

**Market data**

EPIC/TKR	TISEG
Price (p)	1,500
12m high (p)	1,500
12m low (p)	925
Shares (m)	2.8
Mkt cap (£m)	42
EV (£m)	29
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 (Interim)	Anderson Whamond
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	www.tisegroup.com

Key shareholders

Bailiwick Investments Ltd	13.6%
Moulton Goodies Ltd	11.5%
M Thistlethwayte	8.9%
Pula Investments Ltd	8.9%
Carey Olsen Corporate	
Finance Ltd	8.7%
F Le Poidevin	7.1%

Diary

Sep'22	Interim results
Mar'23	Final results

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THE INTERNATIONAL STOCK EXCHANGE**Strong growth in 2021 continues into 2022**

The International Stock Exchange (TISE) had a very strong 2021: revenues were up 19% and profit before tax was up 29%, driven by an increase in listings. These figures were in line with our expectations. A 200p special dividend was declared, in addition to the 80p paid during the year. The first quarter of 2022 has started well, with a record number of new listings. Our forecasts are broadly unchanged, with slightly higher-than-expected listing volumes largely offset by higher costs.

- **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:** Management is pursuing multiple avenues of additional revenues, which will be detailed in this note: bond expansions, sustainable finance, a new trading system and private markets.
- **Valuation:** There are no directly comparable listed exchanges with a comparable business model (other listed exchanges have earning 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 £74m, or ca.2,500p per share, fully diluted.
- **Risks:** The risk from rule changes initiated by the UK Treasury and implemented in 2022 seems to be less severe than initially anticipated – the definition of who may qualify for the new UK ruling may prove too narrow or complex. In addition, TISE's reputation for probity is important for attracting listings and approval from various international bodies. Its own shares are illiquid.
- **Investment summary:** TISE aims to expand its customer base and build on its growth record. With a strong track record and robust balance sheet, we believe TISE is well-placed to diversify its revenues and continue to trade very profitably.

Financial summary and valuation

Year-end Dec (£000)	2018	2019	2020	2021	2022E	2023E
Sales	7,323	7,585	8,362	9,954	10,681	11,717
EBITDA	3,362	3,608	3,817	4,987	5,629	6,562
Reported EBIT	3,300	3,574	3,769	4,903	5,529	6,462
Reported PTP	3,358	3,633	3,801	4,916	5,554	6,487
Net income	3,358	3,476	3,622	4,750	5,366	6,268
Underlying EPS (p)	124	123	128	168	190	222
Fully diluted EPS (p)	120	123	128	167	186	217
Net (debt)/cash	11,334	8,375	10,748	13,431	10,506	13,852
DPS (p)	30.0	32.5	50.0	80.0	100.0	110.0
P/E (x)	10.5	10.6	10.1	8.9	7.9	6.8
EV/EBITDA (x)	7.1	7.8	6.8	5.8	5.7	4.3
Yield	2.3%	2.5%	3.8%	5.3%	6.7%	7.3%

Source: Hardman & Co Research

Analyst

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2021 was a strong year

Strong 2021, with revenues and PBT up 19% and 29%, respectively...

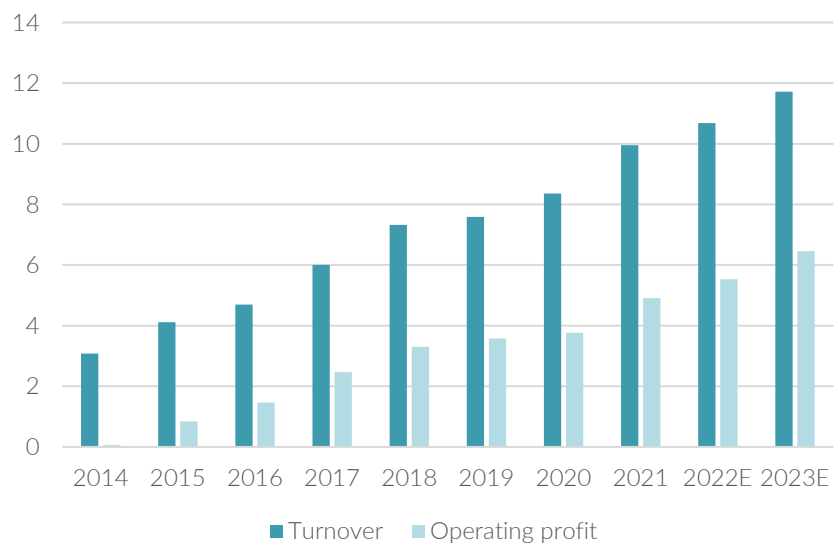
TISE posted its strongest year in 2021, on the back of a record number of new listings, at 1,111, up a third from 831 the year before. This growth drove up revenues by 19%, to £10m, and PBT rose by 29%, to £4.9m. EPS increased proportionately, to 167p (fully diluted). All these figures were broadly in line with our forecasts, and we have left our future projections largely unchanged, with revenue just a touch higher, and costs too. Given the strong balance sheet, the board has announced another 200p special dividend (the last one, of the same size, was paid in 2019).

