HARDMAN & CO.

THE INTERNATIONAL STOCK EXCHANGE

Very strong full-year performance

The International Stock Exchange (TISE) had a very good year in 2023, with revenue up 9% to £10.8m and fully diluted EPS +18% to 170p, against a continued backdrop of subdued financial markets. Both figures were marginally ahead of our expectations. The performance, once again, demonstrates the resilience of the business with the strength of the repeating annual listing fees; since 2020, it has now paid out more in dividends than its then share price (650p). Our forecasts are largely unchanged, but we have raised our valuation range and added some 2025 projections.

- **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:** TISE has expanded membership of the Exchange internationally. It is looking to win a higher share of bond listings and CLOs. It has also recently established a private markets service and onboarded its first client. TISE expects this innovative service to be highly attractive to 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 £79m (up from £74m), or 2,704p per share, fully diluted, with a range of £74m to £81m.
- **Key risk:** The impact from rule changes initiated by the UK Treasury, and implemented in 2022, has been less severe than initially anticipated. Possible regulatory changes in the UK or the EU pose the biggest potential threats to the competitiveness of TISE's offering. Otherwise, the business, inevitably, is exposed to the health of financial markets generally.
- **Investment summary:** TISE continues to expand its customer base; with a strong track record, good cash generation and a robust balance sheet, we believe it is well-placed to diversify revenues and continue to trade profitably. The strength shown in FY'23 demonstrates the resilience of the business model, in our view. Investors will enjoy another 200p special dividend (xd 4 April, pay 29 April).

Financial summary and valuation

Year-end Dec (£000)	2020	2021	2022	2023	2024E	2025E
Sales	8,362	9,954	9,977	10,830	12,200	12,800
EBITDA	3,817	4,987	4,261	4,629	5,154	6,254
Reported EBIT	3,769	4,903	4,156	4,524	5,050	6,150
Reported PTP	3,801	4,916	4,261	4,959	5,400	6,500
Net income	3,622	4,750	4,121	4,866	5,300	6,370
Underlying EPS (p)	128	168	146	171	187	224
Fully diluted EPS (p)	128	167	143	170	182	219
Net (debt)/cash	10,748	13,431	10,259	12,857	9,938	13,367
DPS (p)	50	80	82	88	95	110
P/E (x)	14.0	10.7	12.3	10.4	9.6	8.0
EV/EBITDA (x)	10.5	7.5	9.5	8.2	7.9	6.0
Yield	2.8%	4.4%	4.6%	4.9%	5.3%	6.1%

Note: excludes 200p special dividends paid or declared in 2019, 2022 and 2024
Source: Hardman & Co Research

Market data

EPIC/TKR	**TISEG**
Price (p)	**1,800**
12m high (p)	1,800
12m low (p)	1,325
Shares (m)	2.84
Mkt cap (£m)	51
EV (£m)	38
Free float*	73%
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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Key shareholders

MIH East Holdings, Ltd	26.8%
Bailiwick Investments Ltd	10.6%
Carey Olsen Corp Fin Ltd	8.7%
M Thistlethwayte	7.0%
Pula Investments Ltd	5.3%
D & L Ozanne	4.6%
FLA Le Poidevin	3.5%

Diary

Sep'24	Interim results
Mar'25	Final results

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Review of FY'23

Strong FY'23, with revenues +9% and EPS up 18% in unhelpful markets

TISE had a strong year with revenues +9% and fully diluted EPS +18%, driven by higher annual listing fees. The number of new listings was down to 842 (FY'22: 956) but the second half was almost identical to the second half of 2022 (467 vs. 469). Net new listings were +242 (FY'22: +351). TISE raised its fees in October 2022 and this helped drive the increase in revenues. It paid out a 43p interim dividend in March and a further 47p in October. At the year-end, it had a very strong balance sheet with net cash and equivalents of £12.9m; consequently, it has not only announced a first interim dividend for 2024 of 45p but also another 200p special dividend to be paid at the end of April.

