

FLIGHT

The Flight and Partners Recovery Fund Limited

Adviser's Quarterly Report for the
Quarter ending 31st March 2022



May 2022

Rcapital

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Introduction

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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 prospects for recovery.

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 receives 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 Growth:**

1.3% (1.1%)

CPI Inflation:

6.2% (4.6%)

Unemployment:

3.8% (4.2%)

Bank of England Interest Rate:

0.75% (0.25%)

FTSE (change since last quarter):

+1.8% (+4.2%)

Quarterly Summary

In the first quarter of 2022 we saw various post-Covid economic factors combine to put more pressure on UK companies. Supply chain issues and a tightening labour market have meant that wage and cost inflation continue to rise at historically high levels, with 12-month CPI increasing to 6.2% by March 2022, its highest level in some 30 years. To counter inflation, the Bank of England increased base rates from 0.25% to 0.75%, meaning debt service costs have increased further for companies. When combined with a recovery in revenue and accompanying working capital requirements, this has created a cash flow squeeze for businesses in some sectors.

The recent increases in fuel and energy costs have also placed an additional burden on consumers, and we expect to see a resultant slow-down in consumer spending in Q2. Government policy makers will undoubtedly have a challenging period ahead as they attempt to control inflation whilst also staving off a consumer-spending based recession.

We saw this translate into an increase in new deal opportunities for Rcapital in Q1, as the volume of deals reviewed increased from 198 in Q4 2021 to 221 in Q1 2022 (and 124 in Q1 of 2021). The quality of opportunities also improved, as we saw more 'good businesses' affected by external factors.

As a perfect example of this, we were delighted to complete the acquisition of Nasmyth Group in the quarter, a deal we believe will generate significant value for Flight Fund shareholders. Nasmyth represents a prototypical Flight Fund deal – an over-leveraged business requiring refinancing, offering plenty of asset collateral for debt financing, but with significant equity upside available through restructuring initiatives and a market recovery.

Sources: Bank of England, ONS, LSE

3 Fund Performance – A Shares

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Quarterly NAV per Ordinary Share since inception

	Q1		Q2		Q3		Q4		YTD
Year	Price	% Change	Price	% Change	Price	% Change	Price	% Change	
2020	-	-	-	-	-	-	1.0000	-	-
2021	1.0009	0.09%	1.0176	1.66%	1.0101	(0.73%)	1.0095	(0.06%)	0.96%
2022	1.0188	0.92%	-	-	-	-	-	-	0.92%

- The NAV per A Share as at 31st March 2022 is £1.0188 per share, an increase of 0.92% from the NAV per share at the previous quarter.
- The increase in NAV in the quarter is primarily due to interest income received on the Fund's loans.
- Following completion of the Nasmyth deal, approximately £12m of the £15m funds have been deployed and are generating good levels of interest income, which should allow for the payment of a dividend following the first half of 2022.
- The NAV per share is up 1.9% since launch. Whilst this is behind the long-term target, we expect performance to improve in 2022 and beyond as the market moves in our favour and we generate value in the existing portfolio.

4 GAV/NAV Analysis – A Shares

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Gross & Net Asset Value attributable to A Shares

NAV Analysis (£m)	Mar-22	Dec-21	Diff.
Cash	3.2	8.2	(5.0)
Loans	11.7	6.5	5.2
Equity / Make Good	0.3	0.3	-
Other Assets	0.2	0.2	(0.1)
Gross Asset Value	15.3	15.2	0.2
Other Liabilities	(0.1)	(0.1)	-
Net Asset Value	15.2	15.1	0.1
Shares in issue (000s)	14,947.0	14,947.0	-
NAV per share (£)	1.0188	1.0095	0.0093

- The gross asset value (GAV) attributable to the A Shares was £15.3m at 31st March 2022, an increase of £0.2m from the previous quarter.
- The value of the loan portfolio increased by £5.2m due to the investment in Nasmyth Group.
- The cash balance decreased by £5.0m due to this investment, offset by the interest income received in the quarter.
- The value of the Fund's equity stakes increased marginally in the quarter due to improved performance at Patrick Parsons.
- Other Assets & Liabilities relate 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
FAE Ventures	Music Publishing	453.7	5,976.3	-	-
Independent Group	Insurance Support Services	1,029.2	-	20.5%	-
Nasmyth Group	Aerospace Engineering	291.7	5,208.3	1.2%	20.7%
Patrick Parsons	Engineering Consultancy	13.4	186.6	1.5%	20.5%
Richard Irvin	Facilities Management Provider	500.0	-	23.7%	-

