



12 July 2024

## Financials



Source: LSEG, 2024

## Market data

EPIC/TKR	DUKE
Price (p)	33.55
12m high (p)	35.5
12m low (p)	28.5
Shares inc. Treasury (m)	421.5
Mkt cap (£m)	140.1
EV (£m)	210.5
Free float*	81.62%
Country/Ccy of listing	UK/GBP
Reporting currency	GBP
Market	AIM

\*As defined by AIM Rule 26

## Description

As a long-term strategic partner, Duke Capital (DUKE) offers bespoke and flexible capital to help SMEs achieve their growth potential through non-control transactions, while generating attractive risk-adjusted returns for shareholders.

## Company information

CEO	Neil Johnson
CIO	Charlie Cannon Brookes
Chairman	Nigel Birrell
CFO (contact)	Hugo Evans

<https://dukecapital.com/><https://dukecapital.com/investors/>

## Key shareholders (30 Apr'24)

Retail on Hargreaves Lans.	27.23%
II and AJ Bell platforms	
M&G	8.71%
Gresham House	6.29%
Allianz Global	5.57%
GLG	5.02%
Chelverton	3.91%
Columbia Threadneedle	3.05%
Directors (shares only)	4.39%

## Diary

Aug'24	AGM
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## Analyst

Mark Thomas [mt@hardmanandco.com](mailto:mt@hardmanandco.com)

## DUKE CAPITAL

## FY'24 results: record cashflows

In our April 2024 *initiation*, we highlighted that DUKE, by optimising the best of equity and debt, aimed to achieve equity-type returns with debt levels of risk. We highlighted four pillars of returns, namely: i) term credit; ii) participating preference share elements, which support DUKE shareholders' high (2025E: 9.0%), growing (2027E: 14% above FY'24), and 1.7x covered dividend; iii) early exit fees; and iv) equity stakes. The *2024 results* saw three of the four show positive returns; consequently, DUKE delivered record recurring cash revenue (+12% to £24.3m) and total cash revenue (+38% to £30.2m), with £18m free cashflow.

- **Dividend yield:** A key attraction for DUKE is its high yield. Investors will note the 2.8p p/sh. paid in FY'24 was more than covered by free cashflow of 4.3p p/sh, recurring cashflow of 3.5p p/sh and adjusted EPS of 4.85p (up 55%). DUKE expects 12% or more gross yield on the term credit element of its hybrid capital.
- **New deals:** Our initiation noted that, *inter alia*, DUKE could grow by gaining new clients or increasing facilities to existing ones. In April and May, we saw announced a new client (*Integrum Care £14.5m*) and follow-on investments with *New Path Fire and Security Limited* (£3.5m) and *BPVA (Ireland) Limited* (£4m).
- **Valuation:** The FY'25E dividend yield is 8.4%. On the assumptions outlined in the *initiation* report, our valuation approaches indicate GGM 48.3p, discounted cashflow 70.0p, and dividend discount 43.1p, with an average of 53.8p (an increase from the previous 51.6p, primarily from rolling forward the base year).
- **Risks:** Counterparty risk is core to any finance provider. Currently, there is adverse sentiment to most speciality finance businesses. We see a short-term dependence on key staff. Many investors are unfamiliar with the product, there are few comparators, and the underlying assets are likely to be illiquid.
- **Investment summary:** By having a unique proposition, which adds value to clients, and with high barriers to entry, DUKE is able to generate strong returns and so pay a high, consistent dividend. The way the product is structured provides multiple levers for both income and capital growth, as well as limiting the downside risk. DUKE has invested in new staff in FY'24 to optimise the opportunity while showing good discipline in the pacing of new investments.

