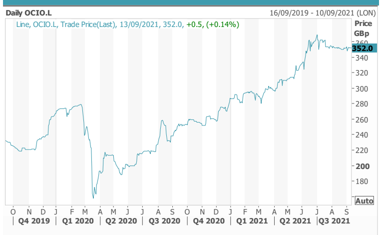
13 September 2021

HARDMAN & CO.

OAKLEY CAPITAL INVESTMENTS LTD

1H'21: 35% EBITDA growth drives 26% NAV return

Inv. banking & brokerage services



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, p)	445
Disc. to NAV	21%
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 Inv. (Aug'21)	10%
Sarasin (Jul'21)	7%
City of London IM	7%
Barwon	6%
Lombard Odier & Fidelity	5%
Jon Wood & family	4%
Hawksmoor	3%

Diary

Jan'22	Trading update to Dec

Analyst

Mark Thomas 020 3693 7075

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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) year-end cash of £172m. This performance, and OCI's 17% five-year CAGR NAV total return, is driven by i) high-growth companies/sector champions with structural tailwinds and often digital disruption benefits, ii) repeatable and proprietary sourcing, and post-acquisition support from its unique entrepreneur network, iii) 75% recurring/subscription revenue streams, and iv) M&A-led value creation.

- **Entrepreneurial network:** Embedded in Oakley's DNA are the sustainable, growing, competitive advantages from its 14-year-old, 20-strong, entrepreneur network, the businesses of which Oakley has supported in the past. These partners have invested €170m in Oakley Funds, and they help find/manage acquisitions.

- **Growth businesses:** Oakley's value creation comes primarily from growing its investee companies' EBITDAs (average 35% p.a.), achieved by i) being in growth sectors, ii) having tech-enabled and digitised models (70%), iii) having the skill set to transform business models, and iv) recurring revenue streams to protect downside.

- **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 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 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 (£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	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 disc. to NAV*	-33%	-38%	-22%	-29%	-26%	-35%
Investments (£m)	420	470	661	505	745	914
DPS (p)	4.5	4.5	4.5	4.5	4.5	4.5

** Note: 2017 costs restated to include interest per 2018/19 treatment*

Source: OCI, 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'21 results summary

In 28 July trading update, OCI pre-announced number of key facts, including NAV, cash and commitments

In its 28 July 2021 trading update, OCI announced highlights including the following: i) NAV per share of 445p; ii) total NAV return per share of 11% in the six months since 31 December 2020 and 26% since 30 June 2020 (well ahead of the then five-year annual average of 16%); iii) that OCI had invested £95m and received proceeds of £51m; iv) year-end cash of £172m (21% NAV); and v) outstanding Oakley Funds' commitments of £438m (of which just £243m are expected to be drawn over several years).

Also reported core business lines, such as investee company performance, investments and realisations, impact of buybacks

We also learned from that announcement, and previous RNS, that i) OCI's £95m investment was attributable primarily to the acquisition of four new platform investments: idealista (Fund IV); Dexters (Fund IV); ICP Education (Fund IV); and ECOMMERCE ONE (Origin Fund), ii) total proceeds of £51m consisted of the refinancing of IU Group, the repayment of the Daisy loan and the exit of Fund II's stake in the Digital Wholesale Solutions division of portfolio company, Daisy Group, and iii) of the current portfolio, 14 companies accounting for 52% of NAV grew their revenues at or above expectations in the period. Four companies accounting for 14% of NAV have seen a modest COVID-19 impact on financial performance. Meanwhile, three companies accounting for 29% of NAV continued to be significantly affected by ongoing, Europe-wide, COVID-related restrictions.