Company Name:

Patrick Parsons

Website:

www.patrickparsons.co.uk

Sector:

Business Services

Description:

Engineering consultancy to the built environment

Date of Investment:

March 2021

Flight Fund loan:

£13,400 Ordinary Shares

£188,600 A Shares

Flight Fund equity stake:

1.5% Ordinary Shares

20.5% A Shares

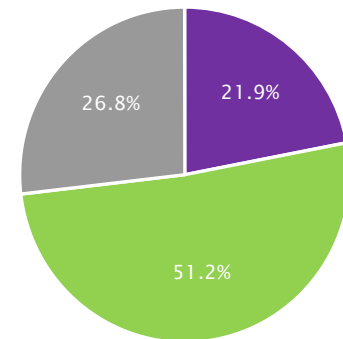
Summary

PPCP 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 £200k 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 good quarter, with revenue and EBITDA in line with budget, and remaining in line with forecast for the 11-month year to date.

Profitability in the second half of the year has been noticeably stronger due to the restructuring and performance improvement measures implemented by the company.

During February and March the construction industry did see a slowdown in activity due to global macro concerns, with new project starts reduced by 33% on the previous quarter. Planning consents increased by 17% on the previous quarter due to the backlog of applications.

However the company continues to see strong levels of bid activity and has a solid pipeline of work in the short-term.

Company Name:

FAE Ventures

Website:

<https://www.faegrp.com>

Sector:

Music Publishing

Description:

FAE Ventures Limited ("FAE", formerly First Access Entertainment Ltd) is a music publishing company

Date of Investment:

June 2021

Flight Fund loan:

£477,176 Ordinary Shares
£6,284,367 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.

Financial Commentary

FAE continued its strong recent performance, with EBITDA ahead of budget for the quarter and full year.

Recent trends have continued, with performance fees seeing a sustained improvement due to increasing numbers of live performances. Music royalty income was well ahead of budget for the quarter and full year.

The forecast for 2022 sees a continuation of this performance, with revenue 4% up on 2021 and EBITDA 64% up. We therefore remain very comfortable with the security available for the Fund's loan, especially when considering the company currently has £6.2m of cash on its balance sheet.

Company Name:

Nasmyth Group

Website:

www.nasmythgroup.com

Sector:

Aerospace Engineering

Description:

Manufacturer of precision engineered components for the aerospace industry

Date of Investment:

February 2022

Flight Fund loan:

£291,736 Ordinary Shares

£5,208,271 A Shares

Flight Fund equity stake:

1.2% Ordinary Shares

20.7% A Shares

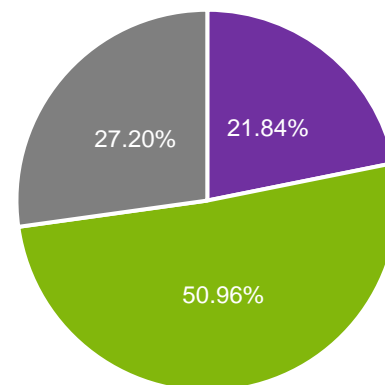
Summary

Nasmyth Group is a provider of specialist precision engineering services to the aerospace, defence and related industries.

The business is headquartered in the Midlands with international operations in the US, Philippines and India. The Group achieved sales of over £80m pre-COVID but was negatively impacted by the dramatic drop in demand for passenger air transport during the pandemic.

Following a competitive and complex transaction process, Rcapital completed the deal, providing the business with £20m in new long term debt facilities from a senior bank and the Flight Fund.

The long-term trends in air travel globally remain strong, and this investment will enable Nasmyth to take full advantage of opportunities within the market as aviation volumes return. Working alongside the existing management team, Rcapital will remain actively involved to support management, driving performance improvement and acting as a catalyst for growth.

Ownership Structure

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

Financial Commentary

The acquisition of Nasmyth Group was completed on 21st February 2022. The Fund provided a £5.5m loan facility, secured against the assets in the business, and received a 21.8% equity stake in the Group.

Clearly it is early days in the course of the investment, but we are very excited about the potential of the business. The company is starting to see a recovery in its end markets, principally civil aerospace, that is translating into a growing order book. In addition, there are numerous opportunities to create value through restructuring and consolidation of its operating divisions. Rcapital is working closely with the management team to deliver these value creation initiatives.



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