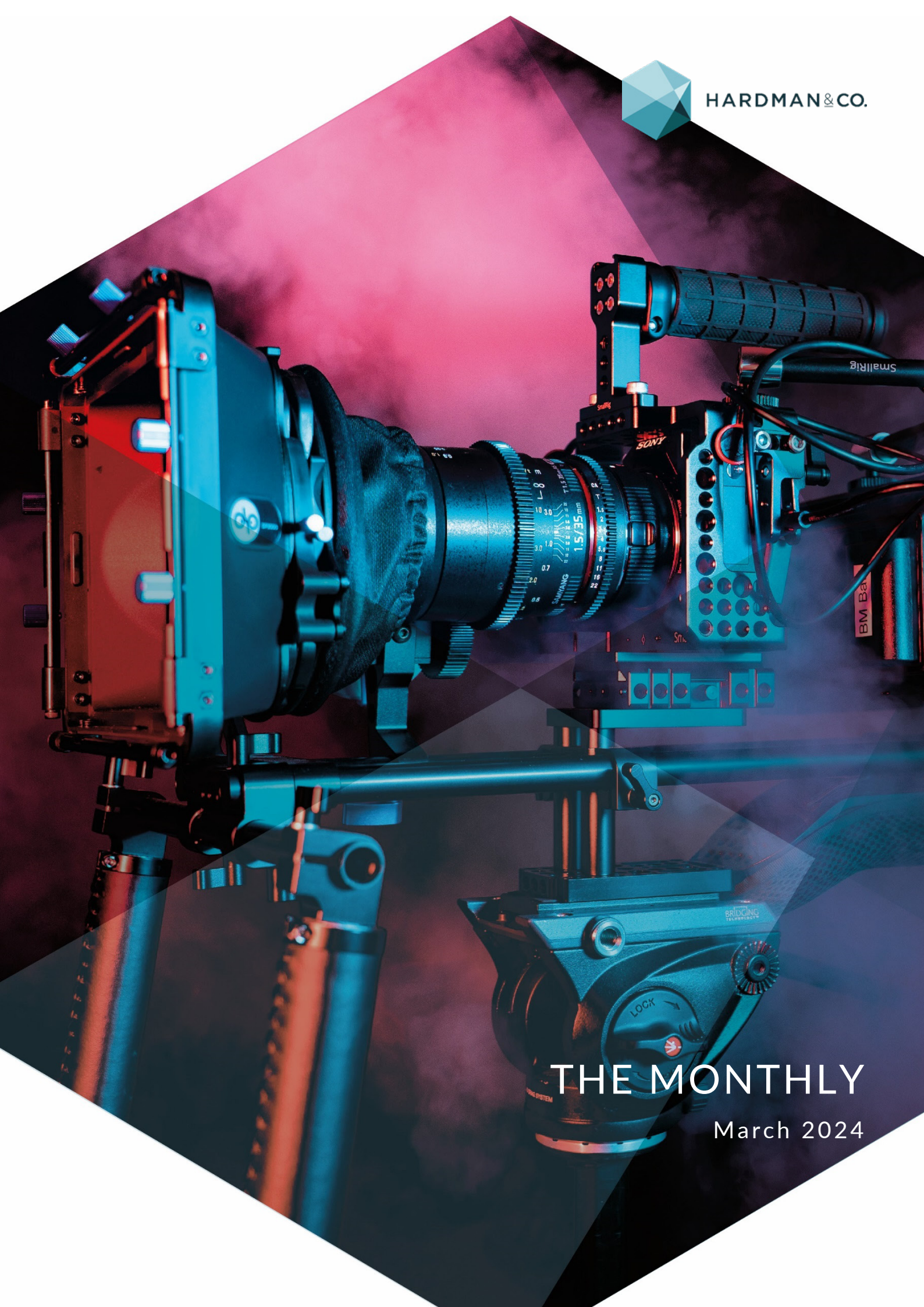




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Streamed content takes over...

- ▶ The Great Correction of 2022 saw the share prices of streamers plunge after market leader Netflix reported a slowdown/fall in subscriber growth.
- ▶ Having formerly been seduced by hectic subscriber growth rates, investors quickly refocused, this time on fundamental metrics such as revenue, margins, profits and cashflow.
- ▶ Since then, streamers have continued to take a steadily greater share of viewing while linear TV continues to decline. But growth in streaming subscribers in the US and UK is now a fraction of what it was, reflecting pressure on consumer incomes and intensified competition in content.
- ▶ The slowdown in growth of subscribers has led to a revision of business models. Netflix is broadening its offer to subscribers by investing in areas such as sport, gaming and gambling, aiming to become an entertainment hub. The business is scalable, with pricing power, so margins are rising.
- ▶ Disney has dealt with management issues and with attempts by outside investors to gain a seat on the board. Based on its enormous content assets, it is set to move into profit on its streaming offering this year and, like Netflix, it will be an entertainment hub.
- ▶ Streamers see advertising as an attractive source of revenue and are offering advertising-supported tiers at low prices. If their content delivers audiences that advertisers want, streamers will have a slice of high-margin revenue. Plus, streamers view the lower prices as a way of reeling in new subscribers, rather than encouraging trading down.
- ▶ In the UK, competition for viewers is intense with the US-based streamers up against the Public Service Broadcasters. ITV and STV have adopted three-legged strategies: linear broadcasting, programme making and streaming, but, currently, they are still too dependent on linear advertising revenue for investors' liking.
- ▶ Streaming is now a global business. Netflix identifies 700m connected TVs worldwide and compares this with its subscriber numbers of 260m. Even in the domestic US market, streaming accounts for only 10% of TV time, so plenty of growth to go for.
- ▶ In the US, loss-making streamers (Warner Brothers Discovery, Paramount) are considering merging. Outside of Netflix, only Disney looks like making profits from streaming, but Amazon Prime may be on the path to profit too, in view of its strong growth in subscribers.
- ▶ Streaming is a disruptive, content-led, subscription-based technology. Challenging all video distribution business models, it opens up global opportunities for a growing variety of content, including gaming and sport. Successful use of content to engage and retain subscribers in a scalable business will lead to strong profit growth. The old saying that "content is king" has never been truer.

...after the Great Correction

Highly rated shares slumped when the growth in streaming subscribers stalled in 2022

Prior to 2022, investors put a high rating on shares such as Netflix, clearly believing that the company was the winner in the race for the future of video distribution. However, net losses of US paid subscribers in 2Q, 3Q and 4Q'22 shattered this dream and shook the entire streaming industry. Share prices plunged. They have recovered since, but only modestly, and not to the extent of Netflix.

Streamer share prices: 2021/22 high/low; end-2023

\$	Netflix	Disney	Comcast	WBD	Paramount
High	682.6	192.3	67.0	77.3	99.2
Low	175.5	81.1	29.3	9.2	10.7
End-2023	486.8	90.3	43.8	11.4	15.0

Source: Company websites

Awakening from the dream, investors went back to basics and began to demand commercial success, with growth in revenue and profits and strong, sustainable cashflow. Questions were raised about high debt levels, which resulted from accelerating content spending, where it was not always possible to demonstrate a positive return.

The video distribution industry is facing two imperatives:

- ▶ streaming is the technology of the future but needs substantial investment; and
- ▶ streaming is loss-making in the short term for some newer entrants to the market. They will need to decide for how long they can tolerate the cash outflow and higher debt.

In the short term at least, there are many challenges. In some cases, weak linear TV advertising is hitting revenues. All are affected by inflation in content costs, following settlement of the actors' and writers' strike. Sport is seen as a major audience builder, but sports costs are rising too.

