Closed End Investment Funds

Source: Refinitiv

Market data

EPIC/TKR	**ICGT**
Price (p)	**1,150**
12m high (p)	1,260
12m low (p)	928
Shares (m)	68.04
Mkt cap (£m)	783
NAV p/sh (Jan'23, p)	1,903
Discount to NAV	-40%
Country/Ccy of listing	UK/GBP
Market	Premium equity closed-ended investment funds

Description

ICG Enterprise Trust (ICGT) is a listed private equity (PE) investor providing shareholders with access to an attractive portfolio of profitable, cash-generative, private-market investments, with the added benefit of daily liquidity. It invests in companies managed by ICG and other leading PE managers, directly and through funds. It strikes a balance between concentration and diversification, risk and reward.

Company information

Chair	Jane Tufnell
Aud. Cttee. Chr.	Alastair Bruce
NEDs	David Warnock, Adiba Ighodaro, Janine Nicholls, Gerhard Fusenig
Inv. Mgrs.	Oliver Gardey, Colm Walsh
Contact	Christopher Hunt +44 (0)203 545 2000 www.icg-enterprise.co.uk

Key shareholders

None over 3%

Diary

13 Jun	Capital Markets Day
27 Jun	1Q update to end-Apr
27 Jun	AGM

Analyst

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Disclosure note: The relevant analyst is a shareholder in ICGT Enterprise Trust.

ICG ENTERPRISE TRUST PLC

FY results: proving the market-beating model again

ICGT *reported* another strong year to end-January 2023. The NAV per share was 1,903p, up from 1,690p in January 2022. The NAV total return was 14.5%, driven by the local-currency portfolio return of 10.5%, its 14th consecutive year of double-digit growth. Realisations and new investments were in line with historical averages. On exit, ICGT saw an average 24% uplift, despite the challenging market conditions. It has a progressive dividend policy (up 11%), is doing share buybacks (£5.2m), and has a new, reduced management fee. ICGT's investee companies offer good risk-adjusted returns and defensive characteristics, giving investors both growth and resilience.

- **Defensive growth, long-term-value**: ICGT's strategic approach has given investors market-beating returns and just three down quarters out of 28 since the manager was appointed. In both good and bad years, the model has consistently proved that it can deliver resilient returns, driven by underlying company EBITDA growth.
- **Management fee and cost reduction**: ICGT has negotiated a tiered cap to management fee, effective from 1 February 2023. If this had been effective over the last year, it would have saved over £1m. In addition, the manager is now absorbing various costs, saving 25%-30% (we estimate £0.5m p.a.) of ICGT's other expenses.
- **Valuation:** ICGT's NAV valuations are conservative, demonstrated by continued realisations above reported book values. The ratings are undemanding. The 40% discount to NAV is anomalous, we believe, with defensive, market-beating returns, and is above the levels seen pre-COVID-19. The 2024E yield is 2.9%.
- **Risks:** Private equity (PE) is an above-average cost model, but post-expense returns have consistently beaten public markets. Actual experience has been of continued NAV outperformance in economic downturns, but sentiment may be adverse. ICGT's permanent capital structure is right for unquoted/illiquid assets.
- **Investment summary:** ICGT has consistently generated superior returns, by adding value in an attractive market, having a strategic focus on defensive growth and leveraging synergies from being part of ICG since 2016. Valuations appear conservative, and governance is strong. ICGT focuses on delivering resilient, risk-adjusted returns, and balancing risk and reward. The risks are primarily sentiment-driven on costs, cyclicality and the underlying assets' liquidity. A 40% discount to NAV appears anomalous with ICGT's performance.

Financial summary and valuation

Year-end Jan (£000)	2021	2022	2023	2024E	2025E
Total income	6,594	5,503	2,271	6,792	8,034
Realised gains	(17,088)	1,968	9,311	33,727	39,935
Unrealised gains	201,159	238,062	175,890	202,361	239,611
Investment manager fees	(10,728)	(13,417)	(17,013)	(14,837)	(17,679)
Other expenses	(4,070)	(4,646)	(1,956)	(1,762)	(1,588)
Rtn. on ord. act. pre-tax	175,068	226,490	164,525	222,775	264,808
NAV per share (p)	1,384	1,690	1,903	2,201	2,555
NAV total return	22%	25%	15%	19%	19%
S/P prem./disc. (-) to NAV	31%	26%	-43%	-48%	-55%
Investments (£m)	908	1,124	1,349	1,597	1,889
Dividend per share (p)	24	27	30	33	36

Source: Hardman & Co Research

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- high-net-worth companies, unincorporated associations and partnerships and trustees of high-value trusts as described in Article 49(2) of the Order, provided that in each case the report and any materials in it are only directed at persons who are "qualified investors" as defined in article 2(1)(e) of Directive 2003/71/EC (as amended) (the "Prospectus Directive") ("Relevant Persons"). Accordingly, this report does not constitute, and does not contain the information required to be contained in, a prospectus as required under the Prospectus Directive.

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2023 results summary

Five-year NAV CAGR total return 16.9%. Now 14 consecutive years of double-digit local currency portfolio growth.

The portfolio return on a local currency basis over the last 12 months (LTM) was 10.5% (FY'23 sterling return 17.0%). It is the 14th consecutive year of double-digit local currency portfolio growth. The 2023 NAV total return per share was 14.5%, broadly in line with the five-year NAV per share total return of 16.8% (UK whole market 4.2%).

Continuing to realise significant uplifts to carrying value, despite market conditions

Total proceeds during the period were £252m (FY'22 £343m). There were 54 full exits in the year, at an average uplift to carrying value of 24% (still two thirds of the FY'13-22 average of 35%, despite market conditions), with a 2.7x multiple to cost (somewhat above the 10-year average of 2.3x). The realisation uplift and returns profile indicate both the inherent conservatism in the portfolio valuations and the company's ability to identify attractive investments to generate strong returns. Realisations were broadly in line with FY'22, and up 18% on the 2018-21 average.

