6 March 2023

Closed End Investments

Source: Refinitiv

Market data

EPIC/TKR	**PIN**
Price (p)	**259.0**
12m high (p)	335
12m low (p)	229
Shares (m)	531.1
Mkt cap (£m)	1,376
NAV p/sh (Jan, p)	459.7
Discount to NAV*	-44%
Country/Ccy	UK/GBP
Market	Premium equity closed-ended inv. funds

**Manager valuations: Jan'23 9%, Dec'22 5%, Sep'22 75%, Jun'22 or older 5%, new 6%*

Description

The investment objective of Pantheon International Plc (PIN) is to maximise capital growth by investing in a diversified portfolio of private equity (PE) funds and directly in private companies.

Company information

Chairman	John Singer CBE
Sen. Ind. Dir.	Mary Ann Sieghart
Audit Cttee. Chr.	David Melvin
NEDs	John Burgess, Dame Sue Owen DCB
Inv. Mgr.	Pantheon
Manager	Helen Steers
Contact	Vicki Bradley
	+44 (0)20 3356 1800
	www.PIPlc.com

Key shareholders, 31 May 2021

Quilter (Jul'22)	10.27%
USS	8.15%
Esperides SA Sicav-SIF	5.75%
Investec Wealth	4.37%
APG Asset Mgt. (Jul'22)	3.95%
Private Syndicate Pty	3.76%
Brewin Dolphin	3.45%

Diary

Mid-Mar	Feb NAV

Analyst

Mark Thomas +44 (0)20 3693 7075
mt@hardmanandco.com

The relevant analyst is a shareholder in Pantheon International

PANTHEON INTERNATIONAL PLC

Exceptional companies, long-term outperformance

The *November 2022 factsheet* gave some key information, including the NAV (469.5p), NAV return (4%), net cash generation (£34m), distributions (£111.5m), calls (£77.5m), period-end cash (£52m) and commitments (£848m, including £303m new commitments). The 1H *results announcement* showed that i) uplifts on exits were 33%, slightly above the FY'12-22 average, ii) exits were at an average 3.1x multiple to cost, iii) 54% of the portfolio is invested directly in companies, iv) average revenue and EBITDA growth of 23.0% and 10.6%, respectively, were well ahead of benchmarks, and v) the EV/EBITDA multiple was 17.3x. We note that the PEG is 1.6x, around a fifth of the benchmark.

- **Exceptional companies:** Over the past decade, PIN's companies have, on average, delivered 6.1x the EBITDA growth of the benchmark. Over the average life of an investment, the compounding benefit of growth means PIN companies would double EBITDA, against a 13% rise in the benchmark. In 1HFY'23, margin pressure saw the benchmark EBITDA growth rate slow by 92%, against just 58% at PIN.
- **Long-term outperformance:** By investing in exceptional private companies, PIN has given investors superior returns. PIN's NAV has outperformed the MSCI World Index and FTSE All-Share total return over each of one, three, five and ten years, and since inception. Despite the drag of a widening discount, PIN's share price total return over 10 years is 19%, ahead of the benchmark (on an average discount, 66% ahead).
- **Valuation:** PIN shares trade at a 44% discount to NAV, despite their long-term outperformance. We note the double discount, as the "real" NAV is likely to be above the book value, given the consistent uplift to carrying value achieved on exits. The 11-year weighted average uplift achieved on exit has been 31%.
- **Risks:** We note i) sentiment to the economic cycle (NAV rose every year in the 1990s' recession, and in FY'20), ii) adverse sentiment to illiquid and unquoted investments and their valuation (PIN has permanent capital and proven exit uplifts) and iii) sentiment to the sustained discount. Short term, there can be forex volatility.
- **Investment summary:** PIN is in an attractive market, can pick the best part of that market, and has competitive operational advantages. Its manager, deal selection and portfolio structuring add value. To the end of January 2023, since inception in 1987, this delivered a 12.2% NAV CAGR. Corporate governance is strong, and the NAV is conservatively valued. Investors get liquid access to the global PE market. There are risks around the cycle, and illiquid and unquoted underlying assets. The discount appears anomalous relative to risk-adjusted returns.

Financial summary and valuation

Year-end May (£000)	2019	2020	2021	2022	2023E	2024E
Gains on investments	204,473	72,264	341,802	570,049	291,019	335,098
Investment income	13,222	11,198	16,418	19,169	24,625	28,354
Inv. manager's fee	(16,584)	(17,674)	(18,544)	(23,115)	(28,500)	(32,500)
Other expenses	(573)	(2,449)	(2,757)	(2,600)	(2,803)	(3,083)
Int. payable/similar exps.	(2,223)	(2,223)	(3,488)	(3,967)	(4,750)	(4,750)
Return before taxation	194,918	62,294	302,432	575,672	279,591	323,120
NAV per share (p)*	277	289	354	452	503	563
Prem./disc. (-) to NAV**	-20%	-28%	-21%	-35%	-49%	-54%
Investments	1,450	1,496	1,714	2,239	2,578	2,911
Equity issued in year	(500)	0	0	(10,364)	(19,051)	0

**2019-2022 NAV on year-end s/p, 2023-24E NAV on current s/p; **adjusted for share split*
Source: Hardman & Co Research

Important information

Owing to legal restrictions, the information in this document is not available to any person who is a “restricted person” (as defined below) or to any person who is physically present in “restricted countries” (as defined below), and it is available only to persons who are "relevant persons" (as defined below) for UK regulatory purposes.

A “restricted person” is:

- any natural person resident in “restricted countries”;
- any partnership or corporation organised or incorporated under the laws of “restricted countries”;
- any estate of which any executor or administrator is a “restricted person”;
- any trust of which any trustee is a “restricted person”;
- any agency or branch of a foreign entity located in “restricted countries”;
- any non-discretionary account or similar account (other than an estate or trust) held by a dealer or other fiduciary for the benefit or account of a “restricted country”;
- any discretionary account or similar account (other than an estate or trust) held by a dealer or other fiduciary organised, incorporated, or (if an individual) resident in “restricted countries”; and
- any partnership or corporation, if:

  1. organised or incorporated under the laws of any foreign jurisdiction; and

  2. formed by a “restricted person”, principally for the purpose of investing in securities not registered under the U.S. Securities Act, unless it is organised or incorporated, and owned, by accredited investors (as defined in the rules of the U.S. Securities and Exchange Commission), who are not natural persons, estates or trusts.