## Financial summary and valuation

Year-end March (£m)	2022	2023	2024	2025E	2026E	2027E
Total cash revenue	18.7	21.9	30.3	32.8	37.1	39.9
Recurring cash revenue	15.4	21.9	24.3	27.3	30.1	32.9
Free cashflow	11.4	12.8	17.9	19.4	22.4	23.9
Accounting pre-tax	21.4	20.4	12.3	21.7	24.0	25.5
EPS (p)	5.95	4.92	2.81	4.86	4.77	4.56
DPS (p)	2.3	2.8	2.8	2.8	3.0	3.2
Hybrid capital assets	85	160	191	235	262	314
Equity investments (£000)	10,820	13,529	15,904	16,882	16,382	15,882
Cash (£000)	5,707	8,939	2,896	3,429	24,651	10,018
Shareholders' funds	86	133	164	176	223	233
PER	5.8	5.6	6.8	11.8	6.8	6.9
Dividend yield	6.8%	6.8%	8.4%	8.4%	8.4%	9.0%

Source: Hardman &amp; Co Research

## FY'24 results: key highlights

The key highlights from the FY'24 results were:

- ▶ 38% YoY increase in total cash revenue to a record £30.3m (FY'23: £21.9m).
- ▶ 12% YoY increase in recurring cash revenue to a record £24.3m (FY'23: £21.8m).
- ▶ Free cashflow of £17.9m, up 40% from £12.8m in FY'23). 35% increase in free cashflow per share to 4.34p (FY'23: 3.21p).
- ▶ 55% increase in adjusted earnings to 4.85p per share (FY'23: 3.13p).
- ▶ Quarterly dividend of 0.70p throughout FY'24, equating to an annualised dividend of 2.80p.
- ▶ Delivered three successful and profitable exits (Instor, Fabrikat and Fairmed), which provided DUKE with £23m of additional liquidity for future deployments.
- ▶ Deployed over £46m of capital during the year, including investments into new capital partners Glasshouse (£9.0m) and Integrum Care Group (£14.5m).
- ▶ During the year, DUKE equitised £0.6m of income due. Its new investment policy allows for greater equity stakes, and in selected cases, DUKE has chosen to allow specific profitable borrowers to retain more liquidity (for things like investment) with DUKE increasing its equity holding. We assume this will continue.
- ▶ Completed strategic review resulting in a change of name to Duke Capital and renewed positioning for the company's unique hybrid credit product.

## Post period-end highlights

Post the March year-end:

- ▶ £6.3m of recurring cash revenue is expected in 1QFY'25, representing a 5% increase YoY; and
- ▶ one additional follow-on investment is expected to be completed in 1QFY'25 into BPVA (Ireland), deploying £4.0m of capital.

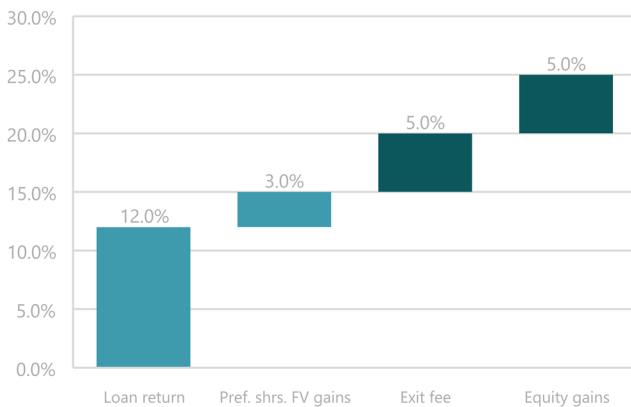
# Theme 1: delivery on three pillars of returns

## Long-term return drivers

DUKE's hybrid capital product has unique features, bringing customers significant benefits

We highlighted in our initiation how DUKE provides hybrid capital to UK, European and North American SMEs and, by bringing clear benefits to its customers, it creates value for its shareholders. Finance is provided by way of a term credit and linked preference share, which, for accounting purposes, are consolidated as a single item. Additionally, there is an early exit fee, and, in most cases, some equity stake/warrant is taken, but not one which compromises the customer's control of the business or their upside potential. DUKE thus has four "pillars" to its returns.

