



13 September 2023

**Market data**

EPIC/TKR	<b>TISEG</b>
Price (p)	<b>1,550</b>
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, and has launched a new market for private companies. 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
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	<a href="http://www.tisegroup.com">www.tisegroup.com</a>

**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**

Mar'24	Final results
Sep'24	Interim results

**Analyst**Jason Streets [js@hardmanandco.com](mailto:js@hardmanandco.com)**THE INTERNATIONAL STOCK EXCHANGE****Strong first-half performance**

The International Stock Exchange (TISE) had a strong first half to 2023, with revenue +7% to £5.2m and fully diluted EPS +17% to 83p, against a backdrop of subdued financial markets. The performance demonstrated the resilience of the business with the strength of the repeating annual listing fees. Our forecasts are largely unchanged, but we have raised our valuation range: we have lowered the discount rate we apply to reflect the consistency of returns, which have proved stronger than we first anticipated.

- **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 always looking to expand its range of products and geographical source of clients.
- **Opportunities:** The company has expanded the active membership of the Exchange, notably in Ireland and, most recently, Bermuda. It is looking to win a higher share of bond listings. It has also recently established a private markets service for unlisted companies.
- **Valuation:** There are no directly comparable listed exchanges with the same business model: other listed exchanges have earnings models based on trade execution and market data. We have used a DCF model, with a 12% discount rate, to reflect regulatory uncertainty. Our derived central value is £74m, or 2,477p per share, fully diluted, with a range of £60m to £91m.
- **Key risk:** The risks from rule changes initiated by the UK Treasury, and implemented in 2022, have been less severe than initially anticipated. 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 strength shown in 1H'23 demonstrates the resilience of the business model, 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	12,000
EBITDA	3,608	3,817	4,987	4,261	4,405	5,605
Reported EBIT	3,574	3,769	4,903	4,156	4,300	5,500
Reported PTP	3,633	3,801	4,916	4,261	4,650	5,850
Net income	3,476	3,622	4,750	4,121	4,510	5,674
Underlying EPS (p)	123	128	168	146	159	200
Fully diluted EPS (p)	123	128	167	143	158	197
Net (debt)/cash	8,375	10,748	13,431	10,259	12,437	15,604
DPS (p)	32.5	50	80	82	90	95
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	7.2	5.1
Yield	2.1%	3.2%	5.2%	5.3%	5.8%	6.1%

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

Source: Hardman &amp; Co Research

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## Review of 1H'23

**Strong 1H'23, with revenues +7% and EPS up 17% in unhelpful markets**

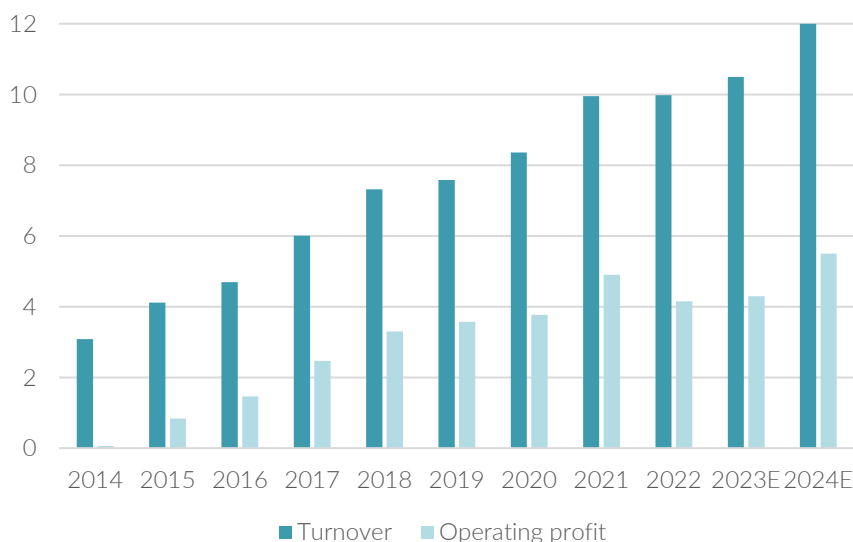
TISE had a strong half year with revenues +7% and fully diluted EPS +17%, driven by higher annual listing fees. The number of new listings was down to 375 (1H'22: 487). Net new listings were +120 (1H'22: +146). TISE raised its fees in October last year and this helped drive the increase in revenues. It paid out a 43p interim dividend in March, but it retains a very strong balance sheet with net cash and equivalents of £11.7m, as at end-June 2023.