With the results, we learnt that average portfolio company EBITDA growth had accelerated sharply at interim stage to 35%, vs. 20% in FY'20, that average EV/EBITDA was up modestly, at 12.3x, vs. 11.8x, and that debt to EBITDA fell noticeably, to 3.5x from 3.9x

With the more detailed results announced on 9 September 2021, and the portfolio announcements since the start of the year, we also learnt that:

- 70% of portfolio companies deliver their products or services digitally.
- Average portfolio company YoY EBITDA growth was 35% (FY'20 20%). This growth reflects the right choice of sector, the tech-enabled business models, and the value added by the Oakley Capital team and network of entrepreneurs. While an acceleration on FY'20, it is consistent with pre-pandemic levels in 2019 (30%) and 2018 (39%).
- The average portfolio company EV/EBITDA valuation was 12.3x (FY'20 11.8x, FY'19 12.1x, FY'18 12.6x), despite the acceleration in EBITDA growth.
- Average net debt/EBITDA was 3.5x (FY'20 3.9x, FY'19 3.7x, FY'18 3.8x).
- The key drivers of NAV movement in the six-month period were Time Out (+16p to NAV, with 68% rise in listed share price), IU Group (+15p, student intake +70% YoY), Tech Insights (+6p, shift to recurring revenues and an expected rebound in the semiconductor industry), and Wishcard Technologies (+5p, voucher sales growth), partially offset by FX effects of -14p.
- Activity levels have remained high, with the completion of four new platform deals (idealista £43m, Dexters £13m, ICP Education £27m and ECOMMERCE ONE £6m), and £51m of proceeds (IU Group £29m, Daisy Group £22m).
- Cash was £172m, with total outstanding commitments of £438m. Of these, OCI only expects to see £243m actually drawn, an amount nearly covered by cash and 1H'21 realisations.
- Since the end of June, notable transactions include ACE Education (Fund III exit and Origin follow-on investment), EKON (transformational acquisition), Windstar Medical (first bolt-on acquisition), Ocean Technologies (fifth bolt-on deal), and a 2m share buyback.

Sustained returns in 1H'21

Summary

OCI delivered 11% total NAV return from tech-enabled businesses in structural growth markets, and continued realisations at well above carry value

The reasons OCI was able to deliver a total NAV return of 11% in 1H'21 and 26% on June 2020 (and well above the five-year annual CAGR of 17% to June 2021) include:

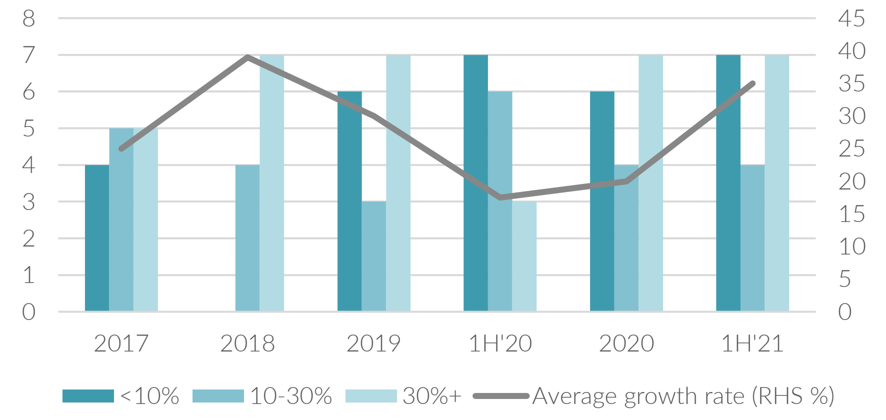
- Oakley having focused on areas with structural growth prospects;
- having tech-enabled businesses, many of which saw stable/improved business through the COVID-19 crisis, and valuations of which rose accordingly;
- the active management and financial support that Oakley provided to its investee companies;
- stable overall valuation ratings, despite the market rise in tech stocks; and
- average annual portfolio company EBITDA growth (35%) returning to pre-pandemic levels and driving NAV growth.

In any given period, there will be some gains and losses that are more one-off in nature. Having been a 34p drag on FY'20 performance, Time Out's rapid share price rise saw it add 16p to NAV in 1H'21.

EBITDA growth at underlying companies accelerated in 2H'20, and again in 1H'21

The chart below shows the EBITDA growth of OCI's investee companies. They averaged a very impressive 35% (20% in 2020). Average EBITDA returned to pre-pandemic levels, despite OCI making a number of new investments, which are early in their life for PE support. History suggests that EBITDA growth will accelerate once Oakley Capital's and OCI's operational and financial support bear fruit.