### Long-term, mature portfolio expected IRR, by four pillars of returns (%)



- ▶ Term credit (loan) element: i) committed long-term finance (25- to 30-year term), ii) no bullet repayment of principal at maturity, iii) an initial yield of, typically, 12%-14%, and iv) senior secured. Generates high income to pay dividend (2024 interest receipts ca.2x dividend).
- ▶ Preference share: participates in borrower's revenue growth. (interest payments can change up to +/- 6% p.a. compounded on annual reviews). Over time, higher customer income leads to more revenue for DUKE to pay higher dividends. Fair value accounted.
- ▶ Exit fees: average of ca.20% of initial advance. Exit is allowed after three years (or at any time with a change in control). High IRR if early in life. Provides capital growth upside.
- ▶ Equity stake ongoing fair value adjustments are driven by borrower's performance and market ratings. Exit uplift gains are likely to be volatile until the portfolio is more mature. Provides capital growth upside.

Note: DUKE estimates equity return contribution 5%+ over long term. Source: DUKE estimates, Hardman & Co Research

## FY'24 experience

FY'24 saw higher interest income on loans and material early exit fees and equity gains

In FY'24, we saw three of the four elements of these pillars deliver positive returns, noting:

- ▶ interest income of £23.7m, up from £21.4m in FY'23;
- ▶ early exit fees of £3.6m (FY'23 nil); and
- ▶ equity realisation gains of £1.6m (FY'23 nil).

Preference shares written down with lower-than-previously-expected revenue growth in a lower inflationary environment

The only detractor in terms of returns was a -£4.6m fair value adjustment. This reflected borrowers' plans showing slower revenue growth than previously expected; in part, we believe, because of lower inflationary expectations. There was a fall, for example, in the healthcare customer InterHealth Canada. It could be argued that part of the prior year +£7.0m gain was due to higher inflation expectations at that time, which have not continued into the latest assessments. Management's preferred KPI metric of recurring cash revenue strips out such volatility.

## Theme 2: record cash generation

Free cashflow and recurring cash better metrics of performance than the accounting numbers

The mainstream accounting rules are unhelpful for DUKE's hybrid capital business. The key points are i) the FV accounting approach that DUKE is required to adopt introduces significant volatility, and ii) there may be lumpy one-off gains related to equity sales until the portfolio is large and mature enough for such realisations to become business as usual. We expect these to be part of the long-term returns, but, until the portfolio reaches a certain scale, they are likely to be irregular and lumpy. Accordingly, management's preferred accounting metric is free cashflow. As the table below evidences, this metric has seen, and is expected to see, steady growth, free from the FV adjustments noise. Management's other key metric is recurring cash. The table below shows how this has evolved in recent periods, and the adjustments made to get to it.

FY'24 record for both

FY'24 was a record in terms of free cashflow, total cash revenue and recurring cash revenue as historical growth fully contributed in the year. We expect ongoing balance sheet growth to drive further record cashflows.