Investing in today, committing to tomorrow

£287m of total new investments were made (FY'22 £304m), of which £139m (48%, FY'22 57%) went into primary funds and £70m into direct investments (24%). Secondary investments totalled £78m, and, at end-FY'23, accounted for 19% of the portfolio. FY'23 total new investments were broadly in line with FY'22, and ca.60% up on the average of FY'18-22.

Robust balance sheet

At end-January, ICGT had £167m of available liquidity, including £21m of cash and a £146m undrawn revolving credit facility. Undrawn commitments at the end of January were £497m, £130m of which were in funds outside their investment period, and so unlikely to be drawn. Over-commitment at the end of January 2023 was thus 25% of NAV, up from 18% at the end of January 2022. In previous notes, we have explained why commitments, some of which may not be drawn at all or not for several years, may be expected to exceed current liquidity, and why a degree of over-commitment is sensible balance sheet management.

Management fee reduction saving over £1m p.a., and manager also absorbing £0.5m+ of costs.

The manager's fee has seen a tiered cap as a proportion of NAV introduced, which would have reduced the management fee by ca.6.5% (£1.1m) over FY'23. The manager is also absorbing costs equivalent to 25%-30% of ICGT's general expenses. In 2022, these were £2.1m – so the savings could be £0.5m+.

Defensive growth delivers consistent returns

"Defensive growth" is core to ICGT, and has delivered the consistency of returns evident in ICGT's performance over the long term. When the whole UK market saw falling EBITDA (e.g. in FY'16 and FY'21), ICGT's top 30 companies still delivered double-digit EBITDA growth. In FY'23, the top 30 companies delivered 21.5% EBITDA growth, with very modest margin erosion (revenue up 21.9%), despite market pressures. In looking at an uncertain macro environment, we note i) that ICGT invests in mid-market, defensive sectors and that market statistics showing transactions slowing were biased by large technology deals, ii) that realisations were continuing, iii) that the lower-than-PE average leverage reflected a conservative choice of managers, who did not rely on financial engineering (profitability and cash generation are attractive, "defensive growth" characteristics for ICGT), and iv) the opportunities in the secondary market, where the imbalance of buyers and sellers meant that high-quality portfolios could be bought at significant discounts to par, and where ICGT could conduct full due diligence on the underlying investments. We examined the resilience of the portfolio in detail in our note, *1H'23 and beyond: safe harbour in the storm,* published on 10 November 2022.

Valuations are conservative

That report also emphasised why we believed the NAV valuation was conservative, and we continue to believe this, noting i) uplifts on exits (24% in FY'23), ii) valuation – EV/EBITDA of 14.3x and a low PEG of 0.7x, iii) revenue and EBITDA growth (21.9% and 21.5%, respectively), iv) no incentive for GPs to inflate valuations, and v) independent basis of valuations.

Key themes

Value created from defensive growth strategy

The focus of ICGT's portfolio is on buyouts of businesses in mature markets that have defensive growth characteristics. It chooses direct investments and managers that also align to this strategy – and the maturity and profitability of these businesses are really central here (these are not venture capital or early-stage business investments). The sector exposure and the maturity of the businesses in which ICGT invests have, in the past, and should, in the future, position the company well relative to the market in delivering resilient returns.

Defensive growth has "play book" of characteristics, which can be seen again and again across ICGT's investments…

…and which are fundamental to consistent returns

Looking at defensive growth characteristics in more detail, these often include:

- Mature businesses that are profitable and cash-generative (unlike early-stage venture capital investments).
- Leading market positions.
- Providers of mission-critical services.
- The ability to pass on price increases.
- High margins.
- Avoiding early-stage venture capital where valuations may be based off future revenue projections.
- Scalable platforms.
- Sectors or sub-sectors where the income streams are non-cyclical.
- Growth levers, such as bolt-on M&A or operational improvements.
- Strong management, with a proven track record.
- PE is a long-term investment. ICGT has, for some time, assumed that exit multiples would be lower than entry ones for its co-investments – thus building in a cushion in its deal assessments. Also, investments have had to justify themselves on earnings growth, not multiple expansion.
- With recent co-investments, ICGT has been leveraging ICG plc's expertise, and building downside protection into the structure of its deals, taking a very cautionary approach to such investments.

NAV fallen in only three out of past 28 quarters and FY'23 results both prove resilience

The consistency of ICGT's performance over many years is testament to these characteristics, and it has seen only three quarters in the past 28 when the NAV has fallen. The FY'23 continued revenue and EBITDA growth (21.9% and 21.5%, respectively) and limited margin erosion (FY'23 top 30 EBITDA margin 25.8%, vs. 26.6% in FY'22) are further evidence of defensive growth in action. The more detailed disclosure on slides 18-19 of the *results presentation* gives a further insight into resilience. In FY'23, looking at 75% of ICGT's portfolio, under 10% of the portfolio saw revenue declines in that year, and just 18% saw EBITDA declines. All the top 30 companies were EBITDA-positive.

