Determinant of the Competitiveness and Sustainable Development of an Economy*[4]). We believe this is reflective of a more generic trend that the economic return on education (e.g. by how much will it increase my salary?) is becoming an increasing focus, compared with the past, when the social return from education (e.g. it is good to have people that can read) had been more dominant.

- Increasing wealth means that private education becomes an option for more people. With the growth in the "middle classes" across the globe, there is increasing capacity for discretionary spend on areas such as education, as well as greater appetite for investment in future returns over current consumption.

- This reflects not only the wealth in society, but also the increase in the average age at which people are having children – so individual family resources are greater. The mean age of women in the EU giving birth to their first child gradually increased from 28.8 years in 2013 to 29.3 years in 2018[5].

- The demand appears to be fuelled by growing dissatisfaction with state-sponsored education and a desire for a more tailored, personalised education, which is believed to create the opportunity for advancement thereafter.

- Interestingly, the desire for private education appears to straddle cultural divides, as evidenced by the strong (pre-regulatory clampdown) growth in China. The Cato Institute book also reported a proven appetite to select private education in the poorer nations[6].

- The growth in the desire for self-education across all age groups is also a feature. This is perhaps personified by the University of the Third Age (u3a, a UK-wide collection of 1000+ locally run interest groups that provide opportunities for those no longer in full-time work), which has seen membership grow from 250k

[2] https://data.oecd.org/eduresource/private-spending-on-education.htm
[3] See for example: https://www.economist.com/international/the-pandemic-will-spur-the-worldwide-growth-of-private-tutoring/21805216
[4] https://www.mdpi.com/2071-1050/12/16/6607/htm
[5] https://ec.europa.eu/eurostat/web/products-eurostat-news/-/ddn-20200515-2
[6] https://www.cato.org/events/beautiful-tree-personal-journey-how-worlds-poorest-people-are-educating-themselves-0

in 2010 to over 400k in 2022[7]. For Oakley, the opportunity here is much broader than just the young generation.

Strong global demand for graduate courses

With technology and right accreditation, degree-level education can meet global demand

There is strong global demand for graduate courses, with the number of graduates in OECD and G20 countries expected to double to 300m in the current decade alone[8]. Importantly, there is now a growing infrastructure in place for the global accreditation of degrees, so that a degree earned in one country is recognised is another. With technology allowing the delivery of a global product, this now creates the opportunity to achieve significant economies of scale for the universities that go through the accreditation process (but it is, of course, a barrier to entry to those that do not). As noted, IU has stated ambitions to become the world's largest university, and is one university with the capacity to achieve economies of scale.

Vocational training also an area of demand

Education investment being made across whole age spectrum, including vocational training/corporate learning opportunities

OCI's investments are not just about educating the young; they also span adult learning in the workplace. Demand for vocational training is on a long-term rising trend. A recent Centre for Economic Policy Research report highlighted that access to vocational education can boost income over the long term[9]. Satisfaction with corporate learning is also low, with a recent Harvard Business Review reporting that 75% of managers are dissatisfied, 70% of employees do not have the mastery of skills to do the job and only 12% of employees apply new skills learned in learning and development programmes to their jobs[10]. This is despite the same report noting that $360bn is being spent on training. The potential demand for high-quality vocational training is thus huge.

Digital demand for vocational training growing faster than overall demand

In addition, we highlight, in the section below, how demand for this type of product is changing, and that digitalised delivery of vocational training is a key factor here. This is a global phenomenon, accelerated again by the pandemic, as highlighted in UNESCO-UNEVOC'S project on digital training[11], and subject to considerable academic research[12]. Looking at Oakley Fund's investments, IU already works with 10,000 corporate clients. Ocean Technologies Group is another case study for this theme – it helps shipping companies ensure that sailors have all the required health & safety and risk training they need to work on vessels; digital delivery is the most effective method for this.

Significant element of non-discretionary spend of cashflow through economic cycles

Once a commitment has been made to education, we believe that, for most families, it then falls onto what may be perceived as non-discretionary spend. The revenue for, say, a university place may be viewed as largely committed for the life of the course – and so, for the provider, it can be seen as a recurring revenue with an amortisation largely over three/four years. There is always an element of students dropping out of courses, but, if anything, when economic times are challenging, the voluntary element of this may be less than when economic times are good. For a business such as Ocean Technologies, elements of the vocational safety training are a requirement for seafarers – and so, again, this is considered as non-discretionary spend, and not sensitive to the cycle.

