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ICG ENTERPRISE TRUST PLC

FY'24: portfolio companies performing strongly

The key message from ICGT's FY'24 results (to January) is the continued strength of the operating companies, which keep delivering mid-teen EBITDA growth. Despite challenging markets, margins have widened, which should help allay some concerns over the impact of the higher-rate environment. Target returns are "broadly unchanged". FY'24 saw about half the usual investment and realisation activity (and fewer realisations saw less NAV uplift on exit). A degree of volatility is to be expected, and the five- and 10-year total annualised NAV per share return (14.6% and 13.2%, respectively) are a better reflection of what investors are getting from the defensive growth strategy. ICGT has a balanced capital return policy.

- **ICGT's investment approach:** We detail, below, how ICGT's defensive growth strategy works in practice and why it has delivered long-term EBITDA outperformance. Consistency in performance greatly enhances compounding effects. This has led to double-digit share price returns (five-year 11.2% annualised).

- **Capital allocation:** Shareholders saw distributions of £35m (FY'23 £22m) with a 10% increase in dividend, to 33p, and an increase in the long-term buyback programme. It also announced an opportunistic up-to £25m buyback programme to take advantage of the current, unusually high, level of discount.

- **Valuation:** ICGT's NAV valuations are conservative, demonstrated by continued realisations above reported book values. The ratings are undemanding. The 38% discount to NAV is anomalous, we believe, with defensive, market-beating returns, and twice the levels seen pre-COVID-19. The 2024E yield is 2.7%.

- **Risks:** 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 38% discount to NAV appears anomalous with ICGT's performance.

Financial summary and valuation

Year-end Jan (£000)	2022	2023	2024	2025E	2026E
Total income	5,503	2,271	2,874	2,365	2,365
Realised gains	1,968	9,311	(1,044)	16,205	36,556
Unrealised gains	238,062	175,890	40,413	129,638	219,334
Investment manager fees	(13,417)	(17,013)	(16,148)	(15,873)	(16,552)
Other expenses	(4,646)	(1,956)	(1,769)	(1,857)	(1,969)
Rtn. on ord. act. pre-tax	226,490	164,525	17,366	121,178	228,234
NAV per share (p)	1,690	1,903	1,909	2,085	2,418
NAV total return	25%	15%	3%	12%	19%
S/P prem./disc. (-) to NAV	-26%	-43%	-36%	-43%	-51%
Investments (£m)	1,124	1,349	1,296	1,462	1,718
Dividend per share (p)	27	30	33	35	37

Source: Hardman & Co Research

Closed End Investment Funds

Source: LSEG, 2024

Market data

EPIC/TKR	**ICGT**
Price (p)	**1,192**
12m high (p)	1,276
12m low (p)	1,046
Shares (m)	65.0
Mkt cap (£m)	787
NAV p/sh (Jan'24, p)	1,909
Disc. to NAV (%)	-38
Country/Ccy	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 a portfolio of European and US investments in profitable, cash-generative, unquoted companies. 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
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Key shareholders

Blackrock	4.50%

Diary

18 Jun (8.45am)	CM day

Analyst

Mark Thomas mt@hardmanandco.com

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

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FY'24 results summary

Five-year NAV annualised total return 14.6%.

The portfolio return on a local currency basis over the past 12 months (LTM) was 5.9% (sterling return 3.2%). This follows 14 consecutive years of double-digit, local currency portfolio growth. The FY'24 LTM NAV total return per share was 2.1%, below the five-year NAV per share total return of 14.6%. 2023 saw weaker activity and therefore fewer contributions from NAV uplifts on exit.

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

Total realisation proceeds during the period were £171m (FY'23 £252m, FY'22 £334m, FY'21 £137m), with a further £68m proceeds from the secondary sale. There were 38 full exits, at an average uplift to carrying value of 29.5% (FY'13-FY'23 average of 35%), with a 3.5x multiple to cost (well above the long-run average of 2.4x). 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.

Investing in today, committing to tomorrow

£137m of total new investments were made (FY'23 £287m, FY'22 £304m, FY'21 £139m, FY'20 159m), of which £92m, 67%, went into primary funds and £33m into direct investments (24%). Secondary investments totalled £12m. The key messages are i) ICGT continues to see attractive new opportunities (new commitments totalled £153m), and ii) the fall in direct and secondary investments as a proportion of the total new investments reflects the flexibility in ICGT's model to control cash in an uncertain environment.

Robust balance sheet

At end-January, ICGT had £196m (FY'23 £167m) of available liquidity, including £11m of cash and a £185m undrawn revolving credit facility. Undrawn commitments, at the end of January 2024, were £552m (up from £497m end-January 2023), £118m of which were in funds outside their investment period, and so unlikely to be drawn. Over-commitment at the end of January 2024 was thus 27.7% of NAV, up from 25.3% at the end of January 2023, but consistent with a longer run average. 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.

Defensive growth delivers consistent returns

"Defensive growth" is core to ICGT, and it 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'24, the top 30 companies delivered 14.6% EBITDA growth, with revenue growth up 10.1%, despite market pressures. In looking at an uncertain macro environment, we note that i) ICGT invests in mid-market, defensive sectors and that market statistics showing transactions slowing were biased by large technology deals, ii) realisations were continuing, iii) 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.

Valuations are conservative

We believe the NAV valuation is conservative, noting i) continued uplifts on exits (29.5% FY'24), ii) modest valuation ratings – EV/EBITDA of 14.6x and a low PEG of 1.1x (covering two thirds of the portfolio), iii) revenue and EBITDA growth (11.6% and 14.2%, respectively, covering two thirds of the portfolio), iv) there is no incentive for GPs to inflate valuations, and v) independent basis of valuations.

Key themes

Value created from defensive growth strategy

The table below shows ICGT's five-year track record. With PE being a long-term investment, we believe this time scale is a reasonable reflection of the value added by the trust strategy and asset selection. As can be seen, over this time horizon, returns have averaged mid-teens, despite the slower-than-usual activity and returns seen in the past year.

