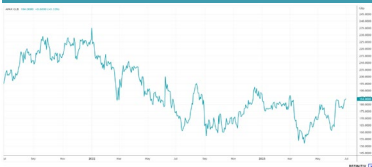


Closed End Investments



Source: Refinitiv

Market data (adj. for share split)

EPIC/TKR	APAX
Price (p)	177.0
12m high (p)	203.0
12m low (p)	151.7
Shares (m)	491
Mkt cap (£m)	869
Discount to Mar £ NAV (%)	-23%
Free float	92%
Country/Ccy	UK/GBP
Currency of reporting	EUR
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 liquidity and balance sheet robustness, and generates cash for the dividend. AGA 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
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Key shareholders

Berlinetta Limited	5.9%
Witan IT	5.7%

Diary

Aug	Interim results
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Analyst

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Disclosure: The relevant analyst is a shareholder in Apax Global Alpha.

APAX GLOBAL ALPHA (AGA)

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The key takeaway from AGA's 27 June *Capital Markets Day* was that 84% of value creation comes from operational improvements in the investee companies, i.e. the value added by APAX. On average, under APAX's ownership, revenue growth accelerates by 700bps, EBITDA growth 1,500bps and the EBITDA margin 700bps. Additionally, it highlighted that i) AGA gives access to companies unavailable elsewhere, ii) its companies are growing and performing well, iii) it is an All Weather Investment, with 84% of value creation under the manager's control, iv) it has a robust balance sheet, and v) the 5% of NAV dividend has a greater value when the shares are at a bigger discount. It also reviewed why management considered now was a good time to invest.

- ▶ **Other messages:** The presentation reviewed what sets AGA apart from its peers (portfolio construction and balance sheet), the Derived Investments benefits, how the portfolio is valued and why this is conservative, the fee structure and what AGA is doing (and how it thinks) about addressing the discount.
- ▶ **Financing:** The presentation also reviewed the PE financing market, and how it applies to APAX/AGA. With 82% of portfolio debt maturities beyond 2027, ca.75% of debt at fixed rates (and 90% of swaps maturing post mid-2024) and average net debt 4.7x EBITDA, APAX appears well-positioned to weather any market disruption.
- ▶ **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 of 23% rises to 36%, giving a PE portfolio well above that of its direct peers (23%-34%). The NAV appears resilient to slowdowns. The 2023E yield is 7.8%.
- ▶ **Risks:** Sentiment to costs, the cycle, valuation and over-commitment are sector issues. Residual positions in highly rated stocks, following 2020-21 IPOs, saw exposures to underperforming 2022 names, recognising that value was extracted on the IPOs. 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 over 20% below peer ratings, accelerating their revenue growth and improving their margins, and then selling the reinvigorated businesses at a 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
Fin. assets /liab. net gains	153,518	336,123	(125,803)	198,592	185,691
Total expenses	(5,262)	(14,879)	(6,531)	(11,392)	(10,276)
Pre-tax	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
NAV per share (€)*	2.19	2.54	2.34	2.61	2.85
S/P prem./disc. (-) to NAV	-12%	-11%	-19%	-32%	-38%
Dividend p/sh (p)	10.2	12.3	11.8	13.9	15.5
Dividend yield	5.7%	7.0%	6.7%	7.8%	8.8%

*2023-24 NAV converted at £1: €1.13, 2020-22 actual NAV and share price

Source: Hardman & Co Research