NAV is "real" and conservative

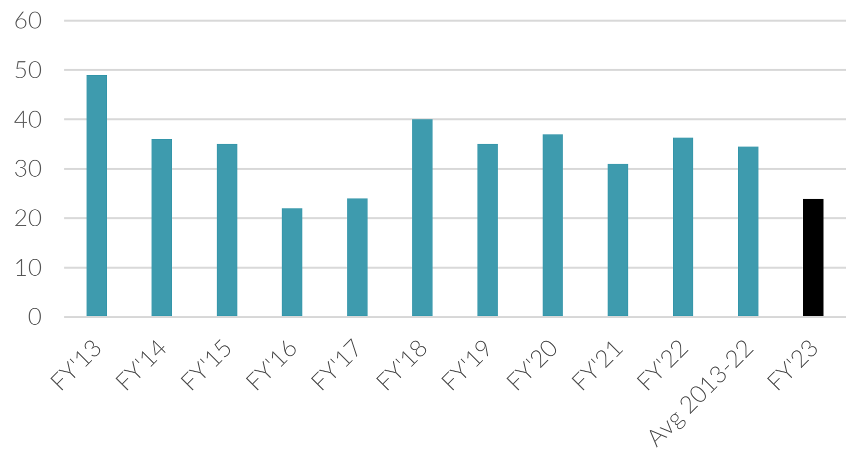
Key point is that, after all their due diligence, buyers are willing to pay higher price than carrying value

We believe one reason why listed PE companies, and ICGT, are trading at significant discounts to NAV is that some investors do not have confidence in the current NAVs. We have explored why we believe ICGT's valuation is "real" in great detail in previous notes, and, to summarise, the key factors are listed below. In particular, we emphasise the uplift on exit.

Uplift on exit (24%) close to level of previous years, indicating both conservative accounting and embedded value in portfolio

The chart below shows ICGT's realisation history since FY'13. In FY'23 (across 54 full exits), it was still two thirds of the long-run average level, despite the challenging conditions. The multiple of cost on exit was above average. On exit, 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 ICGT's books. While part of this may reflect deal synergies, the previous 10-year average of 35%, in our view, reflects more than this, and gives us confidence that the underlying valuation approach is conservative. These exit uplifts reflect an embedded value within the portfolio, and have been realised, even in the challenging current market conditions.

Uplift in value on realisation against latest accounting book value, FY'13-23 (%)



Source: ICGT Report and Accounts, Hardman & Co Research

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

The other key factors in having confidence in the current NAV are:

- 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.
- Double internal and external verification processes, with reviews by both the GP and ICGT. If ICGT feels the GP valuation is invalid, it will adjust it to what ICGT sees as a more realistic level, but it only ever adjusts down. This is, we understand, a rare event – ICGT would not choose to partner with overly optimistic GPs.
- As detailed in the section on defensive growth above, ICGT's focus is on mature, well-established businesses, and its exposure to the unprofitable, venture stage, which has seen the most valuation volatility, is negligible. The technology

businesses on which ICGT focuses are typically high-quality software and business infrastructure companies that provide essential "need to have" products, such as accounting and legal software.

No evidence of selective disposals in FY'23

Bears may question whether only the best companies can sell in challenging times, implying that ICGT's residual portfolio would contain lower-quality companies. We do not believe this is the case. 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 ICGT 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 FY'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 table below shows the portfolio by calendar year of investment. There is volatility among years, but there is nothing to suggest that FY'23 saw a portfolio with excessive legacy assets.

Portfolio by calendar year of investment, compared with year of reporting (%)

	- -1 year	- -2 year	- -3 year	- -4 year	- -5 year	- -6 year	- -7 year	- -8 year	> -8 year
FY'23	**19.6**	**25.1**	**10.3**	**11.2**	**12.0**	**6.7**	**4.1**	**4.1**	**6.1**
FY'22	25.1	12.3	15.4	17.9	9.6	5.9	6.6	n/d	7.1
FY'21	10.5	18.3	18.4	17.1	9.6	11.2	6.0	1.6	7.3
FY'20	17.3	19.7	19.2	16.2	7.7	8.5	5.5	1.4	4.5
FY'19	20.4	20.0	17.9	9.8	11.9	9.2	2.8	1.4	6.6

Source: ICGT Report and Accounts, Hardman & Co Research

-
    - 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 11, there is nothing to suggest that this is the case.
    - As noted above, revenue and EBITDA growth have remained strong, materially outperforming world benchmarks, we believe.

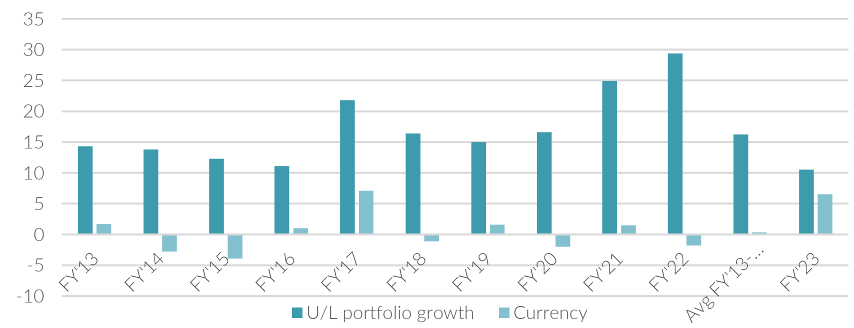
Results in more detail

Growth in portfolio

2023: 10.5% underlying portfolio growth, 14th consecutive year of double-digit growth

The chart below shows the underlying constant-currency portfolio growth since FY'13. What is remarkable is the consistency of double-digit returns over the past six years. Despite the challenges in 2022, the LTM constant currency return is still 10.5% (17% in sterling).

Underlying constant-currency portfolio growth, FY'13-23 (%)