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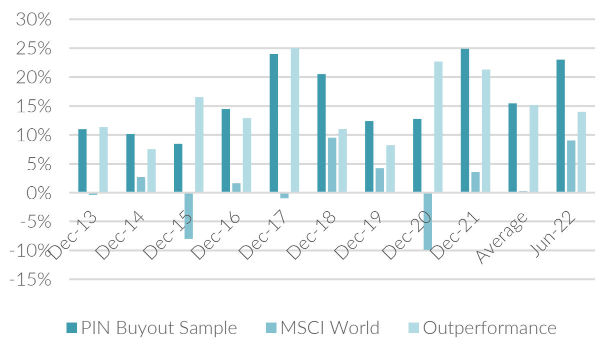
Key themes

Exceptional companies

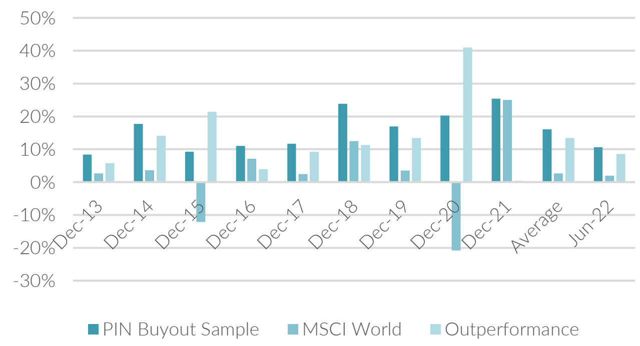
Over the past decade, PIN's companies have, on average, delivered 6.1x the EBITDA growth of the benchmark

The key to understanding PIN's performance is appreciating the underlying portfolio company investments. The charts below show PIN's buyout sample's revenue and EBITDA growth against the MSCI World Index. This summarises how exceptional these companies are. Over the past 10 years, on average, revenue growth has been ca.15.1% ahead of the benchmark and EBITDA growth 13.4% ahead (1H'23 14.0% and 8.6%, respectively). PIN's investee companies have, on average, delivered 6.1x the annual EBITDA growth of the benchmark.

Revenue growth for PIN buyout sample, MSCI World Index and its outperformance (%)



EBITDA growth for PIN buyout sample, MSCI World Index and its outperformance (%)



Source: PIN Report and Accounts, Hardman & Co Research

They are more resilient – margin pressure in 1H'23 reduced PIN's EBITDA growth rate by 58%, against benchmark's 92% fall

Unlike the benchmark, in 1H'23, PIN's investee companies broadly maintained the revenue growth seen in 2022 (23% vs. 25%). The whole market, including PIN companies, has seen more challenging operating conditions – *inter alia* with inflation-linked pay and energy bill pressures, and this has resulted in margin compression. However, the fall for PIN's companies was much less than that for the wider market, with its EBITDA growth rate falling 58%, while the wider market collapsed by 92%. In 1H'23, PIN's EBITDA growth rate was 4.4x the market, against the long-run average of 6.2x. Excluding 2020-21, when the benchmark growth initially fell sharply, and, then, on recovery, nearly reached PIN's growth rate, the average ratio would be 5.1x. PIN's 1H'23 relative multiple of growth rate is broadly in line with the adjusted historical average.

Compounding EBITDA over average holding life, PIN companies would double EBITDA, vs. 13% growth at benchmark

Investors should also bear in mind the compounding benefit from the higher growth. Taking the average life of a PIN holding (4.8 years), compounding EBITDA at PIN's average growth rate would see EBITDA more than double. Compounding at the benchmark rate would see the EBITDA rise by just 13%. With earnings growth being a key driver to valuation, it is unsurprising that PIN's NAV would outperform.

Operating outperformance reflects value added by PE in challenging times, and careful sector selection

There are several key drivers to this operating outperformance:

- Sector and subsector selection (i.e. defensive sectors with structural growth and recurring revenues). Healthcare and IT now represent 53% of the portfolio, and this proportion has been growing rapidly (FY'18: +37%). In a broad consumer sector, PIN is focused on lower-risk subsectors, such as Consumer Staples and Services, rather than those dependent on discretionary spend.
- PE managers have added operational value in areas such as supply chain management, talent and treasury management, plus cross-fertilising experience

among regions. PE managers are also adept at using digitalisation to create value and disrupt traditional sectors.

- Finally, many investee companies have used the opportunity to grow via the acquisition of less-well-funded competitors.

Delivering long-term shareholder outperformance through all cycles

The charts below show the NAV outperformance against some benchmark indices and the share price total return to investors.

PIN's NAV has outperformed both the MSCI Index and FTSE All-Share total return over every timescale shown

- For there to be outperformance over each of one, three and five years, and since inception, shows the delivery of long-term value, but it is also indicative of the resilience of the performance through varying economic conditions. In the section below, we emphasise the NAV resilience going forward, and we have confidence in that view because of this historical outperformance.

Rate of outperformance has accelerated

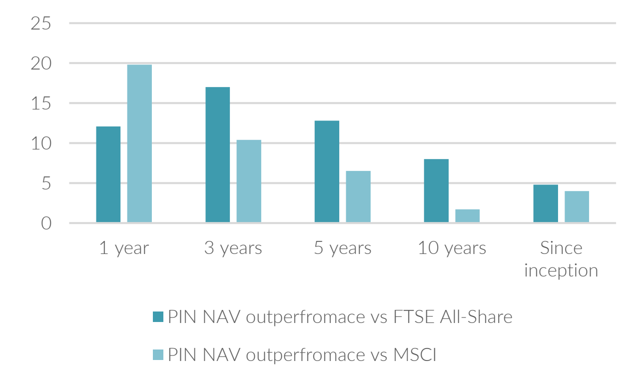
- Interestingly, the rate of outperformance has accelerated over the more recent period, which is most reflective of the current business model.

Despite drag of discount being more than twice historical average, PIN's share price total return over past decade has been 19% ahead of benchmark

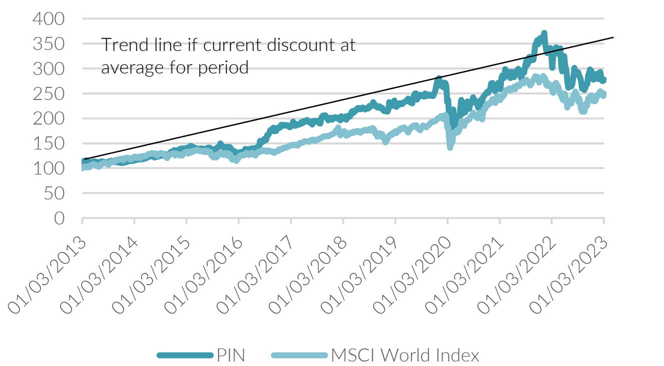
On average, discount would be 66% ahead

- The right-hand chart shows the share price total return, which shows the long-term outperformance of PIN's share price total return against the benchmark over the past decade (19%). PIN's share price total return is affected by the level of the discount at any given time, and we characterise the chart as being a long-term outperforming trend affected by this short-term sentiment noise. The current discount is more than double the 10-year average, and PIN's share price total return over the past decade, if it had traded at an average discount, would have been 66% ahead of the benchmark. To address that noise, in the chart, we have included a trend line showing where the return would be on the average discount level.