M&A activity could solve some strategic and operating problems, such as losses, but who would buy and who would sell?

Slower growth in streaming markets plus investor demand for better financial performance is driving changes in business models

Slower growth in streaming and investor demand for better financial performance is driving changes in business models and corporate strategies. Market leaders are evolving into "entertainment solutions", which will attract and retain subscribers based on the breadth of their content offering.

Netflix is acquiring assets in gaming and gambling, for example, which will drive subscription growth and make price increases possible. Disney probably has the widest and deepest content portfolio and Disney+ (the streaming service) is growing strongly. These two, and possibly Amazon Prime, will be market leaders globally and will benefit from economies of scale. All are offering advertising-backed, cheaper content services.

Other competitors will have to offer attractive content at competitive prices and will be more at the mercy of trends in consumer spending than their larger rivals.

US streaming battleground

Netflix versus the rest

Netflix is the longest-established streamer and market leader with a good trading track record

Netflix is the longest-established streamer and is market leader, by some way. It has delivered subscriber growth year after year, making profits and generating cash but spending heavily on content while taking on rising levels of debt.

TV, generally, was a very local industry, based in regions, towns or countries, until technology made streaming possible, and then it became global. Netflix went global in 2016 and, at the same time, began to build up its original content library, having previously bought in or licensed its content.

Heavy spending on content from 2016

There was a leap in spending on original content between 2016 and 2022, from \$5bn to \$14.5bn. Over the same period, operating margins grew from 4% to 20%, as the gearing effect of subscriber growth in global markets kicked in.

Following the downturn of 2022, Netflix reminded investors not to focus too heavily on subscriber numbers. This may look to be an obvious comment after the modest period of subscriber growth, but the point being made was that there are other ways of driving revenue, profit and cashflow.

In the US, price increases came to the rescue, with the average revenue per customer rising by 7.3% from \$14.78 (FY'21 average) to \$15.86 (FY'22 average) compared with a 0.3% fall in average subscribers from 74.234m to 74.001m.

In 2023, 3Q and 4Q results beat expectations, and margins and cashflow improved

The 4Q'23 results were ahead of expectations, with revenue growing by 12.5%, reflecting the benefits of increased paid sharing, price increases and a strong slate of movies. Better-than-expected revenue growth fed through to higher operating income and record 4Q margins of 16.9% compared with 7% in 4Q'22. Globally, subscriber numbers reached 260m.

Netflix: recent trading					
\$m	4Q'22	1Q'23	2Q'23	3Q'23	4Q'23
Revenue	7,852	8,162	8,187	8,542	8,833
% +/-	1.9%	2.7%	3.7%	7.8%	12.5%
Operating income	550	1,714	1,827	1,916	1,496
Operating margin	7.0%	21.0%	22.3%	22.4%	16.9%
Global paid members (m)	230.75	232.50	238.39	247.15	260.28
% +/-	4.0%	4.9%	8.0%	10.8%	12.8%

Source: Company announcements, Hardman & Co Research

At the same time as financials improved, Netflix expanded its strategic horizons by creating new content categories that add value for customers. Cashflow continues to be directed to film making and acquisition but also to interests in gambling and gaming.

Netflix offers an ad-supported channel at a lower price, but advertising has been slow to build up; advertisers must want the audiences that Netflix delivers. It remains to be seen if advertising is a "growth lever".

While Netflix emphasises that subscriber growth is not the holy grail, it is keen to point out that there is enormous further potential for growth, on a global basis. It also maintains that scale is a priority. Worldwide, there are nearly a billion broadband subscribers.

Media

Netflix sees itself as a global entertainment company

The creation of a “deep slate” of content continues as Netflix moves into unscripted content in English and in local languages and into other genres, such as animation, sport and video games. The aim is to grow engagement with a wide range of content offerings. And engagement means retention of subscribers. Pricing strategy will reflect this with a wide range of options for a wide range of consumers.

Netflix sees itself as a global entertainment company. Success in this strategy plus a very scalable business model lies behind the company’s confidence in becoming more profitable still. In its 3Q’23 results commentary, Netflix claimed that it was nowhere near a margin ceiling. In FY’23, margins of 20% are expected, rising to 22%-23% in 2024.

Netflix makes a major move into live sports entertainment by means of a long-term partnership with sports entertainment company WWE

With the 4Q’23 results figures, Netflix announced a major move into live sports entertainment in the form of a long-term partnership with WWE, a global leader in sports entertainment. Netflix is to pay \$5bn for 10 years of content.

From January 2025, WWE’s weekly flagship programme (*Raw*) will find an exclusive home on Netflix in the US, Canada, the UK, Latin America and other territories with more countries to be added over time. In addition, Netflix will offer subscribers all WWE shows and specials outside the US (including *Raw*).

There is a strong message for the TV industry here as *Raw* will no longer be on linear and has moved to a digital service, enabling it to appeal to a larger audience globally, which should be attractive to advertisers. The deal is also in line with the Netflix objective of becoming an entertainment hub.

Netflix outlines its opportunities in global terms: pay TV, films, games and branded advertising together make up a market of \$600bn. At the moment, Netflix has just 5% of this.

Disney gets its act together

Fiscal 2023 ended on a strong note for Disney, although streaming was still loss-making

Following a difficult 2022 and early 2023, Disney reported group revenue of \$89bn (+7%) and a 6% rise in group operating profit to \$12.9bn, for the year to September 2023. There was a particularly strong 4Q, with group profits up 86%. Profits on linear networks were steady, at \$805m, but losses on direct-to-consumer (DTC) were sharply lower at \$400m, a turnaround of \$1bn.

At the end of the year, Disney+ subscribers totalled 112m, with 7m added in 4Q. Ad-supported Disney+ products grew by 2m in 4Q to 5.2m. The target for cost cutting (annualised) was raised from \$5.5bn to \$7.5bn.

The CEO confirmed his target of hitting profitability on streaming in 4Q’24.

Disney's corporate strategy for streaming: ESPN, film studios and experiences

Disney revealed four “building opportunities” that constituted the next phase of its corporate strategy.

- ▶ Achieving significant and sustained profitability in the streaming business
- ▶ Building ESPN into the pre-eminent digital sports platform
- ▶ Improving the output and economics of its film studios
- ▶ Turbocharging growth in the experiences business

Disney is to acquire the remaining stake in Hulu (the US subscription streaming service) from Comcast and make it part of Disney+. After much speculation, ESPN+ will be absorbed into Disney+. These moves bring together all of Disney's streaming assets, creating a formidable offering to consumers. Reflecting this strength, streaming prices were increased in 1Q'24.

The combined streaming businesses are set to reach profitability by 4Q'24, helping to narrow the gap in group margins between Disney (14.5%) and Netflix (21%).

Amazon Prime flexes its muscles

Prime Video is a main reason to sign up for Amazon Prime

At its simplest, Amazon uses technology to transform customer experiences. Prime Video fits the bill; it is one of the top two reasons for subscribers to sign up with Amazon Prime, Amazon's paid subscription service, which offers goods and services at a discount to regular purchases on Amazon.

Amazon Prime Video gives subscribers access to popular movies and TV shows. In addition, membership of Prime Video gives access to content from streaming services such as Paramount+, Discovery+, Lionsgate+, StudioCanal and MGM. Prime Video offers a premium streaming service, as well as a broad transactional video-on-demand service.

Prime Video could become a large and profitable business

In its 3Q trading statement in October 2023, Amazon gave a hint of its ambitions, in stating that Prime Video could become a large and profitable business as it continues to invest in exclusive content for members. It does not offer live TV. Exclusive content is provided by Amazon Originals. Amazon Exclusives offers exclusive movies but not made by Amazon.