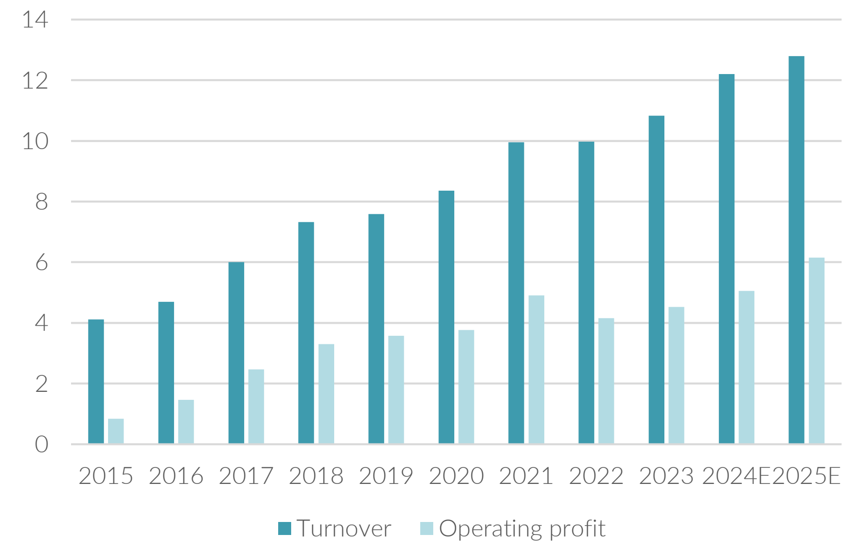
Since the beginning of 2020, when the share price was 650p, TISE has paid out ordinary dividends totalling 297p, and special dividends of a further 400p (including those just announced). That is a remarkable return.

The company commented that difficult market conditions are still inhibiting transactional activity and may persist for the foreseeable future, but went on to say that the pipeline of new issues from an expanded client list was robust. We have left our listing number expectations for 2024 unchanged at 1,100 with a net increase of 583, and introduced a forecast for 2025 with 1,150 new listings.

Operating performance

TISE's longer-term performance has been impressive, with revenue growing from £4.1m in 2015 to £10.8m in 2023, representing a CAGR of 13%. Our forecasts for 2023 and 2024 bring that down a little but to a still impressive 12%. Costs have grown at only 9% p.a., allowing operating profits to increase from just above breakeven to £4.5m in 2023 and, we forecast, £5.1m in 2024 and £6.2m in 2025.

TISE's operational performance, 2015-25E (£m)

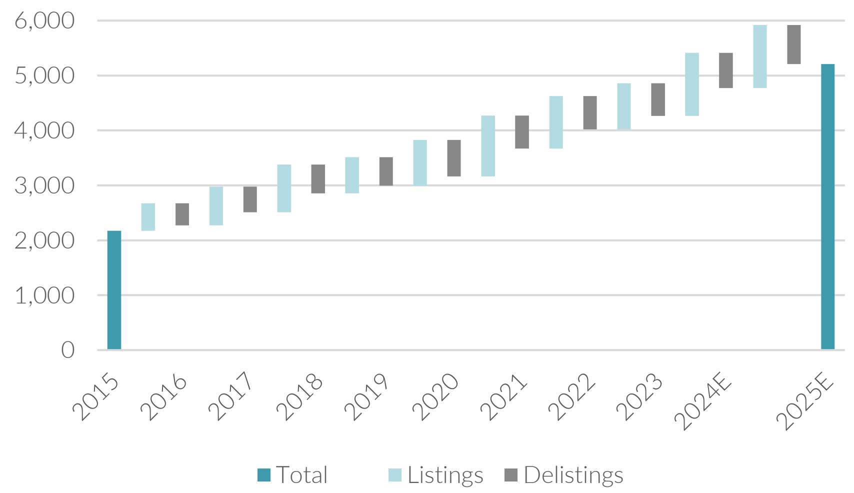


Source: TISE, Hardman & Co Research

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 (a fall of 23%) and 507 (a fall of 26%) in 1H'21. The second half saw 467 new listings, roughly the same as the same period a year earlier but still 23% below 2H'21. We are forecasting 1,150 for the full-year 2024 and then 1,150 for 2025 – back to the level of 2021.

