

# Duke Capital

## Initiation – Making high returns supporting SMEs

15 November 2024

**Price**  
29.8p

**TICKER**  
[DUKE](#)

**Market Cap**  
£124m

**Net debt (31 March 2024)**  
£68m

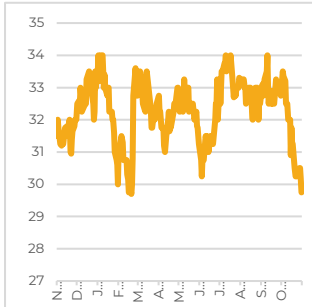
**Free Float**  
96%

**3mo Av. Daily Volume**  
482k

**Brokers**  
Cavendish  
Canaccord

**Index**  
FTSE AIM

### Share Price Performance



Source: Bloomberg

**Duke Capital provides long-term hybrid capital finance to lower-mid market SMEs. Shareholders benefit from capital preservation, a high yield and upside on exits.**

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### Hybrid capital provider to SMEs generating attractive risk-adjusted returns

**Duke Capital provides long-term hybrid capital finance to lower-middle market SMEs in a business model unique in the UK. Duke earns an attractive 12%-14% cash yield on initial investment generating reliable cash revenue of c£30m pa, with multiple upside kickers which have generated high returns on recycled investment. Despite increasing returns over WACC, Duke is trading at a discount to its historic rating, which we believe represents a significant opportunity for investors. The company has just announced a conditional £17.2m equity raise with an additional £3m retail offer and plans to attract a further c£100m in third party capital. Duke offers capital preservation, upside on exits and a dividend yield of 9.4%, over four times the average yield on AIM.**

Duke's basic hybrid credit product combines a 30-year amortising loan coupled with a variable preference share in a single instrument. The cash yield has a ratchet link to partners' revenue performance and Duke earns an exit premium of 15%-30% on hybrid capital invested if and when the partner exits the agreement, typically due to refinancing or sale. Duke usually also takes an equity position in its partners as a means of further boosting returns on exit.

Since FY18, Duke has invested a total of £277m in 22 investee partners and realised cash returns of c£82m from eight exits, including repayment of hybrid credit plus exit premiums together with equity buyouts and payments on the hybrid capital provided during its term. The portfolio fair value was £232m as at YEFY24 on capital invested of £214m. That represents a ten-fold increase in portfolio fair value since YEFY18.

The quality of Duke's investment process is reflected in the high returns generated on capital recycling when partners exit, and which is becoming an increasingly important component of the investment case.

Management believe that Duke is capital rather than opportunity constrained and that its investment screening process could handle the deployment of £75m-£100m pa. We show that Duke would benefit from an increased pace of investment, which the current equity raise and plan for coinvestment are intended to support. We demonstrate that although Duke accounts on a FVTPL basis, the balance sheet is robust.

Historically Duke has traded at or above price to book value but is currently trading at a c25% discount, despite generating an increased spread to WACC on a growing portfolio. That disconnect is also evident when looking at P/E or dividend yield. We believe that represents a significant opportunity for investors where a re-rating to the historic norms could be triggered by further highly profitable exits, more funding for growth, further deployment of capital, falling interest rates or some combination of the same.

At a glance (Yr to Mar)	Cash rev (£m)	Free cash flow <sup>1</sup> (£m)	Portfolio FV (£m)	Adj EPS (p/share)	Adj P/E <sup>2</sup>	Div yield <sup>2</sup>
<b>FY23A</b>	21.9	12.8	210	3.13	11.0x	8.2%
<b>FY24A</b>	30.3	17.9	232	4.85	6.6x	8.7%
<b>FY25E</b>	26.8	12.6	249	3.06	9.7x	9.4%
<b>FY26E</b>	31.0	15.3	274	3.40	8.7x	9.4%
<b>FY27E</b>	35.6	17.0	300	3.72	8.0x	9.4%

Source: Bloomberg, Duke Capital, CAG Research. 1) Before investment. 2) Uses annual averages for historic share prices.

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## Investment thesis

**Duke Capital provides long-term hybrid capital finance to lower-middle market SMEs in a business model unique in the UK. Duke earns an attractive 12%-14% cash yield on initial investment generating reliable cash revenue of c£30m pa with multiple upside kickers linked to revenue performance, exit premiums, and, increasingly, equity buyouts. Since FY18, Duke has invested a total of £277m, realised total cash returns of c£82m, and has current capital invested of £224m. The quality of Duke's investment process is reflected in the high returns generated on capital recycling when partners exit, and which is becoming an increasingly important component of the investment case. Despite the growth in the portfolio and improved performance, reflected in an increasing spread over WACC, Duke is trading at a discount to its historic rating, which we believe represents a significant opportunity for investors.**

Duke Capital has been run by CEO, Neil Johnson and CIO, Charlie Cannon Brookes since it was reborn in 2015 as a company investing in a diversified portfolio of royalty finance and related opportunities. Essentially Mr Johnson brought a business model proven in Canada to the UK.

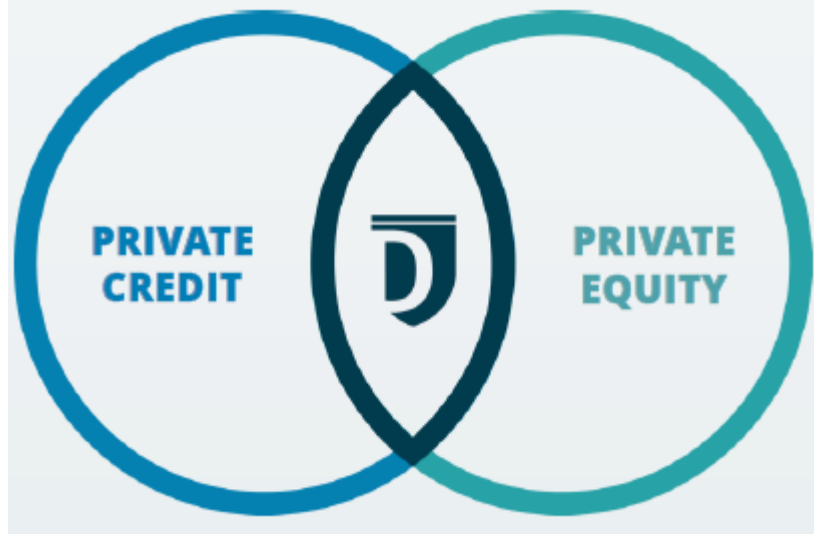
Following a strategic review, the company was renamed as Duke Capital from Duke Royalty in February of this year to improve the relatability of its unique financing offering to potential investee partners.

Duke's purpose is to finance the growth of successful lower-middle market Small and Medium-Sized enterprises (SMEs) which it does by providing hybrid credit financing on a long-term basis to its partners. Duke's shareholders benefit from the initial attractive cash return rate with upside from exit premiums together with equity buyouts, where relevant. That structure generates reliable cash revenue, providing capital preservation, together with upside from exits, while the company's dividend strategy offers a leading dividend yield of well over 9%.

Duke's basic hybrid credit product combines a 30-year amortising loan coupled with a variable preference share in a single instrument with a combined interest rate typically averaging 12%-14% on initiation and which is linked to the revenue performance of the investee partner. Besides the revenue performance ratchet, Duke's returns are boosted by exit premiums if and when the partner terminates the agreement early, and from the company's direct equity participation, which is an increasing feature of its investment process, as a means of boosting returns rather than for exerting Private Equity type pressure.

Duke's hybrid capital solution intersects across the rapidly growing private credit and private equity markets providing the best of both worlds (Figure 1). The company's long-term capital solution is especially suitable in support of management buy-outs (MBOs) where management get the finance they need without having to surrender a de-motivating share of equity and for buy-and-build strategies where management know that the financing they need will be available for suitable acquisitions.

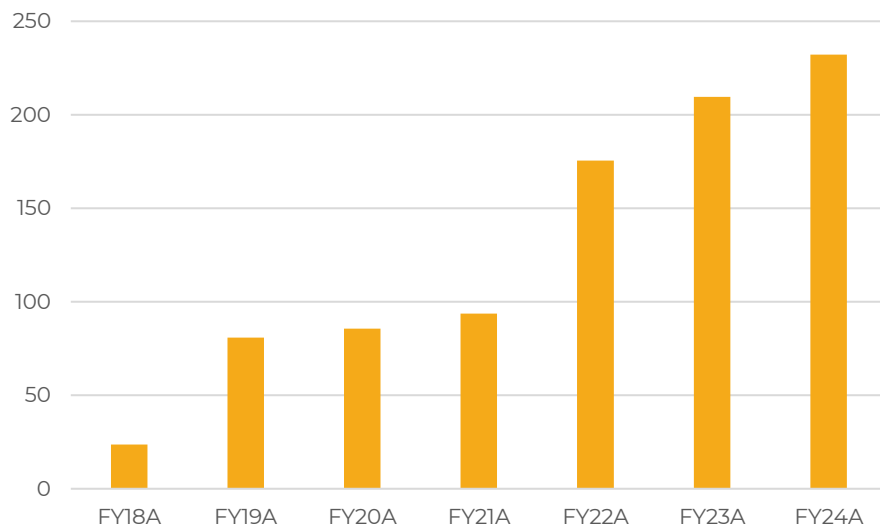
**Figure 1: Where Duke Capital fits**



Source: Duke Capital, CAG Research.

Since FY18, Duke has invested a total of £277m, realised cash returns of £82m, and has current capital invested of £224m. The portfolio fair value was £232m as at YEFY24 on capital invested of £214m representing a ten-fold increase since YEFY18 (Figure 2).

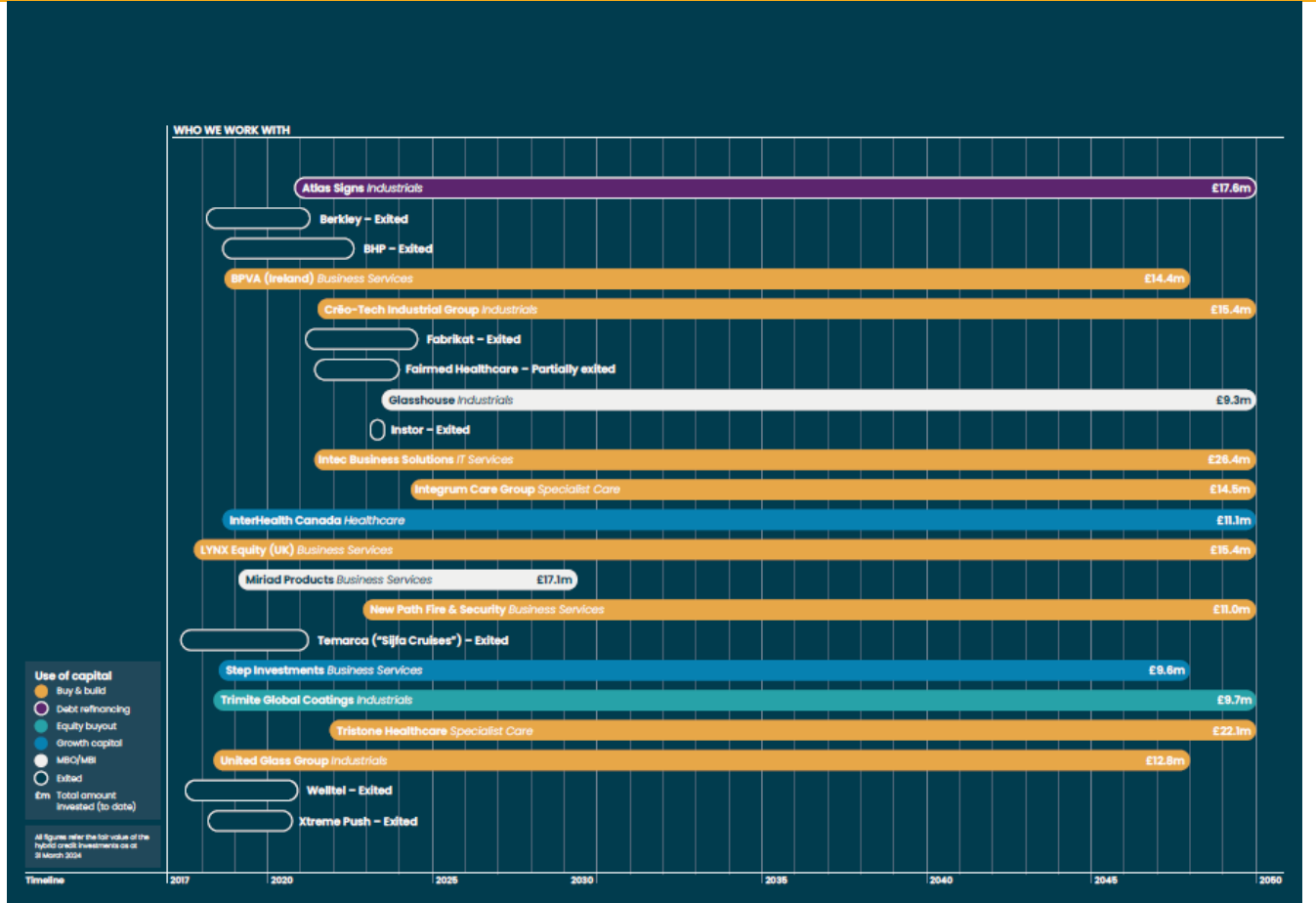
**Figure 2: Investment portfolio fair value<sup>1</sup> (£m)**



Source: Duke Capital, CAG Research. 1) Investment portfolio fair value comprises the carrying values of hybrid credit finance investments, term credit investments, and equity investments.

