



DUKE ROYALTY

Investor Presentation

May 2019



SHORTLISTED

Funder of the Year



Alternative Finance
Provider of the Year

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Investor Highlights

Duke, the first mover in UK and European royalty financing, provides capital with no re-financing risk for owner-managed private companies

Portfolio of 12 Royalty Partners

Strong royalty partner performance

60+ years of Royalty Experience

Significant operational leverage

£13 million available for additional investments

Further deployments will provide accretive cashflow

Top institutional shareholder base

~£80 million raised since March 2017

Well diversified royalty portfolio

Diversified across companies, industries and geographies

Annualized 6.1% dividend yield*

Two dividend increases during 2018

What Is Royalty Financing?

- **A long-term contractual interest** which generates a **consistent monthly cash flow** stream
- Can be viewed as a **corporate mortgage**
- Duke provides a **lump sum of capital** to a company with a term of **25-40 years** and **no bullet repayment**
- **Participate in revenue** performance based on annual adjustment factor
- **Buyback options are granted**, however, prepayment penalties ensure buyback is accretive to IRR

- **Began in the 1980s** - commodities and pharmaceuticals
- Sector is **worth £50bn** in North America
- In 2000s - expanded to diverse **corporate royalties**

| Company | Market Cap |
|---|------------|
|  Franco-Nevada | CAD \$18B |
|  DRI CAPITAL | USD \$2B* |
|  Boston Pizza WE'LL MAKE YOU A FAN. | CAD \$390M |
|  ALARIS ROYALTY CORP. | CAD \$662M |

*Private company - assets under management of \$2B

Replicating the Proven North American Model



| | AD : TSX | DIV : TSX | DUKE : AIM |
|---------------------------------|--------------------------------------|---------------------------------------|----------------------------------|
| Years of Operation | 15 | 5 | 2 |
| Geographic Focus | Canada & US | Canada | UK & Europe |
| Number of Holdings | 15 | 3 | 12 |
| Capital Deployed* | Over £700 million | £175 million | £67 million |
| LTM Capital Deployed* | £100 million | Nil | £53 million |
| Return for initial shareholders | 200+% Capital Gains, 28% dividend | 102% Capital Gains, 13.2% dividend | 15% Capital Gain, 7% dividend |
| No. of employees | 14 | 3 | 9 |

* All investments converted to GBP

How Do Investors Make Money?

Royalty companies benefit from attractive returns and increasing valuation as they diversify their investment portfolios

- Annuity like revenue streams
- **Compounding opportunity** – through royalty partners' revenue increases
- Attractive **growing dividend** through cash growth and accretive capital deployments
- **Yield compression** through lower risk as we add royalty partners
- High level of operational gearing

Cumulative cash flow: £100m investment

| | | Annual Revenue Growth | | | |
|-----------------|----|-----------------------|-------------------|------|-------------------|
| | | (3.0%) | 0.0% | 3.0% | 6.0% |
| Term (Years) | 20 | 188 | 247 | 332 | 454 |
| | 25 | 219 | 309 | 450 | 678 |
| | 30 | 247 | 371 | 588 | 976 |
| | 35 | 270 | 432 | 747 | 1,376 |
| | 40 | 290 | 494 | 931 | 1,911 |
| | | | | | |
| | | | Payback: >3.7x | | Payback: >9.7x |

Assumptions: (i) 13.0% initial yield
(ii) Effective tax rate of 5.0%

Why Duke Royalty?

Royalty financing allows private business owners to receive capital while retaining control of their businesses

| | Debt | Royalty | Private Equity |
|--------------------------|------------------|------------------|--------------------|
| Term | 3 – 7 Years | 25 – 40 Years | Permanent dilution |
| Refinancing Risk | Significant | None | Pressure to exit |
| Control | Passive | Passive | Loss of control |
| Covenants | Significant | Covenant-Light | Covenant-Light |
| Security | Typically Senior | Typically Senior | None |
| FCF Impact (Years 1 – 5) | Significant | Light | Light |

Royalties give owners the flexibility of buyback without refinancing risk

Duke's Investment Criteria

| Criteria | Description |
|---------------------------|---|
| Established Track Record | 10+ years of operating history |
| Royalty Coverage | >2.0x of EBITDA (i.e. minority of cash flow) |
| Payback | 6 -7 years |
| Management Continuity | Not looking for companies for sale. We back management with a track record of delivering |
| Defensible business model | They have a sustainable competitive advantage |
| Security | Senior security sought on available assets |
| Low Debt | If other debt exists, we seek inter-creditor agreements |
| Use of Proceeds | Growth capital, shareholder restructuring, or acquisition capital |
| Deal Size | £5m - £20m |

