

# Duke Royalty Pre-Capital Raise Investor Presentation

April 2022

AIM: **DUKE**



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Corporate Royalties are a hybrid between private credit and private equity, for owner-operators who want to maintain control of their business

## Capital Preservation

Long term investment horizon  
Senior security and alignment with owners

## Attractive Dividend Yield

Two quarters of dividend increases and historically low payout ratio  
Current annual dividend is 2.8p

## Upside from Buyouts

Buyouts typically increase Duke's IRR  
Buyout premiums in every case  
Minority equity positions in the majority of portfolio

## Portfolio Diversification

48 operating companies underlying our 13 royalty partners  
Focus on acquisition capital increases indirect diversification

## Strong Fundamentals

Record revenue and free cash flow demonstrates operational leverage  
Royalty investing has been through many market cycles

## Inflation hedged

Adjustments to Duke's distributions based on partners revenue  
Price inflation in portfolio results in higher revenue for Duke

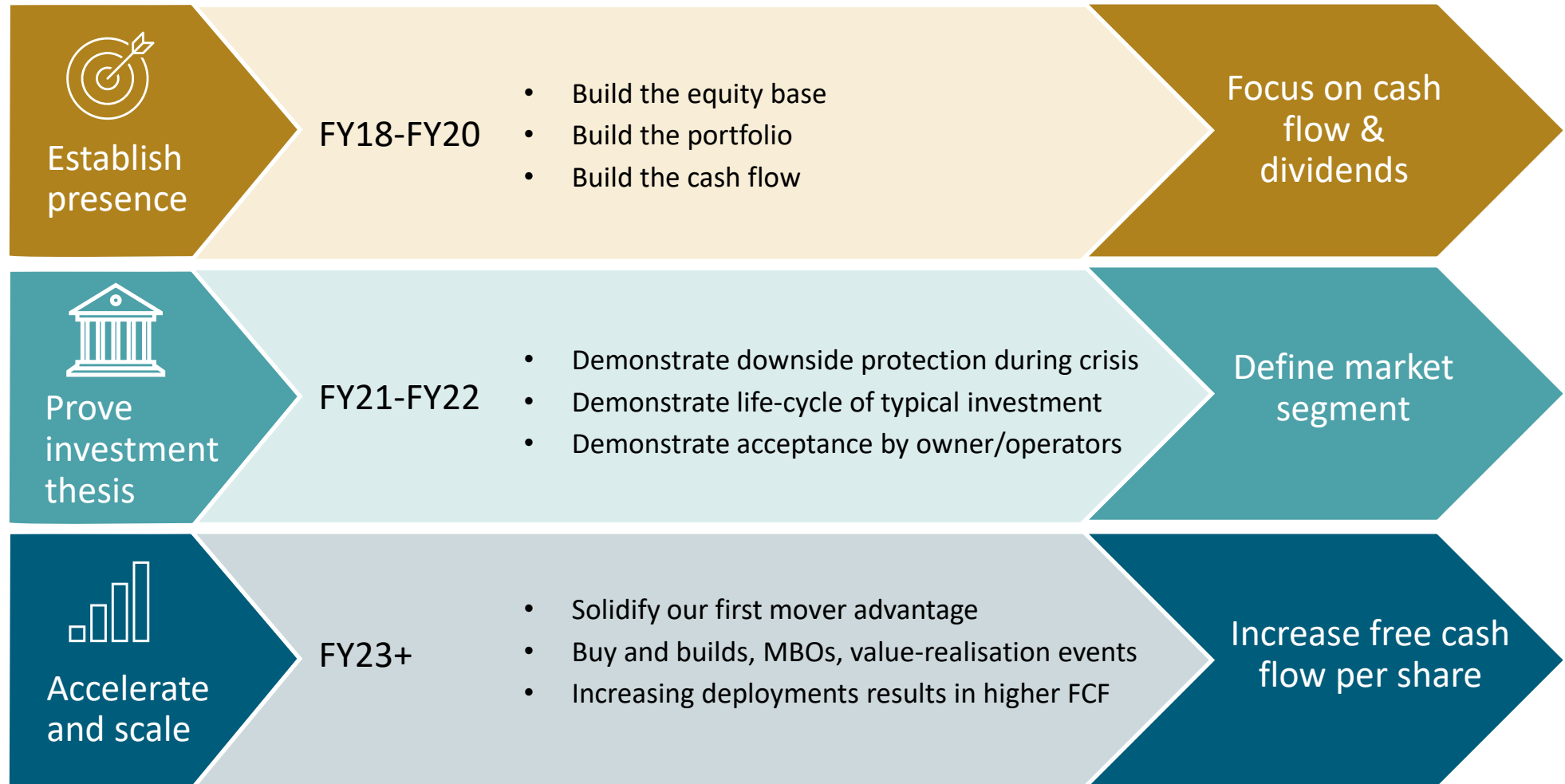


## Minimally-dilutive capital with no re-financing risk for long-standing, profitable, owner-managed companies

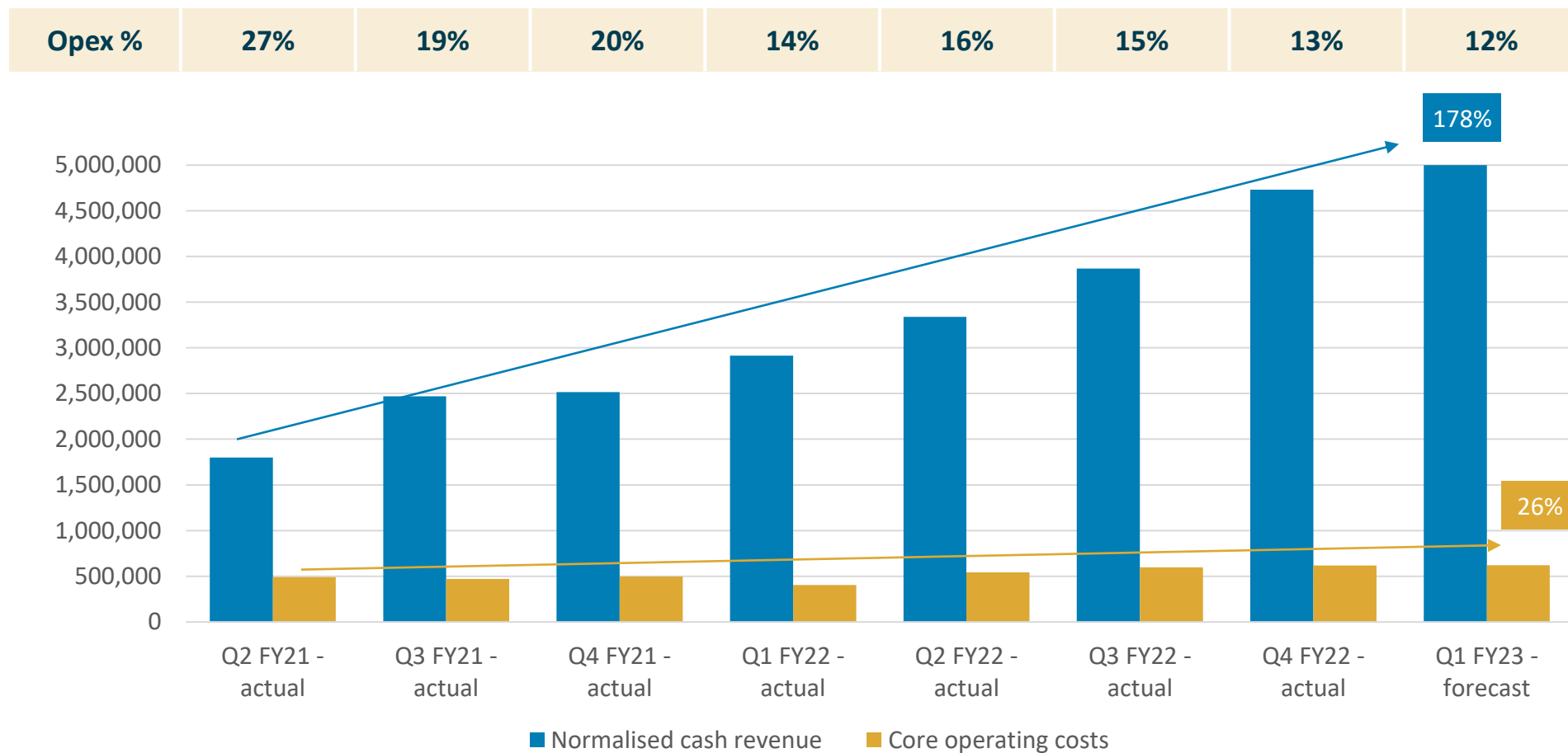
Corporate royalty terms	<ul style="list-style-type: none"> <li>• 30-year participating loan, no bullet repayment</li> <li>• Annual adjustments of +/-6% based on revenue change</li> </ul>
