14 March 2023

HARDMAN&CO.

# APAX GLOBAL ALPHA

## Outperformance by adding value to companies

**The full-year results to Dec'22 reconfirmed the core strengths of AGA, notably i) Apax enhances the operational performance of its investments – revenue and EBITDA growth of 21.5% and 18.5%, respectively, are well ahead of the market, ii) a 15% uplift on exits, proving conservative accounting and that the NAV is realistic, iii) a -7.4% NAV return, driven largely by the listed holdings' rating multiples fall (these companies have already delivered 3.4x money on invested capital return), and iv) the Derived Investments portfolio proved its worth, with diversified, more stable returns, and generating cash to pay the dividend. The NAV should be resilient in uncertain times.**

- **2022 victim of 2020-21 success:** Volatility is to be expected in any period. In 2020-21, Apax sold multiple companies at high ratings and crystallising good returns. As the market appetite for growth companies waned, their valuation multiples fell, reducing the value of Apax's residual holdings in 2022. The sale of Duck Creek Technologies, at a 57% premium, shows the value in these holdings.
- **Other 2022 highlights include:** i) the EV/EBITDA ratio was 17.2x, in line with the underlying average for 2017-21, and results in a PEG ratio of just 0.9x, ii) a dividend yield of 7.0% makes AGA attractive to both capital and income funds, iii) the debt/EBITDA ratio is 4.8x, and iv) over-commitment remains very modest.
- **Valuation:** Listed holdings and Derived Investments mean that ca.40% of Apax's portfolio is marked to market. Adjusting for the debt portfolio at par, AGA's discount to NAV (28%) rises to 41%, well above the peers' range (25%-33%) on its PE portfolio alone. The NAV appears resilient, making the discount absolutely and relatively anomalous.
- **Risks:** Sentiment to costs, the cycle, valuation and over-commitment are sector issues. Residual risk on the 2020-21 IPO positions appears to be modest. The Derived Investments portfolio generates income towards dividends, and has liquidity/capital benefits, but complicates the story.
- **Investment summary:** Apax has delivered market-beating returns by selecting businesses that it can transform post-acquisition. Buying these companies at a discount to peers (ca.20%), accelerating their revenue growth and improving their margins, and then selling the reinvigorated business at a premium to those same peers (ca.10% premium), is the playbook that has been repeated again and again. Investments are focused in sectors with structural growth and resilience. Capital flexibility is enhanced by the Derived Investments portfolio. The discount is the "icing on the cake".

### Financial summary and valuation

| Year-end Dec (€000) | 2020 | 2021 | 2022 | 2023E | 2024E |
|---|---|---|---|---|---|
| Investment income | 18,106 | 26,853 | 24,476 | 36,021 | 38,383 |
| Net gains on fin. assets /liabs. at FVTPL | 153,518 | 336,123 | (125,803) | 198,592 | 185,691 |
| Total expenses | (5,262) | (14,879) | (6,531) | (11,392) | (10,276) |
| Pre-tax profit | 162,092 | 345,127 | (109,806) | 220,621 | 211,198 |
| PE invest. (€m) | 788 | 1,014 | 877 | 1,084 | 1,216 |
| Derived invest. (€m) | 319 | 336 | 364 | 344 | 348 |
| Cash (€m) | 125 | 108 | 68 | 23 | 22 |
| NAV (€m) | 1,201 | 1,490 | 1,299 | 1,452 | 1,611 |
| Adj. NAV per share (£)* | 2.19 | 2.54 | 2.34 | 2.61 | 2.86 |
| S/P prem./disc. (-) to NAV | -12% | -11% | -19% | -36% | -41% |
| Dividend p/sh (p) | 10.2 | 12.3 | 11.8 | 13.9 | 15.5 |
| Dividend yield | 6.0% | 7.3% | 7.0% | 8.3% | 9.2% |

*2023-24E NAV converted at £1: €1.13; Source: Hardman & Co Research

### Closed-ended investments


*Source: Refinitiv*

### Market data

| | |
|---|---|
| EPIC/TKR | **APAX** |
| Price (p) | **168.0** |
| 12m high (p) | 212.0 |
| 12m low (p) | 154.0 |
| Shares (m) | 491 |
| Mkt cap (£m) | 825 |
| Discount to Sep £ NAV (%) | -28% |
| Free float | 92% |
| Country/Ccy | UK/GBP |
| Currency of reporting | Euro |
| Market (main) | STMM |

### Description

Apax Global Alpha (AGA) has a global portfolio across four core sectors: Tech& Digital, Services, Healthcare and Internet/Consumer. 71% of the portfolio is private equity (PE) and 29% Derived Investments; the latter is held for capital management. It targets an annualised net total NAV return across economic cycles of 12%-15%, and a dividend yield of 5% of NAV. It has a Premium listing, and is a FTSE 250 constituent.

### Company information

| | |
|---|---|
| Chair | Tim Breedon |
| NEDs | Chris Ambler, Mike Bane, Stephanie Coxon, Susie Farnon, |
| Inv. Adviser | Apax |
| Contact | investor.relations@apaxglobalalpha.com |
| | +44 (0)207 666 6526 |
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### Key shareholders

| | |
|---|---|
| Witan IT | 6.2% |
| Berlinetta Limited | 5.9% |

### Diary

| | |
|---|---|
| 3 May | AGM |
| 4 May | 1Q results |

### Analyst


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*Discloser note: the relevant analyst is a shareholder in Apax Global Alpha*

# Apax Global Alpha disclaimer

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If you are a US Person, you agree that you will not seek to acquire shares of the Company unless you are a "Qualified Purchaser" within the meaning of Section 2(a)(51) of the Investment Company Act of 1940 and an "Accredited Investor" as defined in Rule 501 of Regulation D, in a transaction not subject to the registration requirements of the U.S. Securities Act of 1933.

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Please read our full disclaimer which is contained at the end of this report.

# 2022 results headlines

**NAV return -7.4%**

AGA's end-2022 adjusted NAV was €1.3bn (FY21: €1.5bn), and its total NAV return was -7.4% (-10.7% constant currency). On a per share basis, this equates to €2.65/£2.34, compared with end-2021 €3.02/£2.54, respectively.

**PE portfolio average EBITDA growth of 18.5% and revenue growth of 21.5%**

**Rating fall saw -11.3% total return**

Operationally, the PE portfolio performed well, with average EBITDA growth of 18.5% and revenue growth of 21.5%. The earnings growth was more than offset by negative movements in valuation multiples. These were driven primarily by listed holdings (14% of the PE portfolio at end-2022, but ca.80% of the multiple PE decline). The net 2022 total return in PE was -11.3%.

