



Results analysis: Oakley Capital Investments

OCI's annual results provide more colour on the exceptionally strong NAV performance in 2021...

Update
11 March 2022

- Oakley Capital Investments (OCI) announced its final results for the year ended 31 December 2021, in which strong earnings and realisations drove significant NAV growth of 35% on a total return basis, and a share price total return of 48%. OCI is a listed investment company investing in the funds managed by Oakley Capital, thereby capturing the outperformance of a leading private equity manager. The team invest primarily across three sectors: Technology, Consumer and Education.
- 76% of the increase in the portfolio's value was driven by earnings growth, with underlying investments maintaining their pattern of strong growth. Average EBITDA growth over the year was 28%, underpinned by digitally enabled businesses and recurring revenues.
- Not including TechInsights, over the year OCI received £121m of cash, and invested £137m. At the year-end, net cash amounted to £163m. However, TechInsights, which was sold in February 2022 at a 131% premium to the June book value, resulted in an additional net £60m of cash. Outstanding Oakley Fund commitments at the year-end were £404m, increasing to £740m when including the initial commitment to Fund V announced post year-end. The Chairman states that "With...a rich pipeline in place, OCI has the resources to help finance new Fund investments in the coming years, using balance sheet cash as well as proceeds from anticipated future realisations".

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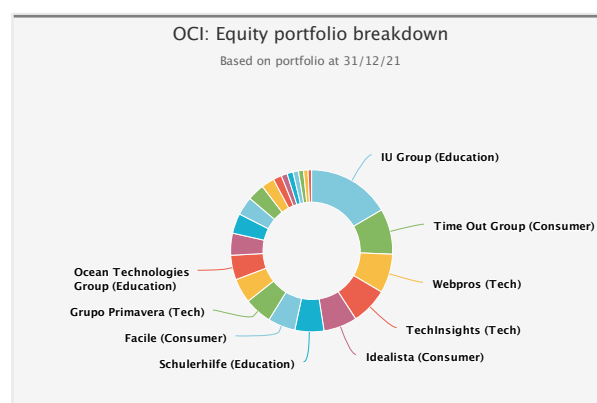


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companies breaks down. As we illustrate, the portfolio is relatively highly exposed to 'direct' investments in North Sails and Time Out Group, both of which are held outside of Oakley Funds. Henceforth, OCI will only be making investments through funds, and the board have indicated their "intention to realise, at the right point, our direct debt and equity investments". Should these exits be achieved, this would generate plenty of cash to fund the recent commitment made to Oakley Capital's Fund V.

Fig.1: Portfolio



Source: Oakley Capital Investments

Kepler View

Oakley Capital Investments (OCI) offers a concentrated, but unique exposure to a number of very interesting growth companies. Certainly, the world has changed markedly from the year end date, but the underlying themes which have driven such strong earnings growth over the last year, seem unlikely to be derailed. Valuations across markets have fallen since the end of December, but with the average valuation on an EV / EBITDA basis of 13.9x (as at 31/12/2021) does not seem particularly expensive for a portfolio of companies that have grown earnings in excess of 20% for each of the last three years.

At the year end, the portfolio exposure to consumer companies lay at 44%, with the rest of the portfolio relatively evenly balanced between technology and education. In terms of specific company exposure, the graph below illustrates how the portfolio of 22



We estimate that OCI's adjusted commitment cover (taking into account fund commitments that are unlikely to be drawn) is around 0.4x. When compared to the LPE peer group, OCI is relatively highly committed as a proportion of NAV. However, on the same day as the results announcement, the board announced they had authorised a buyback programme up to an aggregate consideration of £20 million, an indication of the value they see in the shares currently (at a c. 30% discount to NAV), and their confidence on their balance sheet position. We note that in contrast to most other constituents of the listed private equity sector, OCI does not have a gearing facility, but the board clearly have the opportunity to do so, should the need arise. Furthermore, the average holding period for Oakley Capital has been around four years (Source: Oakley Capital), which compares to the average maturity of the current portfolio of between 3.5 – 4 years, suggesting the potential for further realisations.

Oakley Capital's focus on active management and value creation has helped its tech-enabled portfolio to continue generating strong earnings growth. Its unique deal sourcing network means they are able to find promising investments at attractive valuations (average purchase EV/EBITDA multiple of 9.4x). In the current period of geopolitical, market and economic volatility, we share the board's confidence in Oakley's "capabilities as a leading private equity investor, as well as the long-term potential of the Oakley Funds, to continue generating superior returns for investors" which have delivered a five-year compound annual growth rate of 19%.

OCI's shares have de-rated with the market this year, and now trade at a discount to the 31/12/2021 NAV of c. 30%. Over a number of years, the board of OCI has been making changes to try to counter the potential for a persistent discount. One significant change this year is the move to quarterly NAV announcements, the first of which is expected to be announced on 27 April 2022 (for the NAV as at 31/03/2022).

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