Preferred sectors

Hospitality & Leisure

Industrials

Healthcare

Technology & Media

Power & Utilities

No Start Ups

No Oil & Gas

No Mining

No Biotech

A Highly Talented & Experienced Team

Management and investment committee have direct royalty experience of 75+ years



Neil Johnson – Executive Director and CEO

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



Steven Russo – VP, Investments

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



Jim Webster – Chief Investment Officer

- Pioneered world's first drug royalty public company on TSX (from 1993-2002), and has 25 years of royalty expertise
- Previous royalty companies have a total of £4 billion under management



Rael Sarembok – VP, Investments

- Co-founder of Capital Step
- Highly experienced in M&A transaction execution with an extensive investment banking career (JP Morgan)
- Holds a Finance Honours degree from the University of Cape Town



Charlie Cannon-Brookes – Executive Director

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



Ajay Shivdasani – VP, Investments

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



Jonathan Schneider – Debt Advisor

- Co-Founder of Capital Step plus other alternative finance companies
- Previously founded and managed a special situation credit fund with AUM \$US500m+
- Chartered Accountant (University of Witwatersrand)



Alex Hibbard – Associate

- 3 years at London-based PE firm Terra Firma, where he focused on investment opportunities and managing portfolio companies
- Chartered Financial Analyst, MA in Economics from the University of Edinburgh.



Nigel Birrell Non-Exec Chairman

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



Matthew Wrigley Non-Exec Director

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



Mark Le Tissier Non-Exec Director

European Regional Director of Trident Trust, leading global corporate services provider and a resident of Guernsey

Strong Origination and Due Diligence

- **Multiple networks and deal finders sourcing new opportunities**
- Preliminary Evaluation – scored against our investment criteria and reviewed by **independent investment committee**
- Term sheets prior to in-depth due diligence
- Internal processes supplemented by **independent, global due diligence providers**
- Due diligence partners **‘on-risk’ based on success of transaction**

Comprehensive Diligence Reports and Independent Investment Committee



Andrew Carragher
*Independent – Private
Equity owner*



J. David Campbell
Independent Advisor



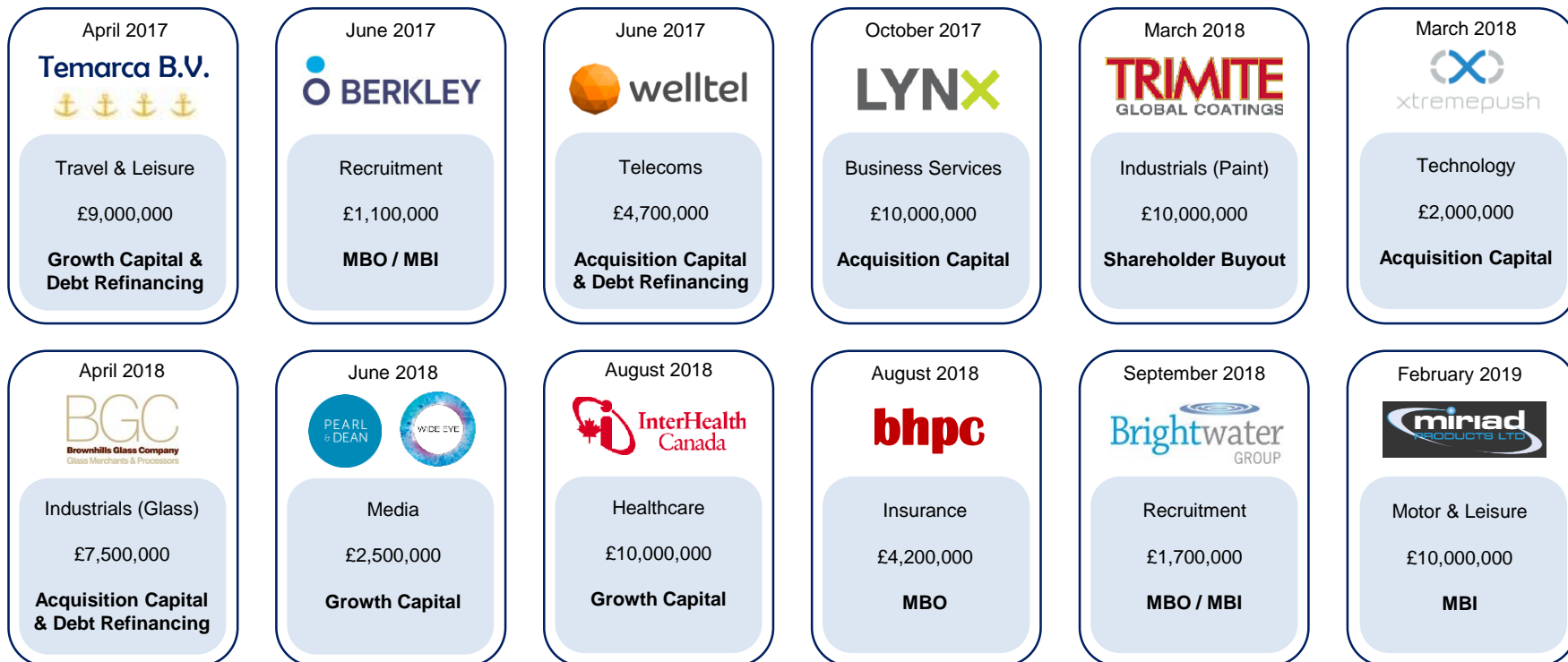
John Romeo
*Independent - Oliver
Wyman Executive*