In March 2022, Amazon Prime acquired MGM Studios for \$8.4bn, adding exclusive movies to its offering.

In January 2024, advertising started on Prime Video, following in the footsteps of Disney+ and Netflix. Subscribers who wish to avoid the advertising have the option to upgrade to an advertising-free service for an extra £2.99 per month.

Amazon Prime has proved to be a hugely attractive consumer platform. It currently has 220m subscribers, of which 168m are in the US. In 2022, Amazon Prime Video had 190m subscribers.

Amazon is a formidable marketing machine and has the financial firepower to sustain a period of spending on content, but it remains to be seen how attractive its offering is when compared to Netflix and Disney, which are becoming entertainment hubs.

Warner Brothers Discovery to acquire Paramount?

WBD aims to build scale in streaming

To compete with the leading streamers, consolidation among rivals is a likely option. It is widely reported that Warner Brothers Discovery (WBD) and Paramount Global are in merger talks. Both companies are making losses, or marginal profits, on their streaming assets. The need to make a success of streaming by building scale and cutting costs is the key driving force behind the mooted deal.

Paramount Plus, the streaming service, has 63m subscribers. WBD has 95m and HBO Max has 60m. This compares with Netflix, which has 260m.

Wall Street unimpressed by a defensive merger

WBD itself is the result of a merger, in April 2023, between Warner Media and Discovery. This left WBD with high levels of debt, which the company has focused on reducing. At the end of 3Q'23, net debt was \$45bn, after paying down \$12bn.

Wall Street was unimpressed by the notion of a combined group and both shares fell on the announcement of a potential tie-up. The main concern was the level of debt carried by both companies; strategically, though, there was concern about their involvement in declining linear TV assets as well as continuing losses on streaming.

WBD's 2023 revenue is estimated (market consensus) to reach \$44bn. For 2024, revenue is set to grow by just 1.5%, with a loss at the operating level. No profit growth is expected until 2026.

For the first nine months of 2023, Paramount reported revenue of \$22bn (flat against 2022) and a loss of \$855m at the operating level. Group performance was better in 3Q, with revenue up 3%, due mainly to a 46% rise in Paramount+ subscription revenues to \$1.3 bn. Elsewhere in the group, both linear TV and Studios saw a fall in revenue and profit.

Outlook

With Netflix tightening its grip on the streaming market, investor attention has switched to the rest of the streamers, who may have lost a combined \$5bn in 2023, industry sources suggest.

Netflix has a strong market position, established over many years, with a library of many titles and many genres. In addition, with a strong front list, Netflix can (and does) price at a premium to its rivals. Rivals must price at a discount to win and retain subscribers, despite offering some attractive content.

Spending on content remains a battleground, and despite a slight lowering of industry content spend, this lies behind the losses in 2023. Longer term, the cost of content will continue to rise, due to competition among streamers. There is no certainty that there will be profits. The exceptions are Netflix (margins 20% and rising) and Disney, which maintains that its streaming operations will be profitable in December 2024.

There are several possible solutions to the problem of losses:

- ▶ Consolidation is one route to lower costs and a stronger content offering. Paramount might be up for sale, possibly to Warner, which has been losing streaming subscribers.
- ▶ Major cost-cutting exercises are applied – Disney is cutting \$7.5bn, or 7,000 jobs.
- ▶ Production costs have risen after the settlement of the Hollywood screenwriters' and actors' strike. The stronger companies can cope with this by raising prices, but weaker ones will have to cut costs further.
- ▶ As yet, no competitor has packed up his tent and left the field of battle. A merger of lossmakers has been suggested to strengthen the content offering and take advantage of the economics of scale, but this is not from a position of strength and leaves questions unanswered.

Consolidation is a short-term response to over-investment in content, but M&A is not the solution to any longer-term slowdown in the streaming market, which may cause problems for the weaker players. According to Alix Partners, the US streaming market grew at 22% p.a. between 2017 and 2023 but is maturing and is forecast to grow at "mid-single-digit" rates between 2024 and 2026.

Currently, the advertising market is weak, reflecting slower economic growth and rising costs for consumers. However, in the longer term, digital is set to take a larger and larger slice of total advertising spend. In 2018, digital accounted for 51% of global ad spend and is forecast to account for 74% in 2026.

UK streaming battleground

SVOD households in the UK continue to rise...

The penetration of UK households by subscription video on demand (SVOD) continues to rise. Based on figures from BARB's Establishment Survey, 19.3m UK homes (67.3%) had access to SVOD services in 3Q'23. This a rise of 2.7% on the previous quarter but in line with 1Q'23.

Number of households subscribing to SVOD services in the UK				
(m)	1Q	2Q	3Q	4Q
2021	17.4	18.8	18.7	19.1
2022	19.6	19.2	19.5	19.4
2023	19.1	18.8	19.3	-

Source: BARB, Hardman & Co Research

The rise has slowed materially over the past three years. Figures for 3Q'23 are 6.9% above the figure for 3Q'21 but are below those for 3Q'22.

...but streaming markets in both the UK and US are seeing slower growth than before

Streaming markets in the US and UK are seeing slower growth than before. There seems to be many reasons, not least the squeeze on consumers' income. But also a factor is content fatigue, which, Deloitte reports, is a leading reason for 21% of UK streamers cancelling their subscriptions in 2023. Other reasons for cancelling include price (27%), keeping household costs down (24%) and, remarkably, "there was nothing I wanted to watch" (16%). Kantar identifies "boomerang" consumers, who sign up to watch a series then cancel. This applies particularly to new entrants, which offer low prices in order to buy their way in and drive for scale.

Account sharing is a major issue for streamers. Altogether, 35% of subscribers are sharing an account with other households; they either share a paying account or are not paying at all. According to Deloitte, if sharing were to be stopped, 21% of subscribers would consider a full price service, 35% would consider a higher price than they were paying and 35% would consider a service with adverts.

The streamers are approaching this issue carefully as they want to increase the yield per subscriber but are wary of higher prices driving sharers away.

Nevertheless, streaming is popular. The average number of subscriptions per home rose to 2.62 in 2023, up from 2.46 the previous year. In some cases, there is "service stacking", i.e. buying multiple subscriptions. This is a way to see what is on offer, but accounts for cancelling and must be vulnerable to price rises.

Netflix is the service with the greatest access (16.7m homes) followed by Amazon Prime Video (13.0m), Disney (7.6m), Apple TV+ (2.2m), and Paramount+ and NOW (1.9m each).

Leading streamers in the UK market in 2023			
(m)	1Q'23	2Q'23	3Q'23
Netflix	17.0	16.5	16.7
Amazon Prime	12.9	12.6	13.0
Disney+	7.1	7.2	7.6
Apple TV+	1.9	1.9	2.2
Paramount+	-	1.7	1.9
NOW	2.0	2.0	1.9
Total UK homes with subscriptions	19.0	18.8	19.3

Source: BARB, Hardman & Co Research

ITV

A robust strategy, focused on content and streaming

ITV defines itself as a “leading global and diversified vertically integrated producer broadcaster and streamer” (2022 annual report). Its vision for 2026 is to be a leader in UK streaming and an expanding global force in content.

ITV operates under two divisional headings:

- ▶ **Media & Entertainment:** All of ITV’s channels and platforms fall into this division, which consists of Broadcasting and Streaming. In December 2022, ITV launched its new, advertising-funded, free, streaming platform ITVX. ITVX also has an advertising-free subscription offering.
- ▶ **ITV Studios:** The accelerating pace of change in the TV market is driving sustained growth in the demand for content for linear and streamed TV. Demand is also driven by a growing range of devices on which content can be accessed.

