

The Flight and Partners Recovery Fund Limited

Adviser's Quarterly Report for the Quarter ending
30th September 2024



FLIGHT

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Introduction

Transforming and growing businesses by seeing potential in complex situations

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 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 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 Limited (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.



FLIGHT



Market Update

Whilst overall signs are cautiously optimistic, the upcoming budget has created short-term challenges in some sectors

UK Economic Indicators *(figures in brackets are previous quarter)*

GDP Growth (Jul to Sep):

0.5% (0.7%)

Inflation:

2.2% (2.8%)

Unemployment:

4.0% (4.4%)

Bank of England Interest Rate:

5.00% (5.25%)

FTSE (change since last quarter):

0.9% (2.7%)

The overall macro signs for the UK economy are improving. Inflation is stabilising around the 2% target, providing expectations for reducing interest rates and a more balanced economic expansion driven by consumer spending and business investment. Political stability, falling interest rates and growing demand are enhancing business confidence and appear to be creating the conditions for growth over the next 18 months. GDP grew by 0.2% in August, following a period of stagnation in the previous months.

Analysts expect that headline UK inflation to rise over the rest of this year, but it is thought unlikely to go over 3%. More importantly services inflation should continue to slow gradually as wage pressures ease, whilst the notable risk to UK companies is a possible spike in energy prices driven by geopolitical risks.

However, we have seen a notable slowdown in business investment activity in the last quarter driven by the uncertainty of the new budget announced on 30th October. Messaging from the new government has not been positive and there are widespread expectations of tax increases. This has led to a slowdown in new project activity in the construction/property market and other sectors, which had a pronounced impact on Patrick Parsons.

At Rcapital, new investment activity remains buoyant with several opportunities being reviewed and a sustained effort to explore carve-out opportunities throughout 2024 paying off in August as the team announced the acquisition (subject to regulatory approval) of engineering subsidiary **GT Emissions Systems** from Knorr-Bremse.

The medium-term outlook for the portfolio remains healthy:

- **Avonside's** core business is trading strongly, although its commercial division has been impacted by a delay in a key project. The business has built a strong pipeline and is forecasting good profits for the remainder of its financial year;
- **Bromford** is still working through operational challenges but its key customers continue to support the business and management are confident that the turnaround can be delivered;
- **FGP** continues to deliver consistent sales numbers which is translating into strong profits. Cash generation remains a challenge;
- **HTSL** continues to trade well and is ahead of its stretch budget. The business is running a continuous value creation programme and is working on another bolt-on acquisition that is expected to close in Q4 2024;
- **Nasmyth Group** has had a slow summer period after a fast start to 2024. The business is now undertaking a pricing review with key customers to ensure it is able to deliver expected margins on its strong orderbook;
- **STI** has successfully worked through the first phase of the turnaround process. The business is forecasting healthy EBITDA for the outturn financial year and is in discussions with customers over several large new orders for 2025;

During the period it was announced that Rcapital has agreed a deal to sell **Trac** to PTC Industries, an Indian aerospace group. This represents an outstanding return for the Fund over a 2-year period and underlines Rcapital's capabilities in the aerospace sector that will be leveraged on the remaining portfolio.

Rcapital has also exited **Charnwood** and **Patrick Parsons** as they continued to suffer from the prolonged slowdown in their respective markets. Both investments will return all funds invested as well as interest, albeit will not deliver any equity return.

Fund Performance – Ordinary Shares

The NAV per Ordinary Share as of 30th September 2024 was £1.8284 per share, an increase of 3.07% from the previous quarter.

Commentary

The value of the Fund's equity stakes increased due to continued strong performance of HTSL and STI, and resultant increase in valuations. In addition to this, the exit of Trac in the quarter provided an increase to the NAV which was tempered by the reduction in run-rate EBITDA at Nasmyth.

