

FLIGHT

The Flight and Partners Recovery Fund Limited

Adviser's Quarterly Report for the
Quarter ending 30th September 2021



October 2021

Rcapital

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Fund Overview

The Flight and Partners Recovery Fund Limited (the “Fund” or the “Flight Fund”) is a Guernsey-domiciled closed-ended investment company listed on The International Stock Exchange (“TISE”). The Fund aims to achieve attractive risk-adjusted returns over the economic cycle through investment in stressed and distressed small to medium-sized UK businesses with fundamentally sound business models that offer strong recovery prospects.

The Fund invests in transactions that are originated, executed and managed by Rcapital Partners LLP (“Rcapital” or the “Investment Adviser”). Rcapital aims to use its financial restructuring and operational turnaround capabilities to improve the performance of the acquired businesses.

The Fund’s investments are made in the form of loans that are secured against the underlying assets in the investee company. Loans are provided at a minimum interest rate of 10% or 6% over base rate, whichever is higher. The Fund typically also receive an equity stake in the investee company at zero or nominal cost.

The Fund’s investments are valued in accordance with the International Private Equity and Venture Capital valuation guidelines (“IPEV”). Equity interests in investee companies are reviewed with the Auditors and, where they are deemed to have value, this is included in the net asset value of the Fund.

In January 2021 the Fund issued £14.9m of new redeemable preference A Shares (the “**A Share(s)**”). At the same time, investors in the existing share class (the “**Ordinary Share(s)**”) holding 3.1m of shares with an NAV of £5.6m voted to retain their holdings. The combined share classes therefore had a net asset value of £20.5m as at 6th January 2021. The A Shares will now invest in new transactions alongside the continuing investors in the Ordinary Shares, pro-rata to the amount of cash available in each share class.

UK Economic Indicators
(figures in brackets are previous quarter)

GDP (Apr to June 2021):

+5.5% (-1.6%)

Inflation:

3.0% (2.4%)

Unemployment:

4.5% (4.8%)

Bank of England Interest Rate:

0.1% (0.1%)

FTSE (change since last quarter):

+0.7% (+4.8%)

Quarterly Summary

The quarter to 30th September 2021, which covers the trading period from June to August 2021, saw the continued recovery of the UK economy following the release of lockdown restrictions.

Following a positive initial 'bounce' in Q2 though, we saw a new set of challenges emerge as the UK economy is experiencing various supply chain and other structural issues, impacting trading conditions:

- Inability to hire sufficient staff (and resultant wage inflation);
- Blockages at ports and increases in international freight costs;
- Shortages of lorry drivers; and
- Increases in raw material and energy costs.

We have seen these issues start to impact some of our portfolio companies – Capital Cooling in particular has had difficulty importing sufficient product from China and Europe. Patrick Parsons has seen increasing delays to construction projects on the back of planning and other delays. Independent Group is experiencing a different set of market challenges, as Covid has potentially resulted in a structural shift in the way some insurers settle domestic insurance claims.

Elsewhere, Richard Irvin continues to perform strongly, and FAE Ventures (formerly First Access) is trading well ahead of budget, and expecting to benefit from the return of live music performances.

On the new investments side, the distressed investment market has started to recover following a slow period in the first half of 2021. We have seen a pick up in activity in September following the summer, with some industries in particular hit by the above issues (e.g. construction, manufacturing). Looking forward we expect rising costs and supply chain issues to have a significant impact on trading in certain sectors over Q4 2021 and into 2022.

Sources: Bank of England, ONS, LSE

3 Fund Performance – A Shares

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Quarterly NAV per A Share since inception

	Q1		Q2		Q3		Q4		YTD
	Price	% Change	Price	% Change	Price	% Change	Price	% Change	
2020	n/a	n/a	n/a	n/a	n/a	n/a	1.0000	0.00%	n/a
2021	1.0009	0.09%	1.0175	1.66%	1.0101	-0.73%			1.02%

- The NAV per A Share as at 30th September 2021 is **£1.0101 per share**, a decrease of **0.73%** from the NAV per share at 30th June 2021
- The NAV per share is up 1.02% for the YTD
- The fall in NAV in the quarter is a result of a reduction in the value of the equity holding in Patrick Parsons. This has been reduced to reflect lower expected profits for the full year as a result of market headwinds – principally delays to existing contracts.
- There has also been a decrease in cash due to operating costs of the Fund.

4 GAV/NAV Analysis – A Shares

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Gross & Net Asset Value attributable to A Shares

NAV Analysis (£m)	Jun-21	Sep-21	Diff.
Cash	£8.4m	£8.3m	-£0.1m
Loans	£6.4m	£6.4m	£0.0m
Equity / Make Good	£0.5m	£0.4m	-£0.2m
Other Assets	£0.0m	£0.2m	£0.1m
Gross Asset Value	£15.3m	£15.2m	-£0.1m
Other Liabilities	-£0.1m	-£0.1m	£0.0m
Net Asset Value	£15.2m	£15.1m	-£0.1m
Shares in issue (000s)	14,947	14,947	0
NAV per share (£)	£1.0175	£1.0101	-£0.0074

- The gross asset value (GAV) attributable to the A Shares was £15.2m at 30th September 2021, a decrease of £0.1m from the previous quarter.
- The value of the equity stake in Patrick Parsons has decreased by £0.2m to reflect latest expectations on outturn for the current year. Patrick Parsons is experiencing delays on live projects which is expected to result in underperformance vs budget in the second half.
- The cash balance has decreased by £0.1m as a result of operating costs incurred.
- Other Assets relates to working capital assets and liabilities of the Fund, and varies from quarter to quarter in line with the annual expenditure cycle.

