Graphite Enterprise Trust PLC

Investing in long term growth

Year ended 31 January 2015

Analysts presentation

25 March 2015

Graphite Enterprise

Full year results presentation – March 2015

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Tim Spence
Senior Partner,
Finance Director

Emma Osborne
Senior Partner,
Head of Fund Investment

Kane Bayliss
Partner,
Fund Investment

Rod Richards
Managing Partner

1. Introduction

Graphite Enterprise has a distinct offering in the listed private equity sector

FOCUSED STRATEGY

European buy-outs - mature, profitable companies - both through funds and directly

DISTINCTIVE INVESTMENT STYLE

Focus on analysis of underlying companies and building long-term relationships

HIGHLY EXPERIENCED TEAM

The senior team has over 20 years of private equity experience

CONSISTENTLY STRONG PERFORMANCE RECORD

NAV per share has consistently outperformed the peer group average

STRONG BALANCE SHEET

Well placed to take advantage of current opportunities

FLEXIBLE APPROACH

Portfolio construction and balance sheet management adapted to market conditions

1. Introduction

Summary – year ended 31 January 2015

- **Good underlying portfolio performance** – 12% growth in local currencies
- **Further NAV progression** – 5%, despite adverse currency movements
- **Very strong realisations** – £142m, 33% of opening portfolio
- **Record new investment** – £125m, 38% increase on prior year
- **Dividend to be maintained** – 15.5p per share, £11.3m in total
- **Cash is higher than we would like** – realisations are likely to remain strong
- **Prices for new investments are high** – it is important to maintain discipline
- **We are considering share buy backs** – to reduce cash balances

2. Performance

The net asset value made progress despite the adverse impact of currency

	Jan-15	Jan-14	Total return 12 months
Net asset value per share	**695.2p**	677.2p	+5.0%
Share price	**575.0p**	563.5p	+4.6%
FTSE All-Share Index	**3,622**	3,497	+7.1%

- 92% of the portfolio was valued based on December reports
- The discount at 31-Jan was 17.3%
- The market was underestimating the NAV (c.677p) and therefore the discount (c.15%)

2. Performance

The portfolio made good progress once more, increasing by 12.3% in local currencies

Year to Jan-15	% of opening portfolio	% of opening NAV	£m
Underlying valuation gains	**12.3 %**	**10.8 %**	**53.5**
Currency	(3.9)%	(3.4)%	(17.0)
Total portfolio	8.4 %	7.2 %	36.5
Expenses and other		(2.2)%	(12.1)
Total return		**5.0 %**	**24.4**
Dividend		(2.3)%	(11.3)
NAV movement		2.7 %	13.1

- Sterling : euro was 1.22 at 31-Jan-14, 1.33 at 31-Jan-15 and 1.36 at 24-Mar (-2.4%)
- In isolation, the further fall in the euro reduces NAV by 1.0% to 688.1p

Note Expenses and other includes effect of currency movement on cash balances of -0.2%, bringing the total impact of currency to -3.6%.

2. Performance

Realisations continued to be the main driver of performance

	Year to Jan-15		Year to Jan-14	Year to Jan-13
	% of total gain	£m	%	%
Gains from realisations	**56%**	29.8	57%	51%
Unrealised gains	**44%**	23.7	43%	49%
Total portfolio	**100%**	53.5	100%	100%

- Gains from realisations represent full exits, IPOs and sell-downs of earlier IPOs
- Unrealised gains include the effects of partial exits and of refinancings

