

FLIGHT

The Flight and Partners Recovery Fund Limited

Adviser's Quarterly Report for the Quarter ending 31st March 2023



April 2023

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 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 (Jan to Mar):

0.1% (-0.3%)

Inflation:

10.1% (10.7%)

Unemployment:

3.7% (3.7%)

Bank of England

Interest Rate:

4.25% (3.5%)

FTSE (change since last quarter):

2.4% (8.1%)

Quarterly Summary

The outlook for the UK economy remains unclear as GDP continues to flatline and inflation persists at just over 10%. Although the likelihood of a recession appears to have fallen, forecasters continue to expect nil growth in 2023 on the back of a squeeze on household real incomes and the impact of past interest rate increases. Structural issues, including skills shortages, slowing workforce participation, and population ageing, dictate longer-term views on the UK economy. The Bank of England raised interest rates in the quarter to 4.25% in the continued attempt to control inflation.

Pressure on UK businesses continues in the form of cost inflation, shortage of labour and, in some sectors, slowing demand. We saw the property and construction market particularly badly affected by the Government mini-budget in September 2022, albeit we have recently seen some early signs of recovery.

The deal flow at Rcapital is healthy and as a result there were two completed transactions in the quarter. In March, the firm was delighted to announce the acquisition of British Corner shop, an online grocery store serving British expats globally with over 6,000 products from Britain's well-known high street brands. Additionally, the team completed the opportunistic acquisition of James Fisher Nuclear ("JFN"), a supplier of specialist engineering, manufacturing and technical services within challenging Nuclear environments.

As expected the sale process of Richard Irvin completed in February providing a successful exit for the Fund. The return to the Fund of c.£4.25m allowed a substantial repayment to the redeeming shareholders and has provided further liquidity for new deals for continuing investors. There are some additional deferred proceeds from the sales of Richard Irvin and Independent Group expected to be received in 2024 and 2025.

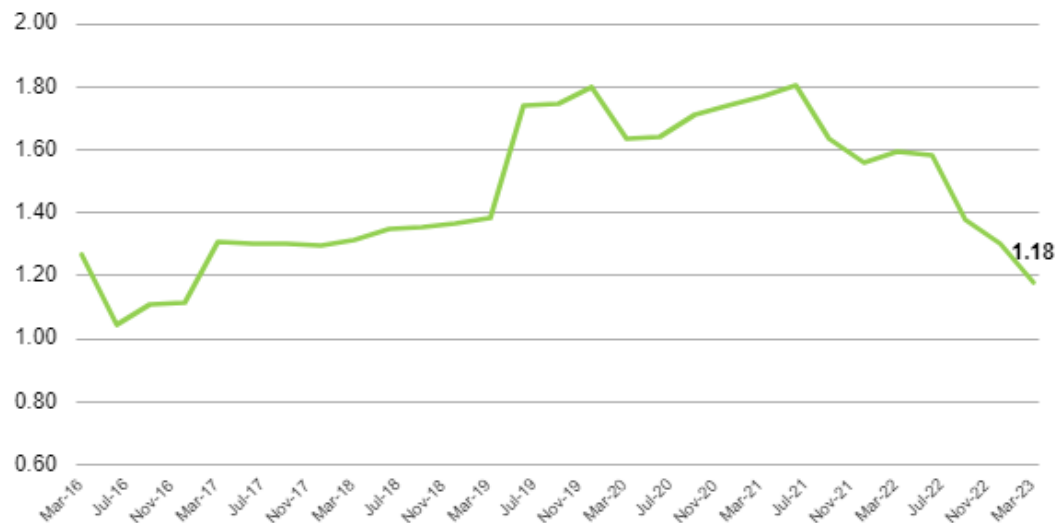
Across the portfolio, there are some signs of the economic slow down impacting in some sectors, although business resilience continues to provide encouragement:

- Avonside has implemented performance improvement measures following the execution of the 100-day plan. Its pipeline for energy efficiency products remains strong, despite the slow down in development of new build housing, given the drive for more energy efficient homes and commercial buildings;
- The turnaround of Nasmyth Group is progressing as it manages a restructuring process and continued supply chain challenges;
- Patrick Parsons has felt the impact of the slowdown in the construction market, but has recently seen some 'green shoots'; and
- Trac has a strong pipeline for 2023 and a very healthy balance sheet.

