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Results analysis: Oakley Capital Investments

OCI provides more detail on the drivers behind its strong NAV performance and repeatable investment process...

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Oakley Capital Investments (OCI) announced its interim results last week, fleshing out the drivers behind the previously announced strong NAV growth, which increased by 11% on a total return basis for the six months to 30 June 2021.

The NAV was driven primarily by earnings growth across the portfolio, which saw average year-on-year EBITDA growth of 35%. This marks an acceleration from growth announced for the year to 30 December of 20%. Valuation multiples increased to 12.3x (EV/EBITDA), up from 11.8x as at end December.

Because of the focus on digital businesses, 14 out of 21 portfolio companies are meeting or exceeding their pre-Covid budgets. Aside from an improvement in Time Out's share price (one of the last remaining "direct" investments held by OCI), the key drivers were IU Group, TechInsights and Wishcard Technologies Group. The former is now Germany's largest and fastest-growing university, buoyed by increased demand for quality online learning. Having had 17k students when Oakley first invested in 2018, the company now has 75k.

OCI has a healthy cash balance of 21% of NAV. Over the past six months, Oakley have invested in four different businesses in a range of sectors. Their ability to source investments through the Oakley network of entrepreneurs enables them to invest outside traditional, often expensive auction processes.

Kepler View

Oakley Capital Investments invests primarily in digitally-focussed businesses across Europe in three core sectors: technology, consumer and education. OCI has performed very strongly over the past five years, delivering NAV growth of 106% on a total return basis (or 15.6% per annum, to 30 June 2021). The last six months build on what was a strong year last year (+18%) despite the headwinds provided by the pandemic. This year, the NAV growth in the first six months of 11% would have been even stronger had it not been GBP strengthening against the Euro which detracted 3.5% from NAV over the period. This performance echoes strong performance from other listed private equity comparators, in an environment which we believe will see continued momentum.

Despite the strong performance and encouraging outlook, OCI's discount is still wide in absolute terms. Widespread uncertainty as to the economic impact of the pandemic resulted in OCI's discount to NAV widening considerably over 2020. Some of this ground has been recovered but, according to Numis estimates, the discount is now c. 21%. The board of OCI have taken several steps to try to narrow the discount. In our view OCI is getting better understood by investors, and with quarterly reporting of NAVs starting next year, there is potential for the discount to narrow further, given close peer HgCapital Trust trades on a premium to NAV of 6%, with the underlying portfolio valued at 25x on an EV/EBITDA basis (30 June 2021) compared to OCI's 12.3x.

OCI's portfolio consists of 21 underlying companies, largely invested in through Oakley funds. Around 70% of these companies (by value) deliver their

products or services digitally, and 75% of the portfolio has subscription-based revenues or those that recur. A key part of Oakley's strategy for their companies is to add "bolt-on" acquisitions for them to build scale and efficiencies. Oakley has supported over 100 of these types of deal since the firm was launched two decades ago. Three of the current portfolio companies have made bolt-on purchases so far during 2021. In addition, OCI invested in four new companies in various sectors ranging from estate agency (Dexters), online property portal (idealista), nursery provision (ICP Education) and ecommerce (ECOMMERCE ONE). OCI has cash on the balance sheet of 21% of NAV, meaning it has plenty of firepower to deploy capital into what Oakley's board view as a "promising period for fresh investments".

We think Oakley's focus and expertise in specific sectors, its proven ability to source investments (new, or bolt-on) through its proprietary network of entrepreneurs and its discipline in terms of pricing and valuations means OCI is highly differentiated to peers. This differentiated approach has paid off for investors, given that apart from 3i and HgCapital – which both trade on premiums to NAV – OCI is the next best performing trust in NAV terms over five years. The next NAV announcement is due to be announced in January 2022, and from then on, on a quarterly basis.

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