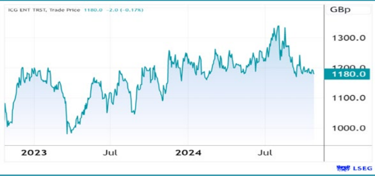
23 October 2024

HARDMAN&CO.

Closed End Investment Funds



Source: LSEG, 2024

Market data

EPIC/TKR	**ICGT**
Price (p)	1,180
12m high (p)	1,352
12m low (p)	1,090
Shares (m)	65.0
Mkt cap (£m)	768
NAV p/sh (Jul'24, p)	1,946
Disc. to NAV (%)	-39
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
NEDs	David Warnock (SID), 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 above 3%

Diary

Jan'25	3Q results

Analyst

Mark Thomas mt@hardmanandco.com

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

ICG ENTERPRISE TRUST PLC

Portfolio: 14% EBITDA growth + widening margins

The key message from ICGT's 1HFY'25 results (to July) is the continued strength of the operating companies, which delivered an average 14% LTM EBITDA growth. Margins have widened by ca.5% (average revenue growth 9.4%), which should help allay some concerns over the impact of the higher-rate environment. New investment is accelerating, and realisation activity continued with an average 26% uplift to carrying values on exit. A degree of short-term volatility is to be expected, and the five- and 10-year total annualised NAV per share return (12.5% and 13.2%, respectively) are a good reflection of what investors are getting from ICGT's defensive growth strategy. ICGT has a balanced capital return policy.

- **1H numbers:** ICGT''s constant currency portfolio return was 3.8% (£: 2.6%) and the NAV per share total return 2.8%. A narrowing discount saw a share price return of 10.3%. New investments were £104m (the third consecutive six-month period increase), new fund commitments £72m, and proceeds received £86m.

- **Capital allocation:** Shareholders saw 1H dividends of 17p (prior year 1H: 16p) and a reiterated intention to pay 35p (+6%) in the whole year. Buybacks of £21m (average discount 37.8%) were executed for both the long-term (£11m) and the opportunistic (£10m) programmes. These added 19p to the NAV p/sh..

- **Valuation:** ICGT's NAV valuations are conservative, demonstrated by continued realisations above reported book values. The ratings are undemanding. The 39% discount to NAV is anomalous, we believe, with defensive, market-beating returns, and twice the levels seen pre-COVID-19. The 2024E yield is 2.8%.

- **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 39% 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	2,465	2,465
Realised gains	1,968	9,311	(1,044)	16,205	34,745
Unrealised gains	238,062	175,890	40,413	97,229	208,472
Investment manager fees	(13,417)	(17,013)	(16,148)	(15,873)	(16,117)
Other expenses	(4,646)	(1,956)	(1,769)	(1,946)	(2,063)
Rtn. on ord. act. pre-tax	226,490	164,525	17,366	88,280	215,503
NAV per share (p)	1,690	1,903	1,909	2,055	2,376
NAV total return	25%	15%	3%	11%	19%
S/P prem./disc. (-) to NAV	-26%	-43%	-36%	-43%	-50%
Investments (£m)	1,124	1,349	1,296	1,390	1,613
Dividend per share (p)	27	30	33	35	37

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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1HFY'25 results summary

Five-year NAV annualised total return 12.5%.

The portfolio return, on a local currency basis in 1HFY'25, was 3.8% (Sterling return 2.6%). The 1HFY'25 NAV total return per share was 2.8%, below the five-year NAV per share total return of annualised 12.5%.

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

Total realisation proceeds during the period were £86m (FY'24 £171m, which also had £68m proceeds from the secondary sale). There were nine full exits (proceeds £49m), at an average uplift to carrying value of 26% (FY'12-FY'24 average of 35%), with a 3.1x multiple to cost (well above the long-run average of 2.5x). 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

£104m of total new investments were made (nearly as much as FY'24 £137m), of which £58m (56%, FY'24 67%) went into primary funds and £44m into direct investments (42%, FY'24 24%). Secondary investments totalled £3m. The key messages are i) ICGT continues to see attractive new opportunities (new commitments totalled £72m (FY'24 £153m) of which £52m was to primary funds and £20m to secondary funds, and ii) direct investments as a proportion of the total new investments have risen sharply in 1HFY'25, reflecting the flexibility in ICGT's model to control cash in an uncertain environment.