Quarterly NAV per Ordinary Share since inception

Year	Q1		Q2		Q3		Q4		YTD
	Price	% Change	Price	% Change	Price	% Change	Price	% Change	
2016	1.2651	25.00%	1.0438	(17.49%)	1.1105	6.39%	1.1160	0.49%	14.39%
2017	1.3108	17.46%	1.3037	(0.54%)	1.2998	(0.30%)	1.2989	(0.06%)	16.55%
2018	1.3129	1.07%	1.3488	2.73%	1.3546	0.43%	1.3653	0.26%	5.03%
2019	1.3653	0.53%	1.7391	27.38%	1.7452	0.35%	1.7999	3.14%	30.54%
2020	1.6368	(9.06%)	1.6411	0.26%	1.7100	4.20%	1.7434	1.95%	(2.65%)
2021	1.8853	8.14%	1.9166	1.66%	1.6365	(14.62%)	1.5595	(4.70%)	(10.54%)
2022	1.5966	2.38%	1.5812	(0.96%)	1.3789	(12.80%)	1.3050	(5.36%)	(16.74%)
2023	1.1774	(9.75%)							(9.75%)

7 Year Historical NAV per Ordinary Share



The NAV per Ordinary Share as at 31st March 2023 is £1.1774 per share, a decrease of 9.7% from the previous quarter.

The movement in NAV per share was primarily due to the disposal of Richard Irvin. A substantial cash sum was received on completion, with further deferred payments of up to £1.5m expected in 2024 and 2025 subject to the satisfaction of certain financial performance targets by the Richard Irvin business. However, accounting standards require that these deferred payments cannot be recognised at this time, and accordingly the NAV has had to be reduced. If these amounts were to be included, the NAV would be 15.56 pence per Ordinary Share higher. The future satisfaction of the relevant performance targets cannot be guaranteed and investors should not assume that they will be.

The newer investments are all performing well but make up a comparatively smaller part of the portfolio until the older assets are realised. The realisation of Richard Irvin has provided additional liquidity to the share class, meaning it has been able to contribute a greater share towards the recent investments.

Gross & Net Asset Value attributable to Ordinary Shares

NAV Analysis (£m)	Mar-23	Dec-22	Diff
Cash	2.6	0.9	1.7
Loans	2.0	1.7	0.3
Equity / Make Good	0.2	5.3	(5.1)
Other Assets	0.4	0.2	0.2
Gross Asset Value	5.2	8.1	(2.9)
Other Liabilities	(1.5)	(4.0)	2.5
Net Asset Value	3.7	4.0	(0.3)
Shares in issue (000s)	3,101.0	3,101.0	-
NAV per share (£)	1.1774	1.3050	(0.1271)

The gross asset value (GAV) attributable to the Ordinary Shares was £5.2m at 31st March 2023, a decrease of £2.9m from the previous quarter.

The value of the Fund's equity stakes decreased by £5.1m, particularly as a result of the sale in Richard Irvin. As mentioned earlier, a proportion of cash proceeds were received on completion but deferred proceeds are unable to be recognised on the Fund's balance sheet.

However, following the completion of the Richard Irvin sale, the cash balance increased, netted off by the cash paid to redeeming shareholders and the completion of new deals in the quarter.

Other Liabilities principally relate to the payments owing to redeeming shareholders. Further payments are expected following the receipt of deferred payments on the sales of Independent Group and Richard Irvin in 2024 and 2025.

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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
Avonside Energy	Construction Services	12.5	137.5	2.3%	25.7%
British Corner Shop	E-Commerce	179.3	570.6	4.9%	15.6%
James Fisher Nuclear	Nuclear Energy Engineering	683.4	2,316.5	7.2%	22.8%
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 will also target 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.

Financial Commentary

Since acquisition the focus of the group has been to stabilise and normalise trading. New business opportunities continue to remain high, a reflection of the strong team within the business and the order book remains above £900k.

In the period Avonside missed revenue forecasts as the business was affected by delays in housebuilding due to economic slowdown, nervousness in the newbuild market, the inclement weather and by structural issues delaying commercial invoicing. A new pricing strategy will be launched from May which should improve revenue metrics.

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 business is investigating a possible bolt-on acquisition which will provide further scale for growth in the business.