[7] https://www.u3a.org.uk/about/history
[8] https://monitor.icef.com/2019/07/oecd-number-of-degree-holders-worldwide-will-reach-300-million-by-2030/
[9] Report dated January 2021 based off Finland experience https://voxeu.org/article/access-vocational-education-can-boost-income-over-long-term
[10] https://hbr.org/2019/10/where-companies-go-wrong-with-learning-and-development
[11] https://unevoc.unesco.org/home/COVID19_digital_training
[12] See for example Vocational Education and Training in the Age of Digitization: Challenges and Opportunities https://www.jstor.org/stable/j.ctv18dvv1c

Barriers include global accreditation for degrees, having right model to attract the right staff, needing the right staff and brand in education, and cross-fertilising ideas

High barriers to entry

In the section above, we touched on the point that achieving international accreditation could be a barrier to entry for building scale in a global university. More generally, educational institutions need to have credibility if they are to attract significant numbers of students. Oakley-run businesses are likely to have an advantage in hiring the right staff, with the right qualifications, given the working environment that they can offer. In the vocational space, the effective communication of some often quite technical messages can be challenging, and require specific expertise. Having the skill base to then interpret data on the course performance/usage again needs particular knowledge, and attracting the right staff is key. Being a digital model is much more likely to attract staff wanting to work in that environment than a traditional education model. High barriers to entry also apply to schools, as it is hard to start a school from scratch, with parents caring about an established brand. One competitive advantage for an investor such as Oakley is that the lessons learned in one business can be useful in another, such as successfully integrating different schools into one platform through a buy-and-build strategy.

Strong ESG credentials

The ESG factor

The PE-backed models have strong ESG sources, in that they are typically democratising education (good for the “S” element of ESG) and that digitalisation reduces the carbon footprint (good for the “E”). By way of example, the majority of IU’s students are female, 70% are from non-academic families, and there are five times more new students without A Level-equivalent qualifications compared with traditional universities.[13] IU is the first online learning institution to be TÜV-certified for its CO2 neutrality, with IU claiming that online education is estimated to reduce CO2 emissions by a factor of 10.[14] Oakley has also commented that, in its view, education is fundamental to solving many of the world’s biggest issues, such as climate change and promoting prosperity, and that working in this sector is rewarding because of the positive impact it can have on people’s lives and society.

[13] https://www.iu-group.com/who-we-are#approach
[14] https://www.iu-group.com/who-we-are#approach

Sector enhanced by core PE competencies

There are a number of features of the education market that make it very attractive to PE. A number of the traditional PE skills/playing cards can be reused in this sector, as we highlight below.

Fragmented market

Fragmented market, creating opportunities for M&A bolt-on strategies – within education and into related areas

The education market is highly fragmented. We note that there are over 800 universities in the European Universities Association[15] alone, making this a fragmented market where organic share gains are most likely. In OCI's other businesses, the fragmentation of the market appears to offer many more opportunities for bolt-on strategies. For example, in early years education, *The Department of Education Survey of Childcare and Early Year Providers: Main Summary, England, 2021*[16] estimated that there were 62k providers with at least one child aged 0-4 registered in England in spring 2021, of which 13.4k were private, group-based providers, accounting for over 700k private childcare places (nearly half the total).

Premium schools are another fragmented market in Europe. Many are family-founded and owned. Combining them into bigger groups creates better businesses that are diversified, and can take advantage of economies of scale to invest in better IT and quality control. They can also respond more quickly and efficiently to unexpected disruptions, such as COVID-19 and the need to transition to learning online.

Education and learning can also provide platforms for further acquisitions. Looking at Ocean Technologies, Oakley helped build a group offering not only learning solutions for seafarers but also a whole one-stop software solution covering crew management (including database, compliance, payrolls, medical, etc), fleet management and performance analytics – creating an optionality for income streams well beyond education alone.[17]

Into this fragmented market, PE can not only provide capital resources but also provide expertise in due diligence and deal structuring to optimise value.