Senior security	<ul style="list-style-type: none"> <li>• Senior security sought on available assets</li> <li>• Typical banking covenants</li> </ul>
Liquidity buffer	<ul style="list-style-type: none"> <li>• Initial cash distributions of between 12.0 – 13.5% of principal</li> <li>• Initial royalty coverage of 2.0x of EBITDA</li> </ul>
Long term alignment with owners	<ul style="list-style-type: none"> <li>• Looking for successful businesses with owners who want to stay in control</li> <li>• 3-year non call period; premium to principal payable upon buyout</li> </ul>
Environmental, Social & Governance	<ul style="list-style-type: none"> <li>• Appropriate ESG standards articulated in Duke's Responsible Investing Policy</li> </ul>
Rigorous due diligence and approvals	<ul style="list-style-type: none"> <li>• Commercial due diligence partners for sector evaluation</li> <li>• Approval required by independent investment committee and PLC Board</li> </ul>

PREFERRED SECTORS				No start-ups No oil & gas No mining No biotech
<p>Industrials</p>	<p>Business services</p>	<p>Healthcare</p>	<p>Technology</p>	

## Five years of building the European leader in corporate royalties



## Significant cash flow generation creating operating leverage

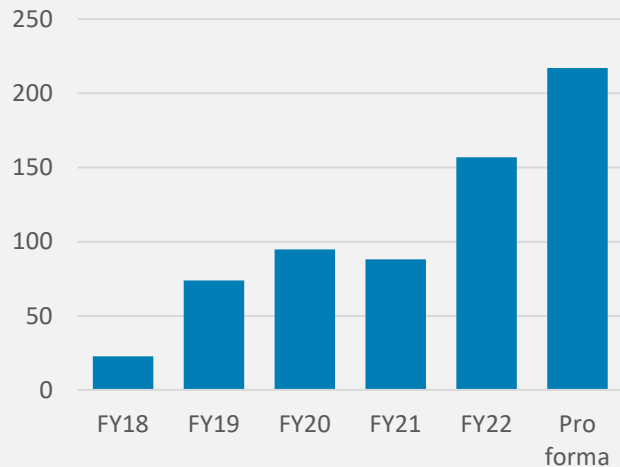


<sup>1</sup> Normalised cash revenue refers to cash distributions from royalty partners excluding net cash gains from the sale of equity investments and buyout premiums

<sup>2</sup> Core operating costs refers to cash operating expenses less variable performance awards

