

**Closed End Investments**


Source: Refinitiv

**Market data (adj. for share split)**

EPIC/TKR	<b>APAX</b>
Price (p)	<b>159.0</b>
12m high (p)	211.5
12m low (p)	151.7
Shares (m)	491
Mkt cap (£m)	781
Discount to Dec £ NAV (%)	-32%
Free float	92%
Country/Ccy	UK/GBP
Currency of reporting	EUR
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 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 Brendon
NEDs	Chris Ambler, Mike Bane, Stephanie Coxon, Susie Farnon
Inv. Adviser	Apax
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**Key shareholders (31 May'22)**

Berlinetta Limited	5.9%
Witan IT	5.7%

**Diary**

3 May	AGM
4 May	1Q'23 results

**Analyst**

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

# APAX GLOBAL ALPHA (AGA)

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In our note, *Outperformance by adding value to companies*, we highlighted that the 2022 results reconfirmed AGA's core strengths, notably i) Apax enhances its investments' operational performances – 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 real, iii) a -7.4% NAV return, driven largely by the fall in the rating multiples of the listed holdings (these companies have already delivered 3.4x money on invested capital), and iv) the Derived Investments portfolio delivered diversified, more stable returns, and generated cash to pay the dividend. The NAV should be resilient in uncertain times.

- ▶ **2022 victim of 2020-21 success:** In 2020-21, Apax IPO-ed many companies at high ratings, crystallising good returns. As the market appetite for growth companies waned, it reduced the value of Apax's residual holdings in 2022. The 57% premium on a 2023 exit shows the potential in these positions.
- ▶ **Other 2022 highlights:** i) the EV/EBITDA ratio was 17.2x, in line with the underlying average for 2017-21 (the resulting PEG ratio is 0.9x); ii) the dividend yield of 7.4% makes AGA attractive to both capital and income funds, iii) the debt/EBITDA ratio was 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 of 32% rises to 47%, giving a PE portfolio well above that of its peers (28%-38%). The NAV appears resilient to slowdowns. The 2023E yield is 8.7%.
- ▶ **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%	-39%	-44%
Dividend p/sh (p)	10.2	12.3	11.8	13.9	15.5
Dividend yield	6.4%	7.8%	7.4%	8.7%	9.8%

\*2023-24 NAV converted at £1: €1.13, 2020-22 actual NAV and share price, 2022-23 forecast NAV to current share price. Source: Hardman & Co Research