**Derived Investments delivered total return of 1.9%**

Derived Investments (mainly debt) delivered a total return of 1.9%, cushioning the overall total return. This portfolio reduces cash drag effects, enhances the robustness of AGA's balance sheet and provides a steady flow of income to support dividends; it is also an additional source of alpha for AGA.

**Exit: uplift 15.1%, gross IRR 17.1% and MOIC 3.1x**

The Apax Funds completed 10 new PE investments in the period. On a look-through basis, AGA deployed €132.8m. Demand for high-quality assets remained strong, and the Apax Funds completed seven full exits at an average uplift of 15.1% to latest unaffected valuations. The gross IRR and gross MOIC in 2022 were 17.1% and 3.1x, respectively.

**Major new commitments**

AGA made commitments to three new funds during 2022: €700m to Apax XI, $60m to Apax Global Impact and $40m to AMI Opportunities II.

**Dividend 11.82p**

A total dividend of 11.82p per share was declared for the full-year 2022, in line with AGA's dividend policy of distributing 5% of NAV p.a.

**PE 71% portfolio, Derived Investments 29%**

AGA was 95% invested as at 31 December 2022, and had unfunded commitments to the Apax Funds (together with recallable distributions) of €1.0bn. At 31 December 2022, AGA's invested portfolio consisted of €871.0m in PE (71%) and €364.2m in Derived Investments (29%).

## Portfolio highlights

**Good diversification, by sector and vintage**

The portfolio is diversified by i) four key sectors: Tech & Digital (40%), Services (28%), Healthcare (17%), and Internet/Consumer (15%), ii) in PE, by vintages – 14% invested before 2017, 38% 2017-19 and 48% from 2020 and later.

**Publicly listed already returned 3.4x initial cost**

At 31 December 2022, 14% of the PE Invested Portfolio was in publicly listed holdings. These reflect residual stakes in previously IPO'd portfolio companies, which, together with secondary sales, have already returned distributions totalling 3.4x initial costs to AGA. There is further potential to create value from these holdings, as shown by the sale, in January 2023, of the residual holding in Duck Creek, at a 57% premium to its end-year market value.

**Derived Debt seen rising yield and continued outperformance against benchmark**

AGA's debt portfolio, which makes up 94% of Derived Investments, delivered a total NAV return of 2.7% in 2022. 99% of the Derived Debt investments are invested in floating-rate loans, reducing duration risk. With increasing base rates, the portfolio generates a 9.9% income yield. The average yield to maturity increased to 12.1% at 31 December 2022 (FY'21: 6.2%). The Derived Debt portfolio achieved a 31.2% five-year cumulative return on a constant currency basis, compared with 17.7% from the benchmark S&P/LSTA leveraged loan index.

# Key themes

## 1) APAX adds value to its companies

**Over long term, during tenure of the Apax Funds' ownership, annual revenue growth accelerates by an average 8%, EBITDA by 15%, and margins improve by 8%**

**Benefits then compounded by higher growth**

In our initiation, *Making pearls out of oysters,* published on 13 January 2023, we highlighted that long-term NAV outperformance was driven by Apax first selecting businesses that it can transform post-acquisition, and then transforming them. Apax improves these businesses by i) enhancing revenue growth (up an average 700bps) with customer segmentation, new market expansion and digital marketing, and ii) improving efficiency using cloud technology, acquisitions and digitalisation. Apax also brings strategic options, such as finance and expertise in M&A, which are not available to standalone entities. The bottom line is that, on average, over the long term, during the Apax Funds' ownership, investee company EBITDA growth accelerates by 1,500bps and margins improve by 700bps, making them more valuable, and justifying a higher multiple on exit than on acquisition.

In this period, the story of Apax adding value to the PE funds' companies has been reinforced:

**In 2022, revenue and EBITDA growth well ahead of market, and margin erosion well below market**

- Revenue growth of 21.5% and EBITDA growth of 18.5% are, we believe, well ahead of market growth.

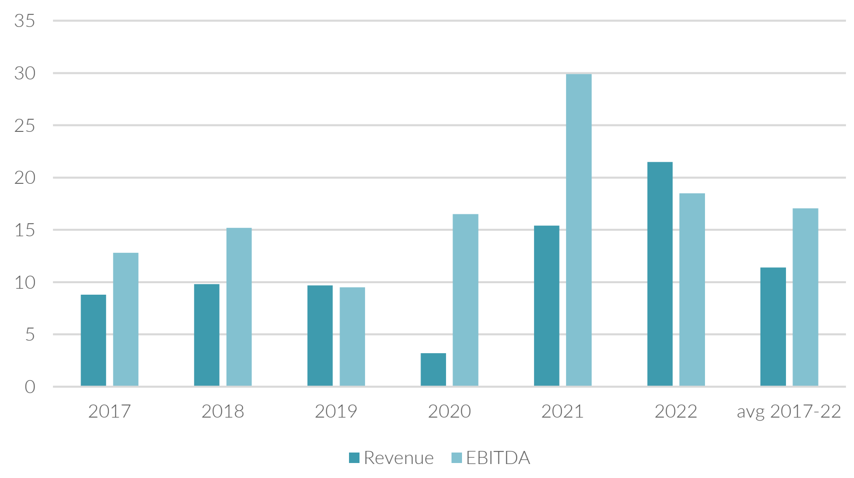
**EBITDA growth above five-year average, and accelerating through year**

- Apax Funds' portfolio companies have seen only a modest margin compression when market margins have been falling more.

**Sustained growth through year…**

- From 2Q'22, there has been an accelerating trend in EBITDA growth (2Q'22 15.8%, 3Q'22 17.6%, 4Q'22 18.5%), at a time when revenue growth is at its fastest in the period (2Q'22 19.1%, 3Q'22 17.7%, 4Q'22 21.5%). We do not read too much into just a couple of quarters' numbers (they can be distorted by acquisitions and exits), but the overall outperformance is clear. The limited margin erosion compared with the market reflects sector mix (limited or no exposures to sectors with high energy and blue-collar workers) and having companies with above-average pricing power.

