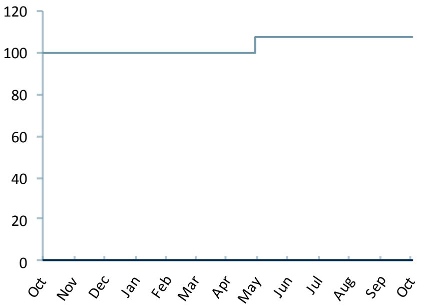
ESTIMATES

VALUE RANGE

GBp 4.66 – 4.89



ALSP L ISDX Growth 12m Price Relative Chart

Wednesday, 07 October 2015

Intrinsic Price	4.78p
Value Range Low	4.66p
Value Range High	4.89p
Implied MCAP (m)	£26.66
Implied EV (m)	£35.30
ISDX Index	ALSP LN
Financial YE	30-Apr
Currency	GBP

Business Activity

Commercial & retail property investment

Key Metrics

Close Price	3.75p
MCAP (m)	£20.94
Net Debt (Cash) (m)	£8.638
EV (m)	£29.57
52 Wk Hi	4.10p
52 Wk Lo	3.50p
NAV trailing	2.39p

Key Ratios

S/P premium to NAV	56.90%
LTV	40.00%
Net Debt / Shareholder Equity %	69.66%

Real Estate Sector Research

ISDX Growth Market Index

Analyst Team

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ACE Liberty & Stone Compact Valuation

Gathering Critical Mass…

ACE Liberty & Stone's (ALSP) is a listed property investment company. We expect further transformational growth FY16E and 17E following the FY15A results, which showed strong growth y/y. Following last year's maiden dividend the company raised the FY15A yield by 60 bps to 3.0%. Assets increased 50% to GBP 12.4m and rental income exeeded GBP 2m p.a. ALSP has a specialised management team. Growth opportunities abound for ACE assuming an appropriate capital structure (debt/equity) mix can be secured. ALSP IPO'd on ISDX on 12 Nov, 2007, it has been a slowish start but FY15A shows a clear inflexion point. There should be more to come FY16E and 17E from this well connected, close knit management team.

- Strong set of FY15A results;
- Revenues up over 8.36% y/y and SGA/Sales down 20% or GBP 157k;
- Net Income up more than 2x at GPB 1,055;
- Dividend yield rises 60bps to 3.0% vs. 2.4% y/y on nominal capital;
- Highly experienced, well connected, specialized management team.

ACF est. GBP (k)	Revenue	EBITDA	FCF	EPS	EPS (diluted)
2015A	1,201	314	-629	0.18	0.16
2016E	2,649	2,219	1,438	0.22	0.18

Multiples	EV/ Revenue	EV/ EBITDA	EV/ FCF	P/ EPS	P/ EPS (diluted)
2015A	24.62x	94.25x	-47.00x	21.15x	23.86x
2016E	11.16x	13.33x	20.56x	17.32x	21.05x

Share Price History	No. of Shares in issue	Fully diluted
NoSh (m) 06/10/15	558.3	678.8
Implied Intrinsic Price	4.78p	3.93p
Value Range Low	4.66p	3.83p
Value Range High	4.89p	4.03p
ISDX Growth Market	ALSP	
Financial YE	30-Apr	
Reporting Currency	GBP	
NoSh (m) 06/10/15		558.3
NoSh (m) expected dilution (Exp D)		576.2
NoSh (m) full dilution (FD)		678.8
Key Metrics		**adj.**
MCAP (m)	£20.9	£20.9
Net Debt (Cash) (m)	£8.64	£8.64
EV (m)	£29.6	£29.6
52 Wk Hi	£4.10	£3.37
52 Wk Lo	£3.50	£2.88
Free Float	N/A	N/A

*Key Metrics FCF adj.	2016E	2017E
CPS (GBp)	0.32	0.36
CPS (Exp D) (GBp)	0.31	0.35
CPS (FD) (GBp)	0.26	0.30
P/CPS	14.82x	10.93x
P/CPS (Exp D)	15.30x	11.28x
P/CPS (FD)	18.02x	13.29x

Above we show full dilution (FD) and expected dilution (Exp D). ALSP shares in issue at the date of this note are 558,269,157. Dilutive elements are convertibles 18,181,818 and Options 58,333,333 expiring 31/10/20; 44,000,000 expiring 20/04/22. For our Exp D we assume the exercise of options is averaged over 5 and 7 years respectively. We assume no convertibles are exercised over the next 12m.

*Note that in the table above we show unlevered Free Cash Flow Per Share (CPS) based upon current NoSh, expected dilution (Exp D) and full dilution (FD). P/CPS uses the close price as per front page and this page.