2. Performance

Graphite Enterprise outperformed the fund-of-funds peer group over 3 and 5 years

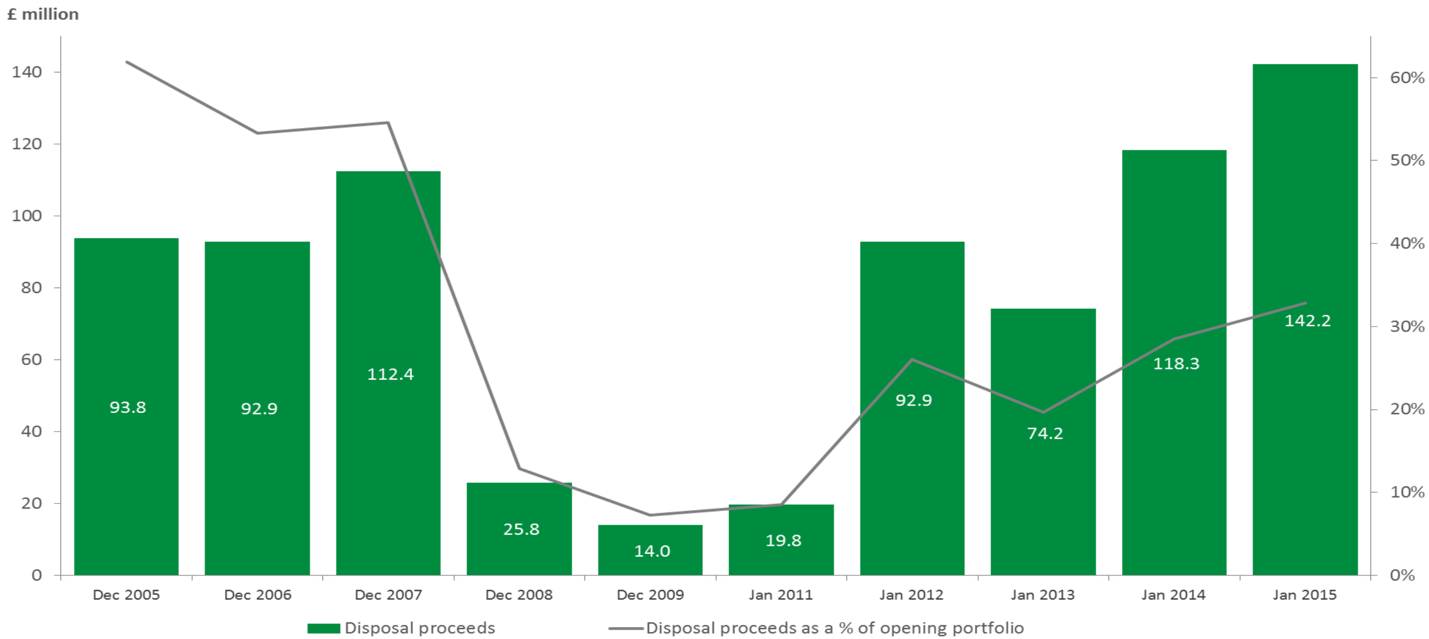
Years to Jan-15[1] Total return	1	3	5	10
Graphite Enterprise NAV growth	**5%**	**27%**	**57%**	**141%**
Fund-of-funds[2] average NAV growth	12%	22%	49%	169%

- This performance is despite taking lower balance sheet risk than the peer group
- The Company has also outperformed the average of the direct PE funds[3] over 3, 5 and 10 years

Notes 1. 12, 36, 61 and 121 month periods to 31 Jan 2015
2. Peer group (funds-of-funds): Aberdeen, F&C PE, HarbourVest, JPM PE, Pantheon, Princess, Private Equity Holding, SLEPET
3. Peer group (directs): 3i, Better Capital 2009 and 2012, Candover, Dunedin, Electra, HgCapital, NB Private Equity, SVG Capital (NAV performance: 1yr 8%, 3 yrs 24%, 5 yrs 52%, 10 yrs 127%)
4. Data: total return, GBP (Morningstar)

3. Investment activity

The portfolio generated 20% more cash than last year



- The rate of realisation of the opening portfolio was 33%
  - This is the highest conversion rate since 2007
- Full realisations accounted for £98 million (69% of the total)

Note Excludes proceeds from secondary sales in all periods

3. Investment activity

Full realisations continue to generate substantial uplifts to prior valuations[1]