## Acceleration of deployments leads to increased free cash flow

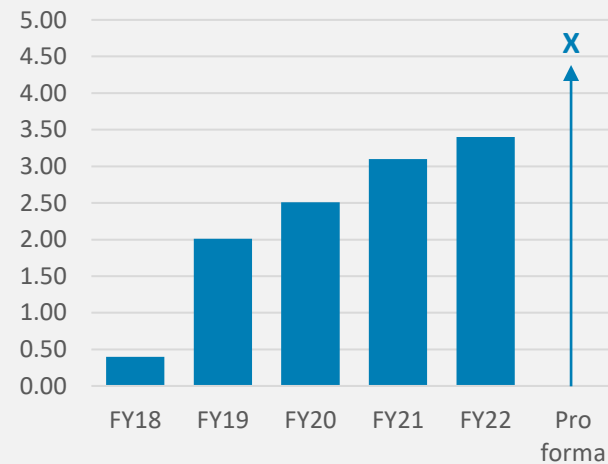
### Portfolio cost (£m)



- £75m of royalty investment deployments in FY22
- Pro forma cost assumes £20m equity raise and debt facility indicatively increasing to £80m, staying within 40% LTV



### Free cash flow / share (p)



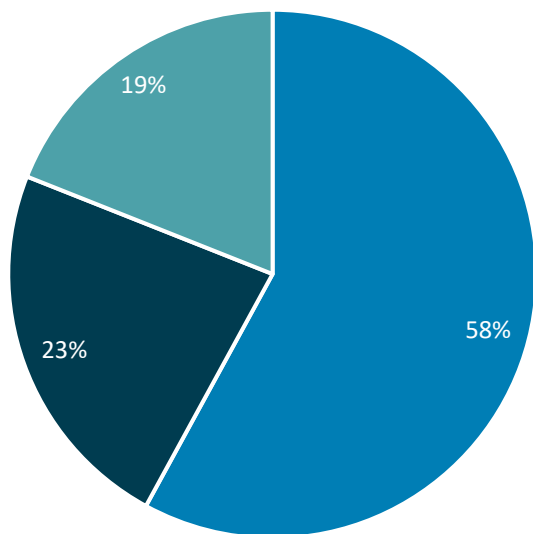
- Steadily increasing free cash flow as portfolio size increases
- Significant increase in free cash flow / share on pro forma basis following equity raise and debt upsize

**2.80p**  
per share of  
current  
annualised  
dividend

**12.30p**  
of dividends /  
share paid since  
inception

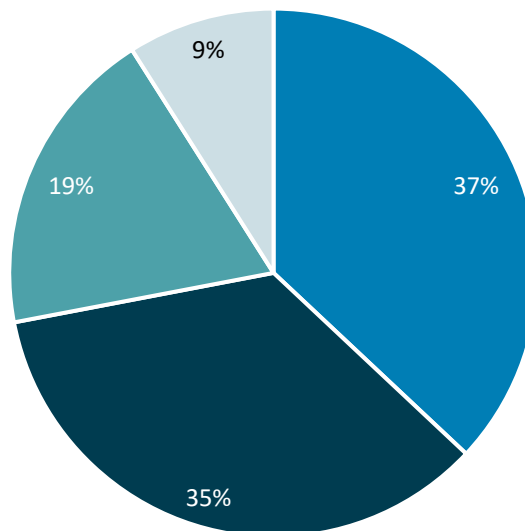
## Risk mitigation and increased diversification as deployments accelerate

Portfolio by region  
% of total cost



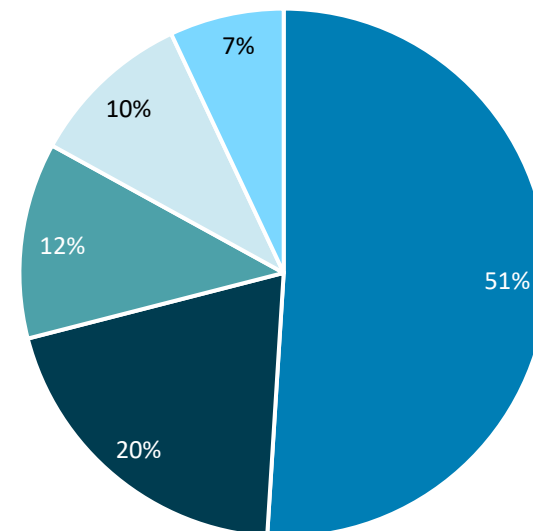
- UK - 7
- North America - 3
- Western Europe - 3

Portfolio by sector  
% of total cost



- Industrials - 5
- Business Services - 4
- Healthcare - 3
- I.T. services - 1

Use of capital  
% of total cost



- Acquisition Capital - 6
- MBO/MBI - 3
- Growth Capital - 2
- Debt Refinancing - 1
- Shareholder Restructure - 1