PIN's annualised NAV outperformance against MSCI World Index and FTSE All-Share total return, as at December 2022 (%)



PIN's and MSCI World Index's total return, indexed to 100, at 21 February 2013 (%)



Source: PIN Report and Accounts, Refinitiv, Hardman & Co Research

Real and conservative current NAV

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

We believe there are two reasons why listed PE, and PIN, are trading as significant discounts to NAV. The first (the second reason is summarised in the section below, *NAV resilience going forward*) is that investors do not have confidence in the current NAV. We explored why the valuation is "real" in great detail in our last full-year results note: *FY'22 results: it is not just lionesses that roar*. 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 the value at which the investment is recognised in PIN's books. While part of this may reflect deal synergies, the long-run average of 31% (1HFY'23: 33%), in our view, reflects more than this, and gives us confidence that the underlying valuation approach is conservative.

The other key factors are:

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

- Conservative corporate culture.
- There is no incentive for the GPs to over-inflate valuations.
- Valuation multiples, and resulting PEG ratios, are relatively low, bearing in mind the sector mix and companies showing similar, sustained EBITDA growth.
- Internal and external verification processes at both the GP and PIN.
- Technology companies are not all the same, and PIN's exposure to the unprofitable, venture stage, which has seen the most valuation volatility, is negligible. The technology businesses on which PIN focuses are high-quality software and business infrastructure companies that provide essential "need to have" products, such as accounting and legal software.
- Board confidence in the valuation shown through large personal stakes.
- There are the usual lagged effects on valuations as a result of changes in public market comparable companies taking time to feed through to the GP valuations, but these are relatively modest, and, in a rising market, they work against PIN.

Bears would highlight that the uplift on exit during the period is on a much slower rate of realisations, and, in difficult conditions, only the best companies can sell. In countering this argument, we note:

In any given period, there will be some selectivity in exits

A core advantage of PE is that timing of exits can be optimised

- A core part of the PE model is long-term investment, and the timing of exits is always driven by managers trying to optimise returns. PE managers can choose when they want to exit and are under no pressure to sell, and this can create some volatility in any given period. It is also worth noting that PIN is not reliant on the IPO market for exits, with most exits being to trade sales or other PE managers, which gives it further flexibility on timing. This selectivity on exit is a core part of the model, and not something new in 1HFY'23. In terms of valuation, the factors we identified above apply to the whole portfolio, and are unaffected by the macroeconomic environment.

Duration, sector concentrations, revenue and EBITDA metrics do not suggest any material change in quality of holdings

- If there were a material shift in the quality of the book, one might expect this to be reflected in several metrics, all of which are largely stable:
  - One might also expect the average holding period to lengthen if poor investments became sticky and good ones sold. The current average period (4.8 years) was marginally lower than in FY'22 (4.9 years), further extending the medium-term falling trend (5.7x at end-FY'18).

- If realisations were concentrated materially in "hot" sectors, one might expect this to be reflected in the sector concentrations of the portfolio. Exits would reduce holdings in those sectors, offsetting valuation gains, while unpopular sectors would see increasingly more companies being retained. As shown in the chart on page 14, there is nothing to suggest that this is the case.

- As shown in the chart on page 3, revenue growth has continued to outperform the world benchmark at a level in line with the historical average.

- As we noted above, EBITDA growth in 1H'23, at 4.4x the benchmark, is only slightly below the long-run average of 5.1x (excluding the market distortions affecting 2020 and 2021).

NAV resilience going forward

The second reason for a large discount to NAV is that investors expect the NAV to fall from its current levels. Again, we have explored why PIN's NAV should prove resilient, highlighting that, historically, outperformance increases in a downturn, and investors will note the consistent outperformance we highlighted above. More detail is available in our note, *FY'22 results: it is not just lionesses that roar*. It reflects both PE market resilience, and the incremental benefits from PIN's own risk management.

In uncertain times, value added by PE increases

Managers are long-term investors, and so consider whole cycle when making investments, and in their portfolio structuring

PIN benefits from PE market resilience, which reflects:

- access to committed capital and creditors' knowledge of this, supporting important factors;
- strategic optionality – both acquisitive and organic;
- PE backers have significant operational and strategic expertise that they can provide to help investee companies continue their growth plans, and their controlling interest means that they can move swiftly to make changes, if necessary;
- manager alignment;
- defensive positioning by sectors; and
- multiple academic research, supporting resilience of PE across cycles.

PIN's own risk and portfolio management add further downside resilience

PIN has incrementally reduced risk, owing to:

- a prudently managed balance sheet;
- stress tests;
- manager due diligence and selection;
- a focus on high-growth and resilient sectors, such as IT and Healthcare;
- in particular, early-stage ventures, which have seen the greatest listed market volatility, account for only 3% of PIN's portfolio; and
- multiple levers to add value, give downside protection.

Results in detail

NAV waterfall chart

1HFY'23 saw challenging markets, but PIN still grew its NAV modestly, with further gains from FX

The table below shows the percentage increase in NAV over the financial periods going back to FY'13. As may be expected, given the challenging market and valuation conditions, the returns are below long-run averages, but 1HFY'23 still delivered a total return above the level seen in FY'14, and in line with FY'20. An element of volatility is to be expected in any short-term period.

NAV bridge (% NAV)

Financial period	Valuation gain	Investment income	FX	Buybacks	Expenses, taxes other	Total
FY'13	7.0	1.8	3.6	1.2	(2.0)	11.6
FY'14	11.9	1.5	(10.1)	0.5	(1.4)	2.4
FY'15	8.0	1.7	4.0	0.3	(1.7)	12.3
FY'16	4.5	1.2	17.2	1.1	(1.7)	22.3
FY'17	13.9	1.5	3.2	0	(1.7)	16.9
FY'18	13.5	1.2	(2.2)	0.1	(2.3)	10.3
FY'19	11.0	0.8	4.5	0	(1.6)	14.7
FY'20	3.2	0.7	1.6	0	(1.5)	4.0
FY'21	32.1	1.0	(12.1)	0.0	(1.4)	19.6
FY'22	24.4	1.0	7.2	0.2	(1.8)	31.0
Average FY'13-22	**13.0**	**1.1**	**1.7**	**0.3**	**(1.6)**	**14.5**
1HFY'23	**1.5**	**0.3**	**2.5**	**0.6**	**(0.9)**	**4.0**

Source: PIN Report and Accounts, Hardman & Co Research

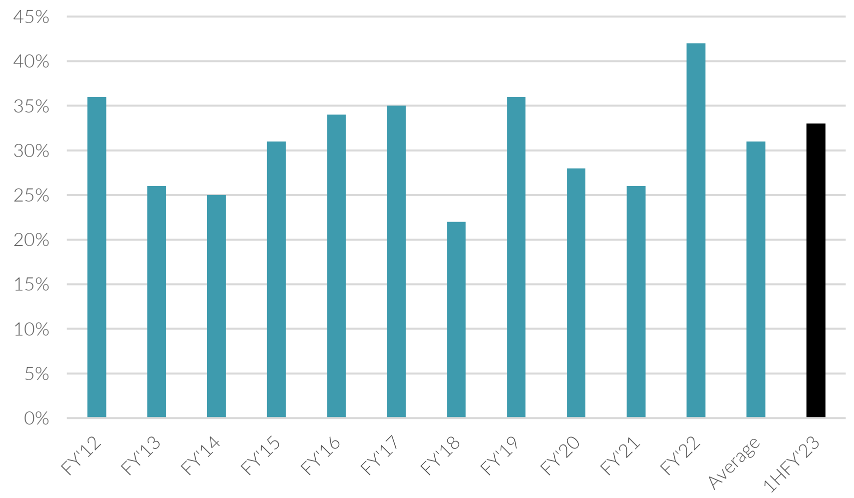
Exit uplifts

Long-run average exit uplift over 30%; in 1HFY'23, it was 33%

Portfolio metrics show no evidence of selective disposals

The chart below shows the history of uplifts on exit since FY'12. To us, the key business messages are: i) the long-run average is a 31% uplift; ii) the fact that, in no period, has the average fallen below 20%; and iii) even in the challenging 1HFY'23, we still saw an average uplift of 33%. All this shows conservatism in the accounting (the reported NAV is thus "real").