Figure 3 sets out all of the investments Duke has made to YEFY24 including the nominal period to which its current investment portfolio will run to maturity. This emphasises the long-term nature of the relationship basis Duke has with its partners. However, Figure 3 also shows that although the relationship is intended to be long term, the reality is that partners will in all likelihood choose to exit before maturity, boosting Duke's returns and providing capital to re-deploy into new partners.

**Figure 3: Timeline of investments**



Source: Duke Capital, CAG Research.

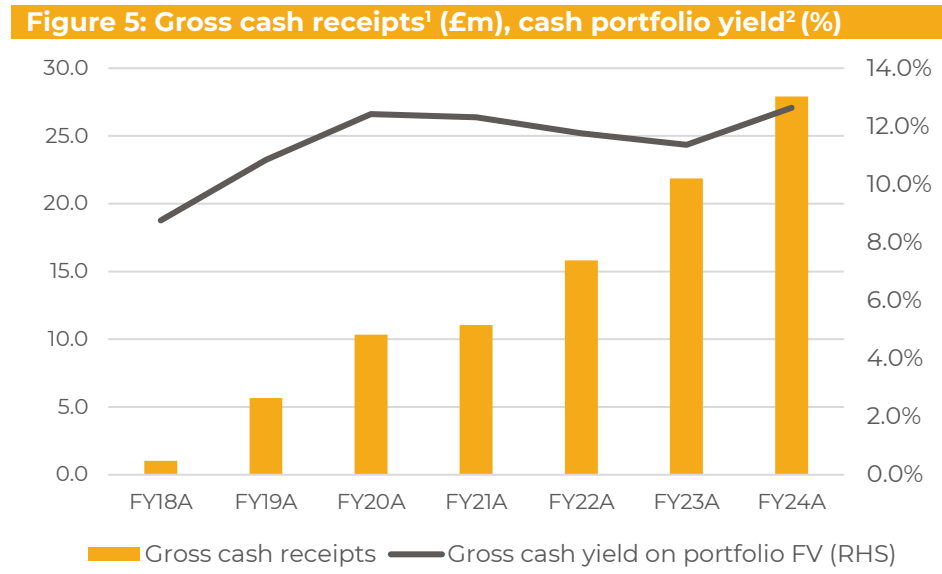
That recycling process has proven increasingly profitable with all but one exit generating high or very high returns (Figure 4). These exits have already contributed £65m in cash to Duke from the repayment of hybrid credit including exit premiums together with equity realisations. This recycling process is an intrinsic part of the business which we suspect is not well understood as it is at the option of the investee partner, rather than Duke's but it is inherently recurring, if not predictable.

**Figure 4: Partner exits**

Partner	Year exited	Exit value (£m)	IRR on exit
Xtreme Push <sup>1</sup>	FY20	2.7	22.0%
Welltel <sup>1</sup>	FY21	15.5	28.2%
Temarca	FY21	9.8	-1.2%
Berkley <sup>1</sup>	FY22	1.1	16.0%
BHP <sup>1</sup>	FY22	6.7	28.8%
Instor	FY23	9.1	293.0%
Fabrikat	FY24	9.9	32.4%
Fairmed	Completed FY25	9.9	20.8%

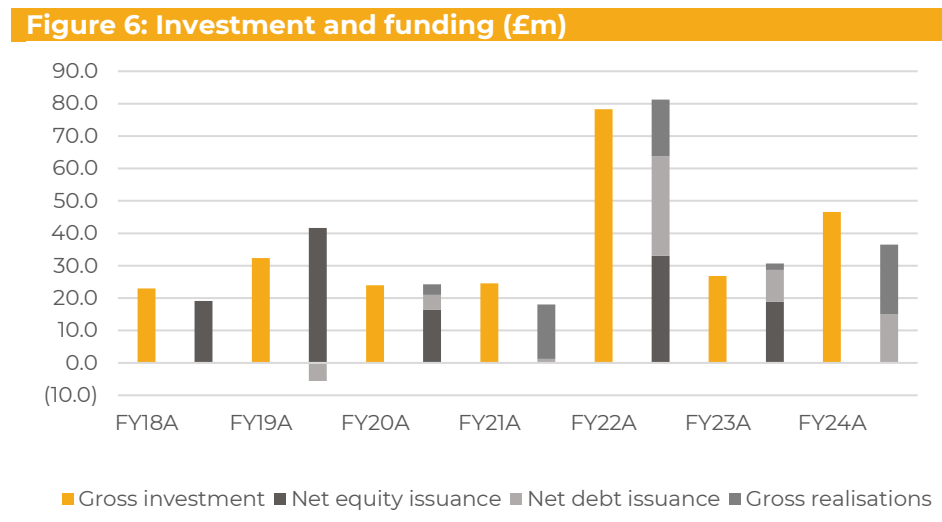
Source: Duke Capital, CAG Research. 1) Acquired with Capital Step in February 2019.

Duke's financial performance is primarily driven by the capital it has put to work and that increase in capital deployed has driven a near 30-fold increase in gross cash receipts reflecting the operational leverage in the business and increased cash portfolio yield (Figure 5).



Source: Duke Capital, CAG Research. 1) Gross cash receipts comprise the sum of hybrid credit receipts (typically >90% of the total), term credit receipts, and other operating receipts; 2) Cash portfolio yield is gross cash receipts divided by investment portfolio fair value.

Duke pays out a large proportion of free cash flow to equity before investment, which has averaged c75% over the last three years. That results in a high current dividend yield of well over 9% but means that the company has historically funded its investments from equity, debt and, increasingly, from recycling value realised on exits (Figure 6).



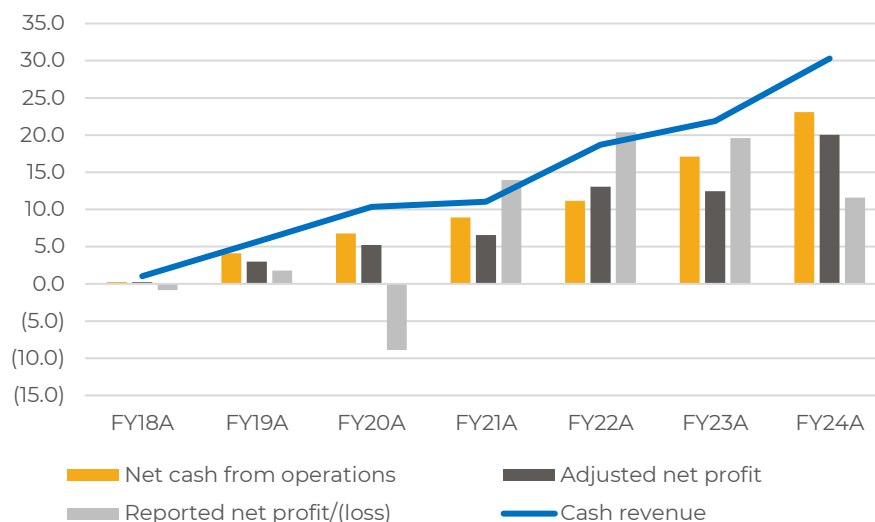
Source: Duke Capital, CAG Research.

IFRS accounting standards require Duke to report on a fair value through profit or loss (FVTPL) basis which complicates the accounting. However, we demonstrate that the balance sheet is robust.

Because FVTPL accounting can result in lumpy non-cash impacts on reported net profit, Duke focuses on cash generation as the main indicator of performance and in particular on cash revenue which incorporates all cash

receipts. We agree with this focus on cash. The conversion rate of cash revenue to net cash generated from operations is typically over 70% while adjusted net profit, which excludes movements in fair value, is tightly linked with net cash generation; all have been on a strong upward trajectory, as would be expected given the increasing deployment of capital (Figure 7).

**Figure 7: Cash and profit (£m)**



Source: Duke Capital, CAG Research.

After a very strong performance in FY24, we forecast a dip in the rate of cash returns on hybrid capital invested. Prospectively, we expect growth in net cash generation from operations averaging 17% through FY27 as the investment portfolio fair value hits £300m for the first time with growth in adjusted net profit averaging 15% pa. Our forecasts have been adjusted to reflect the £17.2m conditional equity raise but not the £3m additional retail offer just announced, and do not assume any benefit from the planned coinvestment strategy.

The key financial highlights of our forecast are shown in Figure 8 and detailed in [Summary financial statements](#).

**Figure 8: Headline financials**

Item	Unit	FY23A	FY24A	FY25E	FY26E	FY27E
Cash revenue	£m	21.9	30.3	26.8	31.0	35.6
Net cash from ops	£m	17.1	23.1	21.1	24.8	28.8
Portfolio FV	£m	210	232	249	274	300
Free cash flow <sup>1</sup>	£m	12.8	17.9	12.6	15.3	17.0
Adjusted net profit	£m	12.5	20.0	13.4	16.3	17.8
Adjusted EPS	p/sh	3.13	4.85	3.06	3.40	3.72
Dividend	p/sh	2.80	2.80	2.80	2.80	2.80
Net debt/(cash)	£m	45.4	67.5	73.7	97.8	120.2

Source: Duke Capital, CAG Research. 1) Prior to investment.

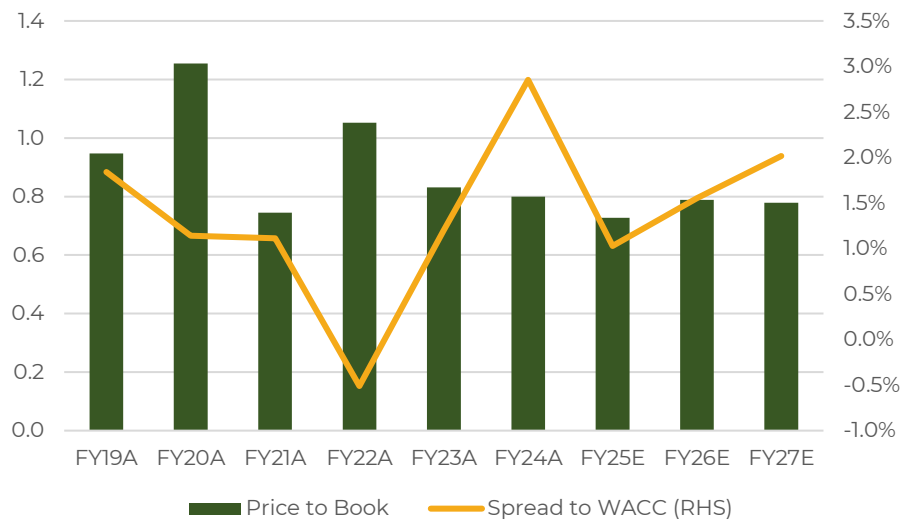
Our forecasts assume net new investment of £26m pa, in line with the general historic average which is nominally debt financed, after allowing for the new equity raise. However, we show that, were appropriate funding

available, Duke would benefit from an increased pace of investment. We would also emphasise that, in practice, further exits are likely to contribute towards funding (Figure 4 and Figure 6).

Duke has increased the post-tax cash yield it generates even as cash deployed has ballooned, increasing the spread to the company's cost of capital. However, neither the improving financial performance nor the increasingly evident role of profitable capital recycling from exits appear to have been recognised by the market, yet.

Historically, with the exception of Covid afflicted FY21, Duke has traded at or above price to book value, as would be expected for a company generating an increased spread to WACC on a growing portfolio. However, that relationship has weakened since FY23 and at the current price, the shares are trading at a c25% discount to book, despite the evident success of Duke's business model and increasing spread over WACC (Figure 9).

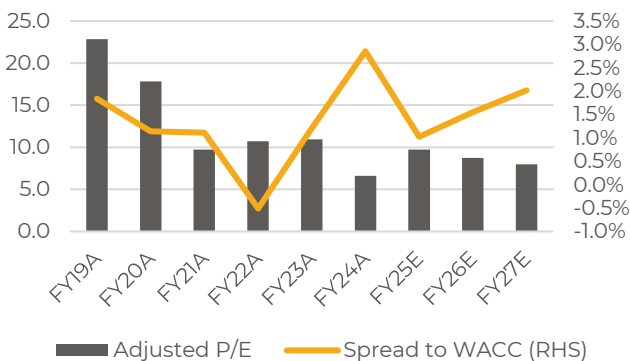
**Figure 9: Price to book (x) vs spread**



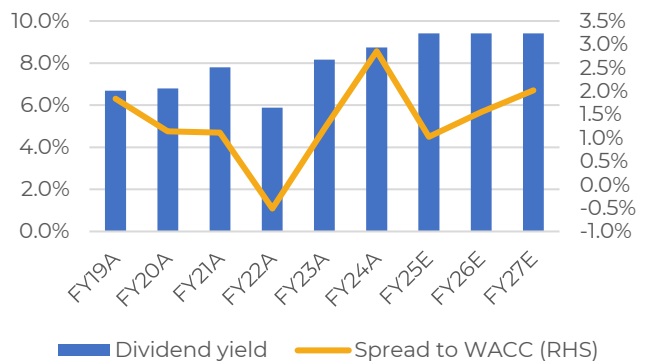
Source: Bloomberg, Duke Capital, CAG Research.

That same disconnect is also evident when looking at adjusted P/E or dividend yield, where Duke has traded significantly higher historically while generating less attractive spreads (Figure 10 and Figure 11).

**Figure 10: Adjusted P/E (x) vs spread**



**Figure 11: Dividend yield vs spread**



Source: Bloomberg, Duke Capital, CAG Research.

We believe this represents a significant opportunity for investors where a re-rating to the historic norms could be triggered by further highly profitable exits, more funding for growth, further deployment of capital, falling interest rates or some combination of the same.