Listings on TISE, 2015-25E

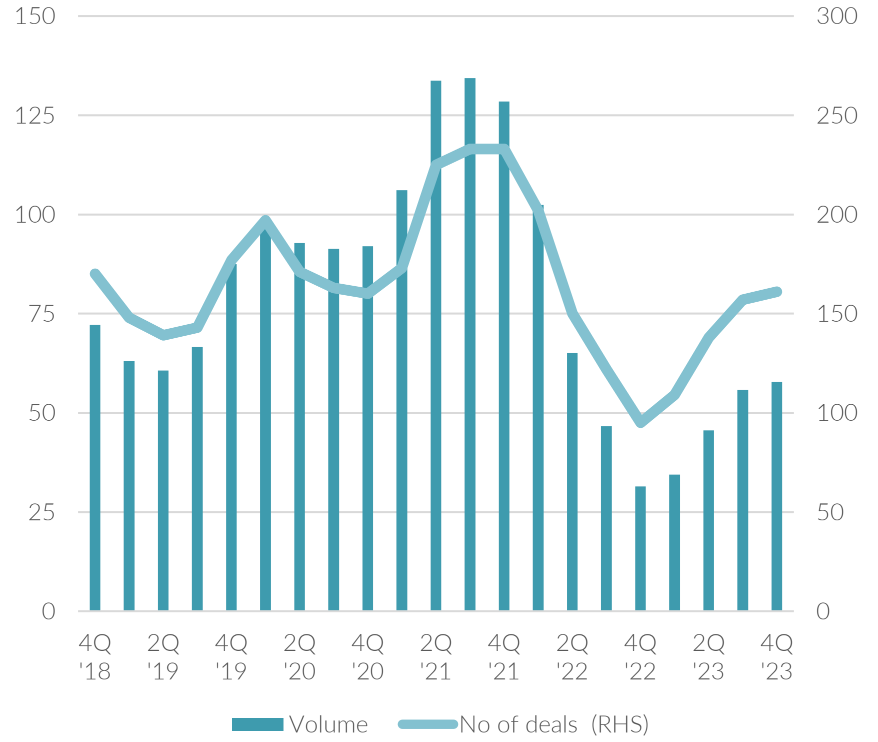


Source: TISE, Hardman & Co Research

Market backdrop

The background to this performance has been the market for new securities issues shrinking rapidly, in the face of the 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. In 2023, we saw a recovery, with issuance +69% on 2022 but still 55% down on 2021. Value of issuance rose 84% to $58bn but was still less than half what it was in 2022.

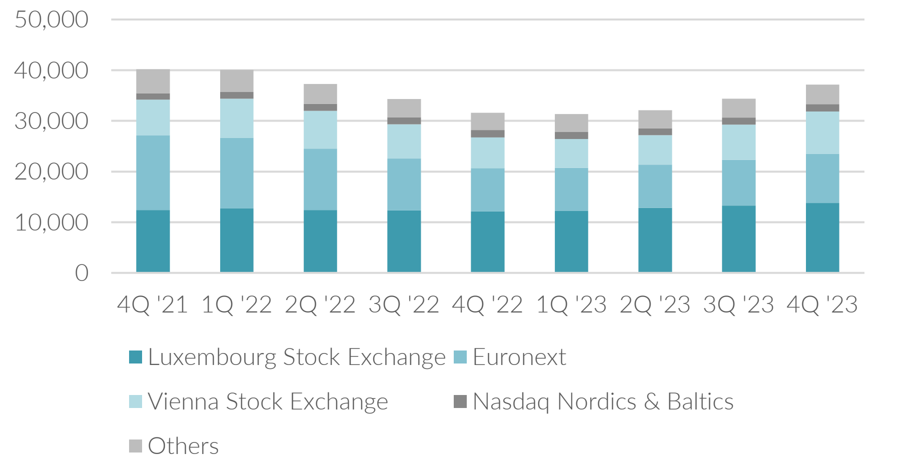
Euro-denominated high-yield volume ($bn), 4Q'18-4Q'23 (rolling 12m)



Source: Dealogic

Against this background, TISE performed strongly. There were 73 high-yield bonds listed on TISE in 2023, which represents growth of 43% YoY (2022: 51). With a record 420 high-yield bonds on TISE in total, it has retained its position as one of the leading exchanges in Europe for listing high-yield bonds.

No. of new bond and money market instrument listings, 2021-23 (rolling 12m)



Source: FESE

High-yield bonds are a particularly strong area for TISE, but the impact of the changed interest rate environment 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. The market bottomed at the end of 1Q'23, and the full-year 2023 saw a small bounce, with the number of new listings in the 12 months to December 2023 18% above 2022 but still 8% below the number 24 months earlier.