Digitalisation

Digitalisation of education, with i) better service to students, using technology to improve courses, ii) global potential, iii) improved efficiency; iv) marketing

One core competency shown by PE, and Oakley in particular, has been the adoption and implementation of digital strategies into operations that had not previously adopted them. This is an increasing theme across the whole education sector, starting from a very low base. Citi estimate that even after achieving a 17% CAGR from 2019 to 2024, worldwide edtech will represent only 5% of total education spending, even though it will account for ca.50% of daily study hours.[18] There has been a long-term trend under way from before COVID-19 for more digitalisation, which the pandemic has accelerated, but traditional bricks and mortar universities have struggled to switch to online learning during the crisis, or to be nimble enough to develop courses that meet the needs of students and the wider jobs market. This is just one example of where education has been a slow developer in using digital delivery. Looking at PE-backed businesses, they show that:

- Artificial intelligence (AI) and the intelligent learning available with a digital model mean that student engagement and progress can be closely monitored, and any weaknesses addressed quickly. The digital format allows teachers to customise the study material based on an individual's learning speed and ability,

[15] https://eua.eu/about/who-we-are.html
[16] https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1039675/Main_summary_survey_of_childcare_and_early_years_providers_2021.pdf
[17] https://oceantg.com/solutions/
[18] *https://ir.citi.com/5s191zR3Pf4EMLXG7bdjmWF9%2BF1Z7nQzlwVZkM2hdrUTG53pjpZLPSibOb2XtIiKYOJXnXiKnWE%3D* page 5

but, also, courses as a whole can be quickly amended if systemic issues are found. This can be done in a way that is impossible with traditional teaching methods, because of the flow of information in a digital model. This all feeds through to high-quality service for the students. Its awards are listed on the webpage, and include first place in March 2021 in the Deutsches Institut für Services-Qualität for distance learner provider and a 4.6 score on Trustpilot.

- With interactive digital sessions, students pay more attention and can become more extensively acquainted with the digital world. This also means that there is immediate access to all the information available on the web, rather than the limited data in one lecture hall at the time of the lecture.

- One of PE's core competencies is to take the skills learned in one country and apply them in others. IU cites that it has students from 110 countries (providing courses in both German and English). German accreditation is highly regarded across the world, but we understand IU is also working to secure additional international accreditations from other countries that will further boost the attraction of its courses. Similarly, Ocean Technologies is providing a global service.

- In a traditional university setting, a lecturer may give the same course lecture to students every year for multiple years. In the digital world, it is recorded just once. Dealing with issues such as compliance and regulation are much easier with a digital model, where the audit trail is much clearer. Complaint and error handling is also typically much enhanced. There is nothing different in education benefiting from these efficiency gains compared with other sectors, but the adoption of digital models in education has been behind that of many industries. Citi has estimated that, currently, less that 3% of spend is on edtech, and, on page 21 of its report[19], it noted that over half the universities in the survey attributed the reason for underinvestment to "never bothered to evaluate/did not realize utility of technology in education" and nearly a third to "pushback against technology from faculty, parents, etc".

- PE skills in digitalisation also include marketing, so as to attract new students to courses using skills learnt across other industries, including consumer businesses and bringing that expertise to bear in education.

Other best practices

Other best practices, including cross-selling

We note that IU has rolled out a range of services well beyond what may be expected from a traditional university. These include "IU for Enterprises" (a dual study format that combines theoretical and practical learning, and trains employees for their jobs, with more than 10,000 corporate partners as part of the network – the dual course of study takes three or five years, and takes place alternately in the company and on campus) and "New Ventures" (such as corporate upskilling, business to government and strategic partnerships). We understand that Oakley has helped IU leverage its network to accelerate the launch of these initiatives.

Focus on economic return from education, as well as its social provision

While vocational training has traditionally been a commercial enterprise for a significant period of time, in many other areas, education was considered a non-profit, social provision. We believe, however, that there has been an increasing trend to focus on the economic return from education, and this has resulted in greater attention on both efficiency of delivery and the value of the course itself.

[19]https://ir.citi.com/5s191zR3Pf4EMLXG7bdjmWF9%2BF1Z7nQzIwVZkM2hdrUTG53pjpZLPSibOb2XtliKYOJXnXiKnWE%3D

Healthcare

Healthcare as a case study for how education investment may evolve

OCI's 2021 Capital Markets day presentation noted that, despite having many similar characteristics, the education sector was at the early stages of maturity compared with healthcare in terms of the number of listed companies with market capitalisations of more than $1bn (around one thirtieth) and the number of PE deals done in 2020 (less than a quarter). It was, however, a rapidly growing sector (2020 deals were nearly double the number of those in 2016, the total market capitalisation for 2021 was nearly treble that of 2016, and 2021 average EV/EBITDA was 28x, vs. 22x in 2016). As healthcare evolves with greater listed and PE involvement, one could expect education to do likewise, and those, like Oakley, who are active early in the process, are at a competitive advantage (see later section).

