

**Market data**

| | |
|--------------------|--------------|
| EPIC/TKR | TISEG |
| Price (p) | 1,550 |
| 12m high (p) | 1,525 |
| 12m low (p) | 1,250 |
| Shares (m) | 2.8 |
| Mkt cap (£m) | 44 |
| EV (£m) | 31 |
| Free float* | 100% |
| Country of listing | Guernsey |
| Currency | GBP |
| Market | TISE |

*As defined by AIM Rule 26

Description

TISE is a regulated exchange specialising in listings. It is looking to expand its business by growing its share of the bond listing market. It has a strong balance sheet, and is highly cash-generative. It is listed in Guernsey.

Company information

| | |
|-------|--|
| CEO | Cees Vermaas |
| CFO | Andrew Watchman |
| Chair | Anderson Whamond |
| | +44 (0)1481 753000 |
| | www.tisegroup.com |

Key shareholders

| | |
|---------------------------|--------|
| MIH East Holdings, Ltd | 14.96% |
| Moulton Goodies Ltd | 11.81% |
| Bailiwick Investments Ltd | 10.56% |
| Carey Olsen Corporate | |
| Finance Ltd | 8.66% |
| M Thistlethwayte | 7.04% |
| Pula Investments Ltd | 5.28% |

Diary

| | |
|--------|-----------------|
| May'23 | AGM |
| Sep'23 | Interim results |
| Mar'24 | Final results |

Analyst

Jason Streets +44 (0)203 693 7075
js@hardmanandco.com

THE INTERNATIONAL STOCK EXCHANGE

Resilient performance in difficult year

The International Stock Exchange (TISE) showed a resilient 2022 performance in tough conditions, with revenue flat, at £10m, and PBT down 13%, to £4.2m, driven by a fall in new listings and some cost inflation. During the year, a 200p special dividend was paid, in addition to the 80p ordinary dividend. The first quarter of 2023 was subdued, with new listings down possibly 30%, on our estimates. Our new forecasts reflect this slower start, with a pick-up in activity anticipated in the second half.

- **Strategy:** TISE specialises in listings that are sought for technical reasons, typically to ensure tax advantages or lower costs, while still being on a recognised exchange. It is home to one of Europe's leading professional bond markets, and is the second-largest market for UK REITs.
- **Opportunities:** The company has expanded the active membership of the Exchange, notably in Ireland, and is looking to win a higher share of bond listings. It is also establishing a private markets service for unlisted companies.
- **Valuation:** There are no directly comparable listed exchanges with a comparable business model (other listed exchanges have earnings models based on trade execution). We have used a DCF model, with a high, 14%, discount rate, to reflect the current regulatory uncertainties. Our derived central value is £61m, or 2,091p per share, fully diluted.
- **Key risk:** The risks from rule changes initiated by the UK Treasury, and implemented in 2022, were less severe than initially anticipated. However, the government continues to tweak the rules around the definition of who may qualify for the new UK ruling, to encourage a greater take-up of the new regime. If successful, this could eat into TISE's core business.
- **Investment summary:** TISE aims to continue to expand its customer base and build on its growth record. With a strong track record, good cash generation and a robust balance sheet, we believe TISE is well-placed to diversify its revenues and continue to trade very profitably. The slowdown in 2022 (and at the start of 2023) was entirely a function of market conditions, in our view.

Financial summary and valuation

| Year-end Dec (£000) | 2019 | 2020 | 2021 | 2022 | 2023E | 2024E |
|-----------------------|-------|--------|--------|--------|--------|--------|
| Sales | 7,585 | 8,362 | 9,954 | 9,977 | 10,500 | 11,800 |
| EBITDA | 3,608 | 3,817 | 4,987 | 4,261 | 4,405 | 5,505 |
| Reported EBIT | 3,574 | 3,769 | 4,903 | 4,156 | 4,300 | 5,400 |
| Reported PTP | 3,633 | 3,801 | 4,916 | 4,261 | 4,650 | 5,750 |
| Net income | 3,476 | 3,622 | 4,750 | 4,121 | 4,510 | 5,578 |
| Underlying EPS (p) | 123 | 128 | 168 | 146 | 159 | 196 |
| Fully diluted EPS (p) | 123 | 128 | 167 | 143 | 157 | 194 |
| Net (debt)/cash | 8,375 | 10,748 | 13,431 | 10,259 | 12,651 | 15,860 |
| DPS (p) | 32.5 | 50 | 80 | 82 | 80 | 90 |
| P/E (x) | 12.6 | 12.1 | 9.2 | 10.6 | 9.8 | 7.8 |
| EV/EBITDA (x) | 9.8 | 8.6 | 6.1 | 7.9 | 7.1 | 5.1 |
| Yield | 2.1% | 3.2% | 5.2% | 5.3% | 5.2% | 5.8% |

NB: excludes 200p special dividends paid in 2019 and 2022

Source: Hardman & Co Research

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Review of 2022

Resilient 2022, with revenues flat and PBT down 13% in tough markets

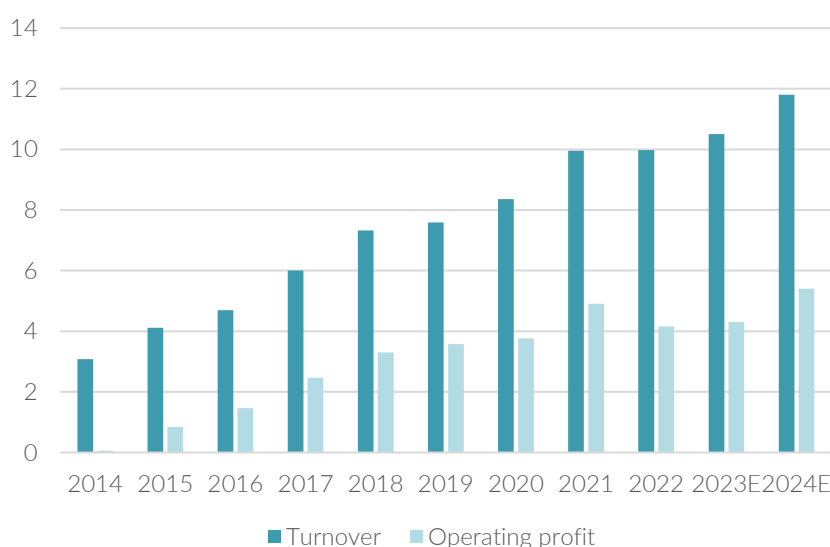
TISE had a resilient year in 2022, with the second-highest number of new listings, at 956, down from 1,111 in 2021, but up on 831 the year before. Revenues were flat, at £10m, and PBT fell by 13%, to £4.2m. EPS decreased proportionately, to 143p (fully diluted), versus 167p in 2021. The company retains a strong balance sheet, even after paying another 200p special dividend (the last one, of the same size, was paid in 2019), with net cash and equivalents of £10m.