Five-year track record

Financial year-end January	Jan 2020	Jan 2021	Jan 2022	Jan 2023	Jan 2024	Five-year track record
Fund performance						
Portfolio return (local currency)	16.6%	24.9%	29.4%	10.5%	5.9%	Annualised: 17.1%
Portfolio return (sterling)	14.6%	26.4%	27.6%	17.0%	3.2%	Annualised: 17.4%
NAV (£m)	794	952	1,158	1,301	1,283	+£489m
NAV per share total return	11.2%	22.5%	24.4%	14.5%	2.1%	Annualised: 14.6%
Investment activity						
New Investments (£m)	159	139	304	287	137	
As % opening portfolio	23%	17%	32%	24%	10%	Average: 21%
Realisation proceeds (£m)	141	137	334	252	171	
As % opening portfolio	20%	17%	35%	21%	12%	Average: 21%
Shareholder experience						
Closing share price (p)	966	966	1,200	1,150	1,226	
Total dividends per share (p)	23	24	27	30	33	CAGR: 9.4%
Share price total return	20.5%	2.8%	27.1%	-2.3%	9.6%	Annualised: 11.2%
Total shareholder distributions (£m)	18	17	21	22	35	CAGR: 18.1%
As % realisation proceeds	12%	12%	6%	9%	20%	
Mix of distribution						
- dividends (%)	83%	94%	86%	91%	63%	
- buybacks (%)	17%	6%	14%	9%	37%	

Source: ICGT Report and Accounts, Hardman & Co Research

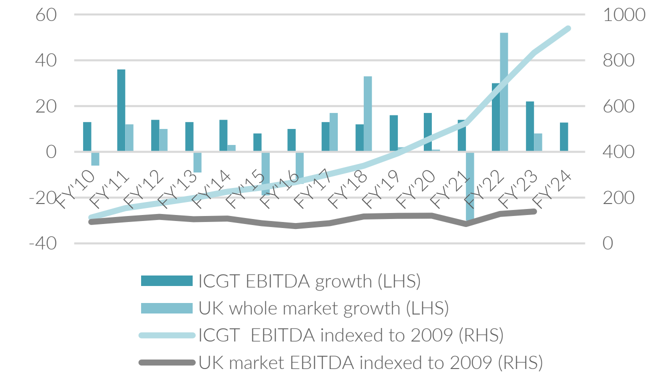
Focus on growing, profitable businesses and well-established managers

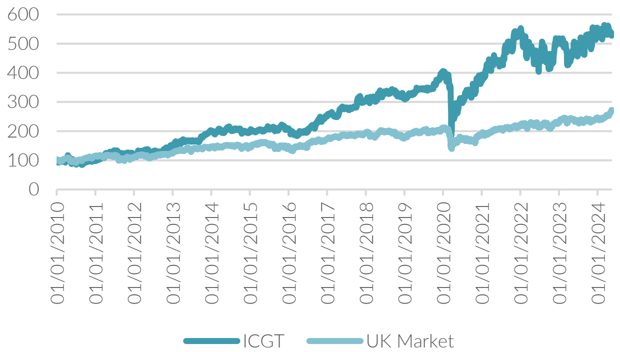
The focus of ICGT's portfolio is on buyouts of businesses in mature markets that have defensive growth characteristics. It chooses direct investments and managers that also align to this strategy – and the maturity and profitability of these businesses are really central (these are not venture capital 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.

Delivered mid-teens' EBITDA growth over long term. Crucially, consistency of performance greatly enhanced compounding.

The left-hand chart, below, shows how this strategy feeds through to not only superior EBITDA growth (top 30 average since 2010 16.3%) but also, crucially, consistently positive growth. The latter is important as it has material compounding benefits. A theoretical ICGT company, held since 2010, would have 9.4x its starting EBITDA, against a whole UK market average, which has slightly more than doubled over the period. The right-hand chart, below, shows the total return for ICGT shares and the UK whole market over the same period. Despite the discount being well-above average, ICGT has seen a total return of 5.3x, against 2.7x for the whole UK market.

ICGT top 30 and UK whole market EBITDA growth (% LHS) and indexed to 2009 at 100	ICGT and whole market total return since 2010





Source: ICGT Report and Accounts, LSEG accessed 16/05/2024, Hardman and Co Research

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.

FY'24 results prove both resilient and well-diversified

The continued FY'24 double-digit revenue and EBITDA growth and wider margins (top 67.5% of portfolio 11.6% and 14.2%, respectively) are further evidence of defensive growth in action. The more detailed disclosure on slides 24-25 of the *results presentation* gives a more in-depth insight into resilience. It is also interesting to note that the performance is consistent across the portfolio and is not concentrated within just the largest investments. Indeed, the enlarged portfolio statistics show marginally faster average revenue and EBITDA growth than the top 30.

Key portfolio metrics

	Top 30 (38.6% portfolio)	Enlarged group (67.5% portfolio)
LTM revenue growth (%)		
Average	10.1	11.6
% negative	11	15
% >20%	13	18
LTM EBITDA growth (%)		
Average	12.8	14.2
% negative	18	22
% >20%	18	26
EV/EBITDA		
Average (x)	14.6	14.6
<10x (%)	10	12
>20x (%)	6	9
Net debt/EBITDA		
Average (x)	4.4	4.6
<2x (%)	22	15
>6x (%)	23	23

Source: ICGT Report and Accounts, Hardman & Co Research

Impact of interest rate increases is managed

Key message: rising interest rates among just one of many variables PE managers face over long term