EBITDA by number of companies (LHS) and average growth (%, RHS)



Source: OCI, Hardman & Co Research

Tech-enabled businesses

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

The portfolio investments of Oakley Funds – and so of OCI – have, for some time, been focused on businesses with a strong digital presence (65% at June 2020, subsequently increasing to ca.70%) and where revenue streams are on a subscription basis (around three quarters at 1H'21). Such businesses showed considerable resilience and, indeed, saw market share gains through the pandemic. As we noted in the summary on the previous page, expectations were met or exceeded at 10 companies (44% of NAV), there was a modest impact at four (14%) and a significant impact at just three (13%). OCI attributes 4p (1%) of adverse NAV movements to COVID-19 impacts.

Businesses with structural growth

Being in markets with structural growth helped drive 35% average investee company EBITDA growth

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

- the accelerating shift to online for consumers and businesses,
- increasing global demand for quality education and learning, and
- increasing health awareness from an ageing population and health-conscious consumers.

Earnings growth drove valuation increases across number of tech and education investments

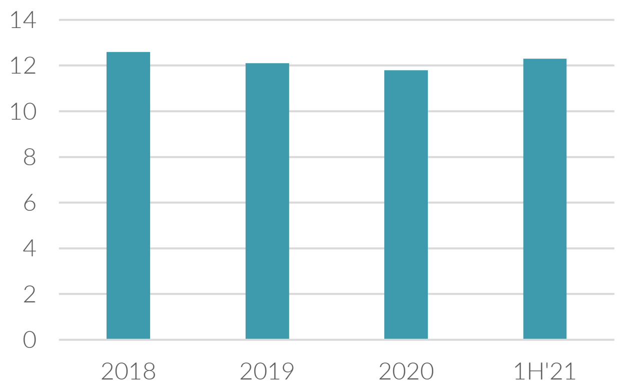
The average portfolio company 35% EBITDA growth shows how strongly the businesses performed. Organically, some of the largest increases in valuations were driven by earnings growth in Wishcard, Contabo and 7NXT, all classified as digital businesses.

Stable, undemanding valuation ratings

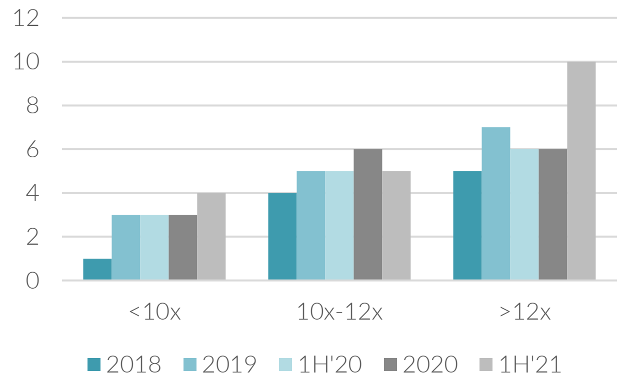
Valuation ratings have been incredibly stable, despite market appetite for OCI's chosen sectors, and undemanding relative to peers, overall stock market ratings and EBITDA growth rates

The number of companies on multiples of more than 12 rose from six in December 2020 to 10 in 1H'21, leading to a small increase in average EV/EBITDA. However, this ratio has shown incredible stability over time (see left-hand chart below). As we detailed in our initiation, Oakley improves operational efficiency, management, growth prospects and the strategic positioning of businesses, resulting in investments being sold on higher ratings than those on which they are acquired, and this is captured on exit (long-term uplift to carrying value on exit an average of 44%), with many companies held at their acquisition rating, or close to it. We understand that most of the recent acquisitions in the most recent Oakley Fund IV have been at EV multiples of ca.12x EBITDA, while comparable businesses are trading at 16x. The rating of 12.3x thus appears undemanding relative to peers (OCI advises that, on its acquisitions, peer multiples were generally 16x), the overall stock market rating and the growth rates in EBITDA.

