20 September 2022

HARDMAN&CO.

## Inv. banking & brokerage services

*Source: Refinitiv*

## Market data

| | |
|---|---|
| EPIC/TKR | **OCI** |
| Price (p) | **403** |
| 12m high (p) | 454 |
| 12m low (p) | 348 |
| Shares (m) | 176.4 |
| Mkt cap (£m) | 711 |
| NAV p/sh (adj. Jun '22, p) | 634p |
| Disc. to NAV | 36% |
| 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 |
| NEDs | P Dubens, S Porter |
| Inv. Mgrs. | Oakley Capital |
| Contact | Steven Tredget |

*oci-investorrelations@oakleycapital.com*

## Key shareholders (Aug'22)

| | |
|---|---|
| Peter Dubens/Directors | 11% |
| Asset Value Investors | 9% |
| Lombard Odier | 7% |
| City of London IM, HL | 6% |
| Sarasin, | 5% |
| Jon Wood & family, Fidelity, II | 4% |
| Hawksmoor | 3% |

## Diary

| | |
|---|---|
| 30 Sep (10am) | AGM (Par-la-Ville Place, 14 Par-la-Ville Road, Bermuda) |

## Analyst


Mark Thomas +44 (0)203 693 7075

*mt@hardmanandco.com*


# OAKLEY CAPITAL INVESTMENTS LTD

## 1H'22: results prove NAV real, resilient and growing

**We believe a significant driver to the whole listed PE sector trading at a large discount to NAV is investors' concerns about whether the NAVs are real and conservative, and whether they can grow. For OCI, the detail in its latest results disclosure should, once again, abate any of those worries. In particular, we highlight i) realisations, on average, 52% above carrying value, ii) 18% growth in investee company EBITDA (which accounts for around three quarters of NAV growth), iii) a PEG ratio of 0.8x, iv) 93% of multiple expansion driven by exit uplifts, and v) average EV/EBITDA ratings below listed market levels, despite subsectors that attract high ratings. Oakley adds value to companies in all economic environments, especially uncertain ones.**

- **Robust valuation:** *Inter alia*, this report reviews why investors can trust the current valuation. Putting aside independent checks and balances, the bottom line is that other investors pay more for the assets than that at which Oakley values them (uplifts on exit), and there is no incentive for Oakley to inflate the valuation.

- **Sustained outperformance:** OCI's five-year NAV total return CAGR to June 2022 was 23%. It is focused on structural growth sectors and subsectors with proven economic resilience. Oakley's operational, strategic and financial support is incrementally more valuable in a downturn than in good times when rising tides lift all boats.

- **Valuation:** Against the adjusted June 2022 NAV, OCI trades at a 36% discount, despite its absolute (five-year CAGR 23% total NAV return) and relative performance. Any one-off closing of the discount is the "icing on the cake", rather than the reason to buy (the long-term NAV CAGR). We expect a stable 4.5p dividend (yield 1.1%).

- **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 focuses on mid-market, tech-enabled European companies that operate in the technology, consumer and education sectors. This space provides structural growth, as well as opportunities for Oakley Capital to add operational, strategic and financial value to the business acquired. Accounting and governance appear conservative, with an average 52% uplift to carrying value on exit since inception. There are risks – primarily sentiment-driven – around costs and cyclicality, as well the liquidity and valuation of the underlying private assets.

## Financial summary and valuation

| Year-end Dec (£000) | 2018 | 2019 | 2020 | 2021 | 2022E | 2023E |
|---|---|---|---|---|---|---|
| Interest income | 6,629 | 9,218 | 10,466 | 10,073 | 15,147 | 14,079 |
| Realised gains | 102,314 | 17,840 | 208,536 | 56,593 | 70,040 | 30,212 |
| Unrealised gains | (23,877) | 127,741 | (133,086) | 191,335 | 200,000 | 151,060 |
| Total income | 88,432 | 153,157 | 100,006 | 252,485 | 286,180 | 195,652 |
| Costs | (6,434) | (17,888) | (7,620) | (3,751) | (5,000) | (5,000) |
| EPS (p) | 40.0 | 66.3 | 47.9 | 138 | 161 | 110 |
| NAV per share (£) | 2.81 | 3.45 | 4.03 | 5.38 | 7.00 | 8.05 |
| S/P disc. to NAV* | 38% | 22% | 29% | 22% | 42% | 50% |
| Investments (£m) | 470 | 661 | 505 | 799 | 1,129 | 1,369 |
| DPS (p) | 4.5 | 4.5 | 4.5 | 4.5 | 4.5 | 4.5 |

**2018-21 year-end actual, 2022-23 forecast NAV on current s/p, Source: Hardman & Co Research*

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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.

