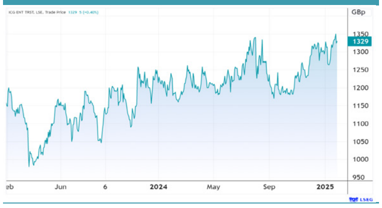
HARDMAN&CO.

Closed End Investment Funds



Source: LSEG, 2025

Market data

EPIC/TKR	ICGT
Price (p)	1,324
12m high (p)	1,352
12m low (p)	1,150
Shares (m)	64.3
Mkt cap (£m)	851
NAV p/sh (Oct'24, p)	1,997
Disc. to NAV (%)	-34
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	G Fusenig, A Ighodaro, J Nicholls, D Warnock (SID)
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

May'25	FY'25 results to Jan

Analyst

Mark Thomas mt@hardmanandco.com

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

ICG ENTERPRISE TRUST PLC

Unique approach to capital allocation

In this note we examine how shareholders benefit from ICGT's unique approach to capital allocation (first discussed on page 11 of our 16 May 2024 note *FY'24: portfolio companies performing strongly*). We have in previous notes highlighted how ICGT's defensive growth strategy in practice differentiates itself from peers (see Appendix 1) and the capital allocation policy is also a differentiator. ICGT's approach rewards investors with immediate income through a progressive dividend, long-term compounding capital growth through new PE investments, ongoing NAV accretion through a long-term buyback programme and further NAV accretion with an opportunistic buyback programme when the discount is high.

- **Shareholder returns:** The FY'25 intention of a minimum 35p dividend has been reiterated (current yield 2.7%, five-year annual growth 9%+). 3Q new investment was £35m (further £23m to end December). Buybacks of £50m (average discount 37.6%) have been executed since Oct'22 (+47p to the NAV).
- **3Q results:** NAV per share was 1,997p (31 July 2024: 1,946p) with a NAV per share total return of 3.0% in 3Q (five-year annual 13.8%). The 12 full exits were at an average uplift to carrying value of 18%, yet again showing the conservatism in the accounting. The 3Q dividend was 8.5p.
- **Valuation:** ICGT's NAV valuations are conservative, demonstrated by continued realisations above reported book values. The ratings are undemanding. The 34% discount to NAV is anomalous, we believe, with defensive, market-beating returns, and twice the levels seen pre-COVID-19. The 2025E yield is 2.6%.
- **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 34% 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	36,170
Unrealised gains	238,062	175,890	40,413	97,229	217,022
Investment manager fees	(13,417)	(17,013)	(16,148)	(15,873)	(16,459)
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	215,136
NAV per share (p)	1,690	1,903	1,909	2,055	2,416
NAV total return	25%	15%	3%	10%	20%
S/P prem./disc. (-) to NAV	-26%	-43%	-36%	-36%	-45%
Investments (£m)	1,124	1,349	1,296	1,447	1,675
Dividend per share (p)	27	30	33	35	37

Source: Hardman & Co Research

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Capital allocation policy

Summary

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

Progressive dividend

- The Board intends to pay total dividends of at least 35p per share for FY'25 (FY'24: 33p). The dividend per share has increased at an annualised rate of 9% over the past five years through a progressive dividend policy.

- Investment in new PE opportunities to generate long-term compounding NAV growth. ICGT appears well positioned for a recovery in transaction volumes, with commitments made in the last two years to a diversified group of top tier managers sowing the seeds for a period of strong deployment. It continues to focus on creating a strong and flexible balance sheet, with liquidity improving following an increase in the size of its credit facility in late December (see RNS *here*) in anticipation of future portfolio growth. ICGT has also demonstrated active portfolio management utilising attractive secondary sale opportunities as they arise.

Consistent, long-term buyback programme in place

- ICGT started its latest buyback programme in October 2022 and has now bought back a total of £50m (£32m long-term, £18m opportunistic), adding 2.3% (47p) to NAV per share and reducing share count by a market-leading 6%.

