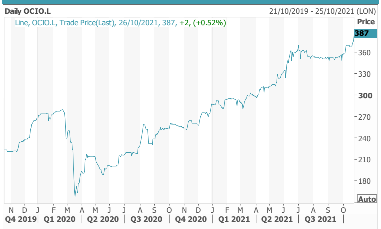
OAKLEY CAPITAL INVESTMENTS LTD

Closed End Investments



Source: Refinitiv

Market data

EPIC/TKR	**OCI**
Price (p)	**382**
12m High (p)	382
12m Low (p)	247
Shares (m)	178.6
Mkt Cap (£m)	682
NAV p/sh (Jun'20, p)	445
Disc. to NAV	14%
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
	investorrelations@oakleycapital.com

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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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 (11.8x FY'20) and 3.5x net debt/EBITDA (3.9x FY'20), 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 by high-quality business originated by its entrepreneur network. Against this sustained growth, with proven downside protection, the 14% 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.
- **Outlook:** 75% of Oakley's 1H'21 value creation was driven by investee company EBITDA growth. We expect further growth in 2H'21. The average technology companies' rating has also risen slightly, and PE market exits are continuing at above carrying values, supporting further OCI NAV growth.
- **Valuation:** Against the end-June NAV, OCI trades at a 14% 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 1.2%.
- **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 14% discount is less than 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%	-20%	-29%
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*