Robust balance sheet

At end-July, ICGT had £126m (FY'24 £196m) of available liquidity, including £17m of cash and a £109m undrawn revolving credit facility (£93m of drawn debt). Undrawn commitments, at the end of July 2024, were £575m (up from £552m end-January 2024), £123m of which were in funds outside their investment period and, therefore, unlikely to be drawn. Over-commitment at the end of July 2024 was thus 35.3% of NAV, up from 30.2% at the end of July 2024 and 27.7% end-January 2024. If we exclude funds outside their investment period, the 1HFY'25 ratio falls by nearly 10% to ca.26%. It is still broadly 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 1HFY'25, the top 30 companies delivered 10.4% EBITDA growth, with revenue growth up 6.8%, (larger portfolio disclosure covering 63% of portfolio, 13.9% and 9.4% growth, respectively) 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) 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 (26% 1HFY'25), ii) modest valuation ratings – EV/EBITDA of 14.9x and a low PEG of 1.07x (covering two thirds of the portfolio), iii) 13.9% EBITDA growth (covering two thirds of the portfolio), iv) there is no incentive for GPs to inflate valuations, and v) independent basis of valuations.

Key themes

1. Long-term value created from operating performance and defensive growth strategy

The table below shows ICGT's five-year track record for FY'20-FY'24 and 1HFY'25. With PE being a long-term investment, we believe that considering the longer 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. 1HFY'25 was below this average but is showing an improving trend on FY'24 and, sequentially, 2Q was better than 1Q.

Five-year track record

Financial year-end January	Jan 2020	Jan 2021	Jan 2022	Jan 2023	Jan 2024	Half-year to Jul'24
Fund performance						
Portfolio return (local currency)	16.6%	24.9%	29.4%	10.5%	5.9%	3.8%
Portfolio return (sterling)	14.6%	26.4%	27.6%	17.0%	3.2%	2.6%
NAV (£m)	794	952	1,158	1,301	1,283	1,274
NAV per share total return	11.2%	22.5%	24.4%	14.5%	2.1%	2.8%
Investment activity						
New Investments (£m)	159	139	304	287	137	104
As % opening portfolio	23%	17%	32%	24%	10%	8%
Realisation proceeds (£m)	141	137	334	252	171	86
As % opening portfolio	20%	17%	35%	21%	12%	6%
Shareholder experience						
Closing share price (p)	966	966	1,200	1,150	1,226	1,340
Total dividends per share (p)	23	24	27	30	33	17
Share price total return	20.5%	2.8%	27.1%	-2.3%	9.6%	10.3%
Total shareholder distributions (£m)	18	17	21	22	35	33
As % realisation proceeds	12%	12%	6%	9%	20%	38%
Mix of distribution						
- dividends	83%	94%	86%	91%	63%	34%
- buybacks	17%	6%	14%	9%	37%	66%

Source: ICGT Report and Accounts, Hardman & Co Research

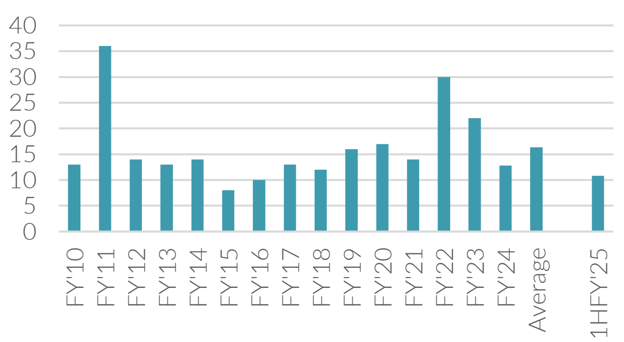
Focus on growing, profitable businesses and well-established managers

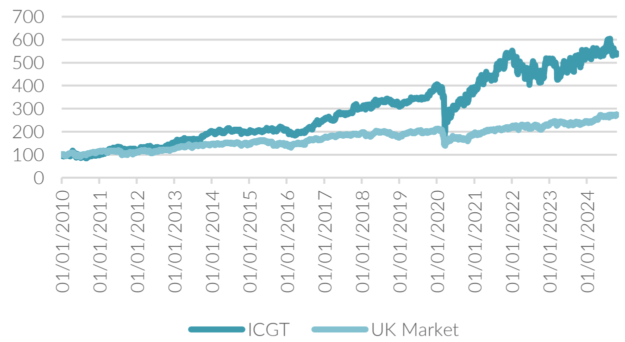
The focus of ICGT's portfolio is on buyouts of businesses in mature markets that have defensive growth characteristics. It chooses direct investments and managers that also align to this strategy – and the maturity and profitability of these businesses are really central (these are not venture capital 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 FY'10-FY'24 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 ca.10x 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 5.4x, 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 22/10/2024, Hardman and Co Research

1HFY'25 results prove both resilient and well-diversified

The continued 1HFY'25 strong revenue and EBITDA growth (top 63% of portfolio 9.4% and 13.9%, respectively) and wider margins are further evidence of defensive growth in action. The more detailed disclosure on pages 13-14 of the results announcement 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 faster average revenue and EBITDA growth than the top 30.