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# 1H'22 results summary

- OCI has previously announced, in its July trading statement, i) net asset value (NAV) per share of 630p and NAV of £1,119m, ii) total NAV return per share of +11% since 31 March 2022 (+61p) and +17% since 31 December 2021 (+94p), iii) £30m in new investments during the period, iv) ca.£112m share of sale proceeds expected post period-end, and v) new £100m revolving debt facility, adding flexibility and liquidity.
- The unaudited NAV, based on portfolio company valuations at 30 June 2022, was £1,119m. The multiple expansion uplifts were driven by signed exits in the period, all of which were at significant premiums to prevailing book value. The 61p total return included 46p of valuation gains, 11p of foreign exchange movements and 2p of dividends, while share buybacks added 1p.

With the results, we learnt that…

With the more detailed results announced on 8 September 2022, we further learnt that:

…average portfolio company EBITDA growth was 18%…

- NAV growth was driven by earnings growth, with average portfolio company YoY EBITDA growth of 18%. This increase reflects the choice of sector, the tech-enabled business models, and the value added by the Oakley Capital team and entrepreneur network.

…average EV/EBITDA was up modestly, at 13.7x (PEG of 0.8x)…

- The average portfolio company EV/EBITDA valuation was 13.7x (FY'21 13.9x), giving an undemanding average PEG of 0.8x (1H'21 0.6x).

…while, as before, EBITDA growth a key driver to value creation…

- The portfolio value increase was 72%, driven by EBITDA growth, and 28% by multiple expansion.

…digital delivery remains dominant…

- 70% of portfolio companies deliver their products or services digitally – a proportion that has remained consistent. New non-digital businesses are added to the portfolio, and then upgraded under the Oakley Capital management.

….and debt/EBITDA has remained broadly stable

- Average net debt/EBITDA was 3.9x, a level that has been remarkably consistent over time (FY'21 4.2x, FY'20 3.9x, FY'19 3.7x, FY'18 3.8x).
- The key company drivers of the NAV movement were again i) IU Group (+38p, global student intake – now ca.100k), ii) Contabo (+26p) – sale of business agreed at ca.105% premium to book value, iii) Grupo Primavera (+8p) – strategic combination of business with Cegid, iv) Wishcard (+8p) – strong voucher sales drive revenue growth, v) foreign exchange (+19p) – +2% change in EUR:GBP, +10% change in USD:GBP.
- OCI had £97m in cash at 30 June 2022, equal to 9% of NAV, and it anticipates ca.£110m of cash proceeds later this year from transactions announced post period-end, Additionally, it has agreed a £100m facility with major lenders to increase the company's flexibility and liquidity. This liquidity is against outstanding commitments of £993m, which may be drawn over the next five years,
- The outlook comment was "*A portfolio of attractive, digitally enabled businesses with recurring revenue models position Oakley and OCI for continued, resilient performance during a period of heightened economic uncertainty and accelerating inflation*".

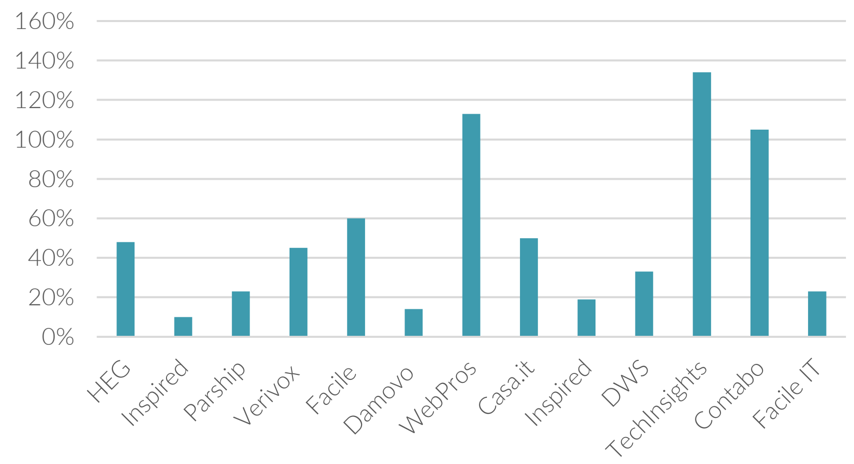
# Theme 1: current NAV is real

## Realisations above carrying value show others willing to pay more than book value

Buyers paying average 52% more than that at which Oakley has valued its companies, implying approach to valuation is conservative