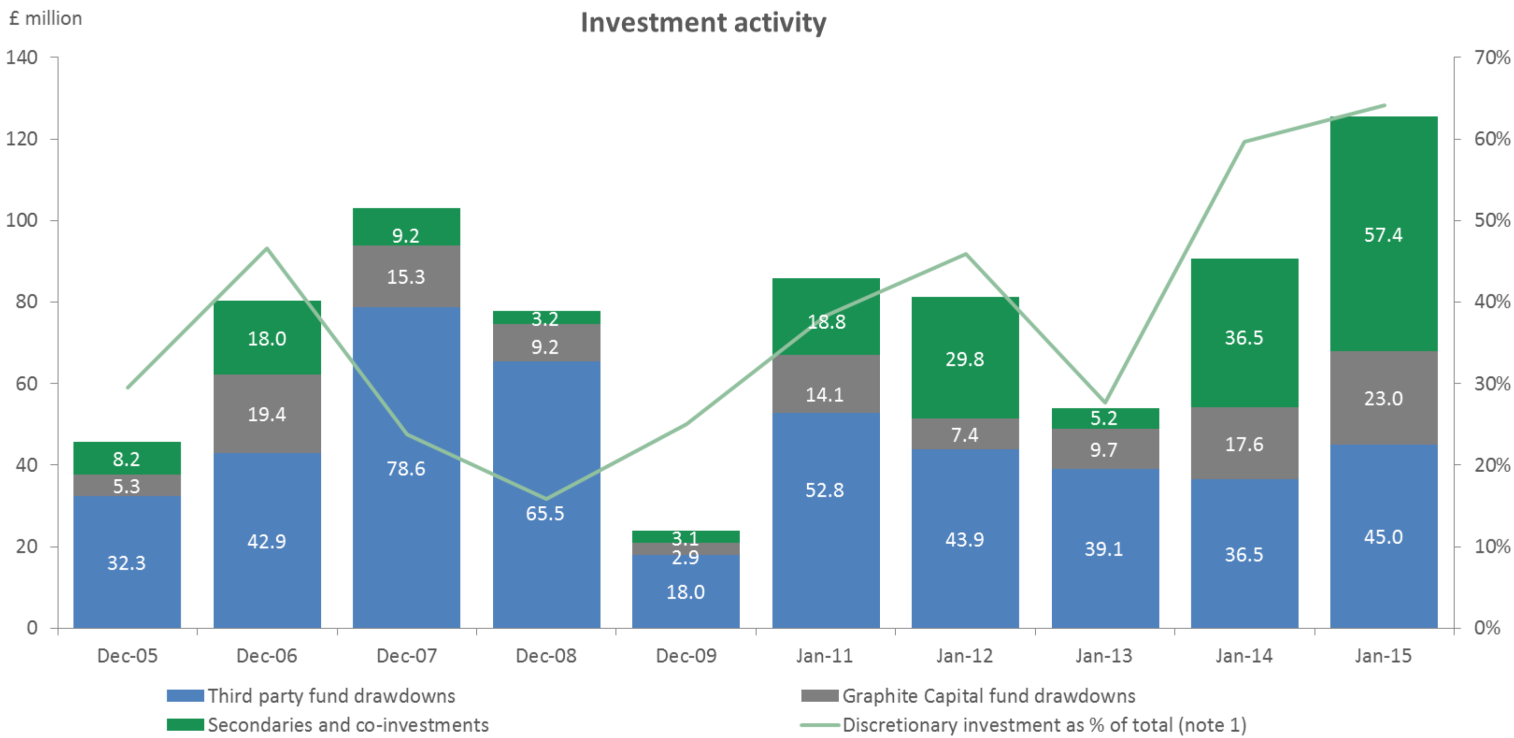
Year ended	Jan-12	Jan-13	Jan-14	Jan-15
Valuation uplift[1]	51%	49%	36%	**35%**
Number of full realisations	18	14	33	**39**
Multiple of original cost	2.5x	2.7x	2.1x	**2.1x**

- Approximately half the proceeds were from post-financial crisis investments
  - The uplift on these was almost twice as high as those on pre-crisis investments
- The average multiple of original cost remained strong

Note 1. From underlying manager's most recent valuation prior to any uplift related to the disposal. May differ from uplift in current reporting period.

3. Investment activity

Secondaries and co-investments significantly increased the rate of new investment



Note 1. Discretionary investments includes Graphite fund drawdowns, secondary purchases of fund interests and co-investments.

3. Investment activity

Our investment programme was more focused on secondaries and co-investments

Primary commitments £22.0m	Secondary purchases £26.6m	Co-investments £30.8m
silverfleet capital we buy to build	GraphiteCapital	skillsoft
BainCapital PRIVATE EQUITY	LANDMARK PARTNERS	education personnel The UK's leading provider of education staffing solutions and services
PAI partners	ICG	STANDARD BRANDS WORLD LEADERS IN DOMESTIC FIRE
	PAI partners	LAINE'S
	TOWERBROOK	***Undisclosed business services investment***

- Following a high level of commitments in 2013, fewer of our target managers were fundraising in 2014