The company commented that 2Q was stronger than 1Q; however, it was cautious that a return to growth in listing volumes would require a more stable monetary environment and that might not occur until 2024. We have slightly nudged down our listing number expectations, but these have been offset by higher average listing fees.

### 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%. Our forecasts for 2023 and 2024 bring that down to a still impressive 15%. Costs have grown at only 9% p.a., allowing operating profits to increase from just above breakeven to £4.2m in 2022 and, we forecast, £4.3m in 2023 and £5.5m in 2024.

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

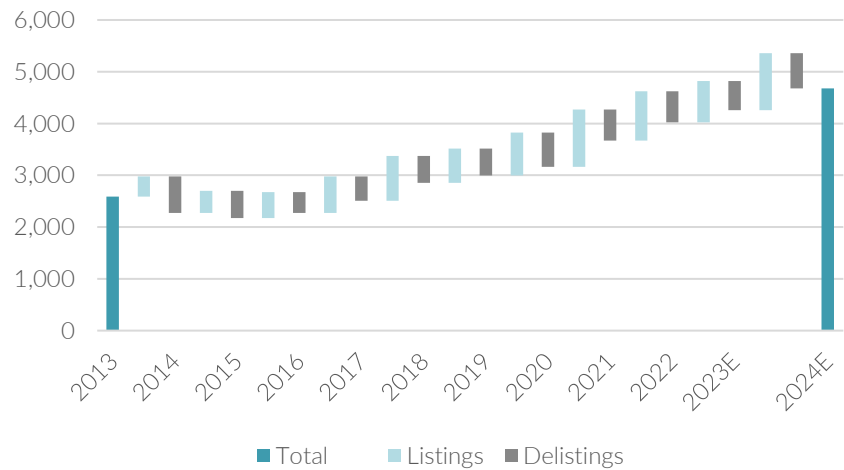


Source: TISE, Hardman & Co Research

**Growth driven by continued new listings**

The growth has been driven by new listings, which continue even in unhelpful conditions. There was 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. Plus, the market meltdown in 2022 saw the number of new listings fall significantly from 1,111 in 2021 to 956 in 2022. The first half of 2023 saw 375 new listings compared with 487 in 1H'22 and 507 in 1H'21. We are forecasting 800 for the full year 2023 and then 1,100 for 2024 – back to the level of 2021.

Listings on TISE, 2013-24E

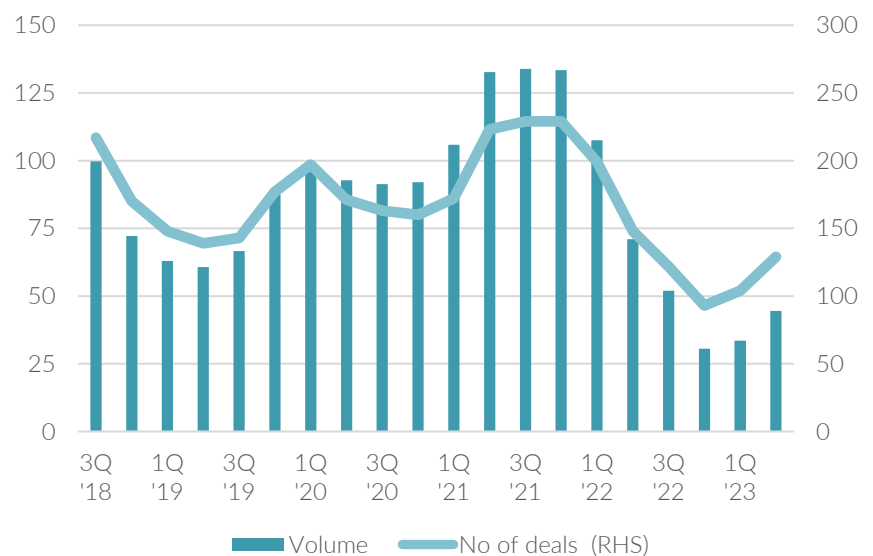


Source: TISE, Hardman & Co Research

Market backdrop

The background to this performance has been a market for new securities 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. The first half of 2023 saw a recovery, with issuance +76% on the first half of 2022 but still 60% down on 1H'21.