The first quarter of 2023 has started quietly, with fewer than 200 new listings (268 during the same period last year).

Operating performance

TISE's longer-term performance has been impressive, with revenue growing from £3.1m in 2014 to £10.0m in 2022, representing a CAGR of 16%, and costs have grown at only 9% p.a., allowing operating profits to increase from just above breakeven to £4.9m in 2021 and £4.2m in 2022.

TISE's operational performance, 2014-24E (£m)

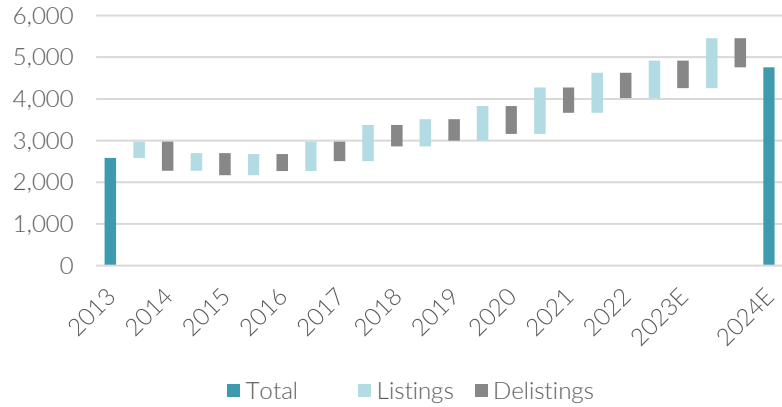


Source: TISE, Hardman & Co Research

Growth driven by continued new listings

The growth has been driven by an increase in new listings, from 393 in 2014 to 1,111 in 2021, and just under 1,000 in 2022, representing a CAGR of 12%. There was also a dip in 2019, which we believe was caused partly by the extension of Quoted Eurobond Exception (QEE) rules to multilateral trading facilities (MTFs) and to pre-Brexit market hesitancy. There were 487 new listings in the first half of 2022, and 469 in the second half. There is always a lag between market dislocation and the listing business, as deals already in the pipeline tend to continue, while new deals slow down.

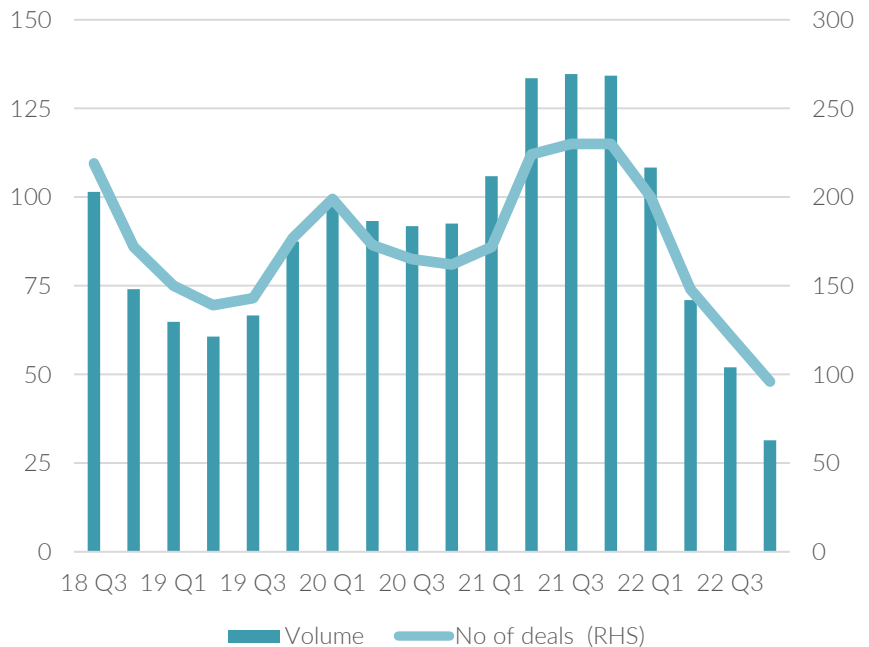
Listings on TISE, 2013-24E



Source: TISE, Hardman & Co Research

The background to this performance was a market for new issues shrinking rapidly, in the face of an unprecedented rise in interest rates. As an example, the number of euro-denominated high-yield bonds issued fell by 58% in 2022, having risen by 42% the year before. The value of these new issues fell by 77%, from \$134bn to just \$31bn.

Euro-denominated high-yield volume (\$bn), 3Q'18-4Q'22 (rolling 12m)



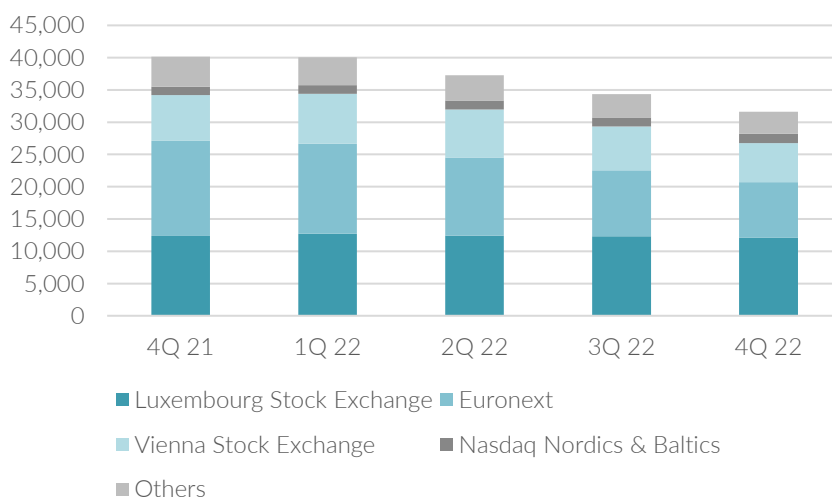
Source: Dealogic

High yield bonds are a strong area for TISE, but the impact was felt across all instrument classes. The Federation of European Stock Exchanges (FESE), which represents 35 exchanges, including Euronext, Luxembourg and Nasdaq (but not the London Stock Exchange), reported issuances of listed bonds and money market

The International Stock Exchange

instruments down 21% in 2022, with each quarter of the year (on a rolling 12-month basis to eliminate seasonality) lower than the preceding one.

