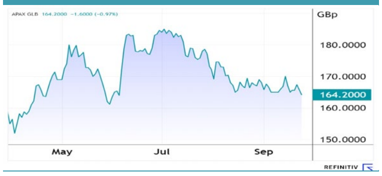
25 September 2023

HARDMAN&CO.

Closed-ended investments



Source: Refinitiv

Market data

EPIC/TKR	**APAX**
Price (p)	**165.6**
12m high (p)	194.6
12m low (p)	151.7
Shares (m)	491
Mkt cap (£m)	813
Disc. to Jun £ adj. NAV (%)	-27
Free float	92%
Country/Ccy	UK/GBP
Currency of reporting	Euro
Market (main)	STMM

Description

Apax Global Alpha (AGA) has a global portfolio across four core sectors: Tech & Digital, Services, Healthcare and Internet/Consumer. 71% of the portfolio is private equity (PE) and 29% Derived Investments; the latter is held for capital management. It targets an annualised net total NAV return across economic cycles of 12%-15%, and a dividend yield of 5% of NAV. It has a Premium listing, and is a FTSE 250 constituent.

Company information

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NEDs	Chris Ambler, Mike Bane, Stephanie Coxon, Susie Farnon,
Inv. Adviser	Apax

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Key shareholders

Witan IT	6.2%
Berlinetta Limited	5.9%

Diary

2 Nov	3Q results

Analyst

Mark Thomas mt@hardmanandco.com

Disclosure: the relevant analyst is a shareholder in Apax Global Alpha

APAX GLOBAL ALPHA

Resilience in face of rising interest rates

The interim results to June 2023 reconfirmed AGA's core strengths, notably i) Apax enhances the operational performance of the funds' investments – LTM revenue and EBITDA growth of 16.0% and 14.1%, respectively, are, we believe, ahead of the market, albeit slowing in 2Q, ii) a 24% uplift on exits, proving conservative accounting and that the NAV is realistic, iii) a 2.4% NAV return, with the five-year 12.4% annualised return, and iv) the Debt portfolio proved its worth, with diversified, more stable returns, and generating cash to pay the dividend. Despite rising interest rates, the investee companies, Apax Funds and the trust itself have shown great resilience.

- **Successful strategy:** Apax's strategy of "mining hidden gems" by focusing on chosen high-quality sub-sectors, identifying companies within that space that have the potential to improve and then executing operational improvements, has again delivered positive returns and net cash generation, despite challenging markets.
- **Interest rate sensitivity:** We note the investee companies' below-average gearing (4.4x, vs. PE industry average 6x-7x), their strong cash generation, reducing leverage in 1H'23 (4.4x EBITDA, vs. 4.8x end-2022), 75% of debt being fixed and swaps mainly maturing post mid-2024. Below, we also detail the trust's and PE sensitivities.
- **Valuation:** Listed holdings and Derived Investments mean that ca.25% of Apax's portfolio is marked to market. Adjusting for the debt portfolio at par, AGA's discount to NAV (27%) rises to 40%, well above the peers' range (17%-32%) on its PE portfolio alone. The NAV appears resilient, making the discount absolutely and relatively anomalous.
- **Risks:** Sentiment to costs, the cycle, valuation and over-commitment are sector issues. Residual risk on the 2020-21 IPO positions appears to be modest. The Debt portfolio generates additional returns, income towards dividends, and has liquidity/capital benefits, but complicates the story.
- **Investment summary:** Apax has delivered market-beating returns by selecting businesses that it can transform post-acquisition. Buying these companies at a discount to peers (ca.20%), accelerating their revenue growth and improving their margins, and then selling the reinvigorated business at a premium to those same peers (ca.10% premium), is the playbook that has been repeated again and again. Investments are focused in sectors with structural growth and resilience. Capital flexibility is enhanced by the Debt portfolio. The discount is the "icing on the cake".

Financial summary and valuation

Year-end Dec (€000)	2020	2021	2022	2023E	2024E
Investment income	18,106	26,853	24,476	36,021	37,440
Net gains on fin. assets/liabs. at FVTPL	153,518	336,123	(125,803)	99,296	173,428
Total expenses	(5,262)	(14,879)	(6,531)	(6,427)	(10,040)
Pre-tax profit	162,092	345,127	(109,806)	126,290	198,228
PE invest. (€m)	788	1,014	877	990	1,109
Derived invest. (€m)	319	336	364	344	348
Cash (€m)	125	108	68	23	26
NAV (€m)	1,201	1,490	1,299	1,357	1,611
Adj. NAV per share (£)*	2.19	2.54	2.34	2.36	2.58
S/P prem./disc. (-) to NAV	-12%	-11%	-19%	-30%	-36%
Dividend p/sh (p)	10.2	12.3	11.8	13.9	14.5
Dividend yield	6.1%	7.4%	7.1%	8.4%	8.8%

**2023-24E NAV converted at £1: €1.17; Source: Hardman & Co Research*

Apax Global Alpha disclaimer

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If you are a US Person, you agree that you will not seek to acquire shares of the Company unless you are a "Qualified Purchaser" within the meaning of Section 2(a)(51) of the Investment Company Act of 1940 and an "Accredited Investor" as defined in Rule 501 of Regulation D, in a transaction not subject to the registration requirements of the U.S. Securities Act of 1933.

You also agree that you will not acquire or hold any shares of the Company with the assets of (i) an "employee benefit plan" as defined in Section 3(3) of the US Employee Retirement Income Security Act of 1974, as amended ("ERISA"), that is subject to Title I of ERISA; (ii) a "plan" as defined in Section 4975 of the US Internal Revenue Code of 1986, as amended (the "US Tax Code"), including an individual retirement account ("IRA") or other arrangement, that is subject to Section 4975 of the US Tax Code; (iii) an entity which is deemed to hold the assets of any of the foregoing types of plans, accounts or arrangements that are subject to Title I of ERISA or Section 4975 of the US Tax Code; or (iv) a plan, fund or other program that provides for retirement income, a deferral of income in contemplation of retirement or payments to be made upon termination of employment (including for example, a governmental, church, non-US or other employee benefit plan) that is subject to any federal, state, local or non-US law or regulation that is substantially similar to the fiduciary responsibility or prohibited transaction provisions of Title I of ERISA or Section 4975 of the US Tax Code (collectively, "Similar Laws"), and whose purchase, holding, or disposition of the shares (a) could subject the Company (and Persons responsible for the investment of the Company's assets) to any applicable Similar Law or (b) would constitute or result in a violation of any applicable Similar Law (each of the plans, accounts, funds, programs and arrangements described in clauses (i), (ii), (iii) and (iv) are referred herein to as "Plans").