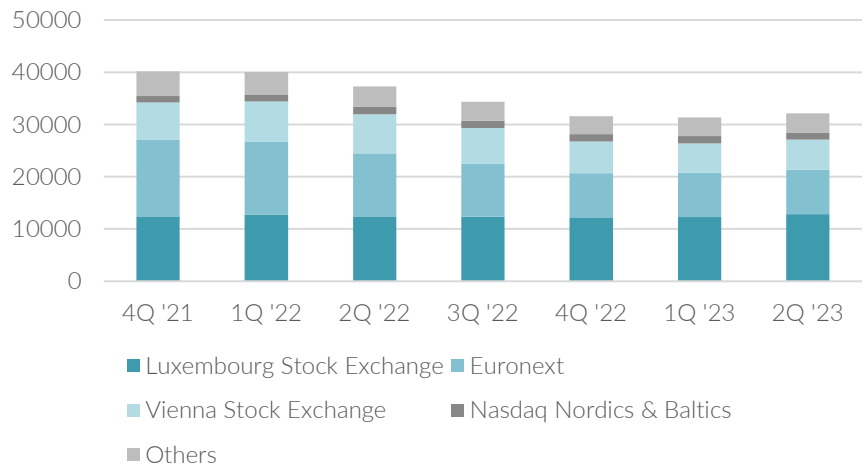
Euro-denominated high-yield volume (\$bn), 3Q'18-2Q'23 (rolling 12m)



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 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, 2021-23 (rolling 12m)**

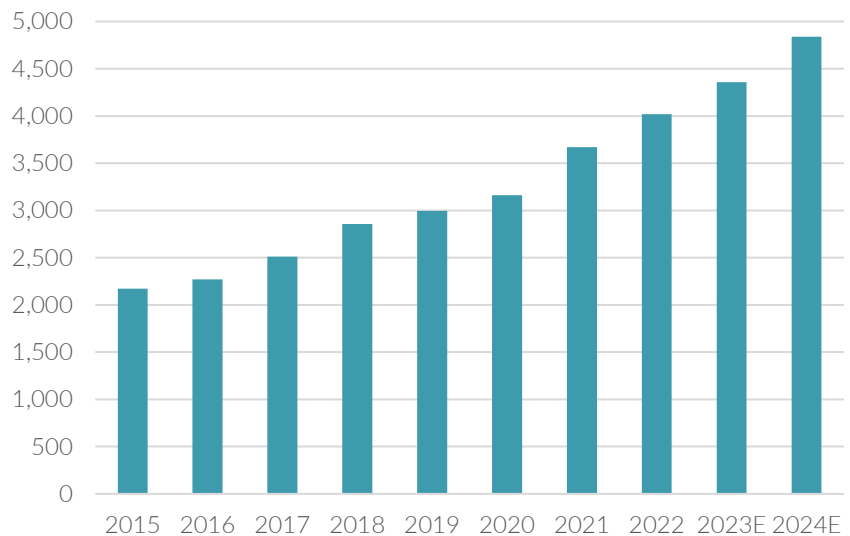


Source: FESE

The first half of 2023 saw a small bounce off the bottom but with the number of new listings in the 12 months to June 2023 still 14% below the number 12 months earlier.

**Total listings still growing**

**TISE's total listings at year-end, 2015-24E**



Source: TISE, Hardman & Co Research

Whatever the rate of growth, TISE’s strength is the consistent *increase* in the number of listings, which has grown from 2,274 in 2014 to 4,020 at the end of 2022 and 4,140 as at June 2023, a CAGR of 7%. We are forecasting 4,676 at the end of 2024, a continuation of the 7% trend.