With a concentrated portfolio, the uplift in any period is potentially distorted by the law of small numbers. Since formation, the average exit premium has averaged 52% above book over the long term and, as we have shown in the chart below, is the reported uplift for a number of companies to show the distribution of outcomes (both Contabo and FacileIT being 2022 events). The key message is that, when the assets are being converted into cash, even in the current markets, this is at an uplift to carrying values.

Uplift to carrying value on exit, in chronological order (%)




*Source: OCI, Hardman & Co Research*

## Valuations driven by investee company EBITDA growth

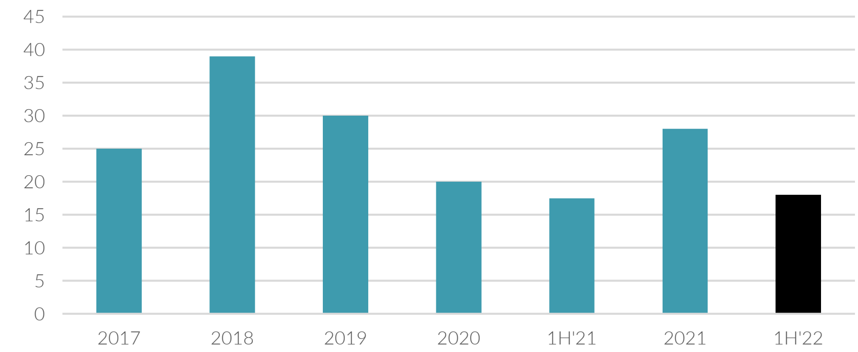
Key driver to value creation is EBITDA growth

In recent reporting periods, Oakley has consistently attributed the significant majority of the NAV uplift to earnings growth, rather than ratings increases. In 1H'22, this continued, with 72% (FY'21 76%). In any given period, again, the exit uplift on specific companies can affect the proportion of the multiple affected – just over half of the value created through multiple expansion in 2021 was due to TechInsights alone, which obviously wasn't a speculative increase in multiple terms, but was the result of an agreed sale. In 1H'22, 93% of the multiple expansion was due to exits.

EBITDA growth at underlying companies 18%

The chart below shows the EBITDA growth of OCI's investee companies over the past five years. The 18% growth also came despite all the macroeconomic pressures, the noise around COVID-19 and a challenging comparative year. Investors should understand that the value added by Oakley includes operational support, which is likely to accelerate revenue and EBITDA. The timing of the sales of mature business (only once exits are completed, not just announced, does Oakley exclude them from EBITDA growth) and the acquisition of new ones (which generally have yet to fully benefit from the earnings enhancement) will affect growth numbers.

Underlying average EBITDA growth rate (%)




*Source: OCI, Hardman & Co Research*

## PEG ratio consistently well below 1x

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

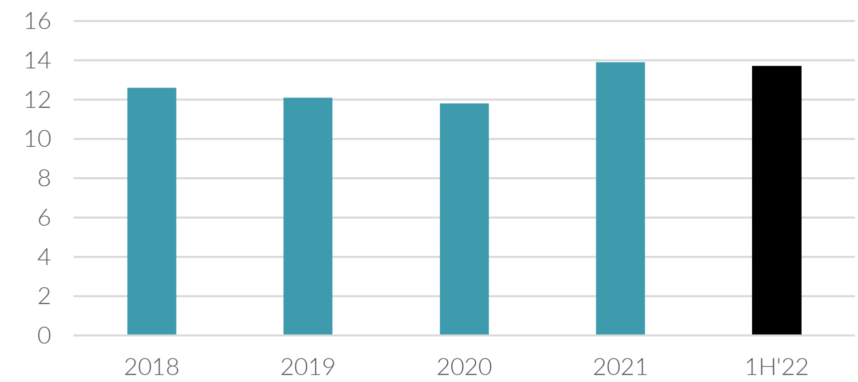
A PEG ratio (price earnings divided by growth) of 0.8x is undemanding compared with the overall level of rating (13.7x, down on the full year). The portfolio investments of Oakley Funds – and so of OCI – have, for some time, been focused on businesses with a strong digital presence and, as at December 2021, over 70% of revenues were digital/tech-enabled, despite new (less-modernised) businesses constantly being added to the portfolio. Oakley Capital has a track record of helping analogue businesses to digitise by launching ecommerce channels or boosting internal processes and controls to improve data analysis in order to support decision-making. Tech-enabled businesses not only have economies of scale but, typically, can access faster growth and new markets, and show considerable downside resilience, often having recurring, sticky revenues.

