

FLIGHT

The Flight and Partners Recovery Fund Limited

Adviser's Quarterly Report for the Quarter ending 30th Sep 2022



October 2022

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 prospects for turnaround and restructuring.

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 are now investing 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 Jun):
0.2% (0.8%)

Inflation:
9.9% (9.1%)

Unemployment:
3.5% (3.8%)

Bank of England Interest Rate:
2.25% (1.25%)

FTSE (change since last quarter):
-3.8% (-4.8%)

Quarterly Summary

During the quarter to September 2022 the outlook for the UK economy became increasingly challenging. Driven by raw material, energy and labour cost increases, inflation continued to rise towards 10%, impacting on household disposable income and business investment. The Bank of England raised base rates by 0.5% in both August and September, taking the base rate to 2.25%. Given the economic environment, GDP growth slowed further to 0.2%, and the FTSE was down 4% over the quarter on the expectation of an upcoming recession.

The new deal pipeline continued to grow at Rcapital as a result of the increasing pressures on UK businesses. In September, Rcapital was pleased to announce the acquisition of Avonside Energy Ltd (“Avonside”), a leading supplier of energy-efficient insulation and solar panels to UK housebuilders. Avonside is a profitable, growing business with an enviable client-base of major national housebuilders. It was part of a larger group that had fallen into administration and Rcapital was able to complete the deal in a very quick timeframe.

Performance across the current portfolio remains relatively robust given the economic environment:

- Nasmyth is trading effectively with strong demand albeit some supply chain issues to manage;
- Patrick Parsons is demonstrating consistent profitability and is benefitting from materially reduced annual insurance premiums;
- FAE Group is growing revenue from its music catalogue whilst maintaining good cost controls.
- Richard Irvin continues to trade steadily with revenues in line with budget; and
- The disposal process of Independent Group is expected to complete in Q4, having sold two of its three divisions in Q2/Q3.

On the new investments side, we expect the market for special situations to be very active over the medium-term. We are currently over 80% deployed on the funds raised in 2021, and have one further deal that we are expecting to complete in short order, which will utilise the remainder of the available cash. As mentioned previously, we are hoping to raise some additional capital into the Fund to provide ‘firepower’ for new investments, and expect that some of the existing portfolio may redeem their loans in the coming months to provide further liquidity.

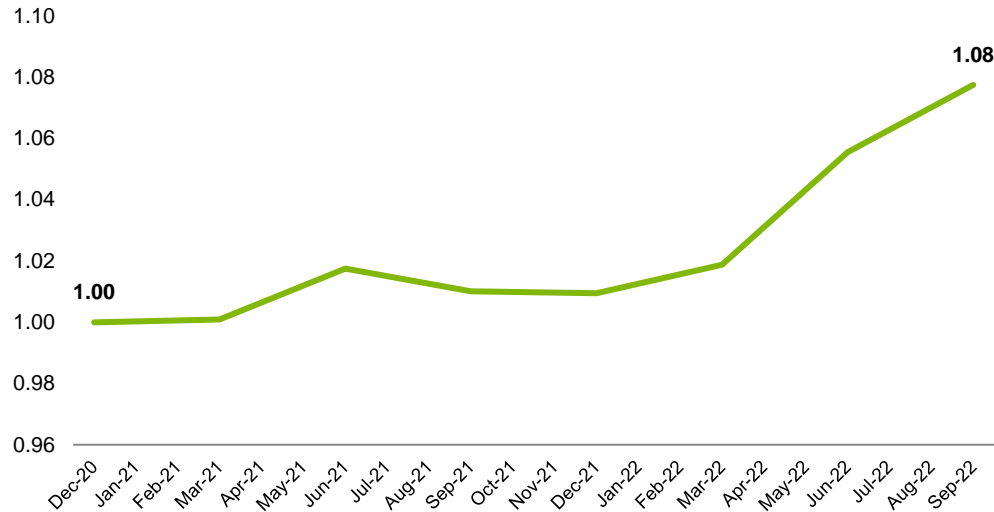
Sources: Bank of England, ONS, LSE

3 Fund Performance – A Shares

Quarterly NAV per A Share since inception

Year	Q1		Q2		Q3		Q4		YTD
	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%	1.0555	3.60%	1.0594	0.37%	-	-	4.89%

Total Return* per A Share since inception



* Total Return equals published NAV per Share plus dividends paid

The NAV per A Share as at 30th September 2022 is £1.0594 per share, an increase of 0.37% from the NAV per share at the previous quarter.

The value of the Funds equity stakes increased due to the improving performance of Patrick Parsons, offset by a slight reduction in the value of Nasmyth Group due to balance sheet movements.

However there was a reduction in the cash balance due to the payment of the first dividend in the quarter.

The loan portfolio continues to generate strong levels of interest income.

The NAV per share is up 4.89% in the YTD, plus the payment of the dividend of 1.8%, equating to a total return of 6.69%. This is approaching the target return of 10-15% per annum and reflects a more buoyant investment market following a slow period in 2021.

4 GAV/NAV Analysis – A Shares

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Gross & Net Asset Value attributable to A Shares

NAV Analysis (£m)	Sep-22	Jun-22	Diff
Cash	2.3	3.1	(0.8)
Loans	12.3	11.7	0.5
Equity / Make Good	0.8	0.6	0.1
Other Assets	0.6	0.4	0.2
Gross Asset Value	16.0	15.9	0.1
Other Liabilities	(0.1)	(0.1)	-
Net Asset Value	15.9	15.8	0.1
Shares in issue (000s)	14,947.0	14,947.0	-
NAV per share (£)	1.0594	1.0555	0.0039

The gross asset value (GAV) attributable to the A Shares was £15.9m at 30th September 2022, an increase of £0.1m from the previous quarter.