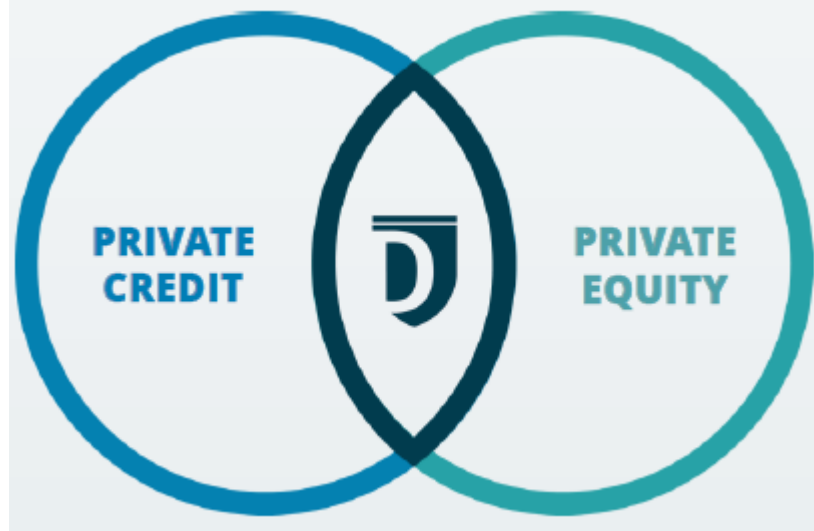
## Purpose, opportunity, and strategy

**Duke Capital's purpose is to finance the growth of successful lower-middle market SMEs which it does by providing hybrid credit financing on a long-term basis. Duke's shareholders benefit from the initial attractive cash return rate with upside on exit and equity participation, where relevant. Duke's financing solution intersects across the roles of the fast-growing private credit market and Private Equity.**

Duke Capital's purpose is to finance the growth of carefully selected lower-middle market SMEs which benefit from its unique hybrid capital solution that provides them with patient capital on a risk-sharing basis enabling them to retain control while offering Duke's shareholders attractive risk-adjusted returns and strong downside protection.

The company's hybrid capital solution intersects across the roles of Private Credit and Private Equity providing the best of both worlds. Duke Capital's strict investment process reduces credit risk and its partnering model supports longer term growth and expansion without the short termism often associated with Private Equity (Figure 12).

**Figure 12: Where Duke Capital fits**



*Source: Duke Capital, CAG Research.*

Duke's long-term capital solution is especially suitable in support of MBOs where management get the finance they need without having to surrender a de-motivating share of equity and for buy-and-build strategies where management know that the financing they need will be available for suitable acquisitions (Figure 13).

**Figure 13: Duke funding use cases**

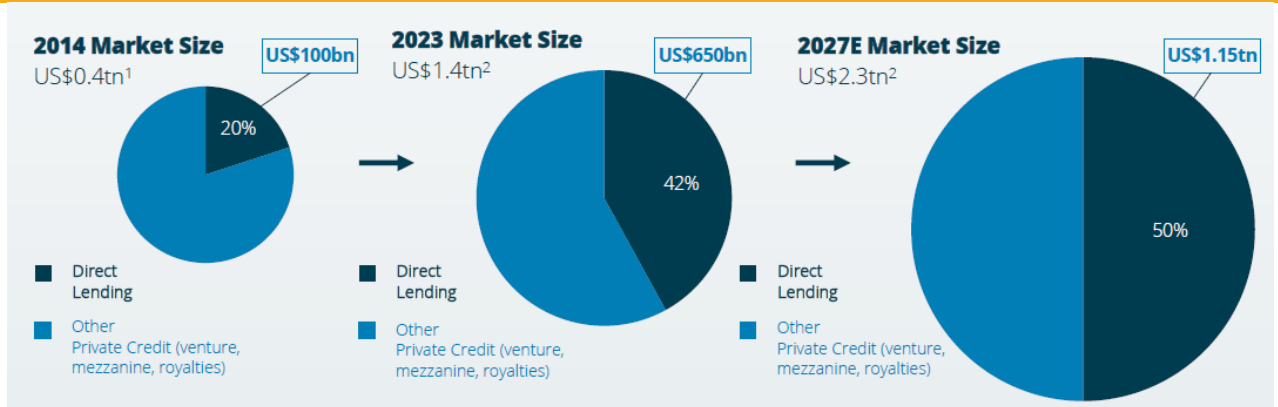
MANAGEMENT BUYOUTS	BUY & BUILD STRATEGIES	SHAREHOLDER RESTRUCTURINGS	DEBT REFINANCING
What Duke looks for		Business characteristics	
<ul style="list-style-type: none"> <li>Investment size of £5 – 30 million</li> <li>Companies with EBITDA of £2 – 8 million and low maintenance capex</li> <li>Long-term partnership and alignment with business owners</li> <li>We seek owners not wanting to give up control or existing management wanting to become owners through an MBO</li> </ul>		<ul style="list-style-type: none"> <li>Long-standing private, family / owner-operated businesses</li> <li>History of organic revenue growth and profitability</li> <li>Dominant position in its local market</li> <li>Low levels of customer concentration</li> <li>Environmentally and socially responsible</li> </ul>	

Source: Duke Capital, CAG Research.

The company's hybrid capital is a financing solution that blends features of private equity and private credit products and is more flexible than traditional debt or equity alone (see [Business](#)).

The overall market for private credit solutions has grown very rapidly, having more than tripled since 2014 to US\$1.4tn by 2023 and is expected to hit US\$2.3tn by FY27 at a compound growth rate per annum (CAGR) of c13%. Within the overall private credit market, the direct lending sector, in which Duke operates, is growing even faster. Direct lending jumped to US\$650bn by 2023 from US\$100bn in 2014 and is expected to account for half of the total market by 2027 with a CAGR of c15% (Figure 14).

**Figure 14: Private credit market**



Source: Duke Capital, BlackRock, Morgan Stanley, CAG Research.

Duke Capital is broadly sector agnostic in its lending, but it looks for long-standing private, family, owner-operated businesses with a history of successful operations delivering steady revenue growth and profitability. Such companies will generally be lower-middle market in scale within the private credit market. These required characteristics naturally tend to exclude natural resources, biotech, and start-ups.

Duke Capital is generally focused on cash-flow backing for the financing it is willing to extend, and the typical investee partner will have EBITDA of £2m-£8m while Duke's typical initial loan size is £5m-£30m with follow-on financing sized as necessary.

## Business

**Duke's basic hybrid credit product combines a 30-year amortising loan coupled with a variable preference share in a single instrument with a combined interest rate typically averaging around 13% on initiation and which is linked to the revenue performance of the investee partner. Since it was reborn in 2015, Duke has invested a total of £277m in 22 partners, exiting eight of them, generating £82m in total proceeds including £65m of receipts on exit for recycling back into the business. That recycling process has proven increasingly profitable with all but one exit generating high or very high returns. Although Duke's provision of capital is intended to be long term, the reality is that partner exits are inherently recurring, and growing as the overall portfolio scales.**

Duke Capital was reborn in 2015 as a company investing in a diversified portfolio of royalty finance and related opportunities under the leadership of Neil Johnson and Charlie Cannon Brookes. The company re-listed on the AIM market in 2017 when it raised £15m, gross, to enable it to implement its new investing policy. Duke has since raised a further £137m in gross equity and accessed a £100m line of debt finance to deploy a total of £277m across its investee partners, prior to exits. The company has just announced a further conditional £17.2m equity raise together with a retail offering for up to £3m. Total receipts from the eight companies from which Duke has exited are £82m including £65m from the repayment of hybrid credit including exit premiums together with equity realisations, and £17m in hybrid credit payments received during the period of investment.

In February of this year, Duke changed its name from Duke Royalty to Duke Capital with a view to providing greater clarity over its offering to potential new partners. There was no structural change to the company's hybrid credit product which forms the bedrock of its business. However, Duke also removed its previous cap on associated equity participation of 30% with a view to boosting its overall returns potential from high performing partners but with no intention to change the long-term nature of its partner relationships by seeking control or forcing an exit.

Since 2017, Duke has invested into a total of 22 investee partners, including six of which were acquired when Duke bought out Capital Step in February 2019 for an enterprise value of £22m. Capital Step was the only UK based diversified royalty competitor to Duke. Of those 22 partners, Duke has been exited out of eight realising total proceeds of £65m (Figure 15).

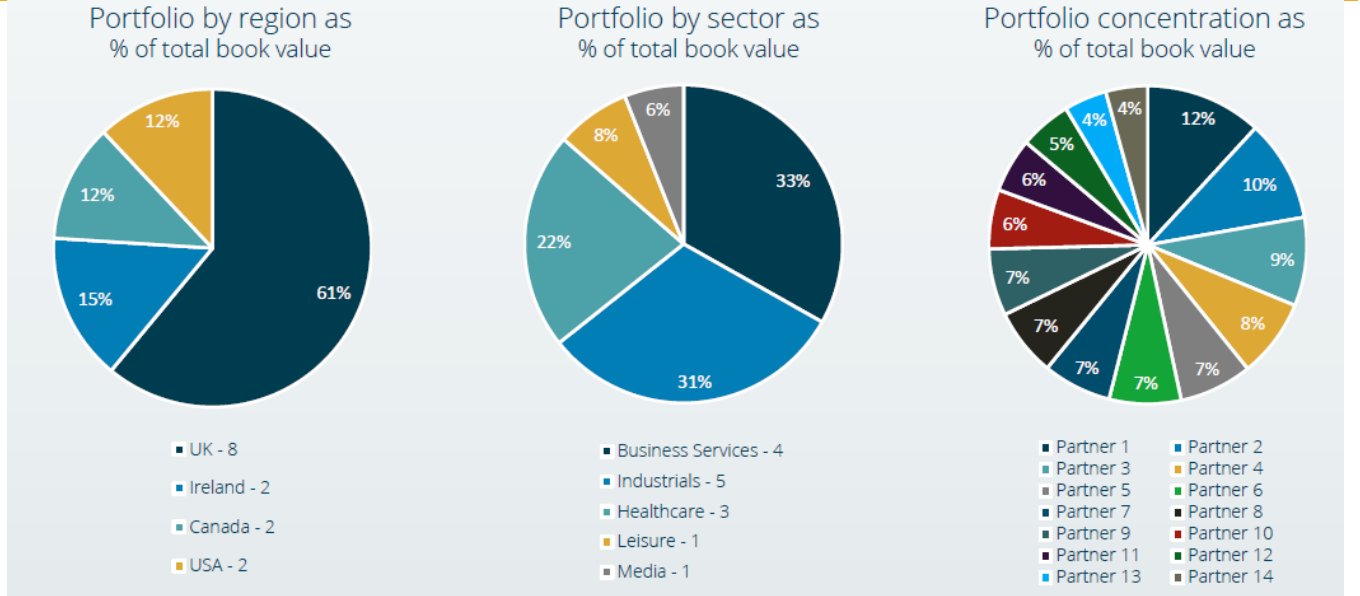
**Figure 15: Investee partners**

<b>Partner</b>	<b>Country</b>	<b>Sector</b>	<b>Business</b>	<b>Status</b>
Atlas Signs	US	Industrials	Signage	Invested
Berkley <sup>1</sup>	Ireland	Business services	Recruitment	Exited
BHP <sup>1</sup>	Ireland	Finance	Insurance	Exited
BPVA <sup>1</sup>	Ireland	Business services	Recruitment	Invested
Crēo-Tech	Canada	Industrials	EPC services	Invested
Fabrikat	UK	Industrials	Steel fabrication	Exited
Fairmed	Switzerland	Healthcare	Pharmaceuticals	Exited
Glasshouse	US	Industrials	Glass	Invested
Instor	US	Industrials	Technology reseller	Exited
Intec	UK	IT services	IT services	Invested
Integrum	UK	Specialist care	Care homes	Invested
InterHealth	Canada	Healthcare	Healthcare facilities	Invested
Lynx <sup>2</sup>	Europe	Business services	Old economy	Invested
Miriad	UK	Business services	Recreational vehicle parts	Invested
New Path	UK	Business services	Fire & security	Invested
Temarca	Netherlands	Leisure	River cruises	Exited
Step <sup>1</sup>	UK & Ireland	Media	Media & advertising	Invested
Trimite	UK	Industrials	Coatings	Invested
Tristone	UK	Specialist care	Specialist care	Invested
United Glass	UK	Industrials	Glass	Invested
Welltel <sup>1</sup>	Ireland	Telecoms services	Telecoms services	Exited
Xtreme Push <sup>1</sup>	Ireland	Technology Solutions	Marketing services	Exited

*Source: Duke Capital, CAG Research. 1) Acquired with Capital Step; 2) Canadian based but funding provided to build European business.*

As would be expected given the location of the business and its target customer base, the majority of Duke's investments are in the UK, with a well diversified business portfolio, the largest segment of which is in business services, and the majority of which has been used to support buy-and-build strategies (Figure 16).

**Figure 16: Current portfolio diversification**



Source: Duke Capital, CAG Research.

Duke Capital's basic hybrid product combines a 30-year amortising loan coupled with a variable preference share in a single instrument with a combined interest rate typically averaging around 12%-14% on initiation. The rate is reviewed annually against the revenue performance of the investee partner and increases or decreases by the same percentage change as the partner's revenue subject to an annual cap of 6% and a minimum rate on the preference share of zero. All of the overall percentage change in the yield on the instrument is taken through the preference share. In this way, the yield on Duke's product is linked to the financial performance of the investee partner and one aspect of how its hybrid capital solution aligns its interests with that of its investee partners.

In practice, the ratchet generally tops out when the yield hits 14%-16%, otherwise the incentive for the partner to refinance could become too large. It is in Duke's interest to remain invested when earning this type of return from a growing company with the potential to earn exit premiums if and when the partner is taken out or refinances, together with a return on any equity participation Duke may take at the point of providing hybrid capital or subsequently.