Percentage uplift on book value on exit



Note: measured against the carrying value a year before sale, as this is believed to best reflect the valuation, clean of any sale distortion. Source: PIN Report and Accounts, Hardman & Co Research

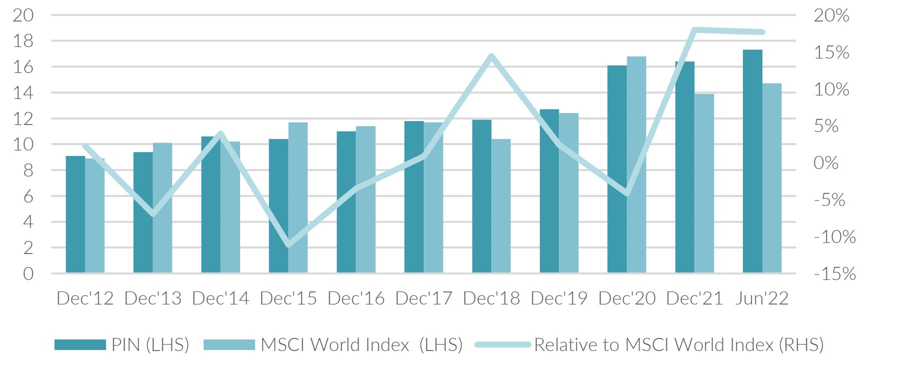
Rise in EBITDA valuation multiples reflects mix changes

Average EV/EBITDA rating at premium to MSCI World Index, but materially less than relative EBITDA outperformance

Valuation multiple remains undemanding

The chart below shows the EV/EBITDA valuation metrics compared with the MSCI World Index. There has been a rise in both since the end of 2022 (PIN: +0.9, MSCI World Index: +0.8), and PIN's multiple is on a 17.7% (end-2022: 18.0%) premium to the index. Given the revenue/EBITDA outperformance and concentration in growing, resilient sectors, a modest premium is not unreasonable.

Valuation multiple (EBITDA, x, LHS) and relative to MSCI World Index (%, RHS)



Source: PIN Report and Accounts, Hardman & Co Research

PIN's PEG is 1.6x, vs. MSCI World Index's 7.4x

PEG ratio

The long-run PEG ratio is 0.8x, but this rose to 1.6x in 1HFY'23, with the market-wide margin pressure slowing EBITDA growth to its lowest level since FY'16. While PIN's 1HFY'23 PEG is at a level above the historical average, it compares very favourably against an MSCI World Index PEG of 7.4x.

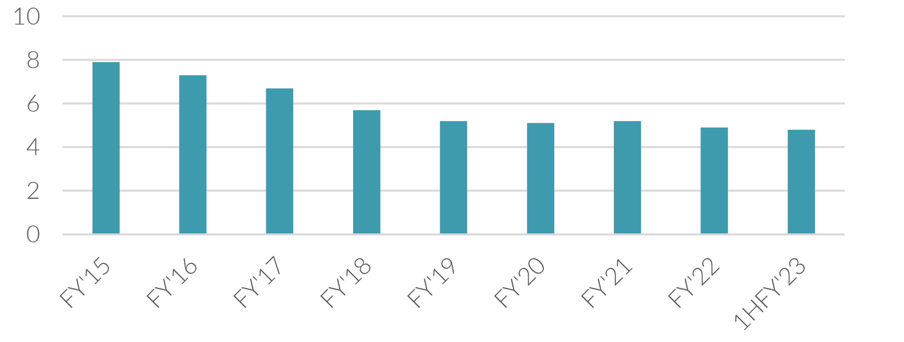
Weighted average life been on steady organic downtrend over past five years

This continued in 1HFY'23

Weighted average life of fund continues to trend down

The chart below shows that the weighted average life of the portfolio at end-November 2022 was 4.8 years. Management believes that this is an optimal level at which to create a naturally cash-generative portfolio. Looking forward, the recent high level of commitments may see further declines, as new investments become an increasing proportion of the book, but we expect PIN to keep broadly around the five-year duration.

Weighted average holding period (years)



Source: PIN Report and Accounts, Hardman & Co Research

Robust cash generation

PIN remains cash-generative

PIN generated net cash of £34m in 1HFY'23. Looking at this in detail:

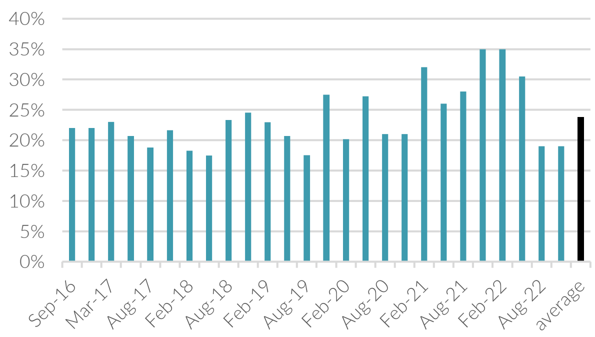
Distributions fell sharply, with market uncertainty

- PIN received £112m in proceeds in the half year to 30 November 2022 (year to 31 May 2022: £419m), equivalent to an annualised distribution rate of 10% relative to opening PE assets (long-run average: 22% – see right-hand chart below). 2Q ending in November was weaker than 1Q. The market uncertainty has reduced the overall activity, with IPO exits, in particular, being well below the normal run rate. We understand that portfolio activity is driven by specific sectors – the core IT and Healthcare sectors have shown continued activity, as their growth and resilient income streams provide some offset to the overall market uncertainty.