The value of the loan portfolio increased by £0.5m due to the new £825k loan to Avonside Energy, offset against a partial repayment of the loan to FAE Ventures.

The cash balance decreased by £0.8m as a result of the Avonside Energy deal and the £0.3m dividend payment, offset by the FAE repayment.

The value of the Fund's equity stakes increased £0.1m because of an increase in the valuations of Patrick Parsons and Nasmyth Group.

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



5 Portfolio Summary

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Summary of Portfolio Holdings by Share Class

Portfolio Company	Business Overview	Flight Fund Loan (£k)		Flight Fund Equity	
		Ordinary	A Shares	Ordinary	A Shares
Avonside Energy	Insulation and Solar Panel Installation	68.6	756.4	2.3%	25.7%
FAE Ventures	Music Publishing	453.7	5,976.3	-	-
Independent Group	Insurance Support Services	1,029.2	-	20.5%	-
Nasmyth Group	Aerospace Components	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,
£186,600 A Shares

Flight Fund equity stake:

1.5% Ordinary Shares,
20.5% A Shares

Summary

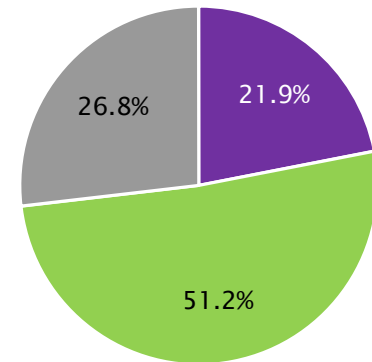
PPCP Limited (“Patrick Parsons”) is a full service multi-disciplinary engineering consultancy to the built environment.

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 another robust quarter, as EBITDA came in double that budgeted for the period, on similar levels of revenue.

The Geo-environmental discipline has been a particular driver of EBITDA performance.

Profitability for the YTD is stronger due to performance improvement measures implemented by the company under Rcapital's ownership. In recent months, the company was able to materially reduce its annual insurance premiums, which results in a c.£0.3m improvement to annual profits.

Patrick Parsons continues to see strong levels of bid activity and has a solid pipeline of work in the short-term, despite some potential headwinds in the construction market.

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:

£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. £250,000 of the loan was repaid in the quarter.

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 sustained its strong recent trading, as YTD Revenue continued to grow 3.4% ahead of budget.

Forecast EBITDA for 2022 remains inline with expectations as good control over marketing and recording costs have mitigated against rising overheads.

In addition, the company cash balance strengthened further and now sits at £7.7m, comfortably covering the outstanding amount on the Fund's loan.

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

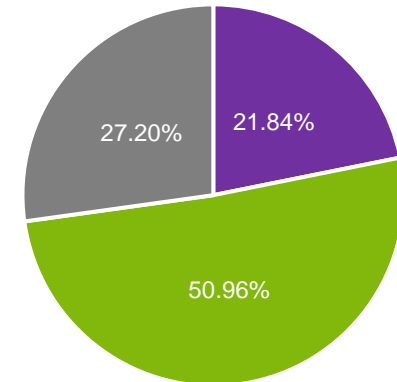
Nasmyth Group is a provider of specialist precision engineering services to the aerospace, defence and related industries.

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 acquired the business in February 2021, 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

Since acquisition in February 2022 Rcapital have been working closely with management to identify opportunities for growth and operational improvement. Significant levels of cost have been taken out of the business, improving margins.

Market recovery in the aviation sector continues to provide optimism for future growth and Nasymth is well positioned to benefit from further market recovery.

Demand for Nasmyth's products is strong, with the order book showing good levels of growth. Challenges remain in the availability of labour and materials, however, which is restricting the Company's ability to deliver this order book.

Company Name:

Avonside Energy

Website:

<https://www.avonsidegroup.co.uk/>

Sector:

Construction Services

Description:

Installation of Insulation and Solar Panels

Date of Investment:

September 2022

Flight Fund loan:

£68,600 Ordinary Shares

£756.400 A Shares

Flight Fund equity stake:

2.3% Ordinary Shares

25.7% A Shares

Summary

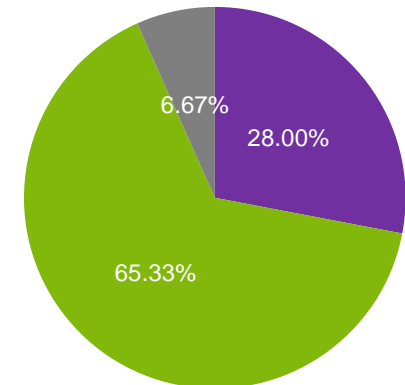
Avonside Energy Limited is the insulation and solar PV service provider of choice for house builders across the UK. Avonside Energy is bringing welcome relief to businesses squeezed by rising energy costs through its commercial-scale solar PV operations.

Avonside Energy was a standalone division of the Avonside Group that had fallen into administration due to issues in its other divisions.

Headquartered in Leicester, Avonside Energy has a strong national presence with operations in the West Midlands, East Midlands, Glasgow, Leeds, Newcastle, Warrington and Stevenage.

Avonside Energy will generate revenue of over £15 million this year and is profitable and cash generative. It employs over 100 skilled workers and is a key part of the new build supply chain, with major customers including Barratt Homes, Taylor Wimpey, Persimmon Homes, Redrow and Miller Homes.

Ownership Structure



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

Financial Commentary

Following the completion of the Avonside deal in September, Rcapital will work closely with the management team to identify the key areas for growth and margin improvement.

The order book is currently very strong and supports a positive outturn for the current year.

Current cost inflation is putting pressure on gross margins but this is expected to normalise over time, improving gross margin up to the mid-20s and beyond.



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