Please read our full disclaimer, which is contained at the end of this report.

1H'23 results – headline numbers

NAV return 2.4% (3.6% constant currency)

AGA's 1H'23 adjusted NAV was €1.3bn (FY'22 also €1.3bn), and its total NAV return was 2.4% (3.6% constant currency). On a per share basis, this equates to €2.64/£2.27, compared with end-2022 €2.65/£2.34, respectively.

PE portfolio average EBITDA growth of 14.1% and revenue growth of 16.0%

Operationally, the PE portfolio performed well, with average EBITDA growth of 14.1% and revenue growth of 16.0%. Broadly half the earnings growth was offset by negative movements in valuation multiples (16.3x 1H'23, vs. 17.9x 1H'22) and a further fifth by adverse FX effects. The rating decline was driven primarily by listed holdings (notably Paycor and Thoughtworks) and a change in the comparable set for certain companies, reflecting M&A activity. The 1H'23 total return in PE was 1.9%.

Debt Investments delivered total return of 5.3% (6.9% constant currency)

Debt Investments delivered a total return of 5.3%, enhancing the overall total return. The yield to maturity at end-June 2023 was 13.3%, with an 11.4% income yield. This portfolio reduces cash drag effects, enhances the robustness of AGA's balance sheet, generates additional returns, and provides a steady flow of income to support dividends.

PE Exits: uplift 24%, gross IRR 19% and MOIC 2.2x

The Apax Funds completed three new PE investments in the period. On a look-through basis, AGA deployed €11.4m. Demand for high-quality assets remained strong, and the Apax Funds completed three full exits at an average uplift of 24% (up on the 15% in FY'22) to latest unaffected valuations. The gross IRR and gross MOIC in 2022 were 19% and 2.2x, respectively. AGA received distributions of €35m in the period, which, after all other effects, saw net cash generation of €18m.

Healthy balance sheet

Net cash, together with the undrawn revolving credit facility (RCF), and capital invested in Debt and the remaining Derived Equity investments, leaves AGA with resources of €693m, against commitments – which may be drawn over five years – of €985m. We estimate that €200m of commitments will need to be funded by realisations, which averaged €150m pre-pandemic/the unusual 2021 exit activity.

Interim dividend 5.7p

An interim dividend of 5.7p per share was declared, in line with AGA's dividend policy of distributing 5% of NAV p.a.

PE 71% portfolio, Derived Investments 29%

At 31 December 2022, AGA's invested portfolio consisted of €859m in PE (71%) and €355m in Derived Investments (29%).

Portfolio highlights

Good diversification, by sector, vintage and geography

The portfolio is diversified by i) four key sectors: Tech & Digital (39%), Services (28%), Healthcare (17%), and Internet/Consumer (16%), ii) in PE, by vintages – 9% invested before 2017, 41% 2017-19 and 50% from 2020 and later. Looking at the maturity of book from a potential realisation perspective, 43% is in the investment phase, 44% at a mature stage and 13% in harvesting. 60% of the portfolio is in North America, 14% each in Europe and the UK, and 3% each in India and Israel.

Debt seen rising yield and continued outperformance against benchmark

AGA's debt portfolio, which makes up 28% of the 29% Derived Investments proportion of the portfolio, delivered a total NAV return of 5.3% in 2022. 99% of the Debt investments are invested in floating-rate loans, reducing duration risk. With increasing base rates, the portfolio generates an 11.4% income yield (up from 9.9% at year-end). The average yield to maturity increased to 13.3% (end-2022: 12%). The Debt portfolio has achieved a 46.8% five-year cumulative return on a constant currency basis, compared with 22.4% from the benchmark S&P/LSTA leveraged loan index – an annual 4.9% outperformance.

Key theme 1: Apax adds value to companies

Over long term, during tenure of Apax Funds' ownership, annual revenue growth accelerates by an average 8%, EBITDA by 15%, and margins improve by 8%

In our initiation, *Making pearls out of oysters,* published on 13 January 2023, we highlighted that long-term NAV outperformance was driven by Apax first selecting businesses that it can transform post-acquisition, and then transforming them. Apax improves these businesses by i) enhancing revenue growth (up an average 700bps) with customer segmentation, new market expansion and digital marketing, and ii) improving efficiency using cloud technology, acquisitions and digitalisation. Apax also brings strategic options, such as finance and expertise in M&A, which are not available to standalone entities. The bottom line is that, on average, over the long term, during the Apax Funds' ownership, investee company EBITDA growth accelerates by 1,500bps and margins improve by 700bps, making them more valuable, and justifying a higher multiple on exit than on acquisition.

Benefits then compounded by higher growth

In 1H'23, revenue and EBITDA growth ahead of market, and margin erosion well below market

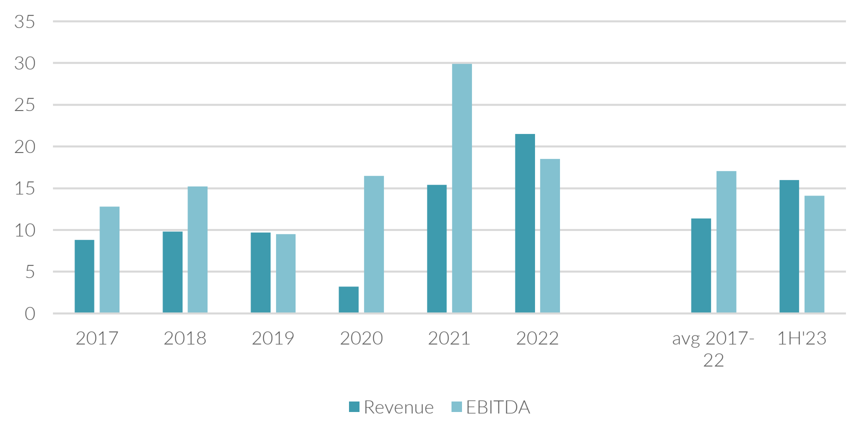
In this period, the story of Apax adding value to the PE funds' companies has been reinforced:

- Revenue growth of 16.0% and EBITDA growth of 14.1% are, we believe, well ahead of market growth.
- Apax Funds' portfolio companies have seen only a modest margin compression when market margins have been falling more.
- In 2Q'23, the growth rates slowed down, reflecting market conditions. Management advised that it had prepared the PE portfolio for a slowdown. There has been divergence within the portfolio, with some companies still reporting very robust growth, while others have been affected to a greater extent. Management also cautioned against reading too much into one quarter's results.

Revenue growth above five-year average

- The chart below puts the 1H'23 growth rates into a historical perspective. Revenue was slightly ahead of the five-year average and nearly twice the pre-pandemic levels. EBITDA growth was slightly below the long-run average, but, again, ahead of the average 2017-19 rates.

Underlying average EBITDA and revenue growth rate in PE portfolio (%)



Source: AGA Report and Accounts, Hardman & Co Research

Key theme 2: conservative NAV

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

We explored why we believe the valuation is "real" in great detail in our initiation note, *Making pearls out of oysters*. The key factors (summarised below) continue. In particular, we emphasise the uplift on exit. At that stage, material due diligence is triggered, be it by a trade buyer, another PE fund or on IPO, after which buyers are still willing to pay a premium to value at which the investment is recognised in AGA's books. While part of this may reflect deal synergies, the long-run average of around 30% (1H'23: 24%), in our view, reflects more than this, and gives us confidence that the underlying valuation approach is conservative.

Other factors include conservative culture, no incentive to over-value, low mix-adjusted valuation multiples, plus…

…internal and external verification, and low exposure to most volatile subsectors

The other key factors that give us confidence that the NAV is real and conservative are:

- conservative corporate culture;
- no incentive to over-inflate valuations;
- valuation multiples, and resulting PEG ratio, are relatively low, bearing in mind the sector mix and companies showing similar, sustained EBITDA growth;
- internal and external verification at both the Apax Funds and AGA levels; and
- technology companies vary, and AGA's exposure to the unprofitable, growth stage, which has seen the most valuation volatility, is small.

The usual lagged effects on valuations of changes in public market comparable companies take time to feed through to the Apax Fund valuations, but these are relatively modest and, in a rising market, work against AGA.

We discussed why we believe the valuations are conservative in each of the following notes, most notably in the initiation at the start of the year:

- *Making pearls out of oysters* (initiation, 13 January 2023, pages 22-26).
- *Outperformance by adding value to companies* (14 March 2023, pages 5-6).
- *2023 Capital Markets Day: accessing hidden gems* (5 July 2023, page 4).

Key theme 3: sensitivity to rising interest rate environment

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

Bottom line: Apax's targets are unchanged

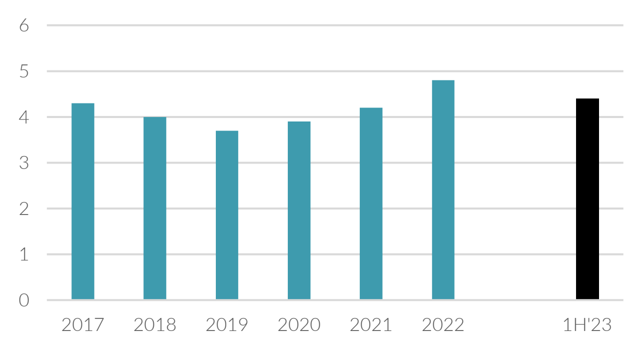
The rising and high interest rate environment changes multiple aspects of PE's business, including the effect on investee companies, overall PE activity, including exits, and the potential returns to debt and equity holders. Our key takeaways are i) AGA's underlying company leverage is less than that of the PE market as a whole (unsurprising, given Apax'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, and iii) AGA has not changed its through-cycle returns target (12%-15%), and has a number of tools to compensate for any incremental financing cost. It is also worth noting that treasury management is a core PE competency (and often an incremental value-add to investee companies), with a long duration of debt maturities and interest typically fixed for two to three years.

Impact on investee companies

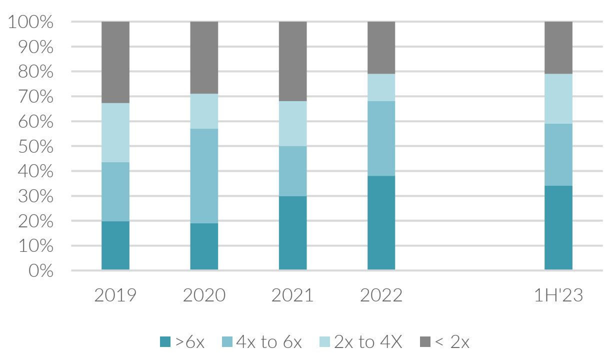
Gearing below PE market average, and fell in 1H'23

The chart below shows the level of indebtedness at investee companies in the Apax Funds' portfolio, and how this has evolved since December 2017 to its 1H'23 level of 4.4x. It is worth noting that this represented a fall from 4.8x at end-2022 and 4.7x at end-March 2023, mainly driven by the strong cash generation of the businesses. We believe industry-average gearing (biased by larger deals) is in the range of 6x-7x, which is well above AGA's levels. The right-hand chart shows the distribution of debt by multiples, and we conclude that the reduction in leverage has been focused in the most geared companies.

Average debt/EBITDA in PE portfolio (x)



Percentage mix of debt/EBITDA (%)



Source: AGA Report and Accounts, Hardman and Co Research

Investee company debt is fixed-rate and long-duration

Additional metrics that should give investors comfort include i) 83% of portfolio companies with debt maturities greater than 2027 (weighted by AGA's invested cost in AVIII, AIX and AX at 30 June 2023), ii) ca.75% of debt is at fixed rates (a long-term policy decision), and iii) 90% of interest rate swaps mature post mid-2024. AGA gave more details in its recent Investor Day, which we reviewed in our 5 July note, *2023 Capital Markets Day: accessing hidden gems*.