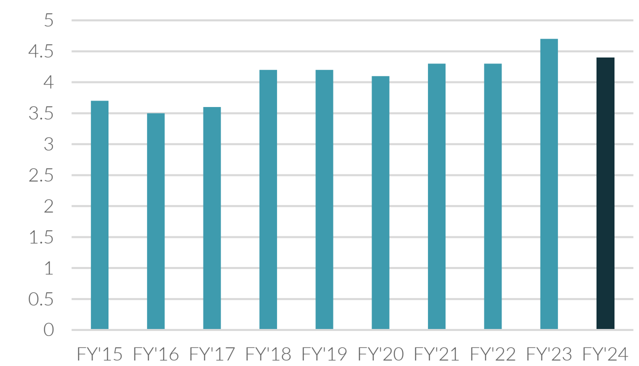
Bottom line: ICGT, and we, believe most of its partner GPs' target returns are unchanged

The rising and high interest rate environment changes multiple aspects of PE's business, including: i) the effect on investee companies; ii) overall PE activity, including exits; and iii) the potential returns to debt and equity holders. Our key takeaways are i) ICGT's underlying company leverage is around two thirds that of the PE market as a whole (unsurprising, given ICGT's conservative culture and tilt towards smaller/mid-sized buyouts, which use less leverage), ii) exit activity may be slow for a period, but the value creation in the underlying companies remains strong and ongoing, as evidenced by EBITDA growth, and iii) most PE managers have not changed target returns, and they have a number of tools to compensate for any incremental financing cost. Indeed, ICGT itself has not changed its target return on new investments/commitments.

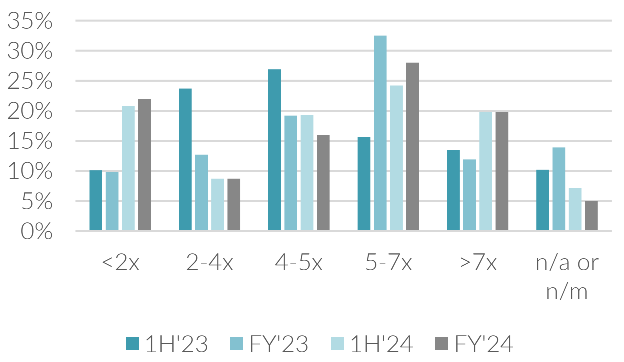
Impact on investee companies

The left-hand chart below shows the level of indebtedness at investee companies in the portfolio, and how this has evolved since December 2013 to its current level of 4.4x (top 30, 4.8x for the enlarged portfolio). Leverage has not materially changed in the past five years. FY'24 has seen a modest decline as the strong cash generation by the business more than offsets incremental debt for M&A. The right-hand chart shows the distribution of leverage, with more companies having under 2x EBITDA gearings than above 7x. The proportion of companies with under 2x gearing has more than doubled in the past year.

Average debt/EBITDA in top 30 holdings (x)



Percentage mix of debt/EBITDA (%)



Source: ICGT Report and Accounts, Hardman and Co Research

We also make the following observations:

Well-financed PE backers invaluable

- Access to a well-capitalised PE backer is invaluable in surviving downturns for businesses with good fundamentals but facing short-term cashflow issues. Access to equity injections may not be available, or as quickly delivered, for standalone competitors or listed companies, compared with PE-backed ones.

Many PE businesses can increase prices, and so revenue, at times of high inflation (main driver to higher interest rates)

This is evidenced by EBITDA growth

- Managing interest costs is just part of the overall management of the business by PE managers While individual portfolio companies may face specific strains, across the whole book, there is often pricing power to pass on inflation-related costs (including higher financing costs). Many investee companies provide mission-critical services, have very strong market positions, and are often disruptors to industries offering a low-cost solution, compared with incumbents. In hard numbers, this is reflected in the continued outperformance at the revenue and EBITDA lines, noted earlier.

Already two years into current US increase cycle

- The US benchmark two- and five-year rates have evolved over the past 10 years and the rising rate environment is not new. It is something ICGT and PE managers investment teams have been dealing with for several years.

Cov-lite documentation, often negotiated by PE backers, reduces risk of default

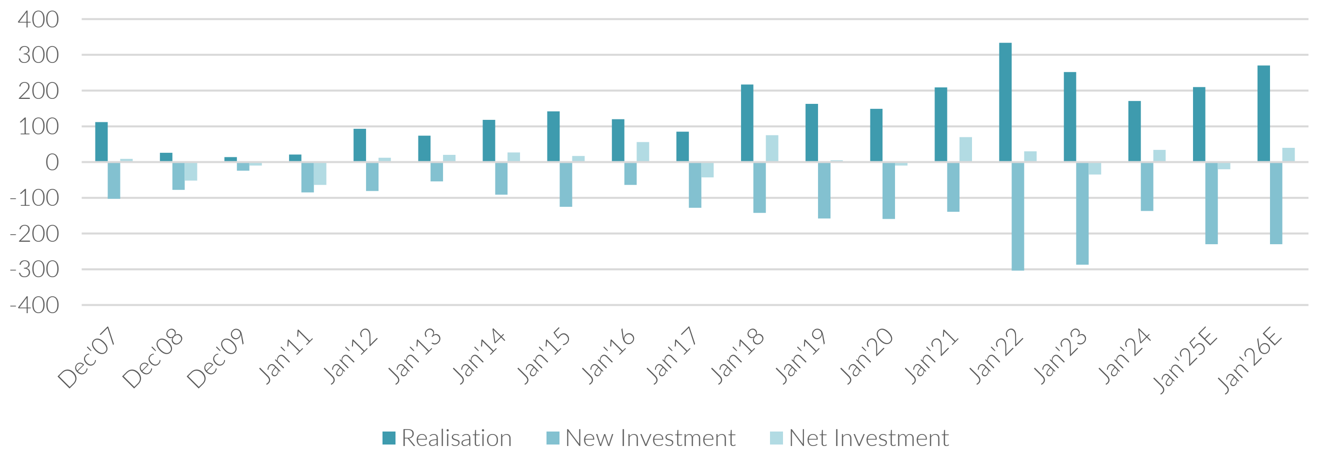
- Many default events are likely to be deferred, given the prevalence of cov-lite documentation and the fact that having a PE backer means that an underlying company is much more likely to get access to such documentation. Such delays may mean that a company can survive through challenging times into a recovery in a way that would be unlikely without cov-lite documentation.