No. of new bond and money market instrument listings, 2022 (rolling 12m)

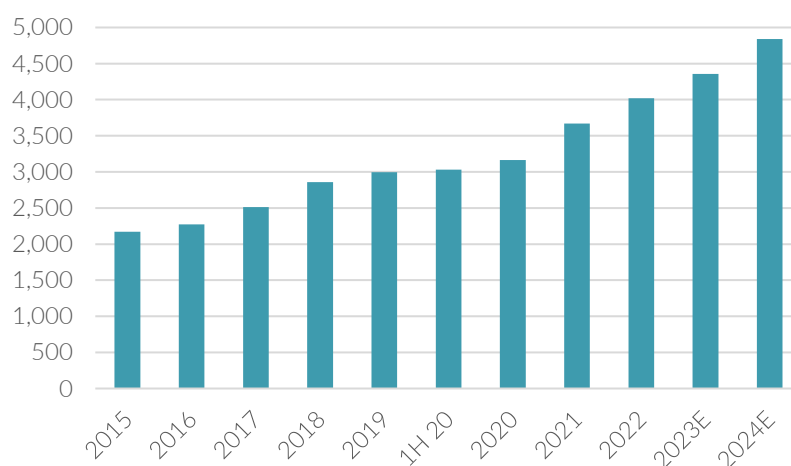


Source: FESE

Total listings still growing

Against this background, TISE's 14% drop in new listings in 2022 is an impressive performance. Issues are constantly delisting, as bonds mature or companies are restructured. Typically, ca.20% of listings are cancelled each year; in 2022, that fell to 16%. Consequently, the total number of listings increased by 10%, from 3,669 in 2021 to 4,020 at the end of 2022. There were 2,173 at the end of 2015; so they have been growing at 9% p.a.

TISE's total listings at year-end (2015-24E)



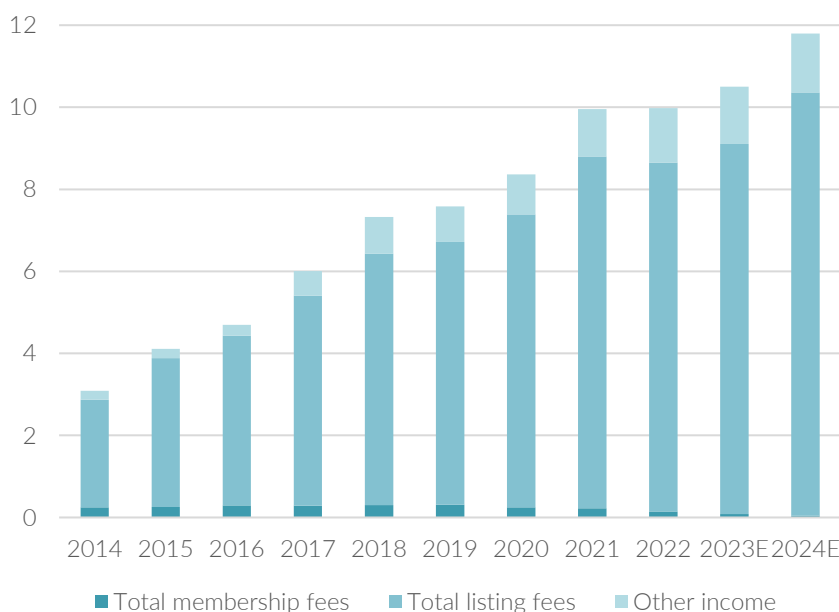
Source: TISE, Hardman & Co Research

We have assumed growth of 8% in 2023 and 11% in 2024, to reach nearly 5,000 listings by the end of 2024.

Revenue

In 2022, 85% of TISE’s revenue came from listing fees. There are two principal listing fees: the initial listing fee, when an issue is first admitted to the Exchange, and an annual fee, payable while it is still listed. The average initial listing fee was £3,000 in 2022 (down from £3,400 in 2021), and the average annual fee was £1,400 (up from £1,300 in 2021). In 2014, around half the total listing fees came from initial fees; by 2022, this had fallen to 32%.

TISE’s income sources, 2014-24E (£m)



Source: Hardman & Co Research

TISE introduced some price increases in October 2022. We are assuming a blended price increase of ca.2% for initial fees and 11% for annual fees. (For example, the annual listing fees for debt issues has risen from £1,300 to £1,500.) The fees remain competitive and, in the context of the total costs of issuance, are relatively trivial.

We expect 900 new listings for 2023 and 1,200 for 2024, amid improvement in general capital market activity

For our forecasts, we have assumed 900 new listings in 2023 and 1,200 in 2024, with just 350 in 1H’23. The actual number of listings will depend heavily on market conditions. The rise in interest rates, resurgent inflation and the war in Ukraine (all linked, of course) created turbulence in all financial markets, which has delayed many deals and primary financial activity generally. These periods of lower issuance usually pass swiftly, as, whatever the state of the economy, things still need financing and refinancing. We expect the delisting rate to remain static.