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Portfolio Update



Summary of Portfolio Holdings by Share Class

Portfolio Company	Business Overview	Flight Fund Loan (£k)		Flight Fund Equity	
		Ordinary	A Shares	Ordinary	A Shares
Independent Group	Insurance Support Services	£1,029.2	n/a	20.54%	n/a
Capital Cooling	Commercial Refridgeration Supplier	£1,224.8	n/a	20.05%	n/a
Richard Irvin FM	Facilities Management Provider	£500.0	n/a	23.67%	n/a
Patrick Parsons	Engineering Consultancy	£6.7	£93.3	1.83%	25.47%
FAE Grp	Music Publishing	£471.0	£6,203.6	n/a	n/a

Company Name:
PPCE Group Limited

Website:
www.patrickparsons.co.uk

Sector:
Business Services

Description:
Engineering consultancy to the built environment

Date of Investment:
March 2021

Flight Fund loan:

- £6,700 Ordinary Shares
- £93,300 A Shares

Flight Fund equity stake:

- 1.8% Ordinary Shares
- 25.5% A Shares

Summary

PPCE Group Limited ("Patrick Parsons") is a full service multi-disciplinary engineering consultancy to the built environment.

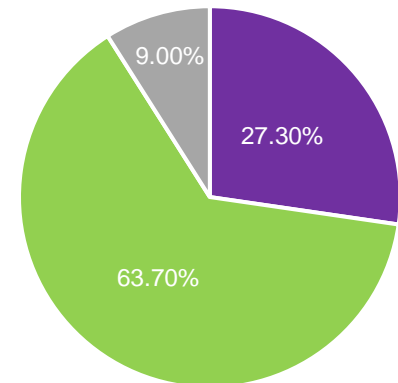
The group is headquartered in Birmingham with 3 further UK offices and 100 engineers, generating annual turnover of c.£10million.

The business offers a one-stop solution of engineering disciplines: Civils, Structural, Geo-environmental and Mechanical & Electrical.

The company serves a range of blue-chip clients in the construction, infrastructure and house-building industry, with many under framework contracts.

The Flight Fund has provided a £750k loan facility (of which only £100k has been drawn) to finance the acquisition of the company and support growth in the business and has taken an equity stake alongside Rcapital.

Ownership Structure



- Flight Fund Equity Stake
- Rcapital Equity Stake
- Management Equity Stake

Financial Commentary

Patrick Parsons had a slightly slower quarter, with revenue and EBITDA marginally behind budget.

The business has seen strong levels of tendering activity and has been winning a good share of work. However, they are experiencing increasing delays to live projects – whether due to planning or other issues – that has resulted in reduced revenue and staff efficiency.

The company also recently renewed its PI insurance policy and has seen considerable cost inflation in this market.

The forecast for the year has been downgraded in light of these issues, with a shortfall in revenue translating into lower EBITDA for the year.

The business is implementing various initiatives to improve efficiency and decrease costs, which are expected to result in a return to profitability in the short-term.

Company Name:
FAE Ventures Limited

Website:
www.faegrp.com

Sector:
Media

Description:
Music publishing company

Date of Investment:
June 2021

Flight Fund loan:

- £471,041 Ordinary Shares
- £6,203,578 A Shares

Flight Fund equity stake:

- n/a

Summary

FAE Ventures Limited (“FAE”, formerly First Access Entertainment Ltd) is a music publishing company. It identifies, develops and produces new musical talent, typically taking a c.50% share in the music IP developed and therefore any royalty income generated.

The company has a stable of well-known artists and generates consistent levels of monthly royalty income, predominantly through the digital music platforms such as Spotify and Apple Music.

In 2020 the music portfolio generated gross royalty income of £8.4m and net income of £3.6m (after distribution costs and artists’ share). Via a UK SPV, the Fund has provided a loan of £6.43m secured against this IP (and all other assets of the company). The loan is for 12 months, with the potential to extend to 18 months, and is expected to generate a return in excess of the minimum hurdle for the Fund. The fair value of the loan has subsequently been increased to reflect contracted future profit share payments to the Fund.

There is currently an active investment market for music portfolios such as this, due to the annuity income they generate. Independent analysis undertaken suggests that average multiples paid for portfolios are around 15.9x annual average earnings, with a range between 6.5x and 26.2x.

The FAE portfolio has been independently valued by an expert at over 4x the value of the Fund’s loan. The loan is secured against this portfolio, providing strong asset-backing.

Note: As at 30th June 2021

Financial Commentary

FAE had a good quarter with revenue broadly in line with budget, and EBITDA well ahead.

Overall the business is trading ahead of budget for the year to date and expecting a strong outturn for the full year.

Music content revenues have been particularly strong at 25% ahead of budget (which is positive for the value of the music catalogue), whilst the lockdown and lack of live performances has resulted in reduced management and performance income (20% down). The return of live music performances at indoor and external venues should lead to a strong recovery in this side of the business in the second half of the year.

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