

FLIGHT

The Flight and Partners Recovery Fund Limited

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



January 2023

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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 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 (Oct to Dec):
-0.3% (0.2%)

Inflation:
10.7% (9.9%)

Unemployment:
3.7% (3.5%)

Bank of England Interest Rate:
3.5% (2.25%)

FTSE (change since last quarter):
8.1% (-3.8%)

Quarterly Summary

The outlook for the UK economy remains challenging following a -0.3% decline in GDP in Q4 2022: the UK economy is expected to contract each quarter through to mid-2023. There remains significant pressures on household income and business costs, with inflation currently at 10.7% and expected to outpace annual average wage increases until 2024. The Bank of England raised base rates across the quarter to 3.5%, whilst the FTSE had a strong quarter on the back of energy and mining stocks rising, mainly due to the re-opening of China post-Covid.

The new deal pipeline remains strong at Rcapital. In November, we were delighted to announce the acquisition of Trac Precision Solutions Ltd ("Trac"), a specialist engineering business serving the aerospace, energy and defence sectors. Trac, based in Crewe in the UK, designs and manufactures precision engineered parts for a blue chip customer base. It was a non-core division of a US corporate group, and Rcapital were able to secure a deal by offering an attractive solution for the vendors. We are also well progressed on another new investment that we expect to sign imminently.

On the disposals front, FAE Group repaid its loan in full prior to the end of the quarter. The loan, together with the profit share payment, will have generated an IRR for the Fund of 15% over 18 months, representing an excellent risk-adjusted return. This redemption will provide additional funding for new deals for the Fund.

Across the portfolio, performance remains robust, although there are some signs of the economic slow down emerging in some sectors:

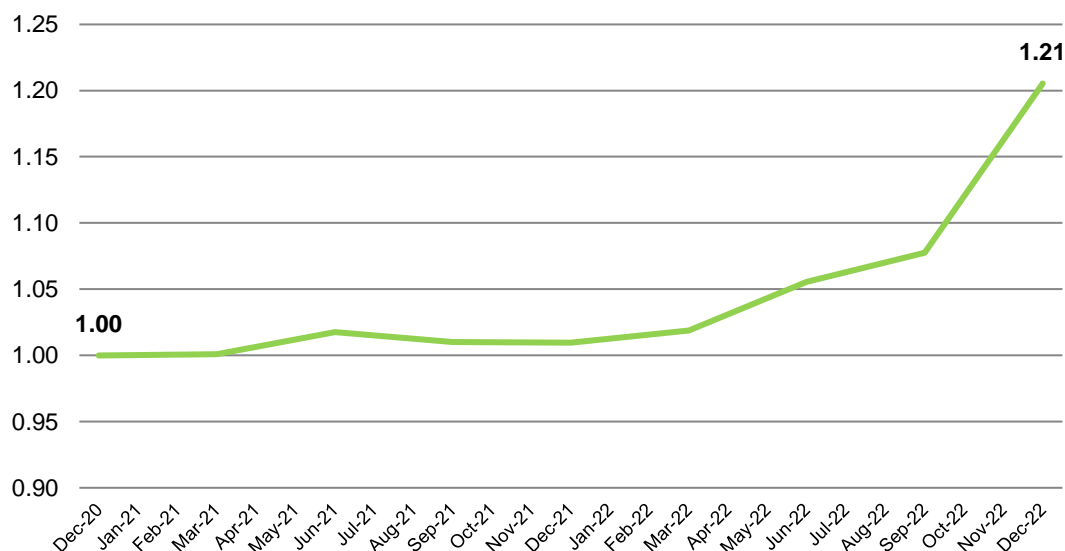
- Avonside is now undergoing performance improvement measures during the implementation of the 100-day plan. Demand for its energy efficiency products remains strong, despite the potential slow down in development of new build housing;
- The turnaround of Nasmyth Group is progressing although it continues to manage supply chain interruptions; and
- Patrick Parsons is demonstrating consistent profitability although the slow down in the construction sector is challenging revenue growth.

Sources: Bank of England, ONS, LSE

Quarterly NAV per A 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%	1.0555	3.60%	1.0594	0.37%	1.1693	10.37%	15.27%

Total Return per A Share (including dividends)



The NAV per A Share as at 31st December 2022 is £1.1693 per share, an increase of 10.4% from the NAV per share at the previous quarter.