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

  - The long-term programme (£32m completed since October 2022) is regularly in the market for small quantities of shares and has recently been active most trading days. The key messages, from the long-term, consistent programme to return capital, are that it shows i) confidence in the valuation, ii) accretion to NAV, iii) a disciplined approach to capital, iv) balance sheet strength to buy back and still see continued ongoing investment/new commitment, and v) well-balanced share trading liquidity.

  - The opportunistic buyback programme has seen £18m completed to date, out of up to £25m FY'25 commitment (i.e. ending January 2025). A new commitment of up to a further £25m in FY'26 (i.e. ending January 2026) was made with the 3Q update. This will run alongside the long-term programme, with the opportunistic programme typically involving larger single transactions but active less frequently.

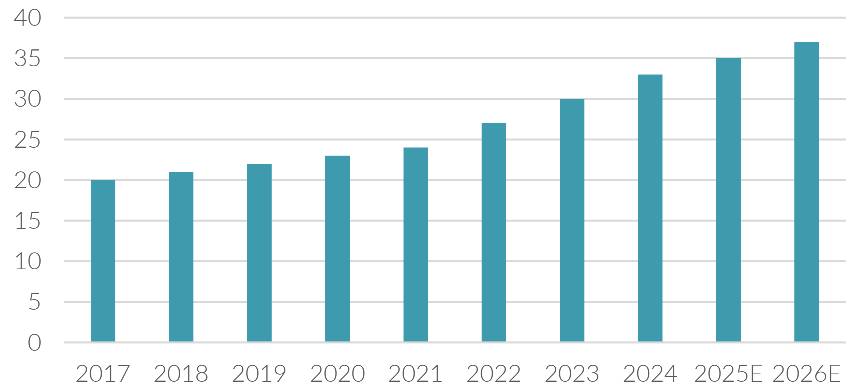
What this means for investors is a balanced return with both current income from dividends (yield 2.7%), compounding NAV growth through investment in defensively growing businesses and NAV enhancement through both a long-term buyback strategy and opportunistic buybacks when the discount to NAV is high. The later may also act as a sentiment brake on the discount widening in uncertain times.

Dividends

ICGT has had a progressive dividend policy for many years

As can be seen in the chart below, ICGT has a long-term track record of a progressive dividend. Investors will note our forecasts still assuming a rising NAV after the dividend which is well covered by expected returns.

Dividends per share (p) FY'17-'26E

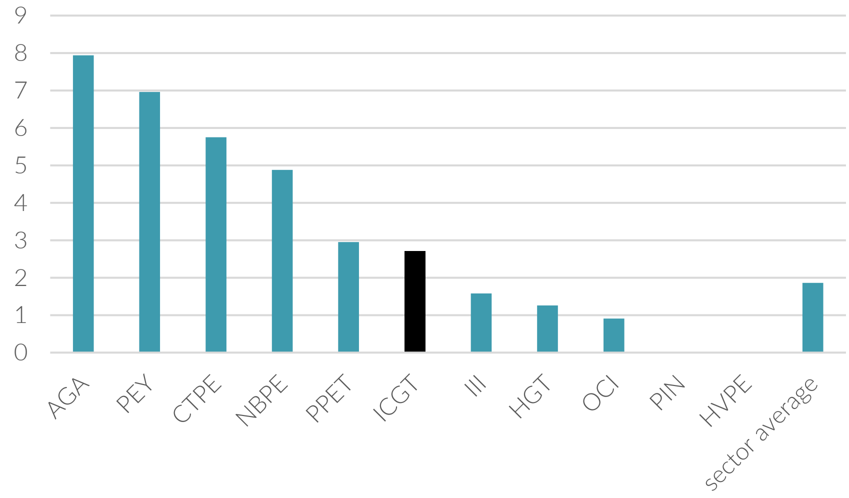


Source: ICGT Report and Accounts, Hardman & Co Research

ICGT's approach is to balance income and capital returns to investors, so it is middle of the range for dividend yield

The chart below shows how ICGT's investors' immediate incomes (as reflected in the dividend yield) compares with the peers. In our view, ICGT's approach is to give investors a balance between immediate income and capital growth, and this is reflected by it being in the middle of the peers' range. It should also give investors comfort in the sustainability of the progressive dividend policy.