Investment Case

Competitive background

ACE (ALSP) acquires and rents secondary assets largely in regional cities in the UK with reliable tenants (e.g. HMRC, local authority). ACE looks for opportunities primarily with end of life tenancies to provide rental uplift via change of use and, in time, capital appreciation. ACE is cash generative FY16E and growing strongly. FY15A shows an attractive inflexion point (after an admittedly slowish post IPO).

The UK property market (commercial, retail and residential) is a popular investment play. There are many vehicles including tax (CT and capital gains) efficient entities (REITS), which distribute 90% of rental operational free cash flow (FCF). The sector is seen as low risk, cyclical and defensive, and is bought by investors primarily for yield via rental incomes. UK super-prime (central London) retail and commercial property is seen as the quality play in both downturns and upturns, but super-prime does not necessarily outperform indices.

In our view the key difference is in active asset management rather than passive and targeting secondary commercial plays without holding legacy assets. ACE qualifies on both counts. ALSP's management team is skilled, well connected and close knit (see profiles below).

Change in conditions creating timing opportunity

Business confidence has finally begun to improve, UK business investment data beat consensus expectations on the upside last month for the first time, more or less since the 2008/9 financial crash. We assess that with increased investment in the economy from business so there will be drivers for increased rental growth generated by rising demand for commercial space from new businesses and existing occupiers. We also expect such an environment, in time, to drive secondary asset trading (buying and selling of existing commercial property). Finally, and key, is the gradual return of lenders and equity investors to the markets allowing for more favourable structuring of existing facilities. Increased availability of equity allows for more efficient balance sheet mixes and accelerated growth creating potential for yield uplifts and valuation re-ratings, especially for early stage property companies, such as ACE.

- **FY15A results suggest growth inflexion point has arrived** – ACE more than doubled assets and net income during FY15A through 8% revenue growth and SGA cost cutting. We expect significantly stronger revenue growth during the coming 12 months as new capital and assets make a full year contribution.

- **Active asset management** – Active asset management strategy from an experienced, specialised and well connected management team.

Catalysts

Acquisition for new properties; Uplift in rental yield through active management; Raising new debt and further equity during FY16E.

Operational Strategy

ACE (ALSP) is a property investment company focussed almost exclusively on the UK. The company has one revenue line, rental income and one additional value generator, property value appreciation. A straight forward model underpinned by a well connected, effective management team with a wealth of international blue chip and entrepreneurial experience.

The strategic model is to acquire properties that deliver high yield combined with the opportunity to create or capture capital value. The model is executed by identifying properties available for acquisition with short unexpired tenancies with tenants that have strong credit ratings (pay on time and reliably). Tenants include organisations such as HMRC (UK tax authority and collection agency) and local authorities.

The short remaining tenancy periods tend to push down the acquisition price, whilst at the same time providing the opportunity for change of use (rental uplift) in the nearish future in order to maximise the property value.

ACE does not engage in development itself but sells such projects on to developers. By not involving itself in development (capital) expenditure at this early stage of its growth, the company is significantly de-risked compared to many property investment vehicles.

Properties with longer-term tenancies are also acquired to underpin the long-term cash flow of the business.

Historically ACE has predominantly funded its acquisitions with debt (debt/equity ratio FY15A 70%). ACE plans to continue to fund future growth with a mixture of debt and equity but with particular emphasis on equity funding.

If the pursuit of equity funding becomes unattractive because of costs or time the company can continue to grow at its historical rate, albeit this is a slower growth rate than the current debt and equity funded plan could drive. In order to improve access to equity, management is clear on the need to pay attention to equity investor needs and this is reflected in efforts underway to begin to improve liquidity in ALSP's stock and with respect to its dividend policy, which is progressive in the context of an early stage company paying out according to annual performance. ACE raised its dividend yield by 60 bps to 3% up from 2.4% y/y on the back of FY15A financial performance.

Exhibit 1: **ACE Liberty & Stone key operational metrics**

Underlying Market Maturity	FY15A GBP '000	FY14A GBP '000
Investment property	23,964	10,032
Portfolio rental income p.a.	2,231	847
Annual rental income	1,201	1,097
Equity to owners	12,410	8,244
Earnings after tax (EAT)	759	408

Source: Company Reports;

Management Team

- **Non-Executive Chairman, Keith Pankhurst.**

Mr. Pankhurst recently retired as full time MD of Ashdown Marks Ltd., a highly successful independent niche Property Consultants practice. Keith co-founded Marks Ltd. in 1985, which is based in Milner Street, Chelsea SW3 and specialises in residential sales, lettings and investments. Keith brings over 35 years of property experience including 10 years working for blue chip firms such as George Trollope and Sons, William Willett and Hamptons, operating in London's prime real estate quarters of Belgravia, Mayfair, Knightsbridge, Kensington and Chelsea. He has been a director of ACE Liberty & Stone since its flotation in 2007.