The first quarter of 2022 has also started strongly, with 268 new securities listing, 19% ahead of the amount achieved during the same period last year.

Operating performance

TISE's performance has been impressive, with revenue growing from £3.1m in 2014 to £10.0m in 2021, representing a CAGR of 18%, and costs have grown at only 8% p.a., allowing profits to increase from just above breakeven to £4.9m in 2021.

TISE's operational performance, 2014-23E (£m)

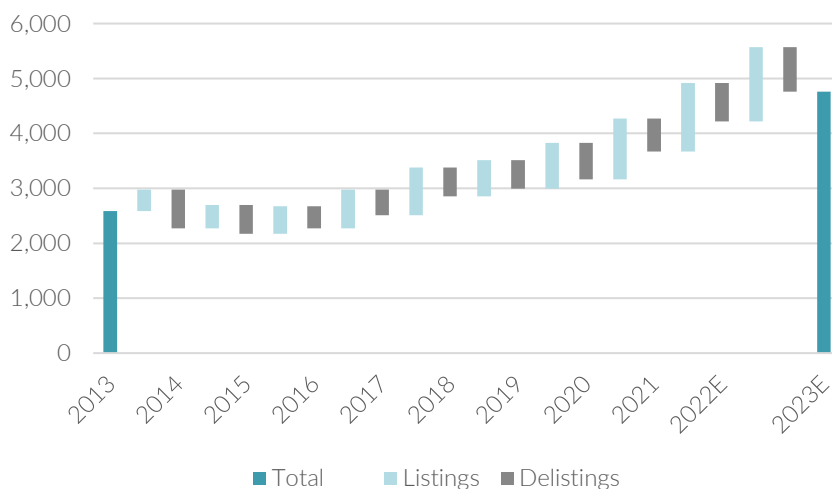


Source: TISE, Hardman & Co Research

...driven by record new listings

The growth has been driven by an increase in new listings, from 393 in 2014 to 1,111 in 2021, representing a CAGR of 16%. 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. There were 507 new listings in the first half of 2021 and 604 in the second half.

Listings on TISE, 2013-23E

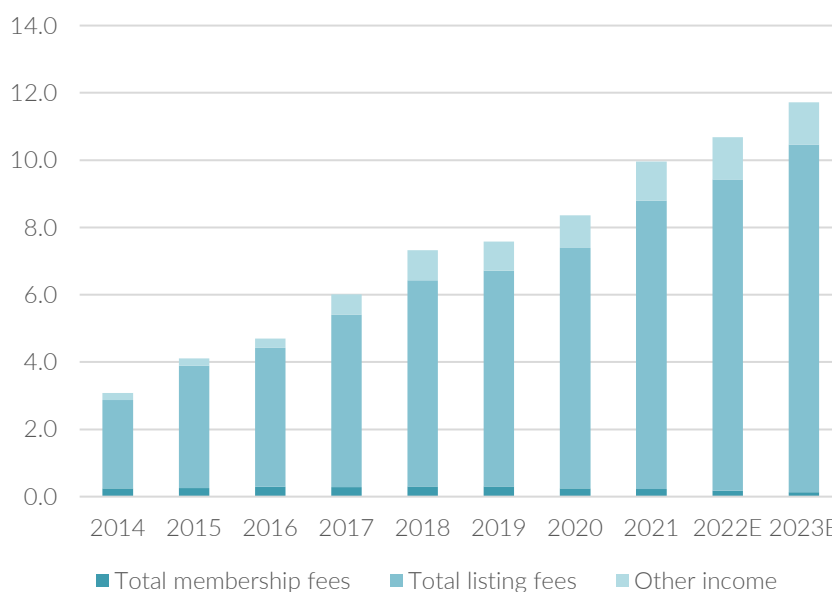


Source: TISE, Hardman & Co Research

The total number of listings increased from 2,274 in 2014 to 3,669 at the end of 2021, representing a CAGR of 7%. Issues are constantly delisting as bonds mature. Currently, ca.20% of listings are cancelled each year.