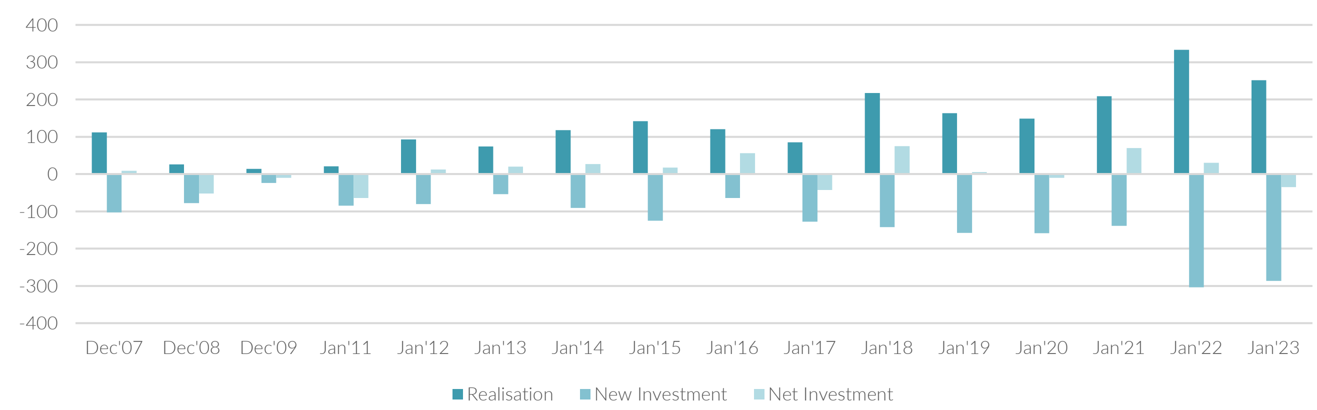
Source: ICGT Report and Accounts, Hardman & Co Research

Realisation and investment activity

ICGT's realisations and investments running above run rate for FY'20 and FY'19

The chart below shows realisations and drawdowns since 2007. Over recent years, both have been growing with the business. 2023 realisations were £252m, which, while down on the record levels of FY'22, would still be a "good" result compared with previous years, and represented 22% LTM realisation proceeds to the opening portfolio ratio (five-year average 24%). Given the opportunities at this stage of the cycle, and the timing of GP calls on the fund side, we would expect to see a net investment.

History of realisations and drawdowns since 2007 (£m)



Source: ICGT Report and Accounts, Hardman & Co Research

New investments

Bias of new investments was, as promised, into secondaries

Total new investments of £287m were made in FY'23, of which £139m went into primary funds and £70m into direct investments. New secondary investments were £78m, 27% of the total. This market has seen some investors hit allocation caps (as PE has outperformed listed markets, its weighting in portfolios has risen). As a consequence, they have become more active in managing their portfolios, and are motivated, if not stressed, sellers. ICGT has seen pricing for high-quality investments widen to a discount of a mid-teen percentage against NAV, when, a few years ago, similar positions were at par. The portfolio is being strategically migrated, and, at end-FY'23, it was 54% primary, 27% direct and 19% secondary (new targets ca.50%, ca.25% and ca.25%, respectively).

Realisation values

Mid-market defensive growth strategy naturally leads to less realisation volatility

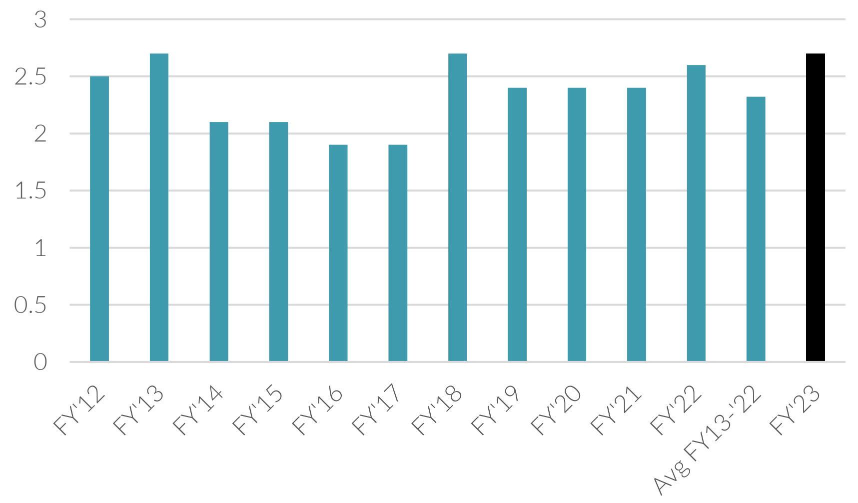
In understanding why ICGT's realisations have been significantly more robust than those in the overall market, investors should consider i) its mid-market focus – the greatest slowdown has been skewed to the larger PE deals, ii) a relatively modest dependence on IPOs as an exit route – again, this reflects its mid-market focus, iii) resilient, secular-growth sectors have typically been more active than others, and iv) the absence of venture capital investments (which is largely incompatible with the defensive growth strategy) – and so ICGT companies are mainly profitable and valued off earnings, not future revenues. Interestingly, management's current view is that FY'24 should be broadly similar to FY'23, and it has got off to a good start, with the completion of the sale of the third-largest investment this year.

Realisation multiples

Realisation to cost 2.7x, against 10-year average of 2.3x

The chart below shows the realisation value to cost multiples since FY'12. 2023 was 2.7x, slightly better than the long-run average of 2.3x. We understand that there was no single underlying driver to this volatility.

Realisation value to cost multiple (pre-incentives), FY'12 to date (x)



