OAKLEY CAPITAL INVESTMENTS LTD

In our report, *1H'21: 35% EBITDA growth drives 26% NAV return*, published on 13 September, we noted that OCI's results were strong, with i) an annual total NAV return of 26% (11% in six months), ii) average annual portfolio company EBITDA growth of 35% (20% FY'20), 12.3x EV/EBITDA (FY'20 11.8x) and 3.5x net debt/EBITDA (FY'20 3.9x), iii) £95m investment and £51m realisations in six months, and iv) cash of £172m. OCI's five-year CAGR NAV total return is 17%, driven its entrepreneur network and growth business model. Against this sustained growth, with proven downside protection, the 21% discount to NAV appears anomalous, in our view.

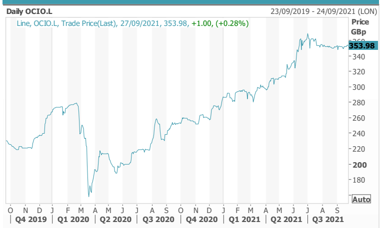
- **Entrepreneurial network:** Embedded in Oakley's DNA are the sustainable competitive advantages from its 14-year-old, ca.20-strong, and expanding, entrepreneur network. These partners have invested ca.€200m in Oakley Funds, and they help source acquisitions and then help grow the businesses.
- **Sustainable growth businesses:** Oakley's value creation is driven by EBITDA growth in its investee companies. They are in growth sectors, have tech-enabled and digitised models (70%), and have recurring revenue streams (75%). Oakley adds incremental skills, enhancing downside protection.
- **Valuation:** Against the end-June NAV, OCI trades at a 21% discount, despite its absolute (five-year CAGR 17% total NAV return to June 2021) and relative performance. Its above-peer discount is based off the June NAV, while peers are based off more recent (higher) valuations. OCI yields 1.3%.
- **Risks:** While OCI's costs are slightly above-average, post-expense returns are still market-beating. Sentiment towards economic cycles may be adverse, even though downside protection has been repeatedly proved. 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 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 as 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 21% discount is about one-year's average recent NAV total return.

Financial summary and valuation

Year-end Dec (£m)	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	18,798
Unrealised gains	20,316	-23,877	127,741	-133,086	94,957	93,990
Total income	51,496	88,432	153,157	100,006	141,381	124,453
Costs	-6,571	-6,434	-17,888	-7,620	-4,000	-4,000
EPS (p)	22.0	40.0	66.3	47.9	76.5	67.4
NAV per share (£)	2.45	2.81	3.45	4.03	4.76	5.39
S/P discount to NAV*	-33%	-38%	-22%	-29%	-26%	-35%
Investments	420	470	661	505	745	914
DPS (p)	4.5	4.5	4.5	4.5	4.5	4.5

*Note: OCI's 2017 costs restated to include interest per 2018-19 treatment, *2017-20 actual NAV and share price, 2021-22 forecast NAV to current share price; Source: Hardman & Co Research*

Closed End Investments



Source: Refinitiv

Market data

EPIC/TKR	**OCI**
Price (p)	**352**
12m High (p)	370
12m Low (p)	247
Shares (m)	178.6
Mkt Cap (£m)	629
NAV p/sh (Jun'20, p)	445
Disc. to NAV	21%
Country of listing	UK
Market (UK)	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
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Key shareholders

Peter Dubens/Directors	11%
Asset Value Investors	10%
Sarasin and City of London IM	7%
Barwon	6%
Lombard Odier & Fidelity	5%
Jon Wood & family	4%
Hawksmoor	3%

Diary

Jan'22	Trading update to Dec'21

Analyst

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