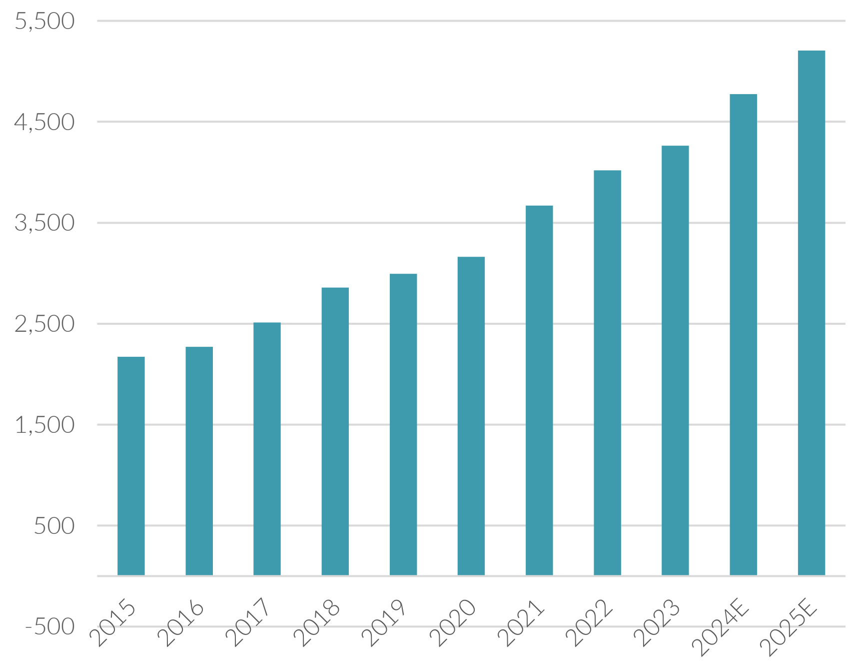
The securitisation market has not been so strong, but TISE has been growing its status as a listing venue for securitisations, reflected in a 6% increase in the number of listings to a new high of 508, as at the end of 2023 (2022: 480). TISE has also been expanding into the CLO market and attracted 31 new CLO listings during 2023 (just seven in the first half). In addition, there was a 14.5% increase in the number of securities listed on TISE from bond programmes, taking the year-end total to 86 bond programmes listing 403 securities on TISE (2022: 83; 352).

The relative resilience of M&A activity and the value of the familiarity of the TISE listing process helped maintain listing volumes, especially in the private equity debt sector. There were 423 private equity debt securities newly listed during 2023, taking the total number on the market by to a record 1,977 at the year-end (2022: 1,826). The private equity sector, generally, remains relatively strong with a significant amount of capital still to be deployed, and TISE remains a leading venue for the listing of securities related to these transactions.

Total listings still growing

Whatever the *rate of growth*, TISE's strength is the consistent *increase* in the number of listings, which has grown from 2,173 in 2015 to 4,020 at the end of 2022 and 4,262 as at December 2023, a CAGR of 9%. We are forecasting 4,773 at the end of 2024, a continuation of the trend.

TISE's total listings at year-end, 2015-25E



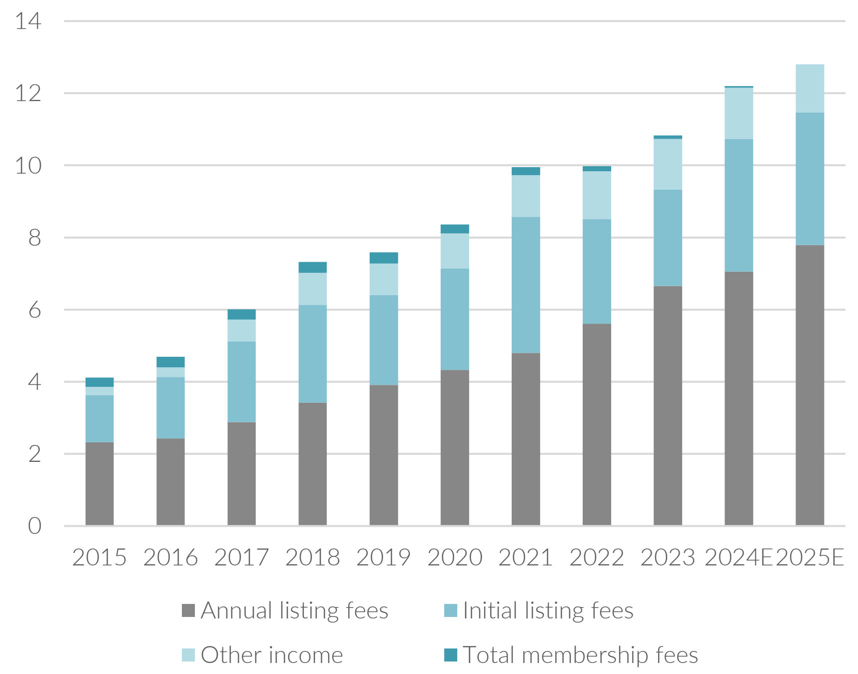
Source: TISE, Hardman & Co Research

Revenue

In 2023, 86% 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 it rose to £3,170 in 2023. The 2022 average annual fee was £1,400 (up from £1,300 in 2021) and that rose to £1,560 in 2023.

In 2023, annual listing fees made up 62% of total revenues.

TISE's income sources, 2015-25E (£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.