Dividend yields (%)



Source: LSE, Hardman & Co Research

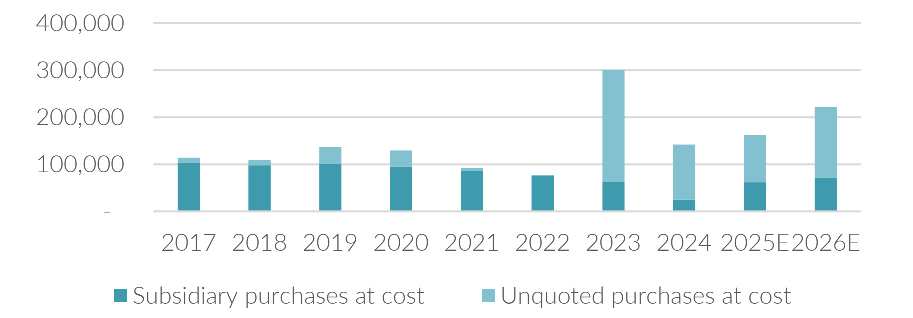
More details of dividends are available on the company website here.

Investment for long-term compounding NAV growth

Continued investment for long-term compounding growth

The chart below shows the new investments shown in ICGT's report and accounts (for technical reasons there has been a switch into greater purchases through subsidiaries so investors should focus on the combined total). The business message that we take is that there is ongoing investment to provide a steady growth in NAV.

New investments (£m) FY'17-'26E



Source: Investment analysis within ICGT Report and Accounts, Hardman & Co Research

Bias shifting in new term to more secondary and direct investments

As we have identified in previous notes, ICGT has the dedicated fund-exclusive expertise to invest across the PE spectrum (primary funds, secondary investments and co-investments). The former involves commitments made to top tier managers which can be drawn down at any time over multiple years and typically will reflect the market activity in ICGT's chosen defensive growth sectors. The latter two give it more flexibility to manage cashflows and the new investment mix will accordingly vary with short-term outlook. In its January 2025 outlook management commented they "*expect to see more investment activity in co-investments and secondaries*" in the near term and there has been a small increase in the medium-term allocation.

Buybacks

ICGT uniquely has two distinct buyback programmes

We discuss the benefits and downsides of buybacks in general in Appendix 2 below. As noted above ICGT has two programmes – a long-term one which is regularly in the market for small quantities of shares and an opportunistic one which is only activated when the discount to NAV is large, and a material number of shares can be purchased in a single trade. Consequently, the opportunistic one trades rarely but in much larger size than the ongoing one (average daily volume since Oct'22: 15.3k shares on ongoing, 135.6k on opportunistic). Being more active when the discount is large is nothing new with, for example, ICGT's buybacks post Brexit being significant, while there were none in FY'2011-15 (see page 38 of our initiation note). What differentiates ICGT from peers is this dual approach to its buyback programme.