Impact on PE activity

Deals are still being done for quality companies, and uncertainty creates opportunities, as well as threats

Some investors appear concerned that higher interest rates mean that PE managers will be unable to get the debt they require to complete deals at acceptable pricing levels, which would slow down ICGT's exit opportunities and the expected valuation uplifts on exit, or limit the company's ability to make new investments at acceptable returns. The chart below shows the realisation and new investments for ICGT and, as can be seen, FY'24 was a quieter-than-average period. Investments at 10% of the opening portfolio were less than half the five-year average 21% and realisations, at 12%, only just over half the average (also 21%). However, there is still activity, and historical commitments being called will continue to see new investments being made. The £153m of new commitments made in the period will generate further cash deployment in due course. Management indicates that it expects stronger activity in FY'25, albeit not yet to historical average levels.

Realisations and drawdowns since 2007 (£m)



Source: ICGT Report and Accounts, Hardman & Co Research

Deals still being done for good-quality companies, and creating opportunities for bolt-on deals

Additionally, we note:

- In terms of any potential impact on exits, we would summarise the key takeaways from our discussions with managers across the whole PE market, regarding good-quality deals, as being that the financing terms and availability have not changed materially. Given that ICGT's sector mix and earnings growth are indicative of "good" companies, the continued exits it saw in FY'24 were not surprising. There may be fewer deals than in the past, but the availability and terms of finance are not the key drivers.

- Higher interest rates reflect, and are a cause of, uncertainty, which is not good for PE activity (*inter alia*, it creates differences between the pricing expectations of buyers and sellers). Additionally, uncertainty is unhelpful for the business environment in general. However, smart PE buyers can take advantage of uncertainty, dislocation and disruption to target deals that may not otherwise be available.

Impact on PE returns

Multiple options to manage higher financing costs

PE is a long-term investment, and, as noted above, rising interest costs are just one of a great many considerations over that timescale. PE managers have been faced with higher rates for some time, and, critically, we understand that, market-wide, there has been little, if any, change in return targets, despite this higher interest burden. The interest burden may be offset by increased pricing discipline at entry, pricing power, and growth (inflation-, revenue-driven and inorganic). The key point is that ICGT has not seen, and is not expecting, a material change in target returns for new investments by itself and its GP partners.

Bottom-line earnings growth vs. EBITDA growth

Key points are: i) no change in targets ii), higher interest cost manageable even without mitigation benefits, ii) multiple mitigation options, iii) higher rates may see step change in earnings but does not change long-term trend for outperformance, and iv) gearing is focused in businesses that can afford it

We believe that some investors are concerned that the strong revenue and EBITDA shown by the average investee companies will not have dropped down to strong earnings growth because of the impact of higher interest costs. We note:

- ICGT has not lowered its target returns for any new investments/commitments.
- Specifically looking at ICGT, if we assume a 4%-5% increase in average funding costs on its average net debt to EBITDA of 4.6x (enlarged portfolio), the incremental interest cost is likely to be around 20% of EBITDA. Given multi-year hedging policies, this effect is likely to have been, and to be, spread through 2023-25 and further significantly reduced by mitigation such as pricing increases and bolt-on acquisitions at lower prices. Any incremental cost looks very manageable compared with average LTM EBITDA growth in FY'24 of 14.2% (enlarged portfolio).
- Mitigation factors include being invested in companies with pricing power (and so ones which can pass on inflationary cost pressures). Additionally, bolt-on deals at accretive prices may be more likely amid the market uncertainty.
- Excluding any mitigation, *ceteris paribus*, the impact of higher rates, even sustained ones, leads a step change in earnings, not a change in the long-term trend of value added to investee companies, leading to EBITDA outperformance, which, in turn, leads to bottom-line earnings outperformance.
- In our view, the companies with the highest gearing are likely to be those with the greatest resilience, *inter alia*, through rapid franchise growth or levers to manage returns (such as inflation pricing power/opportunities for bolt-on deals). The impact on bottom-line returns is very much driven by micro company considerations, not portfolio averages or macro interest rates.

Ratings

ICGT invests in established, mature, profitable and generally cash-generative businesses, ratings of which are less sensitive to rising rates than, say, venture

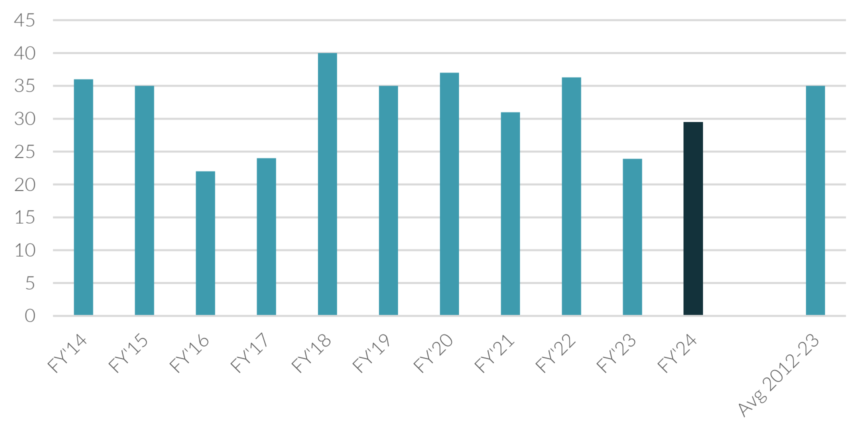
Ceteris paribus, one would expect a higher sustained interest rate environment to see a lower rating applied to current earnings (in essence, future returns/cashflows are being discounted at a higher rate, and so their present value is lower). This should have the greatest impact on the ratings of super growth companies for whom more of their value is in future years, as opposed to current ones. As noted above, ICGT is investing in larger, profitable, established businesses whose operations can be enhanced. It is not in the venture space, which is most exposed to the ratings impact noted above. However, sector and, crucially, subsector mix are major drivers to ratings.