- **CEO, Ismail Ghandour.**

Mr. Ghandour is the founder and his contacts make him a key driver of ACE. Ismail has been active in the international property sector including the UK, the European mainland and the Middle East for over 25 years, developing a good knowledge of the property market as well as a strong network of contacts among other property investors, banks and professionals such as surveyors and solicitors. Ismail initially took responsibility for his family's property interests in Europe and the Lebanon, building up a portfolio of properties in the UK, which is now 50% residential and 50% commercial. Over the last 10 years, he has completed transactions valued at over GBP 250m.

Ismail's companies have grown to a value of over GBP 50m. He founded ACE in 2007, successfully floating it the same year on London's PLUS (now ISDX) market. Ismail works closely with Chartered Surveyor, Mark Thomas (see below) to drive ACE forward.

- **Finance Director, Ivan Minter.**

Mr. Minter, after qualifying as a Chartered Accountant, held roles including financial controller, finance director and company secretary in a number of companies operating in many different industries and markets. He has floated companies on AiM and PLUS (predecessor of ISDX). More recently, he has served with the Financial Services Authority and the BoE, carrying out the prudential supervision of banks and building societies. He assisted ACE founder and CEO Ismail Ghandour to float ACE in 2007. He has delivered financial control credibility and a culture of transparency to ACE over his long association with the founder and CEO.

➢ Chartered Surveyor, Mark Thomas.

Mr. Thomas is a Chartered Surveyor with both a large blue chip background (including BNP Paribas Real Estate and PwC) and a smaller more entrepreneurial experience set. He is a key driver for the ACE story. Mark is a director of Maybridge Commercial Ltd, a multi-disciplinary firm created from the amalgamation of Maynards Chartered Surveyors formed over one hundred years ago and Thomas & Co Chartered Surveyors formed in 1998. Mark's experience includes posts with Carter Jonas, Gerald Eve and Fuller Peiser (now BNP Paribas Real Estate) carrying out valuations and offering strategic M&A advice as well as advice on the sale of properties throughout the UK and far further afield.

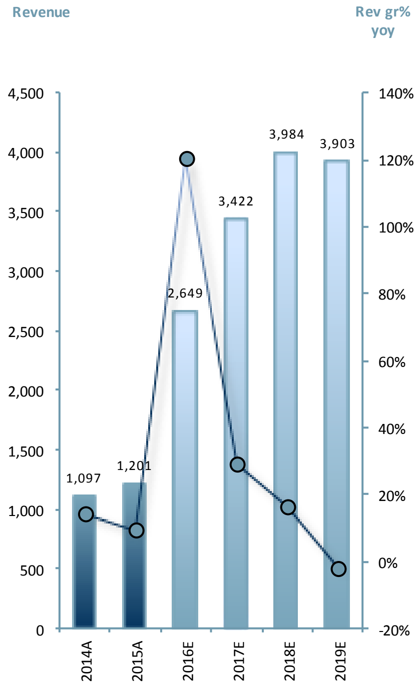
Assignments included the Hungarian state privatisation programme and secondment to Price Waterhouse. He has been a director of ACE (ALSP.L) since its 2007 Plus Markets (now ISDX) flotation.

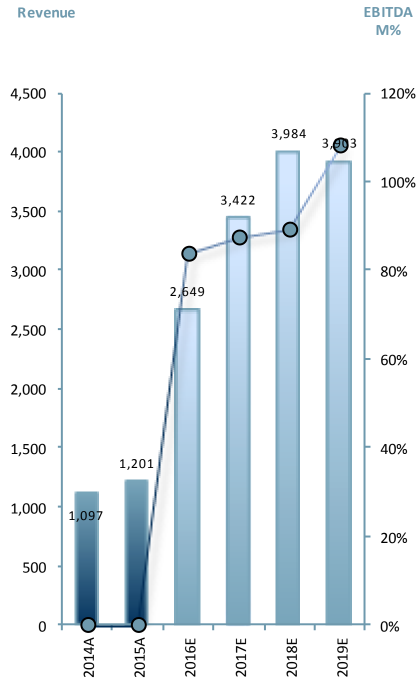
➢ Non-Executive Director and Investor Relations, Tony Ghorayeb.