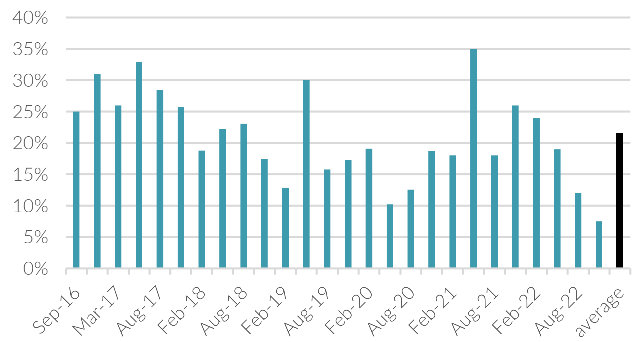
Calls fell less, with investment opportunities at increasingly favourable prices, and existing companies doing bolt-on deals

- PIN paid £78m to finance calls on undrawn commitments during the half year (FY'22: £187m). Calls were predominantly made by US-based PE managers in the growth and buyout segments. As the left-hand chart below shows, each of the quarters in FY'22 had call rates above the medium-term average, but this reversed in 1HFY'23, when the annualised call was equivalent to 21% of opening undrawn commitments (long-run average: 24%). The market uncertainty has seen increased opportunities (*inter alia*, weaker companies seeking a strong backer, and disposals of non-core operations to boost group balance sheets), although there has been an increasing divergence of views on valuations between buyers and sellers. We expect that, once the market stabilises, it is probable that sellers will be more willing than at present to accept lower ratings. This is most likely to be seen in FY'24. PIN has also recently been growing its new commitments, which are likely to see rising calls in FY'24. The time required to start making investments, combined with the use of bridging facilities by the PE funds, will defer the first call after commitment.

Annualised calls in quarter vs. opening undrawn commitments



Annualised distribution in quarter as % of opening portfolio



Source: PIN Report and Accounts, Hardman & Co Research

Strong trust balance sheet

Over-commitment represents just one year of realisations…

…a much more conservative approach than peers

PIN has a very strong balance sheet. It has net available resources of £560m (including an undrawn credit line), against undrawn commitments of £788m (which excludes £60m of commitments to funds outside their investment phase, and so unlikely to be called upon). Even on the current, depressed run rate, the uncovered element represents just one year of realisations, against a probable five-year drawdown of the commitments. The level of over-commitment is very conservative compared with that of PIN's peers, and, as investment opportunities have presented themselves post COVID-19, PIN has modestly increased its outstanding commitments.

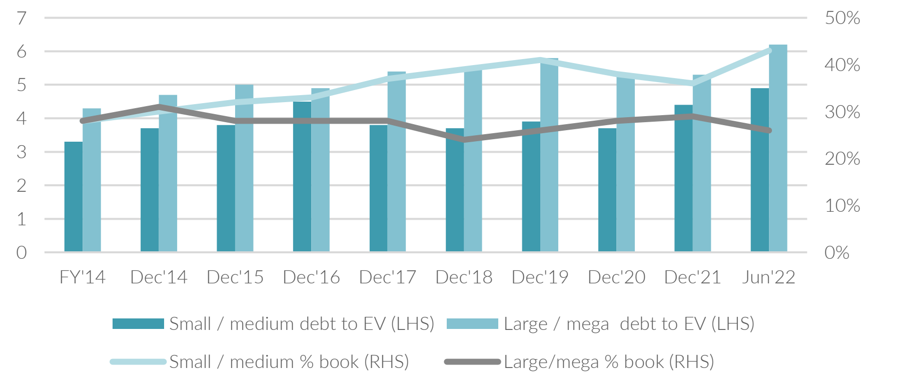
Debt at investee company level

Increase in debt multiples at investee company level in FY'22, to support bolt-on deals taking advantage of market opportunities

In periods of uncertainty, the market is likely to focus increasingly on the overall level of indebtedness of PE-backed companies. The chart below shows how this has evolved for PIN's sample companies since FY'14. As can be seen, there has been a further rise in both the small/medium-sized companies and the larger companies in 1H'23, as investee companies have taken the opportunity to add bolt-on deals. As noted above, a common feature in a downturn is that weaker competitors seek a stronger partner, and large companies sell non-core divisions to strengthen their balance sheets. Both these opportunities mean that businesses with a strong PE backer can make value-added acquisitions.

The chart also shows that PIN's smaller businesses have a lower level of debt (4.9x, against 6.2x for larger companies), and that smaller companies are making up an increasing proportion of the book.

Debt-to-EBITDA ratio since December 2014 (x)



Source: PIN Report and Accounts, Hardman & Co Research

Hardman & Co comment is that having a PE backer is likely to reduce risk of default

Lower leverage to smaller companies also shows sensible risk management by GPs

We also make the following observations:

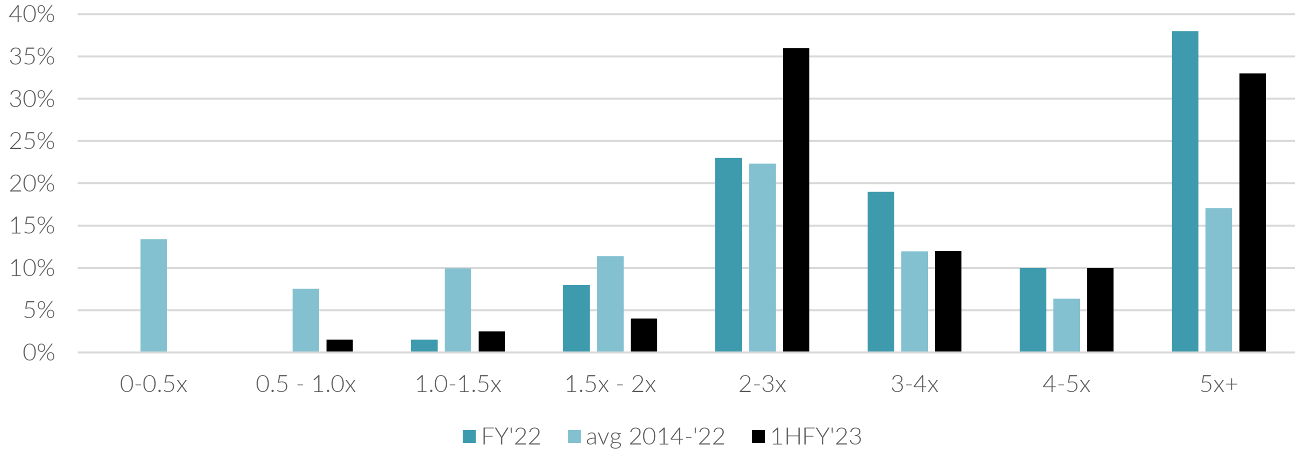
- Larger companies have higher debt multiples – while not an absolute rule, one may expect larger companies to be more established, have access to a broader range of finance and have more diversified revenue streams, and so have the potential to survive more challenging conditions better than more concentrated businesses.
- Access to a well-capitalised PE backer is invaluable in surviving downturns for businesses with good fundamentals but facing short-term cashflow issues.
- Many default events are likely to be deferred, given the prevalence of cov-lite documentation and the fact that having a PE backer means that an underlying company is much more likely to get access to such documentation. Such delays may mean that a company can survive through challenging times into a recovery in a way that would be unlikely without cov-lite documentation.

Exit multiples and realisation proceeds to cost multiples

Average exit multiple 3.1x costs in 1HFY'23, reflecting surge in proportion at over 5x

The chart below looks at the long-term track average record of the cost multiple on exit. As can be seen, there is a broad range of exit multiples around the 3.1x average. In any given period, there will be elements of volatility, and the pattern of higher multiple exits seen in FY'22 has continued in 1HFY'23. The proportion in the extreme 5x+ category has seen a small fall, but it remains well above the long-run average. We believe that sector mix, especially in IT and Healthcare, is the primary driver.