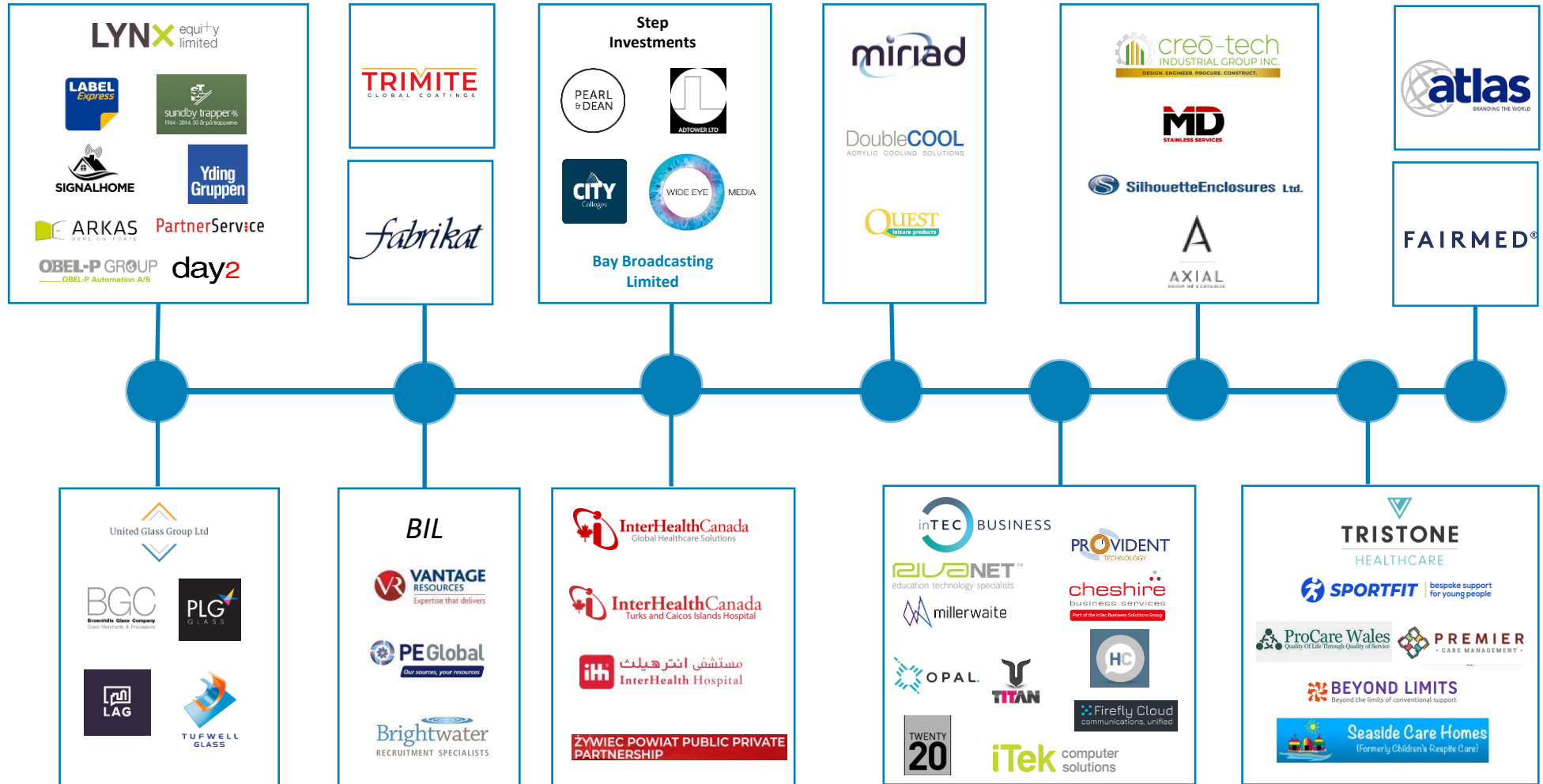
## Duke has **proven experience** investing across range of sectors, geographies and transaction types

<p>December 2021</p>  <p><b>TRISTONE</b> HEALTHCARE SPECIALIST CARE</p> <p>Equity Stake: <b>14%</b></p> <p>Acquisition Capital</p>	<p>December 2021</p>  <p><b>atlas</b> BRANDING THE WORLD</p> <p>INDUSTRIALS</p> <p>Equity Stake: <b>0%</b></p> <p>Debt Refinancing</p>	<p>July 2021</p>  <p><b>creo-tech</b> INDUSTRIAL GROUP INC. DESIGN. ENGINEER. PRODUCE. CONSTRUCT.</p> <p>INDUSTRIALS</p> <p>Equity Stake: <b>18%</b></p> <p>Acquisition Capital</p>	<p>July 2021</p>  <p><b>inTEC BUSINESS</b></p> <p>I.T. SERVICES</p> <p>Equity Stake: <b>15%</b></p> <p>Acquisition Capital</p>	<p>June 2021</p> <p><b>FAIRMED®</b></p> <p>HEALTHCARE</p> <p>Equity Stake: <b>0%</b></p> <p>Growth Capital</p>
<p>February 2021</p>  <p><b>fabrikat®</b></p> <p>INDUSTRIALS</p> <p>Equity Stake: <b>30%</b></p> <p>MBO</p>	<p>February 2019</p>  <p><b>miriad</b></p> <p>LEISURE</p> <p>Equity Stake: <b>30%</b></p> <p>MBI</p>	<p>September 2018</p> <p><b>BIL</b></p> <p>BUSINESS SERVICES</p> <p>Equity Stake: <b>30%</b></p> <p>MBO / MBI</p>	<p>August 2018</p>  <p><b>InterHealthCanada</b> Global Healthcare Solutions</p> <p>HEALTHCARE</p> <p>Equity Stake: <b>0%</b></p> <p>Growth Capital</p>	<p>June 2018</p> <p><b>Step Investments</b></p> <p>EDUCATION &amp; MEDIA</p> <p>Equity Stake: <b>30%</b></p> <p>Growth Capital</p>
<p>April 2018</p>  <p>United Glass Group Ltd</p> <p>INDUSTRIALS</p> <p>Equity Stake: <b>30%</b></p> <p>Acquisition Capital</p>	<p>March 2018</p>  <p><b>TRIMITE</b> GLOBAL COATINGS</p> <p>INDUSTRIALS</p> <p>Equity Stake: <b>30%</b></p> <p>Equity Buyout</p>	<p>October 2017</p>  <p><b>LYNX</b> equi+ty limited</p> <p>BUSINESS SERVICES</p> <p>Equity Stake: <b>0%</b></p> <p>Acquisition Capital</p>		