Average EV/EBITDA multiple FY'18 to 1H'21



Spread of EV/EBITDA multiples by number of companies



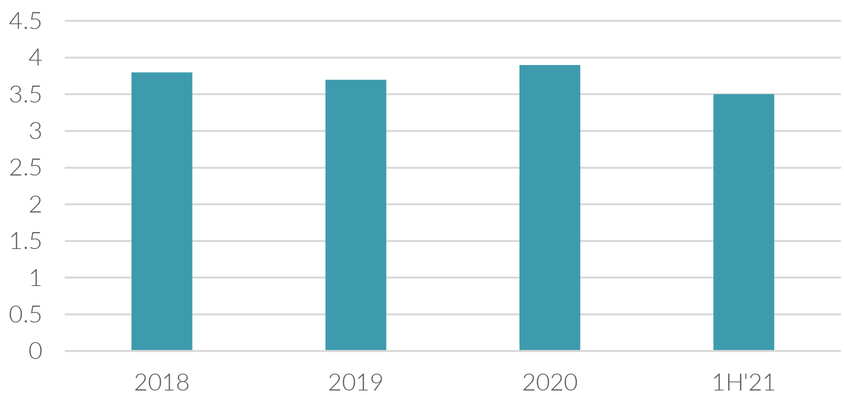
Source: Refinitiv, Hardman & Co Research

Net debt/EBITDA

Net debt/EBITDA falling, with strong EBITDA growth and despite funding bolt-on deals

The chart below shows the average net debt/EBITDA for OCI's portfolio companies. Despite bolt-on acquisitions, the average gearing has fallen to its lowest level since 2018.

OCI's investee company average net debt/EBITDA



Source: OCI, Hardman & Co Research

Oakley support for investee companies

Being backed by Oakley Funds and OCI gives investee companies financial strength, incremental expertise and providing advice in financial planning, supply chain management, preparing for operational disruption and best practice

In *our initiation,* we highlighted why Oakley's investments outperformed throughout the COVID-19 pandemic. At the OCI level, there is the liquidity to support commitments to Oakley Funds and direct investments, should capital injections be necessary/desirable for M&A or to strengthen balance sheets. We note that, since inception, Oakley's 40 platform investments have made more than 100 bolt-on deals. Oakley Funds' committed capital structure gives much more certain access to capital than a non-PE-backed company. For investee companies, there is operational support that is simply not available to standalone entities to assist in the assessment, management and mitigation of risks as conditions evolve. With interests in a range of countries at varying stages of the virus development, lessons learnt in one country may be useful in preparing others for the effects of both lockdowns and re-openings. What this means, in practice, is that Oakley has provided expertise and best-practice advice on ensuring financial resilience, improving supply-chain robustness (including using the entrepreneur network to identify other suppliers), preparing for operational disruption, and providing advice and best-practice transfers to protect employees and customers.

Realisations above book values over long term

Oakley (and so OCI) has long track record of selling at prices well above carry values. 1H'21 realisations not full exits, so no disclosure of uplift in period.

Oakley has a long and sustained track record of making sales at prices well above the carry cost of investments. Realisations in 1H'21 comprised a refinancing at IU Group, and a partial exit and debt re-payments by Daisy Group. Neither is classified as an exit for the purposes of the calculation, so there was no reported uplift in this period. Since inception, the average premium over the latest disclosed book value on exit is 44%, showing that OCI remains conservative in accounting.

Outlook

Summary

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

Many of the features that delivered the 11% six-month and 26% 12-month total NAV returns position OCI well for the future, most notably the focus on tech-enabled businesses and being in businesses with structural growth. In addition, we note:

- its competitive advantage from the unique origination platform through entrepreneurs;
- the value added to new and recently acquired businesses;
- that in 1H'21, 75% of the portfolio had subscription-based or recurring revenue;
- that 2021 is likely to be a good year for investment opportunities;
- continued realisation uplifts from the historical portfolio; and
- the fact that part of OCI's cash pile will fund deals already done by Oakley Funds – initially financed with debt.

Multiple directors' buying

The early 2021 multiple directors' buying of shares in the market is indicative of directors' confidence in OCI's future returns to investors.