Purchases made under ICGT's recent share buyback programmes

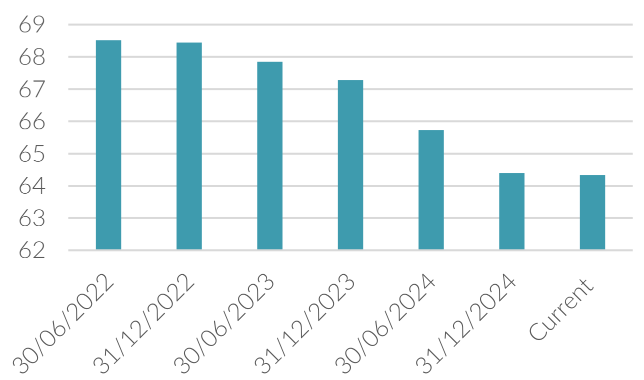
	Long-term		Opportunistic		Total	
	3QFY'25	From Oct'22	3QFY'25	From May'24	3QFY'25	From Oct'22
Number of shares purchased ('000s)	270	2,690	218	1,492	488	4,182
Capital returned (£m)	3.3	31.7	2.6	18.3	5.9	50
Number of days shares acquired	21	176	2	11	23	187
Weighted average discount to last reported NAV (%)	35.9	38.4	37.7	36.2	36.7	37.6
NAV per share accretion (p)					5	47
NAV per share accretion (% of NAV)					0.3	2.3

Notes: dates in table are the inception of the latest buyback programmes. Source: ICGT 3Q announcement, Hardman & Co Research

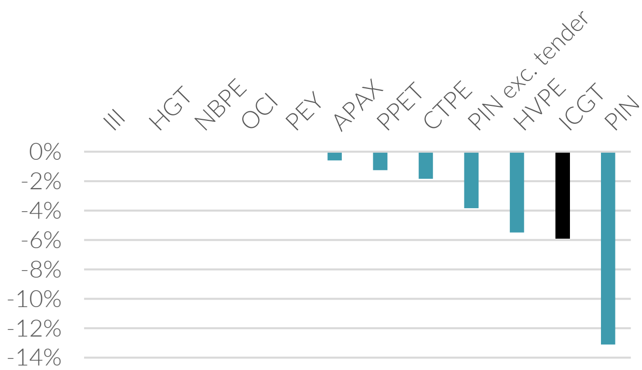
ICGT sector leading in share number reduction since October 2022

The left-hand chart below shows the 4.2m, 6.1% fall in shares in issue since the latest programmes began in mid-2022. The sharpest fall was in 2024 when both programmes were active. The right-hand chart shows that after PIN, ICGT saw the largest percentage fall in shares in issue end-2022 to end-2024. Excluding the 49m shares bought in Pantheon's tender offer (which arguably corrected its multi-year relative over-conservatism and under-leveraged position), ICGT would have been the most active UK listed PE name.

Number of ICGT shares in issue (exc. treasury, m)



Reduction in shares in issue Dec'22-Dec'24 (%)



Source: Company RNS / Report and accounts, Hardman & Co Research

3QFY'25 results

Summary

Second sequential 3% NAV quarterly return

- NAV per share of 1,997p (31 July 2024: 1,946p). NAV per share total return of 3.0% in 3Q; long-term compounding returns of 13.8% annualised over last 5 years. 3QFY'25 was the second sequential quarter of 3%+ portfolio returns on a local currency basis.

Continued deal activity with material uplifts to carrying value

- Continuing to invest through cycle: one new fund commitment (£7.5m), total new investment of £35.2m and total proceeds of £34.4m (including 12 full exits at weighted average uplift to carrying value of 18%).
- Evolving the medium-term target portfolio composition towards more secondary and direct investments.

All aspects of capital allocation active in 3Q

- To date the shareholder-focused approach to capital allocation has delivered:
  - 3Q dividend per share of 8.5p (3QFY'24: 8.0p), The Board intends to pay total dividends of at least 35p per share for FY'25 (FY'24: 33p). Dividend per share has increased at an annualised rate of 9% over last five years through a progressive dividend policy.
  - £50m of buybacks since October 2022 (£32m long-term, £18m opportunistic), adding 2.3% (47p) to NAV per share and reducing the share count by a market-leading 6%. See section on buybacks above.
  - Opportunistic share buyback renewed for FY'26 of up to £25m to run alongside long-term buyback.
- Balance sheet flexibility strengthened post period-end through an increase in credit facility size from €240m to €300m.