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 £3,400 in 2021 (almost unchanged on 2020), and the average annual fee was £1,300 (down from £1,400 on 2020). In 2014, around half the total listing fees came from initial fees; by 2020, this had fallen to 39%, but it rose again to 44% in 2021.

TISE income sources, 2014-23E (£m)



Source: Hardman & Co Research

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 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 has decided to phase out membership fees over the coming three years to increase competitiveness. These fees generated just £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.

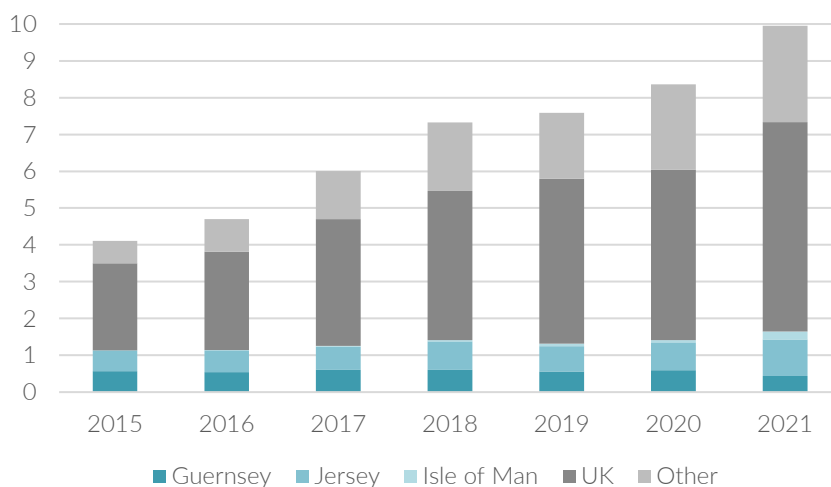
Future listings

For our forecasts, we have assumed 1,250 new listings in 2022 and 1,350 in 2023. The actual number of listings will depend heavily on market conditions. Market activity has remained elevated since the start of the pandemic. With much rebuilding of the economy to do and significant macro factors currently affecting the short term, we expect activity in capital markets to slow down in mid-year 2022, while we anticipate a resurgence through 3Q and beyond. We expect the delisting rate to remain static.

The geographical source of fees is dominated by the UK, which accounted for 57% of total fees in 2021 – a very typical year. Guernsey, Jersey and the Isle of Man represented a further 16%, and the balance came from Europe and across the world. 25% of TISE’s listing business now originates from the EU, specifically Ireland, The Netherlands, Luxembourg, France and Germany. It is starting to demonstrate success in delivery of its international diversification strategy.

We expect 1,250 new listings for 2022 and 1,350 for 2023, amid sustained capital market activity

Geographical source of revenue, 2015-21 (£m)



Source: TISE

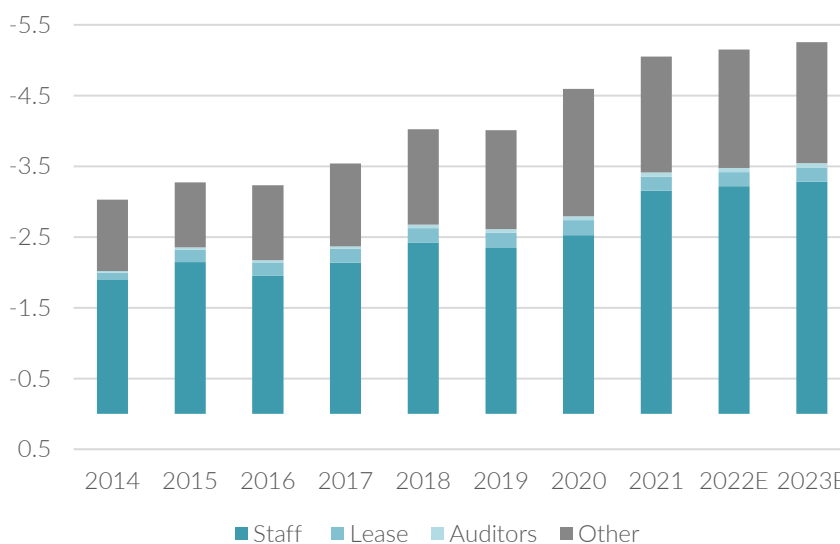
Shape of costs to remain steady going forward