New funding for investee companies from multiple sources, and access facilitated by Apax's expertise/networks

Apax has a dedicated and experienced capital markets team embedded in its platform, which accesses the whole capital markets area. Non-bank, alternative sources of capital continue to facilitate financings for new investments by investee companies.

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. Getting 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)

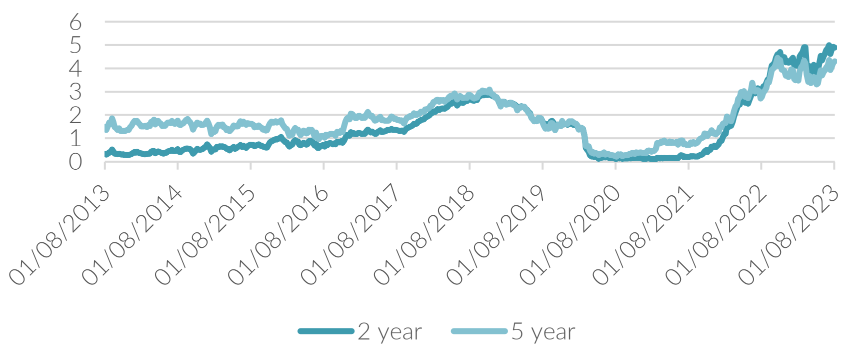
This is evidenced by EBITDA growth

- Managing interest costs is just part of the overall management of the business by Apax. 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.

Rising rates been seen before, and already two years into current US increase cycle

- The chart below shows how US benchmark two- and five-year rates have evolved over the past 10 years. The rising rate environment is not new, but is something Apax investment teams have been dealing with for several years.

US government benchmark redemption yield (%) over past 10 years



Source: Refinitiv, Hardman & Co Research

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 like Apax 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 Apax's exit opportunities and the expected valuation uplifts on exit, or limit the company's ability to make new investments at acceptable returns. In response, we note:

- Management commented that no new deals had been constrained by the availability of finance.

- 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 Apax's sector mix, earnings growth and business improvement delivery are indicative of "good" companies, the continued exits it saw in 1H'23 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. However, we believe there is a blurred line in terms of the effect on sentiment, in that uncertainty 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, but smart PE buyers can take advantage of uncertainty, dislocation and disruption to target deals that may not otherwise be available. Management has commented that in some more cyclical businesses, the valuation adjustments are starting to see attractive risk/reward opportunities.

- A core competitive advantage of the Fund structure is the fact that, generally, Apax can control its portfolio companies and manage the timing of exits. It is a long-term business that can optimise returns, and, while the timing of cash receipts may be delayed, overall returns are likely to remain robust.

Impact on PE returns

Financing costs just one of many variables GPs manage

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 there has been no change in AGA's target through-cycle returns (12%-15%), despite this higher interest burden. The interest burden may be offset by increased pricing discipline at entry, pricing power, and growth achieved because of active management.

Bottom-line earnings growth vs. EBITDA growth

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

Impact company-specific and higher leverage generally in those companies with more resilience

- While AGA provides the average level and the distribution of debt/EBITDA, each company is driven by its own fundamentals. 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.

Operational improvements deliver LT outperformance, any interest effect in short term

- It is also worth bearing in mind that Apax has consistently delivered improved growth and profitability to its investee companies over the long term. 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 EBITDA outperformance leading to bottom-line earnings outperformance.

Rising interest rate effects muted by hedging, more than half to 2025 and beyond

- The effect on bottom-line earnings returns will, as noted above, be muted by hedging polices, with more than half the hedges not maturing until 2025 or later. This should spread the downside impact over several years, potentially into a period of a falling rate environment.

Apax investing in profitable businesses not venture, so less affected by ratings drag in higher rate environment

Ratings

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. Apax, typically, is investing in profitable businesses whose operations can be enhanced. It is not in the venture space which is most exposed to the ratings impact noted above….but sector and, critically, subsector mix are major drivers to ratings.

In judging AGA's EV/EBITDA, ratings growth and the discount rate are just two of many considerations. We have previously highlighted Apax's focus on growth sectors (Tech & Digital 39%, Healthcare 17%) in AGA's portfolio (against 11% and 13%, respectively, for the MSCI World Index).

So far, rising rates a positive for AGA's unique Debt portfolio

Impact on debt portfolio

AGA's Debt portfolio gives it a unique exposure among listed PE vehicles. On the upside, being 99% floating-rate, there has been a sharp increase in yields and income, as interest rates have risen. In terms of risk, management comments that it keeps a close eye on prospective interest coverage and potential problems with payments. Changes in value reflect mark-to-market movements, with, to date, no structural deterioration in the portfolio. It is also worth noting that Apax's approach, of considering debt investments through its PE lens, will see an above-average preponderance of PE-backed deals where the equity investor has significant and accessible resources. This does not mean that there will be no losses, but it does reduce the probability of default.

2022 saw benefits of portfolio in diversifying returns, helping pay the dividend, and reducing cash drag effects. The Debt portfolio delivered on its strategic rationale by i) diversifying returns with an above-portfolio-average positive total NAV return in 1H'23, ii) providing cash income to help pay the company's dividend, iii) reducing the cash drag impact by earning returns well above the yield available on cash instruments (in 1H'23, the Derived Debt income was 5% of opening debt NAV), and iv) generating outperformance against its benchmark – it achieved a 46.8% five-year cumulative return on a constant currency basis, compared with 22.4% from the benchmark S&P/LSTA leveraged loan index – an annual outperformance of 4.9%. We expect a modest net cash outflow in 2023, and for there to be a small drawing on the Derived Investment portfolio to fund this. This further proves its credentials as a capital management tool to be used when required.