Performance to 31 October 2024 (%)

		Annualised			
	3 months	1 year	3 years	5 years	10 years
Portfolio return on a local currency basis	3.1	8.8	9.1	16.0	15.3
NAV per share total return	3.0	3.6	8.8	13.8	13.5
Share price total return	(7.5)	16.1	2.2	8.5	10.8
FTSE ALL share Index total return	(2.5)	16.3	6.2	5.7	6.2

Source: ICGT Report and Accounts, Hardman & Co Research

- The key portfolio activity is detailed in the table below. For long-term investments we would not read too much into one quarter's activity.

Portfolio activity overview for 3QFY'25

	Primary	Direct	Secondary	Total	ICG managed
Portfolio return on a local currency basis (%)	2.8	3.6	3.2	**3.1**	3.8
Portfolio return on a sterling basis (%)	2.8	3.5	3.1	**3.0**	3.4
New investments (£m)	27	5	4	**35**	4
Total proceeds (£m)	25	3	6	**34**	4
New fund commitments (£m)	7	0	0	**7**	0
Closing portfolio value (£m)	761	461	224	**1,445**	443
% total portfolio (%)	53	32	15	**100**	31

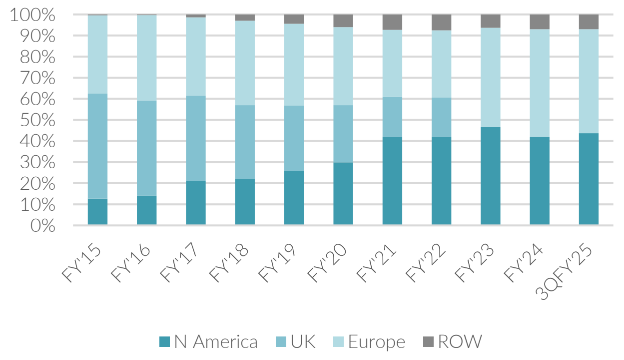
Source: ICGT Report and Accounts, Hardman & Co Research

Top 30 companies account for 40% of portfolio

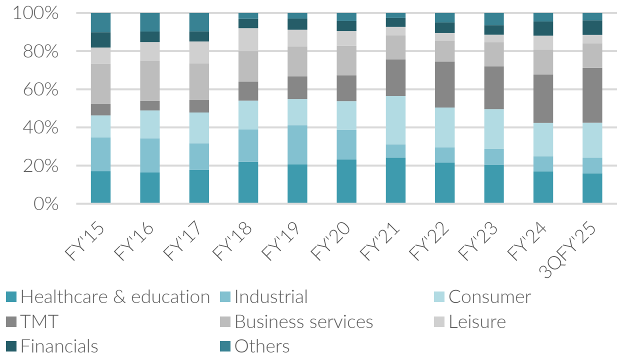
Oct 3QFY'25 portfolio overview

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'15-3QFY'25 (%)

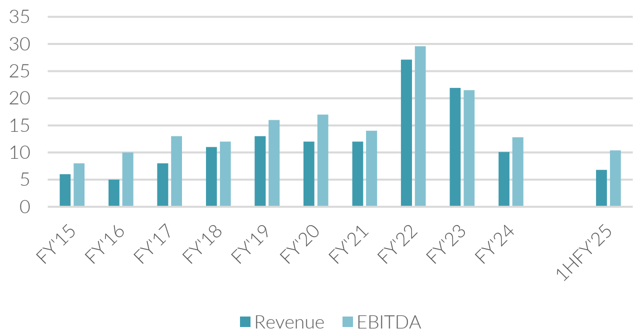


Sectoral distribution of portfolio, FY'15-3QFY'25 (%)