ITV: revenue profile		
(£m)	2021	2022
Studios	1,760	2,096
Total Studios	1,760	2,096
Media & Entertainment		
Digital advertising	293	343
Linear advertising	1,664	1,588
Total advertising	1,957	1,931
Digital revenue	54	68
Other revenue	293	182
Total Media & Entertainment	2,282	2,249
Total	4,042	4,345
Less internal supply	(589)	(617)
Group	3,453	3,728

Source: ITV, Hardman & Co Research

ITV’s stated corporate strategy is to be a leader in UK streaming and an expanding global force in content. The strategy has three strands:

- ▶ **Supercharging streaming:** ITVX was launched in December 2022, starting life with 19,000 hours of content (22,000 at the 2023 interim results stage). ITVX offers viewers the chance to watch programmes before they are broadcast and offers content from the programme archive. Additionally, some content will be offered from international studios.
- ▶ **Expanding Studios globally:** Internationally, the demand for content is being driven by global streamers. ITV has shared in this growth and, in 2022, it derived 22% of its revenue from streaming platforms (2021: 13%). In line with other broadcasters, ITV expects slower growth in the streaming content market in future but, nevertheless, aims to derive 30% of its revenue from this market in 2026.
- ▶ **Optimising the advertising-driven linear channels:** Linear advertising is a strong cash generator and, in this way, sustains investment in the Studios and ITVX. Optimising refers to keeping a balance between linear and ITVX to prevent one taking share from the other.

Strategy falling into place

At the time of the 2023 interim results, at end-June, ITV was able to report good strategic progress and strong results from Studios (revenue up 8%) and ITVX (revenue up 24%). Although ITV maintained its position as a clear leader in linear advertising, total advertising revenue fell by 11% and ITV described the market as “challenging”. Overall, total group revenue fell by 1% to £1.639bn.

More spending on content leads to a 29% rise in users on ITVX

The ITVX business model developed positively. Greater spending on content attracted more users, who watched more and stayed for longer (compared with ITV Hub). With a 29% growth in active users to 12.5m, and a 33% rise in total streaming hours to 737m, total digital revenue rose 24% to £218m (13% of the group total), as at end-June 2023.

Based on these results, ITV stuck to its target of at least £750m of digital revenue by 2026. By 2026, ITV expects about two-thirds of total revenue to come from its growth drivers; i.e. Studios and digital.

A broader strategic development reminds investors that digital cannot be seen in isolation. ITV is creating bespoke partnerships across linear and ITVX to leverage the strength of certain programme brands to help advertisers connect with audiences in unique ways.

Good strategic progress reported in the 3Q'23 statement but with a slower streaming market and intensified competition...

ITV reported “good strategic progress” in the 3Q statement, but, like other streamers, it faces slower growth in the streaming market and greater competition from the big US streamers. Netflix, Disney+ and Amazon Prime are setting up a lower tier of service at a cheaper rate and partly funded by advertising. If advertisers are getting the audiences they want, this could eat into ITV's digital advertising. However, the free ITVX service is already a strong competitor and will offer ever more content, some original and some from its vast library.

...and a similar pattern in November with weak linear advertising

ITV's trading update in November 2023 reported strong revenue growth by digital and studios (+9% to £1.15bn), but the decline in linear advertising (-7%) limited group revenue growth to 1%. ITVX produced total digital revenue growth of 23% to £340m from 27% growth in total streaming hours. Digital advertising reached £283m (83% of total digital revenue).

Despite stronger headwinds, ITV remained confident of delivering digital revenue of at least £750m by 2026.

STV Group

STV Group's strategy is to transform the group into a digital streaming and content-led media company while maximising returns from the linear (broadcast) business. The Studios and Digital divisions are the focus of growth.

Current corporate target is a 50/50 split in profits between linear and non-linear operations by the end of 2023

STV's current corporate target is to get 50% of its operating profits from non-linear TV by the end of 2023 (2018:24%).

The company is organised into three interconnected business divisions:

- ▶ **Broadcast:** STV has a leading position among viewers in Scotland and aims to maintain this position and grow Scottish-related ad revenues. STV has a huge reach in Scotland (over 3m adults per month) and has a higher daily/weekly/monthly reach than all SVOD services combined.
- ▶ **Digital:** STV Player is being transformed from a catch-up service to a digital destination. It is available on all major platforms, including Freeview, Sky Glass

and NOW. In December 2022, an enhanced strategic partnership was agreed with ITV around content sharing and advertising sales. The available content on STV Player has been broadened and deepened. In addition to network content, Player exclusive content has been added, and third-party content has been acquired, helping to build up the library.

- **STV Studios:** This division is not short of ambition. It aims to be a world-class producer for the biggest TV networks and global streamers as well as the UK's No1 Nations and Regions production company. STV has targeted revenue of £40m by 2023 (2020: £8.7m). There are nine production labels in the division, with stakes of various sizes being held in the six independent labels; these may become wholly owned in due course.

STV Group is small by international standards: 2022 revenue was £138m and operating margins were 18.7%. The content-led strategy is proving successful in driving growth. However, investors still focus heavily on the performance of the broadcast business where advertising is currently weak.

STV: revenue profile		
(£m)	2021	2022
Studios	27.0	23.9
Broadcast	108.8	107.6
Digital	17.8	19.0
Other	1.0	0.0
Total	154.6	150.5
Less intragroup	(10.1)	(12.7)
Group	144.5	137.8

Source: STV Group, Hardman & Co Research

About the author

Derek Terrington

Derek Terrington is responsible for covering media stocks at Hardman & Co.

He has more than 30 years' experience in the City, and was rated top analyst in the Institutional Investor Survey for the Publishing sector for four years from 1988 to 1991. He has worked at leading City brokers and financial institutions, and was Head of Media Research at UBS, KBS and Commerzbank, as well as Partner and Head of Research at Teather & Greenwood. On the buy side, he has been a media analyst at AXA Fund Managers.

Derek joined Hardman & Co in 2013. He is a graduate of the University of Cape Town, with an MA in Economics, and is an FRSA.



Company research

- Priced at 23 February 2024 (unless otherwise stated).

Healthcare Equipment & Services



Source: LSEG

Market data

EPIC/TKR	AVO
Price (p)	-
12m high (p)	25.0
12m low (p)	1.75
Shares (m)	537.5
Mkt cap (£m)	-
EV (£m)	-
Free float*	54%
Country/Ccy	UK/GBP
Market	AIM

*As defined by AIM Rule 26

Description

Advanced Oncotherapy (AVO) is developing next-generation proton therapy (PT) systems for use in cancer radiotherapy (RT). Standard radiation procedures have evolved over many years. PT delivers radiation via a beam of proton particles, rather than via a beam of photons used in conventional radiotherapy (X-rays).

Company information

Exec. Chair	Michael Sinclair
CEO	Nicolas Serandour

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Key shareholders

Directors (excl. LH)	5.8%
Liquid Harmony (LH)*	8.5%
P. Glatz	8.5%
Odey AM	7.5%
Celeste	5.6%
DNCA Investment	4.6%

*Also on Board of Directors

Diary

1H'24	First-patient treatments
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Analyst

Martin Hall
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ADVANCED ONCOTHERAPY

Aiming for \$15m initial injection by end-March

AVO's goal has always been to deliver an affordable and novel PT system, called LIGHT, based on state-of-the-art technology, developed originally at the world-renowned CERN. To achieve this, the company has been seeking additional capital of £75m-£85m to cover the working capital needs for the next two years to complete its first LIGHT system, undertake first-patient treatments and obtain regulatory approval. This has proved difficult in risk-averse markets, meaning that the company has been unable to publish its annual report. Consequently, the shares will remain suspended until AVO's funding requirement has been resolved.