3. Investment activity

Secondary investment – PAI Europe V

Background

- £8.5m secondary purchase of an additional interest in PAI Europe V
  - €2.7 billion 2007 vintage upper mid-market buy-out fund
- Highly sought-after position in the secondary market
- Strong relationship with the manager since 2004, including three funds and two co-investments
- Complicated process:
  - Long gestation period
  - Vendor was aiming to package it with another, less attractive, fund

Rationale

- In line with our strategy of acquiring additional interests in portfolios we know well
- Portfolio of 11 underlying companies performing strongly and reasonably valued
- Through our monitoring and relationship with the manager we were aware of an imminent realisation
  - This closed a month after we acquired the secondary
- A further realisation and continued performance ensured the secondary investment is off to a good start

3. Investment activity

New Graphite Capital investment in HCIG (£8.7m)

Human Capital Investment Group

Background

- Recruitment company serving range of specialist areas within the UK public & private sectors
- Trades under a number of brands
- Focused on health & social care, social housing, construction & infrastructure, engineering
- 14 offices across the UK, 500+ employees
- Secondary buy-out completed in November 2014

Opportunity

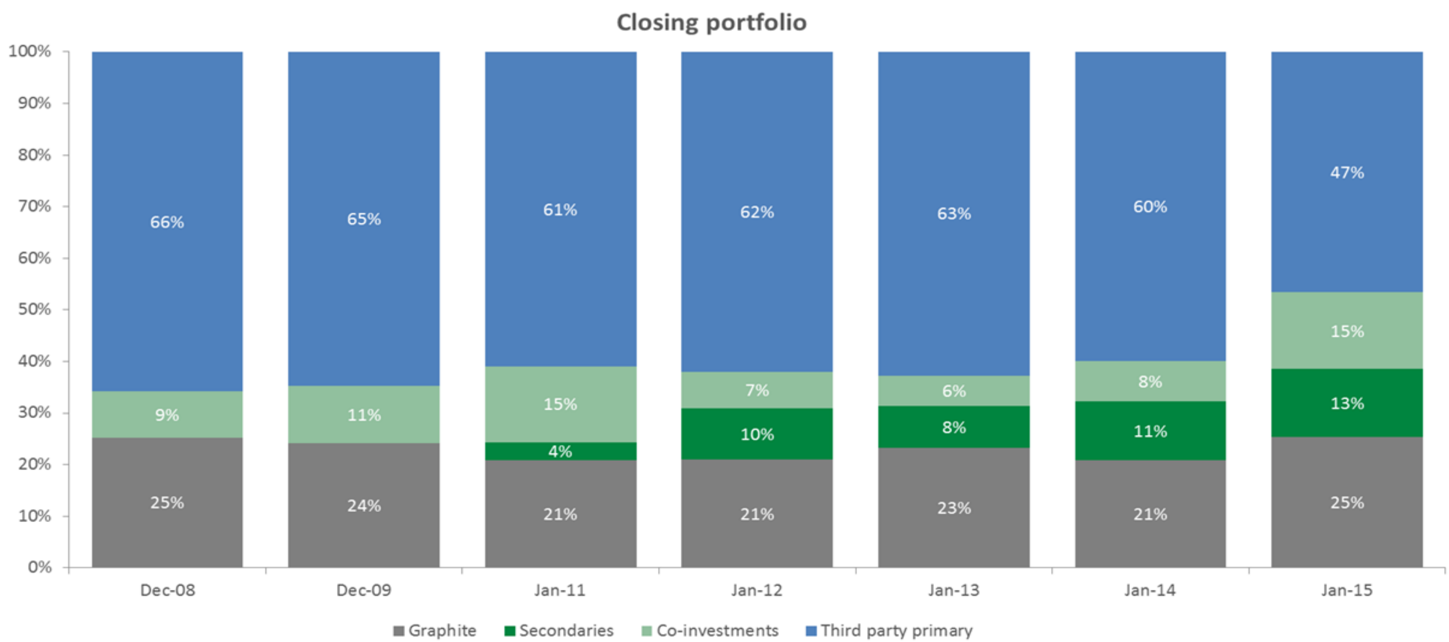
- Sector in which Graphite has extensive experience
- Outlook for targeted niche sectors is positive
- Balanced exposure to public sector (frontline services) and private sector

Why HCIG

- Expanding rapidly through combination of organic growth, acquisitions and new brands
- Successful "incubator" model: provides shared central services, takes majority stake
- Grew revenues by 28% in the twelve months to September 2014
- Very strong record of profit growth
- High quality and diversified customer base
- Highly experienced and incentivised management team