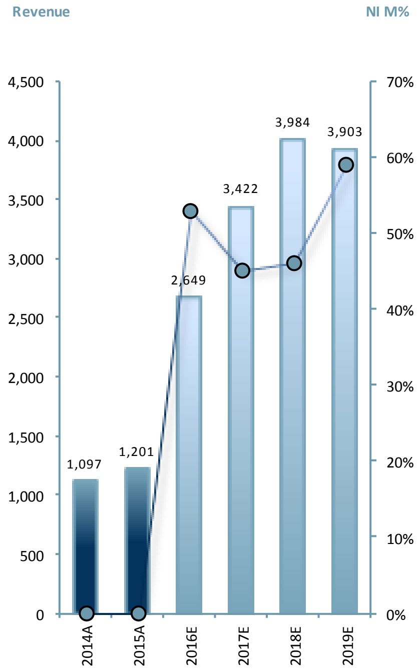
Mr. Ghorayeb has for over 35 years blue chip and entrepreneurial international experience in banking and legal consulting in London, Geneva and New York and is well placed to use his experience and connections to generate interest and raise money for ACE's UK property investment plans. He is Chairman and co-founder of LiBank, the Lebanese investment bank offering services tailored to HNW clients. LiBank is an early lender and investor in ACE. Anthony is also a founding member and secretary general of the Levant Business Union. He previously held senior positions at HSBC, credit Commercial de France, Banque Indosuez and BSI.

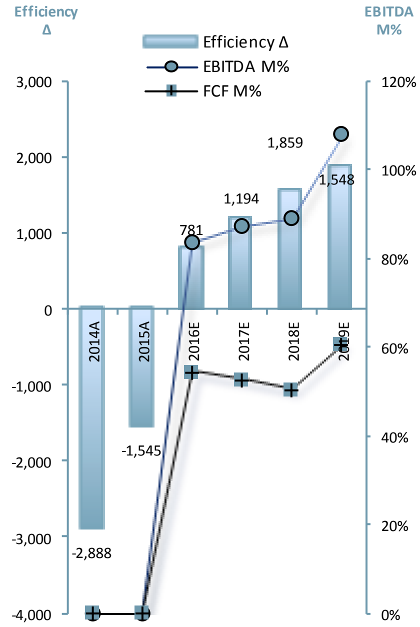
Anthony became a director of ACE in September 2013 and took on responsibility during 2015 to act as the internal point of contact for investor queries.

Forecasts









Our forecasts are based upon management guidance and our own sensitivity analysis. We focus on cash proxies (EBITDA) and free cash flow (FCF). However Net Income remains important in the property sector, nevertheless we are strongly of the view that only cash matters.

Valuation

ACF est. GBP (k)	2015E	2016E	2017E	2018E	2019E
Revenue	1,201	2,649	3,422	3,984	3,903
EBITDA	314	2,219	2,992	3,554	4,223
Net Income	806	1,209	1,544	1,836	2,305
FCF	-629	1,438	1,798	2,006	2,364
CPS (diluted)	-0.12	0.21	0.26	0.30	0.35

Note: FY19E revenues decline due to forecast asset sales that lead to a rise in EBITDA and FCF

ALSP LN WACC Calc	*ERP LN
Pre-tax cost of debt	5.0%
ETR	22.6%
After-tax cost of debt	3.9%
Current Leverage	
Debt	50.6%
Equity	20,935
Target Leverage	
D / (D+E)	40.0%
ACF β adj levered	1.02
rf	1.91%
Rm	8.1%
ERP	6.2%
Cost of equity	8.25%
Risk adj.	0.00%
WACC	6.50%

*Bloomberg ticker indicates ACF market ERP

Note: We assume the conservative Debt / Equity target mix 40%. However in the current interest rate environment 50-60% is likely to be more realistic leading to a lower WACC.

We have used an adjusted beta derived from the median beta of our commercial real estate peer group derived from AiM. Our peer group median beta is 0.69. Our peer group average beta is 0.48.