Exit realisation as multiple of cost (% by number)



Source: PIN Report and Accounts, based off sample of distributions, Hardman & Co Research

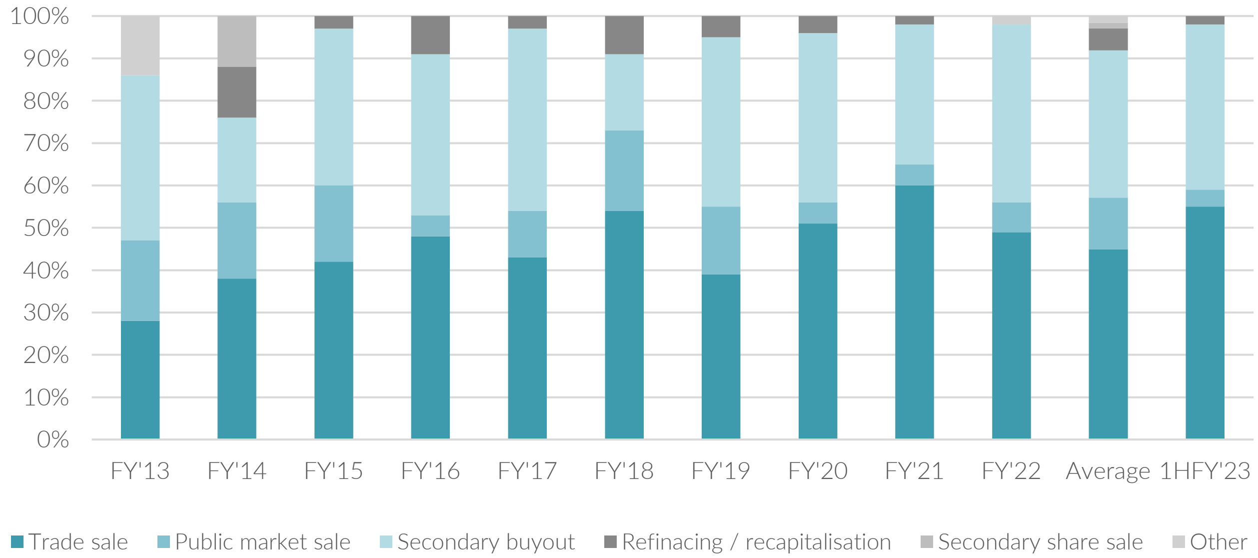
Exit by type of realisation

Trade sales above average

IPOs remain low, at 4% of exits

The chart below shows the method of realisation over time. Activity has been concentrated in sectors and subsectors that are resilient and remain attractive to larger buyout funds, which have raised significant amounts of dry powder. IPOs have remained low, at 4% of realisations, against a long-run average of just 12%, and the shortfall was made up of secondary buyouts. Trade sales have proved more resilient, and were above the average proportion of exits in the period. In our view, in the same way in which PIN's investee companies have accelerated their acquisitions, trade buyers have been looking for increased synergies to grow earnings at a time when organic growth is expected to slow.

Exit realisation by type (% by number of realisations)



Source: PIN Report and Accounts, Hardman & Co Research

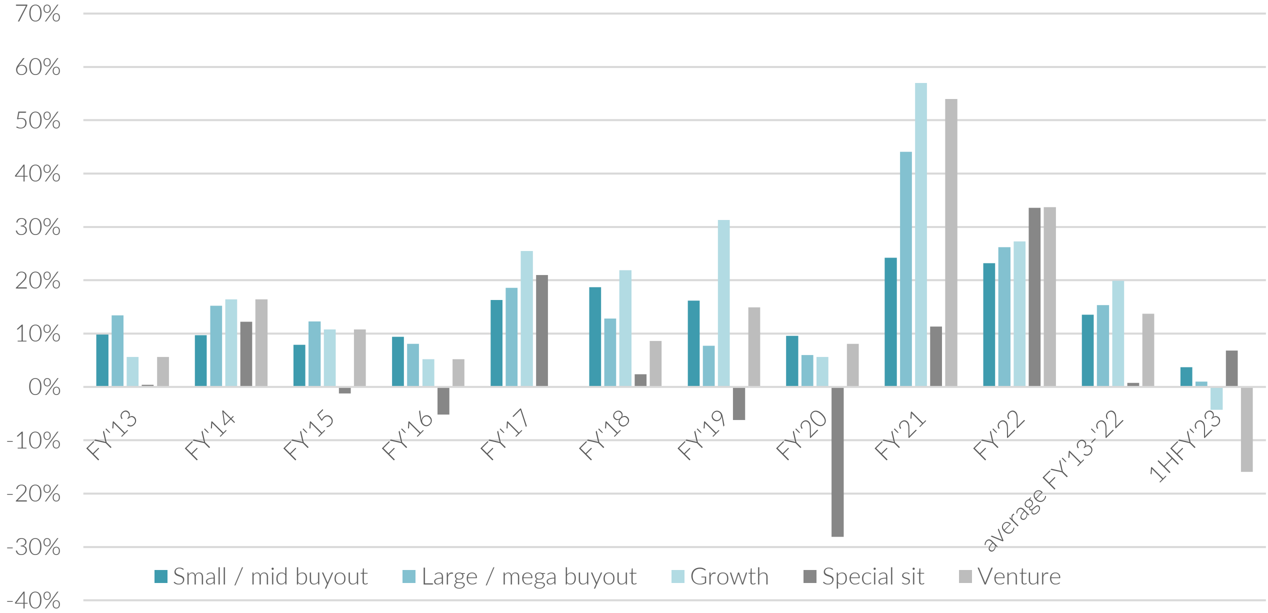
Valuation gains by stage

Only time in past decade that growth shown valuation losses

Early-stage venture down more, but only 3% of portfolio

The valuation gains by stage showed a reasonable performance in small/mid buyout holdings (43% of the portfolio) and a small gain in the large/mega buyout holdings (26%). In previous notes, we have identified that one of the attractions of having a smaller/mid concentration bias is that these companies have a greater range of exit opportunities, and this has been the case in 1HFY'23. For the first time in a decade, the growth and venture elements reported losses (4.3% and 15.9%, respectively), reflecting the market-wide sharp rise in interest rates adversely affecting the value of future profits. The venture book is just 3% of the portfolio, and was more affected than PIN's growth portfolio, which is typically profitable and cash-generative.