4. Portfolio

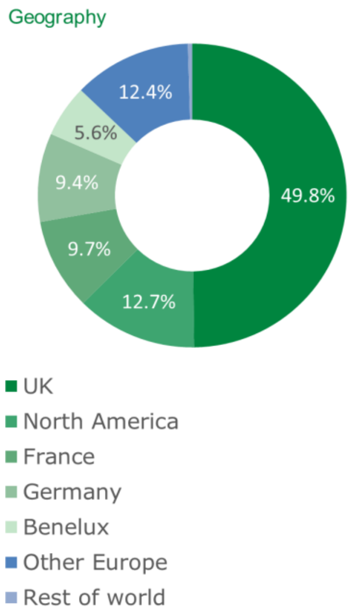
The proportion of the portfolio over which we had discretion has increased to 53%



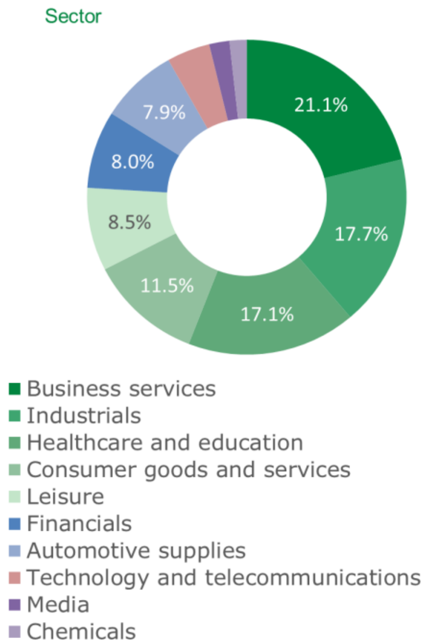
4. Portfolio

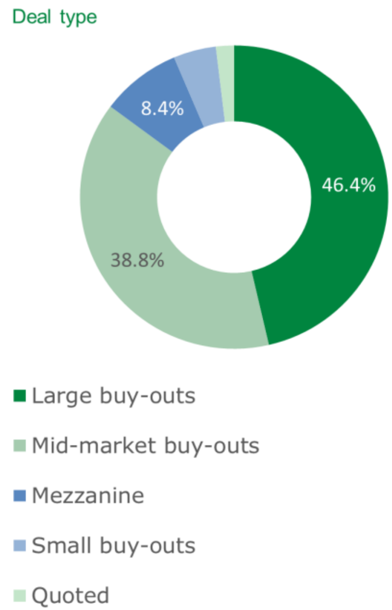
The portfolio is balanced and well diversified

- The portfolio strikes a good balance between diversification and concentration
  - Exposure to over 380 underlying companies
  - The top 30 underlying companies represent 47% of the portfolio value