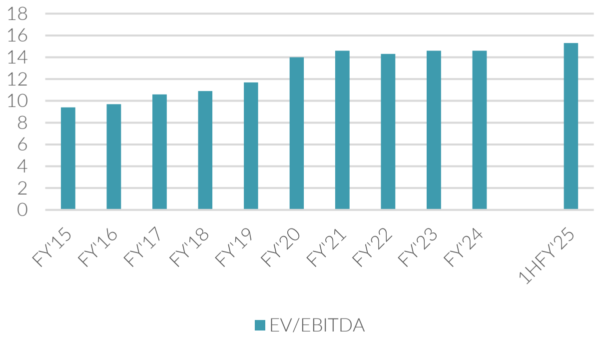


Note: UK now included in Europe. Source: ICGT Report and Accounts, Hardman and Co Research

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

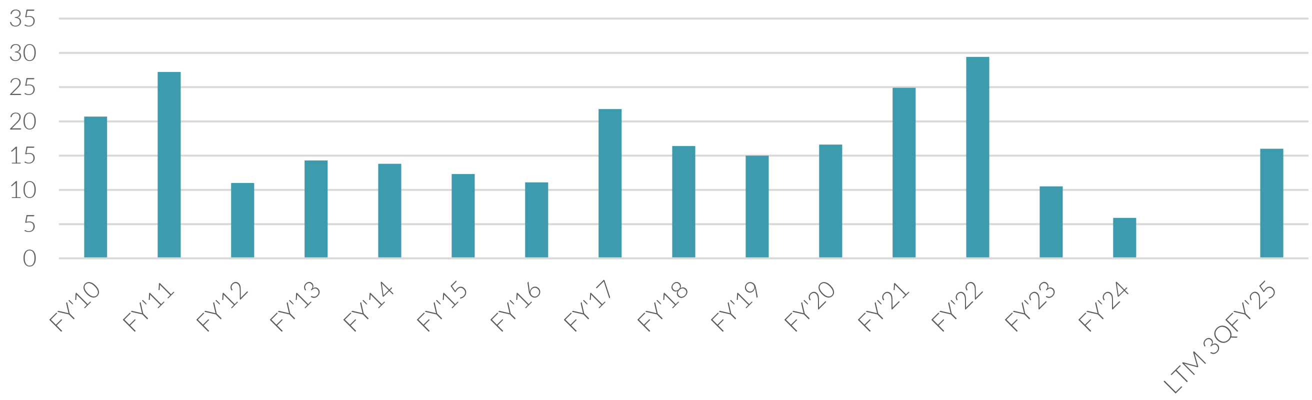


Top 30 EV/LTM EBITDA, FY'15-1HFY'25 (x)



Note: Growth rates not disclosed at 3Q. Source: ICGT Report and Accounts, Hardman & Co Research

Underlying constant-currency portfolio growth, FY'13-3QFY'25 (%)