# Our Royalty Partners and their Operating Subsidiaries



Duke's exposure is to 48 underlying operating companies



Royalties and Hybrid capital are increasingly gaining market share, we intend to capture the market for our chosen segment

## Robust pipeline



- Increased acceptance in an expanding network of advisors willing to discuss Duke's product
- Relationships extend beyond the UK, including Ireland, US and Canada
- 104 NDAs have been signed with companies since January 2021, resulting in only 5 new royalty partners in that time period

Currently evaluating 26 new opportunities representing a total of c.£250m of investment

## Pipeline deal in late stage negotiations



- Non-emergency medical transportation provider for over 20 years in Canada, with two 50% owners
- 190 vehicle fleet with employee drivers
- Solid reputation and long-standing insurance companies as customers
- Partial value realisation event to allow one shareholder to gain control and the other to realise a cash exit

c.£15m royalty transaction on Duke's typical terms with a minority % of equity in Newco

## Duke Royalty is a one-stop shop for acquisitive companies; our long-dated, patient capital allows business owners to pursue M&A without refinancing risk

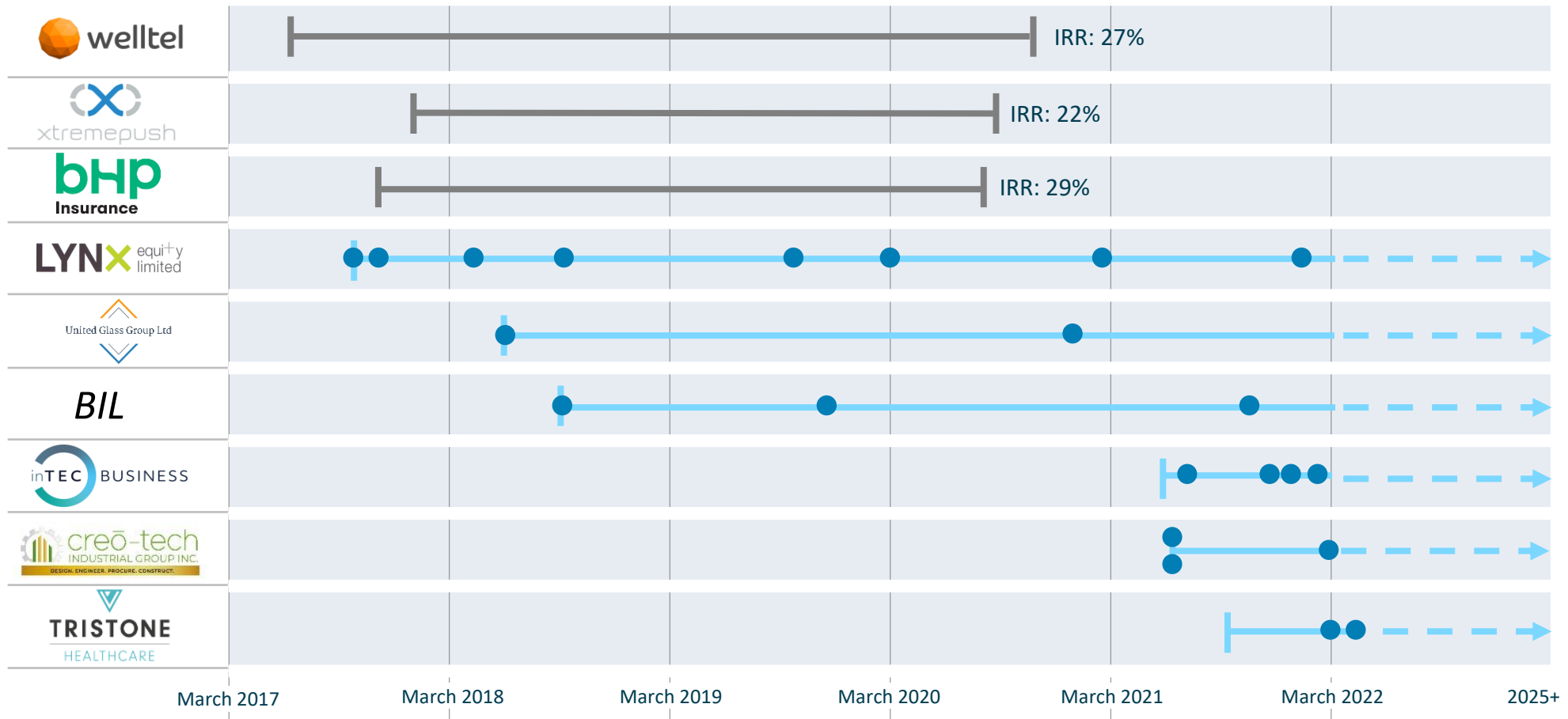
- Additional deployments at Duke's discretion, with strict criteria being followed for follow-on investments
- Acquisition capital creates new deployments at existing terms and with companies we know and have existing relationships with

Royalty Partner	Current Investment <sup>1</sup>	Proposed Capital Limit	Total New Capital
BIL (Ireland)	£14 million	£20 million	£6 million
Lynx Equity (UK)	£15 million	£20 million	£5 million
United Glass Group	£12 million	£20 million	£8 million
Creo-tech Industrial Group	£11 million	£20 million	£9 million
InTec Business Solutions	£14 million	£20 million	£6 million
Tristone Healthcare	£14 million	£20 million	£6 million
<b>Sub-Total</b>			<b>£40 million</b>