Membership

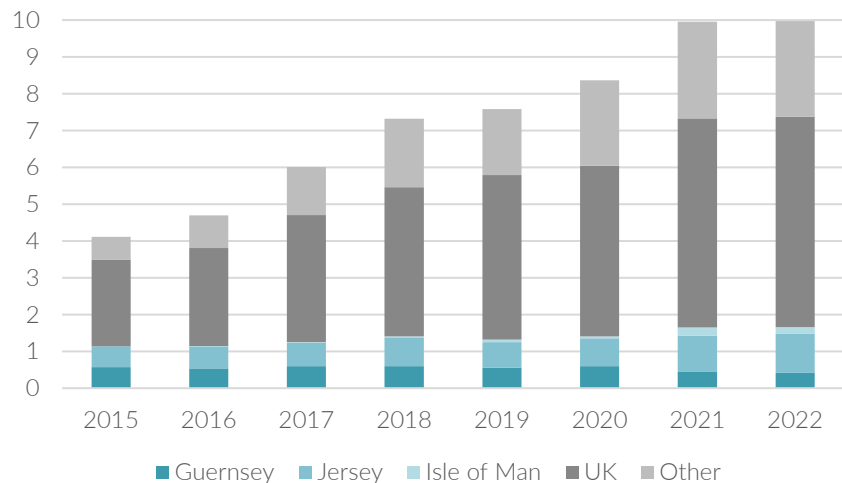
The other source of revenue is from members’ fees. The number of members fell from 46 in 2014 to 34 in 2020. This decline was caused by consolidation among members and the clearing out of inactive sponsors. In 2021, the number of members increased for the first time since 2018, as TISE actively courted international law firms – for example, in Dublin, firms involved in securitisation listings. The number grew again in 2022, to 43 in total. The success in growing TISE’s membership has been driven largely by the simplification of the application and on-boarding process. TISE guarantees a maximum three-day review period for new membership applications.

TISE decided to phase out membership fees over a three-year period starting in 2022, in order to increase competitiveness. These fees generated just £145k in 2022 (down from £226k in 2021), and, as such, they are only a small contributor to the overall total. TISE is the only Exchange among Europe’s leading bond listing venues to charge membership fees. Membership fees will no longer act as a barrier to entry for potential new listing members.

Geographical source of revenue

The geographical source of fees is dominated by the UK, which accounted for 57% of total fees in 2022 – a very typical year, and the same as 2021. Guernsey, Jersey and the Isle of Man represented a further 17%, and the balance came from Europe and across the world. In 2022, more than 25% of TISE’s QIBM (Qualified Investor Bond Market) listing business originated from the EU, specifically Belgium, France, Germany, Ireland, Italy, Luxembourg, Sweden and The Netherlands. It is starting to demonstrate success in delivery of its international diversification strategy.

Geographical source of revenue, 2015-22 (£m)



Source: TISE

Shape of costs to remain steady going forward

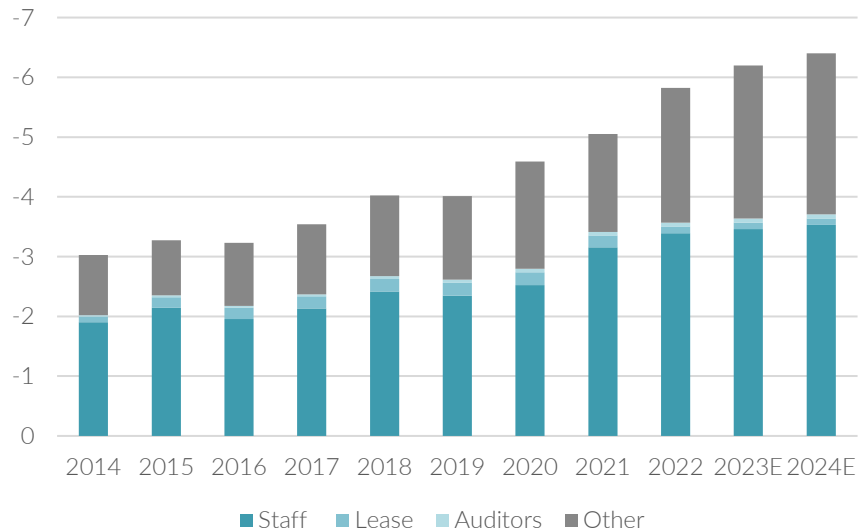
Costs

The largest portion of costs is staff, which accounted for 58% of total costs in 2022, down from 62% in 2020. We forecast them growing 7% in 2023 and 3% in 2024. We are not expecting the shape of costs to change significantly in the future. With operating margins consistently above 40%, even after a slightly tricky year like 2022, this is a highly profitable business. We are forecasting operating margins to slip to 41% in 2023 (from 42% in 2022 and 49% in 2021) and then rise again to 46% in 2024.

TISE is planning a major overhaul of its IT system in 2023. This should cost around £500k, most of which is likely to be capitalised.

Efficient operations are key to TISE’s appeal to potential clients. It already operates a 3+1 system – that is, within three days of receiving an initial listing submission that meets the minimum information requirements, TISE commits to responding with a comments letter. For each subsequent review, it promises to respond within a day. This is best-in-class performance.

TISE's costs, 2014-24E (£m)



Source: Hardman & Co Research

It also has a TISE “Passport”: a pan-European fast-track listing service available for those bond programmes already approved by a national, competent authority within the EEA or the UK. TISE accepts a pre-vetted bond programme where it has been “wrapped” with its templated “TISE Passport Letter”. The completed TISE Passport Letter and corresponding bond programme together constitute a TISE Passport programme for the purposes of listing final terms on TISE. No fees are payable to complete the initial TISE Passport application; thereafter, a fee of £800 is payable per bond listed.

2023 and beyond

New trading system

TISE is not renowned for its trading activity. It has lacked a proper price discovery mechanism, and, without liquidity, it is hard to attract new listings to build its secondary market. Pools of liquidity are highly attractive businesses: once the liquidity is established, it is very hard to move it elsewhere. Liquidity attracts liquidity in a positive feedback loop, in our view.

TISE's new auction-based trading system, NOVA, went live in 1Q'22, but it failed to attract much business, with only 1% of reported trading conducted on the platform. In illiquid issues, it is always likely that most bargains will trade directly between counterparties on a matched bargain basis. Nevertheless, the system is flexible enough to be adapted to new products, including the new private markets initiative.