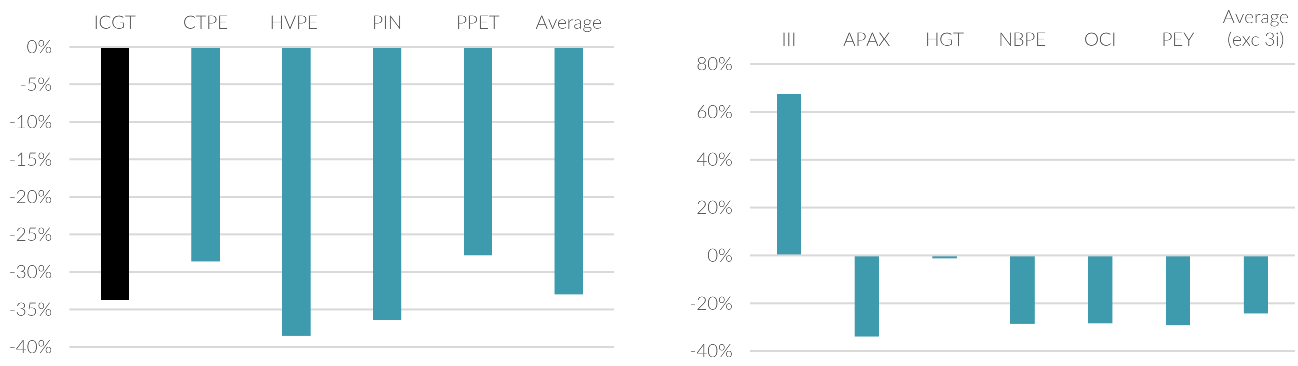


Source: ICGT Report and Accounts, Hardman & Co Research

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 28/1/2025

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, continued improvement in financing cost and availability 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. The 2024 increase in deal activity, and confidence in exits across the market for 2025 would support the view this has already started.

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

Income statement (£000)

	2024			2025E			2026E		
Year-end Jan	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		36,170	36,170
Unrealised gains on investments		40,413	40,413		97,229	97,229		217,022	217,022
FX gains and losses	0	1,193	1,193	0		0	0	0	0
Investment managers' fees	(1,615)	(14,533)	(16,148)	(1,587)	(14,285)	(15,873)	(1,646)	(14,813)	(16,459)
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**	**(1,244)**	**238,379**	**237,136**
Interest payable and similar expenses	(751)	(7,402)	(8,153)	(800)	(9,000)	(9,800)	(2,000)	(20,000)	(22,000)
Return on ordinary activities before taxation	(1,261)	18,627	17,366	(1,868)	90,148	88,280	(3,244)	218,379	215,136
Taxation	-	-	-	318	(318)	-	551	(551)	-
Return on ordinary activities after tax	**(1,261)**	**18,627**	**17,366**	**(1,551)**	**89,830**	**88,280**	**(2,692)**	**217,828**	**215,136**

Source: ICGT Report and Accounts, Hardman & Co Research

Balance sheet (£000)

@ 31 Jan	2019	2020	2021	2022	2023	2024	2025E	2026E
Non-current assets								
Unquoted investments	519,806	571,143	604,306	202,009	269,178	260,296	292,482	364,981
Quoted investments	1,655	1,231	35,702	0	0	0	0	0
Subsidiary investments	148,611	206,042	267,554	921,738	1,079,897	1,036,086	1,129,334	1,310,027
Total non-current assets	**670,072**	**778,416**	**907,562**	**1,123,747**	**1,349,075**	**1,296,382**	**1,446,815**	**1,675,008**
Current assets								
Cash & cash equiv.	60,626	14,470	45,143	41,328	20,694	9,722	7,539	10,868
Receivables	548	1,142	162	2,205	2,416	2,258	4,264	4,264
Total assets	**731,246**	**794,028**	**952,867**	**1,167,280**	**1,372,185**	**1,308,362**	**1,458,618**	**1,690,140**
Creditors	386	483	851	9,303	6,274	5,139	28,799	3,570
Gross debt					65,293	20,000	125,000	225,000
Net assets	**730,860**	**793,545**	**952,016**	**1,157,977**	**1,300,619**	**1,283,223**	**1,304,819**	**1,461,570**
NAV per share (p)	**1,056.51**	**1,152.12**	**1,384.3**	**1,690.1**	**1,903.0**	**1,909.4**	**2,054.8**	**2,415.8**

Source: ICGT Report and Accounts, Hardman & Co Research

Cashflow (£000)