- **Strategy:** AVO is developing a compact and modular PT system, which is affordable for the payor, financially attractive to the operator and generating superior patient outcomes. AVO benefits from technology know-how developed by ADAM (CERN spin-off), and supported by a world-class supplier base.
- **Capital requirement:** In March 2023, AVO stated that it would require funding of £75m-£85m to complete the whole project and provide working capital for the next two years. Since then, its monthly working capital needs have been covered by convertible loan agreements with investors and directors.
- **Funding update:** On 23 October 2023, AVO announced that it had signed a non-binding term sheet with a potential investor for up to \$80m, which would provide sufficient working capital through to EU regulatory approval in 2024. On 1 February 2024, AVO stated that it was working towards an initial \$15m injection by the potential investor before the end of February. This was updated in an announcement on 29 February to end-March. AVO has current liabilities of £28m and £41m of debt. Much of this would be converted into equity in the event that the proposed transaction completes.
- **Risks:** The form and terms of any transaction will need definitive documentation, satisfaction of conditions precedent, and the obtaining of all requisite approvals and consents. It is anticipated that any transaction would involve shareholder approval for a capital restructuring, especially since any equity raise will need a subdivision of the shares (current nominal value 25p) and, concomitantly, a share consolidation. Much needs to be done for a successful outcome.
- **Summary:** The shares will remain suspended until the refinancing plan is completed.

Financial summary and valuation

Year-end Dec (£m)	2021	2022E	2023E	2024E	2025E	2026E
Sales	0.0	0.0				
Gross profit	0.0	0.0				
Administration costs	(21.1)	(24.0)				
EBITDA		-				
Underlying EBIT	(21.4)	(24.4)				
Statutory EBIT	(23.7)	(27.0)				
Underlying PBT	(23.7)	(27.0)				
Statutory PBT	(29.5)	(32.3)				
Underlying EPS (p)	(7.7)	(6.9)				
Net cash/(debt)*	(49.1)	(59.4)				
Equity issues	43.6	20.2				
EV/EBITDA (x)	-	-				

*Includes leases, and is dependent on how the commercial pipeline unfolds

Source: Hardman & Co Life Sciences Research

Closed End Investments



Source: LSEG

Market data (adj. for share split)

EPIC/TKR	APAX
Price (p)	155.0
12m high (p)	189.0
12m low (p)	147.2
Shares (m)	491
Mkt cap (£m)	761
Disc. to Dec E £ adj. NAV (%)	-32
Free float	92%
Country/Ccy	UK/GBP
Currency of reporting	EUR
Market (main)	STMM

Description

Apax Global Alpha (AGA) has a global portfolio across four core sectors – Tech & Digital, Services, Healthcare and Internet/Consumer. 74% of the portfolio is private equity (PE) and 25% debt investments; the latter is held for liquidity and balance sheet robustness, and generates cash for the dividend. AGA targets an annualised net total NAV return across economic cycles of 12%-15% and a dividend yield of 5% of NAV. It has a Premium listing, and is a FTSE 250 constituent.

Company information

Chair	Tim Breedon
NEDs	Karl Sternberg, Chris Ambler, Mike Bane, Stephanie Coxon, Susie Farnon
Inv. Adviser	Apax
Contact	investor.relations@ apaxglobalalpha.com +44 (0)207 666 6526 www.apaxglobalalpha.com

Key shareholders

Witan IT	6.2%
Berlinetta Limited	5.9%

Diary

5 Mar	FY results
1 May	AGM

Analyst

Mark Thomas mt@hardmanandco.com

Disclosure note: the relevant analyst is a shareholder in Apax Global Alpha.

APAX GLOBAL ALPHA

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AGA provides investors with access to the investment expertise of Apax, a leading global PE advisory firm. It aims to provide long-term, superior returns to shareholders through its diversified PE portfolio, as well as a focused portfolio of predominantly debt investments, derived from the insights gained by the Apax team.

AGA aims to build and maintain a high-quality, global portfolio of investments across four core sectors – Tech, Services, Healthcare and Internet/Consumer. It targets an annualised total NAV return across economic cycles of 12%-15%, net of fees and expenses. AGA aims to pay a dividend yield of 5% of NAV p.a.

Apax (the Investment Adviser) is a leading global PE advisory firm, and acts as Investment Advisor to AGML (the Investment Manager) and the Apax Funds. It operates globally, and has more than 50 years of investing experience. Apax has raised and advised funds, with aggregate funds raised of more than €65bn. It has more than 350 staff, based in seven offices globally. As the Apax website comments, the four-sector approach is designed to provide a “deeper understanding of companies’ specific markets, creating solid ground to inspire new thinking. Portfolio companies tell us that this dynamic is a key reason for partnering with us”. For more information, please visit apax.com.

Apax aims to transform the investee companies, using the large team of operating specialists in its Operational Excellence Practice ([OEP](#)). Again, quoting from the company’s website, “a unique group of business specialists with decades of operating experience in mission-critical areas... offer execution rather than simply advice... Our specialists may very likely have tackled challenges similar to yours many times before. That experience also helps foresee hidden risk, adding valuable perspective”.

Given the regulatory restrictions on distributing research on this company, the monthly book entry can be accessed via [Hardman & Co Research](#). More detailed research reports include:

- ▶ [Making pearls out of oysters](#) (initiation, 13 January 2023).
- ▶ [Outperformance by adding value to companies](#) (14 March 2023).
- ▶ [2023 Capital Markets Day: accessing hidden gems](#) (5 July 2023).
- ▶ [Resilience in face of rising interest rates](#) (25 September 2023).
- ▶ [“Hidden Gems” strategy: green shoots into live deals](#) (23 November 2023).

Each link contains a click-through to our five-minute *Directors Talk* audio interviews summarising each report. AGA issued its quarterly [results](#) (to end-September 2023) on 9 November 2023. More information, including presentations, is available on its [website](#). Other regulatory news can be seen on the company’s page on [the LSE website](#). AGA hosted a Capital Markets Day on 27 June 2023. The presentation is available on the website [here](#).

Financials



Source: LSEG

Market data

EPIC/TKR	ARBB/ARBN
Price (p)	1,055/1,050
12m high (p)	1,150
12m low (p)	840
Shares (m)	16.3
Mkt cap (£m)	172
Loans to deposits, 2023E	61%
Free float*	32%
Country/Ccy	UK/GBP
Market	AIM/AQSE

*As defined by AIM Rule 26

Description

Arbuthnot Banking Group (ABG) has a well-funded and well-capitalised private bank, and it has been growing commercial banking very strongly.

Company information

Chair/CEO	Sir Henry Angest
COO/CEO	Andrew Salmon
Arb. Latham	
Group FD,	James Cobb
Deputy CEO	
Arb. Latham	
NEDs	Jayne Almond,

Frederick Angest,

Sir Nigel Boardman,

Ian Dewar, Angela Knight,

Lord Sassoon, Sir Alan Yarrow

+44 (0)207 012 2400

www.arbuthnotgroup.com

Key shareholders

Sir Henry Angest	57.3%
Liontrust	10.1%
Slater Investments	7.4%
R Paston	3.3%

Diary

28 Mar	FY results
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Analyst

Mark Thomas mt@hardmanandco.com

ARBUTHNOT BANKING GROUP

Pre-close: performance in line with consensus

The short February *pre-close statement* confirmed FY expectations are in line with market consensus (pre-tax £46.7m). We believe the March results reconfirm recent trends, most notably that ABG positioned itself well to benefit from higher rates in generating income, without credit yet becoming a major issue. For more on these trends, see our recent note, *Trading update: taking ABG to the next level*. ABG is progressing strategically towards its "Future State 2" plan with i) achievable balance sheet growth, especially from specialist SME finance divisions, ii) optimising the core relationship banking franchise, and iii) continued investment. Credit remains robust.