Key portfolio metrics

	1HFY'25 Top 30[1] (40% portfolio)	1HFY'25 Enlarged (63% portfolio)	FY'24 Top 30 (39% portfolio)	FY'24 Enlarged (68% portfolio)
LTM revenue growth (%)				
Average	6.8	9.4	10.1	11.6
% negative	20*	21*	11	15
% >20%	5	13	13	18
LTM EBITDA growth (%)				
Average	10.4	13.9	12.8	14.2
% negative	21*	23*	18	22
% >20%	24	28	18	26
EV/EBITDA				
Average (x)	15.3	14.9	14.6	14.6
<10x (%)	8	10	10	12
>20x (%)	17	13	6	9
Net debt/EBITDA				
Average (x)	4.3	4.4	4.4	4.6
<2x (%)	24	19	22	15
>6x (%)	35	19	23	23

** We understand the vast majority have falls under 5%. It is not uncommon for new companies to see heavy investment before realising the benefits.*
Source: ICGT Report and Accounts, Hardman & Co Research

Continued, indeed accelerated, margin improvement

The chart also shows that there has been a modest slowdown in revenue growth and EBITDA (adjusted for the inclusion of Chewy). Management advises that there are no systemic issues but that specific companies, especially those more dependent on end-consumer spending, have, to varying degrees, seen pressure. We also note that margin expansion, on average, has accelerated with the enlarged portfolio EBITDA growth 4.5% ahead of revenue growth in 1HFY'25, against a 2.6% superior growth in FY'24.

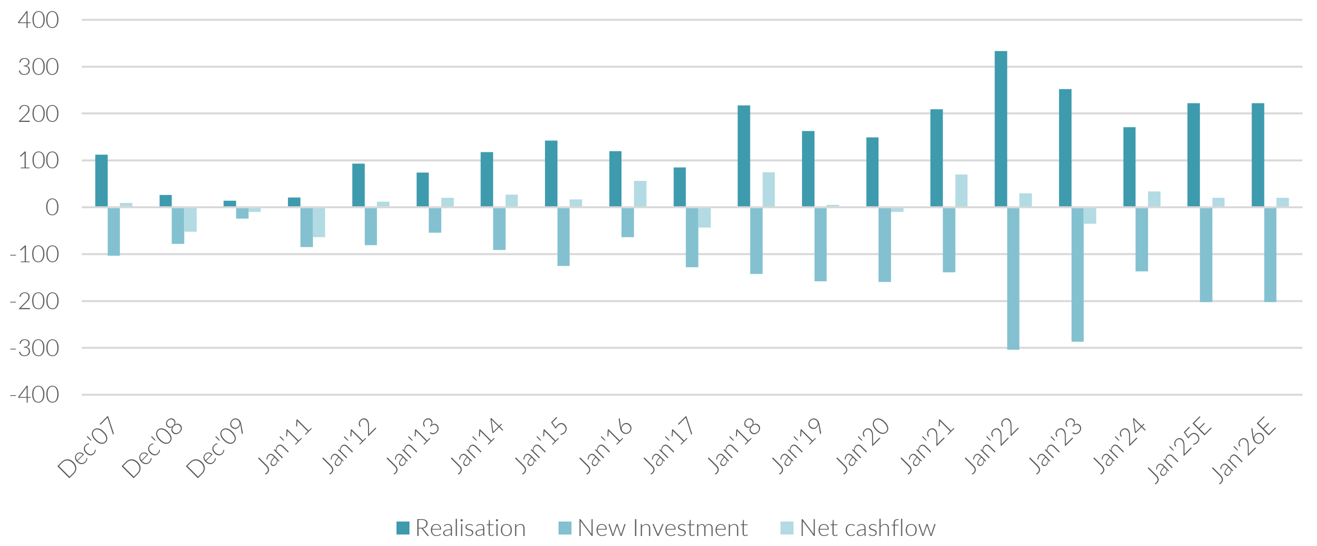
[1] Chewy has been included in the top 30 in 1HFY'25. Its US GAAP EBITDA in 1H'25 was $144.8m, up $56.7m; i.e. a growth rate of 64%. As Chewy was 1.6% of the total portfolio (4.0% top 30), we estimate its growth added ca.2% to the weighted average growth for the top 30.

2. Accelerating deal activity

Realisations expected to accelerate into 2HFY'25

As noted above, new investments have increased for the third consecutive six-month period. Management has also reiterated its view that exit activity is accelerating and it still expects FY realisations to make up a mid-high teens percentage of the opening portfolio (a somewhat faster run rate than seen in 1H). The chart, below, puts our FY'25-FY'26 forecasts into a long-term perspective. Both realisations and new investments are expected to steadily return to long-term average proportions of the opening portfolio and, in nominal terms, will both be in the top five years.