Derived Debt performance bridge (% return)

Financial period	Investment income	Realised gains (losses)	Unrealised gains (losses)	Performance fee	FX	Total return
FY'20	6.8	0.3	0.3	0.0	(7.2)	0.2
FY'21	8.3	(0.6)	1.1	(1.9)	6.5	13.4
FY'22	7.0	0.0	(8.7)	0.0	4.4	2.7
1H'23	5.0	0.0	2.6	(0.7)	(1.6)	5.3

Source: AGA Report and Accounts, Hardman & Co Research

Results in detail

Return

Key benefit to shareholders is strong, medium-term, post-cost return

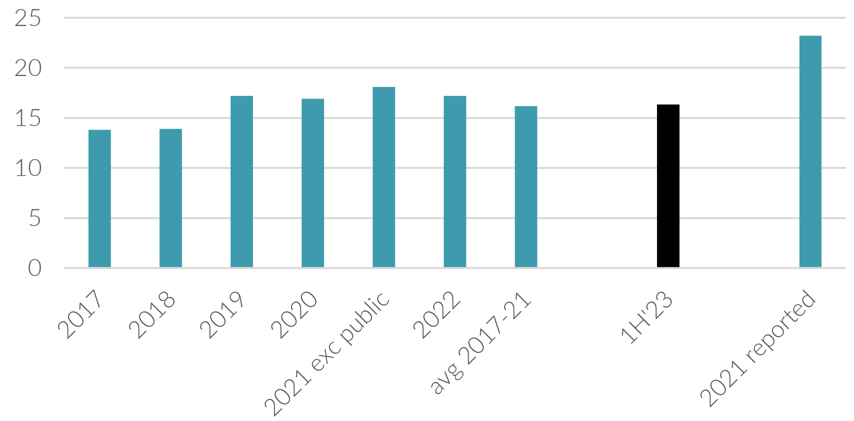
AGA targets a long-term total NAV annual return of 12%-15%, with a dividend target of 5% of NAV per year. It was at the lower end of this range in the five years to 1H'23. This return is then allocated to generate both strong compounding capital appreciation and an attractive yield income for investors (set at 5% NAV annualised). Although 2022 and 1H'23 have been weaker-than-average, they were not out of line with the performances seen in 2017-19, and some volatility is to be expected.

Falling valuation multiples

Broadly stable underlying ratings over time, and well below current market ratings for growth sectors on which Apax focuses

The overall level of EV/EBITDA at 1H'23 was 16.3x, down from 17.2x at end-2022, and in line with the average for 2017-21. As noted above, the fall on the year-end was due to two listed names and mix effects post investee company M&A activity.

EV/EBITDA, 2017-1H'23 (x)



Source: AGA Report and Accounts, Hardman & Co Research

Ratings conservative and stable on PEG basis, especially bearing in mind good cash conversion

Apax Funds' investments – and so those of AGA – have, for some time, been focused on businesses with a strong growth and resilient earnings outlook, as well as good cash conversion rates. Those using EBITDA multiples accounted for over half the NAV, and the PEG ratio (EV/LTM EBITDA multiple divided by growth) was 1.16x in 1H'23.

PEG ratios since 2017

Year	2017	2018	2019	2020	2021	2022	Average 2017-22	1H'23
EV/EBITDA (x)	13.8	13.9	17.2	16.9	23.2	17.2	17.0	16.3
EBITDA growth	17.9%	22.2%	15.9%	20.8%	35.3%	18.5%	21.8%	14.1%
PEG ratio (x)	0.77	0.63	1.08	0.81	0.66	0.93	0.78	1.16

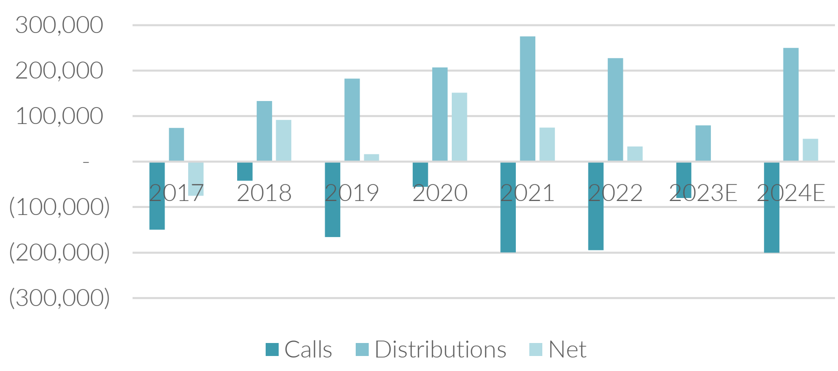
Source: AGA Report and Accounts, Hardman & Co Research

Calls, distributions and commitments

AGA saw positive net cash generation in 1H'23

AGA received €35m in distributions from the Apax Funds, primarily from three full exits bringing total distributions in the last five years to €998m, compared with calls of €651m in the same period. It also deployed €11.4m across three new investments in the first six months of 2023, giving a small positive net cash generation at this level. The use by Apax Funds of bridging facilities means that there is a reasonable view on likely calls (AGA's share of the outstanding drawn balance of such facilities was ca.€111.4m at 30 June 2023). We have amended our cashflow projections accordingly. In terms of distributions, management comments that the environment is challenging, but some exits are still expected. We expect minimal net cash generation over 2023, before a return to positive cash generation in 2024.

PE calls and distributions, 2017-24E (m)



Note: 2018 includes £11m of direct PE purchase
Source: AGA Report and Accounts, Hardman & Co Research

Commitments

Available resources include cash of €97m, Derived Investments of €355m and borrowing capacity of €250m

Assuming €100m of commitments will not be called leaves ca.€200m to be met from PE realisation proceeds over five years

Outstanding commitments to the Apax Funds (together with recallable distributions) amounted to €985m at end-June 2023, down from €1,005m at end-2022. To finance these commitments, AGA had cash balances of €87m after net liabilities. AGA also has access to a multi-currency revolving credit facility of €250m (undrawn). This was increased last year to reflect the increased size of AGA and the increased weighting of the portfolio in PE funds over Derived Investments. In addition, there are €355m of Derived Investments, giving total available resources of €692m. This would leave ca.€200m to be covered by PE realisations (assuming that not all commitments are called), which averaged €150m p.a. in 2018-19, in the years pre-COVID-19 and before Apax saw exceptional IPO activity (which led to realisations peaking at €275m in 2021 alone).