Costs

The largest portion of costs is staff, which accounted for 62% of total costs in 2021, up from 55% in 2020. Overall costs account for about 51% of total income and have been falling gently for the past few years. We forecast them growing at 2% p.a. from 2022 onwards, which might be on the low side in the light of resurgent inflation. We are not expecting the shape of costs to change significantly in the future. With operating margins consistently at 45%, or higher, this is a highly profitable business.

TISE has invested in a new trading system, supplied by Avenir Technology. It is an auction system that went live in February 2022. The costs remained below £150k and were booked in 2021. The system will play an important role in the private market offering, which will be introduced in the second part of 2022.

TISE costs, 2014-23E (£m)



Source: Hardman & Co Research

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.

It has also introduced the 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 UK. TISE will accept 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.

Opportunities for growth

TISE is looking at expanding into new products and geographies. Some of the high-growth segments are specialist areas such as insurance-linked securities (ILS) and collateralised loan obligations (CLOs).

Bond expansion

The biggest opportunity lies in the bond markets, and TISE has developed a Qualified Investor Bond Market (QIBM) to expand its presence here. Regulation and technology are revolutionising the bond markets. In Europe, MiFID II introduced new obligations of transparency in both the issuing and trading of bonds. Bond markets, though, are very different from equity markets. According to data published by the Federation of European Stock Exchanges (FESE), there were 7,214 European companies with listed shares on European Exchanges as of July 2020, while The European Securities and Markets Authority (ESMA) reported that there were more than 160,000 outstanding corporate bonds available for trading on EEA venues. Very few of these bonds will trade daily, and most will not trade at all for a month, or even longer. Usually, corporate bonds are active in the secondary market only for the first few days after they are issued and before they settle in the hands of long-term investors who will tend to hold them until maturity. Any secondary market activity is usually driven by credit events (such as a change in rating).

QIBM: professionals-only market

As noted, TISE has developed a bond market for Qualified Investors (professional investors) only, called the QIBM. QIBM competes directly with the bond markets in Dublin, London, Luxembourg and Vienna for the listing of all forms of securitisation bonds, convertible bonds, derivative bonds, high yield bonds, investment grade bonds, and sovereign and public bonds.

Across QIBM in 2021, there were a total of 2,397 new issuances listed, comprising 1,071 entirely new security classes, as well as an additional 1,326 further issues to existing listings. This strength continued into 2022, with 617 new issuances listed, comprising 264 entirely new security classes, as well as an additional 353 further issues to existing listings.

Early in 2021, TISE recruited Anthony Byrne, an experienced operator from Euronext Dublin, as Head of Bond Markets. He is leading TISE's ambition to become the leading European professional bond market.

Sustainable finance

There is also a whole new segment of "green" and "sustainable" bond issues, a subsector of the ESG market. This is an ill-defined area with no standard rules, but is clearly likely to be a popular area for future capital raising, as issuers take advantage of asset managers seeking to burnish their environmental credentials.

TISE established a dedicated environmentally-focused market segment, TISE GREEN, in 2018, and had its first four "green" bonds admitted to its Official List (a prerequisite) and the segment. In July 2021, the segment was relaunched as TISE Sustainable, and it now reflects a wider remit – securities or issuers with an environmental, social or sustainable purpose, which adhere to ESG standards, can be admitted, as opposed to limiting this just to "green" activities.

TISE is a member of the UN Sustainable Stock Exchanges initiative, reflecting its desire to be part of the sustainable capital markets ecosystem, in terms of both managing its own business and in its role as a facilitator of global capital flows.

TISE's QI bond market, QIBM, allows it to compete directly with markets in Dublin and Luxembourg

Widening sustainable finance remit with relaunch of TISE Sustainable in July 2021

The TISE Sustainable initiative is an important one, but is not likely to be the largest driver of new business, in our view. Nevertheless, TISE Sustainable contributed with £12bn in sustainable finance in 2021, which, in the longer term, will contribute to TISE's international visibility, credibility and growth.