Termination of the funding from Duke generally results in an exit premium ranging from 15%-30% of the capital invested becoming due. Were all Duke's partners to exit now, that would generate some £46m in exit premiums. The exit premium mechanism adds a substantial upside kicker to the IRR Duke can earn on its participation.

From the perspective of Duke's investee partners, the length of the amortisation period keeps repayment of principal at a fraction of that for the typical five-year period for bank debt and leads to a much longer re-financing horizon with much reduced stress over potentially having to cover a bullet repayment. The structuring of the product means that the interest is tax deductible for the investee partner.

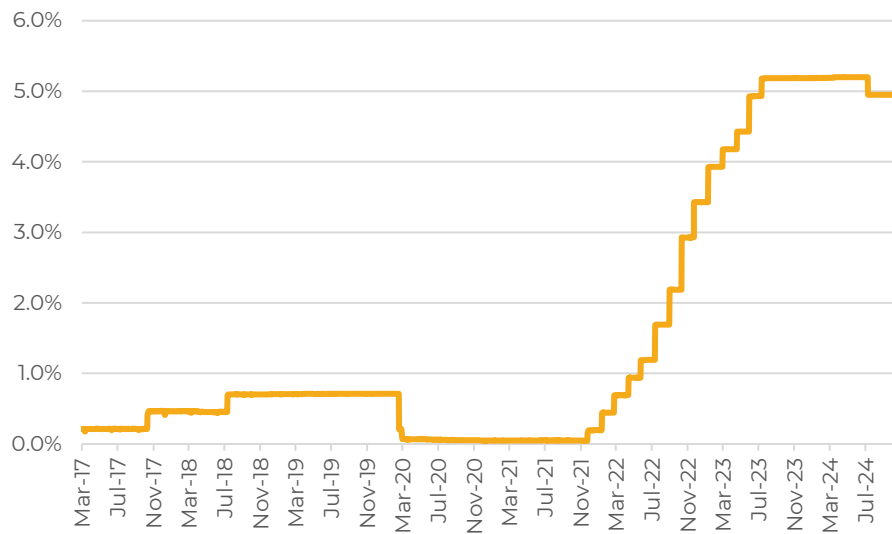
It is important to note that while the principal amortises over the life of the loan, which is usually over a nominal 30-year period, the applicable hybrid interest rate is based on the initial principal provided together with any ratchet benefit. Consequently, Duke has a nominal contracted stream of repayments totalling c£800m, on an undiscounted basis, if all partner obligations were held to maturity. Were the hybrid interest to reduce in line

with the principal, we calculate that only c£650m in total repayments would be due.

The debt component is senior secured although Duke Capital does sometimes permit higher level debt where it is beneficial to the investee partner but with Duke Capital retaining the right to re-finance the alternative debt so that it always has the option to maintain control.

As Duke Capital's financing is intended to be long term, the initial interest rate on its hybrid capital solution has been stable both when the interest rate environment was very low and through the increase in rates since 2022 which is now beginning to moderate (Figure 17).

**Figure 17: SONIA benchmark interest rate**



Source: Bloomberg, CAG Research.

Duke is increasingly taking equity stakes in its investee partners, not in the sense of a private equity partner seeking control over the exit process but to improve Duke's overall potential returns as and when the partner chooses to exit the relationship. That will usually be because the partner has grown large enough to seek alternative financing.

Figure 18 sets out Duke's current partners, its exposure to them, and the cash returned to date relative to capital invested. As at the end of September, Duke had total capital invested of £224m with a forecast cash-on-cash return of c1.4x including realised cash returns plus unrealised fair values of capital invested, divided by total capital invested.

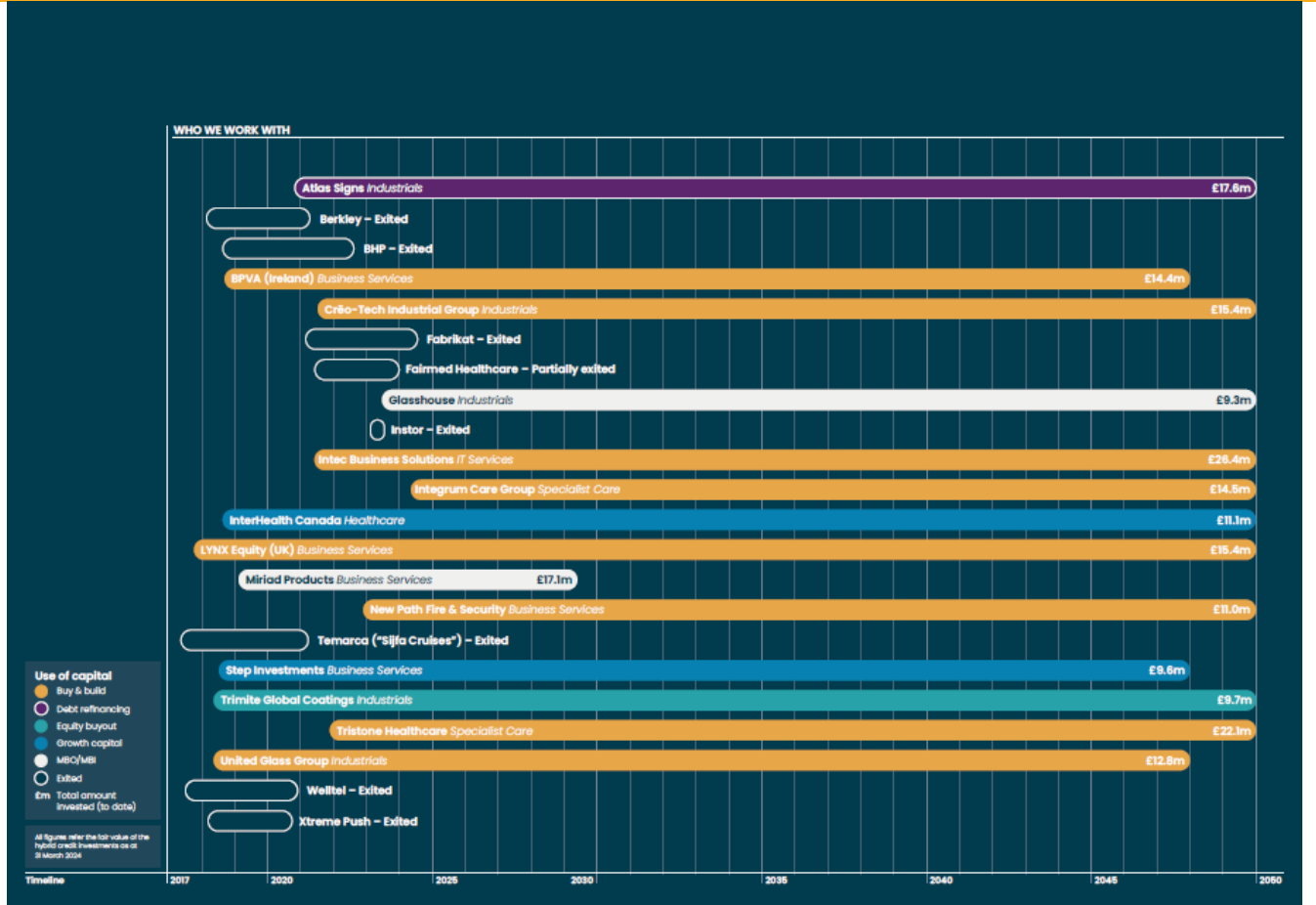
**Figure 18: Current investee partners**

Capital partner	Investment Date	Corporate mortgage	Preference share	Exit premium	Equity stake %	Capital invested (£000)	Cash returned to date (£000)	(%)
Lynx	Oct-17	✓	✓	✓	-	15,000	11,176	75%
Trimite	Mar-18	✓	✓	✓	30%	13,250	4,920	37%
UGG	Apr-18	✓	✓	✓	74%	18,223	8,811	48%
Step	Jun-18	✓	✓	✓	-	11,503	5,382	47%
InterHealth	Aug-18	✓	✓	✓	-	10,000	7,134	71%
BPVA	Sep-18	✓	✓	✓	30%	18,556	8,109	44%
Mirriad	Feb-19	✓	✓	✓	30%	20,692	11,268	54%
Creo-Tech	Jul-21	✓	✓	✓	100%	16,030	3,936	25%
Intec	Jul-21	✓	✓	✓	30%	29,900	6,986	23%
Atlas	Dec-21	✓	✓	✓	-	15,854	6,396	40%
Tristone	Dec-21	✓	✓	✓	14%	19,400	6,860	35%
New Path	Nov-22	✓	✓	✓	15%	12,080	1,860	15%
Glasshouse	Jul-23	✓	✓	✓	10%	9,028	1,453	16%
Integrum	Mar-24	✓	✓	✓	49%	14,500	1,483	10%
<b>Total</b>						<b>224,017</b>	<b>85,773</b>	<b>38%</b>

Source: Duke Capital, CAG Research.

Figure 19 sets out all of the investments Duke has made to YEFY24 including the nominal period to which its current investment portfolio will run to maturity. This emphasises the long-term nature of the relationship basis Duke has with its partners. However, Figure 19 also shows that although the relationship is intended to be long term, the reality is that partners will in all likelihood choose to exit before maturity, boosting Duke's returns and providing capital to re-deploy into new partners.

Figure 19: Timeline of investments



Source: Duke Capital, CAG Research.

That recycling process has proven increasingly profitable with all but one exit generating high or very high returns (Figure 20). These exits have already generated £65m to Duke and this recycling is an intrinsic part of the business which we suspect is not well understood as although it is not at Duke's option, it is inherently recurring.

Figure 20: Partner exits

Partner	Year exited	Exit value (£m)	IRR on exit
Xtreme Push <sup>1</sup>	FY20	2.7	22.0%
Welltel <sup>1</sup>	FY21	15.5	28.2%
Temarqa	FY21	9.8	-1.2%
Berkley <sup>1</sup>	FY22	1.1	16.0%
BHP <sup>1</sup>	FY22	6.7	28.8%
Instor	FY23	9.1	293.0%
Fabrikat	FY24	9.9	32.4%
Fairmed	Completed FY25	9.9	20.8%

Source: Duke Capital, CAG Research. 1) Acquired with Capital Step in February 2019.

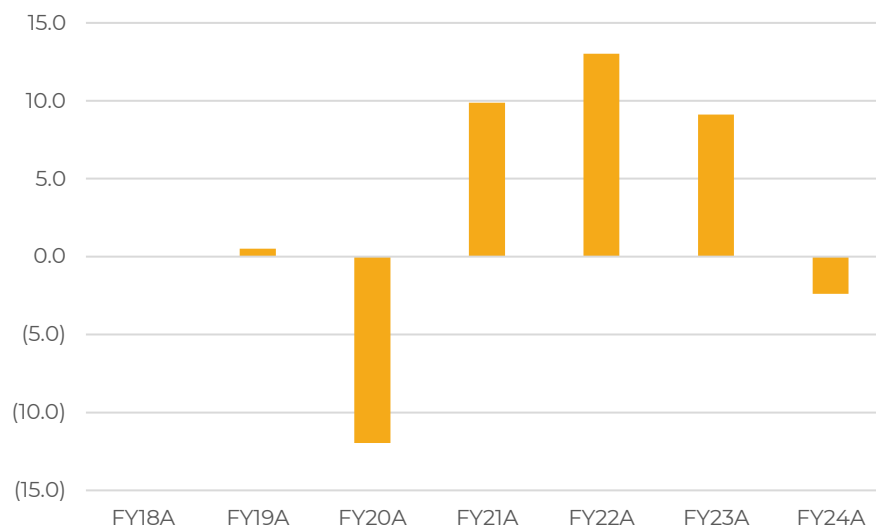


## Financials

**Given the 12-14% initial cash yield plus multiple upside kickers Duke generates on its financing to partners, the company's financial performance is primarily driven by capital deployed. Since FY18, the fair value of Duke's investment portfolio has grown ten-fold driving a near 30-fold increase in gross cash receipts. As the company pays out most of its free cash flow to equity before investment as dividend, growth in the portfolio has mainly been funded from equity, recycled exit proceeds and debt. Were appropriate funding available, we show Duke would benefit from an increased pace of investment. We demonstrate that although Duke accounts on a FVTPL basis, the balance sheet is robust and the company's focus on cash generation over reported profit is fully justified.**

Duke Capital's financials reflect the nature of its business as a provider of hybrid capital to its investee partners. Notably, that means Duke's investments in its partners, whether hybrid credit, term credit, or equity are valued in Duke's balance sheet under fair value through profit or loss (FVTPL) accounting as prescribed by IFRS 9 and 10. Hence, Duke's accounts do not include any equity or consolidated accounting of investee partners' financials even where Duke might otherwise be considered to have significant influence or control over the partner. That also means that the profit and loss statement reflects what can be lumpy gains and losses on FVTPL mark-to-market calculations. However, we note that the aggregate of FVTPL movements since FY18 is a net gain of £18.2m, reflective of the robustness of Duke's investment approach including managing through the deprecations of Covid which had a significant impact on many of Duke's partners (Figure 21).

**Figure 21: Total movement in fair value through profit or loss**



Source: Duke Capital, CAG Research.

As Duke invests in non-listed entities the financial calculations underlying the FVTPL process do not reflect observable data points but are based on net present value (NPV) calculations of contractual revenue entitlements. For FY24 the range of discount rates used by Duke to calculate NPV was 14.7%-17.7% across hybrid credit and hybrid credit participation instruments. For equity valuations, the range of forward-looking EBITDAs used was 4.2x-8.0x (see [Risks](#)).

In order to cross-check the robustness of these FVTPL calculations we have generated a calendar timeline based on Dukes' disclosed investments and exits. Figure 22 shows total hybrid and term investments but not equity

investments, by year in partners in which the company retains a position, together with the equivalent capital invested as disclosed by Duke.