Portfolio

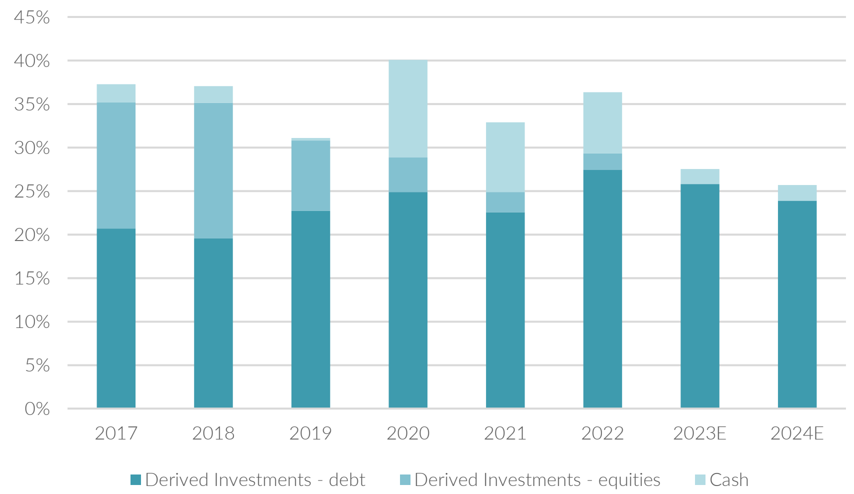
Portfolio analysis (as at December 2022)

	NAV (€m)	Commitment (m)	Fund size (bn)	Fund stage	% AGA total	Comment
Apax funds						
AMI	26.7	$30	$0.5	Maturity	2%	2015 fund 88% invested and committed.
AEVI	2.2	€10.6	€4.3	Harvesting	0%	2005 fund. €14m of distributions since 2015.
AEVII	23.1	€86	€11.2	Harvesting	2%	2007 fund. €91m of distributions since 2015.
AVIII	93.3	€160 + $218	$7.5	Harvesting	7%	2012 fund. €565m of distributions since 2015.
AIX	313.7	€154 + $175	$9.5	Maturity	24%	2016 fund 93% invested and committed.
ADF	48.9	$50	$1.1	Maturity	4%	2017 digital fund 97% invested and committed.
ADF II	0.6	$90	$1.9	Investment	0%	2021 digital fund 18% invested and committed.
AX	387.7	€200 + $225	$11.7	Investment	30%	2020 fund 93% invested and committed.
AXI	(5.7)	€198 + $490	tbc	Investment	0%	2022 fund not closed at June 2023.
AMI II	(0.9)	$40	tbc	Investment	0%	2022 fund not closed at June 2023.
AGI	(1.9)	$60	tbc	Investment	0%	2022 fund not closed at June 2023.
Adjustments	(16.7)				-1%	
Adj. NAV	**871.0**				**67%**	**71% of invested portfolio.**
Debt	341.7				26%	Been broadly stable over recent years.
Derived equity	13.8				1%	Falling part of portfolio (end-2017 was 15%).
Adjustments	8.7				1%	
Total derived invest.	**364.2**				**28%**	**29% of invested portfolio.**
Cash/other	**64.2**				5%	
Total	**1,299.4**				100%	

Source: AGA Report and Accounts, Hardman and Co Research

The proportion of the total portfolio in Derived Investments has been broadly stable since 2018. The equity element is now just three positions, which we expect to be liquidated in the near term. In considering the scale of the portfolio, its size is determined by calls and distributions, and the level of reserves that the board feels appropriate. It is not determined by a strategic target.

Proportion of portfolio in Derived Investments and cash (x)

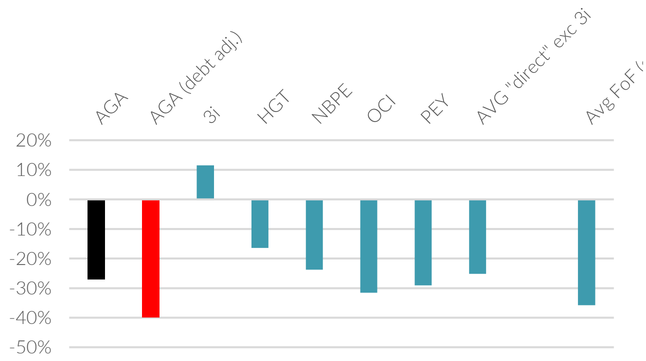


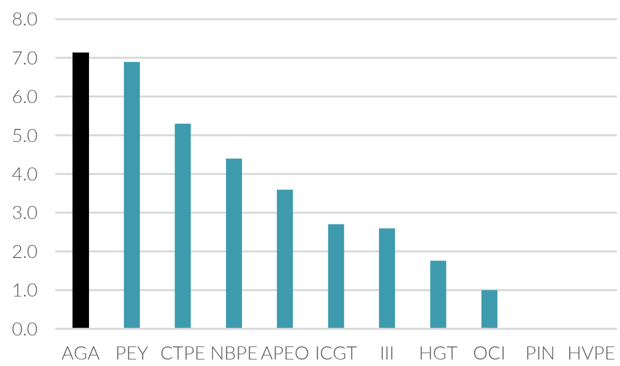
Source: AGA Report and Accounts, Hardman & Co Research

Valuation

Our *initiation* detailed a range of valuation approaches and sensitivities to them. As the chart below shows, AGA's reported discount to NAV (27%) is in the middle of the direct investing listed PE trusts. If we adjust for the debt element of its portfolio (see the SoTP section below), the PE business is at the highest among the close peers. Its dividend yield, supported by cash from the Derived Investments portfolio, is well above the sector average.