NAV is "real" and conservative

Key point is that, after all their due diligence, buyers are willing to pay higher price than carrying value. Uplift on exit (FY'24 29.5%) indicates both conservative accounting and embedded value in portfolio.

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. The chart, below, shows ICGT's uplift on exit history since FY'14. In FY'24 (across 38 full exits), it was still 29.5%, only marginally below the long-run average level, despite the challenging conditions. The multiple of cost on exit, at 2.7x, was close to the long-run average (3.5x), but this can be very period- and stock-specific. Of note, of the 38 exits, only one was below cost (sold at 0.8x carrying value). 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 long-run 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'14-FY'24 (%)



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, allowing for 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, typically, are high-quality software and business infrastructure companies that provide essential "need-to-have" products, such as accounting and legal software.

Other themes

Capital allocation

ICGT has a balanced approach to capital allocation, including making new investments to generate long-term growth, a progressive dividend policy, a long-term buyback programme and, with these results, it announced a tactical buyback programme to take advantage of the unusually high level of discount. We believe this reflects the board's willingness to take market opportunities as they are presented but, with a strong balance, continue to make investments and new commitments.

Progressive dividend

- The dividend saw a further 10% increase to 33p. It has now risen from 23p in FY'20.

Consistent, long-term buyback programme in place

- ICGT started its programme in October 2022 and has now bought back £22.2m of shares (2.8% of starting outstanding issued share capital) at an average discount of 39.6%, having been active on 116 trading days. The key messages, here, are of a long-term consistent programme to return capital, showing i) confidence in the valuation, ii) accretion to NAV, iii) a disciplined approach to capital, iv) continued ongoing investment/new commitment, and v) well-balanced share trading liquidity.

FY'25 incremental opportunistic programme reflecting investment opportunity from unusually high discount

- The opportunistic buyback programme is up to £25m in FY'25 (i.e. ending January 2025). This will run alongside the long-term programme with the opportunistic programme, typically, involving larger single transactions but active less frequently.

Lower management fee

The first year of the cap on management fee rate and change to cost sharing arrangement with ICG plc saved shareholders approximately £1.9m in FY'24.

Why 8.7% underlying portfolio return only saw 2.1% NAV growth

On Slide 9 of its results presentation, ICGT gave a bridge of how an "underlying" portfolio growth of 8.7% was reduced to 2.1% NAV per share return. The key features were:

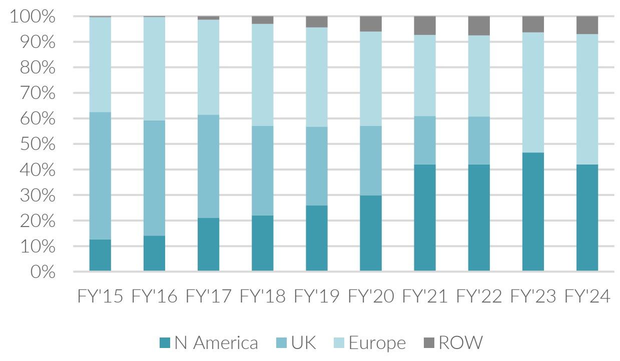
- Two one-off effects:
    - ICGT saw a drag of ca.1.8% of NAV in the period due to the further falls in share price of its listed holding in Chewy (end-January 2023 $45.1 to end-January 2024 $17.9 p/sh, currently $15.44). Management highlights the strong realised returns on the investment (3x on the end-January 2024 level). In our view, the incremental exposure from here is modest given the small proportion of the portfolio now in this name (1.4%).
    - There was 1% reduction due to the secondary investment sale.
    - These factors reduced the 8.7% to the reported 5.9% portfolio return, on a local currency basis
- An adverse 2.7% currency effect reduced the sterling return to 3.2%
- Costs (-1.5%, FY'23 -2.7%), and the impact of gearing (-0.3%) were only partially offset by the benefit of buybacks and adding back the dividend (0.7%).

January 2024 portfolio overview

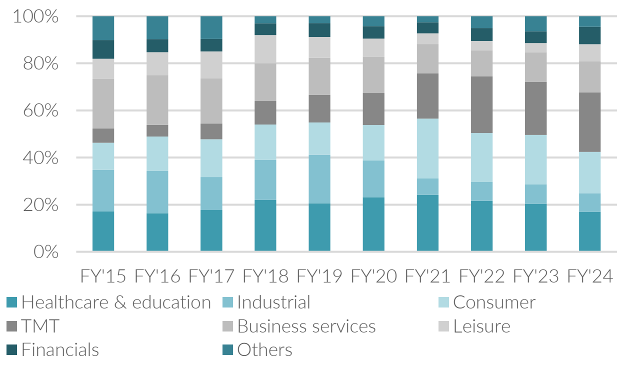
Top 30 companies account for 39% of portfolio

The top 30 companies account for 39% of the portfolio value (top 50: 48%). 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.