Why OCI?

Trends in education sector play to Oakley's strengths

Through this report, we have noted Oakley's strong track record of leveraging experience in technology, internationalisation and M&A, and successfully growing offline and online platforms across primary, secondary and tertiary education, as well as professional learning. OCI's 2021 Capital Markets day presentation noted that Oakley had been one of the most active education investors in Europe, having completed five deals in Europe in the previous five years, compared with three each for CVC Capital Partners and Permira, and two each at Providence Equity, TA Associates and Ardian. OCI is the liquid, listed vehicle by which all investors can access the Oakley Capital Funds – and so these education investments.

Deal sourcing through entrepreneur network major competitive advantage

In our previous notes, we have highlighted Oakley's competitive advantage in its network of entrepreneurs as a source of high-quality new deals and detailed due diligence. Reputation is critically important for founders keen to protect the quality and reputation of their establishment: being seen as partner of choice for entrepreneurs is a critical advantage over the competition.

Increasing involvement of large PE funds creates further exit options for Oakley Funds

Historically, most deals in education have been relatively small. However, this has started to change, and this is important for OCI investors. As bigger PE houses start to focus more on the sector, this increases the potential exit opportunities for OCI investments, having been built either organically or through bolt-on acquisitions. We note, by way of example, Platinum Equity's $4.5bn acquisition of McGraw Hill[20] in August 2021, or Blackstone's exit of the $1bn Aakash Educational Services Indian deal in April 2021[21]. The latter was an education business only established in 2015.

Completed investment to date (Inspired) generated IRR of 43%, 2.7x money multiple during Fund II's investment, and sold at significant premium to carrying value

OCI's only recent education exit to date has been a business called, initially, Educas, and then Inspired. The business went through various restructurings and investments in different stages by different Oakley Funds and a direct holding by OCI. The original investment was made in Oakley Fund I in 2013, and was sold for a 3x return in mid-2017, when TA Associates became a major investor.[22] A further partial disposal was made in 2019[23], before the stake was sold completely in 2020[24]. The 2017 deal did not have a material impact on the NAV per share, but the 2019 disposal added 21p, and the 2020 sale a further 10p. These represented material uplifts to the last reported NAVs at the two different times (281p and 345p, respectively). The 2019 uplift was at an 80% premium to book value. In its interim 2020 results, OCI reported that, following the exit, Inspired had generated a 2.7x gross money multiple return and a gross IRR of 43%[25] during Fund II's investment

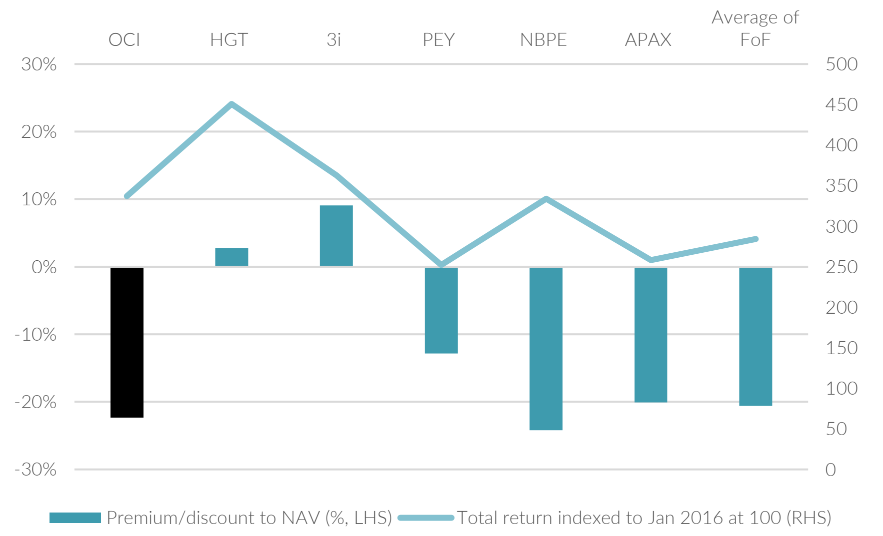
[20] https://www.platinumequity.com/news/news-articles/2021/platinum-equity-acquires-mcgraw-hill
[21] https://www.vccircle.com/cppib-partners-group-make-multibagger-exits-from-us-based-globallogic
[22] https://otp.tools.investis.com/clients/uk/oakley_capital1/rns/regulatory-story.aspx?cid=2010&newsid=896485
[23] https://otp.tools.investis.com/clients/uk/oakley_capital1/rns/regulatory-story.aspx?cid=2010&newsid=1271412
[24] https://otp.tools.investis.com/clients/uk/oakley_capital1/rns/regulatory-story.aspx?cid=2010&newsid=1384982
[25] https://otp.tools.investis.com/clients/uk/oakley_capital1/rns/regulatory-story.aspx?cid=2010&newsid=1412502

