



## AMR GP Finance plc

Ticker: AMRGPF

Isin	Issue Size	Rating M / S&P	Coupon	Min Piece	Maturity	Details	Offer
XS2395243970	£250m max	Not rated	7.00% s/a	£1k	Nov 2026	£100 increments. Bullet repayment.	100

AMR GP Finance plc (“AMR”) is the funding entity set up for the Aston Martin Cognizant Formula One racing team. The maximum £250m would match the equity already put in by new controlling shareholder, billionaire Lawrence Stroll (“Stroll”), a very committed backer who wants AMR to both win and make money. The bond will be used primarily to fund a new factory plus AMR’s own wind tunnel, which is a key component of any F1 team’s R&D and on-track performance. AMR is initially looking for £100-200m.

Liberty Media took over Formula One in January 2017 with a plan for a cost cap, new technical regulations to make races closer and more exciting, and fairer income sharing. AMR has shown it can compete well on a relative shoestring; properly capitalised it could challenge the top F1 teams. It has a beloved marque, competitors who need to cut costs, and is due a larger share of Formula One income under the new agreement governing the 2021-2025 seasons. Sponsorship has jumped and we believe AMR can grow it. On that basis we think the bond will perform.

**Bond**

- Senior unsecured. With little to no other debt, bondholders will be the first and by far largest lender in line.
- **Guaranteed** by AMR GP Limited, which is the operating company generating all the revenue and holding group assets. On issue the only pre-existing debt outstanding (Barclays RCF £20m; £15m drawn) will be cancelled.
- First fixed charge over issuer shares and **Issuer Bank Account** containing one year’s worth of coupons for the initial two years. The account is a backup; AMR intends to meet coupons directly
- Rights to any **Permitted Loans**, particularly £87m for the onward loan of funds for a wind tunnel operating entity. There is a general £10m carve out.
- **Covenants:** additional debt is allowed as long as total debt stays ≤80% of gross assets. Restrictions in place on asset sales (≤10% of book value of total assets), no dividends other than to the Guarantor. Negative pledge to not add other security interests without providing equivalent security to the bonds. Financial reporting within six months of each financial year and three months of each half year. Change of control put at par. AMR can buy back the bonds on the open market or otherwise.
- **Events of default** are fairly standard: non-payment of principal (7 days grace) or interest (14d), breach of any other obligations in the bonds (30d), change of ownership, cross acceleration with a £10m hurdle, insolvency or wind-up, and any enforcement proceedings, although racing related proceedings – explicitly breach of the spending cap or FIA/F1 regulations – are not an EOD.

**Business**

Lawrence Stroll has an estimated net worth of \$3.2bn. In August 2018 he bought 57% of AMR’s predecessor, Force India, out of administration, along with a consortium (37%) and management (6%). Two main factors supported the acquisition:

- The team’s performance versus competitors who had twice the people and double the budget; and
- Liberty Media’s intention to level the playing field so “smaller teams can upset the odds and drivers can make the difference”. Closer racing is more exciting, thereby attracting new fans to build overall income and value.

Formula One is expanding the season via races in the USA and Asia. The Concorde Agreement<sup>1</sup> was finalised in August 2020 with the ten existing teams. F1 income is now more evenly spread and available to AMR and other teams who did not previously benefit, while still incentivising based on performance in races and over the season. Barriers to entry for a maximum of two new teams are high, namely unanimous consent from existing teams and a \$200m fee simply to join.

<sup>1</sup> For more information on the Concorde Agreement see [ANALYSIS: What the new Concorde Agreement means for Formula 1 | Formula 1®](#)

When the luxury carmaker Aston Martin Lagonda (“AML”) found itself overextended in 2019, its private equity shareholders approached Stroll and he ultimately bought 4.7% of the public company in January 2020 with the Yew Tree consortium (16.7%), Mercedes (11.7%) and legacy PE investor Investindustrial (5.6%). AML’s subsequent sponsorship rebranded the F1 team. Annual sponsorship jumped from \$25m to \$100m p.a. almost immediately and AMR is aiming for another \$100-200m p.a. in the next couple of years.

Aside from the new factory and wind tunnel, the bond will allow for eventual recruitment to boost the original 400 employees to 700+ while other teams will have to reduce their costs to meet spending caps. Like several other F1 teams, AMR is based at Silverstone with a large local talent pool.

On the track, Force India Mercedes rose from 9<sup>th</sup> in the Constructors Championship in 2009 to 4<sup>th</sup> in 2016 and 2017. Corporate difficulties for one of its owners saw it fall to 7<sup>th</sup> in 2018 and led to the administration, out of which it became Racing Point with Stroll at the helm. Stroll’s son, Lance Stroll, transferred from the McLaren team in 2019, joining Sergio Perez. In its first full two years the team moved steadily from the bottom half of the field to the top half and was back to 4<sup>th</sup> in the 2020 Constructors Championship, including a first and a second for Perez and two thirds for Lance Stroll. Four-time World Champion Sebastian Vettel took over from Perez in 2021 on an initial 2-year contract.