<sup>1</sup> Investment cost as at 20 April 2022



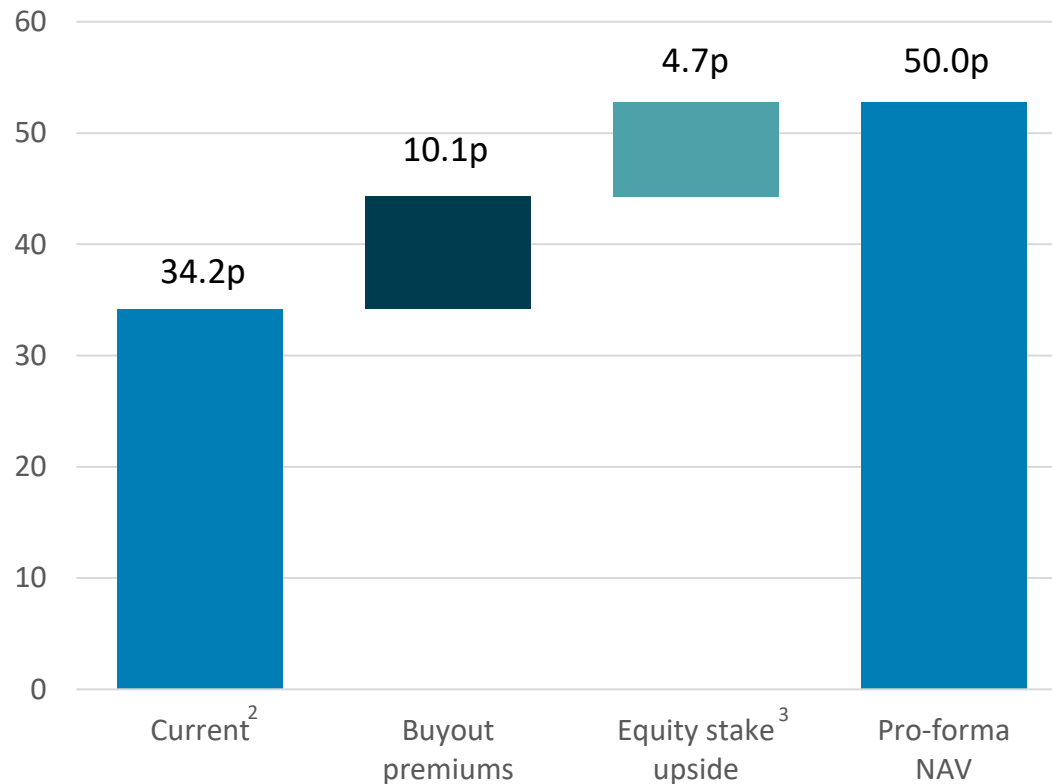
## Duke's Buy & Build portfolio is continuing to grow and mature, with **exits** already demonstrated



● Denotes acquisitions funded with additional tranches of Duke Royalty Capital

## Statutory NAV overlooks buyout premiums and upside from equity stakes

- £36m+ of buyout premiums<sup>1</sup> currently excluded from NAV
- Equity stakes currently valued at £2.4m, potential upside from EBITDA multiple growth



Royalty partner	Equity stake
BIL	30.0%
Creō	17.5%
Fabrikat	30.0%
Intec	15.0%
Miriad	30.0%
Step	30.0%
Trimite	30.0%
Tristone	13.5%
UGG	30.0%

<sup>1</sup> Assuming redemption premiums as at 20 April 2022 are paid by all existing partners under contracted terms from early repayment

<sup>2</sup> Current NAV based on last reported NAV at 30-Sep-21

<sup>3</sup> Equity stake upside is indicative and assumes buy and builds utilise full royalty capacity and benefit from EBITDA multiple expansion

## Strong base of blue-chip institutional investors<sup>1</sup> with significant management ownership



Duke exhibited a high level of liquidity among AIM traded stocks in 2021

<sup>1</sup> Data as at 31 March 2022

Duke is the only corporate royalty company with a focus in Europe and listed in London



## Capital preservation

Downside protection evident from previous market downturns



## High operational leverage

Normalised cash revenue up 178%, core operating costs only up 26% since Q2 FY21



## Strong dividend yield

with lowest payout ratio in Company's 5-year history



## Inflation hedged

Our revenue is linked to top-line growth of royalty partner



## Upside from buy-outs

Buyout premiums and minority equity stakes crystallised when royalties bought out



## Deployments identified

Meaningful free cash flow per share increases with further deployments



# Appendix



## Management and investment committee have royalty experience of 70+ years



**Neil Johnson – Executive Director and CEO**

- Pioneered UK listings for Canadian and UK dual-listed companies between 2000 and 2010
- £3 billion raised for dual-listed companies and led the first Canadian AIM Nomad and UKLA sponsor



**Charlie Cannon-Brookes – Executive Director**

- London-based **Executive Director**
- Co-owner of FCA-regulated Arlington Group Asset Management



**Jim Webster – Chairman of Investment Committee**

- Pioneered world's first drug royalty public company on TSX (from 1993-2002); 25 years of royalty experience
- Previous royalty companies have a total of £4bn under management



**Hugo Evans – Finance Director**

- Extensive experience in senior finance roles within financial services
- 11 years of UK plc reporting experience
- Chartered Accountant (Grant Thornton)



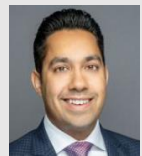
**Alex Hibbard – VP, Investments**

- 7 years of private equity experience, previously at London-based PE firm Terra Firma, where he focused on new investments and managing portfolio companies
- Chartered Financial Analyst



**Nigel Birrell – Non-Exec Chairman**

- Group CEO of Lottoland Limited
- Former director of two FTSE 250 companies, including HIT Entertainment



**Ajay Shivdasani – VP, Investments**

- 4 years of private-equity LBO transaction experience and deal origination at DW Healthcare Partners and 4 years of global management consulting experience at Oliver Wyman
- MBA from INSEAD University, 2014