Valuation gains by stage (%)

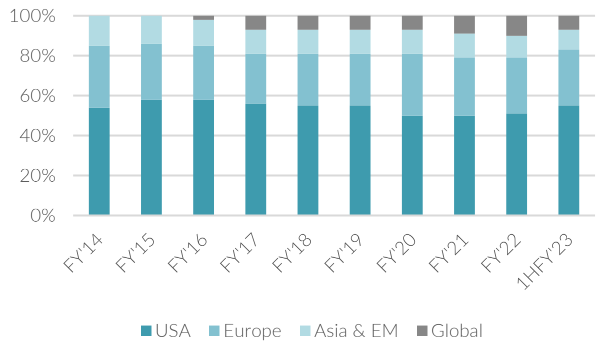


Source: PIN Report and Accounts, Hardman & Co Research

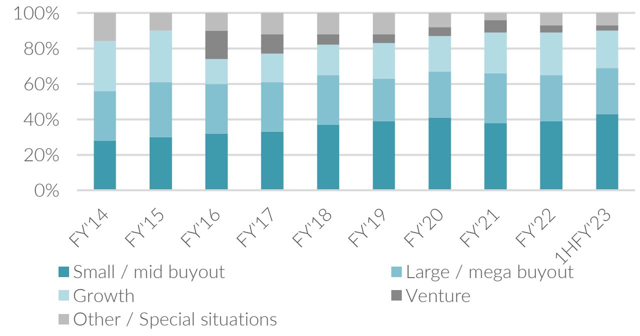
Portfolio summary

The charts below show some of the trends in the portfolio. In FY'22, there was a continuation of trends, rather than anything dramatic, which is not surprising, given the long-term nature of PIN's investments.

Geographical mix of assets (% portfolio value)

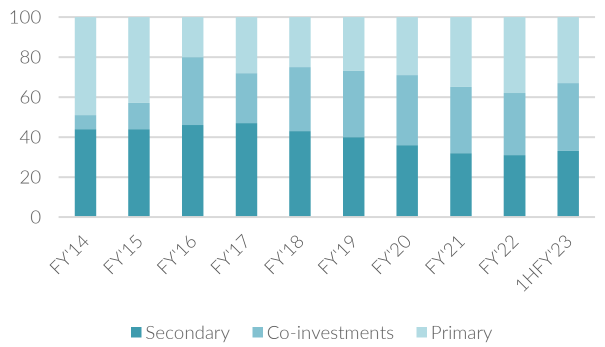


Mix by fund stage of investment (% portfolio value)

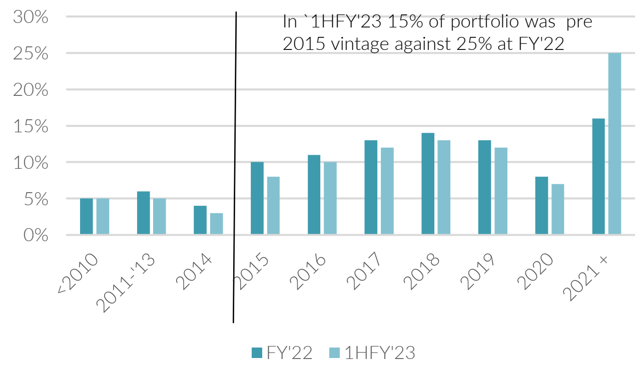


Source: PIN Report and Accounts, Hardman & Co Research

Mix of investments by type (% portfolio value)

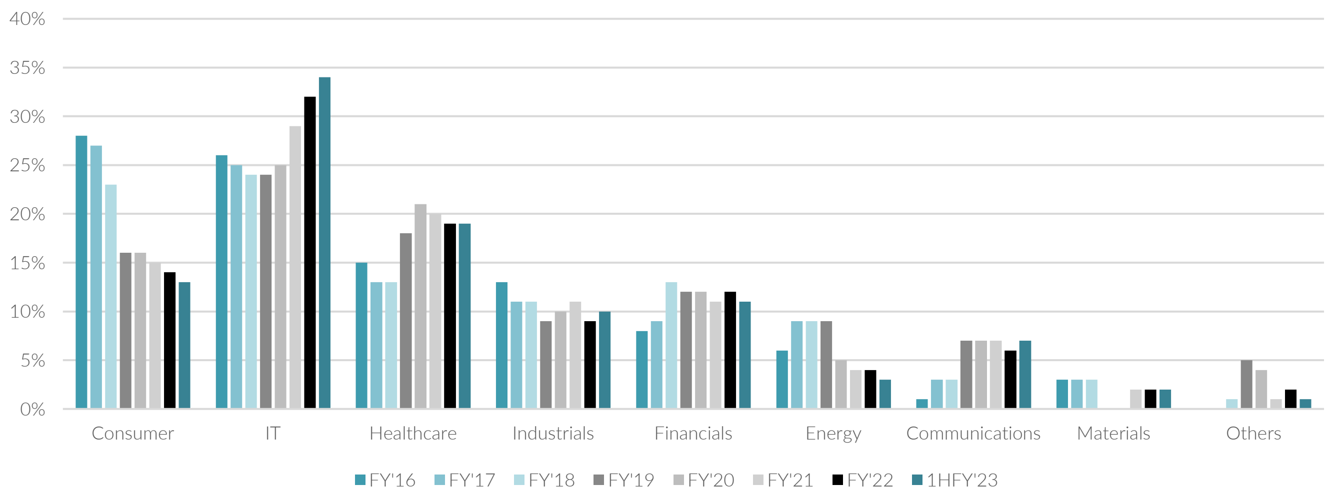


Mix by fund maturity of investment (% portfolio value)



Note: in FY'22, 2021-22 maturity buckets were combined. Source: PIN Report and Accounts, Hardman & Co Research

Sectoral mix of investments (% portfolio value)



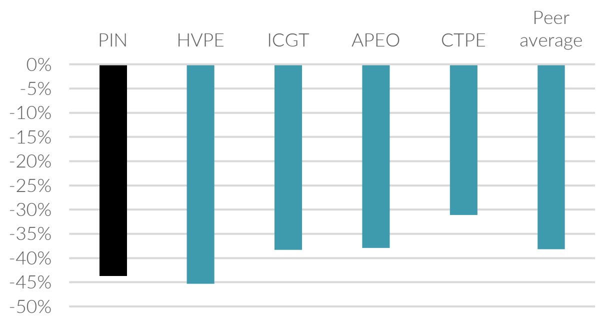
Source: PIN Report and Accounts (consumer decline in 2019 due to reclassification), Hardman & Co Research

Valuation

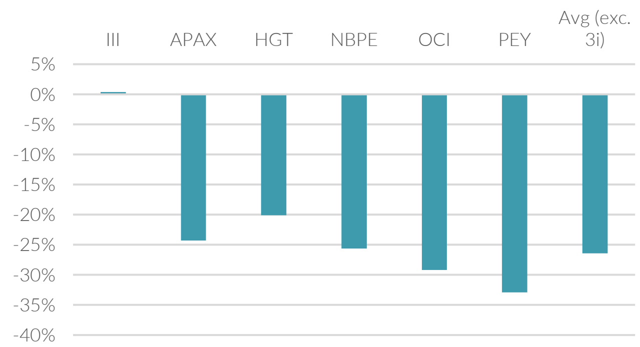
Discount to NAV 44%

PIN and its peers continue to trade at a considerable discount to NAV. This has widened sharply since the start of 2022. We believe investors are questioning the current NAV, and whether it will be sustained. To put this into perspective, in our view, investors should bear in mind the long-term track record of outperformance and all the factors outlined above. PIN is a balanced vehicle, with 54% of the portfolio consisting of direct holdings, built up through co-investments and single-asset secondaries, and just under half in fund positions. We note, from the right-hand chart below, that listed PE vehicles investing directly in companies, on average, trade at a ca.12% lower discount to NAV, making PIN's discount even more anomalous.