Realisations and new investment since 2007 (£m)



Source: ICGT Report and Accounts, Hardman & Co Research

3. Capital allocation policy

Growing dividends and accelerated buyback programmes

Shareholders saw 1H dividends of 17p (prior year 1H: 16p) and a reiterated intention to pay 35p (+6%) in the whole year. Buybacks of £21m (average discount 37.8%) were executed for both the long-term (£11m) and the opportunistic (£10m) programmes. These added 19p to the NAV p/sh. Since inception in October 2022 to 1 October 2024, the long-term programme has been active in the market on 155 days while the opportunistic programme (£25m authorised for FY'25) has been active on five days. More details of the policy were given on page 11 of our note *FY'24: portfolio companies performing strongly.*

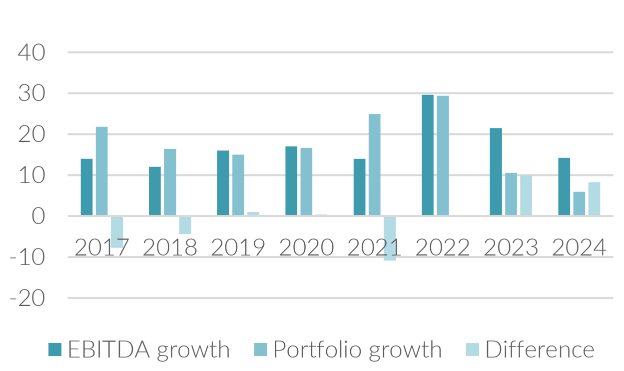
Other themes

Why strong average EBITDA growth, NAV uplifts from buybacks, and exit uplifts only generated modest portfolio/NAV growth

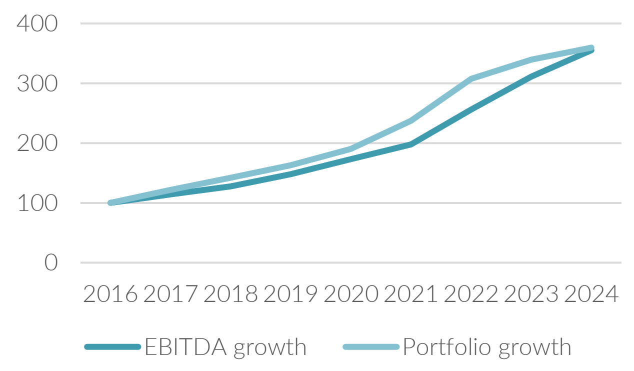
Operational outperformance leads to strong, correlated valuation gains over long term, with short-term noise

Like many across the industry, ICGT has reported, for several half years, EBITDA growth ahead of NAV growth. We believe investors should put this into an appropriate context and not be alarmed. As the charts below show, there are periods when this happened before (2019, 2023 and 2024) and there are also periods when NAV growth exceeds EBITDA growth (2017, 2018, and 2021). As a long-term investment, we believe the long-term correlation is strong (see right hand chart) – supporting the view that operational outperformance leads to strong valuation gains.

EBITDA growth and portfolio growth since 2017 (%)



EBITDA and portfolio indexed to 2016 (100)



Source: ICGT, Hardman and Co Research

The reason for short-term variances can include:

Portfolio mix factors include companies captured by sampling, proportion of new companies, funds in catch-up phase

- Portfolio mix changes:
  - the portfolio composition, and so the average EBITDA growth, constantly changes with new companies entering and others being exited. As noted on page 5, the impact of including Chewy in 1HFY'25 alone added ca.2% to the average top 30 growth.
  - New companies, typically, are valued by GPs at cost for the first year, and so generate no NAV accretion, but their EBITDA growth is caught in the average growth numbers.
  - Funds in a "catch-up" period again will see no NAV growth, but investee company performance will show in the EBITDA average growth. PE funds are structured so that investors get their target return first, and they accrue 100% of initial returns earned by the fund. Once the fund has achieved the investor target return, the allocation changes; so, the manager then gets all the returns until their carried interest is fully accrued. After that, returns are then split between the investor and manager (typically 80/20). The period when the managers accrue all the return is called "catch-up", because they are catching up for the prior performance when they had accrued nothing. As different funds move into a catch-up period, the NAV growth will vary from EBITDA growth but, typically, only for a relatively short period. Diversification by vintage and fund also helps moderate the impact.

- The average numbers are taken from a sample, which is generally representative of the whole portfolio; however, in any given reporting period, there may be some variance. ICGT believes this effect is minor.