**Steven Russo – VP, Investments**

- 6 years of experience in mezzanine debt and equity growth capital transactions at Difference Capital Financial Inc.
- Holds a J.D./MBA Degree from Queen's University (2011) with expertise in corporate law and governance



**Matthew Wrigley – Non-Exec Director**

- Former Partner at MJ Hudson and resident of Guernsey
- Former General Counsel of a fund management company with >£650m AUM



**Marcus Olsberg – Associate, Investments**

- 4 years at MUFG Bank where he worked in the Leveraged Finance and Credit Analysis divisions with a focus on the Aviation Sector
- Holds a BA from Durham University



**Magda Tarnowska – Executive Assistant**

- 4 years experience as EA supporting the CEO and Duke team
- 2 years as EA at Captor Capital, supporting the CEO and Board of Directors



**Maree Wilms – Non-Exec Director**

- Co-founder and CEO of Zeta Asset Management ICC Limited
- COO of South Africa Alpha Capital Management Limited

## A long-term participating loan with similar characteristics to traditional royalties

- Alternative financing with features of debt and equity, which allows company owners to keep control of their business **without refinancing risk**
- Duke provides a **lump sum of capital** to a company with a term of **30 years**
- Initial yield is **c.13.0%** of capital, **adjusted once per year with a collar of +/-6%** in currency terms (0.7-0.8% of initial capital)
- Duke's total obligation can be serviced out of **current cash flow, without need for exit event**
- **Company can Buyback royalty:** after c.3 years, initial principal plus **c.20% buyout premium**. However, buyback granted at any time upon change of control (**not a poison pill**). There is **no bullet repayment** at end of term

Illustrative Company Example	2021	2022	2023	2024	2025	2026
Duke Investment Amount	£10.00					
Company revenue ( <i>% change</i> )	£20.00	£23.00 <i>+15%</i>	£21.16 <i>-8%</i>	£22.22 <i>+5%</i>	£24.44 <i>+10%</i>	£28.11 <i>+10%</i>
Duke distribution ( <i>% change</i> )	-	£1.35 <i>+6%</i>	£1.43 <i>-6%</i>	£1.35 <i>+5%</i>	£1.41 <i>+6%</i>	£1.50 <i>+6%</i>



Corporate royalties appeal to owners who **need capital but want to retain control**

	Debt	Royalty	Private Equity
Term	3-7 years	25-40 years	Permanent dilution
Refinancing risk	Significant	None	Pressure to exit
Control	Passive	Passive	Loss of control
Covenants	Significant	Covenant-light	Covenant-light
Security	Typically senior	Typically senior	None
FCF impact (years 1-5)	Significant	Light	Light



Royalty company shareholders benefit from **attractive returns** and **increasing valuation** as they diversify their investment portfolios

Annuity-like  
revenue streams

Compounding  
opportunity  
through participation  
in growth by annual  
adjustments

High level of  
operational  
gearing

Yield  
compression  
as portfolio grows

Diversification  
of risk  
through addition of revenue  
streams and liquidity of  
shares

Commitment  
to growing  
quarterly dividends

## Key examples of how Duke's funding solution has been used by owner-operators to **drive growth** and **increase shareholder value**

### Debt or equity restructuring

Debt refinancing or shareholders exiting

We support owners without creating another future exit event

### MBOs

Allows experienced management teams to become majority owners

We back people who created equity value to keep strategic control

### Acquisition capital

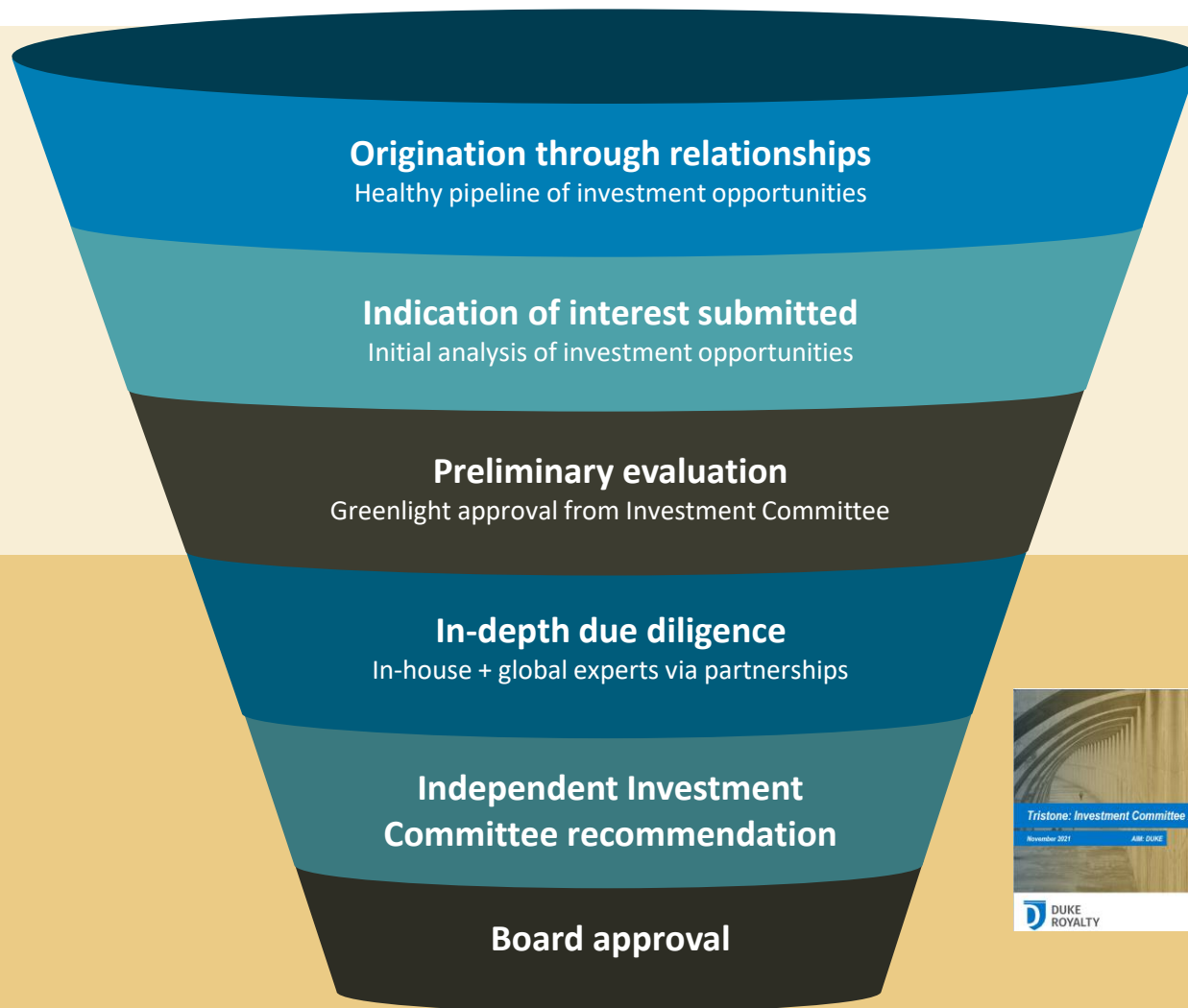
Flexible financing model enables cash drawdowns in multiple tranches