**Underlying average EBITDA growth rate in PE portfolio (%)**



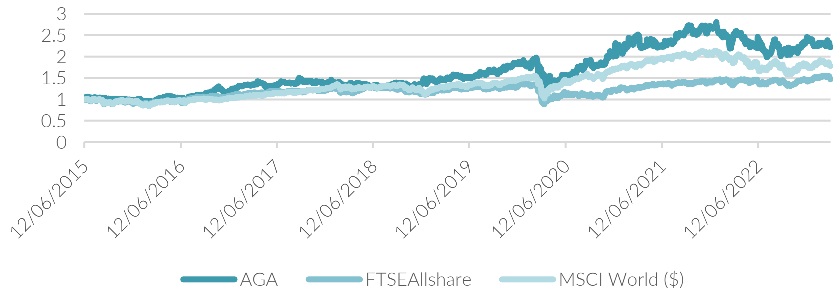

*Source: AGA Report and Accounts, Hardman & Co Research*

...drives share price outperformance.

AGA's share price has delivered 2.6x FTSE All-Share return since IPO

The strong returns drive share price outperformance. Since its market quotation in 2015, AGA's share price total return has outperformed the UK All-Share Index by 2.6x and the MSCI World Index by 1.6x.

AGA's share price total return compared with FTSE All-Share and MSCI World (indexed to IPO)




*Source: Refinitiv, Hardman & Co Research*

## 2) Real and conservative NAV

Key point is that, after all their due diligence, buyers willing to pay higher price than carrying value

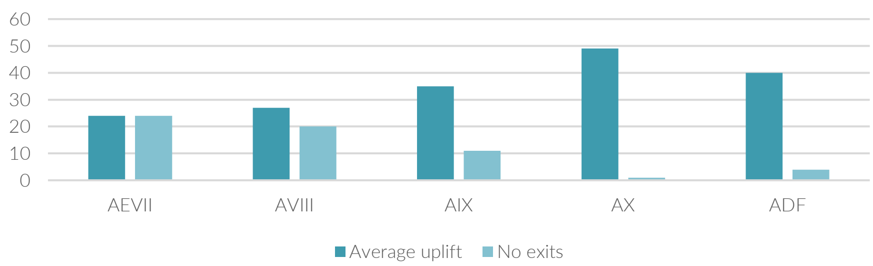
We explored why the valuation is real in great detail in our initiation note, *Making pearls out of oysters*. The key factors (summarised below) continue. In particular, we emphasise the uplift on exit. At that stage, material due diligence is triggered, be it by a trade buyer, another PE fund or on IPO, after which buyers are still willing to pay a premium to value at which the investment is recognised in AGA's books. While part of this may reflect deal synergies, the long-run average of around 30%, in our view, reflects more than this, and gives us confidence that the underlying valuation approach is conservative.

Buyers, conducting significant due diligence, are paying significant premiums to carrying value that the Apax Funds have for their companies in the books at last quarter prior to exit

2022 average uplift 15%

As we show in the chart below, the reported uplift for each of Apax's funds is material (the AMI Fund is not shown, but the average for its three deals is 243%!) Additionally, we highlight that there is consistency across all the funds in seeing material uplifts, and that this figure is against the last quarter before exit. The key message is that, when the assets are being converted into cash, this is at an uplift to carrying values, and other buyers are willing to pay more for the assets than the level at which Apax is valuing them after conducting material due diligence on the assets. It is worth noting that, even in the more challenging 2022 exit environment, Apax Funds still achieved average exits above carrying value (average uplift 15%).

Track record of uplifts on exits by PE fund (%)




*Note: Uplift against the "unaffected valuation", which is determined as the fair value in the last quarter before exit, when valuation is not affected by the exit process, and the Apax Fund incorporated the expected exit multiple into the quarter-end valuation. Source: AGA, Hardman & Co Research*

Other factors include conservative culture, no incentive to over-value, low mix-adjusted valuation multiples, internal and external verification and low exposure to most volatile subsectors

The other key factors that give us confidence that the NAV is real and conservative are:

- conservative corporate culture;
- no incentive to over-inflate valuations;
- valuation multiples, and resulting PEG ratio, are relatively low, bearing in mind the sector mix and companies showing similar sustained EBITDA growth;
- internal and external verification at both the Apax Funds and AGA levels; and
- technology companies are not all the same, and AGA's exposure to the unprofitable, venture stage, which has seen the most valuation volatility, is small.

The usual lagged effects on valuations of changes in public market comparable companies take time to feed through to the Apax Fund valuations, but these are relatively modest and, in a rising market, work against AGA.

## 3) 2022 victim of 2020-21 success

2021-21 saw Apax Funds crystallise value at time of high market ratings

2022 fall in listed holdings multiples accounted for 80% of overall multiple fall, even though they were just 25% of PE portfolio at start of year

The Apax Funds used the strong 2020-21 markets to IPO a number of companies, crystallising significant gains but leaving them with residual holdings in listed companies on then high ratings. It is difficult to criticise the decision to take a significant element of the gains off the table at the peak of the market, as listed holdings, in aggregate, have delivered 3.4x the initial investment from IPOs and subsequent secondary sales, generating €187.1m of total proceeds to AGA. However, in 2022, the market appetite for such companies waned materially, as growth fell out of favour. The fall in the listed holdings accounted for 80% of the overall multiple decline, even though they were just 25% of the PE portfolio at the start of the year and falling to 14% by end-2022. Had the listed portfolio fallen in line with private holdings, Apax would have reported a positive total return for the year.

Risk of further pain reduced sharply, and we do not expect it to be a factor in 2023

Looking forward, we believe the key risks are materially reduced, noting:

- The listed portfolio is now on ratings in line with the private PE portfolio and without the "bubble" valuations, reducing the risk of further weakness on valuation grounds.
- The businesses are continuing to perform well operationally, and are generally in resilient sectors (like the rest of Apax's investee companies). In the case of Thoughtworks (the largest listed holding), revenue to December was up 21.1% YoY (constant currency 26.8%), with good operational metrics.
- The business remains attractive to other buyers – with the post-year-end disposal of Duck Creek Technologies being at a 57% premium to carrying value.
- Apax is under no pressure to sell at distressed prices. IPOs have accounted for only around a fifth of exits over the past five years, including the peak years of technology during COVID-19. There are multiple options for Apax Funds to crystallise value.
- The listed portfolio concentration (14%) is now broadly around the market average, thus reducing the relative sensitivity.

