

FLIGHT

The Flight and Partners Recovery Fund Limited

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



January 2024

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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 that offer strong prospects for recovery through effective restructuring and operational turnaround.

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 and value 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 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.

In September 2023, a Guernsey private capital fund, Flight Co-Investment Fund (the “Co-Invest Fund”), was incorporated that will co-invest alongside the Flight Fund on pari-passu terms. The Co-invest Fund will be governed by the same parties as the existing Fund to manage any potential conflicts of interest.

UK Economic Indicators (figures in brackets are previous quarter)

GDP (Oct to Dec):

0.0% (-0.1%)

Inflation:

3.9% (6.3%)

Unemployment:

4.2% (4.3%)

Bank of England Interest Rate:

5.25% (5.25%)

FTSE (change since last quarter):

1.6% (1.0%)

Quarterly Summary

The UK economy was broadly flat in 2023, and is expected to continue its path of muted growth in 2024, as high interest rates become increasingly restrictive for businesses and consumers. Analysts have suggested that this will likely be partly offset by an improvement in real wages as inflation has declined.

Whilst headline inflation has gradually fallen back closer to target in the last quarter of 2023, global macroeconomic factors may prevent inflation falling further. The market still forecasts that the BoE has raised interest rates for the last time in this cycle, provided pay growth also eases soon. High interest rates continue to pile pressure on companies that are carrying large debt burdens because of the Covid pandemic, and 'mainstream' lenders continue to tighten credit criteria given uncertainty in markets.

Overall, economists expect GDP growth of a mere 0.4 percent in 2024, on par with the level in 2023. Despite this weak growth outlook, the BoE will likely keep the Bank Rate, currently at 5.25 percent, elevated for much of 2024. Core inflation has waned but remains sticky, at 3.9%.

Rcapital's market remains busy, and we were pleased to confirm two new deals in Q4 – Surface Technology International ("STI") and FGP Group. STI is an electronics manufacturer for the aerospace and defence sectors, headquartered in Hampshire. From its three facilities (two in the UK, one in the Philippines), STI provides complex printed circuit board assembly and box build services for critical applications across the Defence, Aerospace, Medical and Industrial sectors. FGP Systems is a precision engineering company offering high-end engineered and manufactured solutions for the aerospace industry and other sectors. Rcapital initially provided FGP with a loan facility in December 2023 to support working capital, whilst a wider deal was negotiated to acquire the company, which is expected to complete in January 2024.

The portfolio has had another strong quarter, providing a heartening end to 2023 and an optimistic outlook for 2024:

- **Avonside** has held up well, despite the fall in volume of new houses, due to the positive impact of new building legislation driving more demand for cavity wall insulation in new build homes, and its pipeline is building in the solar panels business;
- **Bromford** is currently working through substantial operational improvements following acquisition, management are engaging with key customers to ensure that these can be delivered;
- **HTSL** is profitable and cash generative. It completed its second bolt-on acquisition in the quarter, Phoenix Dosimetry, with prospects looking strong into 2024;
- **Nasmyth Group** is trading profitably with a strong order book, albeit is still navigating some recurring challenges with its supply chain;
- **Patrick Parsons** continues to feel the prolonged impact of the slowdown in the construction market, but is positioning to capitalise on an expected market recovery in 2024; and
- **Trac** is trading very positively and the outlook for 2024 is buoyant on the back of some new contract wins.

During the quarter, Flight's investment in British Corner Shop was exited, and the loan was repaid in full.