Company Name:

British Corner Shop Limited

Website:

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

Sector:

E-Commerce

Description:

Online retailer of iconic British food brands to overseas consumers

Date of Investment:

March 2023

Flight Fund loan:

£179,336 Ordinary Shares

£570,666 A Shares

Flight Fund equity stake:

4.9% Ordinary Shares

15.6% A Shares

Summary

British Corner Shop is an online grocery store targeting British expats around the world. Stocking over 6,000 products from Britain's most loved brands, meaning customers can enjoy British food wherever they are in the world.

The deal funds British Corner Shop's ambitious growth plans for its global direct to consumer ecommerce business, thereby consolidating its market-leading position. British Corner Shop has already served 600,000 customers, and with five million British expats around the world, the opportunity for growth is huge.

British Corner Shop operates a state-of-the-art distribution centre in the Netherlands from which it supplies its growing customer base globally. Its product, sales, marketing, and customer service teams are based in the UK.

In addition to strong sales in Europe, British Corner Shop is already seeing growth in North America, with emerging demand in markets such as Australia, Singapore, Israel, and India, and interest from new markets such as Czechia, Slovakia, and Hungary.

Financial Commentary

Financial commentary will commence in Q2 2023.

Company Name:

James Fisher Nuclear

Sector:

Nuclear Energy Engineering

Description:

Engineering services related to the decommissioning of Nuclear Power stations

Date of Investment:

March 2023

Flight Fund loan:

£683,409 Ordinary Shares
£2,316,591 A Shares

Flight Fund equity stake:

7.1% Ordinary Shares
22.8% A Shares

Summary

JFN is an established supplier of specialist engineering, manufacturing and technical services for applications within challenging, high integrity, environments.

Headquartered in Preston, the business operates from six locations around the UK, as well as having a presence close to the decommissioning sites of live projects such as Sellafield and Dounreay. JFN employs over 240 highly skilled workers across the sites.

At the time of investment, JFN had foreseen a healthy forecast pipeline thanks to the scale of the nuclear decommissioning task ahead. The Nuclear Decommissioning Authority estimates that it will take more than 100 years to complete the UK nuclear clean-up and waste management programme and has a planned expenditure for 2023 of £3.65 billion across its 17 sites.

Financial Commentary

Financial commentary will commence in Q2 2023.

Company Name:
Nasmyth Group Limited

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.

Financial Commentary

Rcapital continue to work closely with the management team to support operational improvements, cash management and develop a well defined growth strategy. Significant levels of cost have been taken out of the business, cultivating improved performance against budget and positive EBITDA 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.

Group revenues were broadly in line with budget although delays at sub-contractors led to the interruption of deliveries in the quarter. Additionally gross profit was lower than budget due to specific contracts identified by management. The business continues to carry significant operating expenditure which Rcapital is monitoring closely.

The relationships held with Nasmyth's blue chip customer base remain strong, which are expected to lead to a growing order book as the sector recovers.

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.

Financial Commentary

Patrick Parsons had a challenging quarter, with revenue and EBITDA behind budget. The structures division in particular has now experienced a prolonged period of lower-than-expected revenue performance. This is driven by three key factors; the economic impact of the September ‘Mini Budget’ on client decisions, the changes to fire regulations on buildings over 30 meters high in London and the Cladding bill. These factors occurring concurrently have created a unique situation for the sector. Navigating one of these items would be a challenge, but all at once has caused a market wide dip in performance.

The senior partner along with the three structural partners are focused on client engagement and keeping close to large bids that the business has submitted. New wins in March point towards recovery in April and it is expected that revenue in March will be a low point for the business.

During the quarter Rcapital have supported the business to engage in a robust business planning process for FY24. This has supported the pulling together of a joined up proposal for next year’s plan. Given the trading conditions this also includes the consideration of cost cutting measures, many of which have been executed in March ahead of the new financial year.

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.

Financial Commentary

The business had disappointing sales in the period but this was directly related to a specific part for a single client. This product will be delivered to the client in April and YTD sales are expected to recover in line with budget. The sales mix in the month returned a lower gross margin compared to budget which had previously been increased significantly due to NRV requirements.

A lower than budgeted spend on direct costs and generally strong cost control reduced losses suffered in the month, mainly due to overhead absorption and production consumables.

The balance sheet of the business is very healthy despite a noticeable cash balance reduction owing to the natural working capital cycle of the business.

Since the acquisition Rcapital continue to work with management post implementation of the 100 day plan with a particular focus on pushing through price increases (to combat cost inflation) and identifying areas for cost savings.



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