## 4) Benefit from Derived Investments

**2022 saw benefits of portfolio in diversifying returns, helping pay the dividend, reduced cash drag effects and outperforming the benchmark**

**2023 will show capital and liquidity flexibility benefits.**

The Derived Investment portfolio delivered on its strategic rationale in 2022 by i) diversifying returns with a positive total NAV return in the year, compared with the fall in PE, proving the diversification benefit, ii) providing cash income (£24m) to help pay the company's dividend (£71m) – Apax is not in the same position as Princess Private Equity was, being reliant on capital gains to pay its dividend, iii) reducing the cash drag impact by earning returns well above the yield available on cash instruments (in 2022, the Derived Debt income was 7% of opening NAV), and iv) generating outperformance against its benchmark – it achieved a 31.2% five-year cumulative return on a constant currency basis, compared with 17.7% from the benchmark S&P/LSTA leveraged loan index. Management, and we, expect net cash outflows in 2023, and for there to be a small drawing on the Derived Investment portfolio to fund this. This proves its credentials as a capital management tool to be used when required.

**Derived Debt performance bridge (% return)**

| Financial period | Investment income | Realised gains (losses) | Unrealised gains (losses) | Performance fee | Fx | Total return |
|---|---|---|---|---|---|---|
| FY'20 | 6.8 | 0.3 | 0.3 | 0.0 | (7.2) | 0.2 |
| FY'21 | 8.3 | (0.6) | 1.1 | (1.9) | 6.5 | 13.4 |
| FY'22 | 7.0 | 0.0 | (8.7) | 0.0 | 4.4 | 2.7 |

*Source: AGA Report and Accounts, Hardman & Co Research*

## 5) Outlook: resilient in uncertain times

Again, we explored why AGA's outperformance increases in downturn in great detail in our initiation note, *Making pearls out of oysters*. In summary, it reflects both PE market resilience and the incremental benefits from AGA's own risk management.

**PE market outperformance increases in uncertain times**

PE market resilience is driven by i) access to committed capital and creditors' knowledge of this support, ii) strategic acquisitive and organic optionality, iii) PE backers may provide expertise in downturns to help investee companies operationally and strategically, and to manage their finances, iv) manager alignment, and v) defensive positioning by sectors. Multiple academic research supports resilience of PE through downturns, as we outlined in our initiation.

**AGA's own risk and portfolio management add further downside resilience**

AGA has incrementally reduced risk through its stress tests, sector focus and defensive subsectors in higher-risk sectors, and by being able to use multiple levers in PE to add value in uncertain times.

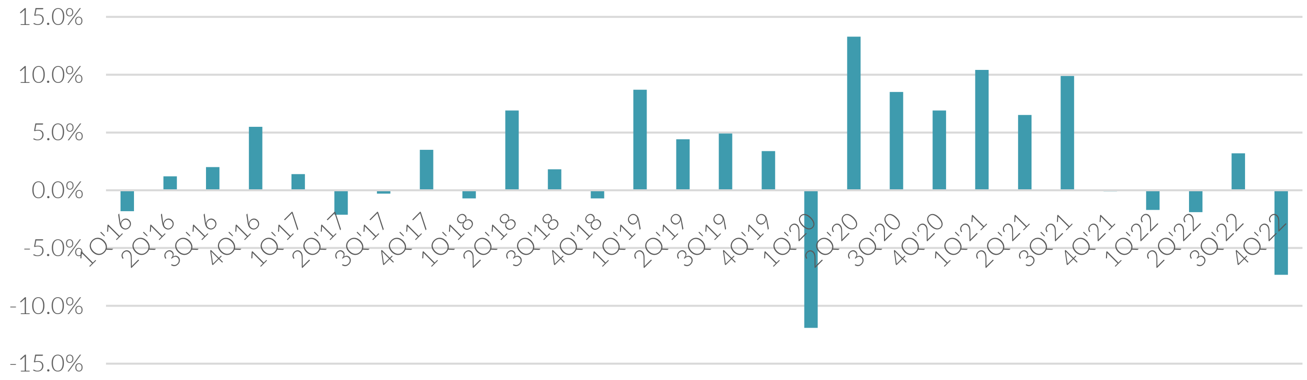
# Results in detail

## 13.1% five-year total post-cost return

Key benefit to shareholders is strong, medium-term post-cost return

AGA targets a long-term total NAV annual return of 12%-15% (five-year actual 13.1%[1]), with a dividend target of 5% of NAV per year. It aims to generate both strong compounding capital appreciation and an attractive yield income for investors. This return target has been met over five years, although 2022 was weak, for the reasons identified above. The final quarter (-7.2%) was driven largely by forex (-6.2%), although, as noted for the year, the main impact for the whole year was falling multiples in the listed portfolio.

Quarterly total return since 1Q'16 (%)



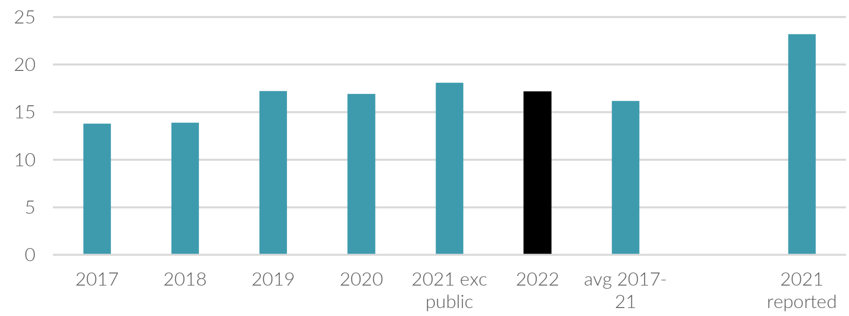

*Source: AGA Report and Accounts, Hardman & Co Research*

## Stable underlying ratings

Broadly stable underlying ratings over time, and well below current market ratings for growth sectors on which Apax focuses

The overall level of EV/EBITDA at 2022 was 17.2x, in line with the average for 2017-21. As the chart below shows, the average is somewhat distorted by 2021 being above the level of prior years, reflecting a sharp rerating that year in the public market element of the portfolio. If we exclude that distortion, the 2021 EV/EBITDA was 18.1x, more in line with historical numbers.

EV/EBITDA (x)




*Source: AGA Report and Accounts, Hardman & Co Research*

[1] Basis: annualised returns represent IRR returns, based on the adjusted NAV and dividends paid

**Ratings conservative and stable on PEG basis, especially bearing in mind good cash conversion**

Apax Funds' investments – and so those of AGA – have, for some time, been focused on businesses with a strong growth and resilient earnings outlook, as well as good cash conversion rates. Those using EBITDA multiples accounted for over half the NAV, and the PEG ratio (EV/LTM EBITDA multiple divided by growth) was 0.93x at end-2022, broadly in line with the five-year average level.