New trading system

Historically, TISE has not been 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.

Newly launched auction-based trading system should help boost liquidity and attract further issues

TISE's new auction-based trading system went live in 1Q'22. This should improve the liquidity of existing listed equities. Also, the higher level of trading should help to attract further issues.

The system is potentially also suitable for both the bond market – there is an increasing demand for secondary trading in long-maturity bonds – and the new private market initiative.

Private markets

Another area of expansion is TISE's "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 is developing 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 rule-based platform to facilitate secondary market trading between shareholders and sophisticated investors in private company shares. It is aiming to introduce this service in 2H'22.

Summary

TISE is well-positioned to expand its business. It is a well-recognised and mature exchange. It has worked hard on being user-friendly. Its stance on regulation is that it should be practical, pragmatic and proportionate – it needs to uphold minimum standards, but it does not want to over-regulate to deter potential customers. Its reputation – and recognition by HMRC, the SEC and others – is crucial.

Threats

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

Current regulatory changes

Impact of regulatory changes will be limited, in our view

The UK Government has conducted a review of the tax treatment of asset holding companies in alternative fund structures. Its second consultation period ended in February 2021, and it introduced legislation as part of the Finance Bill 2021/2022.

Introducing the review, the UK Government said that it was prepared to make legislative changes 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, looser, rules solely to legitimate investment vehicles, the definitions and qualifications must be very tightly drawn. It may still be 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 might be as costly as any savings achieved. Furthermore, there may be an ongoing requirement to prove that the holding company still qualifies – an unattractive proposition for issuers looking for simple and cheap structures.

What looked as though it could only be construed as potentially bad news for TISE may prove to have a more modest effect, after all. The issue that the UK Government is trying to resolve is the cost barrier for setting up asset holding companies in the UK, and one of those costs is literally TISE's revenues: the cost of listing on an exchange. However, to ensure that the regime is not abused, the rules to qualify as a Qualifying Asset Holding Company (QAHC) have to be so strict that it might not be worth many vehicles bothering. There are costs involved in listing on exchanges such as TISE, but, in the grand scheme of things, they are not material. Also, in TISE's favour, the process is well-known by issuers, lawyers, investors, etc. – so that it represents a very small hurdle to clear.

There was no slowdown in business leading up to the rule changes, which implies that their impact will be strictly limited, in our view.

REITs

REITs represent a clear, but small risk to TISE's business

The second aspect of the UK Government legislation that is relevant to TISE concerns the issue of Real Estate Investment Trusts (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, 2011-21



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 provided TISE with the attractive reputation as an alternative listing venue for these REITs, and it now hosts more than 40% of all listed UK REITs, with a further 15 listed in 2021, taking the total to 43.

Recently, the UK Government has decided to remove the listing requirement if at least 70% of the shares are held by institutional investors. The measure came into effect on 1 April 2022. It is not yet clear whether listed REITs held by institutional investors will seek to delist, and it could well encourage companies to become REITs that would not have under the previous regime. Whether it halts the current flow of illiquid, institutionally held REITs listed on TISE remain to be seen.

This represents a clear, but small risk to TISE’s business. REITs are not a large part of TISE’s business, but they have been a growing, and successful one.

Other matters

In February 2022 the Chair, Charlie Geffen, announced his decision to retire after the AGM in May. Anderson Whamond, who has served as a Non-Executive Director of the company since 2017, has been appointed as the group’s Chair on an interim basis, while a full-time successor is sought.

In early March, following the events in Ukraine, TISE suspended the listings of three equity securities (one voluntarily) and four bonds with a material exposure to Russia. The bond listings were subsequently cancelled, and three equities remain in a suspended state. A stock exchange’s reputation for propriety is critical, and this demonstrated TISE acting swiftly and appropriately in doing the right thing.

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 1,250 and 1,350 in 2022 and 2023, respectively. If TISE is successful in reaching a 14% market share, then these numbers will be substantially too low. We have also assumed constant average initial listing fees of £3,500 and annual fees of £1,500. TISE has introduced a new pricing package that includes a lifetime fee option, as opposed to paying an initial and then annual fee. It is impossible to know what the take-up of this might be.