- **Outlook:** ABG positioned itself well for rising interest rates by building a large relationship, less-price sensitive, deposit base. Current margins appear unsustainable as cheap fixed deposits mature, and customers become more proactive. With a growing balance sheet, credit costs are also, in our view, likely to rise from here.
- **Director shareholding showing confidence:** Through 4Q'23, and now in 1Q'24, there have been multiple announcements of directors buying shares in the market. In February 2022, Sir Henry Angest bought a further 100k shares at 990p, taking his ordinary shareholding to 9.2m, 57.31% of the voting rights.
- **Valuation:** Our approaches see a broad range of valuations: £11.58 DDM, £26.23 SOTP and £23.64 GGM. The average is £20.48, nearly double the current share price. Trading at 72% of NAV is anomalous, in our view, with above the cost of capital returns and growth. On the current share price, our 2024E dividend yield is 4.6%.
- **Risks:** The trend, and level, of interest rates will determine short-term profitability. Credit is a risk, but all the current metrics are good. ABG is very conservative in lending. Its financial strength means that it can take time to optimise recoveries. Other risks include reputation, regulation and compliance.
- **Investment summary:** ABG offers strong-franchise and continuing-business (normalised) profit growth. Its balance sheet strength gives it a number of wide-ranging options to develop organic and inorganic opportunities. The latter are likely to increase in uncertain times. Management has been very conservative in controlling risk. New *NED appointments*, effective from 1 September 2023, will further enhance corporate governance. Having a profitable, well-funded, well-capitalised and strongly growing bank, priced so far below book value, is anomalous, in our view.

Financial summary and valuation (forecasts under review)

Year-end Dec (£000)	2020	2021	2022	2023E	2024E
Total op. income	72,500	88,675	137,388	178,816	187,458
Total costs	(71,419)	(93,422)	(108,913)	(129,300)	(142,825)
Cost:income ratio	99%	105%	79%	72%	76%
Total impairments	(2,849)	(3,196)	(5,503)	(6,400)	(6,600)
Reported PBT	(1,090)	4,638	20,009	46,331	39,183
Adjusted PBT	8,161	16,985	31,078	52,631	39,183
Statutory EPS (p)	(8.9)	45.2	109.0	211.9	177.5
Adjusted EPS (p)	3.1	108.2	169.2	243.6	177.5
Loans/deposits	67%	66%	66%	61%	59%
Ord. dividend (p)	0	38.0	42.0	46.0	49.0
P/adj. earnings (x)	338.3	9.8	6.2	4.3	5.9
P/BV (x)	0.81	0.79	0.75	0.69	0.63

Source: Hardman & Co Research

Finance and credit services



Source: LSEG

Market data

EPIC/TKR	HAT
Price (p)	350
12m high (p)	502.0
12m low (p)	305.0
Shares (m)	43.99
Mkt cap (£m)	154.0
EV 1H'23 (£m)	174.8
Free float*	86.3%
Country/Ccy	UK/GBP
Market	AIM

*As defined by AIM Rule 26

Description

H&T's products include pawnbroking, jewellery retail, cheque cashing, Western Union money transfer and foreign exchange, offered through 274 stores and online. 68% of 1H'23 gross profits were generated from pawnbroking and 11% from retail.

Company information

CEO	Chris Gillespie
CFO	Diane Giddy
Chair	Simon Walker
NEDs	Robert van Breda, Lawrence Guthrie, Catherine Nunn, James Thornton (SID), Sally Veitch, Toni Wood
	+44 (0)800 838 973
	www.handt.co.uk

Key shareholders (4 Feb'24)

Octopus Inv	11.80%
Fidelity	9.95%
Close Bros	8.85%
Stichting Value	4.70%
Artemis	4.37%
Canaccord Gen WM	3.18%
Premier Miton	3.16%
HL/II Execution only	9.18%

Diary

13 Mar	FY results
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Analyst

Mark Thomas mt@hardmanandco.com

H&T GROUP

Acquisition shows franchise strength

On 21 February, H&T announced the £11.3m *cash acquisition of Maxcroft*, an Essex-based pawnbroker with a pledge book of £6.3m. Maxcroft's average loan is £4,063 against H&T's £423, but the types of collateral, redemption rates and yields are similar to H&T's larger loans. The acquisition brings expertise with SME customers, who, typically, have larger financing needs. In previous notes, we have highlighted the pressures some smaller pawnbrokers are under (for example, from regulatory costs) and that H&T's balance sheet strength and market position make it a good partner. We will review our estimates with the results, to be reported on 13 March.

- **Additional financing:** H&T has issued to Pricoa i) £10m secured notes, 8.37% fixed rate, maturity February 2029, and ii) £15m secured notes, 8.43% fixed rate, maturity February 2031. We assumed roughly half is incremental funding (for the deal) and half replaces existing facilities. The marginal impact is greater in 2025E, as we had been assuming lower base rates for the overdraft facility.
- **Other deal information:** Maxcroft has traded for over 40 years from a store in Ilford, Essex. H&T will enter into a lease in respect of the store, which also offers foreign exchange services, and see the five employees of the business join H&T. The main asset is the pledge book; thus, ca.£5m of goodwill will be generated.
- **Valuation:** We use a range of valuation approaches, including a GGM, a DDM and a DCF. On our assumptions (see *latest report*), the average valuation is now 506p (up from 503p), with upside potential moving forward the base year. The dividend is expected to grow steadily, and is covered ca.3x, on our forecasts.
- **Risks:** H&T's customers are cash-constrained. Its money laundering, stolen goods risk and other regulatory controls are appropriate to pawnbroking. Sentiment to the industry is an issue, which needs careful communication to overcome. Inflation risk to the cost base is a specific short-term consideration.
- **Investment summary:** H&T is focused on delivering the opportunity in its core pawnbroking and related retail businesses. Having gained pawnbroking market share, and with the collapse of most other competitors, its strong balance sheet means that it is structurally well-positioned to finance demand for small-sum, short-term credit. This generates a strategic, long-term competitive advantage from which to grow earnings. For 2024, there is growing customer demand from the cost-of-living crisis, with few alternative, regulated competitors.

Financial summary and valuation

Year-end Dec (£000)	2020	2021	2022	2023E	2024E	2025E
Revenue	129,115	121,995	173,941	212,880	237,042	267,976
Gross profit	82,799	76,355	101,916	120,998	143,354	156,825
Total expenses	(65,915)	(65,155)	(69,607)	(80,419)	(95,081)	(105,484)
Pre-tax profit	15,632	7,862	19,005	26,926	31,996	35,078
EPS (p)	32.11	15.43	37.15	46.83	54.55	59.81
DPS (p)	8.5	12.0	15.0	16.8	18.5	19.5
Pledge book	55,751	72,449	104,046	131,000	150,000	160,000
Inventories	27,564	28,421	35,469	36,229	38,764	40,703
Cash	34,453	17,638	12,229	9,200	17,081	22,758
Shareholders' funds	134,549	136,618	164,119	178,325	195,159	213,865
PE ratio (x)	10.9	22.7	9.4	7.5	6.4	5.9
Dividend yield	2.4%	3.4%	4.3%	4.8%	5.3%	5.6%

Source: Hardman & Co Research

Closed End Investments



Source: LSEG

Market data

EPIC/TKR	ICGT
Price (p)	1,196
12m high (p)	1,260
12m low (p)	974
Shares (m)	66.8
Mkt cap (£m)	799
NAV p/sh (Oct'23, p)	1,959
Disc. to NAV (%)	-39
Country/Ccy	UK/GBP
Market	Premium equity closed-ended inv. funds

Description

ICG Enterprise Trust (ICGT) is a listed private equity (PE) investor providing shareholders with access to a portfolio of European and US investments in profitable, cash-generative, unquoted companies. It invests in companies managed by ICG and other leading PE managers, directly and through funds. It strikes a balance between concentration and diversification, risk and reward.

