

Duke Royalty Ltd

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Duke Royalty: A unique business in the UK with a point to prove

There aren't many people who are relishing the challenges presented by the global coronavirus pandemic; however, Neil Johnson, chief executive of Duke Royalty Ltd (LON:DUKE), has a point to prove.

"We know this sort of business is able to withstand the market ups and downs. We get to prove this in a down market," he says.

Set up in 2015, the AIM-listed business provides capital to companies in exchange for rights to a small percentage of their future revenues over a term of around 30-years.

Royalty companies of this ilk are commonplace in the US and Canada where the industry is worth an estimated US\$50bn.

Investors in the mining sector here in the UK will be familiar with mining royalties and net smelter royalty programmes, but outside that very little has been done to replicate the North American model on this side of the Atlantic.

Corporate royalty specialist

Duke styles itself as a corporate royalty firm specialising in all industries, but with a focus on a particular segment of the market and a certain type of owner.

"People who are attracted to us are those entrepreneurs who don't answer to anyone else; who have built their business; they are in control," Johnson explains.

"They tend not to want anything that takes control away from the business. We take that [threat] away and keep them in control in a way that's not dilutive."

Companies using Duke will tend to be generating underlying earnings (EBITDA) of £2.5-£10mln.

"There is a gigantic middle-ground for private companies that are well-established, profitable historically but need capital," Johnson explains.

Why is that? The high street banks, supremely risk-averse since the global financial crisis, have largely ignored this arena.

Refinancing treadmill

While entrepreneurial control is one driving factor for the people who use Duke's services, others are looking to avoid what Johnson calls the "refinancing treadmill".

This is where loans are renegotiated every two to five years, a process that is as soul-destroying as it is time-

Price: 27.75

Market Cap: £68.44 m

1 Year Share Price Graph



August 2019 February 2020 August 2020

Share Information

Code: DUKE

Listing: AIM

52 week **High** **Low**
51.5 15

Sector: Financial Services

Website: www.dukeroyalty.com

Company Synopsis:

Duke Royalty, the first UK quoted diversified royalty investment company, is dedicated to helping business owners achieve their goals through a unique financing solution. Our company is designed to create long term value for our shareholders by providing predictable, robust dividend streams.

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consuming.

The additional benefits of Duke's royalty approach over debt are the variable payment and the "covenant-light" structures of the finance (covenants are terms and conditions of the loan and can be strict).

And what it offers is also positioned as a more palatable alternative to equity investment, which results in dilution and a perceived erosion of control.

"The analogy we use is that this is kind of like a mortgage on your company," says Johnson.

The company has 12 royalty streams and the coronavirus crisis has been tough for its portfolio companies, and, by extension, Duke itself, which of course shares in the downside as well as upside of these small and mid-sized businesses.

Businesses have responded well

However, the challenges have not been insurmountable. "We were pleasantly surprised from where we were in mid-March as to how the businesses have performed. We have a range of industries," says Johnson.

It has offered "breathing space" to those companies, particularly in consumer facing-industries such as leisure, that have required it. Johnson says "we are doing everything we need to do to work with the entrepreneurs".

"Ultimately, we are in it for the long-term," he adds. "The one thing is when you have a 30-year horizon, your decision-making is for the long-term not the short-term."

The short-term result, however, has been a drop in monthly revenue to £600,000 in April, down from £1m in March.

The company will pay a scrip dividend (an option to receive shares instead of cash) as it looks to conserve its funds.

But as of the May update, the firm's liquidity position was extremely strong with £3m in cash in hand and access to £18m via a revolving line of credit with the Honeycomb Investment Trust.

"While it is too early to make any definite forecasts, Duke remains cautiously optimistic that its royalty partners will be able to successfully navigate through this unique period of uncertainty," investors were told in an update.

Unique proposition

As already pointed out, the company is unique in the UK in being the only diversified corporate royalty business quoted on the LSE.

As such, it has garnered a high-profile shareholder following, including Johnson's former employer, Canaccord Genuity, which is a cornerstone backer of the business.

Also on board are Blackrock Capital, Premier Miton, BMO Global Asset Management, AXA and GLG, and such heavyweight backing has allowed Duke to raise £100m over four equity funding rounds.

"The institutional world understands royalties, but most businesses are listed in another country. We are the only corporate royalty model in the UK. Having that uniqueness has given us some great shareholders," says Johnson.

So, what of the future? "We will continue to prove the model, not just for the shareholders, but for the business owners new and prospective," says Johnson.

"The economy needs us because I think the banks are going to come out this latest crisis looking terrible, and, frankly, small business doesn't trust them."

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