Year-end Jan	2019	2020	2021	2022	2023	2024	2025E	2026E
Sale of portfolio invests.	135,461	107,179	147,545	100,982	32,143	40,611	60,000	72,000
Purch. of portfolio invests.	(101,790)	(95,417)	(86,134)	(75,125)	(62,245)	(25,162)	(50,000)	(72,000)
Cash flow to sub. inv.						(116,084)	(100,000)	(150,000)
Cash flows from sub. inv.						195,300	100,000	150,000
Net cash flows to sub. inv.	(32,427)	(34,446)	(6,486)	(2,524)	(10,162)	79,216	-	-
Interest income	3,994	5,832	1,231	3,647	1,829	1,695	3,000	3,000
Dividend income	1,883	1,290	5,445	1,854	394	779	779	779
Other income	216	381	71	2	46	509	2,365	2,365
Invest. mgr. charges paid	(7,956)	(9,499)	(10,334)	(6,207)	(21,218)	(15,647)	(15,873)	(16,459)
Other expenses	(1,749)	(1,227)	(1,419)	(1,570)	(1,567)	(2,596)	(2,000)	(2,000)
Net cash inflow/(outflow) from op. activit.	**(2,368)**	**(25,907)**	**49,919**	**21,059**	**(60,780)**	**79,405**	**(1,729)**	**(12,315)**
Bank facility fee	(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)	(9,800)	(22,000)
Proceeds from borrowing			-	-	65,293	(46,845)	105,000	100,000
Purchase of shares into treas.	(709)	(2,628)	(775)	(2,679)	(2,016)	(13,068)	(44,458)	(36,000)
Dividends	(14,543)	(15,192)	(15,822)	(17,849)	(19,866)	(21,694)	(22,225)	(22,385)
Net cash infl. from fin. activs.	**(16,333)**	**(20,457)**	**(18,447)**	**(23,896)**	**39,719**	**(91,148)**	**24,547**	**15,645**
Net inc. in cash & cash equiv.	(18,701)	(46,364)	31,472	(2,837)	(21,058)	(11,743)	22,818	3,330
Opening cash & cash equiv.	78,389	60,626	14,470	45,143	41,328	20,694	9,722	7,539
FX effects	938	208	(799)	(978)	424	771	(25,000)	-
Closing cash & cash equiv.	**60,626**	**14,470**	**45,142**	**41,328**	**20,694**	**9,722**	**7,539**	**10,868**

Source: ICGT Report and Accounts, Hardman & Co Research

Appendix 1: 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.

Appendix 2: Buyback principles

In the section below we detail our thoughts on the principles of buybacks as outlined in our initiation note on ICGT.

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"There are a number of tools that can be used to manage the discount. Many companies have policies that allow them to buy back shares if the discount is above a certain level for a specified time. Others use intermittent tender offers. We believe the key considerations are as follows.

- *On the upside:*
  - *It creates a buyer for the shares. The immediate effect of a large tender offer may be more effective in removing potentially bulky sellers. If future offers are expected, it may also mean that such sellers do not continually drip shares into the market. Where there are likely to be a larger number of small-sized sellers, an ongoing programme may be more effective.*
  - *The liquidity provided by buybacks may encourage buyers, as it provides them with an exit route, without disrupting the market price.*
  - *It may be perceived as putting a cap on the discount, which the market might then close itself.*
  - *It is "fairer" to all shareholders. A seller may arise for specific reasons (such as death, divorce or liquidity calls) and, by keeping the discount tightly controlled, such sellers do not lose out to discount variability.*
  - *Where the discount is large, the returns on the cash used in the buyback may be above the levels targeted in the investment company.*
- *On the downside:*
  - *It could create liquidity problems.*
  - *The capital can be better deployed in the fund.*
  - *By shrinking the business, it worsens the total expense ratio, and increases leverage where there is debt.*
  - *It sends a very mixed message, to investors especially, if the company later comes back to the market for further equity funding.*
  - *It can also send a very mixed message to staff. We note that, in a results call, JZ Capital Partners (JZCP), when announcing a buyback and debt repayment plans, very clearly outlined why it would not be shrinking the business by still originating assets, but placing them in a different vehicle. Given the scale of ICGT relative to ICG's other businesses, any shrinkage in assets is unlikely to affect, for example, staff morale.*
  - *An active buyback programme may reduce the likely return of capital by way of dividends, and thus benefit capital investors over income investors."*

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