## 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) rising to £3,300 in 1H’23. The average annual fee was £1,400 (up from £1,300 in 2021) and that rose to an annualised £1,600 in 1H’23. In the first half of 2023, annual listing fees made up 61% of total revenues.

TISE’s income sources, 2014-24E (£m)



Source: Hardman & Co Research

TISE introduced some price increases in October 2022. We have assumed 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 800 new listings for 2023 and 1,100 for 2024, amid improvement in general capital market activity

For our revised forecasts, we have now assumed 800 new listings in 2023 (previously 900) and 1,100 in 2024 (previously 1,200). There were 385 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.

## 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

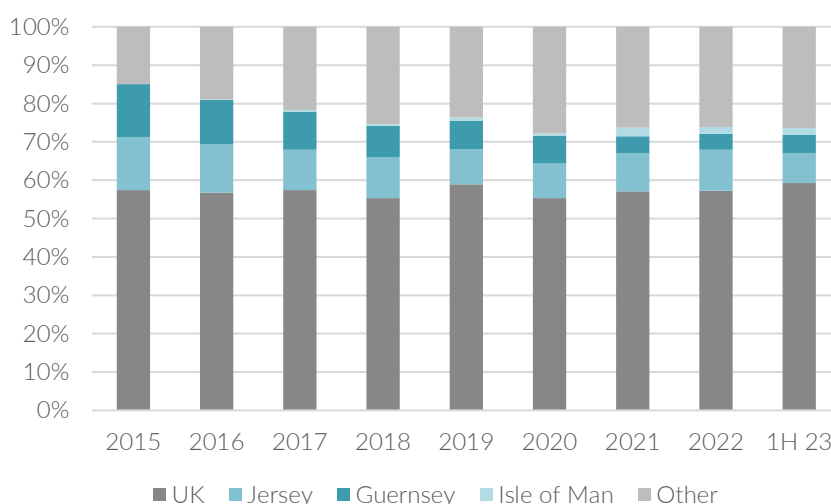
members and the clearing out of inactive sponsors. In 2021, the number of members increased for the first time since 2018, as TISE actively courted international law firms – for example, in Dublin, firms involved in securitisation listings. The number grew again in 2022, to 43 and again in 1H’23 to 45 with the first new member from Bermuda and a new member in Jersey. 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. It was 59% in 1H’23. Guernsey, Jersey and the Isle of Man represented a further 15%, 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, but the UK remains a very important market.

Geographical source of revenue, 2015-1H’23 (%)



Source: TISE

### Costs

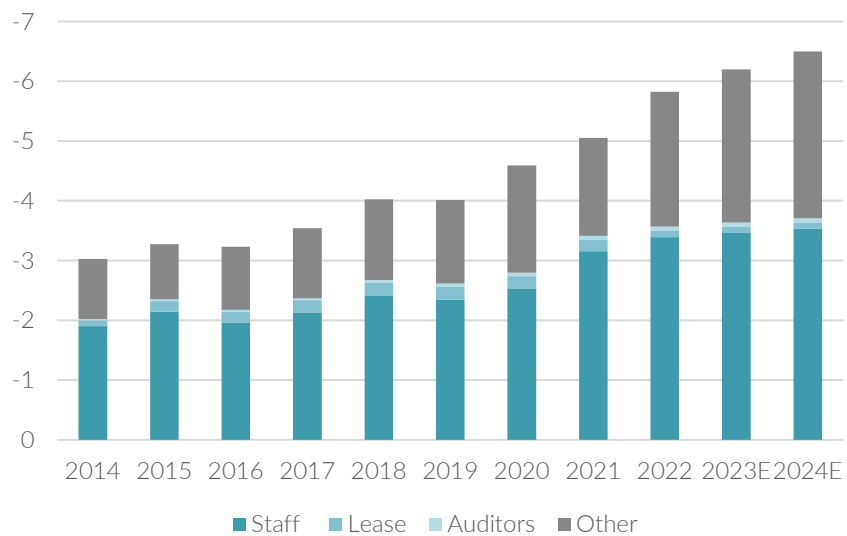
The largest portion of costs is staff, which accounted for 58% of total costs in 2022. We are not expecting the shape of costs to change significantly in the future and we expect total costs to grow 7% in 2023E and 5% in 2024E. With operating margins consistently above 40%, even after a slightly tricky 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.