Total cash revenue and recurring cash revenue (£000)									
Year-end March	2019	2020	2021	2022	2023	2024	2025E	2026E	2027E
Net cash inflows from operations	4,110	6,783	8,936	11,167	17,115	23,097	25,307	26,899	29,229
Cash gains from sale of equity investments	89	-	-	2,883	-	2,326	2,000	3,500	3,500
Less interest paid on borrowing	(172)	(1,425)	(1,409)	(1,649)	(3,976)	(6,222)	(6,707)	(6,684)	(7,371)
Less investment costs	(624)	(548)	(634)	(972)	(357)	(1,344)	(1,232)	(1,355)	(1,491)
<b>Free cashflow</b>	<b>3,403</b>	<b>4,810</b>	<b>6,893</b>	<b>11,429</b>	<b>12,782</b>	<b>17,857</b>	<b>19,369</b>	<b>22,360</b>	<b>23,868</b>
Receipts from hybrid capital investments (from C/F)	5,097	8,977	9,931	14,701	21,364	27,267	30,087	32,806	35,573
Receipts of interest from term credit investments (from C/F)	257	1,268	667	580	339	453	520	589	658
Other operating receipts (from C/F)	309	90	438	543	176	195	195	195	195
<b>Equity sale receipts</b>	<b>89</b>	<b>-</b>	<b>-</b>	<b>2,883</b>	<b>-</b>	<b>2,326</b>	<b>2,000</b>	<b>3,500</b>	<b>3,500</b>
<b>Total cash revenue</b>	<b>5,752</b>	<b>10,335</b>	<b>11,036</b>	<b>18,707</b>	<b>21,879</b>	<b>30,241</b>	<b>32,802</b>	<b>37,091</b>	<b>39,926</b>
Exit fees (from P&L)	-	-	(1,862)	(714)	-	(3,578)	(3,500)	(3,500)	(3,500)
Cash gains on sale of equity invest. (from P&L)	(88)	-	(345)	(2,583)	-	(2,326)	(2,000)	(3,500)	(3,500)
<b>Recurring cash revenue</b>	<b>5,664</b>	<b>10,335</b>	<b>8,829</b>	<b>15,410</b>	<b>21,879</b>	<b>24,337</b>	<b>27,302</b>	<b>30,091</b>	<b>32,926</b>

Source: DUKE Report and Accounts, Hardman & Co Research

## Theme 3: growth options

### Growth coming from:

Our initiation also identified a number of other potential growth options. These include:

#### Existing clients

- ▶ Growth in existing recurring revenue as clients grow revenue and revenue from existing deals is positively geared to inflation. We noted the growth in FY'24 interest income on FY'23, above.

#### New clients

#### Expanded origination team

- ▶ Gross advances to new clients and follow-on investments. In FY'24, DUKE deployed more than £46m, including investments into new capital partners Glasshouse (£9.0m) and Integrum Care Group (£14.5m) as well as follow-on investments.

#### Operational leverage

- ▶ Expanding the origination reach. DUKE's management team and investment committee has more than 100 years of investing experience and includes deal originators with deep relationships in the lower mid-market investment community. During the period, DUKE added three new members to the investment team to support in delivering new investments. The company now has good origination in three G7 countries – UK, Canada and the United States – and is not bound by UK deals alone.
- ▶ Operational leverage saw the incremental £2.5m of recurring cash revenue generated by an incremental £0.7m of costs. Operational expenses, as a percentage of revenue, are just over half the level seen in FY'20. As we noted in our initiation, there has been investment at a time of moderated appetite to extend facilities, so the improvement in the past couple of years has been modest; however, as there is more certainty in the outlook and appetite to advance resumes, we expect further improvements in the margin (to above 90% in FY'26).

## Portfolio

Slides 14 to 19 of the [results presentation](#) detail the portfolio. The table, below, shows the diversity by hybrid capital partner. Underlying these names the exposure is diversified across 71 operating companies.

The slides also focused on the IRRs on exits, which we discussed in Appendix 2 of our initiation. Other than a low outlier (due to COVID-19 on a river cruise business) and a high outlier (200%+ IRR on a rapid exit where the founder had consolidated the equity ahead of an early PE deal) they range from 16% to 36%, giving comfort in the expected long-term returns of around 20%.

They also gave a couple of case studies of how specific deals (with different structures) may achieve returns.