Membership

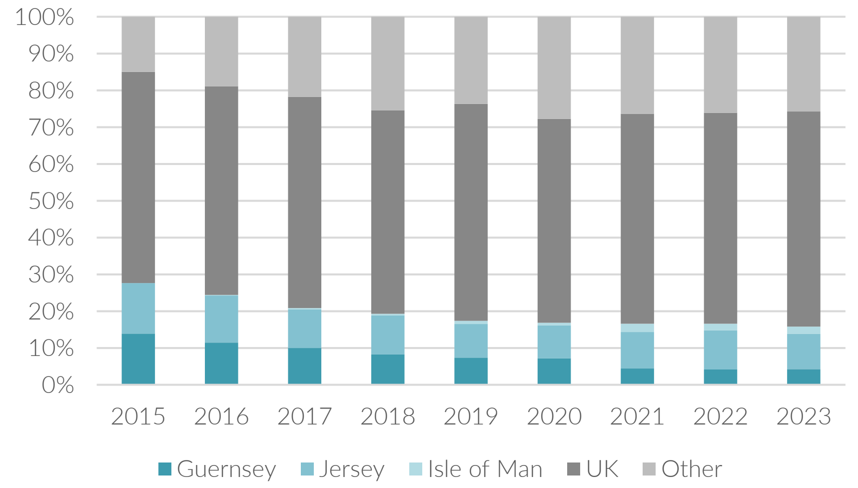
The other source of revenue is from members' fees. In 2021, the number of members increased for the first time since 2018, as TISE actively courted international law firms – for example, firms involved in securitisation listings to help drive diversification in new business. The number grew again in 2022, to 43 and again in 2023 to 44 with the first new member from Bermuda and a new member in Jersey, offsetting one loss. 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 £101k in 2023 (down from £145k in 2022), 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 continues to be dominated by the UK, which accounted for 58% of total fees in 2022 – a very typical year, and slightly ahead of 2022 (57%). Guernsey, Jersey and the Isle of Man represented a further 16%, and the balance came from Europe and across the world. In 2023, 25% of TISE's QIBM (Qualified Investor Bond Market) listing business originated from the EU, specifically Austria, France, Germany, Ireland, Luxembourg, Sweden and The Netherlands. For the first time, TISE mentioned North America as 4% of new listings came from the US and Canada (up from 1% in the prior year); this was driven mainly by the CLO business. TISE is beginning to demonstrate success in delivery of its international diversification strategy, but the UK remains the most important market.

Geographical source of revenue, 2015-23 (%)



Source: TISE

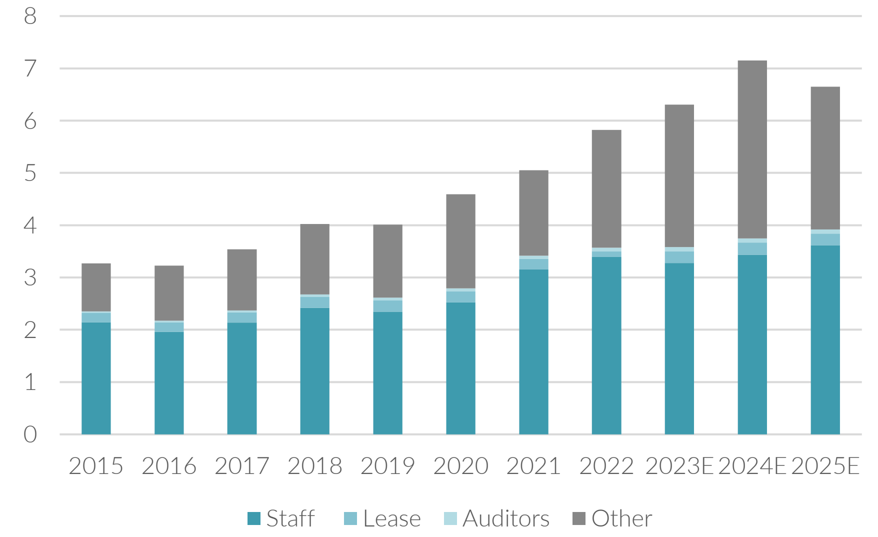
Costs

Shape of costs to remain steady going forward

The largest portion of costs is staff, which accounted for 52% of total costs in 2023; this is down from 58% in 2022, which included a one-off payment to a former member of staff.

We are expecting costs to change over the next two years as money is invested in and expensed on systems in particular to enhance the private markets offering. We expect costs will grow 13% in 2024E to £7.15m and fall back 7% in 2025E to £6.65m. With operating margins consistently above 40%, even in a slightly tricky year like 2022 and a higher cost year like 2024E, this is a highly profitable business. Operating margins held steady at 42% in 2023 (from 42% in 2022 and 49% in 2021), we are expecting margins of 41% in 2024E and then 48% in 2025E.