Geographical distribution of portfolio, FY'15-FY'24 (%)

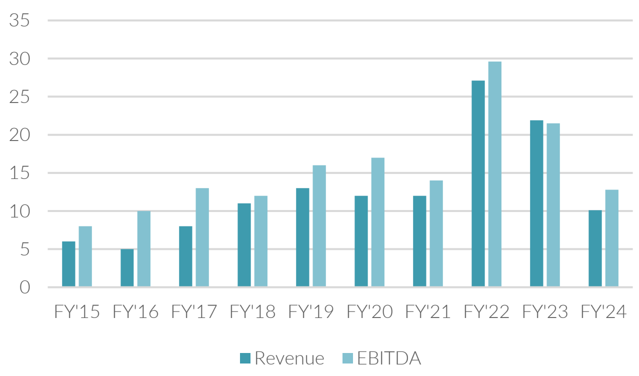


Sectoral distribution of portfolio, FY'15-FY'24 (%)

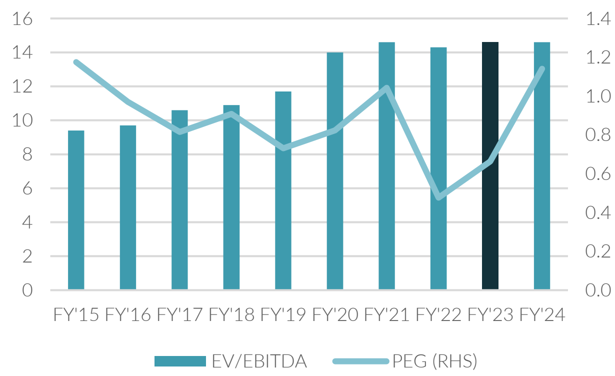


Note: UK now included in Europe, Source: ICGT Report and Accounts, Hardman and Co Research

Top 30 LTM revenue and EBITDA growth, FY'15-24 (%)

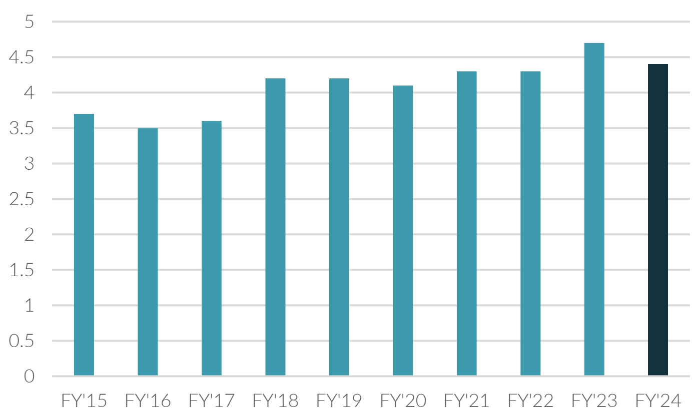


Top 30 EV/LTM EBITDA and implied PEG ratio, FY'15-24 (x)

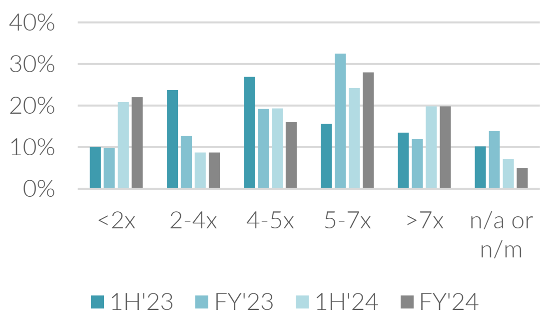


Source: ICGT Report and Accounts, Hardman & Co Research

Top 30 average net debt to LTM EBITDA, (x)

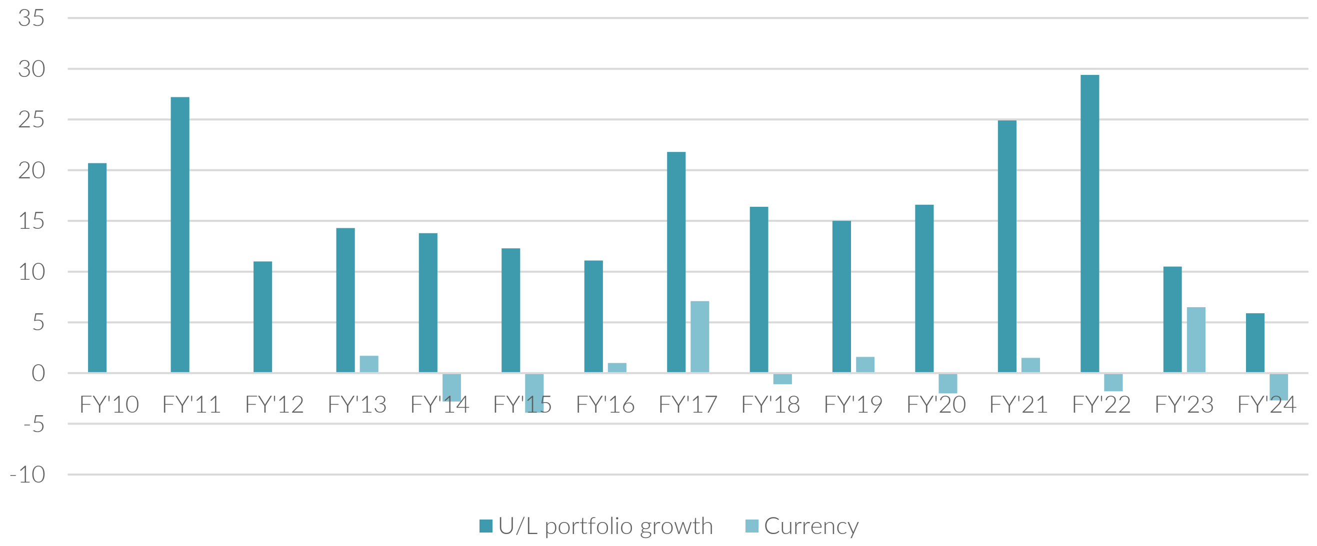


Distribution of top 30 net debt/EBITDA (%)