Source: ICGT Report and Accounts, Hardman & Co Research

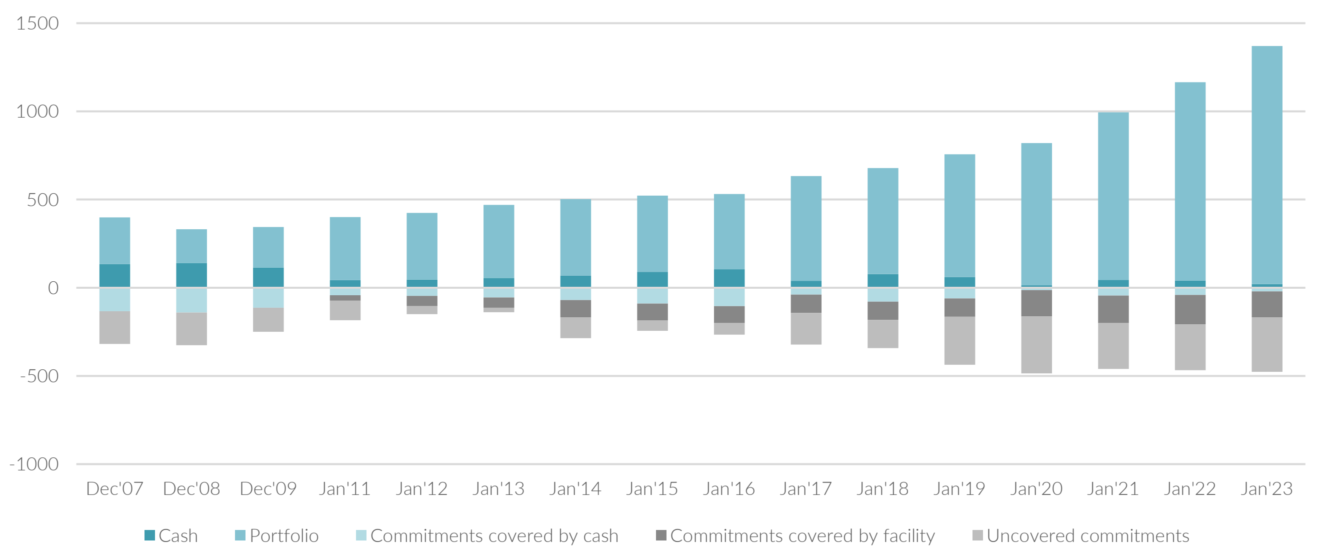
Balance sheet evolution

Over-commitment as percentage of NAV 25%

Total liquidity rose to £167m at end-January 2023, with cash of £21m (January 2022 £41m) and undrawn facilities of £146m (January 2022 £167m). Total undrawn commitments were £497m (January 2022 £419m), of which £130m (January 2022 £96m) were to funds outside their investment periods. The total over-commitments (including those unlikely to be drawn) were 25% of NAV (January 2022 18%). There are a further £58m of co-investment incentive scheme accrual commitments (FY'22 £49m), which, it may be argued, are commitments due because of the performance of the portfolio, and these are consistently included in the chart below.

In our view, this long-term balance sheet evolution shows a conservative approach, and the degree of over-commitment is prudent in relation to likely cashflows. ICGT's increased investments in secondaries will also accelerate the cashflow profile – since secondary investments generally reflect more mature assets, the distributions are generally received faster than from primary investments. The uncovered element of commitments, in nominal terms, is broadly unchanged on January 2019, despite the growth in NAV and the portfolio.

Balance sheet evolution since December 2007 (£m)



Note: Includes co-investment incentive scheme accrual commitments; Source: ICGT Report and Accounts, Hardman & Co Research

Drag effect of Chewy much reduced

Management comments that, despite fall since peak share price, *"ICG Enterprise Trust's investment in PetSmart (which includes Chewy) has delivered strong return on investment for our shareholders"*

PetSmart has been an investment since 2015, but, through FY'21, its relative value in the portfolio rose sharply, following the IPO of Chewy (part of the PetSmart business). Chewy's share price doubled between the end of October 2020 and the end of January 2021, to $101.8, when the combined holding was 9.6% of NAV. However, in FY'22, the share price more than halved, and, by the end of January 2022, the share price was down to $47.6, representing a ca.4% drag on NAV in FY'22. In the year to end-January 2023, the share price was more stable (end-January 2023 $45.1), albeit there has been some weakness since. It is currently $33.1. On the results call, ICGT advised that the GP always considered liquidity options and noted that the IRR on Chewy remained excellent.

Chewy share price, January 2020 to March 2023

Source: Refinitiv, Hardman & Co Research

Change in manager's fee

New management fee structure should save in excess of £1m p.a.

The ICG Enterprise Trust Board and the Manager have agreed a revised management fee rate, effective from 1 February 2023. While the management fee arrangement will remain unchanged, a tiered cap as a proportion of NAV has been introduced at the following thresholds: under £1.5bn (1.25%), under £1.5bn-£2bn (1.1%) and over £2bn (1%). The management fees for FY'23 were 1.4% of NAV (unchanged on FY'22). As an illustration, had the revised agreement been in place during this period, management fees would have been capped at 1.25%. This would have reduced the management fee by ca.6% (ca.£1.1m).

On our estimates, similar saving from manager absorbing other costs

The manager has also agreed to absorb a number of ongoing costs that were previously paid for by ICGT, in particular a material share of sales and marketing costs. The board estimates that these are equivalent to ca.25%-30% of the general expenses (which exclude management fees and finance costs) that would have been paid by ICGT prior to this agreement being reached. In 2023, the general expenses were £1.9m (page 53 of Report and Accounts) – so the savings could be £0.5m-£0.6m.

Dividend and buyback

FY dividend up 11%, as promised

ICGT has a progressive dividend policy, and declared total dividends for FY'23 of 30p per share (+11.1% on FY'22).

Long-term basis of buyback programme reconfirmed

Management also emphasises that its buyback programme is a long-term initiative, and not a tactical move. £5.2m-worth of shares have been repurchased since the programme was initiated, up to and including 2 May 2023, with a total of 472,178 shares having been repurchased in that period (average discount of 41.2%).

Activity since period-end

Continued investments and realisations (including proceeds from exit of third-largest position)

Since the period-end to end-March 2023, there have been three new fund commitments (£55.6m), and new investments of £19.8m (one follow-on direct investment of £0.5m). Realisation proceeds in the two months were £49.4m, including initial proceeds from the sale of Endeavor Schools, announced on 2 February 2023.

January 2023 portfolio overview

Top 30 companies account for 38% of portfolio, giving balance between diversity and concentration risks/benefits

The top 30 companies account for 38% of the portfolio value (top 50 47%). The portfolio is weighted towards the mid-market and large deals, which we view as more defensive than smaller deal sizes, as they benefit from stronger management teams and, often, market-leading positions.