TISE's costs, 2015-25E (£m)



Source: Hardman & Co Research

TISE is undertaking a major overhaul of its IT system. Costs for this overhaul are not expected to exceed £500k and these costs will be expensed as incurred. It has appointed a CTO to oversee this project.

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. TISE has gone one better with its CLO business promising 2+1. This is best-in-class performance.

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 £1,000 is payable per bond listed.

2024 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, typically, has very strict regulations (especially when it comes to control and governance), 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 provides a safe and efficient platform to facilitate trading between shareholders and investors in private company shares. Companies 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. There are over 19,000 companies in the UK with more than 100 employees – this is TISE's target market.

Launched in April 2023, TISE announced in August that the first company to join its private market was Blue Diamond Ltd. It is expecting to attract 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 UK Government announced a similar initiative, to develop a venue for the intermittent trading of private company shares called PISCES (Private Intermittent Securities and Capital Exchange System). 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. It has also appointed a London-based business development lead for this initiative alongside a strategic communications consultancy.

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, paying 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.

As previously mentioned, there were seven new CLO listings in 1H'23 and 24 in 2H'23. 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 and socially sensitive listings, including green bonds, sustainability-linked bonds and transition bonds. Listings on TISE Sustainable during 2023 included issues from telecommunications brand, Liberty Costa Rica and WE Soda (production of natural soda ash). By the end of 2023, there were £20.5bn-worth of securities supporting environmental, social and sustainable initiatives listed on TISE, a notable increase on the £14bn at the mid-year stage.

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. Possible regulatory changes in the UK or the EU pose the biggest potential threats to the competitiveness of TISE's offering.

UK regulatory changes have had little discernible impact so far

For example, the UK government introduced a new regime for the tax treatment of asset holding companies in alternative fund structures in 2022, but the impact of these rule changes on TISE has been less severe than initially anticipated.

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 our view.

In the March 2023 budget, several changes to the qualifying asset holding company (QAHC) regime were published and came into force in July 2023. The Treasury is clearly keen to make the rule changes effective. While it is slightly concerning, from TISE's point of view, 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. The changes have little discernible impact so far but further changes in the rules cannot be ruled out.

REIT rule changes have had no real impact on TISE's business, and there continue to be 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 an attractive reputation as an alternative listing venue for such REITs.

In 2022, the UK government removed the listing requirement on the condition that at least 70% of the shares are held by institutional investors. Nevertheless, TISE had nine new listings in 2023, up from five in 2022, so the market clearly remains active. TISE is the second-largest market for all listed UK REITs, with a total of 43 – the London Stock Exchange was down to 48 – as at the end of 2023.

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 major shareholder

On 11 April 2023, 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. To acquire 15% or more, it first had to obtain prior consent from the Guernsey Financial Services Commission. It was duly announced on 22 September 2023 that it had done so, and, on 3 October 2023, it was announced that it had acquired the whole of Moulton Goodies' stake (335,430 shares) at a price of 1,800p. That took MIH's interest to 760,430 shares or 26.77%. In the Annual Report it was welcomed as TISE's new largest shareholder.

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 1,100 in 2024E and 1,150 in 2025E. We have further assumed average initial listing fees of £3,200 and annual fees of £1,560.

TISE is phasing out membership fees by the end of 2024. Total membership fees in 2022 were only £145,000 and £101,000 in 2023; we are forecasting a final contribution of just £76,000 in 2024.

We estimate costs growing at 13% in 2024E and falling 7% in 2025E, due to the expensed IT development costs. 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 41% in 2024E down from 42% in 2023, before rising back to 48% in 2025E.

For the first time in a number of years, interest receivable and other financial income was worthy of mention. It came in at just over £430k in 2023. We are expecting another £350k in 2024E and 2025E.

All this leads us to forecast EPS growth of 7% in 2024E after 18% in 2023, followed by 20% in 2024.