Exit uplifts important to portfolio and NAV growth accounting for about half returns over medium term

- The impact of exit activity is material. Exit uplifts are a core part of PE returns and, where accounting has been conservative, it could be argued they represent some of the ongoing value added by the PE manager not just the exit option taken. ICGT has consistently seen exit uplifts. From FY'20-FY'24, on average, proceeds were 21% of the closing portfolio at an average annual uplift of 31.6%; they consequently added an annual average of ca.6% to the portfolio, or broadly half the return.

1HFY'25 uplift benefit approximately half of usual rate

- In 1HFY'25, proceeds were 6% of the opening portfolio value, at an average uplift of 26%, i.e. adding just 1.6% to portfolio value over the six months (annualised 3.2%) or a half of the five-year run rate.

Limited exits extend catch-up periods

- A period with limited exits means that the catch-up period when returns accrue to the manager, not investors, is extended.

After above-average exits and need to establish credible track records post COVID-19, the stock of exit-able businesses is growing at time more buyers in market

- In our view, across the industry, in calendar years 2020-21, there were above normal exits as GPs took advantage of the high valuations available at the time (ICGT's experience was that proceeds were 35% of opening portfolio valuation in the year-ended January 2022). In essence, this accelerated returns, and meant, in calendar years 2022-23, there were fewer businesses that were ready for sale and so there were below normal exits. Additionally, those businesses, which had been adversely affected by COVID-19, needed to rebuild financial track records for a couple of years before they could reasonably be sold. Overall, we believe these factors are now significantly worked through, and so the number of exit-able businesses is growing at a time when exit options have been increasing.

Can see difference between underlying company valuation and overall GP fund valuations

- The average EBITDA is driven by the underlying investee companies. Where ICGT has invested via funds (portfolio mix July 2024: 52% primary and 16% secondary funds and 32% direct company holdings), it is valuing the funds, not the investee companies. Some fund effects are hard to allocate to specific companies, most notably carry (see above).

Valuation geared relative to EBITDA

- The relationship between EBITDA and value is affected by investee company leverage. *Ceteris paribus*, a 10% EBITDA growth for a 50% geared company would see equity holders' value increase by 20%. Higher interest costs, from a higher-rate environment would adversely affect discounted cashflow valuations but not be seen in EBITDA. Similarly, lower interest costs in a falling rate environment would be disproportionately beneficial.

Not all companies valued on EBITDA metric – e.g. listed

- The valuation approach is not always driven by EBITDA multiples – most obviously for listed holdings where quoted prices are used (4.3% end-July 2024 portfolio).

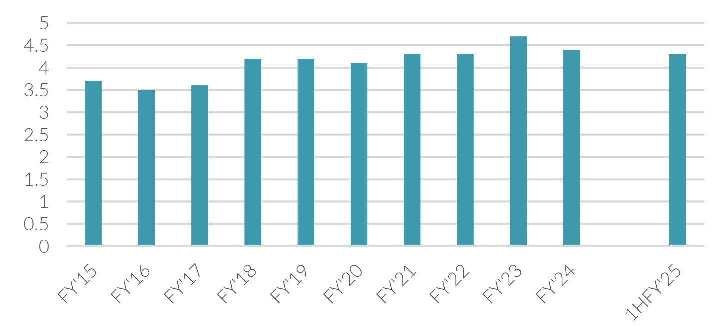
ICGT gearing

There are multiple layers of debt to consider.

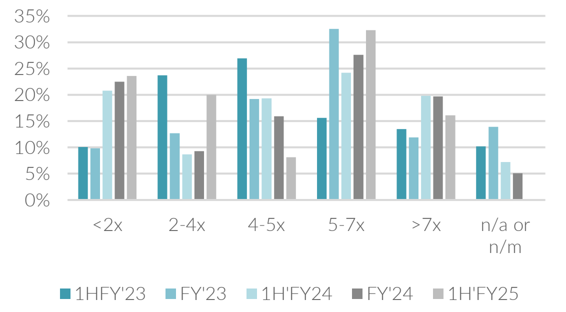
Investee company gearing stable with ca.40% having debt less than 4x EBITDA

- The net debt of investee companies has remained stable for many years (see left hand chart below) and the distribution of debt is wide, with ca.40% of the enlarged sample (covering nearly two thirds of the portfolio) having debt below 4x EBITDA (see right-hand chart below). Typically, those with higher debt have faster growth/more resilient income streams.

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



Distribution of top 30 net debt/EBITDA (%)



Source: ICGT Report and Accounts, Hardman & Co Research

Bridging facilities at fund level increased with greater investment seen across PE industry. ICGT has good visibility in managing its cashflows.