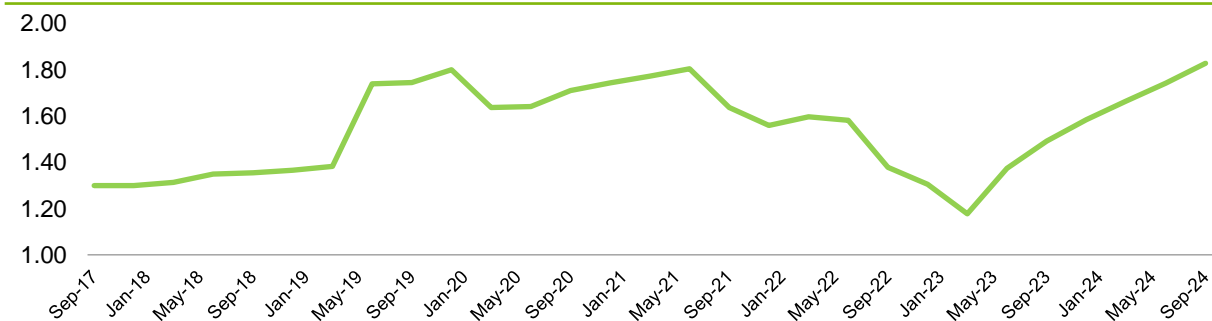
The Fund has increased in value by 22.5% since September 2023.

It is noted, as reported to TISE in the previous quarter, the NAV for the period ended 30th June 2024 has been restated upwards from 1.7425 following the audit completed after the year end.

Quarterly NAV per Ordinary Share (last 7 years)

	Q1		Q2		Q3		Q4		YTD
Year	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%)	1.3743	16.72%	1.4923	8.59%	1.5850	6.21%	21.77%
2024	1.6645	5.02%	1.7739	6.58%	1.8284	3.07%			14.66%

Quarterly NAV per Ordinary Share (last 7 years)



NAV Analysis – Ordinary Shares

The net asset value (NAV) attributable to the Ordinary Shares was £5.7m at 30th September 2024, an increase of £0.3m from the previous quarter.

Commentary

The value of the Fund's equity stakes increased by £0.1m, because of an increase in the value of HTSL Trac and STI. Loans have decreased due to the repayments from the Bromford facility.

Cash has increased by £0.1m in the period due to the settlement of working capital balances.

Gross & Net Asset Value attributable to Ordinary Shares

NAV Analysis (£m)	Jun-24	Sep-24	Diff.
Cash	1.1	1.2	0.1
Loans	2.2	2.1	-0.1
Equity / Make Good	1.1	1.2	0.1
Other Assets	1.3	1.3	0.0
Gross Asset Value	5.8	5.9	0.1
Other Liabilities	-0.3	-0.2	0.1
Net Asset Value	5.4	5.7	0.3
Shares in issue (000s)	3,101.4	3,101.4	0.0
NAV per share (£)	1.7739	1.8284	0.0545





Portfolio Update

Portfolio Summary

Summary of Portfolio Valuations by Share Class

£000s	Avonside	Bromford	FGP	HTSL	Nasmyth	STI
Loan Balance						
Ords	12.5	562.8	843.8	0.0	291.7	250.0
As	137.5	1,087.2	1,406.3	0.0	5,208.3	250.0
Co-Invest	0.0	0.0	2,250.0	0.0	0.0	500.0
Total Flight Loans	150.0	1,650.0	4,500.0	-	5,500.0	1,000.0
Equity Share per share class						
Ords	1.7%	10.2%	5.6%	5.5%	1.3%	7.5%
As	18.9%	19.8%	9.4%	18.5%	23.8%	7.5%
Co-Invest	0.0%	0.0%	15.0%	0.0%	0.0%	15.0%
Total Flight Equity	20.6%	30.0%	30.0%	24.0%	25.1%	30.0%

Avonside Energy

Insulation and Solar PV service of choice across the UK



FLIGHT

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

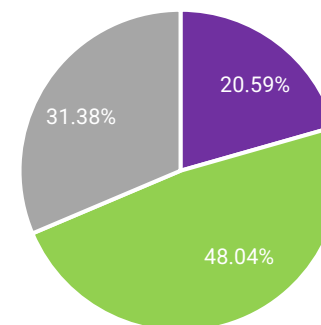
Avonside Energy Limited is the insulation and solar PV service provider of choice for house builders across the UK. Avonside Energy also help businesses save money on energy costs through its commercial-scale solar PV operations.

