

Closed End Investments


Source: Refinitiv

Market data (adj. for share split)

EPIC/TKR	APAX
Price (p)	176.4
12m high (p)	218.0
12m low (p)	154.0
Shares (m)	491
Mkt cap (£m)	866
Discount to Sep £ NAV (%)	-30%
Free float	92%
Country/Ccy	UK/GBP
Currency of reporting	Euro
Market (main)	STMM

Description

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, 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 (31 May'22)

Witan IT	6.2%
Berlinetta Limited	5.9%

Diary

2 Mar	FY'22 results
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Analyst

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

APAX GLOBAL ALPHA (AGA)

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In our initiation note, *Making pearls out of oysters*, we noted AGA mainly invests in Apax PE funds. They acquire private companies, whose performance is then transformed by Apax's global insights and operational expertise. On average, investee company EBITDA growth accelerates by 15%, and margins improve by 8%. They become more valuable, and, on sale, their relative multiple is typically ca.30% higher than on purchase. Repeating this playbook in four sectors with resilient, secular growth has given investors market-beating returns since IPO. Exit uplifts prove a conservative NAV, and AGA's strong outperformance through downturns show its resilience. The discount is 30%.

- ▶ **Dec'22 fund valuations:** In 4Q, the largest funds saw low to mid-single-digit rises like-for-like changes (€ changes: 5% fall for Fund X, 7% fall for Fund IX and 15% fall for Fund XIII, excluding gain on sale of Duck Creek Technologies on 13 January). Apax Digital saw a 2% dollar rise and Digital II a 5% dollar fall.
- ▶ **Credit facility update and investment in Magaya.** The undrawn €250m credit facility has reverted to a standard fixed-term line, expiring on 10 January 2025. New opportunities continue, with AGA also announcing that, on a look-through basis, ca.€6.8mE will invest in Magaya, a digital freight software platform.
- ▶ **Valuation:** Adjusting for the debt portfolio, AGA's discount to NAV (30%) widens to an above-peer (43%) on its PE portfolio alone. This (like peers) rose sharply in 2022, to well above historical levels. The NAV appears resilient and conservative, making the discount absolutely and relatively anomalous. The 2023E yield is 9.0%.
- ▶ **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 business 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)	2019	2020	2021	2022E	2023E
Investment income	20,852	18,106	26,853	34,508	37,277
Fin. assets /liab. net gains (FVTPL)	206,026	153,518	336,123	(2,045)	228,434
Total expenses	(13,957)	(5,262)	(14,879)	(7,623)	(12,051)
Pre-tax	211,344	162,092	345,127	21,440	251,060
PE invest. (€m)	769	788	1,014	1,088	1,370
Derived invest. (€m)	342	319	336	340	225
Cash (€m)	3	125	108	10	16
NAV (€m)	1,099	1,201	1,490	1,438	1,611
NAV per share (£)*	1.88	2.19	2.54	2.59	2.90
S/P prem./disc. (-) to NAV	-21%	-8%	-12%	-27%	-39%
Dividend p/sh (p)	9.5	10.2	12.3	13.3	15.8
Dividend yield	5.3%	5.6%	6.8%	7.3%	8.7%

*2022-23 NAV converted at £1: €1.13; 2019-21 actual NAV and share price, 2022-23 forecast NAV to current share price. Source: Hardman & Co Research