- The primary and secondary funds ICGT invests in, typically, have bridging facilities to manage the timing and frequency of calls on investors. This helps ICGT manage cashflows, as it gives good visibility on future calls.
- At the trust level,

Over-commitment rising but within long-term trends

  - At end-July, ICGT had £126m (FY'24 £196m) of available liquidity, including £17m of cash and a £109m undrawn revolving credit facility (£93m of drawn debt). Undrawn commitments, at the end of July 2024, were £575m (up from £552m end-January 2024), £123m of which were in funds outside their investment period, and so unlikely to be drawn, leaving £452m, which are more likely to be drawn over the next five years. Over-commitment, at the end of July 2024, was 35.3% of NAV, up from 30.2% at the end of July 2024, (and 27.7% end-January 2024) but broadly consistent with a longer-run average.

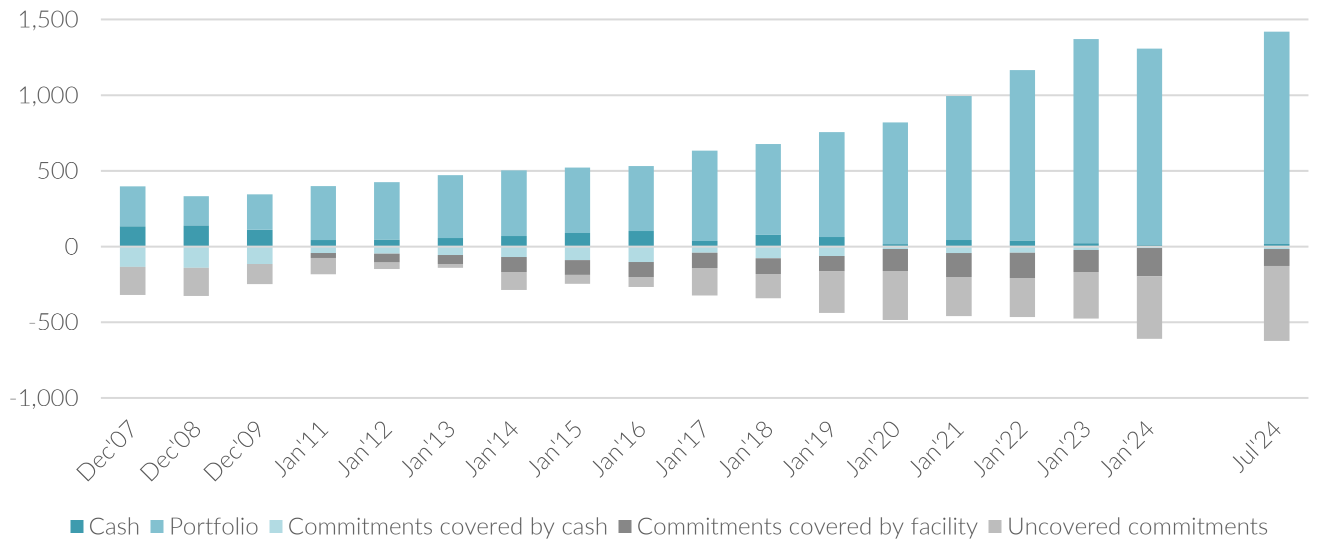
Reflects negative portfolio cashflow and increased undrawn commitments. Management expects positive cashflow to bring balance sheet gearing down to zero in medium term.

  - In 1HFY'25, ICGT saw increased debt drawings, an increase in undrawn commitments outside their investment period and a net portfolio cash-outflow. Management comments that realisations are expected to be 2H-weighted and, in that period, are expected to exceed new investments, generating positive portfolio cashflow. Additionally, it commented that its medium-term ambition is to have zero gearing, with further positive portfolio cashflow repaying the drawn facility.

In our view, prudent over-commitment adds value to shareholders

  - We have, in previous notes, outlined why we believe a prudent degree of over-commitment adds value to shareholders. Primary commitments are likely to be drawn over many years and new investment opportunities reflect PE market activity and have some correlation with realisations. With ca.£450m of commitments in investment phase, £126m of available liquidity, the uncovered element represents ca.18 months of normal realisations. Short periods of negative portfolio cashflow are not new.

Balance sheet evolution since December 2007 (£m)



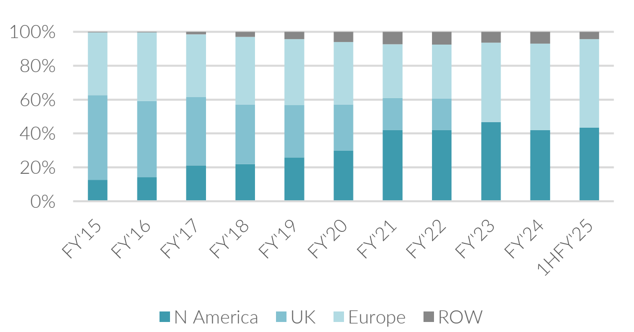
Note: Includes co-investment incentive scheme accrual commitments; Source: ICGT Report and Accounts, Hardman & Co Research