Used for bolt-on acquisitions



## Duke Royalty's ESG Assessment Framework

Category	Duke's Policy	Duke's Evaluation of Company's ESG Policies
<b>Environmental</b>	<ul style="list-style-type: none"> <li>We encourage companies to identify and implement measures to reduce their environmental impact</li> </ul>	<p><b>Risks:</b></p> <ol style="list-style-type: none"> <li>What environmental risks has Duke identified that are associated with [Company's] business model &amp; industry?</li> <li>What challenges does [Company] face when trying to uphold high environmental standards?</li> </ol> <p><b>Mitigants:</b></p> <ol style="list-style-type: none"> <li>Provide examples of how [Company] deals with environmental risks</li> <li>Describe how [Company] made Duke comfortable about their actions to ensure level of environmental standards</li> </ol>
<b>Social</b>	<ul style="list-style-type: none"> <li>We require that companies provide equal opportunities for employees</li> <li>We believe in actively engaging in Corporate Social Responsibility activities</li> </ul>	<p><b>Risks:</b></p> <ol style="list-style-type: none"> <li>Describe the social risks associated with [Company's] specific business model and industry?</li> <li>Does [Company] sufficiently give back to its community?</li> </ol> <p><b>Mitigants:</b></p> <ol style="list-style-type: none"> <li>How does [Company] ensure the safety and wellbeing of its employees? What policies are in place?</li> <li>How does [Company] ensure it is actively engaging in Corporate Social Responsibility within its community?</li> </ol>
<b>Governance</b>	<ul style="list-style-type: none"> <li>Our focus on governance is to ensure our royalty partners have a board which delivers strong leadership who behave in an ethical manner and engage with shareholders</li> </ul>	<p><b>Risks:</b></p> <ol style="list-style-type: none"> <li>What specific governance risk has Duke identified that the [Company] has had difficulties in the past?</li> <li>Describe the gaps in governance that Duke has identified within [Company]</li> </ol> <p><b>Mitigants:</b></p> <ol style="list-style-type: none"> <li>What governance frameworks are in place to deal with the identified risks?</li> </ol>



**Origination process**  
Relationship driven, management and financial strength more important than industry sector

**Approval process**  
Production of due diligence report and 2x approval



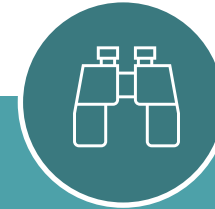




## Preservation of value

FY21 cash revenue - Q1: £2.0m Q2: £2.4m Q3: £4.2m

Cash revenue forgone has been captured as equity or deferred



## Long term approach

Forbearance agreements with hardest-hit royalty partners

But deployed further capital into strong partners enabling growth



## Future value acquired

Equity stakes up to 30% in some royalty partners

Most held at or near nil value currently on Duke's balance sheet



## Return of cash dividends

Scrip dividend was paid during the crisis phase of the pandemic

Cash dividend reinstated after two quarters of scrip dividends

## Royalty industry resilient in turbulent market conditions

### Brexit and COVID-19

- Portfolio has withstood shocks of Brexit and Covid-19 since 2017
- Capital preservation attributes were demonstrated during extremely challenging times
- Cash flow foregone, while equitisation allowed for recouping of lost value
- Engineered exit from riverboats

### Supply Chain Issues

- Portfolio has been working to mitigate impact from price increases, stock interruptions during 2021
- Not unlike Brexit of 2018/19 with uncertainty over price and supply of materials
- Supply chain issues remain with continuing Covid-19 outbreak in China and war in Ukraine / Russia

### Ukraine / Russia War

- No direct impact to any of our Royalty Partners
- Indirect impact via some cost of goods inflation
- While not ideal, will impact every competitor and therefore much like Brexit & Covid-19

### Inflation

- The annual yield adjustment hedges existing investments, protecting Fair Value
- New investments can be priced at the same premium to the risk-free rate, so total distribution can rise
- Within existing portfolio, we are monitoring cost of goods increases and possible margin pressure