Justin Cochrane, CFA
*Duke Royalty Director -
15 years of royalty
experience*

Royalty Partners

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



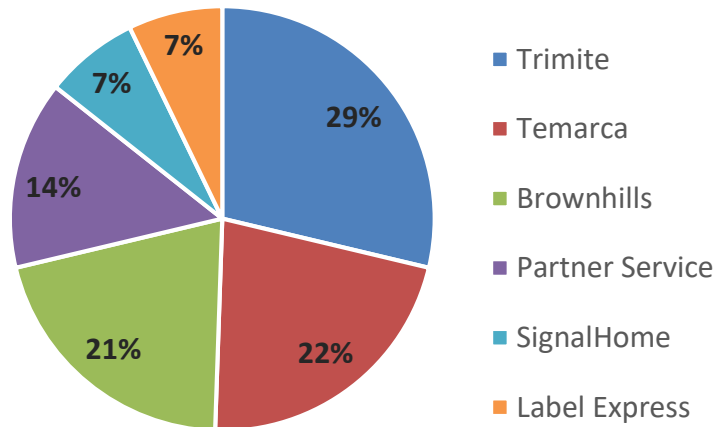
Track record of Royalty Partner performance with many hitting maximum +6% adjustment factors



Portfolio Diversification achieved in Fiscal 2019

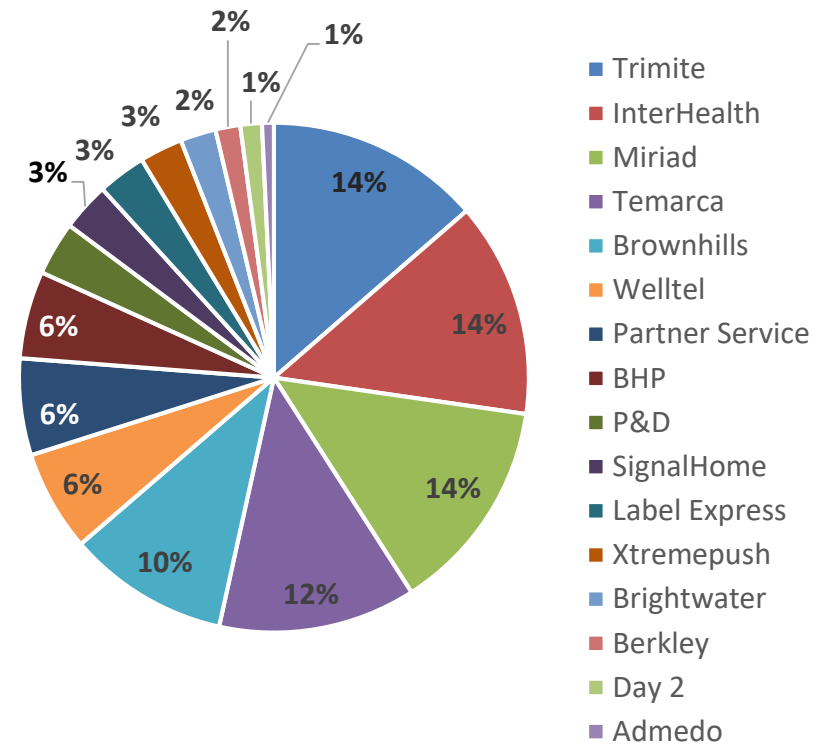