**Figure 22: Investment into continuing partners by calendar year (£m<sup>1</sup>)**

Partner	2017	2018	2019	2020	2021	2022	2023	2024	Calculated investment	Disclosed investment at YEFY24
Atlas Signs					15.9				15.9	17.6
BPVA <sup>2</sup>			1.7	7.7	4.2			4.0	17.6	14.4
Crêo-Tech					4.8	6.2	5.2		16.2	15.4
Glasshouse								9.0	9.0	9.3
Intec					9.9	7.3	4.6		21.8	26.4
Integrum								14.5	14.5	14.5
InterHealth		10.0							10.0	11.1
Lynx	7.0	3.0	2.0	1.0	1.5				15.0	15.4
Miriad			10.0	3.1	5.3				18.4	17.1
New Path						5.0	1.9	3.9	10.8	11.6
Step <sup>2</sup>			2.8		4.3			2.9	10.0	9.6
Trimite		9.0		1.0					10.0	9.7
Tristone					10.5	7.1	1.8		19.4	22.1
United Glass		7.5			4.5				12.0	12.8
<b>Total invested</b>	<b>7.0</b>	<b>29.5</b>	<b>16.5</b>	<b>12.8</b>	<b>60.9</b>	<b>25.6</b>	<b>13.5</b>	<b>34.3</b>	<b>200.4</b>	<b>207.0</b>

Source: Duke Capital, CAG Research. 1) Investments in other currencies stated at £m value disclosed at announcement; 2) Initial position acquired with Capital Step acquisition in February 2019.

For these companies, we calculate total capital invested of £200m which is close to the £207m figure reported by Duke (see Figure 22). As Duke does not generally report follow-on investment of less than £1m, we expect that will account for most of the difference, which is small, in any event. That compares with a carrying value on the balance sheet at 31 March 2024 of £216.3m for credit investments plus an additional £15.9m for equity investments. On that basis and given that seven of eight (Figure 20) exits generated substantial positive IRRs, we believe the carrying values in the balance sheet are reliable and are not inflated by the accounting methodology.

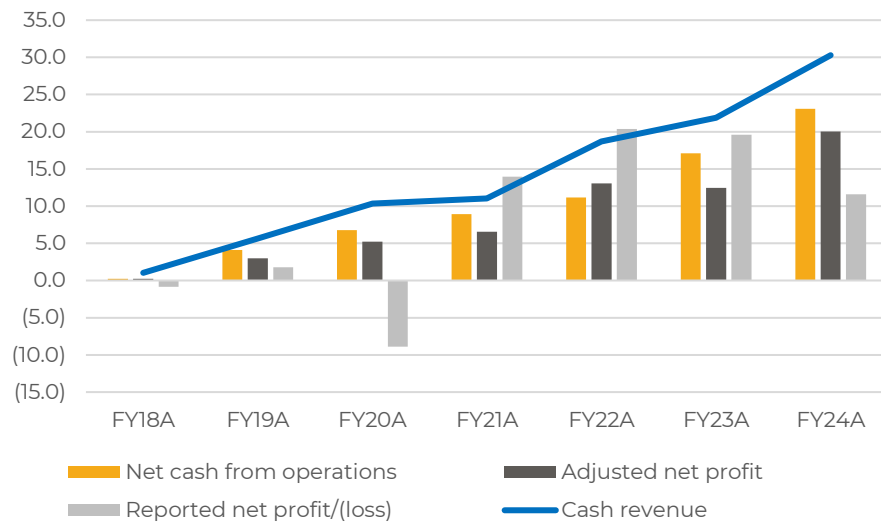
Given the non-cash impact of FVTPL movements on the P&L, and the lack of any meaningful depreciation charge or movement in working capital, Duke focuses on cash flow as the most meaningful description of underlying financial performance. We believe that approach makes sense and is reflected in our presentation of the financials (see [Summary financial statements](#)).

One of Duke's main key performance indicators is total cash revenue which includes payments on invested hybrid capital together with any equity related receipts. Net cash generation from operations typically reflects a conversion rate of over 70% of cash revenue.

Duke calculates adjusted net profit as reported net profit after removing the post tax impact of unrealised fair value movements, share based payments, and net transactions cost as these are required to be expensed immediately rather than over the life of the investment to which they relate.

Figure 23 demonstrates the strong upward trajectory and tight linkage between cash revenue, net cash generated from operations, and adjusted profit together with the volatility in reported net profit. That tight linkage demonstrates that Duke's emphasis on the cash flow statement is closely aligned with performance as displayed by adjusted net profit.

**Figure 23: Cash and profit (£m)**

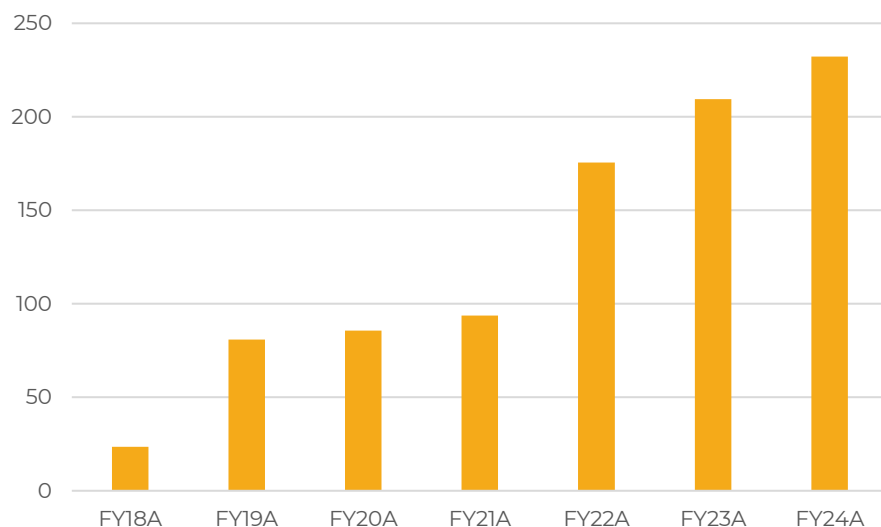


Source: Duke Capital, CAG Research.

As Duke's investment process has an excellent record of success (Figure 20) and its credit product has a standard running cash yield of 12%-14%, excluding any revenue ratchet, exit premium, value realisation on exit, or receipt of dividend, its financial performance is primarily driven by the capital it has put to work.

Since its rebirth ( see [Structure, management, and shareholders](#)), Duke has invested a total of £277m and realised £65m in disposal receipts. At YEFY24, the portfolio fair value was £232m on capital invested of £214m. That represents a ten-fold increase in portfolio fair value since YEFY18. (Figure 24).

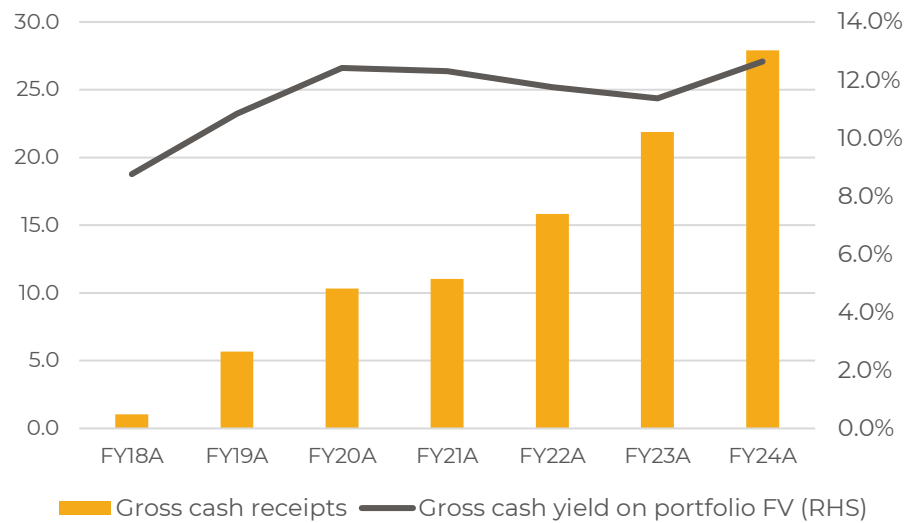
**Figure 24: Investment portfolio fair value<sup>1</sup> (£m)**



Source: Duke Capital, CAG Research. 1) Investment portfolio fair value comprises the carrying values of hybrid credit finance investments, term credit investments and equity investments.

In turn, that has driven a near 30-fold increase in gross cash receipts reflecting the operational leverage in the business and increased cash portfolio yield (Figure 25).

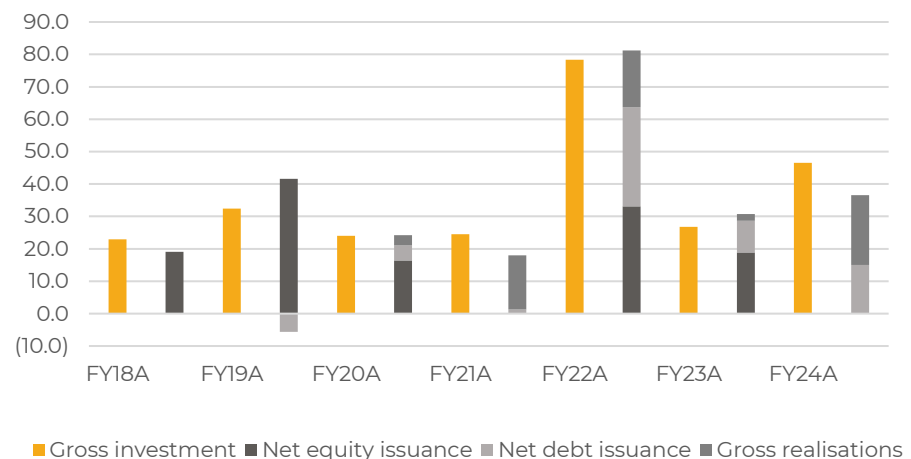
**Figure 25: Gross cash receipts<sup>1</sup> (£m), cash portfolio yield<sup>2</sup> (%)**



Source: Duke Capital, CAG Research. 1) Gross cash receipts comprise the sum of hybrid credit receipts (typically >90% of the total), term credit receipts, and other operating receipts; 2) cash portfolio yield is gross cash receipts divided by investment portfolio fair value.

The gross investment of £277m to YEFY24 has effectively been funded from net equity issuance of £143m, including £14m raised in FY17, disposal proceeds of £65m and net debt issuance of £57m (Figure 26) with most of the company's free cash flow, prior to investment paid out in dividends, in line with Duke's dividend strategy.

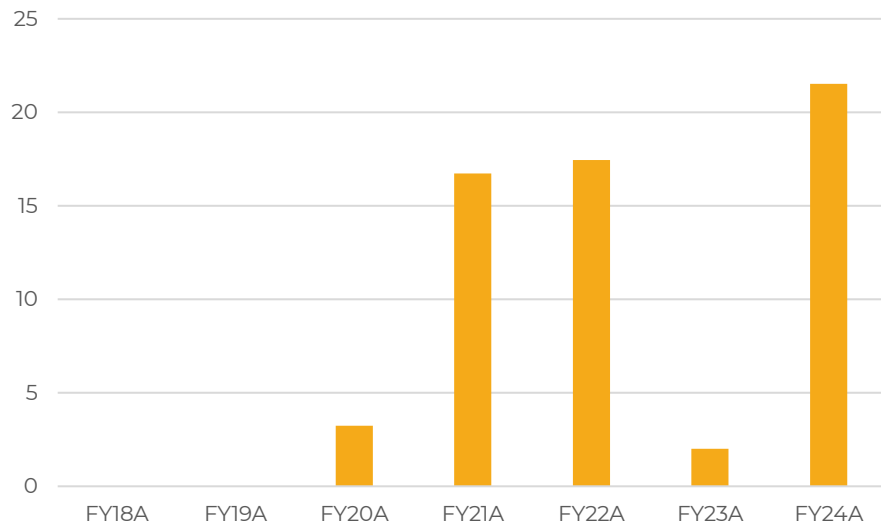
**Figure 26: Investment and funding (£m)**



Source: Duke Capital, CAG Research.

As the pace of exits has picked up disposal proceeds have become a more important source of funding over the last three-four financial years (Figure 27), as has debt financing, while Duke has just announced a conditional £17.2m equity raise together with a retail offer for up to £3m, and plans to raise £100m of third party capital in a new Special Purpose Vehicle for coinvestment.

**Figure 27: Reported gross cash realisations (£m)**



Source: Duke Capital, CAG Research.

At the end of 2022, Duke refinanced its existing revolving credit facility with a new debt provider, Fairfax Financial Holding (Fairfax). That trebled Duke's committed facility to £100m at an interest rate of SONIA +5%, a 225bp improvement on its previous terms. The Fairfax loan has a five-year term to January 2028 with a bullet payment due on expiry and no amortisation payments. As part of the refinancing, Duke issued warrants to Fairfax with a strike price of 45p exercisable to January 2028. As at YEFY24, £27m of the facility was undrawn and net debt stood at £67.5m.

Duke has a consistent history of paying a quarterly dividend, even during Covid, although two payments in FY21 were scrip only. The current annualised run rate is 2.8p, equivalent to a dividend yield of well over 9%.

Duke's definition of free cash flow is net cash inflows from operations plus cash gains from the sale of equity investments less net transaction costs and interest paid on borrowings which is effectively free cash flow to equity but before investment.

After initially declaring dividends in excess of 100% of free cash flow, payout has now stabilised at around c65%-90% of free cash flow. Duke sets its dividend in relation to free cash flow but in practice this works out at 60%-90% of adjusted earnings, demonstrating that there is quite a tight linkage between the two (Figure 28).