Shape of costs to remain steady going forward

TISE is undertaking a major overhaul of its IT system in 2023. Costs for this overhaul are not expected to exceed £500k, most of which will 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

### 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 announced in August that the first company to join its private market was Blue Diamond Ltd. It is anticipating only one more in 2023, but it expects to have attracted 50 new clients within five years. Blue Diamond operates 44 garden centres across the UK and Channel Islands. It has annual revenues of £350m and more than 4,000 employees. More pertinently, it has over 420 private shareholders, of whom three quarters are based in Guernsey. The group CFO, Richard Hemans, commented:

*“This service provides a fantastic solution for private companies, like Blue Diamond, whose shareholders want a better way to trade their shares but without the cost, regulatory burden, and loss of control that a public listing entails. We believe that using the bespoke auction trading model and wider functionality of TISE Private Markets will support liquidity, enhance price discovery and make share trading more transparent for sellers and buyers, and therefore ensure that the share price better reflects the company’s underlying fundamentals.”*

As a client of the private market service, Blue Diamond has access to a bespoke auction model, which focuses liquidity, a tailored auction algorithm to protect pre-emption rights, seamless electronic settlement of cash and shares, and online tools for simple management of share transfers and shareholder records.

In September 2023, the London Stock Exchange announced a similar initiative, which it is calling ITV (Intermittent Trading Venue). With the number of companies leaving public markets and others choosing not to join, it makes sense to expand into the private company arena, and TISE seems to have been ahead of the pack with this innovation.

### CLO market

As part of its Qualified Investor Bond market (QIBM), TISE has a purpose-built CLO programme; it offers a CLO Lifecycle Fee proposition. A CLO warehouse can list on TISE, pay a one-time £10,000 fee, which will cover the listing fees for the full CLO transaction, in addition to any listing fees for any future refinancing. TISE has also introduced a “2+1” review timeframe for CLOs, which can be more time-sensitive transactions. This is one step on from its “3+1” review process for all other bonds and equities.

There were seven new CLO listings in 1H’23 and TISE is hopeful that further market share gains will be made in this growing market segment.

## 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 2022, there were £13bn-worth of securities supporting environmental, social and sustainable initiatives listed on TISE. That has grown to £14bn by June 2023, but activity in this segment has slowed markedly amid tricky markets.

## 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.

Too early to tell what impact the UK regulatory changes will have

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.**

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 on from some draft proposals in the summer of 2022. The amendments came into force in July 2023. 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.

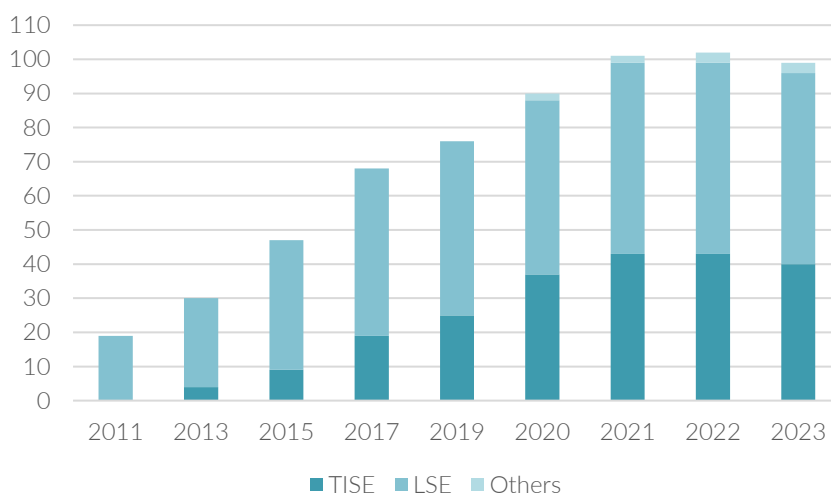
It is too early to tell whether these changes will have a significant impact on TISE's Quoted Eurobond Exemption (QEE) business, but while it is slightly concerning to see the Treasury's willingness to adjust the rules to try to ensure that more of this business is conducted "onshore", none of the changes make TISE's offer less attractive and it remains a well-known, proven, easy solution.