Company information

Chair	Jane Tufnell
Audit Cttee.	A Bruce Chr.
NEDs	G Fusenig, A Ighodaro, J Nicholls, D Warnock (SID)
Inv. Mgrs.	Oliver Gardey, Colm Walsh
Contact	Christopher Hunt +44 (0)203 545 2000 www.icg-enterprise.co.uk

Key shareholders

None above 3%

Diary

May'24 FY results to Jan

Analyst

Mark Thomas mt@hardmanandco.com

Disclosure note: the relevant analyst is a shareholder in ICGT Enterprise Trust.

ICG ENTERPRISE TRUST PLC

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ICGT provides public-market investors with access to the long-term returns generated by investing in private companies, with the added benefit of the daily liquidity of a publicly traded FTSE 250 company. ICG Enterprise has been listed on the London Stock Exchange since 1981, during which time it has built a long track record, with 14 consecutive years of double-digit compounding NAV growth.

ICGT's actively managed portfolio balances diversification, through third-party fund investments, and direct investments. ICGT identifies companies that have defensive growth characteristics. Its portfolio also provides shareholders with exposure to a wide network of PE funds. ICGT identifies PE managers who share its investment philosophy, as well as its focus on responsible investing. It also identifies managers who provide the potential for co-investment opportunities.

ICGT is managed externally by a dedicated investment team of five within Intermediate Capital Group (ICG), a leading global alternative asset manager, with more than 30 years' history, managing ca.\$74.5bn of assets (December 2022). ICG has more than 575 employees, based in offices in 16 countries around the world. It provides flexible capital to help companies develop and grow, and it has committed to being a net zero asset manager across its operations and relevant investments by 2040.

Given the regulatory restrictions on distributing research on this company, the monthly book entry for ICGT can be accessed through our website, [Hardman & Co Research](#). More detailed research reports include:

- ▶ Our initiation report, [Outperformance through every stage of cycle](#) (6 July 2020).
- ▶ [Defensive growth: explaining downside resilience](#) (8 September 2020).
- ▶ [ICGT's steps to value-adding portfolio construction](#) (22 February 2021).
- ▶ [FY'21 results: blew the roof off, not just the doors](#) (20 May 2021).
- ▶ [ICGT in personal pensions: do as the professionals do](#) (14 September 2021).
- ▶ [Intermediate Capital Group/ICGT: friends with benefits](#) (2 December 2021).
- ▶ [Spotlight on secondaries](#) (2 March 2022).
- ▶ [FY'22: you couldn't ask for more](#) (7 June 2022).
- ▶ [1H'23 and beyond: safe harbour in the storm](#) (10 November 2022).
- ▶ [3Q'23: continued growth and resilience](#) (9 February 2023).
- ▶ [FY results: proving the market-beating model again](#) (1 June 2023).
- ▶ [Investor Day – defensive growth in practice](#) (10 July 2023).
- ▶ [1HFY'24: defensive growth/disciplined approach](#) (16 October 2023).
- ▶ [Putting the discount into perspective](#) (8 January 2024).

Each link contains a click-through to our five-minute *Directors Talk* audio interviews. ICGT reported its [3Q update](#) on 25 January 2024. Other company announcements, such as buybacks, can be found on its [LSE news page](#).

Closed End Investments



Source: LSEG

Market data (adj. for share split)

EPIC/TKR	NBPE/NBPU
Price (£)	16.16/\$20.75
12m high (£)	17.4/\$22.0
12m low (£)	13.8/\$17.25
Shares (m)	46.2
Mkt cap (£m)	747
NAV (Jan)	£21.58/\$27.48
Disc. to £ NAV (%)	-25
Free float	100%
Ctry/Ccy of listing	UK - GBP/\$
Market	FTSE 250, STMM

Description

NB Private Equity Partners (NBPE) leverages the platform of its manager, Neuberger Berman (NB), including NB's relationships, deal flow and expertise, and has built a portfolio of ca.86 direct investments diversified by manager, sector, geography and size. It focuses on investing in companies that benefit from secular tailwinds and/or lower cyclicality, with high barriers to entry, or the delivery of mission-critical products or services.

Company information

Chair	William Maltby
NEDs	Trudi Clark, Pawan Dhir, John Falla, Louisa Symington-Mills, Wilken Von Hodenberg
Key NB Managers	Peter von Lehe, Paul Daggett
Contact	+44 (0)20 3214 9002

www.nbprivateequitypartners.com

Key shareholders

Quilter Cheviot	13.3%
Evelyn Partners	9.0%
City of London IM	6.8%
Treasury shares	6.3%
Cazenove Capital	6.1%
New Jersey Div. of Inv.	5.3%

Diary

Mid-Mar	Feb Factsheet
End-Apr	FY results

Analyst

 Mark Thomas mt@hardmanandco.com

Disclosure note: the relevant analyst is a shareholder in NBPE.

NB PRIVATE EQUITY PARTNERS

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NBPE invests directly in private companies alongside some of the world's leading private equity managers. Managed by the PE division of Neuberger Berman (NB), a leading private markets investor, NBPE leverages the strength of NB's platform, relationships, deal flow and expertise to access the most attractive investment opportunities, providing shareholders with access to a portfolio of direct investments diversified by manager, sector, geography and size.

NBPE is uniquely focused on the co-investment subsector of private equity. It invests into a company alongside private equity (PE) managers, rather than via the fund. As a co-investor, NBPE has the benefit of full due diligence in order to make its investment decision, and, if it chooses to, may invest on a deal-by-deal basis. The latter means it does not incur the long-term commitments (and associated liquidity management) that investors in PE funds face and it is a lower-cost model. Operating control of the investee company remains with the PE manager. We detailed the implications of this strategic focus in our initiation, linked below.

With 12 Private Market Investment offices globally, NB has a team of 375+, including 155 senior investment professionals with an average of 21 years' experience. As of September 2023, it has more than 7,800+ underlying private company investments, with active commitments to 740+ PE funds. NB manages over \$110bn of active capital commitments and had more than 380 advisory board seats. It has a five-star rating by the UN PRI for PE ESG integration.

More detailed research reports include:

- ▶ [Co-investments generating superior performance](#) (initiation, 16 June 2023).
- ▶ [1H'23 results summary: continued growth](#) (3 October 2023).
- ▶ [2023 CMD: value creation from growing companies](#) (23 October 2023).

Each link contains a click-through to our five-minute *Directors Talk* audio interviews summarising each report. NBPE issued its interim [results](#) (to end-June 2023) on 26 September 2023. More information, including presentations, is available on its [website](#). Other regulatory news, including the monthly NAV updates, can be seen on the company's [LSE page](#).

NBPE hosted a virtual investor day on 5 October ([presentation here](#)). It provided a detailed analysis of the portfolio and the company's latest views on the private equity market (including ESG). In addition, case studies of underlying portfolio companies were presented by two of the lead PE firms, which NBPE has invested alongside.