Valuation Range		
NPV uFCF (k)	6,020	
NPV TV uFCF (k)	29,276	
EVF (k)	35,296	
TV Mulitple	20.0x	
% TV of total NPV	82.94%	
Net Debt (k)	8,638	
Fair Value (k)	26,658	
NoSh (m)	558.27	
NoSh (diluted) (m)	678.78	
Intrinsic Value Per Share	4.78	
Close Price £	3.75	
VR (low - high)	**4.66**	**4.89**
VR Spread	5.00%	
Implied VR Return (low - high)	24.2%	30.5%

Note: Close price on front page of this ACF research note is based on shares in issue (NoSh) on 06/10/2015 of 558,269,157

Sensitivity Analysis

Our aggressive growth rates during 2016E and 17E of 120% and 29% respectively are driven by our assumption that investment activity will be underpinned by an expansion of debt in the order of GBP 8-10m during FY16E. We assume that there will be an attempt to renegotiate current debt instruments. At the same time we assume that the FY15A debt/equity ratio of 70% will not only be maintained by the issue of further equity but reduced to a more efficient 60%. Our organic perpetuity growth rate forecast is 2.5% p.a.. We forecast underlying opex relatively flat based upon a fairly constant revaluation effect, which is written back into the operational lines of the income statement (P&L) reducing the net effect on profits of the SGA line.

Exhibit 2: **ALSP multiples based on close price**

ACF est. GBP (k)	Revenue	EBITDA	FCF	EPS	EPS (diluted)	CPS	CPS (diluted)
2015A	1,201	314	-629	0.18	0.16	-0.14	-0.12
2016E	2,649	2,219	1,438	0.22	0.18	0.26	0.21

Multiples	EV/ Revenue	EV/ EBITDA	EV/ FCF	P/ EPS	P/ EPS (diluted)	P/ CPS	P/ CPS (diluted)
2015A	24.62x	94.25x	-47.00x	21.15x	23.86x	-27.08x	-30.55x
2016E	11.16x	13.33x	20.56x	17.32x	21.05x	14.55x	17.70x

Source: ACF Research Estimates

Exhibit 3: **WACC/Multiple table shows longer-term valuation potential**

Share Price

Terminal EBITDA Multiple	WACC 3.50%	4.50%	5.50%	6.50%	7.50%	8.50%
7.0x	3.29	3.25	3.21	3.17	3.14	3.10
8.0x	3.81	3.77	3.73	3.69	3.66	3.62
9.0x	4.33	4.29	4.25	4.21	4.18	4.14
10.0x	4.85	4.81	4.77	4.73	4.70	4.66
11.0x	5.37	5.33	5.29	5.25	5.22	5.18
12.0x	5.89	5.85	5.81	5.77	5.74	5.70
13.0x	6.42	6.37	6.33	6.29	6.26	6.22

Source: ACF Research Estimates

The exhibit above shows the valuation range based on a Terminal Value (TV) using discounted EBITDA, whereas our actual DCF calculation and projections use a TV derived from discounted FCF. We use our conservative case WACC of 6.5% as the discount factor. **Note** that our ACE peer group of AiM listed commercial property companies has an average MCAP/EBITDA multiple of 12.6x. As Net Debt contributes 29% to ACE’s EV, a TV multiple of 10x EBITDA is probably around 2 turns short of that which ACE might reasonable expect to achieve in the current market environment.

Peer Group Comparators

Exhibit 4: **Trailing ACE Liberty & Stone peer group metrics**

Trailing 15A Metrics / Company Name	Market	MCAP (m)	Div %	EBITDA M%	MCAP / REVS	MCAP / EBITDA	MCAP / NI
ACE Liberty & Stone	ISDX Growth	20.94	3.00	26.12	17.43x	66.72x	27.58x
Palace Capital	AiM	95.39	3.56	69.56	11.04x	15.87x	6.81x
Panther Securities	AiM	69.11	4.65	43.75	4.66x	10.65x	14.74x
Grainger	FTSE 250	1001.19	1.05	3.73	3.14x	84.13x	13.40x
First Property Gp	AiM	44.15	3.46	32.31	3.08x	9.54x	5.25x
Fletcher King	AiM	4.54	4.74	14.2	1.34x	9.46x	12.61x
Average			3.49%	32.71%	4.65x	25.93x	10.56x
Median			3.56%	32.31%	3.14x	10.65x	12.61x

Source: ACF Research Estimates; Companies reports; Factset.

Exhibit 5: **Trailing ACE peer group real estate metrics**

Trailing 15A Metrics / Company Name	Market	MCAP (m)	Gross Debt / Assets	Gross Debt / Equity	RoA %	RoE %	RoI %
ACE Liberty & Stone	ISDX Growth	20.94	40.65	80.99	3.83	5.81	34.55
Palace Capital	AiM	95.39	30.82	46.27	14.97	22.53	15.61
Panther Securities	AiM	69.11	42.60	111.62	2.62	6.73	2.82
Grainger	FTSE 250	1001.19	62.33	207.98	4.26	14.90	4.74
First Property Gp	AiM	44.15	72.37	366.63	7.25	31.14	8.36
Fletcher King	AiM	4.54	N/A	N/A	6.89	9.61	9.61
Average			52.03%	183.13%	7.20%	16.98%	8.23%
Median			52.47%	159.80%	6.89%	14.90%	8.36%

Source: ACF Research Estimates; Companies reports; Factset.