### Summary of hybrid capital partners, at end-FY'24

Partner	Initial investment	Use of capital	Fair value (£m)				
			Mar'20	Mar'21	Mar'22	Mar'23	Mar'24
<b>Industrials</b>							
Atlas Signs	Dec'21	Debt re-financing	n/a	n/a	16.1	18.5	17.6
Creo-tech Industrial Group	Jul'21	Buy-and-Build	n/a	4.7	11.4	11.3	15.4
Trimate Global Coatings	Mar'18	Equity buyout	9.0	9.8	10.3	10.2	13.0
United Glass Group	Apr'18	Buy-and-Build	6.4	12.4	13.2	13.2	17.3
Glasshouse	Jul'23	Management buyout					9.9
<b>Business services</b>							
BVPA (Ireland)	Sep'18	Buy-and-Build	8.5	8.5	13.6	14.3	21.0
Lynx Equity (UK)	Oct'17	Buy-and-Build	11.6	13.1	14.9	15.3	17.3
Miriad Products	Feb'19	Management buyout	9.0	13.7	19.3	17.2	19.3
New Path Fire and Security	Dec'22	Growth capital	n/a	n/a	n/a	5.0	11.6
Step Investments	Jun'18	Growth capital	4.1	6.6	8.9	9.1	9.6
<b>Healthcare</b>							
InterHealth Canada	Aug'18	Growth capital	9.4	10.7	10.8	11.8	11.1
Integrum Care	Mar'24	Buy-and-Build					14.5
<b>IT services</b>							
Intec Business Solutions	Jul'21	Buy-and-Build	n/a	9.9	17.1	20.5	26.4
<b>Specialist care</b>							
Tristone Healthcare	Dec'21	Buy-and-Build	n/a	n/a	14.4	19.2	23.9

Source: DUKE Report and Accounts, Hardman & Co Research

## Financials

Cashflow								
Year-end March (£000)	2020	2021	2022	2023	2024	2025E	2026E	2027E
Receipts from hybrid capital investments	8,977	9,931	14,701	21,364	27,267	30,087	32,806	35,573
Receipts of interest from term credit investments	1,268	667	580	339	453	520	589	658
Other operating receipts	90	438	543	176	195	195	195	195
Operating expenses paid	(2,811)	(2,154)	(2,487)	(3,306)	(4,015)	(4,313)	(4,699)	(5,120)
Payments for hybrid capital participation fees	(168)	(81)	(115)	(112)	(130)	(130)	(130)	(130)
Tax paid	(573)	135	(2,055)	(1,346)	(673)	(1,051)	(1,863)	(1,947)
<b>Net cash inflow from operating activities</b>	<b>6,783</b>	<b>8,936</b>	<b>11,167</b>	<b>17,115</b>	<b>23,097</b>	<b>25,307</b>	<b>26,899</b>	<b>29,229</b>
Hybrid capital investments advanced	(20,983)	(22,708)	(74,586)	(23,809)	(42,012)	(39,012)	(51,000)	(76,379)
Hybrid capital investments repaid	3,232	14,354	2,938	-	17,636	23,500	28,500	28,500
Term credit investments advanced	(2,661)	(1,145)	(3,192)	(2,500)	(750)	(750)	(750)	(750)
Term credit investments repaid	-	2,370	3,949	2,000	-	-	-	-
Equity investments purchased	-	(653)	(530)	(500)	(3,799)	-	(1,000)	(1,000)
Equity investments sold	-	-	2,883	-	2,326	2,000	3,500	3,500
Equity dividends received	-	-	-	3	48	-	-	-
Payment for acquisition of subsidiaries	(321)	-	-	-	-	-	-	-
Business combination costs	-	-	-	-	-	-	-	-
Receipt of deferred consideration	-	-	7,679	-	1,512	-	-	-
Investments costs paid	(548)	(634)	(972)	(357)	(1,344)	(1,232)	(1,355)	(1,491)
<b>Net cash outflow from investing activities</b>	<b>(21,281)</b>	<b>(8,416)</b>	<b>(61,831)</b>	<b>(25,163)</b>	<b>(26,383)</b>	<b>(15,494)</b>	<b>(22,105)</b>	<b>(47,620)</b>
Proceeds from share issue	17,454	-	35,000	20,000	-	-	40,000	-
Share issue costs	(1,048)	(1)	(1,936)	(1,115)	-	-	(2,070)	-
Dividends paid	(6,013)	(3,013)	(7,270)	(10,979)	(11,524)	(10,802)	(14,818)	(15,873)
Proceeds from term credits	16,250	15,200	38,200	71,250	15,000	8,228	-	27,000
Term credits repaid	(11,650)	(13,926)	(7,500)	(61,450)	-	-	-	-
Interest Paid	(1,425)	(1,409)	(1,649)	(3,976)	(6,222)	(6,707)	(6,684)	(7,371)
Other finance costs	(534)	(95)	(181)	(2,426)	-	-	-	-
<b>Net cash inflow from financing activities</b>	<b>13,034</b>	<b>(3,244)</b>	<b>54,664</b>	<b>11,304</b>	<b>(2,746)</b>	<b>(9,280)</b>	<b>16,428</b>	<b>3,757</b>
<b>Net (decrease)/increase in cash and cash equivalents</b>	<b>(1,464)</b>	<b>(2,724)</b>	<b>4,000</b>	<b>3,256</b>	<b>(6,032)</b>	<b>533</b>	<b>21,222</b>	<b>(14,634)</b>
Cash and cash equivalents at beginning of period	5,894	4,481	1,766	5,707	8,939	2,896	3,429	24,651
Forex effects	51	9	(59)	(24)	(11)	-	-	-
Cash and cash equivalents at end of period	4,481	1,766	5,707	8,939	2,896	3,429	24,651	10,018
<b>Cash revenue</b>	<b>10,335</b>	<b>11,036</b>	<b>18,707</b>	<b>21,879</b>	<b>30,241</b>	<b>32,802</b>	<b>37,091</b>	<b>39,926</b>
<b>Recurring cash revenue</b>	<b>10,335</b>	<b>8,829</b>	<b>15,410</b>	<b>21,879</b>	<b>24,337</b>	<b>27,302</b>	<b>30,091</b>	<b>32,926</b>
<b>Free cashflow</b>	<b>4,810</b>	<b>6,893</b>	<b>11,429</b>	<b>12,782</b>	<b>17,857</b>	<b>19,369</b>	<b>22,360</b>	<b>23,868</b>