PEG ratios since 2017

| Year | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | Average 2017-22 |
|---|---|---|---|---|---|---|---|
| EV/EBITDA (x) | 13.8 | 13.9 | 17.2 | 16.9 | 23.2 | 17.2 | 17.0 |
| EBITDA growth | 17.9 | 22.2 | 15.9 | 20.8 | 35.3 | 18.5 | 21.8 |
| PEG ratio (x) | 0.77 | 0.63 | 1.08 | 0.81 | 0.66 | 0.93 | 0.78 |

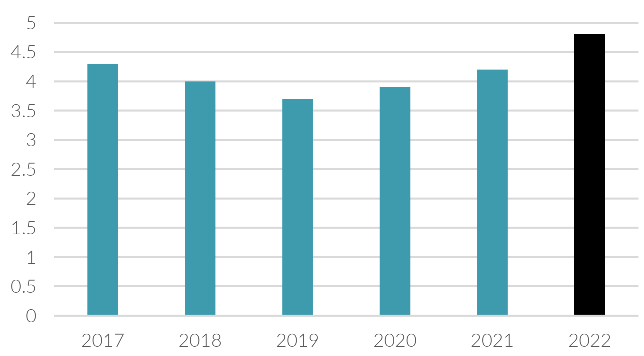
*Source: AGA Report and Accounts, Hardman & Co Research*

## Apax Funds' investee company gearing

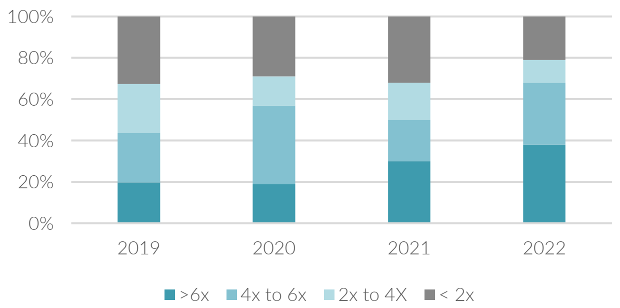
**Gearing has been increasing, and most geared element has been increasing at fastest rate**

Despite the strong average growth in EBITDA, the debt multiple has been rising since 2019, with the most rapid increase in 2022 (to 4.8x, from 4.2x at end-2021), albeit marginally down on the 4.9x reported at 3Q'22 – see left-hand chart below. In the year, investee companies have taken advantage of bolt-on deals, and there has been a small effect from acquisitions/exits. The right-hand chart shows that the average has been driven by the increase in the highest-geared element of the book (debt-to-EBITDA 6x or more). although, again, there is a small reduction in the highest geared companies since 3Q'22, reflecting their choice to retain more of their strong cash generation in uncertain times.

Average debt-to-EBITDA in PE portfolio (x)




Percentage mix of debt-to-EBITDA (%)




*Source: AGA Report and Accounts, Hardman and Co Research*

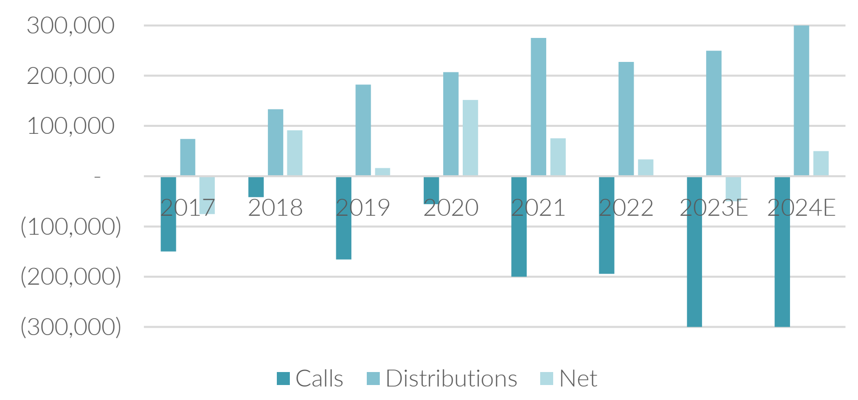
## Calls, distributions and commitments

**AGA saw positive net cash generation in 2022, albeit down on 2021**

**We expect net cashflows in 2023, before returning to cash generation in 2024**

As the chart below shows, distributions were down in 2022 on 2021, but still up on the pre-COVID-19 era. Management expects a quieter period for exits, but emphasises that it has a pipeline of deals and that some exits should be expected. Calls were in line with 2021, and we expect them to be limited in 2023, given the large call from Apax X in 2022. The funds use bridging facilities to manage calls on investors, and so AGA has good visibility on the likely cashflow over the next 12 months. On balance, we expect a small net outflow in 2023, before a return to positive cashflow in 2024.

PE calls and distributions, 2017-24E (m)




*Note: 2018 includes £11m of direct PE purchase; Source: AGA Report and Accounts, Hardman & Co Research*

## Commitments

**Available resources include cash of €64m, Derived Investments of €364m and borrowing capacity of €250m**

**Assuming €100m of commitments will not be called, leaves ca.€300m to be met from PE realisation proceeds over five years**

Outstanding commitments to the Apax Funds (together with recallable distributions) amounted to €1,005m at end-2022, significantly up on 2021, because of the new commitments highlighted on page 3. To finance these commitments, AGA had cash balances of €64m after net liabilities. AGA also has access to a multi-currency revolving credit facility of €250m (undrawn). This was increased recently to reflect the increased size of AGA and the increased weighting of the portfolio in PE funds over Derived Investments. In addition, there are €364m of Derived Investments, giving total available resources of €712m. This would leave ca.€300m to be covered by PE realisations, which averaged €150m p.a. in 2018-19, in the years pre-COVID-19 and before Apax saw exceptional IPO activity (which led to realisations peaking at €275m in 2021 alone).

**Prudent over-commitment policy sensible, given five-year drawdowns within most Apax Funds**

Managing cashflow is crucial to any business, including PE, and with investment drawdowns spread over many years. We are not averse to the industry-wide practice of "over-commitment", as long as it is prudent and the risk is kept in proportion to the asset base. This appears to be the case for AGA, which is in the middle of the pack of listed PE in terms of the degree of over-commitment.