Private markets

An area of diversification is private markets. The vast majority of existing companies are not listed. For small companies on the larger side – those worth between, say, £100m and £2bn – there are only two sources of equity capital: a public stock exchange or private equity (PE). The former has very strict regulations (especially when it comes to control and governance) typically, and the latter tends to come at the expense of control – and can be expensive.

TISE has developed a new, third option for unlisted companies to enjoy some of the benefits associated with a listing or PE funding, but without strict regulations or loss of control for the issuer. The private market will provide a safe and efficient platform to facilitate trading between shareholders and investors in private company shares. Companies will have full control of a dedicated marketplace through which they can access not just auction trading but also seamless electronic settlement and share register management solutions. Launched in April 2023, TISE has an initial pilot company, and is anticipating only one more in 2023, but it expects to have attracted 50 new clients within five years.

Sustainable finance

TISE launched TISE Sustainable in 2021 to cater for environmentally sensitive listings, including green bonds, sustainability-linked bonds and humanitarian catastrophe bonds. Listings on TISE Sustainable during 2022 included issues from VodafoneZiggo (Dutch telco), Zenith (UK fleet management) and Bluefield (renewable energy), and, by the end of the year, there were £13bn-worth of securities supporting environmental, social and sustainable initiatives listed on TISE.

Regulatory threats

The rules governing securities are both TISE's strengths and weaknesses. Their existence drives issuers to look for regulated exchanges on which to list, but they can be changed at any time.

The UK government introduced a new regime for the tax treatment of asset holding companies in alternative fund structures in 2022.

Introducing the changes, the UK government said that it was prepared to bring clear benefits by facilitating the flow of capital, income and gains between investors and underlying investments via UK companies. It was not prepared, however, to make changes that take significant amounts of existing UK taxable income and/or gains out of the scope of taxation in a way that is inconsistent with the principles of the UK tax system.

Too early to tell what impact the regulatory changes will have

The International Stock Exchange

To restrict the new rules solely to legitimate investment vehicles, the definitions and qualifications had to be very tightly drawn. It proved simpler to list on a recognised exchange like TISE because it is not always clear whether a vehicle will qualify under the new rules, and the legal and tax advice required could be as costly as any savings achieved. Furthermore, there were ongoing requirements to prove that the holding company still qualified – an unattractive proposition for issuers looking for simple and cheap structures. For these reasons, the new regime had very little effect.

In the March 2023 budget, several changes to the qualifying asset holding company (QAHC) regime were published. These followed from some draft proposals in the summer of 2022. The Treasury is clearly keen to make the rule changes effective. The changes are highly technical. In summary, they:

- ▶ allow some investment by QAHCs in listed securities, which were previously disallowed;
- ▶ allow the use of QAHCs in multi-vehicle funds, using upstream structures by modifying the genuine diversity of ownership (GDO) condition; and
- ▶ expand the definition of a collective investment scheme, so that corporate funds can use the GDO condition.

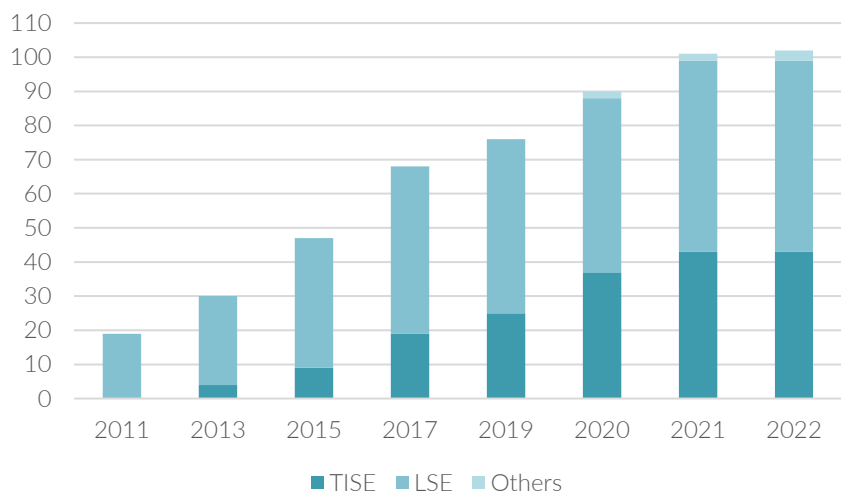
It is too early to tell whether these changes will have a significant impact on TISE's Quoted Eurobond Exemption (QEE) business, but it is slightly concerning to see the Treasury's willingness to adjust the rules to try to ensure that more of this business is conducted "onshore".

REITs

REITs are specialist property investment vehicles that provide exemption from corporation tax on profits and gains from their UK-qualified property rental businesses. In return, UK REITs are required to distribute at least 90% of their taxable income for each accounting period to investors, where the income is treated as property rental income, rather than dividends.

REIT rule changes have had no discernible impact on TISE's business so far

Number of UK-listed REITs, 2011-22



Source: TISE

For REITs that want a diverse ownership, liquid trading in their shares and, consequently, using the listing to raise further capital, the London Stock Exchange (LSE) appears more suitable than TISE. However, many REITs are tightly held, long-term investments, where trading is very much a secondary consideration, and the rules and expense of the LSE are unattractive. These factors have provided TISE with the attractive reputation as an alternative listing venue for these REITs, and it is the second-largest market for all listed UK REITs, with a total of 43, unchanged on 2021, but with five new listings in the year.

In 2022, the UK government removed the listing requirement on the condition that at least 70% of the shares are held by institutional investors. There was a limited immediate impact on TISE's business, and the relatively low numbers of listings overall mean that there is a small risk to the business; nevertheless, there are likely to be fewer listings in the future than there would otherwise have been.

Further competition for REIT listings comes from the relatively new dedicated property exchange, IPSX. Its first REIT, Mailbox REIT plc (a single building in the centre of Birmingham), was listed in May 2021. Two more have followed, in December 2021 and November 2022. To the extent that it is competition, it is probably more so for the LSE than for TISE.

New shareholder

On 11 April, TISE reported that Miami International Holdings (which owns the MIAX Exchange Group, The Minneapolis Grain Exchange, The Bermuda Stock Exchange and Dorman Trading) had bought 14.96% of the issued share capital. If it wishes to acquire 15% or more, it must obtain prior consent from the Guernsey Financial Services Commission. It did not contact the board before the acquisition, and it has not yet approached the board in connection with any wider strategic objectives behind its purchase. It appears to have paid 1,525p for its stake. Prior to this transaction, the shares had been quoted at around 1,300p.