Income statement, 2020-25E

Year-end Dec (£000)	2020	2021	2022	2023	2024E	2025E
Turnover	8,362	9,954	9,977	10,830	12,200	12,800
Admin. expenses	-4,593	-5,051	-5,822	-6,306	-7,150	-6,650
Operating profit	3,769	4,903	4,156	4,524	5,050	6,150
Interest income	23	12	81	221	350	350
Fair value gains/losses	9	0	25	213		
Profit before tax	3,801	4,916	4,261	4,959	5,400	6,500
Tax	-179	-166	-140	-93	-100	-130
Net income	3,622	4,750	4,121	4,866	5,300	6,370
No. of shares (m)	2.82	2.82	2.83	2.84	2.84	2.84
No. of shares (fully diluted, m)	2.82	2.84	2.87	2.87	2.91	2.91
EPS (p)	128	168	146	171	187	224
EPS (fully diluted, p)	128	167	143	170	182	219
DPS (p)	50	80	82	88	95	110
Special dividend (p)			200	200	200	
EBITDA	3,817	4,987	4,261	4,629	5,154	6,254
EBIT margin	*45%*	*49%*	*42%*	*42%*	*41%*	*48%*
Tax rate	*5%*	*3%*	*3%*	*2%*	*2%*	*2%*
Growth						
Turnover	*10%*	*19%*	*0%*	*9%*	*13%*	*5%*
EBIT	*5%*	*30%*	*-15%*	*9%*	*12%*	*22%*
EPS	*4%*	*30%*	*-14%*	*18%*	*7%*	*20%*

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 £12.9m, and TISE paid out £22.1m in dividends – £31.9m of net cash generated in the past 10 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 December 2023, they had risen back to £10.0m, after paying a further £2.6m in dividends. Our forecast has net assets falling again to £7.0m, following the payment of another 200p special dividend in April 2024.

TISE carries no debt, and has ample distributable reserves. Even the £4.8m 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, and can readily afford the special dividend just announced.

Balance sheet, 2020-25E

@ 31 Dec (£000)	2020	2021	2022	2023	2024E	2025E
Intangible assets		130	111	93	73	53
Tangible fixed assets	67	137	135	101	67	33
Total fixed assets	67	267	246	194	140	86
Debtors	974	1,383	1,484	1,722	1,722	1,722
Investments	7,039	9,550	6,406	10,202	9,202	9,202
Cash, etc.	3,709	3,881	3,853	2,655	736	4,165
Total current assets	11,722	14,814	11,744	14,579	11,659	15,088
Creditors due within a year	-2,880	-3,690	-4,247	-4,699	-4,806	-4,936
Net current assets	8,842	11,124	7,496	9,880	6,853	10,152
Provision for other liabilities	-12	-1	-14	-27	-27	-27
Net assets	**8,897**	**11,391**	**7,729**	**10,048**	**6,967**	**10,211**
Called-up share capital	1,332	1,332	1,512	1,512	1,512	1,512
Share-based pay. reserve	140	140	140	149	149	149
Retained earnings	7,426	9,919	6,078	8,387	5,306	8,551
Total shareholders' equity	**8,897**	**11,391**	**7,729**	**10,048**	**6,967**	**10,211**

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. Plus, of course, the payments of the dividends both ordinary and special.

Cashflow statement, 2020-25E

Year-end Dec (£000)	2020	2021	2022	2023	2024E	2025E
Profit before tax	3,801	4,916	4,261	4,959	5,400	6,500
Depreciation and amortisation	48	84	105	104	104	104
Share-based payments		0		9		
Interest	-33	-4	-135	-593	-350	-350
Tax paid	-160	-164	-206	-125	-93	-100
Other	2	-11	13	13		
Working capital change	149	398	522	247	100	100
Operating activities	3,807	5,219	4,561	4,614	5,161	6,254
Purchase of assets	-56	-284	-85	-53	-50	-50
Acquisitions of invests. (net)	-1,765	-2,510	3,144	-3,728	1,000	
Interest received	32	4	135	526	350	350
Investing activities	-1,789	-2,790	3,194	-3,255	1,300	300
Issue of equity			180			
Dividends paid	-1,411	-2,257	-7,963	-2,557	-8,381	-3,125
Financing activities	-1,411	-2,257	-7,783	-2,557	-8,381	-3,125
Increase in cash	**608**	**172**	**-28**	**-1,198**	**-1,920**	**3,429**
Cash start	3,102	3,709	3,881	3,853	2,655	736
Cash end	3,709	3,881	3,853	2,655	736	4,165

Source: Hardman & Co Research

Dividend

200p special dividend announced for 2024. 90p of ordinary dividends in 2023, and 45p already announced as first interim in 2024

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 continue to pay special dividends, when appropriate.

TISE announced a 200p special dividend in March 2022, along with its 2021 results. It paid 90p in 2023, with 43p paid in April and a further 47p announced in September and paid in October. We are forecasting 95p for 2024E, of which 45p was declared with the final results in March 2024. At the same time, it also announced another 200p special dividend to be paid in April 2024.

Risks

Regulatory change can pose potential threat and opportunity

- Possible regulatory changes in the UK or the EU pose the biggest potential threats to TISE's attractiveness 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, seem to have had no lasting effect on the existing business, but 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 as it is still heavily reliant on its core Eurobond listing business.