Sources: Bank of England, ONS, LSE

Quarterly NAV per A Share since inception

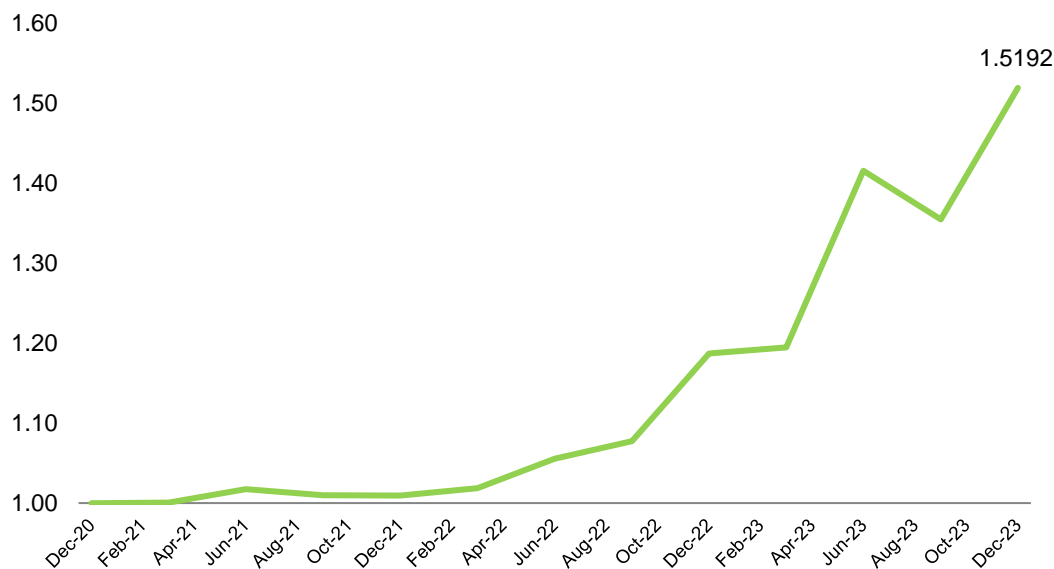
	Q1		Q2		Q3		Q4		YTD
Year	Price	% Change	Price	% Change	Price	% Change	Price	% Change	
2020	-	-	-	-	-	-	1.0000	-	-
2021	1.0009	0.09%	1.0176	1.66%	1.0101	(0.73%)	1.0095	(0.06%)	0.96%
2022	1.0188	0.92%	1.0555	3.60%	1.0594	0.37%	1.1693	10.37%	15.27%
2023	1.1469	(1.92%)	1.3676	19.24%	1.3070	(4.43%)	1.4462	10.66%	23.55%

The NAV per A Share as of 31st December 2023 is £1.4462 per share, an increase of 10.66% from the NAV per share at the previous quarter.

The value of the Fund's equity stakes increased because of the strong performance in Nasmyth, HTSL and Trac although this was moderated by the revaluation of equity value in Patrick Parsons.

In the last 12 months the Fund has generated a total return of 28.0%, including two dividend payments to shareholders totalling 5.5%. This comfortably exceeds the target return of 10-15% per annum and reflects a more buoyant investment market following a slow period in 2021.

Total Return per A Share (including dividends paid)



Gross & Net Asset Value attributable to A Shares

NAV Analysis (£m)	Sep-23	Dec-23	Diff
Cash	4.5	2.8	-1.7
Loans	9.3	11.3	1.9
Equity / Make Good	4.5	6.8	2.3
Other Assets	1.4	1.0	-0.4
Gross Asset Value	19.7	21.8	2.1
Other Liabilities	-0.2	-0.2	0.0
Net Asset Value	19.5	21.6	2.1
Shares in issue (000s)	14,947.0	14,947.0	
NAV per share (£)	1.3070	1.4462	0.1392

The gross asset value (GAV) attributable to the A Shares was £21.8m on 31st December 2023, an increase of £2.1m from the previous quarter.

The value of the Fund's equity stakes increased by £2.3m, because of the strong performance in Nasmyth, HTSL and Trac and solid performance across the remaining portfolio.

The value of the loan portfolio increased by £1.9m following the drawdowns to STI and FGP. As a result of the drawdowns and payment of other expenses, the cash balance reduced by £1.7m.

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.