PIN and closest peers' discount to NAV (%)



Broader peer premium/discount to NAV (%)



Source: Company factsheets, LSE, priced at 5 March 2023, Hardman & Co Research

Triggers for a re-rating

Key triggers for re-rating include continued performance, better market understanding of risk and reward in model…

…and more comfort that impact on NAV of any economic downside scenario will not be as adverse as feared

PIN and its peers have traded at a range of discounts to NAV for a considerable time. While investors have been rewarded by market-beating, strong NAV growth driving the share price, it is also worth noting that there are a number of potential triggers that could deliver incremental returns by closing the discount. These include:

- Continued delivery of better-than-market operating growth is likely to be positive. PE is attractive not only to value investors but also to growth ones.
- We note that PIN has become increasingly active in its investor engagement.
- The discount to NAV widened significantly in the 2022 market turmoil. We believe this was due partly to worse-than-average sentiment to PE in such conditions. A normalisation of sentiment may lead to a discount reduction, initially to the mid-single-digit levels seen before the onset of COVID-19.

We believe, for the reasons outlined above, that concerns about valuation will also prove misplaced. This is only likely to be addressed by delivery of returns over time and by a steady flow of information across the whole industry. There has been a steady flow of realisations at above carrying value, and further news flow of this type may help abate concerns.

Financials

Our forecasts are unchanged.

Profit and loss (£000)									
Year-end May		2022			2023E			2024E	
	Revenue	Capital	Total	Revenue	Capital	Total	Revenue	Capital	Total
Gains on investments at FV through P&L		570,049	570,049		291,019	291,019		335,098	335,098
ALN losses on fin. liab. at FV through P&L	(305)	(3,123)	(3,428)	-	-	-	-	-	-
Currency (losses)/gains on cash & debt	-	19,564	19,564	-	-	-	-	-	-
Investment income	19,169	-	19,169	24,625	-	24,625	28,354	-	28,354
Investment manager's fee	(23,115)		(23,115)	(28,500)		(28,500)	(32,500)		(32,500)
Other expenses	(1,274)	(1,326)	(2,600)	(1,401)	(1,401)	(2,803)	(1,542)	(1,542)	(3,083)
Return before finance costs and taxation	(5,525)	585,164	579,639	(5,277)	289,618	284,341	(5,687)	333,557	327,870
Interest payable and similar expenses	(3,967)	-	(3,967)	(4,750)	-	(4,750)	(4,750)	-	(4,750)
Return on ordinary activities before taxation	(9,492)	585,164	575,672	(10,027)	289,618	279,591	(10,437)	333,557	323,120
Taxation	(3,075)		(3,075)	(3,075)		(3,075)	(3,075)		(3,075)
Return on ordinary activities after tax	(12,567)	585,164	572,597	(13,102)	289,618	276,516	(13,512)	333,557	320,045

Source: PIN Report and Accounts, Hardman & Co Research

Balance sheet (£000)								
@31 May	2017	2018	2019	2020	2021	2022	2023E	2024E
Investments at fair val. through P&L	1,224,142	1,274,737	1,449,634	1,495,689	1,713,724	2,238,608	2,577,679	2,910,549
Current assets								
Debtors	1,661	3,891	3,222	1,259	8,215	2,123	2,123	2,123
Cash and cash equivalents	167,252	162,292	142,773	130,091	199,118	231,458	134,852	107,027
Total assets	1,393,055	1,440,920	1,595,629	1,627,038	1,921,057	2,472,189	2,714,654	3,019,699
Current liabilities								
Creditors	5,522	19,046	4,682	10,030	9,039	6,138	6,138	6,138
Long-term liabilities								
ALN		115,110	92,359	57,743	46,787	38,587	23,587	8,587
Net assets	1,387,533	1,306,764	1,498,588	1,559,266	1,865,231	2,427,464	2,684,929	3,004,974
NAV per share (p)	219	242	277	289	345	452	505	566

Note: NAV per share adjusted for share split. Source: PIN Report and Accounts, Hardman & Co Research

Cashflow (£000)								
Year-end May	2017	2018	2019	2020	2021	2022	2023E	2024E
Investment income received	17,105	13,619	12,818	10,356	16,311	19,157	24,625	28,354
Deposits and other income	343	830	1,359	952	87	28	1,000	1,000
Investment management fees paid	(12,506)	(14,969)	(16,401)	(17,623)	(18,416)	(22,637)	(28,500)	(32,500)
Other fees/cash payments	(1,867)	(6,309)	(17)	(3,868)	(3,348)	(3,372)	(3,751)	(3,751)
Withholding tax deducted	(4,257)	(10,483)	(3,407)	(1,776)	3,602	(3,626)	(3,075)	(3,075)
Net cash inflow/(outflow) from operating activities	(1,182)	(17,312)	(5,648)	(11,958)	(1,764)	(10,450)	(9,701)	(9,972)
Cashflow from investing activities								
Purchase of investments	(251,181)	(254,426)	(285,326)	(239,251)	(226,205)	(352,620)	(400,000)	(400,000)
Disposals of investments	303,131	351,335	313,330	267,126	344,559	402,700	350,000	400,000
Net cash outflow from investing activities	51,950	96,909	28,004	27,875	118,354	50,080	(50,000)	-
Cashflows from financing activities								
ALN repayments	0	(77,152)	(44,909)	(28,023)	(24,286)	(13,786)	(15,000)	(15,000)
Share buybacks	0	(3,546)	(500)	0	0	(10,360)	(19,051)	-
Redeemable share buybacks	(26)	0	0	0	0	-	-	-
Loan commitment and arrangement fees paid	(1,378)	(1,577)	(3,286)	(1,816)	(4,888)	(2,853)	(2,853)	(2,853)
Finance costs paid for deferred pay't. transaction	(182)	0	0	0	0	-	-	-
Net cash inflow from financing activities	(1,586)	(82,275)	(48,695)	(29,839)	(29,174)	(26,999)	(36,904)	(17,853)
Net increase in cash and cash equivalents	49,182	(2,678)	(26,339)	(13,923)	87,416	12,631	(96,605)	(27,825)
Opening cash and cash equivalents	115,522	167,252	162,292	142,773	130,091	199,118	231,458	134,852
FX effects	2,548	(2,282)	6,820	1,241	(18,389)	19,709	-	-
Closing cash and cash equivalents	167,252	162,292	142,773	130,091	199,118	231,458	134,852	107,027

Source: PIN Report and Accounts, Hardman & Co Research

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(Disclaimer Version 8 – Effective from August 2018)

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research@hardmanandco.com

1 Frederick's Place
London
EC2R 8AE

+44 (0)203 693 7075

www.hardmanandco.com