Entrepreneur relationship origination

Unique network also brings in attractive business, because entrepreneurs know, and are well-known to, the market and all participants

We have previously reviewed how Oakley Capital has a unique network of actively engaged entrepreneurs, bringing both origination and ongoing management advantages. We noted, in our initiation, that Oakley Funds' investments were purchased below comparable deal valuation multiples, and, since Oakley was founded, more than 75% of deals were uncontested. In more than 80% of deals, Oakley is the portfolio company's first PE investor, and 40% of deals have been carve-outs where the entrepreneurs' contacts are important at identifying targets and their skills essential to managing them post-acquisition. We believe the network is hard to duplicate; it is driven by culture (being engaged but not over-bearing), its proven track record and direct financial alignment (the entrepreneurs are major investors in Oakley Funds). Over 20 entrepreneurs have now been backed by Oakley, many on repeated occasions, with some now on their fourth deal.

Value added to new businesses

Value creation typically sees EBITDA growth accelerate over time

In previous notes, we have outlined how value is incrementally created to businesses owned by Oakley Funds. The driving factors include i) applying market-leading processes, practices and play books using the experience of the entrepreneur network, ii) assisting with global networking/supply chains, iii) helping digitise less tech-enabled operations, iv) treasury advice, and v) sourcing and helping to finance bolt-on acquisitions. In practice, this means that EBITDA growth is expected to accelerate through the life of Oakley's involvement and that new businesses, like for like, will have slower growth than those that have been in the portfolio for a couple of years. The new businesses added in 2019/20 thus have an embedded value of probable future value creation.

Re-investment opportunities

Attractive opportunities this year from carve-out, family businesses and weaker competition seeking support. Already seen deals announced.

In Oakley/OCI's core mid-market area, we see a number of opportunities in 2021/22. Management notes a stronger pipeline than a year ago, and it has previously commented that "*COVID-19 has become a catalyst, if not the direct cause, of more high-quality companies seeking private equity backing. Many have recognised during the pandemic that they lack the valuable support, expertise and capital resources that we can offer, as well as the security that being part of a bigger organisation can provide*." It also stated that "*post-crisis vintage private equity funds have historically proven to be some of the best performing*".

In particular, we see opportunities in the following areas:

- Carve-out of businesses to strengthen group balance sheets. Oakley has a core competency in structuring such deals, which can be much more complex than a standard acquisition. As noted above, 40% of deals have been carve-out.
- The incremental strains of managing businesses through COVID-19 may be the final straw that breaks the back of family-owned businesses.
- Weaker competition is looking for a strong financial backer, which may assist not only first deals, but also roll-up strategies.
- In some areas, price expectations have become more realistic.

We also note that the interest rate on the remaining debt position in North Sails has been increased from a blended rate of 8% to 10%, which should add £2m to income in a full year (debt £111m at end-1H'21), offsetting the fall in interest income from the repayment of Daisy Group debt.

Continued realisations

Expect business-as-usual realisations, with uplift to NAV on sale

We expect further NAV uplifts with a more normal level of realisations from Oakley Funds/OCI's historical portfolio. Management indicated that the average hold period for realised assets was about four years and that the current portfolio had, on average, been acquired three and a half years ago. It was noted that, in its early years, Oakley, like all new PE businesses, was under a degree of pressure to crystalise investments and realise returns. It is now a mature business, on its fifth fund, and this pressure has reduced. Additionally, Oakley now has a better perspective of the value left on the table and increasingly has developed a strategy of follow-on investments where new funds feature some of the earlier funds' previous "greatest hits". It is possible that we will see some holding periods stretch out, but, even with this trend, a steady flow of deals is probable. It should be noted that, as Oakley's mid-sized deals grow, they are more likely to be targets for bigger PE companies, who have accumulated the greatest degree of dry powder in recent years.