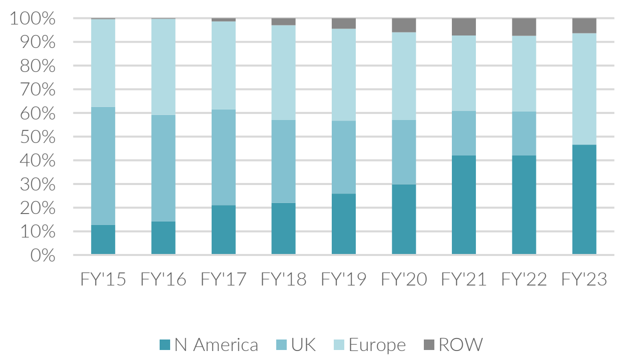
In FY'23, primary investments generated a local currency return of 8.0%, direct investments 15.5% (including the exit of the second-largest holding) and secondary investments 11.5%, giving an overall performance of 10.5% (five-year average now 19.1%).

7.8% in listed companies at end-January 2023, down from 20.4% in FY'21

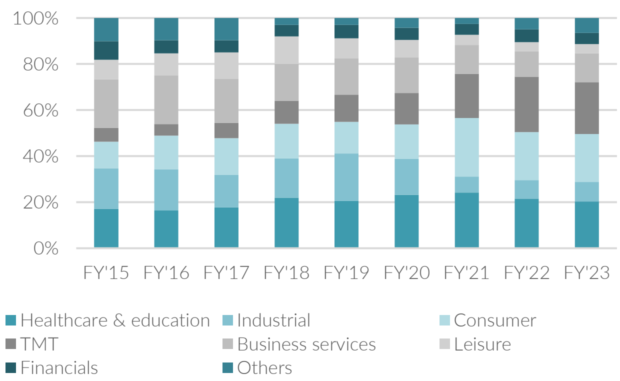
At the end of January 2023, ICGT had 7.8% (January 2022 10.3%) of its portfolio in listed companies. This was down from 20.4% at the end of 2021. ICGT does not invest in listed companies, but it gains listed investment exposure when IPOs are used to exit an investment. 3.6% of the portfolio was in Chewy/PetSmart.

As the left-hand chart below shows, North America now represents 47% of the portfolio (revised strategic target weighting increased from 40%-50% to 50%). The right-hand chart shows that nearly half of the portfolio is in healthcare, education and TMT – the defensive growth sectors. Within the broad sectors below, sub-sector allocation is typically to those areas that show structural growth with recurring revenue streams, such as subscription-based business software within TMT.

Geographical distribution of portfolio, FY'15-23 (%)



Sectoral distribution of portfolio, FY'15-23 (%)



Note: UK now included in Europe, Source: ICGT Report and Accounts, Hardman and Co Research

Portfolio company metrics

FY'23 near record for revenue and EBITDA growth

As can be seen in the charts below, the recent strength in revenue and EBITDA growth has been around a third higher than the average over the previous five years. In most years, operational gearing has seen EBITDA growth ahead of revenue growth; so, FY'23 was an exception in this regard. However, compared with the market, we believe the decline in the margin is much lower, reflecting ICGT's resilient, secular growth sectors and sub-sectors, good manager and direct company selection, as well as the operational benefits that GPs bring to their investee companies. Management cautions that FY'23 included an element of COVID-19 bounce-back, but we expect market-beating growth to continue.

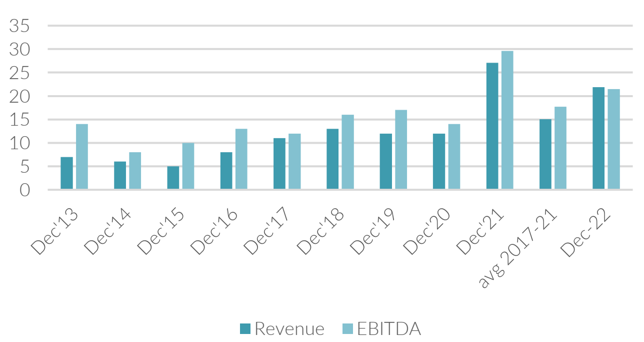
Average gearing risen modestly, but proportion of most highly geared companies fell in 2H'23

Investee company gearing has risen modestly (4.7x vs. 4.3x), primarily reflecting mix (e.g. the sale of more established businesses with higher gearing). As noted above, all the top 30 companies are EBITDA-positive, and just 26% have net debt in excess of 6x, against 23% under 4x. The wider portfolio disclosure (which covers 75% of the portfolio by value) has just 28% with gearing over 6x, and 34% where it is under 4x. For the top 30, there has been a modest reduction in the proportion of the highest-geared businesses, and an increase in the mid-geared proportion.

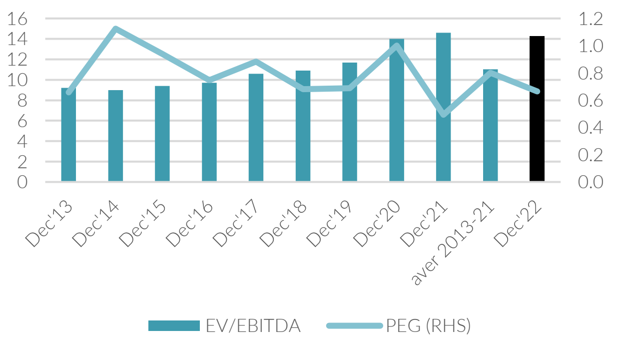
Adjusting for share price discount to NAV, investors effectively buying underlying companies at 10x multiple and PEG of 0.5x.

The EV/EBITDA multiple fell modestly in the year (14.3x, vs. 14.6x). The PEG of 0.7x was modestly below the 10-year average of 0.8x, and, in our view, it is significantly below that of most major listed markets. Applying the share price discount to NAV means that investors are effectively buying the portfolio at a multiple of around 10x. Taking account of the conservatism shown in exit multiples would reduce this further.