Our ACE Liberty & Stone (ALSP.L) peer group is made up of companies listed on AiM; these are arguably ALSP's closest most relevant peers. We have also included FTSE 250 company Grainger (GRI LN) because of its growth profile and to give some indication of what a property investment company such as ALSP may, in time, resemble.

ALSP does not make up a constituent of our average or median values in the peer group metrics at the bottom of exhibits 4 and 5. We have excluded ALSP from these values to make comparison with the rest of the peer group as clean and undistorted as possible. We have used trailing metrics here and we invite readers to compare the FY15A trailing metrics in Exhibit 4 with the forward multiples FY16E in our sensitivity analysis and on the front page of this note. The message is that FY16E should be a year of real transformation and value creation without the usual early stage risk. FY15A has been an inflexion point and a transition year. FY16E looks like a valuation uplift year.

Peer Group Selection

Palace Capital plc (**PCA LN**, **AiM** listed) is a UK based commercial property investment company. PCA invests in entities operating within the property sector. It is focused on acquiring property assets, primarily outside of London. PCA's portfolio consists of fifty properties, total 1.5m ft^2 with an occupancy rate of 90.6% by lettable space.

Panther Securities PLC (**PNS LN**, **AiM** listed) is a UK based property investment company. PNS invests and deals in property and securities. PNS's model is to generate value via rental income and net asset appreciation. PNS specializes in property investing and managing of secondary retail, industrial units and offices, and also owns residential flats in several town Centre locations. Its portfolio is spread across the United Kingdom mainland from Perth in the north to Southampton in the south and Swansea in the west to Hull in the east.

Grainger plc (**GRI LN**, **FTSE 250**, **Main Market**) is a UK based specialist residential company. The Company's business is divided into five sections: UK Residential, Retirement Solutions, Fund and Third Party Management, Development, and German Residential. The UK residential segment consists of a portfolio of regulated tenancies within the United Kingdom, comprising 4,000 properties. In addition, GRI provides fund, asset and property management services to the fund. The development segment is divided into residential led mixed use and strategic land. GRI is focused in the economically and demographically stronger regions of Germany.

Fletcher King Plc (**FPO LN**, **AiM** listed) is a UK based property fund and carrying out asset management, rating, valuations and investment broking for commercial property. FPO also provides a loan monitoring role, periodically appraising the security for the lender during the course of a development and also advising on loan draw down throughout the development period.

First Property Group plc (**FLK LN**, **AiM** listed) is a co-investing direct property fund manager with operations in the UK and Central Europe. FLK co-invests in third party funds that it raises in order to produce income from commercial property. FLK also earns a range of management fees as a proportion of the value of assets under management.

Financial Analysis

● **Competitive advantage** – ACE has a number of competitive advantages, in our view:

- **Specialist management team** practicing active asset management;
- Focus on **secondary locations** rather than prime or super-prime;
- **No legacy properties** i.e. no sub-portfolio of properties for which it has overpaid and which might reduce the ability of investors to benefit from future performance;
- Rental yield improvements and **valuation uplift potential**;
- **Early stage company** allowing investors to benefit from the inflexion point realised this year and the aggressive expansion of properties we expect during financial year 2016.

● **Revenue growth and mix assumptions** – FY16E we expect ACE to acquire GBP 8-10m of new rental assets most of which will come with near end of lease tenants to allow for change of use and so rental income expansion, leading in turn to a valuation uplift.

Revenue for ALSP is made up of rental income and to a far lesser extent management fees for the Company (rather than Group) from charges to subsidiary companies.

Under **IFRS 8.34** revenue derived from different UK government departments is booked as one customer. As such 83% of ACE rental revenues are derived from two clients, the UK Government (61%) and Fairfax House let to Sunderland City Council (12%).

ACE intends to acquire a small number of tenanted buildings with 10 year no break leases to underpin cash flows and balance portfolio risk. The company currently has two properties that in part match this risk-balancing goal – These are long-term lets at assets Fairfax House in Sunderland and Hillcrest House in Leeds.

Both properties are in use by the public and though break clauses do exist, it is management's judgement that these are likely to pass without change of tenant. We take a similar view, as the tenants are Sunderland City Council and the Department of Trade respectively. There are a range of inertia issues that make the likelihood of these two tenants voiding the spaces reasonably improbable.