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

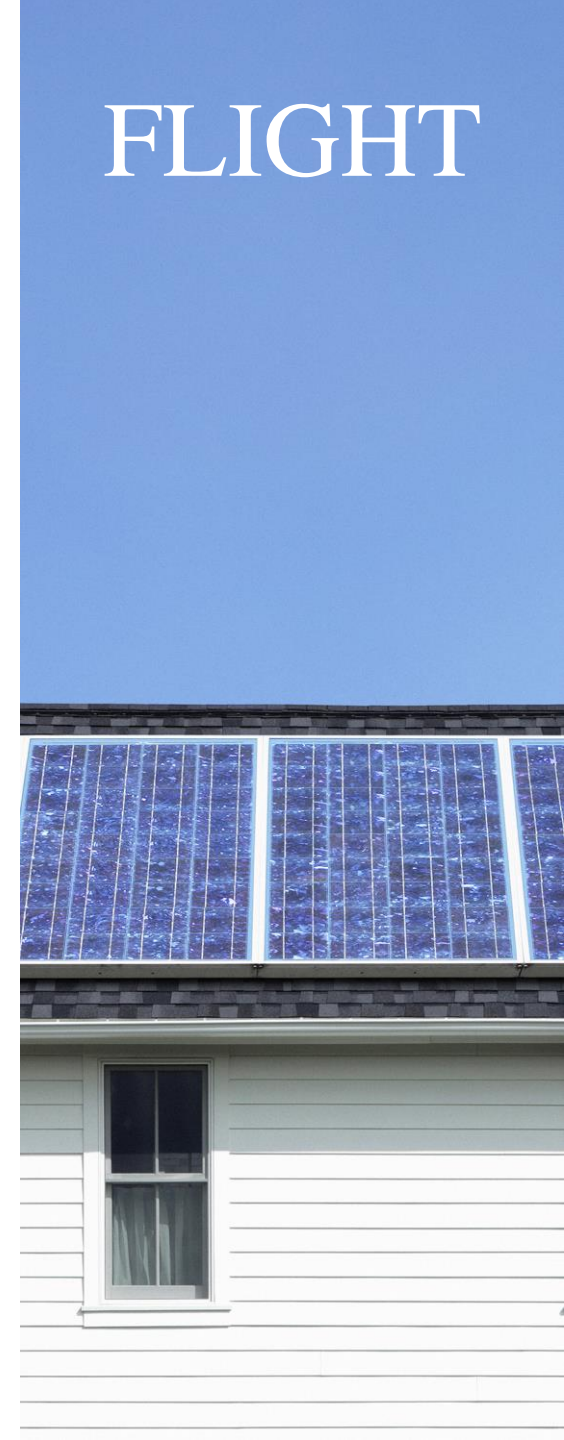
Avonside Energy will generate revenue of nearly £20 million this year and is profitable and cash generative. It employs over 100 skilled workers and is a key part of the new build supply chain, with major customers including Barratt Homes, Taylor Wimpey, Persimmon Homes, Redrow and Miller Homes.

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



Bromford

Highly engineered components for the Aerospace and Power sectors



FLIGHT

Company Name:

Bromford Precision Solutions

Sector:

Aerospace and Power

Description:

Highly engineered components for the Aerospace and Power sectors

Date of Investment:

August 2023

Flight Fund loan:

£562,815 Ordinary Shares
£1,087,185 A Shares

Flight Fund equity stake:

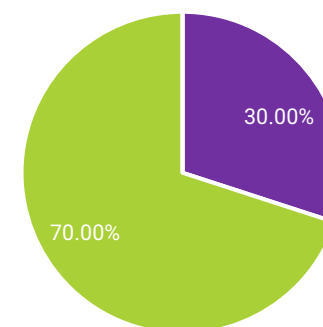
10.2% Ordinary Shares
19.8% A Shares

Summary

Bromford Precision Solutions Limited is the Leicester-based aerospace and power generation division which was acquired from the 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 FGP 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.