The value of the Fund's equity stakes increased due to the values placed on the equity held in Avonside and Trac Precision, offset by a slight reduction in the value of Patrick Parsons due to softening trading conditions.

The loan portfolio generated strong levels of interest income in the quarter. This will be reduced going forwards due to the repayments received from FAE, Avonside and Patrick Parsons.

The NAV per share is up 15.3% in the YTD, plus the payment of the dividend of 1.8%, equating to a total return of 17.1%. This is ahead of the target return of 10-15% per annum and demonstrates the increasing value growth from the Fund's equity stakes as the turnaround of the various portfolio companies has progressed.

Gross & Net Asset Value attributable to A Shares

NAV Analysis (£m)	Dec-22	Sep-22	Diff
Cash	7.5	2.3	5.2
Loans	7.3	12.3	(5.0)
Equity / Make Good	2.2	0.8	1.5
Other Assets	0.6	0.6	-
Gross Asset Value	17.7	16.0	1.7
Other Liabilities	(0.2)	(0.2)	-
Net Asset Value	17.5	15.8	1.6
Shares in issue (000s)	14,947.0	14,947.0	-
NAV per share (£)	1.1693	1.0594	0.1099

The gross asset value (GAV) attributable to the A Shares was £17.7m at 31st December 2022, an increase of £1.4m from the previous quarter.

The value of the Fund's equity stakes increased £1.5m because of an increase in the valuations of Avonside and Trac Precision.

The value of the loan portfolio decreased by £5.0m due to the repayment of the FAE loan, offset by the loan to Trac Precision.

The cash balance increased by £5.2m as a result of the loan repayments received from Avonside, Patrick Parsons and FAE, offset by the £1.0m loan provided for the Trac deal.

Other Assets includes interest receivable and other debtors, which will translate into additional cash resources. The Fund therefore has substantial cash available to deploy in new transactions.

FLIGHT

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
Avonside Energy	Construction Services	12.5	137.5	2.3%	25.7%
Nasmyth Group	Aerospace Engineering	291.7	5,208.3	1.2%	20.7%
Patrick Parsons	Engineering Consultancy	10.1	140.0	1.5%	20.5%
Trac Precision Solutions	Specialist Engineering	77.9	922.1	2.1%	25.2%

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:

£12,473 Ordinary Shares

£137,527 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.

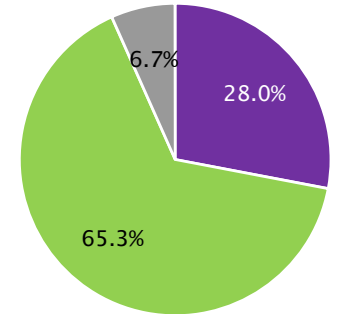
Avonside Energy was a standalone division of the Avonside Group that had fallen into administration due to issues in its other divisions.

Headquartered in Leicester, Avonside Energy has a strong national presence with operations in the West Midlands, East Midlands, Glasgow, Leeds, Newcastle, Warrington and Stevenage. This transaction will ensure the preservation of over 100 jobs across the country.

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.

The Fund provided a loan of £825k to finance the acquisition of the Company and working capital. £675k of this loan has already been repaid due to the healthy financial position of the business.

Ownership Structure



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

Financial Commentary

During the first quarter following the acquisition of Avonside, the focus of the group has been to stabilise and normalise trading. Due to economic conditions it is expected that the number of house building completions will fall. However, due to growth in volume and price increases it is expected that revenue will grow in 2023 as the 100 day plan draws to completion. New orders remain high, 17% up on installs in same period last year.

The evolving legislation in the sector is expected to support Avonside's specialisms and demand for cavity wall insulation, whilst the increasing energy prices and removal of government support on energy will continue to strengthen the commercial business case for solar panel installation.

The balance sheet of the business is very healthy, which enabled a repayment of £675k of the Fund's loan of £825k. The business still has over £1m of cash on the balance sheet.