● **EBITDA growth** – Our EBITDA calculation includes the revaluation uplifts that the company expects at a run rate of GBP 250k p.a.. However during FY19E ACE expects to crystallise some of these revaluations by selling GBP 1m of assets. Therefore during FY19E, EBITDA and operational FCF spike upwards whilst revenues contract. As such EBITDA margin during FY19E exceeds 100% and FCF margin spikes up to over 60% before falling back to 47% in our FY20 forecasts.

Much can change in terms of the margins that we have forecasted over our 5-year horizon. Nevertheless we consider the crystallisation-of-value (selling) of the assets that have appreciated, to be part of the normal financial cycle of an early phase property investment company.

● **Effective Tax Rate (ETR) on EBT** – We estimate the ETR for ACE at around 20% over our 5-year forecast horizon. Our estimate is based upon management guidance. However investors should note that the ETR FY15A was 28% vs. FY14A 21.3%.

● **Working capital** – We assume that changes in working capital although present are largely negligible and as such are not a major feature of our sensitivity analysis.

● **Capex (Capital Expenditure)** – Maintenance capex for ACE given the current asset base is, for practical purposes, assumed to be non-existence as the company is not involved in development but rather aims to JV with development partners. Of course this could change in the future and if so, we would then reflect maintenance capex drivers in our models.

Growth capex is captured under financing and matches with asset acquisition from which rental yields are derived. Because this capex is funded entirely from loans and new equity in our model, it does not impinge upon the operational FCF that would theoretically be available for distribution to share holders.

Growth capex is accounted for in our FCF forecasts by the effect new debt has on net interest payable, which is subtracted from FCF, as this is not a cost the company can choose to dispense with and so is not available for potential distribution to equity holders.

● **Asset consolidation under IFRS 10 –** Having followed IFRS from inception, ACE Liberty & Stone underwent the process of early adoption of IFRS 10 reporting standard for the FY15A annual accounts as part of its strategy to attract more efficient debt and equity funding to accelerate growth and widen the company's investor appeal.

Under IFRS 10 ACE is obliged to fully consolidate its 38% stake in Radcliff Property Limited (registered in Anguilla) under the de-facto control rules.

ACE's stake in Radcliff was acquired during 2011 when gaining access to debt (and to some extent equity) capital at an acceptable cost, was extremely demanding.

Radcliff Property Ltd was the vehicle used to acquire Telephone House in Sheffield, England. The building contained the BT tower, four retail units and a car park leased to NCP. The cost of the property was GBP 6.9m. ACE invested GBP 1.5m and a de-facto lender provided the remainder of the funding via the JV, Radcliff Property, receiving equity in Radcliff in return for injecting the capital. **Note** - also a minor amount of short-term financing from a UK clearing bank in the Radcliff JV, according to management.

Part of the asset was sold for GBP 4m subsequently. The final parts of the asset are likely to be sold this year for around GBP 4m, totalling a capital return of GBP 1.1m on an original GBP 6.9m cost of asset.

Radcliff Property will no longer appear in the FY16E annual accounts as a result of the final sale of the remaining GBP 4m of assets of Telephone House, Sheffield.

● **Residential asset Silverdale** **–** The Silverdale asset (composed of a residential portfolio asset) was originally introduced to the ACE vehicle by founder and CEO Ismail Ghandour. Silverdale is registered in the British Virgin Islands (BVI). The asset was introduced so that ALSP would qualify as a listing entity on the then PLUS markets (now ISDX Growth Market). There is no strategic drive currently to dispose of Silverdale, it remains on the balance sheet generating a modest rental income.

Financial Projections

Exhibit 6: **ACE Liberty & Stone P&L and forecasts**

P&L GBP (k)	2014A	2015A	2016E	2017E	2018E
Revs	**1,097**	**1,201**	**2.649**	**3,422**	**3,984**
gr%	14%	9%	121%	29%	16%
GP	1,097	1,201	2.649	3,422	3,984
% Revs	100%	100%	100%	100%	100%
SGA	1,019	887	430	430	430
% Revs	93%	74%	16%	13%	11%
EBITDA	**78**	**314**	**2,219**	**2,992**	**3,554**
% Revs	7%	26%	84%	87%	89%
FV adj.	807	1,187	0	0	0
% Revs	0%	0%	0%	0%	0%
EBIT	**885**	**1,501**	**2,219**	**2,992**	**3,554**
EBT	519	1,056	1,798	2,248	2,507
ETR	21%	28%	20%	20%	20%
Tax	111	297	360	450	501
NI	**408**	**759**	**1,438**	**1,798**	**3,681**
% Revs	37%	63%	54%	53%	92%

Source: Company reports; ACF Estimates.