Source: DUKE Report and Accounts, Hardman & Co Research

Profit and Loss								
Year-end March (£000)	2020	2021	2022	2023	2024	2025E	2026E	2027E
Hybrid capital investment income	(2,994)	19,344	18,037	28,266	23,014	32,371	35,268	38,226
Term credit investment income	1,235	636	533	339	453	520	589	658
Impairment loss on term credit investments	(2,947)	-	-	-	-	-	0	0
Equity investment income	(670)	1,569	9,678	2,212	1,925	2,000	2,000	2,000
Other operating income	90	93	543	176	195	195	195	195
<b>Total income</b>	<b>(5,286)</b>	<b>21,642</b>	<b>28,791</b>	<b>30,993</b>	<b>25,587</b>	<b>35,086</b>	<b>38,053</b>	<b>41,079</b>
Transaction costs	(448)	(447)	(631)	(66)	(475)	(523)	(575)	(632)
Due diligence costs	(95)	(103)	(1,113)	(620)	(645)	(710)	(780)	(858)
Hybrid capital participation fees	-	-	-	-	-	-	-	-
Total investment costs	(543)	(550)	(1,744)	(686)	(1,120)	(1,232)	(1,355)	(1,491)
Administration and personnel	(1,725)	(1,675)	(2,060)	(2,627)	(3,072)	(3,379)	(3,717)	(4,089)
Legal and professional	(584)	(367)	(405)	(456)	(533)	(560)	(588)	(617)
Other operating costs	(471)	(99)	(151)	(223)	(370)	(389)	(408)	(428)
Expected credit losses	-	-	(72)	(20)	14	14	14	14
Share-based payments	(409)	(806)	(930)	(969)	(938)	(1,126)	(1,351)	(1,621)
<b>Total operating costs</b>	<b>(3,189)</b>	<b>(2,947)</b>	<b>(3,618)</b>	<b>(4,295)</b>	<b>(4,899)</b>	<b>(5,439)</b>	<b>(6,049)</b>	<b>(6,741)</b>
<b>Operating profit</b>	<b>(9,018)</b>	<b>18,145</b>	<b>23,429</b>	<b>26,012</b>	<b>19,568</b>	<b>28,415</b>	<b>30,648</b>	<b>32,847</b>
Net foreign currency movement	246	(542)	(60)	66	(22)	-	-	-
Finance costs	(1,607)	(1,539)	(1,996)	(5,644)	(7,255)	(6,707)	(6,684)	(7,371)
<b>Profit before tax</b>	<b>(10,379)</b>	<b>16,064</b>	<b>21,373</b>	<b>20,434</b>	<b>12,291</b>	<b>21,708</b>	<b>23,964</b>	<b>25,477</b>
Taxation expense	1,481	(2,111)	(982)	(842)	(683)	(1,206)	(1,332)	(1,416)
<b>Profit after tax</b>	<b>(8,898)</b>	<b>13,953</b>	<b>20,391</b>	<b>19,592</b>	<b>11,608</b>	<b>20,502</b>	<b>22,633</b>	<b>24,061</b>
No shares (exc. treasury)	214	243	342.8	398.0	413.0	421.5	474.4	527.3
<b>EPS (p)</b>	<b>(4.16)</b>	<b>5.75</b>	<b>5.95</b>	<b>4.92</b>	<b>2.81</b>	<b>4.86</b>	<b>4.77</b>	<b>4.56</b>
<b>Adjusted EPS (p)</b>	<b>2.44</b>	<b>2.70</b>	<b>3.81</b>	<b>3.13</b>	<b>4.85</b>	<b>4.54</b>	<b>4.52</b>	<b>4.38</b>
<b>DPS (p)</b>	<b>2.9</b>	<b>2.25</b>	<b>2.25</b>	<b>2.8</b>	<b>2.8</b>	<b>2.8</b>	<b>3.0</b>	<b>3.2</b>