Company Name:

Nasmyth Group

Website:

<https://www.nasmythgroup.com/>

Sector:

Aerospace Engineering

Description:

Manufacturer of precision engineered components for the aerospace industry

Date of Investment:

February 2022

Flight Fund loan:

£291,729 Ordinary Shares

£5,208,271 A Shares

Flight Fund equity stake:

1.2% Ordinary Shares

20.7% A Shares

Summary

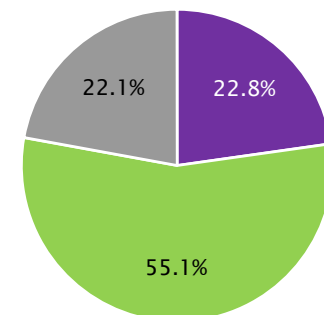
Nasmyth Group is a provider of specialist precision engineering services to the aerospace, defence and related industries.

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

Rcapital continue to work closely with the management team to identify opportunities for growth and operational improvement. Significant levels of cost have been taken out of the business, cultivating strong performance against budget and improved margins.

The outlook for the aviation sector remains steady despite wider economic headwinds, which provides optimism that demand in Nasmyth's order book will remain stable.

The group sales team performed well in the quarter with the group achieving its highest weekly sales output since the acquisition. However, rising input costs continue to provide a challenge for the business in the first quarter of 2023.

There remain a number of legacy issues, notably at a Group level, that the management team continue to work at resolving, taking appropriate external advice.

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:

£10,050 Ordinary Shares

£139,950 A Shares

Flight Fund equity stake:

1.5% Ordinary Shares

20.5% A Shares

Summary

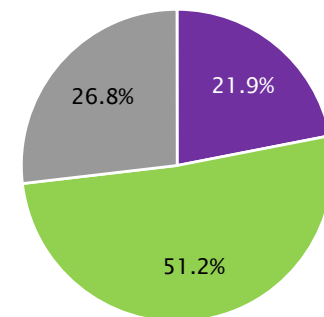
PPCP Limited ("Patrick Parsons") is a full service multi-disciplinary engineering consultancy to the built environment.

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 provided a £750k loan facility (of which £200k was drawn) to finance the acquisition of the company and support growth in the business and has taken an equity stake alongside Rcapital. The company repaid £50k of its loan in the quarter.

Ownership Structure



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

Financial Commentary

Revenue has been challenged in the quarter with strongest performances seen in disciplines with shorter pipelines which provide lower levels of certainty.

The economic challenges created by the fiscal statement in October has resulted in some clients pausing work on existing schemes. Some key metrics from the latest industry data covering November are as follows:

- Contract awards 15% lower than a year ago
- Projects starting on site 7% lower than a year ago
- Planning approvals 6% higher than a year ago

Once the current “paused” projects are unlocked, the lower the normal revenue numbers will improve. In the meantime Patrick Parsons continue to generate other opportunities from other sources.

Importantly the business has a healthy liquidity position and remains profitable.

Company Name:

Trac Precision Solutions

Sector:

Specialist Engineering

Description:

Supplier of precision engineered parts to the aerospace, defence and power generation sectors

Date of Investment:

November 2022

Flight Fund loan:

£77,932 Ordinary Shares

£922,068 A Shares

Flight Fund equity stake:

2.13% Ordinary Shares

25.17% A Shares

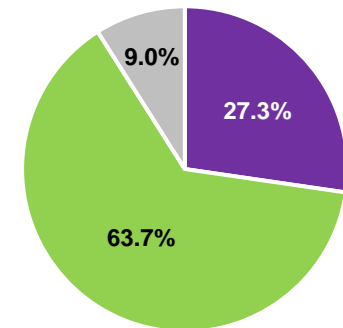
Summary

Trac designs and manufactures precision engineered parts that maximise engine performance, efficiency and reliability within the aerospace, defence and power generation sectors.

Trac is based in Crewe and employs approximately 50 people. The business has a number of blue chip clients (e.g. Rolls Royce, GE, Siemens & Safran) who rely on Trac for critical components.

The business was acquired for consideration of £1m which was funded by a loan from the Fund. The Fund also received an equity stake of 27.3% in the company.

Ownership Structure



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

Financial Commentary

The business is trading reasonably well at a revenue level and is profitable for the year to date. Since the acquisition Rcapital have been working with management team to implement the 100 day plan with a particular focus on pushing through price increases (to combat cost inflation) and identifying areas for cost savings.

The budgeting process is nearing completion for 2023 and the forecasts for the year show a positive outlook for the business. The balance sheet is also very healthy, with a strong cash balance and asset cover.



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