FLIGHT

Portfolio Update



Summary of Portfolio Valuations by Share Class

	Avonside	Bromford	FGP	HTSL	Nasmyth	Patrick Parsons	STI	Trac
Loans per share class								
Ord Shares	12	614	1,031	0	292	50	250	78
A Shares	138	1,186	1,719	0	5,208	700	250	922
Co-Invest	0	0	1,250	0		0	500	0
Total Flight Loans	150	1,800	4,000	-	5,500	750	1,000	1,000
Equity % per share class								
Ord Shares	1.7%	10.2%	5.6%	6.8%	1.3%	1.5%	7.5%	2.1%
A Shares	18.9%	19.8%	9.4%	23.2%	23.8%	20.5%	7.5%	25.2%
Co-Invest	-	-	15.0%	-	-	-	15.0%	-
Total Flight Equity	20.6%	30.0%	30.0%	30.0%	25.1%	21.9%	30.0%	27.3%

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:

1.7% Ordinary Shares

18.9% A Shares

Summary

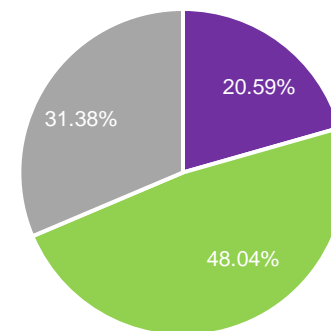
Avonside Energy Limited is the insulation and solar PV service provider of choice for house builders across the UK. Avonside Energy also help businesses save money on energy costs through its commercial-scale solar PV operations.

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 £20 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

The number of planning permissions dropped in the UK by 15% in the year to September 2023 and by 25% against 2021 numbers. Despite these challenging market conditions and a tough start to the year, Avonside has concluded 2023 on a positive note. Insulation performed robustly, and the PV business is now gaining momentum, driven by new regulations that started to make an impact in the last few months of the year.

In November, the business saw exceptionally high levels of confirmed new orders with continued strong performance through December. A key highlight is a new contract in the commercial PV segment, scheduled to kick off in April.

EBITDA is trading in line with budget for YTD. The Insulation Division's resilience provides optimism, and the PV business is bolstered by a positive order book and a constructive outlook for new build projects. An annualised overhead reduction has been identified and will be removed by the end of February which ensures Avonside is well-positioned to take advantage of the anticipated recovery in 2024.

Company Name:

Bromford Precision Solutions

Sector:

Aerospace and Power

Description:

Highly engineered component for the Aerospace and Power sectors

Date of Investment:

August 2023

Flight Fund loan:

£613,980 Ordinary Shares

£1,186,020 A Shares

Flight Fund equity stake:

10.2% Ordinary Shares

19.8% A Shares

Summary

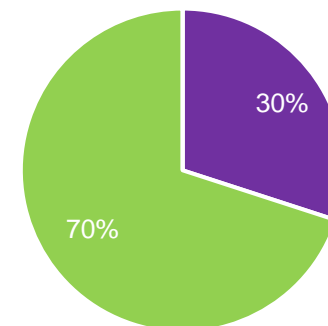
Bromford Precision Solutions Limited is the Leicester-based aerospace and power generation division of Bromford Group.

Rcapital has agreed strategic partnerships with key customers of the business to secure 81 jobs at the Group's Leicester site. Rcapital will focus on making operational improvements to deliver a growth plan and ultimately rescue a strong underlying business that has a reputation for high quality engineering, and a well invested facility.

The business is complementary to both Nasmyth and Trac so there may well be synergies to develop within the portfolio. The immediate focus will be on stabilising the business and returning it to a breakeven position – following which formal financial reporting will be prepared.

Formal financial reporting will begin once the operational transformation has completed in the first quarter of 2024.