Financials

Income statement

Key driver of revenue forecasts is number of new listings per year

The key driver of our revenue forecasts is the number of new listings each year. We have assumed that there will be 900 and 1,200 in 2023 and 2024, respectively. We have further assumed average initial listing fees of £3,100 and annual fees of £1,550.

TISE is phasing out membership fees by the end of 2024. The more listings a member does, the quicker it will pay no fees. By 2025, there will be no membership fees. Total membership fees in 2022 were only £145,000.

We estimate costs growing at 7% in 2023 and 3% in 2024. If revenues grow at a faster rate than we are modelling, there may be some additional staff costs to include, which could affect the forecast EBIT margin, but, overall, we expect EBIT to be only marginally higher in 2023, before rising more substantially in 2024.

For the first time for years, interest receivable is worthy of mention. We are anticipating interest income of £350,000, after £81,000 last year. This leads us to forecast EPS growth of 9% in 2023, followed by 24% in 2024.

Income statement, 2019-24E

| Year-end Dec (£000) | 2019 | 2020 | 2021 | 2022 | 2023E | 2024E |
|----------------------------------|--------|--------|--------|--------|--------|--------|
| Turnover | 7,585 | 8,362 | 9,954 | 9,977 | 10,500 | 11,800 |
| Admin. expenses | -4,011 | -4,593 | -5,051 | -5,822 | -6,200 | -6,400 |
| Operating profit | 3,574 | 3,769 | 4,903 | 4,156 | 4,300 | 5,400 |
| Interest income | 53 | 23 | 12 | 81 | 350 | 350 |
| Fair value gains/losses | 6 | 9 | 0 | 25 | | |
| Profit before tax | 3,633 | 3,801 | 4,916 | 4,261 | 4,650 | 5,750 |
| Tax | -157 | -179 | -166 | -140 | -139 | -173 |
| Net income | 3,476 | 3,622 | 4,750 | 4,121 | 4,510 | 5,578 |
| No. of shares (m) | 2.82 | 2.82 | 2.82 | 2.83 | 2.84 | 2.84 |
| No. of shares (fully diluted, m) | 2.82 | 2.82 | 2.84 | 2.87 | 2.87 | 2.87 |
| EPS (p) | 123 | 128 | 168 | 146 | 159 | 196 |
| EPS (fully diluted, p) | 123 | 128 | 167 | 143 | 157 | 194 |
| DPS (p) | 32.5 | 50 | 80 | 82 | 80 | 90 |
| Special dividend (p) | 200 | | | 200 | | |
| EBITDA | 3,608 | 3,817 | 4,987 | 4,261 | 4,405 | 5,505 |
| EBIT margin | 47% | 45% | 49% | 42% | 41% | 46% |
| Tax rate | 4% | 5% | 3% | 3% | 3% | 3% |
| <i>Growth</i> | | | | | | |
| Turnover | 4% | 10% | 19% | 0% | 5% | 12% |
| EBIT | 8% | 5% | 30% | -15% | 3% | 26% |
| EPS | 3% | 4% | 30% | -14% | 9% | 24% |

Source: Hardman & Co Research

Balance sheet

Highly cash-generative and robust business

The TISE business is very cash-generative. Between 2014 and the end of 2020, the net cash and investments balance increased from £3.1m to £10.3m, and TISE has paid out a further £19.6m in dividends – £27m of net cash generated in the past nine years. At the end of 2022, net assets fell to £7.7m, from £11.4m in 2021, having paid out £8m in dividends in the year.

TISE carries no debt, and has ample distributable reserves. Even the £4.2m of creditors is mostly just deferred income (listing fees invoiced, but not yet booked as income). Cash and cash equivalents include £1.5m of regulatory capital.

Financially, this is a very robust business.

| Balance sheet, 2019-24E | | | | | | |
|-----------------------------------|--------------|--------------|---------------|--------------|--------------|---------------|
| @ 31 Dec (£000) | 2019 | 2020 | 2021 | 2022 | 2023E | 2024E |
| Intangible assets | | | 130 | 111 | 91 | 71 |
| Tangible fixed assets | 59 | 67 | 137 | 135 | 99 | 64 |
| Total fixed assets | 59 | 67 | 267 | 246 | 191 | 135 |
| Debtors | 1,188 | 974 | 1,383 | 1,484 | 1,484 | 1,484 |
| Investments | 5,273 | 7,039 | 9,550 | 6,406 | 6,406 | 6,406 |
| Cash, etc. | 3,102 | 3,709 | 3,881 | 3,853 | 6,246 | 9,455 |
| Total current assets | 9,563 | 11,722 | 14,814 | 11,744 | 14,136 | 17,345 |
| Creditors due within a year | -2,926 | -2,880 | -3,690 | -4,247 | -4,346 | -4,479 |
| Net current assets | 6,636 | 8,842 | 11,124 | 7,496 | 9,789 | 12,865 |
| Provision for other liabilities | -10 | -12 | -1 | -14 | -14 | -14 |
| Net assets | 6,686 | 8,897 | 11,391 | 7,729 | 9,967 | 12,987 |
| Called-up share capital | 1,332 | 1,332 | 1,332 | 1,512 | 1,512 | 1,512 |
| Share-based pay. reserve | 140 | 140 | 140 | 140 | 140 | 140 |
| Retained earnings | 5,215 | 7,426 | 9,919 | 6,078 | 8,315 | 11,336 |
| Total shareholders' equity | 6,686 | 8,897 | 11,391 | 7,729 | 9,967 | 12,987 |

Source: Hardman & Co Research

Cashflow

Income statement converts straightforwardly into cash

TISE's income statement is very transparent and converts straightforwardly into cash. In general, there is a relatively small increase in negative working capital with the business growth, little in the way of investment in assets, and no large distortion from share-based payments.

The only large, non-operational line is the net acquisitions of investments – which is TISE managing its cash balance.