July 1HFY'25 portfolio overview

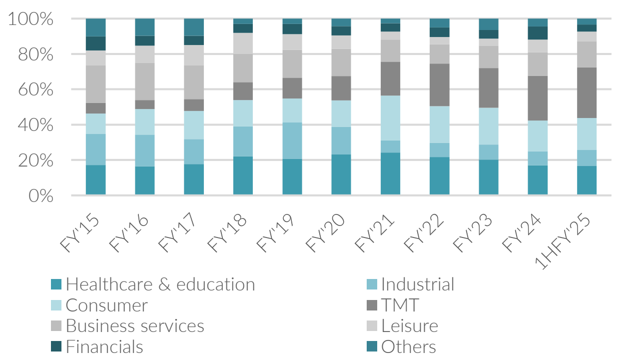
Top 30 companies account for 40% of portfolio

The top 30 companies account for 40% of the portfolio value. 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'15-1HFY'25 (%)

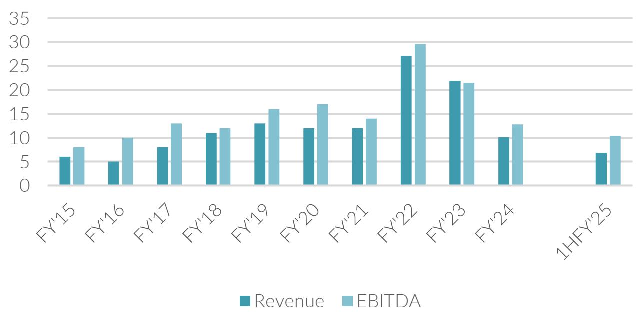


Sectoral distribution of portfolio, FY'15-1HFY'25 (%)

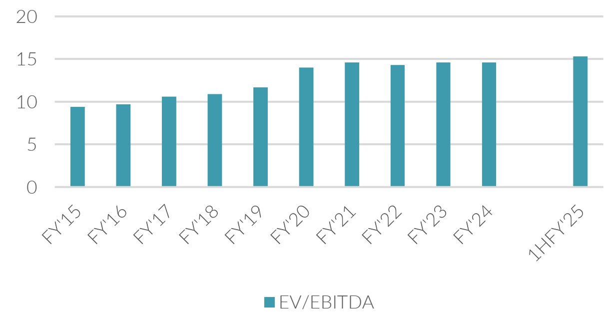


Note: UK now included in Europe, Source: ICGT Report and Accounts, Hardman and Co Research

Top 30 LTM revenue and EBITDA growth, FY'15-1HFY'25 (%)

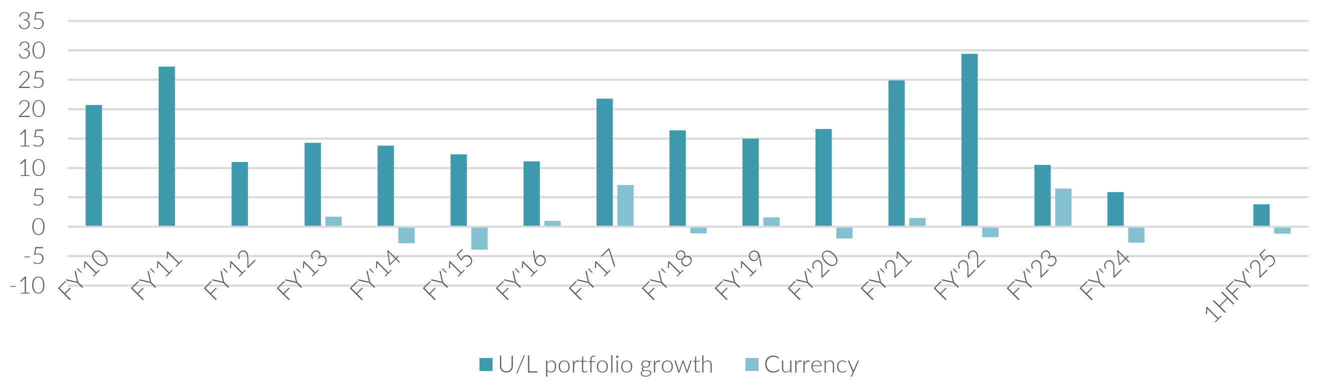


Top 30 EV/LTM EBITDA, FY'15-1HFY'25 (x)



Source: ICGT Report and Accounts, Hardman & Co Research

Underlying constant-currency portfolio growth, FY'13-1HFY'25 (%)