Current share price discount to latest NAV (left-hand chart, %), and dividend yield (right-hand chart, %) for narrow and wider peers





Source: Company websites, factsheets and presentations, Hardman & Co Research, priced at 24/09/23

Sum-of-the-parts (SoTP) valuation

Applying debt discount to debt book implies AGA's PE discount is 40%

AGA could be broken down into a PE fund and its Debt Investments. The latter are marked to market, and so have less management input into the valuation. Given this, and their potential use for capital management purposes, rather than simple investment, we believe that an SoTP approach to AGA is also an important consideration. The table below shows that, if we strip these out at par, and they are marked to market, the residual PE discount rises to 40%.

SoTP valuation (£m)

	Market cap.	£ adj. NAV	Discount
Reported value	813	1,117	27%
Last reported MTM value of Derived Investments	355	355	
Adjusted value	458	762	40%

Note: exchange rate used: 1.16; Source: AGA Report and Accounts, Hardman & Co Research

Triggers for a re-rating

Both sector-wide and company-specific potential triggers for re-rating

We believe potential opportunities for a re-rating include i) a sector-wide revision of the discounts applied to the sector, most likely driven by increasing confidence that the NAV is real and resilient, and that the interest rate environment will not undermine business models, ii) company-specific triggers around the delivery of performance, iii) a continued widening of investor engagement and iv) a recognition that 2021 represented an acceleration of exits, and so 2022/23 may be expected to be below-average years before a normalised level of activity is seen. The attractive yield may also be a trigger, especially when market expectations are for a falling interest rate environment.

Financials

Profit and Loss							
Year-end Dec (€000)	**2018**	**2019**	**2020**	**2021**	**2022**	**2023E**	**2024E**
Investment income	19,442	20,852	18,106	26,853	24,476	36,021	37,440
Net gains on financial assets at FVTPL	56,739	208,767	153,518	337,190	(119,740)	99,296	173,428
Net losses on financial liabilities at FVTPL	-	(2,741)	-	(1,067)	(6,063)	-	-
Realised foreign currency (losses)/gains	(2,766)	(479)	1,224	(1,488)	1,276	-	-
Unrealised foreign currency gains/(losses)	116	762	(3,743)	787	(74)	-	-
Total income	73,531	227,161	169,105	362,275	(100,125)	135,317	210,868
Performance fee	2,123	(6,893)	(46)	(8,390)	(22)	-	(3,335)
Management fee	(4,610)	(5,013)	(2,853)	(3,782)	(3,712)	(3,406)	(3,443)
Administration and other operating expenses	(3,107)	(2,051)	(2,363)	(2,707)	(2,797)	(3,021)	(3,262)
Total income less operating expenses	67,937	213,204	163,843	347,396	(106,656)	128,890	200,828
Finance costs	(2,729)	(1,860)	(1,751)	(2,269)	(3,150)	(2,600)	(2,600)
Profit before tax	65,208	211,344	162,092	345,127	(109,806)	126,290	198,228
Tax	(261)	(412)	(109)	(223)	(231)	(231)	(231)
Profit after tax	64,947	210,932	161,983	344,904	(110,037)	126,059	197,997
Average no shares (m)	491	491	491	491	491	491	491
EPS (€c)	13.2	43.0	33.0	70.2	(22.4)	25.7	40.3
DPS (p)	8.5	9.5	10.2	12.3	11.8	13.9	14.5

Source: AGA, Report and Accounts, Hardman & Co Research

Balance sheet							
@ 31 Dec (€000)	**2018**	**2019**	**2020**	**2021**	**2022**	**2023E**	**2024E**
Non-current assets							
PE financial assets	**591,458**	**769,019**	**788,307**	**1,013,922**	**877,021**	**989,781**	**1,109,437**
Derived Investments – debt	178,272	252,543	275,739	304,609	340,639	344,279	347,919
Derived Investments – equities	142,318	89,656	43,677	30,946	23,540	0	0
Financial assets held at FV through P&L (FVTPL)	**912,048**	**1,111,218**	**1,107,723**	**1,349,477**	**1,241,200**	**1,334,060**	**1,457,356**
Current assets							
Cash and cash equivalents	17,306	3,277	124,569	108,482	67,966	23,030	26,476
Investment receivables	2,125	129	1,338	33,603	1,699	1,699	1,699
Other receivables	1,454	2,143	0	1,347	429	429	429
Total current assets	**20,885**	**5,549**	**125,907**	**143,432**	**70,094**	25,158	28,604
Total assets	**932,933**	**1,116,767**	**1,233,630**	**1,492,909**	**1,311,294**	**1,359,218**	**1,613,018**
Current liabilities							
Financial liabilities held at FVTPL	0	2,741	0	1,067	6,063	0	0
Investment payables	0	13,352	30,965	67	3,980	0	0
Accrued expenses	2,162	1,705	1,481	1,708	1,875	2,000	2,000
Total current liabilities	**2,162**	**17,798**	**32,446**	**2,842**	**11,918**	**2,000**	**2,000**
Net assets	**930,771**	**1,098,969**	**1,201,184**	**1,490,067**	**1,299,376**	**1,357,218**	**1,611,018**
Shareholders' capital	873,804	873,804	873,804	873,804	873,804	873,804	873,804
Retained earnings	56,967	218,272	327,380	607,873	425,572	483,414	610,157
Share-based pymt. perf. fee reserve	0	6,893	0	8,390	0	0	0
Total equity ownership	**930,771**	**1,098,969**	**1,201,184**	**1,490,067**	**1,299,376**	**1,357,218**	**1,483,961**
Period-end no shares (m)	491	491	491	491	491	491	491
Adj. NAV per share (€)	**1.90**	**2.22**	**2.45**	**3.02**	**2.65**	**2.76**	**3.02**
NAV growth (%)	2%	17%	10%	23%	-12%	4%	9%
Adj. NAV per share (£)	**1.70**	**1.88**	**2.19**	**2.54**	**2.34**	**2.36**	**2.58**
Exch. rate (£: €)	1.115	1.183	1.117	1.188	1.132	1.170	1.170
s/p (£)	1.35	1.73	1.93	2.27	1.88		