Cashflow statement, 2019-24E

| Year-end Dec (£000) | 2019 | 2020 | 2021 | 2022 | 2023E | 2023E |
|--------------------------------|------------|------------|------------|------------|--------------|--------------|
| Profit before tax | 3,633 | 3,801 | 4,916 | 4,261 | 4,650 | 5,750 |
| Depreciation and amortisation | 33 | 48 | 84 | 105 | 105 | 105 |
| Share-based payments | | | 0 | | | |
| Interest | -51 | -33 | -4 | -135 | -350 | -350 |
| Tax paid | -150 | -160 | -164 | -206 | -140 | -139 |
| Other | 6 | 2 | -11 | 13 | | |
| Working capital change | 120 | 149 | 398 | 522 | 100 | 100 |
| Operating activities | 3,591 | 3,807 | 5,219 | 4,561 | 4,365 | 5,466 |
| Purchase of assets | -38 | -56 | -284 | -85 | -50 | -50 |
| Acquisitions of invests. (net) | 3,473 | -1,765 | -2,510 | 3,144 | | |
| Interest received | 51 | 32 | 4 | 135 | 350 | 350 |
| Investing activities | 3,486 | -1,789 | -2,790 | 3,194 | 300 | 300 |
| Issue of equity | | | | 180 | | |
| Dividends paid | -6,559 | -1,411 | -2,257 | -7,963 | -2,273 | -2,557 |
| Financing activities | -6,559 | -1,411 | -2,257 | -7,783 | -2,273 | -2,557 |
| Increase in cash | 518 | 608 | 172 | -28 | 2,392 | 3,209 |
| Cash start | 2,584 | 3,102 | 3,709 | 3,881 | 3,853 | 6,246 |
| Cash end | 3,102 | 3,709 | 3,881 | 3,853 | 6,246 | 9,455 |

Source: Hardman & Co Research

200p special dividend paid in 2022

Dividend

TISE's policy is to pay total annual dividends of approximately 50% of the group's net income during the relevant financial year. This dividend is expected to continue to be paid in two instalments, in April and October. It may also pay special dividends, when appropriate.

TISE announced a 200p special dividend in March 2022, along with its 2021 results. We are forecasting 80p per share this year and 90p next. We are not forecasting a special dividend, although, if our forecasts prove correct, there would be scope to pay another in 2024.

Risks

Regulatory change poses potential threat and opportunity

TISE responding by further diversifying its revenue sources.

- ▶ Possible regulatory changes in the UK or the EU pose the biggest potential threats to TISE's attractiveness or need as a location for securities listing. The most recent change of rules on asset holding companies in the UK had no clear impact on TISE's business, but the Treasury's willingness to tinker with the regulations is slightly concerning. The REIT changes, albeit touching only a very small portion of TISE's business, have not obviously affected the existing business, but they may have an impact on future listing decisions, and demonstrate that regulatory change poses potential threats (and opportunities). TISE continues to seek to diversify the sources of its revenues further.
- ▶ Any diversification carries the risk of the new initiatives failing to reach profitability and losing the investment made in them. We believe TISE's expansion into the private markets represents an opportunity for diversification into a large and growing sector, but also the risk of an unsatisfactory return on investment.
- ▶ System risks pose problems for all businesses, and TISE is dependent on IT systems for the processing of listing applications. The company is embarking on a re-platforming project to replace the Exchange's core technology stack. Such a programme carries inevitable execution risk. It is engaging external support to help plan and deliver the project.
- ▶ For shareholders of TISE, there is another clear (and slightly ironic) risk, which is that there is very little liquidity in TISE's shares that are listed on its exchange. They trade only occasionally, and only in small quantities. Regular returns may be received from dividends, but selling the equity could be difficult. TISE is focused on increasing the profile of the company and spreading the story beyond the Channel Islands, which should help with liquidity.

Valuation

As a rule, we tend to like comparable company valuations. There are three listed European stock exchanges; unfortunately, they are not comparable. Size alone makes the comparison tangential, at best, but, even more importantly, they are substantial trading venues, which generate significant revenues but also act as a stabilising force for the revenue stream. It is extremely difficult to wrestle away trading from a dominant venue – liquidity attracts liquidity, and moving it (without some seismic change) is extremely difficult and, consequently, very rare.

Listed European stock exchanges – comparable valuation

| | Price | EV/EBITDA | | |
|-----------------|--------|-----------|-------|-------|
| | | 2022 | 2023E | 2024E |
| LSE | 8,056p | 14.6x | 13.5x | 12.3x |
| Deutsche Boerse | €184 | 14.3x | 12.8x | 12.4x |
| Euronext | €72 | 11.3x | 11.1x | 10.1x |
| Average | | 13.4x | 12.5x | 11.6x |

| | P/E | | |
|---------------------|-------|-------|-------|
| | 2022 | 2023E | 2024E |
| LSE (£) | 25.1x | 23.4x | 20.9x |
| Deutsche Boerse (€) | 23.2x | 20.1x | 19.4x |
| Euronext (€) | 13.8x | 14.0x | 12.4x |
| Average | 20.7x | 19.1x | 17.6x |

| TISE value (implied) | | | |
|----------------------|-------|-------|-------|
| EV/EBITDA basis | | | |
| EV (£m) | 56 | 54 | 50 |
| add cash (£m) | 10 | 13 | 16 |
| Market cap (£m) | 66 | 66 | 66 |
| Value per share (p) | 2,298 | 2,306 | 2,289 |

| P/E basis | | | |
|---------------------|-------|-------|-------|
| Market cap (£m) | 85 | 86 | 98 |
| Value per share (p) | 2,968 | 3,006 | 3,413 |

Priced as at 24 April 2023

Source: Refinitiv, Hardman & Co Research

On an average multiple basis, TISE's shares should be valued at around £23 using EV/EBITDA multiples, or between roughly £30 and £34 on a P/E basis. The higher P/E values primarily reflect the lower tax charge in Guernsey. As stated above, though, we do not think these exchanges are truly comparable.

The Luxembourg Stock Exchange is a private company and not listed, and The Irish Stock Exchange was acquired by Euronext. They would have made more appropriate comparators, but there are no current values available.