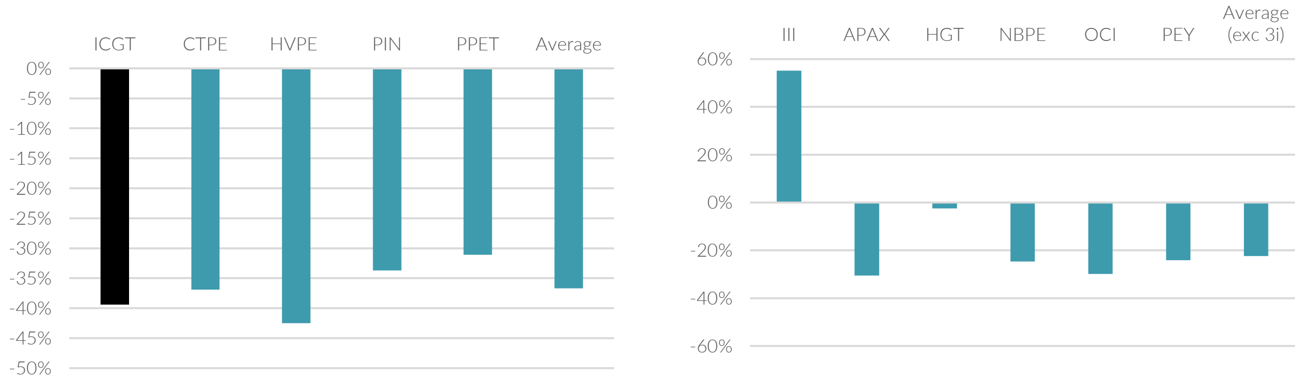


Source: ICGT Report and Accounts, Hardman & Co Research

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 22/10/24

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, in the past year, ICGT has 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	100		100	100		100
Realised gains on investments		(1,044)	(1,044)		16,205	16,205		34,745	34,745
Unrealised gains on investments		40,413	40,413		97,229	97,229		208,472	208,472
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)	(1,612)	(14,505)	(16,117)
Other expenses	(1,769)		(1,769)	(1,946)	-	(1,946)	(2,063)	-	(2,063)
Return before finance costs and taxation	**(510)**	**26,029**	**25,519**	**(1,068)**	**99,148**	**98,080**	**(1,209)**	**228,712**	**227,503**
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	(1,868)	90,148	88,280	(2,209)	217,712	215,503
Taxation	-	-	-	318	(318)	-	376	(376)	-
Return on ordinary activities after tax	**(1,261)**	**18,627**	**17,366**	**(1,551)**	**89,830**	**88,280**	**(1,834)**	**217,337**	**215,503**

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	280,482	346,206
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	1,109,334	1,266,827
Total non-current assets	**576,487**	**670,072**	**778,416**	**907,562**	**1,123,747**	**1,349,075**	**1,296,382**	**1,389,815**	**1,613,033**
Current assets									
Cash & cash equiv.	78,389	60,626	14,470	45,143	41,328	20,694	9,722	6,539	8,470
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**	**1,400,618**	**1,625,767**
Creditors	963	386	483	851	9,303	6,274	5,139	15,799	15,570
Gross debt						65,293	20,000	80,000	125,000
Net assets	**664,323**	**730,860**	**793,545**	**952,016**	**1,157,977**	**1,300,619**	**1,283,223**	**1,304,819**	**1,485,197**
NAV per share (p)	**959.14**	**1,056.51**	**1,152.12**	**1,384.3**	**1,690.1**	**1,903.0**	**1,909.4**	**2,054.8**	**2,376.3**

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)	(130,000)	(130,000)
Cash flows from sub. inv.							195,300	150,000	150,000
Net cash flows to sub. inv.	(12,824)	(32,427)	(34,446)	(6,486)	(2,524)	(10,162)	79,216	20,000	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)	(16,117)
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**	**8,271**	**8,027**
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)	60,000	45,000
Purchase of shares into treas.	(7,810)	(709)	(2,628)	(775)	(2,679)	(2,016)	(13,068)	(44,458)	(12,000)
Dividends	(13,896)	(14,543)	(15,192)	(15,822)	(17,849)	(19,866)	(21,694)	(22,225)	(23,125)
Net cash infl. from fin. activs.	**(23,026)**	**(16,333)**	**(20,457)**	**(18,447)**	**(23,896)**	**39,719**	**(91,148)**	**(11,453)**	**(6,095)**
Net inc. in cash & cash equiv.	39,041	(18,701)	(46,364)	31,472	(2,837)	(21,058)	(11,743)	(3,182)	1,932
Opening cash & cash equiv.	38,522	78,389	60,626	14,470	45,143	41,328	20,694	9,722	6,539
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**	**6,539**	**8,470**

Source: ICGT Report and Accounts, Hardman & Co Research

Appendix: Defensive growth in practice

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 subsectors 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.

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