Glossary

CoS	Cost of Sales is, in ACF's financial models, a variable cost linked directly to revenue development, e.g. sales team commissions, but for example, not sales team salaries.
CT	Corporation Tax is the tax owed by corporation on taxable profits less exemptions to HMRC.
EAT	Earnings after tax. Also often expressed as PAT – profit after tax, and post tax profit.
EBIT	Earnings before interest and tax (also often referred to or equates to operating profit).
EBITDA	Earnings before interest, depreciation and amortisation – the presentation of EBITDA by companies is not a requirement of UK GAAP or IFRS accounting standards. However in certain cases it can act as a close proxy to free cash flow.
EBT	Earnings before tax. Also often expressed as PBT – profit before tax.
FCF	Free Cash Flow generated in ACF's models after all obligatory cash costs have been satisfied such as Interest payable (Ip), cash taxes and maintenance capex (as opposed to investment capex). FCF represents the cash remaining for theoretical distribution or investment after all obligatory cash based costs including net interest payable have been deducted.
HMRC	Her Majesty's Revenue and Customs is amongst other things the UK's tax collecting and enforcement civil service agency.
IFRS	International Financial Reporting Standards are a set of standards developed by the International Accounting Standards Board. IFRS is an internationally recognised standard and in principle means that investors from different legal geographies can compare financial performance between potential competing investments more easily (cheaply) openly and fairly, when compared to say comparing UK GAAP vs. US GAAP or other "regional" accounting standards.
JV	Joint Venture – generally a legal structure between two corporate entities involving participation in equity capital in the JV vehicle. JV can also refer to more informal arrangements.

LTV	Loan to Value is a ration defined as mortgage amount divided by the appraised value of the property. For individual residential buyers mortgage lenders often require an LTV of 75% or greater. Corporates have an enormous competitive advantage with LTVs of for example, around 40%.
NoSh	Number of Shares in issue (NoSh).
REITS	Real Estate Investment Trusts (REITS) are closed-end investment vehicles that can sell stock on exchanges just as companies can. REITS benefit from tax exemptions but must typically have a dividend payout ratio of 90%. In addition at least 75% of assets must be in real estate or cash instruments and 75% of gross income must be derived from real estate.
RoA	Return on Assets is a ratio that provides insight into profitability. RoA is defined as Net Income divided by total assets. RoA is used to help investors understand how well a company management ream is using assets to generate earnings. Like most ratios a low value can also indicate an inflexion point or optimum time to buy rather than sell the related stock. Some analysts like to add back interest expense to net income as this gives a metric to compare operating returns before cost of borrowing. This is most helpful if borrowing costs are the same for the peer group under analysis.
RoE	Return on Equity is a ratio designed to provide insight into the profitability of a company by showing profit generated in comparison to cash invested by equity holders. RoE is defined as net income divided by shareholder's equity (see definitions in this glossary).
RoI	Return on Investment is a ratio that provides insight into the efficiency of an investment. RoI attempts to measure the return on an investment vs. the cost of the investment. The ratio is defined as the gain from investment less cost of investment subsequently divided by cost of investment. Most RoI calculations do not account for the time value of money. This changes investment performance considerably and can easily lead to the wrong conclusions because no account is taken of the rate of return only of the total return.
SGA	Sales, General and Administrative expenses, often equates to or is equivalent to Cost of Sales (CoS) plus operating expenses. However ACF uses SGA to classify relatively invariable expenses as opposed to variable expenses linked more or less directly to

revenue generation, as such sales commissions might typically end up in CoS, whereas salaries for sales people would be classed as relatively invariable and be booked under SGA in an ACF model.

Shareholders' Equity

Shareholders equity is line on the balance sheet calculated from the deduction of total liabilities from total assets and represents the value (or lack of it) available for distribution to shareholders should the entity wind up operations. It differs from the equity value expressed in market capitalisation (MCap), which is number of shares in issue (NoSh) multiplied by share price. The ratio Debt/Equity commonly uses the Debt/MCap formula as opposed to the Debt/Shareholder equity formula.

uFCF

Unlevered Free Cash Flow is FCF from which cash based interest payments are not deducted. It represents the total maximum cash flow available to both bond and equity holders over a given period.

Uplift Potential

Uplift potential is the potential for a re-rating of the value of a stock. For example, a company is valued by market participants at the equivalent of 10x a particular metric such as EBITDA, the value then rises (due to an uplift) to the equivalent of 12x EBITDA, this is the rerating (by 2 turns in our example).

Notes [Intentionally Blank]

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