REIT rule changes have had a modest impact on TISE's business, but there have still been new listings

### 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.

Number of UK-listed REITs, 2011-23



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 40. This number is down on the 43 at the end of 2022, but there were two new listings in the first half and five in total in 2023, so the market remains active.

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

Further competition for REIT listings had come 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 followed, in December 2021 (REW) and November 2022 (BWP) but none since then. It announced, in September 2023, that it was winding down its operations, having failed to gain sufficient traction.

### Resilient business model

Overall, TISE has proven to be a very resilient business model despite the various regulatory changes that occur from time to time. Not being dependent on trading also means its revenues are not so sensitive to market conditions.

### **New shareholder**

On 11 April, TISE reported that Miami International Holdings (MIH), 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 via a UK subsidiary. It was reported to have paid 1,525p per share for its 14.96% stake in an off-market transaction. If it wishes to acquire 15% or more, it must obtain prior consent from the Guernsey Financial Services Commission.

MIH filed a confidential registration statement with the SEC relating to a proposed IPO in May 2022. There has been no further public information on its intent to list. It has made a series of acquisitions and is very much in a growth phase.

## 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 800 and 1,100 in 2023E and 2024E, respectively. We have further assumed average initial listing fees of £3,300 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 are forecasting a contribution of just £90,000 in 2023.

We estimate costs growing at 7% in 2023 and 5% 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 broadly in line with 2022 in 2023, before rising substantially in 2024.

For the first time in a number of years, interest receivable is worthy of mention. We expect interest income of £350,000, after £81,000 last year. This leads us to forecast EPS growth of 10% in 2023, followed by 25% 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	12,000
Admin. expenses	-4,011	-4,593	-5,051	-5,822	-6,200	-6,500
Operating profit	3,574	3,769	4,903	4,156	4,300	5,500
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	5,850
Tax	-157	-179	-166	-140	-139	-175
Net income	3,476	3,622	4,750	4,121	4,510	5,674
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	2.86	2.87
EPS (p)	123	128	168	146	159	200
EPS (fully diluted, p)	123	128	167	143	158	197
DPS (p)	32.5	50	80	82	90	95
Special dividend (p)	200			200		
EBITDA	3,608	3,817	4,987	4,261	4,405	5,605
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%	14%
EBIT	8%	5%	30%	-15%	3%	28%
EPS	3%	4%	30%	-14%	10%	25%

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 June 2023, the net cash and investments balance increased from £3.1m to £11.7m, and TISE paid out a further £20.8m in dividends – £32.5m of net cash generated in the past nine and a half 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. By June 2023, they had risen back to £8.9m, after paying a further £1.2m in dividends.

TISE carries no debt, and has ample distributable reserves. Even the £4.3m 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	129	94
Total fixed assets	59	67	267	246	221	165
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	6,031	9,198
Total current assets	9,563	11,722	14,814	11,744	13,922	17,088
Creditors due within a year	-2,926	-2,880	-3,690	-4,247	-4,446	-4,582
Net current assets	6,636	8,842	11,124	7,496	9,475	12,506
Provision for other liabilities	-10	-12	-1	-14	-14	-14
<b>Net assets</b>	<b>6,686</b>	<b>8,897</b>	<b>11,391</b>	<b>7,729</b>	<b>9,682</b>	<b>12,657</b>
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	8,031	11,006
<b>Total shareholders' equity</b>	<b>6,686</b>	<b>8,897</b>	<b>11,391</b>	<b>7,729</b>	<b>9,682</b>	<b>12,657</b>

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, apart from modest IT expenditure, 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	5,850
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	200	100
Operating activities	3,591	3,807	5,219	4,561	4,465	5,565
Purchase of assets	-38	-56	-284	-85	-80	-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	270	300
Issue of equity				180		
Dividends paid	-6,559	-1,411	-2,257	-7,963	-2,557	-2,699
Financing activities	-6,559	-1,411	-2,257	-7,783	-2,557	-2,699
<b>Increase in cash</b>	<b>518</b>	<b>608</b>	<b>172</b>	<b>-28</b>	<b>2,178</b>	<b>3,167</b>
Cash start	2,584	3,102	3,709	3,881	3,853	6,031
Cash end	3,102	3,709	3,881	3,853	6,031	9,198