## Conservative and broadly stable ratings over medium term

**Broadly stable ratings over time and well below current market ratings for growth sectors in which Oakley operates**

The overall level of EV/EBITDA is just 13.7x, down from 13.9x at end-2021. As the chart below shows, there has been broad stability in the ratio, with only one variance around the average multiple since 2018, despite all the market volatility, and noting the high-growth sectors in which OCI operates. The 13.7x multiple is in line with current P/E ratios for the European markets as a whole, and is well below the ratings given to the growth sectors in which Oakley operates.

EV/EBITDA (x)




*Source: OCI, Hardman & Co Research*

## Limited uplift in ratings until exit is visible

A strong J curve effect, therefore, with ratings uplifts being seen only as exits approach. Ratings not being significantly moved by market movements in intervening periods.

At its recent capital market day, OCI highlighted its approach to valuation, noting that, in the initial periods of ownerships, the rating is largely held at the acquisition level. This is despite the considerable evidence that its acquisitions are at below peer levels (1H'22 9.6x, vs. market estimated 11.4x, despite OCI deals believed to be at above-average growth). As value is added through Oakley ownership, there is a very limited uplift in ratings, and it is only as an exit approaches that any rating improvement is seen. On exit, there is then a significant valuation increase. The external empirical support that this is the approach being adopted can be seen in uplifts on exits, noted above.

## OCI in growth sectors, but this not reflected in ratings

Present in markets with structural growth

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

- the accelerating shift to online for consumers;
- businesses migrating onto the cloud; and
- increasing global demand for quality education and learning (see our note, *Educating on education,* published on 9 February 2022).

However, this is not reflected in the ratings.

## No incentive to inflate valuations

Performance fees paid on exit, not interim NAV, so no incentive to inflate

There is no financial incentive for Oakley to inflate the NAV, as performance fees are not paid on the NAV, but on the value generated on realisation. If interim valuations were over-inflated, the manager's reputation would be damaged by having to then write down on realisation.

## Independent basis of valuations

Independent checks include deal ratings, rather than dependence on market price, independent auditors/board, prices paid by independent buyers on exit

The valuations have at least three layers of independence checks:

- Many of the investments do not have ready market peers, and, like many others in the PE space, Oakley Capital's ratings are driven by entry and peer deal valuations, rather than market multiples. This may create a sensitivity to deal activity, rather than the market rating – so, for example, the rating on IU Group was increased on the 2021 re-financings, as new investors bought into that group, rather than being driven by any change in market peers.
- This independence of the market is also overlaid by the usual independent checks of a listed vehicle, including the audit process with external auditors and the independent board. In recent years, OCI has taken considerable steps to reinforce the latter.
- For us, the ultimate independent check is what a third party will pay for an asset – so the uplift on exit is the ultimate independent check.

# Theme 2: resilience of NAV

## Sustained growth built into model

Understanding the EBITDA growth in underlying companies core to understanding OCI

The core to understanding how OCI was able to deliver such a strong NAV return in uncertain times lies in appreciating how its underlying businesses deliver their EBITDA growth. We believe the reasons include:

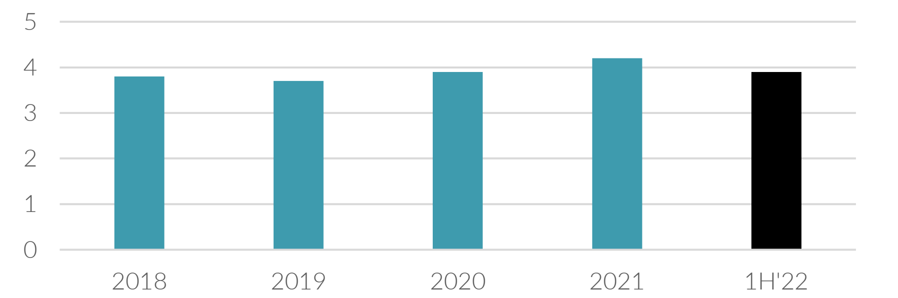
- Oakley Capital has focused on areas with structural growth prospects, such as business migration to cloud, the consumer shift online and the growing demand for quality, accessible learning. The market is continually evolving, and Oakley Capital continuously researches and taps new niche markets, such as business outsourcing and tech-enabled services, as demonstrated by its recent acquisition of TICC platform Phenna Group.
- It has tech-enabled businesses, accessing superior growth with scalable models and downside resilience.
- Oakley Capital provides active operational, strategic and financial support to its investee companies. In particular, Oakley Capital sees value added in improving the quality of earnings, enhancing digitalisation capacity, leadership development, and facilitating and executing buy-and-build strategies.
- OCI's entrepreneurial-network, origination platform continues to grow, and its entrepreneurial ethos helps attract new deals. It is worth highlighting that each of its recent four platform deals – Vice Golf, Affinitas, Phenna Group and vLex – were led by business founders who chose to partner with Oakley, in part because of its entrepreneurial heritage.
- The inherent value created by Oakley Capital in its companies is then recognised by other (usually blue-chip, international, institutional investors) buyers who pay significant premiums above carrying values when Oakley Capital chooses to exit. These effects are about micro opportunities in specific companies, not the macro outlook.

## Net debt/EBITDA remains stable

Net debt/EBITDA very stable over time

The chart below shows the average net debt/EBITDA for OCI's portfolio companies. We would characterise this as very stable over time, with the modest rise in 2021 reflecting bolt-on deals in that year and normal financial restructuring in a period when markets were anticipating rising interest rates. There was a small fall in 1H'22, as the restructuring of debt had been completed. Oakley does not believe that there is any meaningful, fundamental trend in the debt metrics. Going into a downturn, this level of debt appears very manageable.

OCI's investee company average net debt/EBITDA




*Source: OCI, Hardman & Co Research*

# Strong liquidity without over-commitment

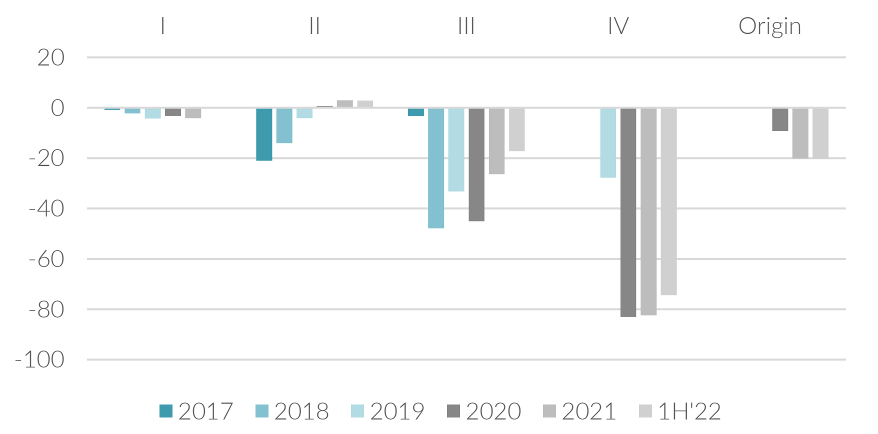
Commitments expected to be drawn over several years

Outstanding commitments at June 2022 were £993m, against £404m at end-2021, with the increase due to the £669m outstanding commitment to Fund V. Of this amount, £257m is not expected to be drawn, and just £161m was expected to be called within the next year. At the end of June, OCI had £97m of existing cash, expected, £110m of proceeds from signed transactions and had an unused credit line of £100m (i.e £307m of liquidity). At the recent investor day (see our note, *Capital Markets Day 2022 – let the sun shine,* published on 16 May 2022), Oakley detailed its liquidity management strategy and how fund calls and cashflows from Oakley Funds evolved over time. In particular, the age profile of investments was important in terms of realisations and, with £474m of investments held for more than three years (at end-June), they could be considered as being in the harvesting stage, with cash realisations probable in the near term. Given the historical uplift at exit, this could reasonably be expected to be at a higher value than the recorded book amount.