Ownership Structure

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



FGP Systems



FLIGHT

Precision engineering company offering solutions for the aerospace and other sectors

Company Name:
FGP Systems Limited

Website:
<https://fgpltd.co.uk/>

Sector:
Precision Engineering

Description:
Engineered and manufactured solutions for the aerospace and defence sectors

Date of Investment:
January 2024

Flight Fund loan:
£843,750 Ordinary Shares
£1,406,250 A Shares
£2,250,000 Co-Invest

Flight Fund equity stake:
5.6% Ordinary Shares
9.4% A Shares
15.0% Co-Invest

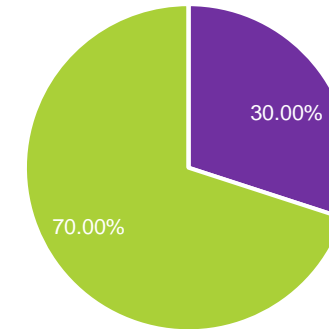
Summary

The Group comprises Weymouth based FGP Systems Limited, a precision engineering business which provides very high tolerance machining, turning and fabrication services to blue chip aerospace and defence customers, and FGP Lufton Ltd which is based in Yeovil and manufactures a portfolio of parts for the aerospace sector. The Group also includes a successful surface treatments and coatings business, Ramp Surface Coatings.

FGP boasts a number of blue-chip customers, including Honeywell, Collins Aerospace, Martin Baker and Curtis Wright. It also participates in several flagship aerospace programmes including Airbus A350 and A320, Boeing 737 and 787, as well as major defence platforms including the Eurofighter and F35.

The existing management team will remain in place and will be supported by Rcapital to implement an extensive operational and financial performance improvement plan.

Ownership Structure



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

High Technology Sources

Providing radiation industrial sources and specialised logistics support



FLIGHT

Company Name:
High Technology Sources Limited

Sector:
Industrial Instrumentation

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

Date of Investment:
September 2023

Flight Fund loan:
n/a

Flight Fund equity stake:
5.5% Ordinary Shares
18.5% A Shares

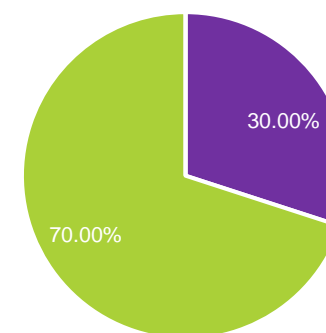
Summary

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
- Management Equity Stake

Nasmyth Group

National complex precision engineering solution provider



FLIGHT

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

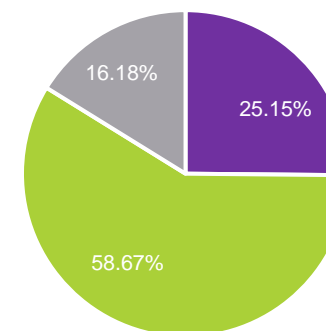
Nasmyth Group is a provider of specialist precision engineering services to the aerospace, defence and related industries.

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

Surface Technology



Manufacturer of Circuit Boards and Specialty Electronics to the Defence Sector

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

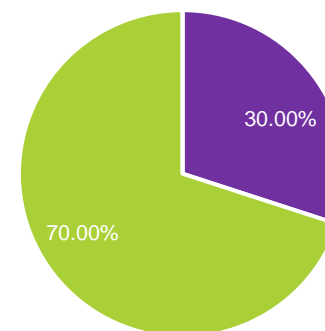
Surface Technology International (“STI”) is an electronics manufacturer, headquartered in Hampshire. From its three facilities (two in the UK, one in the Philippines), STI provides complex printed circuit board assembly and box build services for critical applications across the Defence, Aerospace, Medical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

Ownership Structure



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

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