DCF with high discount rate

As a fallback, when no useful comparable companies are trading, we use a DCF model. The normal constraint on a DCF is the unknowable future cashflows. Here, the real concern is not the shape of the future revenue stream, but the risk to its sustainability from regulatory interruption. To compensate for this, we have used a 14% central discount rate, notably higher than our usual 10%. There is scope to reduce the rate in the future.

| DCF valuation | | | | | | | | |
|---------------------|------|------|------|-------|-------|-------|-------|-------|
| £m | 2019 | 2020 | 2021 | 2022E | 2023E | 2024E | 2025E | 2026E |
| Revenue | 7.6 | 8.4 | 10.0 | 10.0 | 10.5 | 11.8 | 12.5 | 13.3 |
| EBITDA | 3.6 | 3.8 | 5.0 | 4.3 | 4.4 | 5.5 | 5.8 | 6.2 |
| Tax | -0.2 | -0.2 | -0.2 | -0.1 | -0.1 | -0.2 | -0.2 | -0.2 |
| Net cashflow | 3.5 | 3.6 | 4.8 | 4.1 | 4.3 | 5.3 | 5.7 | 6.0 |
| Discount factor | | | | | 1.0 | 1.2 | 1.3 | 1.5 |
| Discounted cashflow | | | | | 4.2 | 4.6 | 4.2 | 3.9 |

Source: Hardman & Co Research

We have taken our forecasts out to 2023. We have a mid-term (2024-25) growth rate, with a central assumption of 6%, and we have then assumed a perpetual growth rate of a nominal 2% (assuming a stable tax rate). Since capex and depreciation are very low and nearly equivalent, we have used net income as a (very good) proxy for net cashflow.

| DCF summation | |
|--|-------|
| Value components | £m |
| 2023-26 | 16.9 |
| 2027 onwards | 33.6 |
| Total | 50.5 |
| plus net cash end-2022 | 10.3 |
| Equity value | 60.7 |
| Equity value per share (p) | 2,138 |
| Equity value per share fully diluted (p) | 2,091 |

Source: Hardman & Co Research

Derived central value of £61m, or
2,091p per share, fully diluted

Our central valuation works out at £61m, or 2,138p per share, based on a current issued share capital of ca.2.8m shares. There are 150,000 options outstanding, which are all in the money at the current 1,550p mid-price. The dilutive effect of those (accounting for the ca.£1.8m of premium payable) brings down the value per share to 2,091p.

We also show a table with varying growth rates for the two years between our forecast period (to 2024) and our perpetual calculation...

| DCF sensitivity table – valuation | | | | |
|-----------------------------------|----|----|----|----|
| Mid-term growth rate | 2% | 4% | 6% | 8% |
| Discount rate | £m | £m | £m | £m |
| 10% | 80 | 82 | 85 | 87 |
| 12% | 67 | 68 | 70 | 72 |
| 14% | 58 | 59 | 61 | 62 |

Source: Hardman & Co Research

...and how these values equate to multiples of 2023E EBITDA...

| DCF sensitivity table – EV/EVITDA, 2023E | | | | |
|--|------|------|------|------|
| Mid-term growth rate | 2% | 4% | 6% | 8% |
| Discount rate | (x) | (x) | (x) | (x) |
| 10% | 15.8 | 16.3 | 16.9 | 17.4 |
| 12% | 12.8 | 13.2 | 13.6 | 14.1 |
| 14% | 10.8 | 11.1 | 11.5 | 11.8 |

Source: Hardman & Co Research

...and 2023E P/E.

| DCF sensitivity table – P/E, 2023E | | | | |
|------------------------------------|------|------|------|------|
| Mid-term growth rate | 2% | 4% | 6% | 8% |
| Discount rate | (x) | (x) | (x) | (x) |
| 10% | 19.1 | 19.6 | 20.1 | 20.7 |
| 12% | 16.0 | 16.4 | 16.8 | 17.2 |
| 14% | 13.9 | 14.2 | 14.6 | 14.9 |

Source: Hardman & Co Research

Directors

Anderson Whamond (Chair)

Anderson is the independent Non-executive Chair, having been appointed to the board in March 2017.

Anderson has over 30 years' experience in the banking and financial sector. He is an Executive Director of Fiera Capital (IOM) Limited (formerly Charlemagne Capital (IOM) Limited)), and is also a director of a number of listed and non-listed investment companies.

Cees Vermaas (Chief Executive Officer)

Cees has been Chief Executive Officer since November 2020. He is responsible for all aspects of leadership and management of the company.

Cees has more than 20 years' experience within international financial market infrastructure. He has held senior executive positions within several international exchanges, including CEO of CME Europe Ltd, CEO of Euronext Amsterdam and Head of European Cash Markets for NYSE Euronext.

Andrew Watchman (Chief Financial Officer)

Andy has been the CFO since May 2021, and was appointed to the board at the beginning of 2023.

He has more than 15 years' experience working in financial services, including 12 at Kleinwort Benson Guernsey. He is a Fellow Member of the Association of Chartered and Certified Accountants.

Julia Chapman (Non-executive Director)

Julia joined the board in March 2023 as an independent Non-executive Director.

Based in Jersey, she has accumulated over 30 years of expertise in the investment fund and capital markets industry. She is a qualified solicitor in England & Wales and Jersey.

Guy Coltman (Non-executive Director)

Guy joined the board in February 2014 as an independent Non-executive Director.

Guy is an Advocate of the Royal Court of Jersey, and qualified as a solicitor in England and Wales. He is a corporate partner of Carey Olsen's Jersey practice.

Gill Morris (Non-executive Director)

Gill is an independent Non-executive Director, and was appointed to the board in January 2021.

Gill is a Chartered Accountant and Chartered Tax Adviser. She has more than 35 years' experience working in Australia, London and Guernsey, initially qualifying within the "big four", and then holding several senior leadership positions at Specsavers Optical Group.

Stuart Turner (Non-executive Director)

Stuart joined the board in April 2013 as an independent Non-executive Director. Stuart will be stepping down from the board at the conclusion of the 2023 AGM.

Stuart has extensive IT and change management experience, and has spent the last 30 years in the financial markets industry.

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research@hardmanandco.com

1 Frederick's Place
London
EC2R 8AE
www.hardmanandco.com

+44(0)203 693 7075