Commitment and liquidity

Commitments expected to be drawn over several years (£243m), covered largely by existing cash (£172m), with gap representing just over six months of realisations

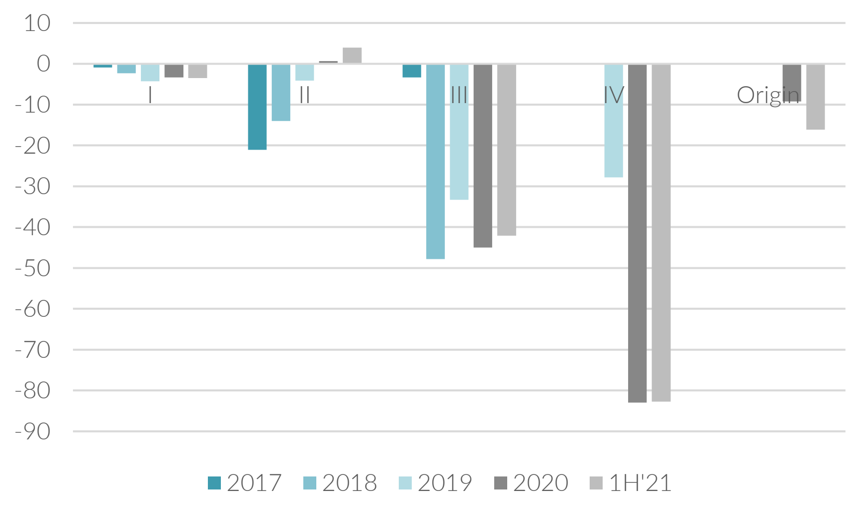
Outstanding commitments at end-1H'21 were £438m, down from the £534m at the year-end. Of these, just £243m is expected to be drawn over several years – an amount covered by existing cash and the past six months' realisations. We note:

- The newer funds, in particular, may be expected to be drawn over several years – of the £438m total, £213m is to Fund IV (launched 2019) and £108m to the Origin Fund (launched 2020).
- Oakley funds are likely to have debt at that level, which is a contributing factor to not all the commitments being drawn. As noted, we understand that likely-to-be-drawn commitments are just £243m.
- Unlike investors in third-party funds, the timing of any call by an Oakley fund on OCI will be decided by Oakley management.

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

Oakley Funds have already borrowed to make investments and, in due course, will make the call on OCI. This is standard practice, and OCI discloses its share of other assets and liabilities in each Oakley fund. These now total a net liability of £140m, stable compared with end-2020, and against £70m at end-2019 and £65m in 2018. These other liabilities, including £83m at Fund IV, £16m at the Origin Fund (nil) and £42m 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 crises has generated some of the best-performing PE cohorts, and so the deployment of funds made in 2020, 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; v) the cash at the OCI level will be perceived as a drag on performance until it is deployed (as Oakley Funds make the calls on OCI, and so reduce cash levels, this perceived drag will reduce); and vi) given the opportunities in Oakley Funds' pipeline, a buyback would not appear to be the most sensible option.

Other issues

Discount management actions

OCI looking to report quarterly and, in due course, move listing from restricted SFS and onto main market

We also note the comments made in the results presentation about future actions to reduce the discount. In particular, OCI is aiming to move to quarterly reporting (probably 1Q'22), rather than the current six-monthly schedule. This would allow a steady stream of NAV updates into the market. Given the restrictions that some platforms (e.g. Barclays) apply to shares listed on the Specialist Fund Segment of the LSE, it is looking, in time, to move to the main market (probably within 12 to 24 months). Previous restrictions around concentration of funds should moderate, with new investments in later funds.

Bought back 2m shares after period-end

On 29 July 2021, OCI bought back 2m shares at 354p (after 18m shares, 9% of opening shares in issues in FY'20), well below the prevailing NAV, and so enhancing the NAV. Given the timing, this will be shown in the FY'21 results.

ESG

ESG policies being developed and enacted

It would not be results in 2021 without the disclosures around ESG. OCI highlights that i) ESG due diligence is a key part of every investment process, ii) it has launched a dedicated ESG reporting platform used by all portfolio companies, and 70% of portfolio companies have already onboarded the new ESG processes, iii) a cyber security roadmap has been developed for 80% of the portfolio, iv) Oakley's Diversity & Inclusion committee has launched a review, and v) it is undertaking a carbon footprint assessment, with the aim of developing a net zero strategy. In terms of hard numbers, OCI noted that 331 jobs had been created by portfolio companies in 2020.