Pre-July 2018 Placing

~£32m capital deployed



Current Portfolio

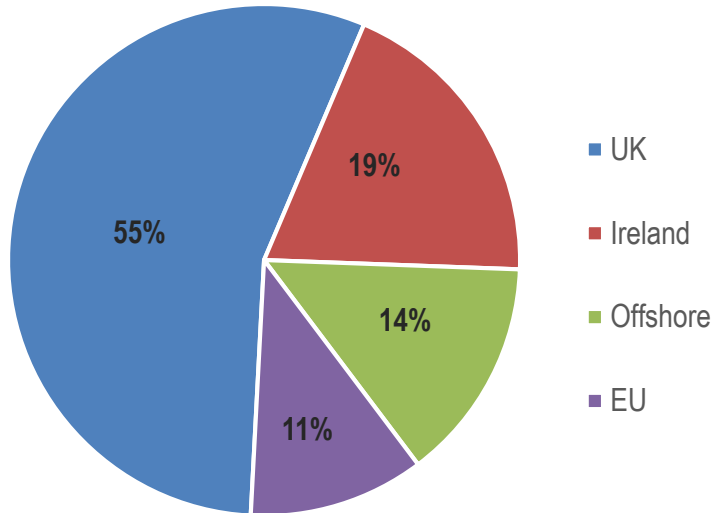
~£79m capital deployed



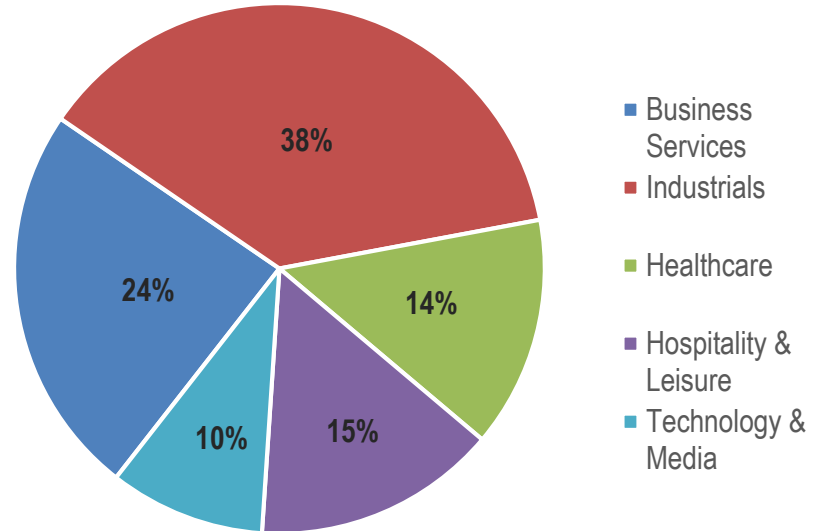
Our Capital Step acquisition accelerated portfolio diversification by at least 12 – 18 months. No single investment currently represents more than 15% of total capital deployed.