**Figure 28: Dividend payout ratio**

	FY20A	FY21A	FY22A	FY23A	FY24A
Payout on Duke FCF	131%	72%	72%	87%	65%
Payout on adjusted EPS	121%	76%	63%	89%	58%

Source: Duke Capital, CAG Research.

Duke considers its dividend to be a key feature of its investment proposition although that means the company regularly needs to seek new financing to support its investment activities.

As discussed above, the principal driver of growth in net cash generation from operations and adjusted net profit is the net capital deployed by Duke and the cash yield it generates (Figure 25).

Historically, Duke has made new and follow-on investments averaging around £26m pa, with the exception of FY22, when the company took advantage of the emergence from Covid to invest particularly aggressively (Figure 26). The pace of investment also picked up in FY24.

We understand that Duke believes its investment screening process could handle the deployment of up to £75m-£100m pa and that it is capital, rather than opportunity constrained (Figure 14). However, we pencil in a nominal £26m pa of ongoing new investments, in line with the historic average, all of which we assume will be into hybrid capital.

Since FY20, Duke has generated an average 12.5% cash return on hybrid capital with a range of 12.0%-13.6% and we forecast that broadly to continue, trending slightly higher to 13% from linkage to positive revenue growth in Duke's investee partners.

With the exception of the balance of receipts from the Fairmed disposal in FY24, which were received in FY25, we do not model any further exits, although in practice there are likely to be exits, nor do we model any movements in FVTPL. In practice, ongoing exits are likely to provide a significant source of cash receipts to Duke for recycling into new investments, potentially at an increased scale as Duke takes more equity exposure in its investee partners.

We note that as part of the strategic review Duke undertook in FY24 (see [Structure, management, and shareholders](#)), the company decided to create additional flexibility to take equity ownership above 30%. There is no intention to change the long-term relationship the company establishes with its partners with a view to taking control or forcing an exit. However, there is an expectation that if and when partners in which Duke holds an equity stake are acquired or come to market, a larger percentage ownership position will boost the potential for equity gains and overall realised returns on the portfolio. Currently, Duke holds equity stakes above 30% in three partners, (Figure 18).

The other notable features driving our forecast are an expected modest increase in the tax rate over time and the nominal assumption that investments are funded through debt, apart from the portion funded through the new equity raise. We have not assumed any benefit from the planned £100m coinvestment strategy. We hold the dividend steady at 2.8p, which means that an increasing portion of the investment process is funded from net cash generation. Given Duke's dividend strategy, our dividend forecast may prove conservative.

On that basis, after a modest dip in FY25 following the very strong performance in FY24, we model average growth in net cash generated from operations averaging 17% through FY27 as the investment portfolio fair value hits £300m for the first time with growth in adjusted earnings averaging 15% pa.

The key financial highlights of our forecast are shown in Figure 29 and detailed in [Summary financial forecasts](#).

**Figure 29: Headline financials**

Item	Unit	FY23A	FY24A	FY25E	FY26E	FY27E
Cash revenue	£m	21.9	30.3	26.8	31.0	35.6
Net cash from ops	£m	17.1	23.1	21.1	24.8	28.8
Portfolio FV	£m	210	232	249	274	300
Free cash flow <sup>1</sup>	£m	12.8	17.9	12.6	15.3	17.0
Adjusted net profit	£m	12.5	20.0	13.4	16.3	17.8
Adjusted EPS	p/sh	3.13	4.85	3.06	3.40	3.72
Dividend	p/sh	2.80	2.80	2.80	2.80	2.80
Net debt/(cash)	£m	45.4	67.5	73.7	97.8	120.2

Source: Duke Capital, CAG Research. 1) Prior to investment.

Our forecast effectively assumes that required additional financing will be debt funded, with interest reflecting the current c9.5% borrowing rate applicable on the Fairfax facility, held flat for forecasting purposes. Mechanistically, Figure 29 indicates that further financing would be required in FY26/FY27, given the current £100m cap on the Fairfax facility. However, we would emphasise that, in practice, further exits are likely to contribute towards funding as should the planned coinvestment strategy (Figure 27).

More interestingly, as Duke's investment process has proven value accretive, the relatively low rate of new investment compared to the company's capacity and market opportunity limits its cash generation and earnings potential, we believe.

We have run sensitivities to reflect continuing investment rates at £50m pa, £75m pa and £100m pa, rather than the £26m pa used in our base case, which generates the results shown in Figure 30.

**Figure 30: Sensitivities at IRs of £50m, £75m, & £100m (£m)**

	<b>FY24A</b>	<b>FY25E</b>	<b>FY26E</b>	<b>FY27E</b>	<b>FY28E</b>
Net cash from ops - base	23.1	21.1	24.8	28.8	31.6
Net cash from ops - £50m	23.1	22.5	29.3	36.6	42.6
Net cash from ops - £75m	23.1	24.0	34.0	44.8	53.9
Net cash from ops - £100m	23.1	25.5	38.7	52.9	65.3
Adjusted net profit - base	20.0	13.4	16.3	17.8	18.3
Adjusted net profit - £50m	20.0	13.6	17.4	20.0	21.4
Adjusted net profit - £75m	20.0	13.8	18.5	22.2	24.8
Adjusted net profit - £100m	20.0	13.9	19.6	24.5	28.1
Required funding - base	21.0	6.1	24.2	22.4	21.7
Required funding - £50m	21.0	30.0	47.1	44.2	42.4
Required funding - £75m	21.0	54.9	70.9	66.8	63.9
Required funding - £100m	21.0	79.7	94.8	89.5	85.5

Source: Duke Capital, CAG Research.

Not surprisingly, as Figure 30 demonstrates, the higher the pace of investment, the higher the net cash generation and adjusted net profit. By FY28, net cash generation would be more than double that of our base case with investment running at £100m pa with adjusted net profit 54% higher.

Interestingly, while the pace of required financing peaks in all cases from FY26, the higher rates of investment result in Duke becoming increasingly self-funding, albeit still requiring finance to drive growth.

The implications are discussed in more detail in [Valuation](#), but on adjusted P/E, Duke would trade on just 5x by FY28 with investment running at £100m pa (Figure 31).

**Figure 31: P/E at IRs of £50m, £75m, & £100m (X)**

	<b>FY24A</b>	<b>FY25E</b>	<b>FY26E</b>	<b>FY27E</b>	<b>FY28E</b>
Base case	6.6	9.7	8.7	8.0	7.8
£50m IR	6.6	9.6	8.2	7.1	6.6
£75m IR	6.6	9.5	7.7	6.4	5.7
£100m IR	6.6	9.4	7.2	5.8	5.1

Source: Bloomberg, Duke Capital, CAG Research.

The majority of Duke's historic funding has come through equity issuance with total net proceeds raise of £143m at an average issuance price of 39p/share (Figure 32), prior to the recently announced c£17m-£20m equity raise.



**Figure 32: Equity issuance**

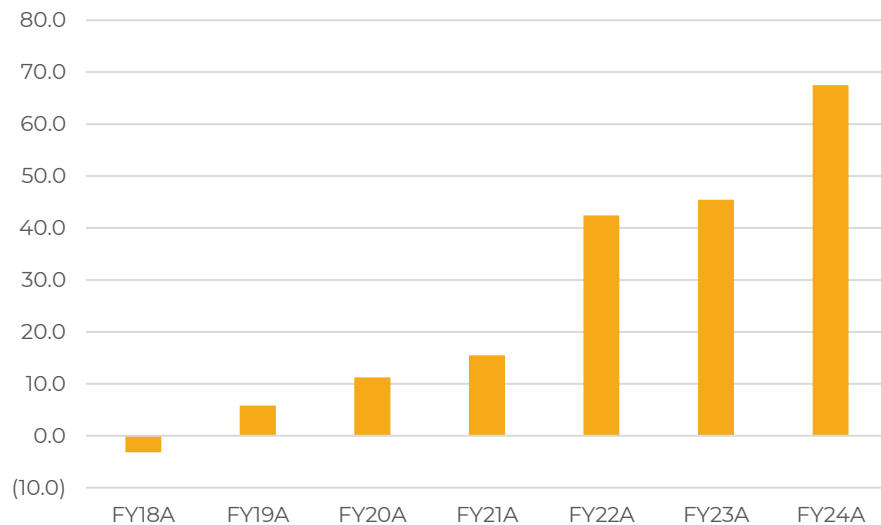
	Unit	FY17A	FY18A	FY19A	FY20A	FY22A	FY23A
Net equity raised	£m	13.8	19.1	41.6	16.4	33.1	18.9
Issue price	p/share	40	40	44	44	35	35
Shares issued	m	38	50	100	40	100	57
Shares issued as % of resultant shares in issue	%	83%	52%	51%	17%	28%	14%

Source: Duke Capital, CAG Research.

Increasing free cash flow generation will help to fund future investment but, given Duke's dividend policy of paying out most of its free cash flow, that provides a relatively modest source of incremental funding.

Duke could boost cash availability by reducing or cancelling the dividend, which has a current annual cost of £11.5m, increasing to c£13m on completion of the new equity raise. However, that would also provide a relatively modest amount of direct additional investment capacity and would run completely counter to the company's dividend policy which is now an established attraction for the company's current shareholder base. Moreover, payment of a dividend injects discipline to deliver performance if Duke is going to justify raising future equity capital.

Duke has increased the amount of debt it has utilised, in conjunction with increasing its debt availability on improved terms (Figure 33).

**Figure 33: Net debt**

Source: Duke Capital, CAG Research.

The company has reasonable debt metrics (Figure 34); having fairly recently refinanced its debt with Fairfax through to January 2028, we suspect further debt capacity would likely depend on Fairfax' appetite to expand its lending to Duke.

**Figure 34: Debt metrics**

	<b>FY21A</b>	<b>FY22A</b>	<b>FY23A</b>	<b>FY24A</b>	<b>FY25E</b>
Net debt/total capital	15%	24%	22%	29%	29%
Cash interest cover	6.3x	6.8x	4.3x	3.7x	2.7x
Loan to value <sup>1</sup>	17%	24%	22%	29%	30%

*Source: Duke Capital, CAG Research. 1) Net debt to portfolio FV.*

Another potential source of funding from Fairfax could be from the exercise of the warrants which could potentially provide £19m in funding as and when the share price exceeds the 45p strike price.

Disposals could also provide additional funding. Disposals of equity have provided c£10m in funding since FY22 with the remaining equity interests valued at £15.9m as at YEFY24. Indeed, Duke's willingness to take larger equity positions is partly driven by its intention to increase equity upside on disposal. However, given the long-term nature of Duke's relationships with its investee partners, which are not listed, the timing of realisation is not in Duke's control. Similarly, exit premiums, which currently have a contractual value to Duke of c£46m are not at Duke's option to monetise. Nevertheless, statistically, there are likely to be further disposals and exits with an increased probability of higher total realisations given the number of partners and the increasing value of the overall portfolio (Figure 24 and Figure 27).

As part of the recently announced fund raise, Duke has announced plans to raise £100m in a new Special Purpose Vehicle to coinvest alongside Duke. That should allow Duke to earn fees for managing the coinvested funds, including performance fees, earn management charges for the use of its organisational capability, and potentially increase the range and size of the investments Duke could undertake.

## Valuation

**Duke has increased the post-tax cash yield it generates even as cash deployed has ballooned, increasing the spread to the company's cost of capital. However, neither the improving financial performance nor the increasingly evident role of profitable capital recycling from exits appear to have been recognised by the market, yet. Duke is currently trading on lower ratings than it did before FY23. We believe this represents a significant opportunity for investors. In the UK, Duke has a unique business model but on the closest comparators we can identify, Duke offers the highest yield and one of the lowest P/E ratings, confirming its attractive valuation.**

That modest performance was despite Duke producing record results in FY24 with net cash flow generation up 35% YoY to £23.1m, adjusted EPS up 55% to 4.85p, while crystallising record realisations of £21.5m and still managing to deploy a net £26.4m in new capital.

It is possible that markets have been more focused on reported earnings which reflected a £6.9m hit from the non-cash movement in FVTPL. However, as discussed in [Financials](#) the balance sheet is robust and reported earnings are volatile, precisely because of the potential for non-cash movements in FVTPL.

Moreover, the robustness of the balance sheet and evidence of Duke's business model and investment process to deliver returns substantially above its cost of capital continues to grow.

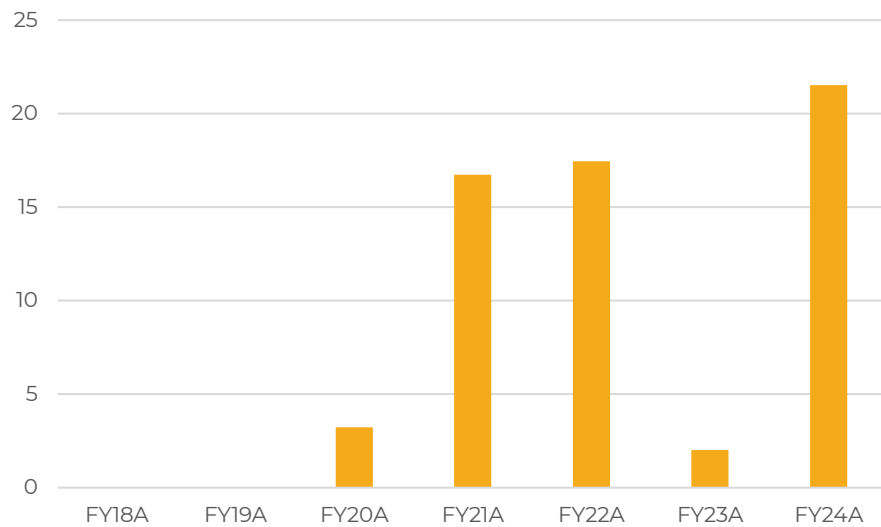
Of the 22 partner investments Duke has made, it has now exited eight generating high returns on all but one with an increasing cadence in the level of disposals, which is in part a function of the increasing scale of Duke's investment portfolio (Figure 35 and Figure 36).