Valuation

OCI's 19% discount to NAV 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 returns. Despite having one of the best five-year returns among its peers, 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 Fund III is in the top 5% by peer benchmarking. 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 TSR since January 2016 for OCI and peers (%)



Notes: 3i's TSR per webpage, Hardman & Co estimated OCI end-Dec 21; priced at 8/2/22
Source: Company presentations and websites, LSE, 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	11,753	11,415
Net realised gains at FV through P&L	29,041	8,545	23,991	102,314	17,840	208,536	38,366	22,140
Net unrealised gains/losses through P&L	(3,561)	46,196	20,316	(23,877)	127,741	(133,086)	206,369	110,702
Net foreign currency gains/(losses)	(2,000)	4,733	(839)	3,149	(2,715)	13,700	(3,945)	-
Other income	597	140	306	217	1,073	390	250	250
Total income	29,130	71,251	51,496	88,432	153,157	100,006	252,793	144,508
Costs	(7,319)	(4,519)	(6,571)	(6,434)	(17,888)	(7,620)	(4,000)	(4,000)
Operating profit	21,811	66,732	44,967	170,430	135,269	92,386	248,793	140,508
Interest expenses	(2)	(55)		-	-	-	-	-
Pre-tax profit	21,809	66,677	44,925	81,998	135,269	92,386	248,793	140,508
Tax	(235)	0	0	0	0	0	-	-
Attributable profit	21,574	66,677	44,925	81,998	135,269	92,386	248,793	140,508
Average no shares (000s)	174,008	189,901	203,859	204,804	204,113	192,707	179,600	178,599
EPS (£)	12.4	35.1	22.0	40.0	66.3	47.9	138.5	78.7
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	697,887	896,036
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	40,125	40,125
Other unquoted	25,950	0	0	0	0	0	0	0
Debt	104,897	85,761	69,502	107,059	127,156	126,466	118,600	109,708
Total investments	289,216	340,869	419,627	469,749	660,966	505,124	856,612	1,045,869
Current assets								
Cash and cash equivalents	95,520	106,509	117,836	107,888	48,866	223,090	128,333	90,319
Receivables	5	673	668	11	40	33	100	100
Total assets	384,741	448,051	538,131	577,648	709,872	728,247	985,045	1,136,288
Creditors	2,591	9,619	36,091	2,826	23,864	297	16,339	35,112
Net assets	382,150	438,432	502,040	574,822	686,008	727,950	968,706	1,101,176
NAV per share (£)	2.00	2.31	2.45	2.81	3.45	4.03	5.38	6.13

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)	(200,000)	(200,000)
Sale of portfolio investments	122,579	173,554	167,773	158,712	90,005	332,595	105,000	155,000
Interest income	1,687	17,403	7,001	7,077	842	5,146	11,753	11,415
Expenses aid	(6,759)	(4,704)	(5,967)	(4,196)	(7,009)	(21,050)	4,000	4,000
Interest expense paid	(2)	(55)	(42)	(389)	0	0	0	0
Other income received	597	140	306	217	1,073	390	250	250
Net cash inflow/(outflow) from op. activities	(13,016)	8,110	2,024	(3,881)	(42,354)	221,098	(78,997)	(29,335)
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)	(7,080)	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)	(15,760)	(8,680)
Net increase in cash and cash equivalents	90,638	6,256	12,166	(13,097)	(56,307)	160,524	(94,757)	(38,015)
Opening cash and cash equivalents	6,882	95,520	106,509	117,836	107,888	48,866	223,090	128,333
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	128,333	90,319

Source: OCI Report and Accounts, Hardman & Co Research

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`research@hardmanandco.com

1 Frederick's Place
London
EC2R 8AE

+44 (0)203 693 7075

www.hardmanandco.com