OCI's liquidity needs to include its share of debt at Oakley Funds

Oakley Funds has already drawn down on standing debt facilities to make investments and, in due course, will ask investors, including OCI, for capital in order to repay this debt. This is standard market practice, and is designed to smooth out so-called capital calls for investors. OCI discloses its share of other assets and liabilities in each Oakley fund. These now total a net liability of £110m, against £130m at end-2021. These other liabilities, including £74m at Fund IV, £20m at the Origin Fund (nil) and £17m in Fund III, reflect their relative stage of development.

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




*Source: OCI, Hardman & Co Research*

Fund debt is normal course of business, and reflects deployment of capital at 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 as follows: i) historically, capital deployed immediately after a crisis has generated some of the best-performing PE cohorts, and so the deployment of funds made in 2020/21, as reflected by the higher fund gearing, was 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; and v) the cash at the OCI level will be perceived as a drag on performance until it is deployed (as Oakley Funds makes the calls on OCI, and so reduces cash levels, this perceived drag will reduce).

# 2022/23 outlook

**Returns going forward should be sustained by uniquely strong origination, value added during ownerships and continued realisations**

Many of the features that delivered the NAV return position OCI well for the future, most notably with regard to the focus on tech-enabled businesses and being in businesses with structural growth. Oakley Capital has already made four new platform investments so far this year, and has commented that the rest of 2022/23 is likely to be a good year for investment opportunities. We also note:

- Its continued competitive advantage from the unique origination platform through its network of entrepreneurs. This is a key ingredient in identifying and managing complex deals, where Oakley Capital has now backed some of its partners three or four times. We noted, in *our initiation*, that Oakley Funds' investments were purchased below comparable deal valuation multiples, and, Oakley now comments, more than 80% of deals were uncontested (previously said >75%). These entrepreneurs have committed €400m to Oakley Funds.

- OCI's investments are in fast-growing, profitable, often tech-enabled businesses, rather than companies whose valuations are reliant on some future uncertain terminal value discounted at interest rates that may rise with inflation. Much of the fall-out in technology valuations does not apply to OCI.

- On the results call, management commented that there are a number of recently acquired businesses where the operational value enhancement has yet to be created. With the Phenna deal, for example, a bolt-on deal had been committed within a week of completing the main acquisition, because Oakley knew the industry and what was needed to enhance the Phenna proposition. Buy-and-build is a core-value Oakley creation technique, from scouting out opportunities in fragmented markets, to deal execution and integration. To date, Oakley has helped its portfolio companies complete 100+ bolt-ons.

- Activity has been strong since the period-end, including i) *Grupo Primavera to merge with Cegid*, ii) *partial exit from Seedtag*, iii) *investment in Affinitas Education*, iv) *investments in Phenna Group & CTS Group*, v) *investment in vLex,* and vi) *follow-on investment in Facile.it*.

- In terms of inflation risk to investee companies, many have relatively low operational costs and high cash generation. With relatively modest debt gearing and typically structured debt, rises in interest costs appear manageable. Many have strong pricing power with dominant market positions, or they represent relatively small sums for the end consumers (e.g. the training costs for sailors relative to fuel costs in shipping). Oakley Capital's management appears confident that the current inflation risk is manageable.

- We also note the specific previous comment that "*To date, there has been no material impact on Oakley or on its portfolio companies from the war in Ukraine or from new sanctions imposed on Russia and Belarus. Oakley continues to closely monitor the situation*".

# Theme 3: exit and re-investment

Exit and re-investment add value where bigger PE houses better placed to manage larger business and cost synergies, bearing in mind fixed life of fund. Performance fees only paid for performance.

Oakley Funds, and so OCI, has made a number of exits, with rapid follow-on investments by later funds, most recently with Facile.it. This has led to some investors asking about why this practice has been adopted. We highlight i) the strategic focus of Oakley Capital in the mid-market and that other PE houses may be better placed to manage business, as they become larger-scale, ii) the cost synergies that may be available if an Oakley Fund company is a target company, iii) that investors in each Oakley Fund expect a return, and, as each fund has a limited life, there is a value in a certain offer at any given time, and iv) experience has shown that the early Oakley Funds had left value on the table by selling too early, and, with the information advantages on existing businesses, re-investment can be very attractive. We note that performance fees are paid only if there is performance and there is no value to Oakley Capital in exiting and re-investing, unless there is subsequent performance.