Source: DUKE Report and Accounts, Hardman & Co Research

Balance sheet								
@ 31 March (£000)	2020	2021	2022	2023	2024	2025E	2026E	2027E
Goodwill	203	203	203	203	203	203	203	203
DUKE's hybrid capital offering investments	59,435	71,107	139,648	158,540	177,589	195,384	214,468	266,992
Term credit investments	4,418	4,370	3,172	4,652	5,382	6,132	6,882	7,632
Equity investments	507	3,495	10,820	13,529	15,904	16,882	16,382	15,882
Trade and other receivables	-	5,618	2,141	-	1,574	-	-	-
Deferred tax assets	675	158	156	200	408	408	408	408
<b>Total non-current assets</b>	<b>65,238</b>	<b>84,951</b>	<b>156,140</b>	<b>177,124</b>	<b>201,060</b>	<b>219,009</b>	<b>238,343</b>	<b>291,117</b>
DUKE's hybrid capital offering investments	16,124	14,194	20,831	32,793	33,359	39,352	47,222	47,222
Term credit investments	5,099	580	1,000	-	-	-	-	-
Trade and other receivables	142	4,422	53	2,290	843	843	843	843
Cash and cash equivalents	4,481	1,766	5,707	8,939	2,896	3,429	24,651	10,018
Current tax assets	567	-	-	373	155	-	0	0
<b>Total current assets</b>	<b>26,413</b>	<b>20,962</b>	<b>27,591</b>	<b>44,395</b>	<b>37,253</b>	<b>43,624</b>	<b>72,716</b>	<b>58,083</b>
<b>Total assets</b>	<b>91,651</b>	<b>105,913</b>	<b>183,731</b>	<b>221,519</b>	<b>238,313</b>	<b>262,633</b>	<b>311,059</b>	<b>349,199</b>
Hybrid capital debt liabilities	133	114	160	154	170	170	170	170
Trade and other payables	318	267	423	433	461	461	461	461
Borrowings	172	161	362	441	632	632	632	632
Current tax liability	-	1,163	87	0	-	-	0	0
<b>Total current liabilities</b>	<b>623</b>	<b>1,705</b>	<b>1,032</b>	<b>1,028</b>	<b>1,263</b>	<b>1,263</b>	<b>1,263</b>	<b>1,263</b>
Hybrid capital debt liabilities	1,040	917	951	988	934	934	934	934
Trade and other payables	431	402	1,067	1,314	1,063	6,329	7,660	8,991
Borrowings	15,517	17,103	47,740	53,930	69,772	78,000	78,000	105,000
Tax	-	-	-	-	-	-	-	-
<b>Total non-current liabilities</b>	<b>16,988</b>	<b>18,422</b>	<b>49,758</b>	<b>56,232</b>	<b>71,769</b>	<b>85,263</b>	<b>86,594</b>	<b>114,925</b>
Share capital	118,479	120,870	153,974	172,939	172,939	172,939	210,869	210,869
Share-based payment reserve	742	1,548	2,478	3,447	4,385	5,511	6,861	8,482
Warrant reserve	265	265	265	3,036	3,036	3,036	3,036	3,036
Retained losses	(45,446)	(36,897)	(23,776)	(15,163)	(15,079)	(5,379)	2,436	10,624
<b>Total equity</b>	<b>74,040</b>	<b>85,786</b>	<b>132,941</b>	<b>164,259</b>	<b>165,281</b>	<b>176,107</b>	<b>223,202</b>	<b>233,011</b>