LTM revenue and EBITDA growth, Dec'13-Dec'22 (%)

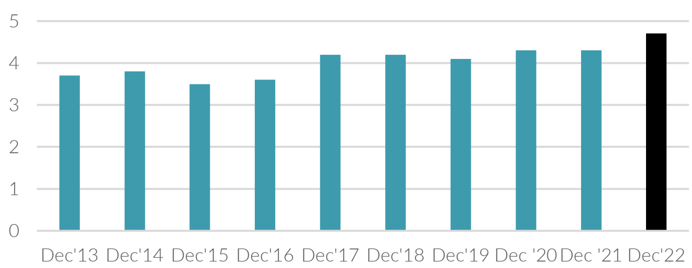


EV/LTM EBITDA and implied PEG ratio, Dec'13-Dec'22 (x)

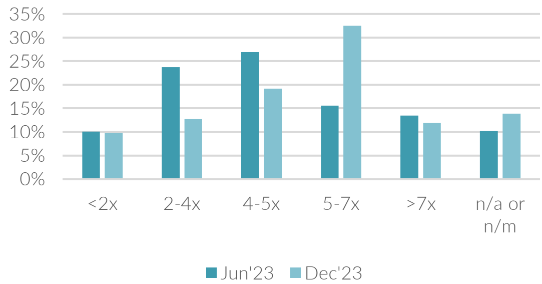


Source: ICGT Report and Accounts, Hardman & Co Research

Net debt to LTM EBITDA, Dec'13-Dec'22 (x)



Distribution of top 30 net debt/EBITDA (%)

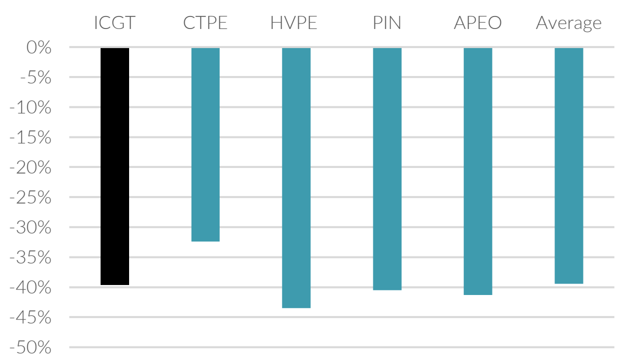


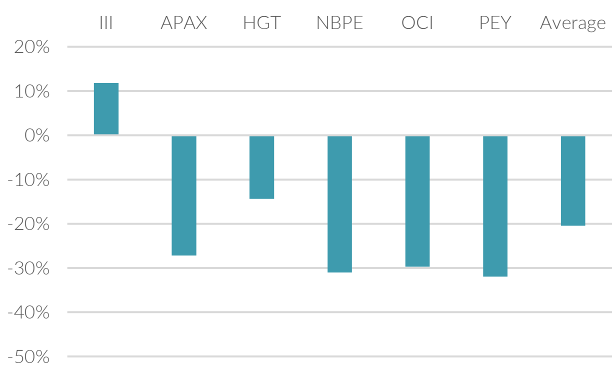
Source: ICGT Report and Accounts, Hardman & Co Research

Valuation

Despite its strong absolute performance and consistent uplift to carry value on exit, ICGT trades at a discount to NAV. This is not uncommon in the PE fund-of-fund space, and ICGT's discount is in line with that of its immediate peers, noting that the NAVs for some peers are updated monthly, while, for others, the update is quarterly.

Current share price discount to NAV for immediate peers (LHS) & wider peers (RHS)





Source: Company websites, factsheets and presentations, LSE, Hardman & Co Research; priced at 1 June 2023

Technology writedown concerns appear misplaced

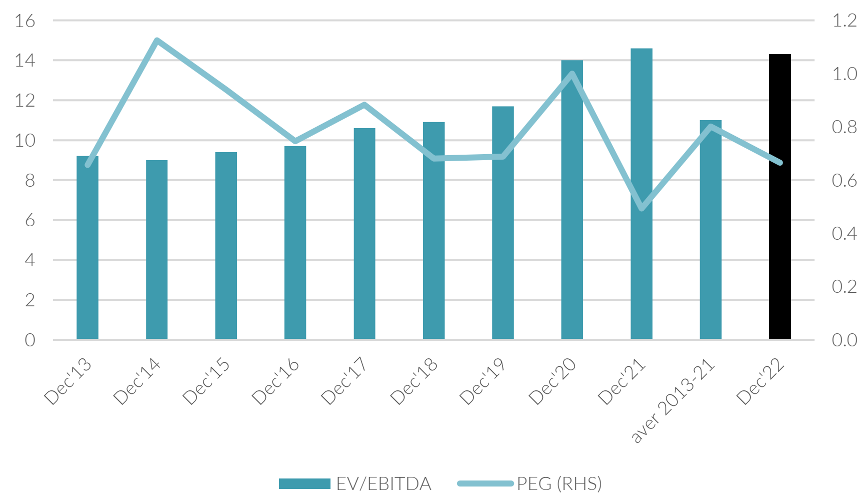
ICGT did not benefit from valuation uplifts, its business mix, other PE trends in this space or underlying company EBITDA growth

PEG ratio for underlying companies below average

And *defensive growth*

We believe that the widening of PE sector discounts may, in part, reflect concerns that the early-stage/venture capital businesses of PE companies will need to be written down to reflect falling listed market comparables. This is somewhat unfair, as it could be argued that most listed PE vehicles were never given the same credit for valuing their technology businesses on the way up (not that this ever formed part of ICGT's portfolio!) We highlight, again for emphasis, and repeating the earlier chart, that the PEG ratio for the valuation applied to ICGT's underlying companies is very low, despite the proven resilience of the defensive growth strategy.

EV/EBITDA and PEG, Dec'13-Dec'22 (x)



Source: ICGT results presentations, Hardman & Co Research

Financials

Our forecasts are unchanged, other than for detail of the 2023 results, which create a lower base effect.