Source: ICGT Report and Accounts, Hardman & Co Research

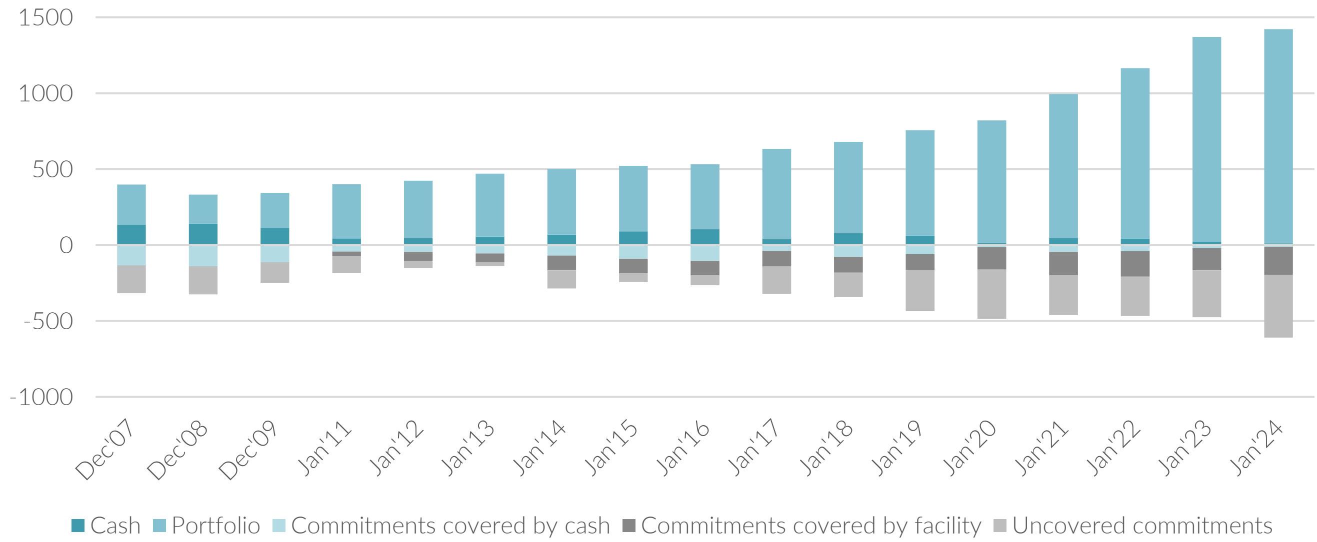
Underlying constant-currency portfolio growth, FY'13-FY'24 (%)



Source: ICGT Report and Accounts, Hardman & Co Research

As noted above, the gearing in ICGT is increasing with incremental new commitments. It is worth noting, though, that £118m of existing commitments are unlikely to be drawn, as they are outside their investment period. Additionally, the use of bridging facilities means ICGT has good visibility on likely cash claims. Measured against NAV, the over-commitment ratio is 27.7% (FY'23 25.3%).

Balance sheet evolution since December 2007 (£m)

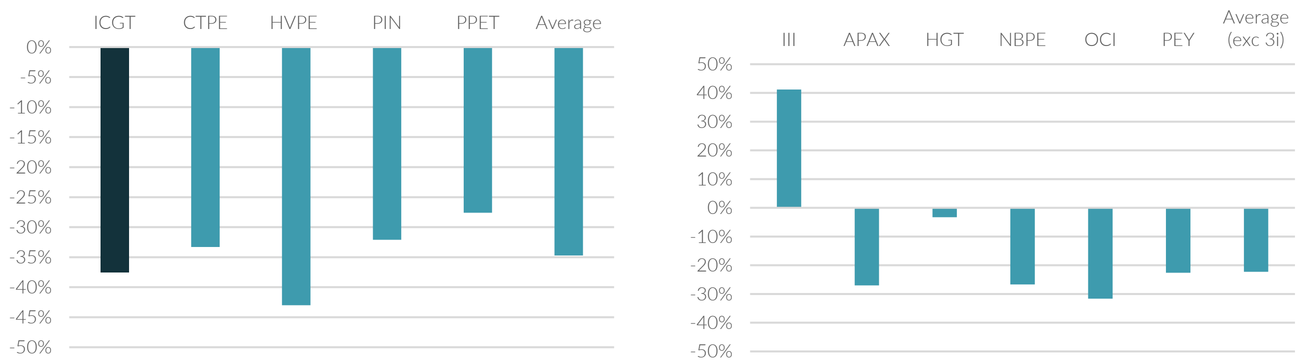


Note: Includes co-investment incentive scheme accrual commitments; Source: ICGT Report and Accounts, Hardman & Co Research

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) and wider peers (RHS)



Source: Company websites, factsheets and presentations, LSE, Hardman & Co Research; priced at 16/5/24

What could lead to a rerating?

We see two possible elements to a rerating, namely:

First element is sector rerating, which, arguably, has already started

The first element of a rerating would be a reversal of the 2022-1Q'23 increase in sector-wide discounts. This requires more confidence in NAV and economic resilience, driven by i) continued exit uplifts and returns, which could give investors this confidence, and ii) a risk-on rather than risk-off environment, which will help. This could coincide with further confidence that a US recession has been avoided or a market view that interest rates have peaked. In our view, when the markets believe they have clarity on the interest rate environment, a significant drag on the share price could reduce rapidly.

Second element is final 15%-20% of discount to par. ICGT's continued delivery of returns likely to be a key driver.

The second element to a rerating is the elimination of the company-specific discount We would characterise the trust as having a sustained discount of around 15%-20% (average year-end January 2017-20 was 18%) with sector-driven noise on top. Given the market-beating returns and conservative approach to NAV (in our view, proven by uplifts on exits), this company-specific discount appears anomalous. The key drivers to its elimination are:

- continued delivery of superior performance; and
- market recognition of this – we note ICGT has, in the past year, revamped its website, started a monthly newsletter, clarified its portfolio metrics with a move away from the previous high conviction definition, held its first ever investor day, and enhanced portfolio disclosure. Given the number and breadth of these actions, we expect further communication enhancements going forward.

Financials

We had previously assumed a more normal FY'25 for activity but have moderated this expectation given experience to date. This sees a small drop in our NAV growth, before reverting to a more normal FY'26.