Source: DUKE Report and Accounts, Hardman & Co Research



## Valuation

Range of valuation approaches, including GGM, DCF and DDM

Average of all is 53.8p

GGM valuation, at 48.3p, captures value added and growth

We apply a range of different valuation approaches below and give some of the key sensitivities to our assumptions. Our Gordon Growth Model (GGM) indicates a fair value of 48.3p, the discounted cashflow model (DCF) 70.0p and the dividend discount model (DDM) 43.1p. The average has increased from 51.6p to 53.8p, primarily as we have rolled forward our base year for valuation purposes and we expect good growth in FY'27, especially in cashflow. We believe the differences in strategy and business model make comparisons, with even the closest listed peers, of limited value. We detailed the logic behind our long-term assumptions (ROE 14%, 12% CoE and growth 5%) in our initiation.

### GGM

We believe the GGM recognises well both the growth prospects and value added by a business. Looking at DUKE, our assumptions are:

GGM and key sensitivities				
	Base	+1% RoE	+1% CoE	+0.5% G
RoE	14	15	14	14
CoE, post-tax	12	12	13	12
G	5	5	5	6
P/BV (x)	1.3	1.4	1.1	1.3
Disc./prem. re near-term performance	-10%	-10%	-10%	-10%
P/BV (x)	1.2	1.3	1.0	1.2
BV Mar'25E (p/sh)	41.8	41.8	41.8	41.8
Valuation (p/sh)	48.3	53.7	42.3	50.1
Variance (p/sh)		5.4	-6.0	1.8

Source: Hardman & Co Research

DDM valuation 43.1p

### DDM

Using the assumptions we outlined in the initiation, the implied valuation on the DDM is 43.1p. The terminal value accounts for 30% of the value. An 11% CoE (rather than our 12% base) would imply a value of 48.8p.

DCF valuation 70.0p

### DCF

Using the assumptions we outlined in the initiation, the implied valuation on the DDM is 70.0p. The terminal value accounts for 30% of the value (pre-balance sheet allocation). An 11% CoE, the value would be 79.3p.

For what it's worth, DUKE appears to be in the middle of the peer ratings range

### "Peer" companies

We do not believe that DUKE has any directly comparable UK peers (for the reasons behind this, see our initiation again). Looking at a wider group where the businesses have some similarities, in terms of the closest North American corporate royalty companies, we recommend that investors treat the following with a high degree of caution, given the range of valuations and different product offering. Alaris is currently trading on a forward PE of 8.3x and Diversified Royalty 13.8x (DUKE on 7.2x, on our forecasts). The former has a current dividend yield of 8.7%, the latter 9.0%, against DUKE's 9.0%

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