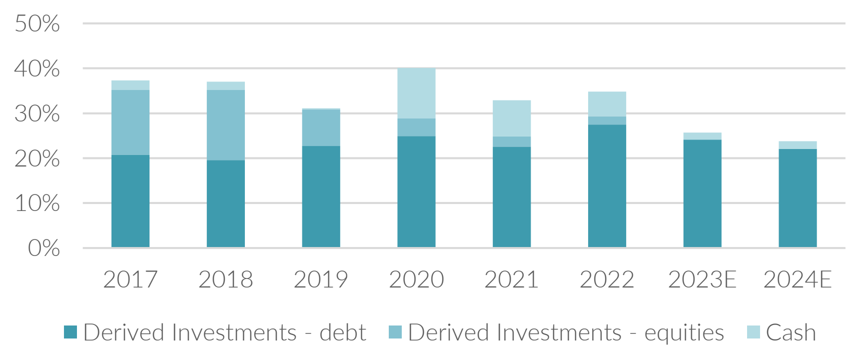
# Portfolio

| Portfolio analysis (as at December 2022) | NAV (€m) | Commitment (m) | Fund size (bn) | Fund stage | % AGA total | Comment |
|---|---|---|---|---|---|---|
| **Apax funds** | | | | | | |
| AMI | 23.4 | $30 | $0.5 | Maturity | 2% | 2015 fund 87% invested and committed. |
| AEVI | 2.2 | €10.6 | €4.3 | Harvesting | 0% | 2005 fund. €14m of distributions since 2015. |
| AEVII | 23.8 | €86 | €11.2 | Harvesting | 2% | 2007 fund. €91m of distributions since 2015. |
| AVIII | 88.6 | €160 + $218 | $7.5 | Harvesting | 7% | 2012 fund. €565m of distributions since 2015. |
| AIX | 325.3 | €154 + $175 | $9.5 | Maturity | 25% | 2016 fund 93% invested and committed. |
| ADF | 48.1 | $50 | $1.1 | Maturity | 4% | 2017 digital fund 97% invested and committed. |
| ADF II | 0.9 | $90 | $1.9 | Investment | 0% | 2021 digital fund 10% invested and committed. |
| AX | 364.6 | €200 + $225 | $11.7 | Investment | 28% | 2020 fund 92% invested and committed. |
| AXI | (3.4) | €198 + $490 | tbc | Investment | 0% | 2022 fund not closed at December 2022. |
| AMI II | (0.7) | $40 | tbc | Investment | 0% | 2022 fund not closed at December 2022. |
| AGI | (2.0) | $60 | tbc | Investment | 0% | 2022 fund not closed at December 2022. |
| **Total PE** | **870.8** | | | | 67% | **71% of invested portfolio.** |
| | | | | | | |
| Derived debt | 340.6 | | | | 26% | Been broadly stable over recent years. |
| Derived equity | 23.5 | | | | 2% | Falling part of portfolio (end-2017 was 15%). |
| **Total derived invest.** | 364.2 | | | | 28% | **29% of invested portfolio** |
| | | | | | | |
| **Cash/other** | **64.2** | | | | 5% | |
| **Total** | **1,299.4** | | | | 100% | |

*Source: AGA Report and Accounts, Hardman and Co Research*

The proportion of the total portfolio in Derived Investments has been broadly stable since 2018.

## Proportion of portfolio in Derived Investments and cash (x)

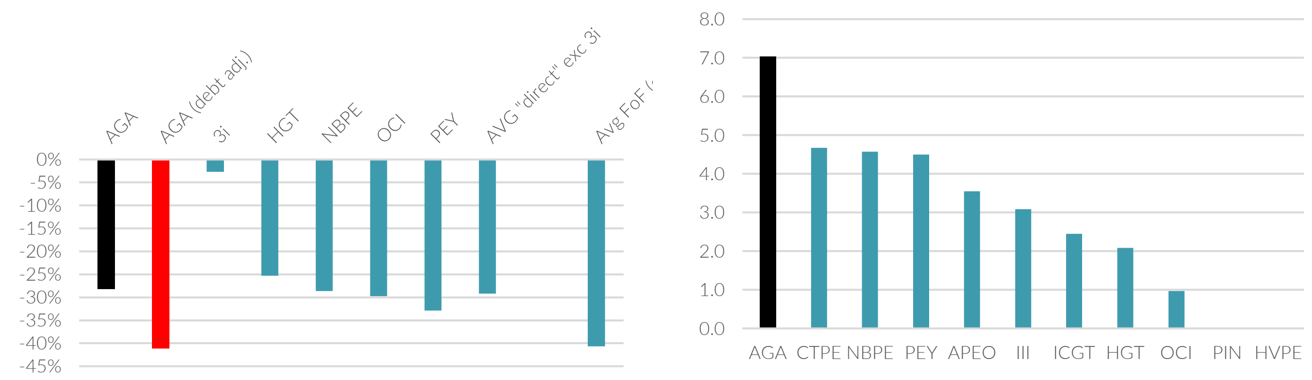



*Source: AGA Report and Accounts, Hardman & Co Research*

# Valuation

Our *initiation* detailed a range of valuation approaches and sensitivities to them. As the chart below shows, AGA's reported discount to NAV (28%) is in the middle of the direct investing listed PE trusts. If we adjust for the debt element of its portfolio (see the SoTP section below), the PE business is at the higher end of the range. Its dividend yield, supported by cash from the Derived Investments portfolio, is well above the sector average.

**Current share price discount to latest NAV (LHS, %), and dividend yield (RHS, %) for narrow and wider peers**




*Source: Company websites, factsheets and presentations, Hardman & Co Research, priced at 13/03/23*

## Sum-of-the-parts (SoTP) valuation

**Applying debt discount to derived book implies AGA's PE discount is 41%**

AGA could be broken down into a PE fund and its Derived Investments. The latter are marked to market, and so have less management input into the valuation. Given this, and their potential use for capital management purposes, rather than simple investment, we believe that an SoTP approach to AGA is also an important consideration. The table below shows that, if we strip these out at par, and they are marked to market, the residual PE discount rises to 41%.