Income statement (£000)

Year-end Jan	2024			2025E			2026E		
	Revenue	Capital	Total	Revenue	Capital	Total	Revenue	Capital	Total
Overseas interest and dividends	2,365		2,365	2,365		2,365	2,365		2,365
Deposit interest & other	509		509	500		500	500		500
Realised gains on investments		(1,044)	(1,044)		16,205	16,205		36,556	36,556
Unrealised gains on investments		40,413	40,413		129,638	129,638		219,334	219,334
FX gains and losses	0	1,193	1,193	0	0	0	0	0	0
Investment managers fees	(1,615)	(14,533)	(16,148)	(1,587)	(14,285)	(15,873)	(1,655)	(14,896)	(16,552)
Other expenses	(1,769)		(1,769)	(1,857)	-	(1,857)	(1,969)	-	(1,969)
Return before finance costs and taxation	**(510)**	**26,029**	**25,519**	**(580)**	**131,558**	**130,978**	**(759)**	**240,993**	**240,234**
Interest payable and similar expenses	(751)	(7,402)	(8,153)	(800)	(9,000)	(9,800)	(1,000)	(11,000)	(12,000)
Return on ordinary activities before taxation	(1,261)	18,627	17,366	(1,380)	122,558	121,178	(1,759)	229,993	228,234
Taxation	-	-	-	235	(235)	-	299	(299)	-
Return on ordinary activities after tax	**(1,261)**	**18,627**	**17,366**	**(1,145)**	**122,323**	**121,178**	**(1,460)**	**229,694**	**228,234**

Source: ICGT Report and Accounts, Hardman & Co Research

Balance sheet (£000)

@ 31 Jan	2018	2019	2020	2021	2022	2023	2024	2025E	2025E
Non-current assets									
Unquoted investments	478,362	519,806	571,143	604,306	202,009	269,178	260,296	312,891	384,887
Quoted investments	1,733	1,655	1,231	35,702	0	0	0	0	0
Subsidiary investments	96,392	148,611	206,042	267,554	921,738	1,079,897	1,036,086	1,149,334	1,333,227
Total non-current assets	**576,487**	**670,072**	**778,416**	**907,562**	**1,123,747**	**1,349,075**	**1,296,382**	**1,462,225**	**1,718,114**
Current assets									
Cash & cash equiv.	78,389	60,626	14,470	45,143	41,328	20,694	9,722	4,014	4,955
Receivables	10,410	548	1,142	162	2,205	2,416	2,258	4,264	4,264
Total assets	**665,286**	**731,246**	**794,028**	**952,867**	**1,167,280**	**1,372,185**	**1,308,362**	**1,470,503**	**1,727,334**
Creditors	963	386	483	851	9,303	6,274	5,139	15,310	14,587
Gross debt						65,293	20,000	100,000	165,000
Net assets	**664,323**	**730,860**	**793,545**	**952,016**	**1,157,977**	**1,300,619**	**1,283,223**	**1,355,193**	**1,547,747**
NAV per share (p)	**959.14**	**1,056.51**	**1,152.12**	**1,384.3**	**1,690.1**	**1,903.0**	**1,909.4**	**2,084.9**	**2,418.4**

Source: ICGT Report and Accounts, Hardman & Co Research

Cashflow (£000)

Year-end Jan	2018	2019	2020	2021	2022	2023	2024	2025E	2026E
Sale of portfolio invests.	160,712	135,461	107,179	147,545	100,982	32,143	40,611	72,000	72,000
Purch. of portfolio invests.	(99,601)	(101,790)	(95,417)	(86,134)	(75,125)	(62,245)	(25,162)	(72,000)	(72,000)
Cash flow to sub. inv.							(116,084)	(120,000)	(140,000)
Cash flows from sub. inv.							195,300	100,000	140,000
Net cash flows to sub. inv.	(12,824)	(32,427)	(34,446)	(6,486)	(2,524)	(10,162)	79,216	(20,000)	-
Interest income	15,967	3,994	5,832	1,231	3,647	1,829	1,695	3,000	3,000
Dividend income	6,230	1,883	1,290	5,445	1,854	394	779	779	779
Other income	129	216	381	71	2	46	509	2,365	2,365
Invest. mgr. charges paid	(7,090)	(7,956)	(9,499)	(10,334)	(6,207)	(21,218)	(15,647)	(15,873)	(16,552)
Other expenses	(1,456)	(1,749)	(1,227)	(1,419)	(1,570)	(1,567)	(2,596)	(2,000)	(2,000)
Net cash inflow/(outflow) from op. activities	**62,067**	**(2,368)**	**(25,907)**	**49,919**	**21,059**	**(60,780)**	**79,405**	**(31,729)**	**(12,408)**
Bank facility fee	(1,320)	(1,081)	(2,576)	(1,410)	(3,318)	(1,728)	(3,970)	(3,970)	(3,970)
Interest paid			(61)	(440)	(50)	(1,963)	(5,571)	(800)	(12,000)
Proceeds from borrowing				-	-	65,293	(46,845)	80,000	65,000
Purchase of shares into treas.	(7,810)	(709)	(2,628)	(775)	(2,679)	(2,016)	(13,068)	(26,458)	(12,000)
Dividends	(13,896)	(14,543)	(15,192)	(15,822)	(17,849)	(19,866)	(21,694)	(22,750)	(23,680)
Net cash infl. from fin. activs.	**(23,026)**	**(16,333)**	**(20,457)**	**(18,447)**	**(23,896)**	**39,719**	**(91,148)**	**26,022**	**13,350**
Net inc. in cash & cash equiv.	39,041	(18,701)	(46,364)	31,472	(2,837)	(21,058)	(11,743)	(5,707)	942
Opening cash & cash equiv.	38,522	78,389	60,626	14,470	45,143	41,328	20,694	9,722	4,014
FX effects	826	938	208	(799)	(978)	424	771	-	-
Closing cash & cash equiv.	**78,389**	**60,626**	**14,470**	**45,142**	**41,328**	**20,694**	**9,722**	**4,014**	**4,955**

Source: ICGT Report and Accounts, Hardman & Co Research

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