Current Portfolio Diversification

Investment by Geography

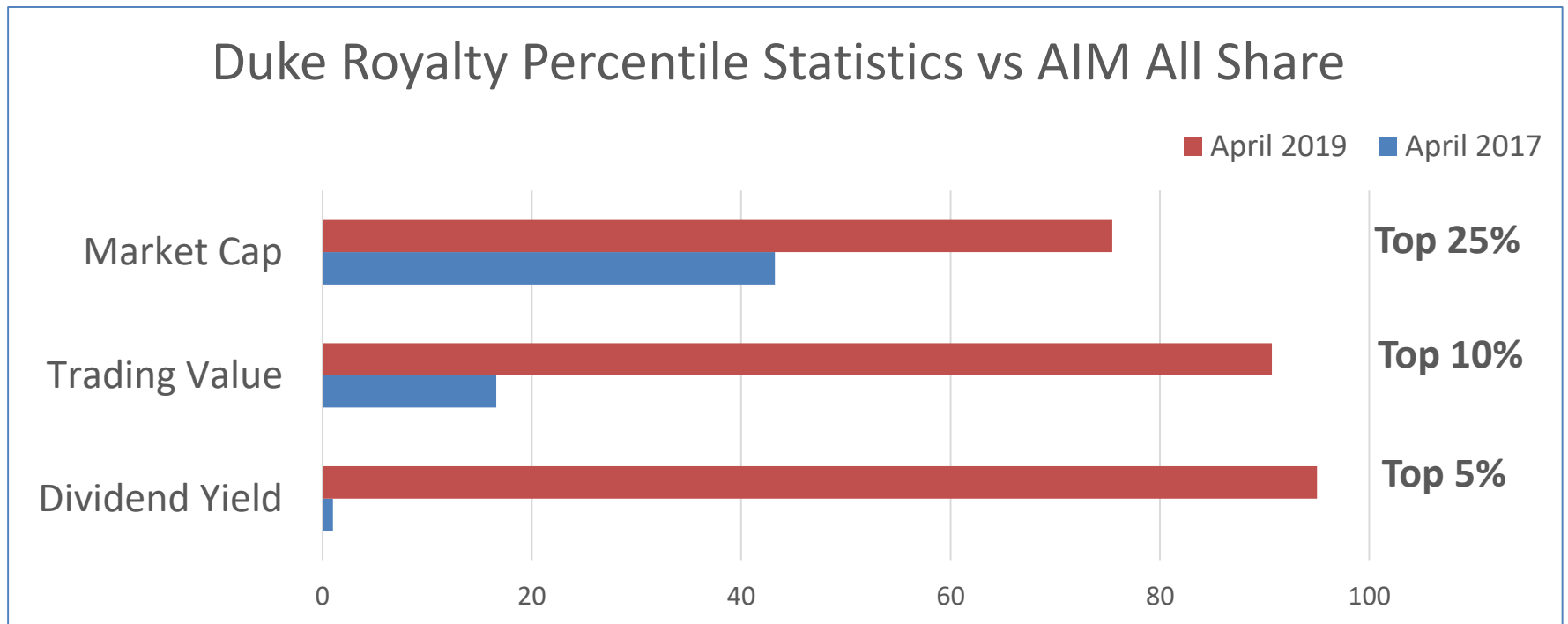


Investment by Industry Segment



Our Portfolio is Evenly Weighted & Diversified Amongst Regions and Sectors

Achievements since Admission to AIM in March 2017



| | |
|--|---|
| Raised ~£80m in 3 placings | Europe's only royalty provider after acquiring competitor |
| Top quality institutional shareholder base | 12 Royalty Partners and 16 underlying businesses |
| Line of credit for efficient use of equity capital | 4 Analyst reports, 4 Buy recommendations, of which 2 are independent of house brokers |

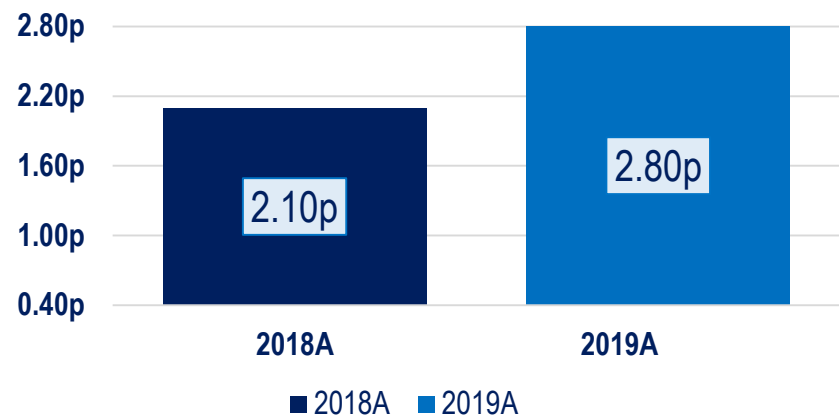
Dividend History and Sustainability

- Current dividend per share of **0.70p per quarter (2.80p annual)**
- Duke has paid a cumulative total of £6.5m in dividends since inception
- Duke has historically maintained a dividend payout ratio range between 80-100%
- **Commitment to increasing dividend** through:
 - **additional accretive investments** in new royalty partners and follow-on investments
 - **embedded revenue growth from the portfolio**, as Duke participates in the revenue growth of the royalty partners