Investors will note that, on *23 June 2022,* Oakley agreed the sale of its stake in Facile.it held in Fund III (OCI share of proceeds ca.£53m) and, on *6 September 2022,* agreed a reinvestment in the same company in fund V (OCI contribution ca.£45m). Unsurprisingly, the transaction raised a question at the results, given that the sale had been an uplift of 23% to the previous carrying value, and so the Oakley investors' stake had been diluted by the transaction and performance fees crystallised.

The management response was that:

Important to focus on skill set, and other PE managers have more skills in adding value to larger companies than Oakley

- OCI has a proven track record in upgrading and improving companies to a certain level. Once their investments have reached that scale, there are other PE teams with proven records at managing larger companies, and specific skillsets and networks to leverage. More value is created by partnering with such PE teams at larger, blue-chip investors, such as KKR, CVC and Silver Lake, with the skills and resources at that scale of business.

May well be cost savings with buyer's business

- It is probable that the PE-backed buyer will be looking to make direct cost-saving-related synergies in its own business. In the Facile.it case, we understand that the Italian business will be merged with the buyer's French one, generating up to €20m of savings.

Each fund has fixed life, and investors expect to get a return

- Every fund has a fixed life, and investors in each fund are expected to receive funds back. A certain offer has a value, which has to be considered in the light of the life of the fund.

Important not to leave too much on table, especially where you have information competitive advantage

- Experience, over time, had shown that Oakley had left value on the table – so reinvestment was a natural consideration, bearing in mind the information advantage that Oakley has in its pre-owned companies. Every investment is considered in its own merits for each fund.

Mathematically, investors will get a larger nominal return if new PE firm adds more value. Performance fee will vary with performance.

In terms of the crystallising performance fees against returns to investors, we have given a theoretical example below. Our assumption is an investment of 100 upfront, 15% CAGR returns, an 8% hurdle for performance fees, which are paid at 20% of the gain above the hurdle, and a 30% uplift on exit. In the first case, there is an exit after four years, and the full sum is immediately reinvested (we assume the new PE investor will also earn a 15% return on the amount invested). The performance fees in the first scenario account for 17.2% of investor returns, and half are paid at year four. In the second scenario, the fee represents 16.5% of returns. However, in aggregate, in the first scenario, investors have made 248 from their investment, against 211 in the second, with the total management fees being 43, against 35.

Theoretical examples of exit and reinvestment vs. holding in one fund

| Scenario 1: Year | 1 | 2 | 3 | 4 | Exit | 5 | 6 | 7 | 8 |
|---|---|---|---|---|---|---|---|---|---|
| **Fund 1 (investment compounding 15% CAGR)** | 100 | 115 | 132 | 152 | 198 | | | | |
| Hurdle return at 8% CAGR | 100 | 108 | 117 | 126 | 126 | | | | |
| Performance fee @ 20% of gain over hurdle | | | | | 14 | | | | |
| Net return to investors | | | | | 83 | | | | |
| **Fund 2 (reinvesting proceeds from sale, 15% CAGR)** | | | | | 198 | 227 | 261 | 301 | 391 |
| Hurdle return at 8% CAGR | | | | | 198 | 214 | 231 | 249 | 249 |
| Performance fee @ 20% of gain over hurdle | | | | | | | | | 28 |
| Net return to investors | | | | | | | | | 165 |

| Scenario 2: Year | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | Exit |
|---|---|---|---|---|---|---|---|---|---|
| **Fund 1 (investment compounding 15% CAGR)** | 100 | 115 | 132 | 152 | 175 | 201 | 231 | 266 | 346 |
| Hurdle return at 8% CAGR | 100 | 108 | 117 | 126 | 136 | 147 | 159 | 171 | 171 |
| Performance fee @ 20% of gain over hurdle | | | | | | | | | 35 |
| Net return to investors | | | | | | | | | 211 |

*Source: OCI Report and Accounts, Hardman & Co Research*

# Portfolio

Broad balance across sectors at 1H'22

The details of the portfolio are given below. In considering movements between June and December, there a range of moving parts, including new investments (such as bolt-on deals), refinancing, partial disposals, currency moves, etc. We have highlighted the key business drivers affecting OCI's overall NAV earlier (IU Group's global student intake). The key message now is the broad balance between sectors and the potential realisation from the direct holdings. Oakley advises that the restructuring within North Sails may be expected within the next year, when a debt refinancing looks likely. As a listed entity, the issue for Time Out is that the market price needs to approach a level that Oakley considers reflects the value it ascribes to business (which, not unsurprisingly, it does not disclose).