Ownership Structure



- Flight Fund Equity Stake
- Rcapital Equity Stake

Company Name:

High Technology Sources Limited

Sector:

Industrial Instrumentation

Description:

Supply of radioactive isotopes to the medical, industrial and NDT sectors

Date of Investment:

March 2023

Flight Fund loan:

n/a

Flight Fund equity stake:

6.8% Ordinary Shares

23.2% A Shares

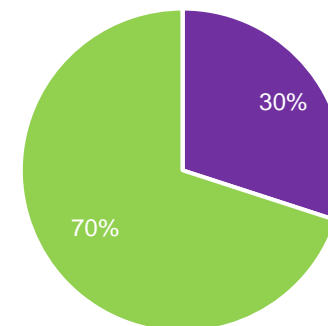
Summary

High Technology Sources Limited (HTSL) provide an extensive range of sealed and unsealed radiation industrial sources that are manufactured to the highest standards and comply fully with applicable national and international standards. HTSL have been one of the UK's leading suppliers of radioactive isotopes for over 20 years, and are the sole supplier in the UK of many of their products.

The isotopes sold by the business are typically inserted into pieces of equipment either for testing or scanning (e.g. medical devices or reviewing welding integrity). The business also provides technical and compliance related services to its customers, and specialist logistics support.

In September 2023, HTSL announced the acquisition of the Instrumentation Division of James Fisher Nuclear. The Instrumentation Division calibrates and repairs portable radiation protection instrumentation used to measure levels and duration of radioactive exposure for workers in the UK. Furthermore, in November 2023 HTSL announced the acquisition of Phoenix Dosimetry Limited, one of the UK's leading providers of radiological detection systems, radiotherapy dosimetry, and associated services. These two acquisitions are expected to be highly complementary to HTSL's existing business and creates an exciting platform in the UK nuclear sector.

Ownership Structure



■ Flight Fund Equity Stake

■ Rcapital Equity Stake

Financial Commentary

Revenue is ahead of budget for the year relating to a positive change in revenue mix.

The balance sheet of the business is healthy, and it is generating cash. Rcapital are currently integrating the acquisitions completed in the quarter that provide scale to the business.

The second acquisition completed in the quarter was Phoenix Dosimetry, a leader in the supply of Dosimetry and Radiation equipment, peripherals and service support for Dosimetry Services and Hospitals.

The combined group is forecasting strong growth in EBITDA in 2024 and offers have been made on the remaining freehold properties owned by the group.

Company Name:

FGP Systems

Website:

www.fgpltd.co.uk

Sector:

Aerospace Engineering

Description:

Precision engineering company offering solutions for the aerospace and other sectors.

Date of Investment:

December 2023

Flight Fund loan:

£1,031,250 Ordinary Shares
£1,718,750 A Shares
£1,250,000 Co-Invest Shares

Flight Fund equity stake:

n/a

Summary

FGP prides itself on offering a “One Stop Solution” for manufacturing within the Aerospace and Defence sectors. With over 40 years of expertise, FGP utilises the latest innovation and technology to help resolve customers’ requirements.

FGP has special processing, heat treatment, welding / brazing, chemical processing, paint and assembly capabilities in house and employs over 160 people across three sites located in Weymouth and Yeovil (two sites). It has the capability to support all customers’ requirements from low volume R&D projects to high level automated robotic, 24-7 lights out machining solutions.

FGP faced a liquidity crisis as its previous lender withdrew its debt facilities at short notice. Rcapital and Flight were able to refinance the debt at short notice and are in on-going negotiations to acquire the company.

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:

1.3% Ordinary Shares

23.8% A Shares

Summary

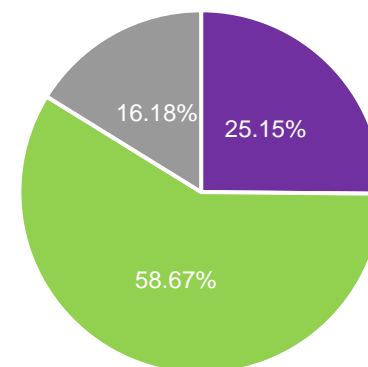
Nasmyth Group is a provider of specialist precision engineering services to the aerospace, defence and related industries.

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

Nasmyth made plenty of positive strides in the quarter, although these are not yet entirely reflected in the financial figures. EBITDA is profitable for the YTD and the business is forecasting a material step up in monthly profitability for the final 5 months of the year. Following extensive work from management the business is now set up to succeed – strong relationships have been formed with customers, operational efficiency is much improved, and cash flows are predictable.