Portfolio

The details of the portfolio are given below.

Key metrics for portfolio companies, as at June 2021

Company	Country	Investment date	Fund	Cost (£)	June valuation (£m)	Sector
Daisy Group	UK	2015	II	8.5	11.5	Technology
atHome	Italy	2017	III	0.0	8.5	Technology
TechInsights	Canada	2017	III	0.3	25.8	Technology
Facile	Italy	2018	III	20.0	40.3	Technology
Grupo Primavera	Spain	2019	III	22.6	22.6	Technology
Contabo	Germany	2019	IV	4.8	18.4	Technology
7NXT	Germany	2020	Origin	10.3	13.9	Technology
WebPros	Switzerland/UK	2020	IV	43.4	55.6	Technology
Idealista	Spain	2021	IV	41.5	41.5	Technology
ECOMMERCE ONE	Germany	2021	Origin	5.8	5.8	Technology
Time Out	Global	2010	I and direct	57.9 + n/d	32.9 + 40.1	Consumer
North Sails	Global	2014	II and direct	43.8 (+110.9)	34.3 (+110.9 debt)	Consumer
Iconic BrandCo	Italy	2019	III	16.3	16.5	Consumer
Wishcard Technologies Group	Germany	2019	III	15.8	29.4	Consumer
Windstar Medical	Germany	2020	IV	29.2	29.2	Consumer
Dexters	UK	2021	IV	13.4	14.7	Consumer
Schülerhilfe	Germany	2017	III	30.0	45.9	Education
ACE Education	France	2017	III	6.9	15.8	Education
IU Group	Germany	2018	III	0.0	99.0	Education
Ocean Technologies	Norway/ UK	2019	IV	20.8	26.6	Education
ICP Education	UK	2021	IV	26.9	26.9	Education
Fund facilities					6.9	
Cash					172	
Other assets & liabilities					-140.4	

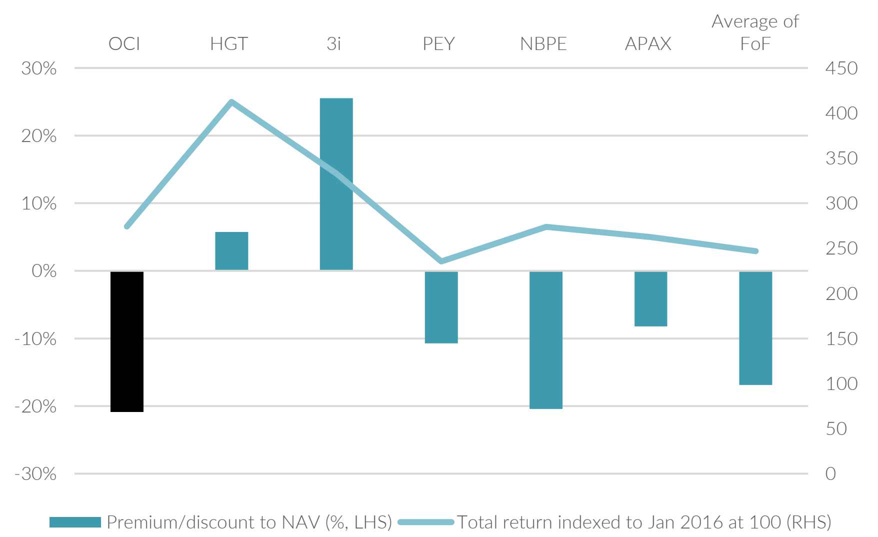
Source: OCI, Hardman and Co Research

Valuation

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 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 total return since Jan-16 for OCI and peers (%)