Historical and Budgeted Dividend per Fiscal Quarter



Historical and Budgeted Dividend per Annum



Note: All figures based on Duke's fiscal year ended March 31

Sell Side Analyst Coverage and Market Recognition

Current Securities Analyst Coverage

Brokerage House

Cenkos

Berenberg

Investors Chronicle

Mirabaud Securities

Consensus target price

Premium to Current Price

Recommendation

BUY

BUY

BUY

BUY

61.7p

+35%

Industry Recognition

- Duke Royalty shortlisted as **Alternative Finance Provider of the Year 2018, British Small Business Awards**
- Duke Royalty shortlisted as **Funder of the Year 2019, Insider Midlands Dealmakers Awards**

Investors Chronicle alpha 15 February 2019

Duke Royalty: A royal high-yielding investment

The niche speciality finance company not only offers investors the opportunity to lock in an attractive 8% per cent prospective dividend yield, but also gain exposure to the resilient royalty financing market just as it is starting to gain traction

Duke Royalty Limited (DUKE)

Business Description

Duke Royalty is a niche speciality finance company not only offers investors the opportunity to lock in an attractive 8% per cent prospective dividend yield, but also gain exposure to the resilient royalty financing market just as it is starting to gain traction

Key Metrics

| | |
|-----------------------|--------|
| Market Cap | £14.2m |
| Revenue | £1.2m |
| EBITDA | £0.8m |
| Operating Profit | £0.6m |
| Net Profit | £0.4m |
| Dividend Yield | 8.0% |
| Dividend Payout Ratio | 100% |

Key Risks

- Dependence on the UK property market
- Competition from other speciality finance providers
- Changes in interest rates
- Operational risks

Financial Services **CENKOS**

4 February 2019 **Buy**

Duke Royalty Ltd

A step change in scale

Duke has announced the acquisition of Capital Step, the only licensed provider of royalty finance and debt products to SMEs in UK. The acquisition materially accelerates development of Duke's royalty portfolio, adding 8 core new investments to a total of 21 in several new sectors. This adds significant diversification, de-risking the portfolio to individual investments. The deal is expected to improve immediately earnings enhancing, reflected in our upgrades to FY18 & FY19 EPS forecasts of 30% and 26%. This gives further support to EPS estimates which predict a market leading 10% yield on our revised FY18 forecast.

Key Metrics

| | |
|-----------------------|--------|
| Market Cap | £11.1m |
| Revenue | £1.2m |
| EBITDA | £0.8m |
| Operating Profit | £0.6m |
| Net Profit | £0.4m |
| Dividend Yield | 8.0% |
| Dividend Payout Ratio | 100% |

Duke Royalty Limited **MIRABAUD SECURITIES**

17 July 2018

Financials – Investment Company

Significant Scale Benefits After £44M Raise

| Year | Revenue | EBITDA | Operating Profit | Net Profit | Dividend | Dividend Yield |
|------|---------|--------|------------------|------------|----------|----------------|
| 2016 | 1.2 | 0.8 | 0.6 | 0.4 | 0.3 | 7.5% |
| 2017 | 1.5 | 1.0 | 0.7 | 0.5 | 0.4 | 8.0% |
| 2018 | 2.0 | 1.4 | 1.0 | 0.7 | 0.5 | 8.5% |
| 2019 | 2.5 | 1.8 | 1.3 | 0.9 | 0.6 | 9.0% |

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Duke Royalty Ltd **BERENBERG**

10 November 2018 **BUY**

UK Mid-Cap – Diversified Financials

Proving the model






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Duke's Investors – Top Global Funds

| Shareholder | % Ownership |
|--|---------------|
| Directors / Management / Insiders | ~10.00% |
|  A Canaccord Genuity Group Company | 15.30% |
| BLACKROCK | 9.95% |
|  | 9.13% |
| Downing | 6.37% |
|  | 5.11% |
|  | 4.50% |
|  | 4.38% |
|  | 4.27% |
| HADRON CAPITAL | 3.34% |
| Top Ten Total | 72.35% |

Duke has a suite of blue-chip institutional investors including 3 of the top 10 largest fund managers in the world

Summary

- Royalty Companies **produce long term predictable revenue streams**, paid monthly with embedded growth from an increasingly diversified portfolio
- Duke Royalty is following North American model which has resulted in dozens of public companies producing **capital growth as well as income**
- **Demonstrated growth** – to date, all partners have achieved growth that Duke participates in through increased distributions
- Seeking to increase debt facility at more attractive interest rate **to take invested capital over £100 million**
- Commitment to **reward shareholders through increasing dividends**
- Duke is the **only UK quoted diversified Royalty company** & in the **top 5% of dividend yielding companies** listed on AIM