Source: Hardman & Co Research

200p special dividend paid in 2022, 43p in 1H'23

## 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. It will have paid 90p in 2023, with 43p paid in April and a further 47p announced in September. We are forecasting 95p for 2024. 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

- ▶ 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 has 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 had a small effect on the existing business, and may continue to 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.

### TISE responding by further diversifying its revenue sources.

- ▶ 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 has embarked 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 directly comparable. Size alone makes the comparison tangential, at best, but, even more importantly, they are substantial trading venues, which generate significant revenues but can 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. On the other hand, trading revenues can be more volatile than annual listing fees. LSE also derives a substantial proportion of its revenue and profits from data.

### Listed European stock exchanges – comparable valuation

		EV/EBITDA		
	Price	2022	2023E	2024E
LSE	8,210p	14.9x	14.1x	12.9x
Deutsche Boerse	€163	13.4x	11.8x	11.3x
Euronext	€67	10.6x	10.8x	9.7x
Average		13.0x	12.2x	11.3x

		P/E		
		2022	2023E	2024E
LSE (£)		25.3x	24.8x	22.2x
Deutsche Boerse (€)		20.7x	17.5x	16.8x
Euronext (€)		13.0x	13.1x	11.8x
Average		19.7x	18.4x	16.9x

TISE value (implied)			
EV/EBITDA basis			
EV (£m)	54	52	49
add cash (£m)	10	13	16
Market cap (£m)	64	65	65
Value per share (p)	2,238	2,265	2,247

P/E basis			
Market cap (£m)	81	83	96
Value per share (p)	2,821	2,896	3,344

Priced as at 5 September 2023  
Source: Refinitiv, Hardman & Co Research

On an average multiple basis, TISE's shares should be valued at around £22.50 using EV/EBITDA multiples, or between roughly £29 and £33 on a P/E basis. The lower EV/EBITDA multiples ignore the benefits of the lower tax charge in Guernsey.

### DCF with higher 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 potential risk to its sustainability from regulatory interruption. To compensate for this, we have used a 12% central discount rate, higher than our usual 10%. We have reduced this rate from 14%, as the business has shown greater resilience in the face of regulatory changes than we initially thought.

We have taken our forecasts out to 2024. We have a mid-term (2025-26) 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, net income is a good proxy for net cashflow.

DCF valuation								
£m	2019	2020	2021	2022E	2023E	2024E	2025E	2026E
Revenue	7.6	8.4	10.0	10.0	10.5	12.0	12.7	13.5
EBITDA	3.6	3.8	5.0	4.3	4.4	5.6	5.9	6.3
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	5.4	5.8	6.1
Discount factor						1.1	1.2	1.4
Discounted cashflow						5.0	4.7	4.4

Source: Hardman & Co Research

DCF summation	
Value components	£m
2024-27	18.3
2028 onwards	42.9
Total	61.2
plus net cash end-2023	12.4
Equity value	73.6
Equity value per share (p)	2,590
Equity value per share fully diluted (p)	2,477

Source: Hardman & Co Research

Derived central value of £74m, or 2,477p per share, fully diluted

Our central valuation works out at £74m, or 2,590p per share, based on a current issued share capital of ca.2.8m shares. There are 292,000 options outstanding, which are at or in the money at the current 1,550p mid-price. The dilutive effect of those (accounting for the ca.£4m of premium payable) brings down the value per share to 2,477p.

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%	84	86	89	91
12%	70	72	74	76
14%	60	62	63	65

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%	16.2	16.8	17.3	17.9
12%	13.0	13.4	13.9	14.3
14%	10.8	11.2	11.6	12.0

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%	19.5	20.1	20.7	21.2
12%	16.4	16.8	17.3	17.7
14%	14.3	14.6	15.0	15.4

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.

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