**SoTP valuation (£m)**

| | Market Cap | £ NAV | Discount |
|---|---|---|---|
| Reported value | 825 | 1,148 | 28% |
| Last reported MTM value of Derived Investments | 364 | 364 | |
| Adjusted value | 461 | 783 | 41% |

*Note: exchange rate used: 1.1323; Source: AGA Report and Accounts, Hardman & Co Research*

# Financials

| Profit and Loss | | | | | | | |
|---|---|---|---|---|---|---|---|
| **Year-end Dec (€000)** | **2018** | **2019** | **2020** | **2021** | **2022** | **2023E** | **2024E** |
| Investment income | 19,442 | 20,852 | 18,106 | 26,853 | 24,476 | 36,021 | 38,383 |
| Net gains on financial assets at FVTPL | 56,739 | 208,767 | 153,518 | 337,190 | (119,740) | 198,592 | 185,691 |
| Net losses on financial liabilities at FVTPL | - | (2,741) | - | (1,067) | (6,063) | - | - |
| Realised foreign currency (losses)/gains | (2,766) | (479) | 1,224 | (1,488) | 1,276 | - | - |
| Unrealised foreign currency gains/(losses) | 116 | 762 | (3,743) | 787 | (74) | - | - |
| Total income | 73,531 | 227,161 | 169,105 | 362,275 | (100,125) | 234,613 | 224,074 |
| Performance fee | 2,123 | (6,893) | (46) | (8,390) | (22) | (4,965) | (3,571) |
| Management fee | (4,610) | (5,013) | (2,853) | (3,782) | (3,712) | (3,406) | (2,943) |
| Administration and other operating expenses | (3,107) | (2,051) | (2,363) | (2,707) | (2,797) | (3,021) | (3,262) |
| Total income less operating expenses | 67,937 | 213,204 | 163,843 | 347,396 | (106,656) | 223,221 | 213,798 |
| Finance costs | (2,729) | (1,860) | (1,751) | (2,269) | (3,150) | (2,600) | (2,600) |
| Profit before tax | 65,208 | 211,344 | 162,092 | 345,127 | (109,806) | 220,621 | 211,198 |
| Tax | (261) | (412) | (109) | (223) | (231) | (231) | (231) |
| Profit after tax | 64,947 | 210,932 | 161,983 | 344,904 | (110,037) | 220,390 | 210,967 |
| | | | | | | | |
| Average no shares (m) | 491 | 491 | 491 | 491 | 491 | 491 | 491 |
| EPS (€c) | 13.2 | 43.0 | 33.0 | 70.2 | (22.4) | 44.9 | 43.0 |
| DPS (p) | 8.45 | 9.54 | 10.15 | 12.3 | 11.8 | 13.9 | 15.5 |

*Source: AGA, Report and Accounts, Hardman & Co Research*

| Balance sheet | | | | | | | |
|---|---|---|---|---|---|---|---|
| **@ 31 Dec (€000)** | **2018** | **2019** | **2020** | **2021** | **2022** | **2023E** | **2024E** |
| Non-current assets | | | | | | | |
| **PE financial assets** | **591,458** | **769,019** | **788,307** | **1,013,922** | **877,021** | **1,084,112** | **1,215,796** |
| Derived Investments – debt | 178,272 | 252,543 | 275,739 | 304,609 | 340,639 | 344,279 | 344,279 |
| Derived Investments – equities | 142,318 | 89,656 | 43,677 | 30,946 | 23,540 | 0 | 0 |
| **Financial assets held at FV through P&L (FVTPL)** | **912,048** | **1,111,218** | **1,107,723** | **1,349,477** | **1,241,200** | **1,428,391** | **1,563,715** |
| | | | | | | | |
| Current assets | | | | | | | |
| Cash and cash equivalents | 17,306 | 3,277 | 124,569 | 108,482 | 67,966 | 23,030 | 22,467 |
| Investment receivables | 2,125 | 129 | 1,338 | 33,603 | 1,699 | 1,699 | 1,699 |
| Other receivables | 1,454 | 2,143 | 0 | 1,347 | 429 | 429 | 429 |
| **Total current assets** | **20,885** | **5,549** | **125,907** | **143,432** | **70,094** | **25,158** | **24,595** |
| | | | | | | | |
| **Total assets** | **932,933** | **1,116,767** | **1,233,630** | **1,492,909** | **1,311,294** | **1,453,549** | **1,613,018** |
| | | | | | | | |
| Current liabilities | | | | | | | |
| Financial liabilities held at FVTPL | 0 | 2,741 | 0 | 1,067 | 6,063 | 0 | 0 |
| Investment payables | 0 | 13,352 | 30,965 | 67 | 3,980 | 0 | 0 |
| Accrued expenses | 2,162 | 1,705 | 1,481 | 1,708 | 1,875 | 2,000 | 2,000 |
| **Total current liabilities** | **2,162** | **17,798** | **32,446** | **2,842** | **11,918** | **2,000** | **2,000** |
| | | | | | | | |
| **Net assets** | **930,771** | **1,098,969** | **1,201,184** | **1,490,067** | **1,299,376** | **1,451,549** | **1,611,018** |
| | | | | | | | |
| Shareholders' capital | 873,804 | 873,804 | 873,804 | 873,804 | 873,804 | 873,804 | 873,804 |
| Retained earnings | 56,967 | 218,272 | 327,380 | 607,873 | 425,572 | 577,745 | 712,506 |
| Share-based pymt. perf. fee reserve | 0 | 6,893 | 0 | 8,390 | 0 | 0 | 0 |
| **Total equity ownership** | **930,771** | **1,098,969** | **1,201,184** | **1,490,067** | **1,299,376** | **1,451,549** | **1,586,310** |
| | | | | | | | |
| Period-end no shares (m) | 491 | 491 | 491 | 491 | 491 | 491 | 491 |
| **Adj. NAV per share (€)** | **1.90** | **2.22** | **2.45** | **3.02** | **2.65** | **2.96** | **3.23** |
| NAV growth (%) | 2% | 17% | 10% | 23% | -12% | 12% | 9% |
| | | | | | | | |
| **Adj. NAV per share (£)** | **1.70** | **1.88** | **2.19** | **2.54** | **2.34** | **2.61** | **2.86** |
| Exch. rate (£: €) | 1.115 | 1.183 | 1.117 | 1.188 | 1.132 | 1.132 | 1.132 |
| s/p (£) | 1.35 | 1.73 | 1.93 | 2.27 | 1.88 | | |