Income statement (£000)

Year-end Jan	2023			2024E			2025E		
	Revenue	Capital	Total	Revenue	Capital	Total	Revenue	Capital	Total
UK investment income & dividends			-			-			-
Overseas interest & dividends	2,224		2,224	6,745		6,745	7,987		7,987
Deposit interest & other	47		47	47		47	47		47
Realised gains on investments		9,311	9,311		33,727	33,727		39,935	39,935
Unrealised gains on investments		175,890	175,890		202,361	202,361		239,611	239,611
FX gains & losses	0	337	337	0	0	0	0	0	0
Investment manager fees	(1,701)	(15,312)	(17,013)	(3,709)	(11,128)	(14,837)	(4,420)	(13,259)	(17,679)
Other expenses	(1,956)		(1,956)	(1,762)	-	(1,762)	(1,588)	-	(1,588)
Return before finance costs & taxation	**(1,386)**	**170,226**	**168,840**	**1,321**	**224,960**	**226,281**	**2,026**	**266,287**	**268,314**
Interest payable & similar expenses	(431)	(3,884)	(4,315)	(3,506)	0	(3,506)	(3,506)	0	(3,506)
Return on ord. activities before taxation	(1,817)	166,342	164,525	(2,185)	224,960	222,775	(1,479)	266,287	264,808
Taxation	345	(345)	-	371	(371)	-	252	(252)	-
Return on ord. activities after taxation	**(1,472)**	**165,997**	**164,525**	**(1,814)**	**224,589**	**222,775**	**(1,228)**	**266,036**	**264,808**

Source: ICGT Report and Accounts, Hardman & Co Research

Balance sheet (£000)

@ 31 Jan	2017	2018	2019	2020	2021	2022	2023	2024E	2025E
Non-current assets									
Unquoted investments	491,099	478,362	519,806	571,143	604,306	202,009	269,178	335,527	418,036
Quoted investments	364	1,733	1,655	1,231	35,702	0	0	0	0
Subsidiary investments	80,718	96,392	148,611	206,042	267,554	921,738	1,079,897	1,261,882	1,471,164
Total non-current assets	572,181	576,487	670,072	778,416	907,562	1,123,747	1,349,075	1,597,408	1,889,200
Current assets									
Cash & cash equiv.	38,522	78,389	60,626	14,470	45,143	41,328	20,694	12,855	9,667
Receivables	2,384	10,410	548	1,142	162	2,205	2,416	2,416	2,416
Total assets	**613,087**	**665,286**	**731,246**	**794,028**	**952,867**	**1,167,280**	**1,372,185**	**1,612,679**	**1,901,282**
Creditors	354	963	386	483	851	9,303	6,274	4,739	3,031
Gross debt							65,293	110,000	160,000
Net assets	**612,733**	**664,323**	**730,860**	**793,545**	**952,016**	**1,157,977**	**1,300,619**	**1,497,940**	**1,738,251**
NAV per share (p)	**871.05**	**959.14**	**1,056.51**	**1,152.12**	**1,384.3**	**1,690.1**	**1,903.0**	**2,201.4**	**2,554.6**

Source: ICGT Report and Accounts, Hardman & Co Research

Cashflow (£000)

Year-end Jan	2017	2018	2019	2020	2021	2022	2023	2024E	2025E
Sale of portfolio invests.	50,338	160,712	135,461	107,179	147,545	100,982	32,143	70,000	70,000
Purch. of portfolio invests.	(102,621)	(99,601)	(101,790)	(95,417)	(86,134)	(75,125)	(62,245)	(62,245)	(62,245)
Net cashflows to subs. invests.		(12,824)	(32,427)	(34,446)	(6,486)	(2,524)	(10,162)	(20,000)	(20,000)
Interest income	7,263	15,967	3,994	5,832	1,231	3,647	1,829	1,829	1,829
Dividend income	2,629	6,230	1,883	1,290	5,445	1,854	394	4,916	6,158
Other income	259	129	216	381	71	2	46	47	47
Invest. mgr. charges paid	(6,143)	(7,090)	(7,956)	(9,499)	(10,334)	(6,207)	(21,218)	(14,837)	(17,679)
Other expenses	(1,380)	(1,456)	(1,749)	(1,227)	(1,419)	(1,570)	(1,567)	(1,567)	(1,567)
Net cash inflow/(outflow) from op. activities	(49,655)	62,067	(2,368)	(25,907)	49,919	21,059	(60,780)	(21,857)	(23,457)
Cashflows from fin. activities									
Bank facility fee	(1,089)	(1,320)	(1,081)	(2,576)	(1,410)	(3,318)	(1,728)	(1,728)	(1,728)
Interest paid				(61)	(440)	(50)	(1,963)	(3,506)	(3,506)
Proceeds from borrowing					-	-	65,293	44,707	50,000
Purchase of shares into treas.	(6,201)	(7,810)	(709)	(2,628)	(775)	(2,679)	(2,016)	(3,000)	-
Dividends	(11,357)	(13,896)	(14,543)	(15,192)	(15,822)	(17,849)	(19,866)	(22,455)	(24,496)
Net cash infl. from fin. activs.	(18,647)	(23,026)	(16,333)	(20,457)	(18,447)	(23,896)	39,719	14,018	20,270
Net inc. in cash & cash equiv.	(68,302)	39,041	(18,701)	(46,364)	31,472	(2,837)	(21,058)	(7,838)	(3,187)
Opening cash & cash equiv.	103,831	38,522	78,389	60,626	14,470	45,143	41,328	20,694	12,855
FX effects	2,993	826	938	208	(799)	(978)	424	-	-
Closing cash & cash equiv.	**38,522**	**78,389**	**60,626**	**14,470**	**45,142**	**41,328**	**20,694**	**12,855**	**9,667**

Source: ICGT Report and Accounts, Hardman & Co Research

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(Disclaimer Version 8 – Effective from August 2018)

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