TISE is also phasing out membership fees over the next three years. 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 2021 were £226,000.

We estimate costs growing at just 2%, after no growth this year. If revenue grows faster 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 grow higher.

Income statement, 2018-23E						
Year-end Dec (£000)	2018	2019	2020	2021	2022E	2023E
Turnover	7,323	7,585	8,362	9,954	10,681	11,717
Admin. expenses	-4,023	-4,011	-4,593	-5,051	-5,152	-5,255
Operating profit	3,300	3,574	3,769	4,903	5,529	6,462
Interest income	58	53	23	12	25	25
Fair value gains/losses		6	9	0	0	0
Profit before tax	3,358	3,633	3,801	4,916	5,554	6,487
Tax		-157	-179	-166	-187	-219
Net income	3,358	3,476	3,622	4,750	5,366	6,268
No. of shares (m)	2.70	2.82	2.82	2.82	2.82	2.82
No. of shares (fully diluted, m)	2.80	2.82	2.82	2.84	2.89	2.89
EPS (p)	124	123	128	168	190	222
EPS (fully diluted, p)	120	123	128	167	186	217
DPS (p)	30.0	32.5	50.0	80.0	100.0	110.0
Special DPS (p)		200.0		200.0		
EBITDA	3,362	3,608	3,817	4,987	5,629	6,562
EBIT margin	45%	47%	45%	49%	52%	55%
Tax rate		4%	5%	3%	3%	3%
<i>Growth</i>						
Turnover	22%	4%	10%	19%	7%	10%
EBIT	34%	8%	5%	30%	13%	17%
EPS	33%	3%	4%	30%	14%	17%

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 £13.4m, and TISE has paid out a further £15.3m in dividends – £25m of net cash generated in the past seven years. At the end of 2021, net assets had risen a further 28% YoY, to £11.4m.

TISE carries no debt, and has ample distributable reserves. Even the £3.7m 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, 2018-23E						
@ 31 Dec (£000)	2018	2019	2020	2021	2022E	2023E
Intangible assets	0	0	0	130	130	130
Tangible fixed assets	54	59	67	137	87	37
Total fixed assets	54	59	67	267	217	167
Debtors	977	1,188	974	1,383	1,383	1,383
Investments	8,750	5,273	7,039	9,550	9,550	9,550
Cash, etc.	2,584	3,102	3,709	3,881	956	4,303
Total current assets	12,311	9,563	11,722	14,814	11,889	15,236
Creditors due within a year	-2,589	-2,926	-2,880	-3,690	-3,811	-3,943
Net current assets	9,722	6,636	8,842	11,124	8,078	11,293
Provision for other liabilities	-7	-10	-12	-1	-1	-1
Net assets	9,768	6,686	8,897	11,391	8,294	11,459
Called-up share capital	2,799	1,332	1,332	1,332	1,332	1,332
Share-based payts. reserve	140	140	140	140	140	140
Retained earnings	6,830	5,215	7,426	9,919	6,823	9,988
Total shareholders' equity	9,768	6,686	8,897	11,391	8,294	11,459

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, 2018-23E

Year-end Dec (£000)	2018	2019	2020	2021	2022E	2023E
Profit before tax	3,358	3,633	3,801	4,916	5,554	6,487
Depreciation and amortisation	62	33	48	84	100	100
Share-based payments	52		0	0		
Interest	-50	-51	-33	-4	-25	-25
Tax paid		-150	-160	-164	-166	-187
Other	2	6	2	-11		
Working capital change	364	120	149	398	100	100
Operating activities	3,788	3,591	3,807	5,219	5,563	6,475
Purchase of assets	-13	-38	-56	-284	-50	-50
Acquisitions of invests. (net)	-3,850	3,473	-1,765	-2,510		
Interest received	50	51	32	4	25	25
Investing activities	-3,813	3,486	-1,789	-2,790	-25	-25
Issue of equity	318					
Dividends paid	-820	-6,559	-1,411	-2,257	-8,463	-3,103
Financing activities	-503	-6,559	-1,411	-2,257	-8,463	-3,103
Increase in cash	-527	518	608	172	-2,925	3,347
Cash start	3,111	2,584	3,102	3,709	3,881	956
Cash end	2,584	3,102	3,709	3,881	956	4,303

Source: Hardman & Co Research

200p special dividend announced in March 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.