Diversified Financial Services



Source: LSEG

Market data

EPIC/TKR	RECI
Price (p)	120.5
12m high (p)	143.0
12m low (p)	109.5
Shares (m, Exc. Treasury)	227.0
Mkt cap (£m)	273.5
NAV p/sh (Jan'24, p)	145.5
Disc. to NAV (%)	-17
Div. yield (FY'23)	10.0%
Country/Ccy	UK/GBP
Market	Premium equity closed-ended inv. funds

Description

Real Estate Credit Investments (RECI) is a closed-ended investment company that originates and invests in real estate debt secured by commercial or residential properties in the United Kingdom and Western Europe.

Company information

Chair	Bob Cowdell
NEDs	Susie Farnon, John Hallam, Colleen McHugh
Inv. Mgr.	Cheyne Capital
Main contact	Richard Lang
	Tel: +44 (0)207 968 7328
	realestatecreditinvestments.com

Key shareholders

Close Bros.	9.18%
Bank Leumi	7.87%
Hargreaves Lansdown AM	6.30%
Canaccord Genuity	5.81%
Tilney Smith and Williamson	5.79%
FIL	5.18%
Evelyn Partners (Jan'24)	4.96%

Diary

Mid-Mar	Feb NAV
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Analysts

Mark Thomas	mt@hardmanandco.com
Mike Foster	mf@hardmanandco.com

REAL ESTATE CREDIT INVESTMENTS

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RECI is a closed-ended investment company. To achieve its investment objective, the company invests, and will continue to invest, in real estate credit secured by commercial or residential properties in Western Europe, focusing primarily on the UK and France.

Investments may be i) secured real estate loans, debentures or any other forms of debt instruments (with a weighted average life profile ranging from six months to 15 years, and LTV will not exceed 85% at the time of investment), ii) listed debt securities and securitised tranches of real estate-related debt securities, and iii) other opportunities, including real estate equity participations. No more than 20% of assets will be invested where the LTV exceeds 85%, or in uncollateralised equity.

RECI is managed by Cheyne Capital Management (UK) LLP. Cheyne has ca.160 employees, of which there are 35 dedicated investment professionals in the Real Estate team. The team's assets under management of ca.\$5.5bn are managed on behalf of more than 100 global investors. Cheyne Real Estate operates from four European offices and invests across the capital structure.

Given the regulatory restrictions on distributing research on this company, the monthly book entry for RECI can be accessed through our website, Hardman & Co Research. More detailed research reports are detailed below. Each link contains a click-through to our *Directors Talk* audio interviews summarising each report. Company announcements can be found on RECI's page on the LSE website. RECI's detailed December 2023 market update and presentation is available here.

- Our [initiation report](#) (28 August 2019).
- [Delivering on its promises](#) (17 December 2019).
- [Getting a balanced view on outlook](#) (21 May 2020).
- [Improving returns on new opportunities](#) (14 September 2020).
- [Portfolio repayments fund enhanced return pipeline](#) (18 January 2021).
- [Experience shows resilience of the model](#) (6 May 2021).
- [Experience shows resilience of the model \(2\)](#) (12 August 2021).
- [Why rising rates should not hurt RECI](#) (8 November 2021).
- [Vive la difference](#) (15 February 2022).
- [New faces, same resilience](#) (20 May 2022).
- [Marks taken in uncertainty, released thereafter](#) (5 August 2022).
- [Positioned for the current crisis](#) (17 November 2022).
- [Looking at the current opportunities](#) (9 February 2023).
- [Double tangible security](#) (13 June 2023).
- [Why CRE equity worries should not apply to RECI](#) (30 August 2023).
- [Portfolio management to optimise risk/reward](#) (16 November 2023).
- [French and German exposures in perspective](#) (27 February 2024).

Closed End Investments



Source: LSEG

Market data

EPIC/TKR	VTA.NA, VTA.LN, VTA.SN
Price (€)	5.20/5.13/430p
12m high (€)	5.40/5.50/512p
12m low (€)	4.90/4.76/412p
NAV p/sh (Jan'24, €)	6.89
Disc. to NAV (%)	-25
Shares (m)	36.6
Mkt cap (€m)	190
2024E div. yield (%)	10.2
Free float	70%
Market (NL, UK)	AEX, LSE, LSE
Currency	€, €, GBP

Description

Volta Finance (Volta) is a closed-ended, limited liability investment company with a diversified investment strategy across structured finance assets (primarily CLOs). It aims to provide a stable stream of income through quarterly dividends.

Company information

Ind. Chair	Dagmar Kent Kershaw
Ind. NEDs	Stephen Le Page, Yedau Ogundele Joanne Peacegood
Fund Managers	AXA IM Paris
Co. Sec./	BNP Paribas
Administrator	Securities Services SCA, Guernsey Branch
BNP: +44 (0)1481 750853	
www.voltafinance.com	

Key shareholders (31 July 2023)

AXA SA Bank	21.75%
BNP Paribas	15.28%
AXA Framlington IM	8.23%
BNP Wealth Mgt.	5.50%

Diary

Mid-Mar	Feb estimated NAV
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Analyst

Mark Thomas	mt@hardmanandco.com
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VOLTA FINANCE

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Volta is a closed-ended, limited liability company, registered in Guernsey. Its investment objectives are to seek to preserve capital across the credit cycle, and to provide a stable stream of income to its shareholders through dividends. The dividend policy is to target 8% NAV, payable quarterly. Volta may invest, *inter alia*, in corporate credits, sovereign and quasi-sovereign debt, residential mortgage loans, commercial mortgage loans, automobile loans, student loans, credit card receivables, leases, and debt and equity interests in infrastructure projects. The focus for new investments is CLO securities. The investment manager for Volta's assets is AXA Investment Managers Paris (AXA IM), which has a team of experts concentrating on the structured finance markets.

Given the regulatory restrictions on distributing research on this company, the monthly book entry for Volta Finance can be accessed through our website, Hardman & Co Research. More detailed research reports include:

- ▶ Our [initiation report](#) (5 September 2018).
- ▶ [Investment opportunities at this point of the cycle](#) (14 January 2019).
- ▶ [9%+ yield in uncertain times](#) (7 October 2019).
- ▶ [Follow the money](#) (3 February 2020).
- ▶ Reports on the manager's [March 2019](#) and [June 2019](#) presentations.
- ▶ [Q&A with Hardman analyst](#) (12 May 2020).
- ▶ [Value added by active portfolio management](#) (15 September 2020).
- ▶ [Volta's seven yield uplifts](#) (11 January 2021).
- ▶ [Re-Set, Re-Fi, Re-Light my Fire](#) (5 May 2021).
- ▶ [Yield \(10%, covered and growing\) + capital growth](#) (28 July 2021).
- ▶ [Simple Simon Says](#) (30 November 2021).
- ▶ [What Volta brings to investors](#) (17 February 2022).
- ▶ [Hardman presentation: Carpe Diem](#) (29 June 2022).
- ▶ [Cash is king and the king is rocking and rolling](#) (16 September 2022).
- ▶ [R&A shining light on 20%+ IRR base-case scenarios](#) (11 January 2023).
- ▶ [An easy guide to the benefits of CLOs](#) (18 April 2023).
- ▶ [The benefits of having AXA IM as the manager](#) (7 December 2023).
- ▶ [Insights from the Report and Accounts](#) (24 January 2024).

Each link contains a click-through to our five-minute *Directors Talk* audio interviews summarising each report. Regulatory announcements can be found on the company's [LSE page](#).

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