The business has strategically closed one site with work transferring elsewhere and has purchased machining assets for the existing Indian subsidiary at a significant discount which will enhance the capacity of the plant substantially.

Retrospective price adjustments have been agreed with key customers, when coupled with a robust order book, this ensures a strong foundation to kick off 2024. The order book has grown on the back of a noticeable increase in demand within the defence sector in 2023.

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:

£50,250 Ordinary Shares

£699,750 A Shares

Flight Fund equity stake:

1.5% Ordinary Shares

20.5% A Shares

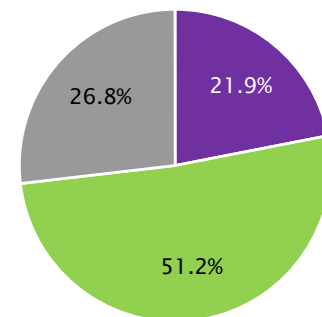
Summary

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 and Geo-environmental. 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 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

The company achieved breakeven EBITDA, demonstrating the successful implementation of cost-cutting measures.

Despite the challenging market conditions, management has identified project opportunities that it is well placed to win and believes in the emergence of positive signs in the market.

Patrick Parsons are anticipating that developers will leverage stabilising interest rates to stimulate projects in 2024. Despite taking out significant cost, management are ensuring that it is still able to capitalise on an improving market in 2024.

Company Name:

Surface Technology International

Website:

www.sti-limited.com

Sector:

Electronics Manufacturer

Description:

Manufacturer of complex circuit boards and related services to the medical, defence and aerospace sectors

Date of Investment:

October 2023

Flight Fund loan:

£250,000 Ordinary Shares

£250,000 A Shares

£500,000 Co-Invest

Flight Fund equity stake:

7.5% Ordinary Shares

7.5% A Shares

15.0% Co-Invest

Summary

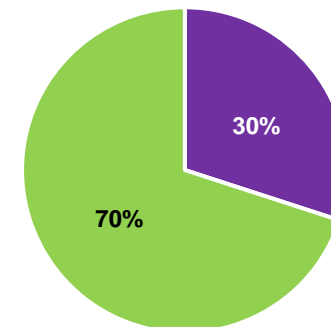
Surface Technology International ("STI") is an electronics manufacturer, headquartered in Hampshire. From its three facilities (two in the UK, one in the Philippines), STI provides complex printed circuit board assembly and box build services for critical applications across the Defence, Aerospace, Medical and Industrial sectors.

Rcapital acquired STI in October 2023 from Integrated Micro-electronics, Inc ("IMI").

IMI sought to divest of STI following a strategic review and Rcapital was selected as the preferred acquiror because of its deep expertise in delivering corporate carve out transactions. An additional factor was the sector expertise developed having made several investments into businesses that serve the Aerospace and Defence sectors.

Rcapital has introduced a sector focussed CRO who is leading a strategic review and subsequent turnaround programme. Comprehensive financial reporting will begin in the following quarter.

Ownership Structure



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

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:

2.1% Ordinary Shares

25.2% A Shares

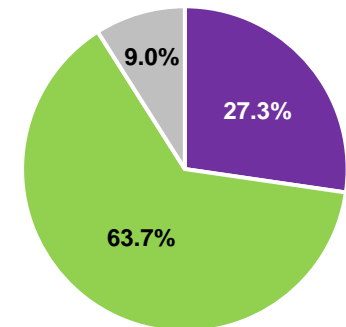
Summary

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 £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

Trac is trading well with EBITDA ahead of budget in the last quarter of 2023, despite some ongoing supply chain issues.

Revenue was marginally behind target in the quarter with persisting delays from suppliers in relation to products for Trac's largest customer. These operational challenges are expected to ease and a strong orderbook, including new contracts won with key customers, should ensure that 2024 forecasts are promising.

The balance sheet of the business is healthy with cash management now a strength of the business.



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