**Figure 35: Partner exits**

Partner	Year exited	Exit value (£m)	IRR on exit
Xtreme Push <sup>1</sup>	FY20	2.7	22.0%
Welltel <sup>1</sup>	FY21	15.5	28.2%
Temarca	FY21	9.8	-1.2%
Berkley <sup>1</sup>	FY22	1.1	16.0%
BHP <sup>1</sup>	FY22	6.7	28.8%
Instor	FY23	9.1	293.0%
Fabrikat	FY24	9.9	32.4%
Fairmed	Completed FY25	9.9	20.8%

Source: Duke Capital, CAG Research. 1) Acquired with Capital Step in February 2019.

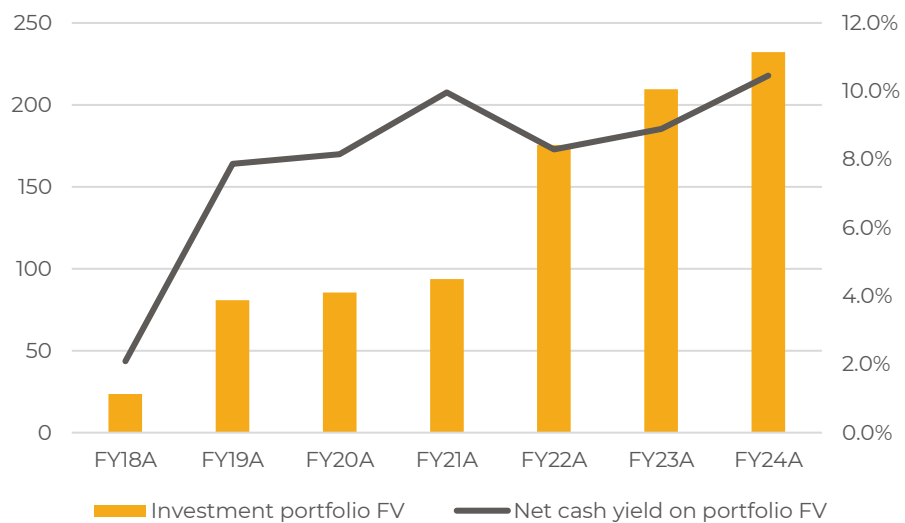
**Figure 36: Reported gross cash realisations (£m)**



Source: Duke Capital, CAG Research.

At the same time, while the total investment portfolio fair value has ballooned, the post-tax net cash yield has increased (Figure 37), a testament to the ratchet component in Duke's hybrid capital funding product and the quality of its investment process in selecting quality partners.

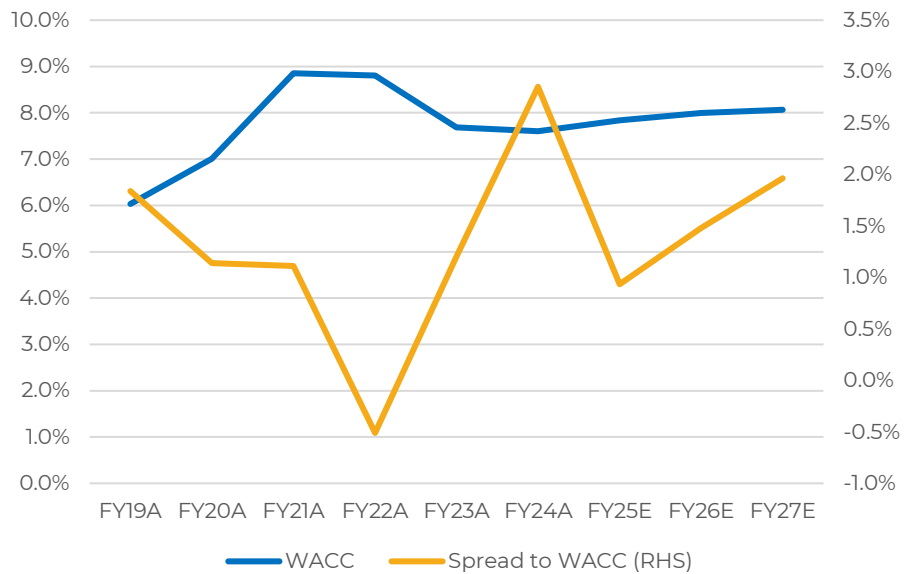
**Figure 37: Portfolio FV<sup>1</sup> (£m), net cash yield on FV (% , RHS)**



Source: Duke Capital, CAG Research. 1) Average portfolio FV.

We calculate a weighted average cost of capital (WACC) for Duke by year using Bloomberg data for the cost of equity, the disclosed cost of debt, the applicable corporate tax rate and reflective of the evolution of the capital structure as shown in Figure 38. Prospectively we hold the costs of equity and debt flat, although falling interest rates are likely to reduce the cost of debt even as the proportion of debt in the capital structure grows. Figure 38 also shows the spread between the net cash yield on investment portfolio fair value and WACC which increases prospectively and generally exceeds historic values.

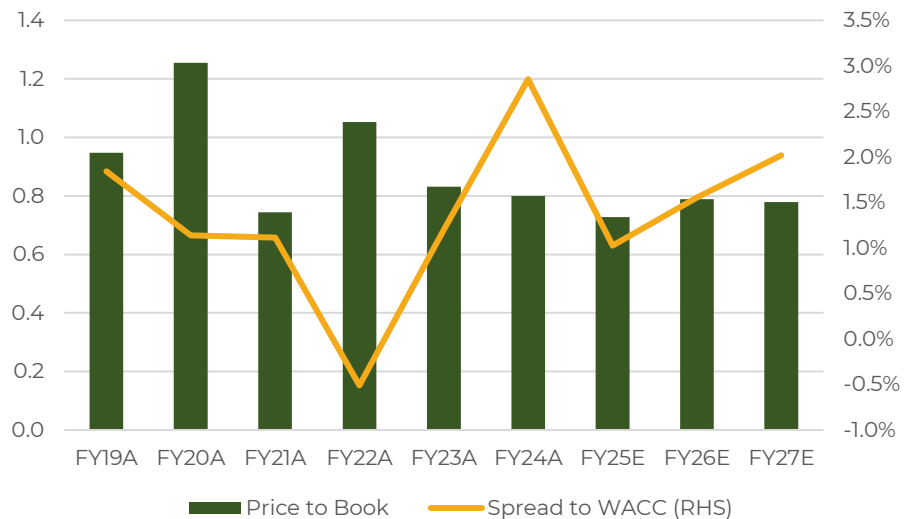
**Figure 38: Duke WACC, spread to net cash yield on portfolio FV**



Source: Bloomberg, Duke Capital, CAG Research.

However, that improving financial performance does not appear to be appreciated by the market as reflected in current valuations. Historically, with the exception of Covid afflicted FY21, Duke has traded at or above price to book value, as would be expected for a company generating an increased spread to WACC on a growing portfolio. However, that relationship has weakened since FY23 and at the current price, the shares are trading at a c25% discount to book, despite the growing evidence of the success of Duke's business model and increasing spread over WACC (Figure 39).

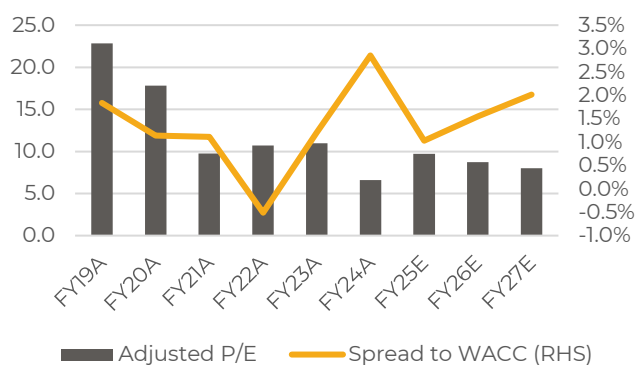
**Figure 39: Price to book (x) vs spread**



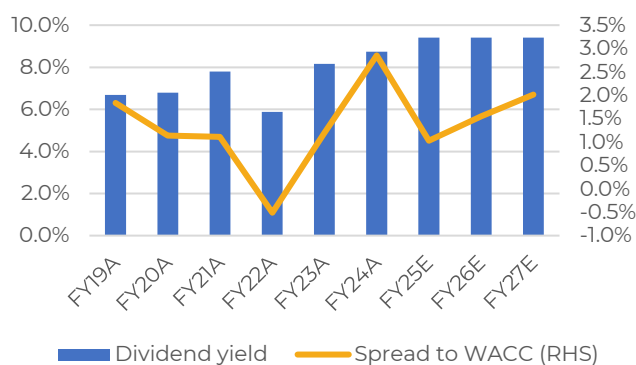
Source: Bloomberg, Duke Capital, CAG Research.

That same disconnect is also evident when looking at adjusted P/E or dividend yield, where Duke has traded significantly higher historically while generating less attractive spreads (Figure 40 and Figure 41).

**Figure 40: Adjusted P/E (x) vs spread**



**Figure 41: Dividend yield vs spread**



Source: Bloomberg, Duke Capital, CAG Research.

We believe this represents a significant opportunity for investors which could be triggered by further highly profitable exits, more funding for growth, further deployment of capital, falling interest rates or some combination of the same.

In the UK, Duke has a unique business model and there are no direct comparators. The company's business model is similar to that of Alaris Equity Partners, which now has a current market capitalisation of CA\$870m and whose business model is has evolved to be closer to a Private Equity business. However, based on the closest matches we can identify, Duke offers the highest yield and one of the lowest P/E ratings (Figure 42), confirming its attractive valuation.

**Figure 42: Valuation relative to best comparators<sup>1</sup>**

Company	Market cap (£m)	P/E (x)	Yield
Duke Capital	124	6.1	9.4%
Alaris Equity Partners	486	6.5	7.2%
Foresight Group Holdings	515	13.6	5.0%
BP Marsh	247	5.8	0.8%
Logistics Development	61	n/a	0.0%
IP Group	446	n/a	0.0%
Mercia AM	134	n/a	2.9%
TMT Investments	82	16.4	0.0%

Source: Bloomberg, companies, CAG Research. 1) Last financial year adjusted EPS and distribution to current share price.

## Structure, management, and shareholders

**Duke Capital has been run by CEO, Neil Johnson and CIO, Charlie Cannon Brookes since it was reborn as a provider of hybrid capital. Duke is a Guernsey company and is listed on the AIM market. The Board comprises Mr Johnson and Mr Cannon Brookes as Executive Directors together with three independent Non-Executive Directors, including the Chairman thus meeting the requirements of the QCA code. Duke benefits from a blue-chip heavy shareholder register and the Directors hold a 4.4% stake in the company.**

Duke Capital was reborn in 2015 as a company investing in a diversified portfolio of royalty finance and related opportunities, re-listing on the AIM market in 2017 when it raised £15m to enable it to implement its investing policy. The company has since raised a further £136m in equity capital, gross, and accessed a £100m line of debt finance to deploy £277m in gross capital across 22 investee partners. The company has just announced a conditional £17.2m equity raise together with a further £3m retail offer.

Following a strategic review, the company was renamed to Duke Capital from Duke Royalty in February of this year to improve the relatability of its unique financing offering to potential partners although its successful structured financing offering remains unchanged (see [Business](#)).

Duke has been run by CEO, Neil Johnson and CIO, Charlie Cannon Brookes since it was reborn with Nigel Birrell as Chairman, providing a long lived and seasoned leadership team.

Duke is incorporated in Guernsey, which brings important tax advantages, with registered number 54697. The company operations are based in London, and it also has an office in Toronto.

Within the Industry Classification Benchmark classification system, Duke is categorised under Consumer Lending under the Financials top-category, sub-categorised under Financial Services, and Finance and Credit Services. Under the Bloomberg Industry Classification Standard, Duke is listed under Investment Companies, nested within Financials, Financial Services, Asset Management.

As a Guernsey incorporated company and under the AIM rules for companies, Duke is not required to comply with the UK Corporate Governance Code. However, the Directors place a high degree of importance on ensuring that high standards of corporate governance are maintained and as such the company is committed to complying with the corporate governance obligations appropriate to the Duke's size and the nature of its business. Consequently, the Board has adopted the Quoted Companies Alliance Corporate Governance Code (the QCA Code).

As a Guernsey incorporated company, Duke is required to comply with the Finance Sector Code of Corporate Governance issued by the Guernsey Financial Services Commission, as amended.

The Board of Duke comprises five Directors, including an independent Non-Executive Chairman, two Executive Directors and two independent Non-Executive Directors (INEDs). This composition meets the requirement of the QCA code that at least half of the Board should be independent NEDs, including an independent Chair. However, Duke has not designated either of the INEDs as a Senior INED. The company has established Audit and Remuneration Board Committees comprising only the Chair and the INEDs

but has not established a Nominations Committee the role of which is undertaken by the full Board.

Given the nature of the business, Duke Capital has established an Investment Committee including three independent members. Current membership comprises Jim Webster, Chair of the Investment Committee; Justin Cochrane, Founder and CEO of Carbon Streaming Corporation; John Romeo, Managing Partner and Executive Committee and Risk Committee member at Oliver Wyman; Andrew Carragher, founder and Managing Partner of DW Healthcare Partners together with Mr Johnson and Mr Cannon Brookes.

The Directors, Board Committees and their current composition are set out in Figure 43.