Note: 3i total shareholder return per webpage; Source: Company presentations and websites, LSE, priced at 10 September 2021, 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	18,798
Net unrealised gains/losses through P&L	-3,561	46,196	20,316	-23,877	127,741	-133,086	94,957	93,990
Net foreign currency gains/(losses)	-2,000	4,733	-839	3,149	-2,715	13,700	-3,945	0
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	141,381	124,453
Costs	-7,319	-4,519	-6,529	-6,045	-17,888	-7,620	-4,000	-4,000
Operating profit	21,811	66,732	44,967	82,387	135,269	92,386	137,381	120,453
Interest expenses	-2	-55	-42	-389	0	0	0	0
Pre-tax profit	21,809	66,677	44,925	81,998	135,269	92,386	137,381	120,453
Tax	-235	0	0	0	0	0	0	0
Attributable profit	21,574	66,677	44,925	81,998	135,269	92,386	137,381	120,453
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	76.5	67.4
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	586,475	764,571
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	745,200	914,404
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	873,634	1,004,822
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	857,294	969,711
NAV per share (£)	2.00	2.31	2.45	2.81	3.45	4.03	4.76	5.39

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	122579	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

Analysis of investments								
Year-end Dec (£000)	2015	2016	2017	2018	2019	2020	2021E	2022E
Opening	220,344	289,216	340,869	419,627	469,749	660,966	505,124	745,200
Additions	133,115	176,231	201,504	130,845	127,265	95,983	200,000	200,000
Sales	-94,651	-190,767	-175,042	-165,795	-91,813	-337,916	-105,000	-155,000
Realised gains	29,041	8,545	23,991	102,314	17,840	208,536	38,366	18,798
Change in unrealised revaluation	1,007	57,082	20,316	-23,877	127,741	-133,086	94,957	93,990
Other, incl. FX and interest	360	562	7,989	6,635	10,184	10,641	11,753	11,415
Closing	289,216	340,869	419,627	469,749	660,966	505,124	745,200	914,404
Oakley Funds								
Opening	151,857	158,369	211,254	282,663	298,581	420,316	354,718	586,475
Additions	27,146	41,846	124,590	58,829	64,776	54,469	170,000	170,000
Sales	-45,520	-48,636	-78,457	-130,526	-39,909	-203,486	-55,000	-105,000
Realised gains	29,041	9,403	15,591	102,314	17,840	133,800	38,366	18,798
Change in unrealised revaluation	-4,155	50,272	9,685	-14,699	79,028	-50,381	78,772	93,990
Other, incl. FX and interest	0	0	0	0	0	0	-380	307
Closing	158,369	211,254	282,663	298,581	420,316	354,718	586,475	764,571
Co Investment Fund	**Inspired**							
Opening	0	0	0	26,280	41,789	74,984	0	0
Additions	0	0	39,932	5,825	672	0	0	0
Sales	0	0	-35,355	0	0	-94,210	0	0
Realised gains	0	0	8,400	0	0	74,736	0	0
Change in unrealised revaluation	0	0	13,303	9,684	32,523	-55,510	0	0
Other, incl. FX and interest	0	0	0	0				
Closing	0	0	26,280	41,789	74,984	74,984	0	0
Quoted	**Time out**							
Opening	0	0	43,854	41,182	22,320	38,510	23,940	40,125
Additions	0	47,155	0	0	0	12,625	0	0
Sales	0	0	0	0	0	0	0	0
Realised gains	0	0	0	0	0	0	0	0
Change in unrealised revaluation	0	-3,301	-2,672	-18,862	16,190	-27,195	16,185	0
Other, incl. FX and interest	0	0	0	0	0	0	0	0
Closing	0	43,854	41,182	22,320	38,510	23,940	40,125	40,125
Debt								
Opening	68,487	104,897	85,761	69,502	107,059	127,156	126,466	118,600
Additions	80,253	80,476	36,982	66,191	61,817	28,889	30,000	30,000
Sales	-49,131	-109,976	-61,230	-35,269	-51,904	-40,220	-50,000	-50,000
Realised gains	0	560	0	0	0	0	0	0
Change in unrealised revaluation	4,928	10,345	0	0	0	0	0	0
Other, incl. FX and interest	360	-541	7,989	6,635	10,184	10,641	12,134	11,108
Closing	104,897	85,761	69,502	107,059	127,156	126,466	118,600	109,708

Source: OCI Report and Accounts, Hardman & Co Research

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