Source: AGA Report and Accounts, Hardman & Co Research

Cashflow

Year-end Dec (€000)	2018	2019	2020	2021	2022	2023E	2024E
Interest received	17,896	16,963	18,024	25,553	23,577	36,021	37,440
Interest paid	(43)	(200)	(259)	(1,750)	(521)	(500)	(500)
Dividends received	1,718	2,807	1,060	906	1,815	1,000	1,000
Operating expenses paid	(21,862)	(7,285)	(5,460)	(6,191)	(6,038)	(7,000)	(7,000)
Tax paid/received	(132)	(52)	17	3	0	0	0
Purchase of PE investments	(11,126)	0	0	0	0	0	0
Capital calls paid to PE investments	(30,812)	(165,904)	(55,651)	(199,941)	(194,380)	(80,000)	(200,000)
Capital distributions received from PE investments	133,362	182,324	207,270	275,140	227,821	80,000	250,000
Purchase of Derived Investments	(212,988)	(114,792)	(69,126)	(274,417)	(53,640)	(103,640)	(53,640)
Sale of Derived Investments	172,811	123,370	89,641	230,511	43,228	100,000	50,000
Net cash inflow/(outflow) from operating activities	**48,824**	**37,231**	**185,516**	**49,814**	**41,862**	**25,881**	**77,300**
Cashflows from financing activities							
Financing costs paid	(3,309)	(1,710)	(1,706)	(2,104)	(2,822)	(2,600)	(2,600)
Dividends paid	(47,314)	(50,312)	(51,805)	(64,584)	(71,070)	(68,217)	(71,254)
Purchase of own shares	0	0	(6,970)	0	(8,412)	0	0
Revolving credit facility drawn	94,248	88,824	6,106	0	17,393	0	0
Revolving credit facility repaid	(94,248)	(88,824)	(6,106)	0	-17,393	0	0
Net cash used in financing activities	**(50,623)**	**(52,022)**	**(60,481)**	**(66,688)**	**(82,304)**	**(70,817)**	**(73,854)**
Opening cash and cash equivalents	18,989	17,306	3,277	124,569	108,482	67,966	23,030
Net increase in cash and cash equivalents	(1,799)	(14,791)	125,035	(16,874)	(40,442)	(44,936)	3,446
FX effects	116	762	(3,743)	787	-74	0	0
Closing cash and cash equivalents	**17,306**	**3,277**	**124,569**	**108,482**	**67,966**	**23,030**	**26,476**

Source: AGA Report and Accounts, Hardman & Co Research

Return attribution by quarter

Quarterly performance (%)	PE	Derived Debt	Derived Equity	Perf. fee	Other	FX	Total return
1Q'16	0.7%	0.4%	-0.2%	0.8%	-0.4%	-3.1%	-1.8%
2Q'16	0.3%	-0.9%	0.5%	-0.4%	0.0%	1.6%	1.2%
3Q'16	-0.1%	2.1%	1.2%	-0.1%	-0.6%	-0.5%	2.0%
4Q'16	2.0%	0.3%	-0.5%	-0.4%	0.1%	4.0%	5.5%
1Q'17	1.1%	0.7%	0.7%	-0.3%	-0.2%	-0.6%	1.4%
2Q'17	0.7%	-0.3%	3.3%	-0.5%	-0.6%	-4.8%	-2.1%
3Q'17	1.3%	0.5%	0.5%	-0.1%	-0.2%	-2.3%	-0.3%
4Q'17	2.7%	1.4%	1.2%	-0.4%	-0.2%	-1.1%	3.5%
1Q'18	0.4%	0.4%	0.2%	0.3%	-0.3%	-1.7%	-0.7%
2Q'18	5.8%	-0.2%	-0.6%	-0.3%	-0.5%	2.7%	6.9%
3Q'18	3.5%	0.1%	-1.7%	0.2%	-0.2%	-0.1%	1.8%
4Q'18	-0.2%	0.1%	-0.8%	-0.3%	0.0%	0.5%	-0.7%
1Q'19	6.4%	0.5%	-0.2%	0.0%	-0.2%	2.2%	8.7%
2Q'19	5.3%	0.5%	0.1%	-0.3%	-0.2%	-1.0%	4.4%
3Q'19	3.1%	0.6%	-0.6%	-0.2%	-0.3%	2.3%	4.9%
4Q'19	3.2%	0.6%	1.3%	-0.5%	0.0%	-1.2%	3.4%
1Q'20	-7.9%	-2.0%	-1.7%	0.0%	-0.2%	-0.1%	-11.9%
2Q'20	11.4%	2.0%	0.8%	0.0%	-0.2%	-0.6%	13.3%
3Q'20	10.7%	1.2%	0.0%	0.0%	-0.2%	-3.2%	8.5%
4Q'20	7.6%	0.7%	1.1%	0.0%	-0.1%	-2.4%	6.9%
1Q'21	6.0%	0.7%	0.6%	-0.2%	-0.2%	3.5%	10.4%
2Q'21	6.6%	0.5%	0.4%	-0.1%	-0.2%	-0.7%	6.5%
3Q'21	7.9%	0.5%	0.2%	-0.2%	-0.1%	1.6%	9.9%
4Q'21	-1.5%	0.3%	-0.1%	-0.1%	-0.2%	1.6%	-0.1%
1Q'22	-3.6%	0.2%	0.0%	0.2%	0.2%	2.1%	-1.7%
2Q'22	-3.9%	-1.0%	-0.3%	0.2%	-0.2%	3.3%	-1.9%
3Q'22	-1.0%	0.4%	-0.1%	-0.3%	-0.2%	4.4%	3.2%
4Q'22	-1.5%	0.0%	0.3%	0.3%	-0.2%	-6.2%	-7.3%
1Q'23	1.8%	1.2%	0.1%	-0.1%	-0.2%	-0.9%	1.9%
2Q'23	0.3%	1.0%	0.0%	-0.1%	-0.2%	-0.40%	0.6%
Average	**2.7%**	**2.5%**	**0.4%**	**0.2%**	**-0.1%**	**-0.2%**	**-0.1%**

Source: AGA Report and Accounts, Hardman & Co Research

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(Disclaimer Version 8 – Effective from August 2018)

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The full detail is on page 26 of the full directive, which can be accessed here: https://ec.europa.eu/transparency/regdoc/rep/3/2016/EN/3-2016-2031-EN-F1-1.PDF

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