**Figure 43: Directors, Board Committees, and membership**

Member	Position	Date appt	Committee/membership	
			Audit	Remuneration
Nigel Birrell	Chairman <sup>1</sup>	Mar-16	X	Chair
Neil Johnson	ED & CEO	Jun-15		
Charles Cannon Brookes	ED & CIO <sup>2</sup>	Jun-15		
Maree Wilms	NED	Feb-22	X	X
Matthew Wrigley	NED	Sep-17	Chair	X

Source: Duke Capital, CAG Research. 1) Non-executive; 2) Chief Investment Officer.

## Directors

### Nigel Birrell – Non-Executive Chairman

Nigel Birrell was appointed to the Board of Duke Capital as an INED in 2015, becoming Chairman in March 2016. From a background in law and investment banking, Mr Birrell has extensive public company experience and expertise in the gaming, media, banking, and insurance sectors. Mr Birrell has been the CEO of Lottoland since 2014 and is currently also Non-Executive Chairman of Southern Rock Insurance Company and AIM listed financial services group, STM plc.

### Neil Johnson – Executive Director and CEO

Neil Johnson has been ED and CEO of Duke Capital since it was reborn. Mr Johnson has over 30 years of experience in investment banking in both the Canadian and UK capital markets. Having worked in Canaccord Genuity for 19 years including driving the firm's expansion in the UK. Mr Johnson co-founded and became CEO of Difference Capital Financial, a Canadian publicly listed merchant bank before establishing Duke Capital in its current form.

### Charles Cannon Brookes – Executive Director and Chief Investment Officer

Charlie Cannon Brookes has been ED and CIO of Duke Capital since it was reborn. Mr Cannon Brookes has over 20 years investment experience and has advised and sat on the boards of several different funds, trusts and other publicly traded investment companies. Prior to Duke, Mr Cannon Brookes owned and was the CIO of Arlington Group Asset Management Limited which acted as the UK based, FCA regulated investment management company to the Arlington Special Situations Fund.



### Matthew Wrigley - INED

Matthew Wrigley was appointed as an INED in 2017 and is a legal consultant to the company. Mr Wrigley has a 20-year career in a variety of legal, compliance and commercial roles in Australia, the Far East and the UK. Mr Wrigley serves as a NED on fund and general partner boards for the likes of iCON Infrastructure, Zeta Asset Management, Dominion Funds, Anfa VC and Yolo Group.

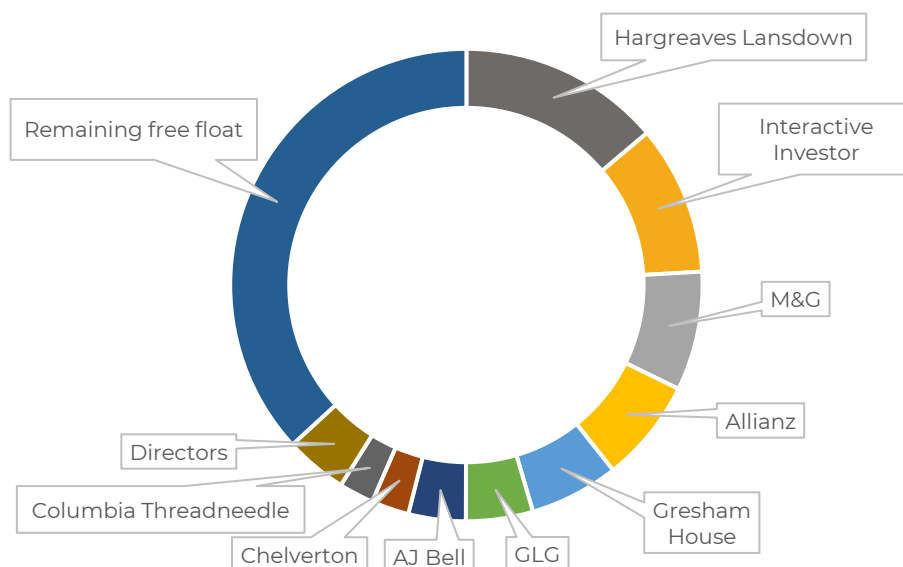
### Maree Wilms – INED

Maree Wilms was appointed as an INED in 2022 and is also responsible for the oversight of Duke Capital’s corporate obligations in Guernsey, where she is a resident. Ms Wilms is co-founder and CEO of Guernsey based Zeta Asset Management and COO of South Africa Alpha Capital Management Limited, a fund advisory and structuring platform.

### Shareholders

Duke Capital currently has 417m shares in issue, excluding 7.8m shares held in treasury and before the new shares to be issued as a result of the equity raise. While the largest ownership entities are platforms for private investors, Duke Capital has a significant number of blue chip investors including M&G, Allianz, Gresham House, GLG, Chelverton, and Columbia Threadneedle which hold a collective 32% interest in the company. The Directors hold a 4.4% interest with Mr Johnson and Mr Cannon Brookes individually accounting for 1.7% and 2.4% respectively. The total free float is 96%.

Figure 44: Shareholders



Source: Bloomberg, Duke Capital, CAG Research.

## Risks

**Duke's disclosed risks are primarily concerned with financial risk management for which it has policies in place to minimise potential adverse effects and extensive disclosure around sensitivity. We would also highlight risk around new business acquisition and access to funding. However, the contracted nature of Duke's hybrid capital product gives it a high level of security over cash generation with a nominal contracted stream of repayments totalling c£800m, on an undiscounted basis, if all partner obligations were held to maturity.**

Duke's discussion of risk is primarily concerned with financial risk management noting market risk from FX, interest, and other price risk together with credit risk. Overall responsibility for financial risk is the responsibility of the Board which has devised policies adopted to minimise potential adverse effects on the Group's financial performance.

As Duke reports its results in sterling, its main FX risks are from its US, Canadian and European investments. Figure 1 shows the potential impacts of a 5% strengthening or weakening of sterling against the relevant currency, which are modest.

**Figure 45: FX annual sensitivities £ vs FX**

	<b>Value impact £m</b>	<b>% of FVTPL</b>
+5% vs US\$	(1.2)	-0.5%
-5% vs US\$	1.4	0.6%
+5% vs CA\$	(0.7)	-0.3%
-5% vs CA\$	0.8	0.3%
+5% vs €	(0.7)	-0.3%
-5% vs €	0.7	0.3%

*Source: Duke Capital, CAG Research.*

The structure of the hybrid credit means that there is a mismatch between the rate on the long-term funding provided by Duke to its investee partners and funding provided from borrowing under the Fairfax facility which is tied to UK SONIA plus a 5% margin. The variable component in the hybrid credit is tied to the revenue performance of the investee partner, so has little correlation with cost of the debt facility but does provide a modicum of hedging against inflation.

Given the starting hybrid interest rate is typically around 13% and the effective hybrid interest rate was 13.6% in FY24, with interest rates falling and the current rate on the Fairfax facility at 10%, there is a very low risk that Duke would not earn a positive margin on its debt funding. However, expansion or compression of the spread could impact the discount factors used in calculating the calculated fair values for the hybrid credit. Based on YEFY24 carrying values, Duke's sensitivity is shown in Figure 46.

**Figure 46: Hybrid credit investment sensitivities**

		<b>Value impact £m</b>	<b>% of FVTPL</b>
Annual revenue adjustment factor	+5%	1.2	0.5%
	-5%	(1.4)	-0.6%
Delta in discount rate	-25bps	2.4	1.1%
	+25bps	(2.6)	-1.2%

Source: Duke Capital, CAG Research.

Duke also discloses sensitivities for its equity investments, but as these only accounted for 7% of its financial assets at YEFY24, we have not included them in this report. However, as Duke implements its strategy of seeking to enhance returns from taking equity stakes above 30%, where judged appropriate, this could become more significant.

The group's total credit risk exposure from a full default by all of its investee partners primarily reflects the carrying value of the hybrid credit and term credit investments, which totalled £222m at YEFY24. That obviously reflects an extreme and extremely unlikely outcome. However, it is in the nature of the long-term relationship with its investee partners that Duke works with them in the event any of them should not be able to service their obligations to Duke. At YEFY24, there were £7.5m of hybrid credit cash payments outstanding, some of which have been received post period. Payment plans are being agreed to recover any outstanding amounts over a five-year period.

Besides the risks specifically identified by Duke, there are also the generic business risks faced by companies, such as IT, regulatory environment, and personnel risks. More specifically to Duke we would highlight the risks associated with identifying, screening, and securing new investee partners together with the need to access incremental funding in order to continue to grow the business (see [Business](#), [Financials](#), and [Valuation](#)).

Given the nature of the hybrid credit structure, it is important to emphasise the resilience of Duke's contracted portfolio in terms of its cash generation. Duke has a nominal contracted stream of repayments totalling c£800m, on an undiscounted basis, if all partner obligations were held to maturity.

## Summary financial statements

March year end, £k	FY23A	FY24A	FY25E	FY26E	FY27E
<b>Cash flow</b>					
Receipts from hybrid credit investments	21,364	27,267	26,382	30,681	35,288
Receipts from term credit investments	339	453	100	45	0
Other operating receipts	176	195	200	200	200
Operating expenses paid	(3,306)	(4,015)	(4,435)	(4,977)	(5,533)
Payments for hybrid credit participation fees	(112)	(130)	(130)	(130)	(130)
Tax paid	(1,346)	(673)	(1,000)	(1,000)	(1,000)
<b>Net cash inflow from operating activities</b>	<b>17,115</b>	<b>23,097</b>	<b>21,117</b>	<b>24,819</b>	<b>28,826</b>
Net hybrid credit investments	(23,809)	(24,376)	(21,500)	(26,000)	(26,000)
Net term credit investments	(500)	(750)	0	0	0
Net equity investments	(500)	(1,473)	0	0	0
Other cash receipts	3	1,560	100	100	100
Investment costs paid	(357)	(1,344)	(876)	(1,212)	(1,247)
<b>Net cash outflow from investing activities</b>	<b>(25,163)</b>	<b>(26,383)</b>	<b>(22,276)</b>	<b>(27,112)</b>	<b>(27,147)</b>
Net proceeds from share issuance	18,885	0	16,168	0	0
Dividends paid	(10,979)	(11,524)	(13,442)	(13,442)	(13,442)
Net loan proceeds	9,800	15,000			
Interest paid	(3,976)	(6,222)	(7,715)	(8,420)	(10,631)
Other finance costs	(2,426)	0	0	0	0
<b>Net cash (out)/in flow from financing activities</b>	<b>11,304</b>	<b>(2,746)</b>	<b>(4,989)</b>	<b>(21,862)</b>	<b>(24,073)</b>
<b>Implied delta net debt</b>	<b>6,544</b>	<b>21,032</b>	<b>6,149</b>	<b>24,155</b>	<b>22,394</b>

Source: Duke Capital, CAG Research.

## Summary financial statements (cont)

March year end, £k	FY23A	FY24A	FY25E	FY26E	FY27E
<b>Profit &amp; Loss</b>					
Hybrid credit investment income	28,266	23,014	26,382	30,681	35,288
Term credit investment income	339	453	100	45	0
Equity investment income	2,212	1,925	100	100	100
Other operating income	176	195	200	200	200
<b>Total income</b>	<b>30,993</b>	<b>25,587</b>	<b>26,782</b>	<b>31,026</b>	<b>35,588</b>
Transaction costs	(66)	(475)	(200)	(500)	(500)
Due diligence costs	(620)	(645)	(676)	(712)	(747)
<b>Total investment costs</b>	<b>(686)</b>	<b>(1,120)</b>	<b>(876)</b>	<b>(1,212)</b>	<b>(1,247)</b>
Administration and personnel	(2,627)	(3,072)	(3,522)	(3,972)	(4,422)
Legal and professional	(456)	(533)	(613)	(705)	(811)
Other operating costs	(223)	(370)	(300)	(300)	(300)
Expected credit losses	(20)	14	0	0	0
Share-based payments	(969)	(938)	(1,000)	(1,000)	(1,000)
<b>Total operating costs</b>	<b>(4,295)</b>	<b>(4,899)</b>	<b>(5,435)</b>	<b>(5,977)</b>	<b>(6,533)</b>
<b>Operating profit</b>	<b>26,012</b>	<b>19,568</b>	<b>20,471</b>	<b>23,837</b>	<b>27,809</b>
Net FX charge	66	(22)	0	0	0
Finance costs	(5,644)	(7,255)	(8,215)	(8,920)	(11,131)
<b>Profit before tax</b>	<b>20,434</b>	<b>12,291</b>	<b>12,256</b>	<b>14,917</b>	<b>16,678</b>
Taxation expense	(842)	(683)	(613)	(746)	(1,001)
<b>Reported net profit</b>	<b>19,592</b>	<b>11,608</b>	<b>11,643</b>	<b>14,171</b>	<b>15,677</b>
Adjusting items	(7,130)	8,404	1,782	2,102	2,112
<b>Adjusted net profit</b>	<b>12,462</b>	<b>20,012</b>	<b>13,425</b>	<b>16,273</b>	<b>17,789</b>
Diluted reported EPS (pence)	4.92	2.81	2.65	2.96	3.28
Diluted adjusted EPS (pence)	3.13	4.85	3.06	3.40	3.72
Dividend declared (pence)	2.80	2.80	2.80	2.80	2.80
<b>Summary balance sheet</b>					
Total non-current assets	177,124	201,060	212,304	232,104	252,904
Net assets	164,259	165,281	179,650	180,378	182,614
Total equity	164,259	165,281	179,650	180,378	182,614
<b>Net (cash)/debt</b>	<b>45,432</b>	<b>67,508</b>	<b>73,657</b>	<b>97,812</b>	<b>120,206</b>

Source: Duke Capital, CAG Research.

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