It announced a 200p special dividend in March 2022, along with its 2021 results.

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 now looks like it will have only a modest, if any, impact on TISE's business. The REIT changes, albeit affecting only a very small portion of TISE's business, look like they could have a more noticeable impact, and demonstrate that regulatory change poses potential threats (and opportunities). TISE is taking the appropriate response to this, and is seeking to diversify the sources of its revenues further.
- ▶ Any diversification carries risk of the new initiatives failing to reach profitability and losing the investment made in them.
- ▶ System risks pose problems for all businesses, and TISE is dependent on IT systems for the processing of listing applications. Its new trading system will also introduce security and continuity considerations.
- ▶ 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. This should help with liquidity, along with the new trading system.

Valuation

Derived central value of £74m, or
ca.2,500p per share, fully diluted

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		
		2021	2022E	2023E
LSE	7,210p	14.6x	13.7x	12.5x
Deutsche Boerse	€162	22.8x	20.2x	18.6x
Euronext	€73	13.4x	11.5x	10.8x
Average		16.9x	15.1x	14.0x

		P/E		
		2021	2022E	2023E
LSE (£)		25.3x	23.6x	20.8x
Deutsche Boerse (€)		25.5x	22.4x	20.3x
Euronext (€)		15.2x	14.3x	13.3x
Average		22.0x	20.1x	18.1x

TISE value (implied)			
EV/EBITDA basis			
EV (£m)	64	74	77
add cash (£m)	13	11	14
Market cap (£m)	77	85	91
Value per share (p)	2,720	2,932	3,150

P/E basis			
Market cap (£m)	105	108	114
Value per share (p)	3,682	3,727	3,934

Source: Refinitiv, Hardman & Co Research
Priced as at 16 May 2022

On an average multiple basis, TISE's shares should be valued at between £27.20 and £31.50 using EV/EBITDA multiples, or between roughly £37 and £39 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%, but lower than our previous 15%, to reflect the lower impact of regulatory change than we initially feared. There is scope to reduce the rate still further in the future.

DCF valuation								
£m	2018	2019	2020	2021	2022E	2023E	2024E	2025E
Revenue	7.3	7.6	8.4	10.0	10.7	11.7	12.4	13.2
EBITDA	3.4	3.6	3.8	5.0	5.6	6.6	7.0	7.4
Tax	0.0	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2
Net cashflow	3.4	3.5	3.6	4.8	5.4	6.3	6.7	7.1
Discount factor					1.0	1.2	1.3	1.5
Discounted cashflow					5.4	5.5	5.1	4.7

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
2022-25	20.7
2026 onwards	40.2
Total	60.9
plus net cash end-2021	13.4
Equity value	74.3
Equity value per share (p)	2,634
Equity value per share fully diluted (p)	2,507

Source: Hardman & Co Research

Our central valuation works out at £74m, or approximately 2,630p per share, based on a current issued share capital of ca.2.8m shares. That figure includes the 200p special dividend. There are 250,000 options outstanding, which are all in the money at the current 1,500p mid-price. The dilutive effect of those (accounting for the ca.£2m of premium payable) brings down the value per share to ca.2,500p.

We have also shown a table with varying growth rates for the two years between our forecast period (to 2023) and our perpetual calculation...

DCF sensitivity table – valuation				
Mid-term growth rate	2%	4%	6%	8%
Discount rate	£m	£m	£m	£m
10%	97	100	103	106
12%	81	83	86	88
14%	71	73	74	76

Source: Hardman & Co Research

...and how these values equate to multiples of 2022E EBITDA...

DCF sensitivity table – EV/EVITDA, 2022E				
Mid-term growth rate	2%	4%	6%	8%
Discount rate	(x)	(x)	(x)	(x)
10%	14.9	15.4	15.9	16.4
12%	12.1	12.4	12.8	13.2
14%	10.2	10.5	10.8	11.1

Source: Hardman & Co Research

...and 2022E P/E.

DCF sensitivity table – P/E, 2022E				
Mid-term growth rate	2%	4%	6%	8%
Discount rate	(x)	(x)	(x)	(x)
10%	18.5	19.1	19.6	20.2
12%	15.5	15.9	16.4	16.8
14%	13.5	13.8	14.2	14.5

Source: Hardman & Co Research

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