Key metrics for portfolio companies, as at June 2022 (£m)

| Company | Dec'21 valn. | Jun'22 valn. |
|---|---|---|
| **Technology** | | |
| WebPros | 61.6 | 63.6 |
| Grupo Primavera | 43.2 | 62.2 |
| Contabo | 13.7 | 60.1 |
| TechInsights | 58.4 | 37.2 |
| Seedtag | 8.7 | 10.9 |
| Daisy Group | 7.5 | 8.8 |
| ECOMMERCE ONE | 5.9 | 6.1 |
| **Total** | **199** | **249** |
| | | |
| **Consumer** | | |
| Idealista | 58.3 | 60.3 |
| Facile | 43.2 | 53.2 |
| Wishcard Technologies Grp | 38.7 | 49.6 |
| North Sails | 35.5 | 41.8 |
| Windstar Medical | 31.4 | 33.3 |
| Dexters | 29.2 | 29.2 |
| Time Out | 33.1 | 28.0 |
| Iconic BrandCo | 20.3 | 20.2 |
| Vice Golf | n/a | 11.0 |
| 7NXT | 9.7 | 10.8 |
| atHome | 7.9 | 8.3 |
| **Total** | **307** | **346** |
| | | |
| **Education** | | |
| IU Group | 131.2 | 198.1 |
| Schülerhilfe | 46.1 | 53.0 |
| Ocean Technologies | 38.5 | 43.1 |
| Bright Stars | 27.0 | 33.8 |
| ACE Education | 9.5 | 11.0 |
| Affinitas Education | n/a | 8.3 |
| **Total** | **252** | **347** |
| | | |
| **Direct** | | |
| Time Out Equity | 39.4 | 33.4 |
| North Sails direct debt | 69.3 | 74.3 |
| North Sails Apparel Direct debt | 54.3 | 65.1 |
| **Total** | **163** | **180** |

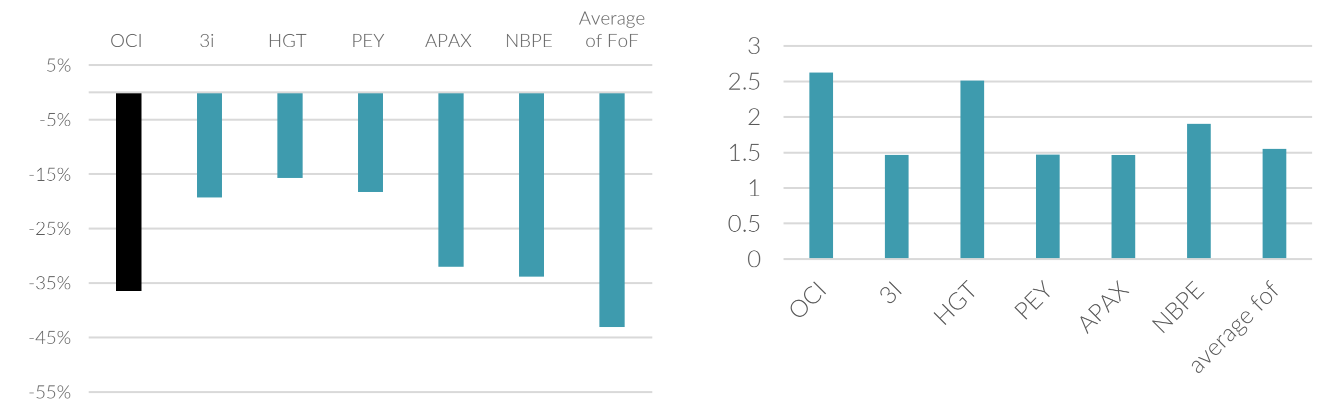
*Source: OCI, Hardman and Co Research*

# Valuation and financials

**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 share price returns. Despite having a better five-year return than 3i, OCI is trading at a 36% discount, while 3i is around NAV. There are, of course, differences in business models (although it may be argued that the five-year total return would reflect this). 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 share return indexed to 100 for OCI and peers (%)**




*Source: LSE, Refinitiv Hardman & Co Research; priced at 19 September 2022*

We have made revisions to estimates, to reflect the strong NAV growth in 1H'22. The 2022E NAV is now £7.00 (previously £6.20).

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`research@hardmanandco.com

1 Frederick's Place
London
EC2R 8AE

+44(0)203 693 7075

www.hardmanandco.com