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. Outside of MIH's recent acquisitions, the shares trade only occasionally and 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

	Price	2023	2024E	2025E
EV/EBITDA				
LSE	9,428p	15.6x	14.4x	13.0x
Deutsche Boerse	€187	13.8x	12.5x	11.9x
Euronext	€87	12.9x	11.9x	11.2x
Average		14.1x	13.0x	12.1x
P/E				
LSE (£)		28.6x	26.3x	23.2x
Deutsche Boerse (€)		21.0x	19.4x	18.5x
Euronext (€)		16.1x	15.2x	14.3x
Average		21.9x	20.3x	18.7x
TISE value (implied)				
EV/EBITDA basis				
EV (£m)		64	65	74
add cash (£m)		13	10	13
Market cap (£m)		77	75	88
Value per share (p)		2,677	2,588	3,007
P/E basis				
Market cap (£m)		107	108	119
Value per share (p)		3,723	3,698	4,088

Priced as at 3 April 2024
Source: Refinitiv, Hardman & Co Research

On an average multiple basis, TISE's shares should be valued at around £27 using EV/EBITDA multiples, or between roughly £37 and £40 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 reduced this rate from 14%, which we used in 2022, as the business has shown greater resilience in the face of regulatory changes than we initially thought.

We have taken our forecasts out to 2025. We have a mid-term (2026-27) growth rate, with a central assumption of 6%, and we have then assumed a perpetual growth rate of a nominal 3% (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	2020	2021	2022	2023	2024E	2025E	2026E	2027E
Revenue	8.4	10.0	10.0	10.8	12.2	12.8	13.6	14.4
EBITDA	3.8	5.0	4.3	4.6	5.2	6.3	6.6	7.0
Tax	-0.2	-0.2	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1
Net cashflow	3.6	4.8	4.1	4.5	5.1	5.4	5.7	6.0
Discount factor					1.0	1.2	1.3	1.4
Discounted cashflow					4.9	4.7	4.4	4.2

Source: Hardman & Co Research

DCF summation

Value components	£m
2024-27	18.1
2028 onwards	47.7
Total	65.8
plus net cash end-2023	12.9
Equity value	78.7
Equity value per share (p)	2,770
Equity value per share fully diluted (p)	2,704

Source: Hardman & Co Research

Derived central value of £79m, or 2,704p per share, fully diluted

Our central valuation works out at £79m, or 2,770p per share, based on a current issued share capital of ca.2.8m shares. There are 292,000 options outstanding, which are in the money at the current 1,800p mid-price. The dilutive effect of those (accounting for the ca.£4m of premium payable) brings down the value per share to 2,704p; this includes the special dividend, which goes XD on 4 April 2024.

We also show a table with varying growth rates for the two years between our forecast period (to 2025) and our perpetual calculation…

DCF sensitivity table – valuation

Mid-term growth rate	2%	4%	6%	8%
Discount rate	**£m**	**£m**	**£m**	**£m**
8%	121	125	129	133
10%	91	94	97	99
12%	74	77	79	81

Source: Hardman & Co Research

…and how these values equate to multiples of 2024E EBITDA…

DCF sensitivity table – EV/EVITDA, 2024E

Mid-term growth rate	2%	4%	6%	8%
Discount rate	**(x)**	**(x)**	**(x)**	**(x)**
8%	20.9	21.7	22.5	23.3
10%	15.1	15.7	16.2	16.8
12%	11.9	12.3	12.8	13.2

Source: Hardman & Co Research

…and 2024E P/E.

DCF sensitivity table – P/E, 2024E

Mid-term growth rate	2%	4%	6%	8%
Discount rate	**(x)**	**(x)**	**(x)**	**(x)**
8%	22.8	23.5	24.3	25.1
10%	17.2	17.7	18.2	18.8
12%	14.0	14.4	14.8	15.3

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 20 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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In particular, Article 12(3) of the Directive states: 'The following benefits shall qualify as acceptable minor non-monetary benefits only if they are: (b) 'written material from a third party that is commissioned and paid for by a corporate issuer or potential issuer to promote a new issuance by the company, or where the third party firm is contractually engaged and paid by the issuer to produce such material on an ongoing basis, provided that the relationship is clearly disclosed in the material and that the material is made available at the same time to any investment firms wishing to receive it or to the general public…'

The fact that Hardman & Co is commissioned to write the research is disclosed in the disclaimer, and the research is widely available.

The full detail is on page 26 of the full directive, which can be accessed here: https://ec.europa.eu/transparency/regdoc/rep/3/2016/EN/3-2016-2031-EN-F1-1.PDF

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