AMR is currently 7<sup>th</sup> in the championship thanks to mid-year technical regulation. There will be wholesale changes to technical regulations in 2022 – a clean slate for all teams – so design and development spend is all going to the new car. The team is aiming for top 3 placing in 3-5 years, but its plans are based on 4<sup>th</sup>.

## **Financials**

### **AMR GP Limited (guarantor) – 6m to 30 June 2021**

AMR was funded with £215m of equity up front followed by a further £50m during 1H 2021, largely due to the cost of operating through the curtailed Covid-hit 2020 season. Once rebadged as Aston Martin Cognizant at the start of this year, there was a clear jump in revenue from £60.7m in the 12 months to August 2020 to £71.1m in the six months to June 2021. That reflects the large increase in contracted sponsorship and the 4<sup>th</sup> place finish in 2020. Crucially, sponsorship income is unaffected by on-track performance; the only exit for sponsors ahead of time would be if AMR were out of the Formula One competition altogether. EBITDA and net losses narrowed from £98.7m and £115.6m respectively in YE August 2019 to £2.8m and £8.2m in the six months to June. The improvement includes considerably less help from grants, including Covid support, compared to 2020.

Expenses are currently running at £152m p.a. before construction and finance. Exclusions aside – and there are plenty – the core opex cost cap is around £106m for 2022. AMR has a little headroom to play with on that ahead of the cap reduction to c.£97m in 2023. Looking forward, employees will be added when AMR can bring more activity inhouse at lower overall cost, i.e. with the new factory and wind tunnel. Capex is dealt with separately, but importantly it excludes buildings and major parts of building infrastructure. It is expected that wind tunnels will also be excluded, but if the final decision goes the other way this month, the wind tunnel operating company structure envisaged in the prospectus is the allowed workaround.

Basic F1 income to AMR next year based on its 7<sup>th</sup> place this year combined with \$100m of annual sponsorship means revenue of £130m or so, with upside available from additional sponsorship agreements. With growing sponsorship and fairer F1 income sharing, management expects to be EBITDA break even next year and positive thereafter. Cash grants via the UK government large business capital development scheme are around £10m p.a. As we see it, if AMR raises £150m via the bond, it will have £10.5m of coupons per year on top of ongoing operating and capex costs of c.£160m. It would only need another \$55-60m or so of additional sponsorship to cover that using the 2022 budget as a base. AMR is aiming to build sponsorship to \$200-300m p.a. over the next few years.

Tangible net worth is £46.4m including fixed assets of £35m. Assets under construction (£15.6m) are the new factory due to be completed in early 2023 at a total cost of £75m. The wind tunnel should have planning permission in Q1 2022, and will cost £87m (completion in late 2024). Over £180m of book value will underpin bondholders’ claims. Construction cost £13m during 1H 2021 and should be around £18-23m for the full year. Aside from the bond, Lawrence Stroll has provided a £17m unsecured line of credit (undrawn) via an indirect parent company for any funding required at short notice. He has also stated that he would provide \$50-100m more in funding if it were needed.

## **View**

AMR has a major global brand and a lean business that is ready for a competition with spending caps. Increased income from the Formula One growth strategy and fairer income sharing arrangements support team performance and the ability to attract additional sponsorship revenue. The major risks are a failure to build the sponsor roster and consistently poor performance on the track over a number of years. Given the team’s revival of Aston Martin in F1, we think there is a lot of goodwill from fans and sponsors that will provide time to build and refine the team’s performance.

Together with its on-track record, its sensible approach to capitalising the business with substantial equity up front, and a determined investor committed to a 5-10 year plan, we think it stands a good chance of succeeding.

Please contact the desk if you have any questions.

**Penelope Fitzherbert**

20 October 2021

### AMR GP Limited – 6 months 30 June 2021

AMR GP Limited (formerly Racing Point) KEY METRICS £ thousands	13 months 31-Aug-19	12 months 31-Aug-20	4 months 31-Dec-20	6 months 30-Jun-21
Revenue	45,687.0	60,703.0	18,146.0	71,073.0
EBITDA	(98,674.0)	(43,298.0)	(17,679.0)	(2,801.0)
Operating Profit	(115,518.0)	(61,091.0)	(19,995.0)	(6,058.0)
NPBT	(115,648.0)	(62,294.0)	(17,727.0)	(8,176.0)
Operating Cash Interest Cover (x)	(1,623.8)	55.0	(24.5)	(7.6)
Cash & Equivalents	13,545.0	12,299.0	21,779.0	1,035.0
Total Debt	71,602.0	5,666.0	30,750.0	1,300.0
Tangible Net Worth	74,069.0	26,073.0	8,346.0	46,354.9
Leverage	(0.6)	0.2	(0.5)	(0.1)

Accounting years are now aligned with the Formula One season finishing in December.

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