*Source: AGA Report and Accounts, Hardman & Co Research*

## Cashflow

| Year-end Dec (€000) | 2018 | 2019 | 2020 | 2021 | 2022 | 2023E | 2024E |
|---|---|---|---|---|---|---|---|
| Interest received | 17,896 | 16,963 | 18,024 | 25,553 | 23,577 | 36,021 | 38,383 |
| Interest paid | (43) | (200) | (259) | (1,750) | (521) | (500) | (500) |
| Dividends received | 1,718 | 2,807 | 1,060 | 906 | 1,815 | 1,000 | 1,000 |
| Operating expenses paid | (21,862) | (7,285) | (5,460) | (6,191) | (6,038) | (7,000) | (7,000) |
| Tax paid/received | (132) | (52) | 17 | 3 | 0 | 0 | 0 |
| Purchase of PE investments | (11,126) | 0 | 0 | 0 | 0 | 0 | 0 |
| Capital calls paid to PE investments | (30,812) | (165,904) | (55,651) | (199,941) | (194,380) | (250,000) | (300,000) |
| Capital distributions received from PE investments | 133,362 | 182,324 | 207,270 | 275,140 | 227,821 | 250,000 | 350,000 |
| Purchase of Derived Investments | (212,988) | (114,792) | (69,126) | (274,417) | (53,640) | (103,640) | (53,640) |
| Sale of Derived Investments | 172,811 | 123,370 | 89,641 | 230,511 | 43,228 | 100,000 | 50,000 |
| **Net cash inflow/(outflow) from operating activities** | **48,824** | **37,231** | **185,516** | **49,814** | **41,862** | **25,881** | **78,243** |
| | | | | | | | |
| Cashflows from financing activities | | | | | | | |
| Financing costs paid | (3,309) | (1,710) | (1,706) | (2,104) | (2,822) | (2,600) | (2,600) |
| Dividends paid | (47,314) | (50,312) | (51,805) | (64,584) | (71,070) | (68,217) | (76,206) |
| Purchase of own shares | 0 | 0 | (6,970) | 0 | (8,412) | 0 | 0 |
| Revolving credit facility drawn | 94,248 | 88,824 | 6,106 | 0 | 17,393 | 0 | 0 |
| Revolving credit facility repaid | (94,248) | (88,824) | (6,106) | 0 | -17,393 | 0 | 0 |
| **Net cash used in financing activities** | **(50,623)** | **(52,022)** | **(60,481)** | **(66,688)** | **(82,304)** | **(70,817)** | **(78,806)** |
| | | | | | | | |
| Opening cash and cash equivalents | 18,989 | 17,306 | 3,277 | 124,569 | 108,482 | 67,966 | 23,030 |
| Net increase in cash and cash equivalents | (1,799) | (14,791) | 125,035 | (16,874) | (40,442) | (44,936) | (4563) |
| FX effects | 116 | 762 | (3,743) | 787 | -74 | 0 | 0 |
| **Closing cash and cash equivalents** | **17,306** | **3,277** | **124,569** | **108,482** | **67,966** | **23,030** | **22,467** |

*Source: AGA Report and Accounts, Hardman & Co Research*

## Return attribution by quarter

| Quarter performance (%) | PE | Derived Debt | Derived Equity | Perf. Fee | Other | Fx | Total return |
|---|---|---|---|---|---|---|---|
| 1Q'16 | 0.7% | 0.4% | -0.2% | 0.8% | -0.4% | -3.1% | -1.8% |
| 2Q'16 | 0.3% | -0.9% | 0.5% | -0.4% | 0.0% | 1.6% | 1.2% |
| 3Q'16 | -0.1% | 2.1% | 1.2% | -0.1% | -0.6% | -0.5% | 2.0% |
| 4Q'16 | 2.0% | 0.3% | -0.5% | -0.4% | 0.1% | 4.0% | 5.5% |
| 1Q'17 | 1.1% | 0.7% | 0.7% | -0.3% | -0.2% | -0.6% | 1.4% |
| 2Q'17 | 0.7% | -0.3% | 3.3% | -0.5% | -0.6% | -4.8% | -2.1% |
| 3Q'17 | 1.3% | 0.5% | 0.5% | -0.1% | -0.2% | -2.3% | -0.3% |
| 4Q'17 | 2.7% | 1.4% | 1.2% | -0.4% | -0.2% | -1.1% | 3.5% |
| 1Q'18 | 0.4% | 0.4% | 0.2% | 0.3% | -0.3% | -1.7% | -0.7% |
| 2Q'18 | 5.8% | -0.2% | -0.6% | -0.3% | -0.5% | 2.7% | 6.9% |
| 3Q'18 | 3.5% | 0.1% | -1.7% | 0.2% | -0.2% | -0.1% | 1.8% |
| 4Q'18 | -0.2% | 0.1% | -0.8% | -0.3% | 0.0% | 0.5% | -0.7% |
| 1Q'19 | 6.4% | 0.5% | -0.2% | 0.0% | -0.2% | 2.2% | 8.7% |
| 2Q'19 | 5.3% | 0.5% | 0.1% | -0.3% | -0.2% | -1.0% | 4.4% |
| 3Q'19 | 3.1% | 0.6% | -0.6% | -0.2% | -0.3% | 2.3% | 4.9% |
| 4Q'19 | 3.2% | 0.6% | 1.3% | -0.5% | 0.0% | -1.2% | 3.4% |
| 1Q'20 | -7.9% | -2.0% | -1.7% | 0.0% | -0.2% | -0.1% | -11.9% |
| 2Q'20 | 11.4% | 2.0% | 0.8% | 0.0% | -0.2% | -0.6% | 13.3% |
| 3Q'20 | 10.7% | 1.2% | 0.0% | 0.0% | -0.2% | -3.2% | 8.5% |
| 4Q'20 | 7.6% | 0.7% | 1.1% | 0.0% | -0.1% | -2.4% | 6.9% |
| 1Q'21 | 6.0% | 0.7% | 0.6% | -0.2% | -0.2% | 3.5% | 10.4% |
| 2Q'21 | 6.6% | 0.5% | 0.4% | -0.1% | -0.2% | -0.7% | 6.5% |
| 3Q'21 | 7.9% | 0.5% | 0.2% | -0.2% | -0.1% | 1.6% | 9.9% |
| 4Q'21 | -1.5% | 0.3% | -0.1% | -0.2% | -0.2% | 1.6% | -0.1% |
| **1Q'22** | **-3.6%** | **0.2%** | **0.0%** | **0.0%** | **0.2%** | **2.1%** | **-1.7%** |
| **2Q'22** | **-3.9%** | **-1.0%** | **-0.3%** | **0.2%** | **-0.2%** | **3.3%** | **-1.9%** |
| **3Q'22** | **-1.0%** | **0.4%** | **-0.1%** | **-0.3%** | **-0.2%** | **4.4%** | **3.2%** |
| **4Q'22** | **-1.5%** | **0.0%** | **0.3%** | **0.3%** | **-0.2%** | **-6.2%** | **-7.3%** |
| Average | 2.7% | 0.4% | 0.2% | -0.1% | -0.2% | -0.1% | 2.8% |

*Source: AGA Report and Accounts, Hardman & Co Research*

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*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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