NB: Total Continental Europe 37.1%



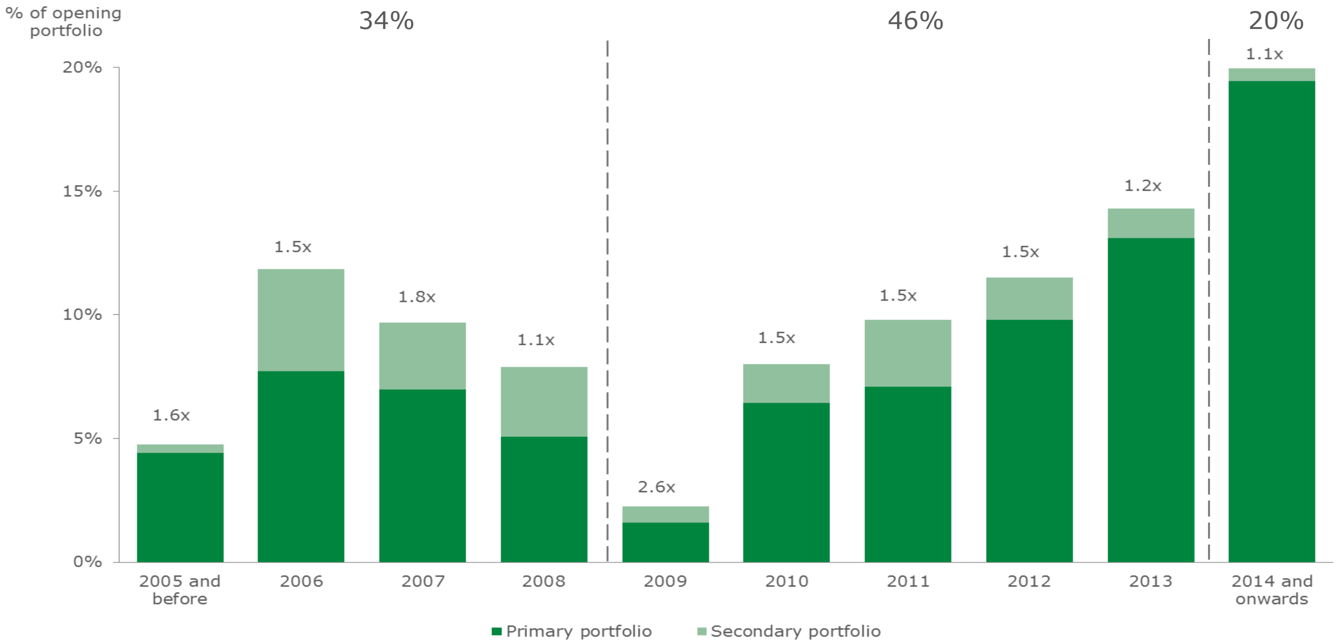


Note Geography denotes where a company is headquartered

4. Portfolio

The portfolio was valued at 1.4x cost and its average maturity was 4.4 years

Portfolio by underlying vintage year, with multiple of original cost



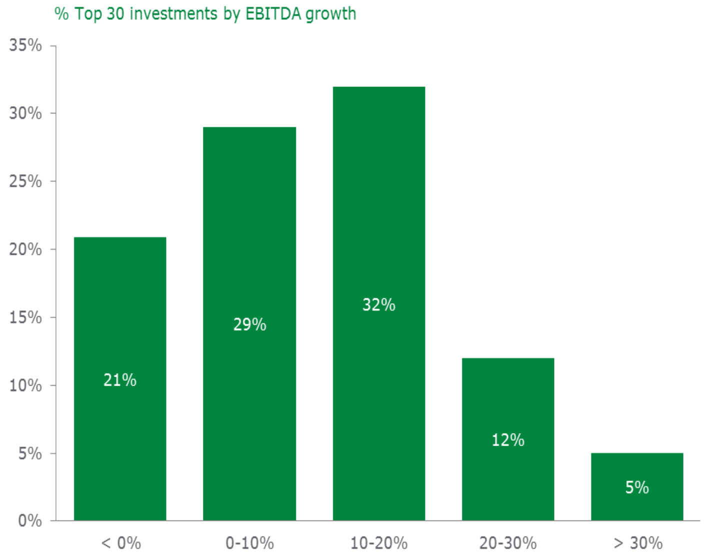
- At an average of 1.4x cost, we believe there is potential for considerable growth

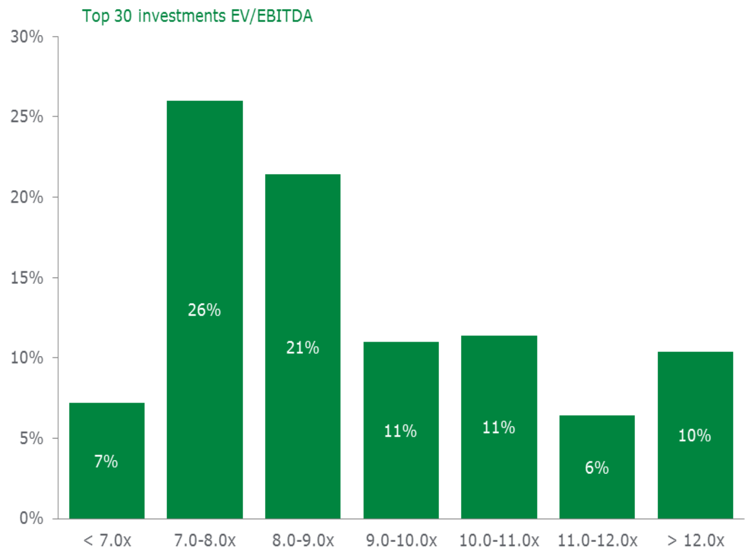
Note Multiples of cost include amounts realised by current portfolio companies of 0.4 times and reflect managers’ gross valuations. Weighted by value at 31-Jan.

4. Portfolio

The Top 30 companies continue to perform well and are reasonably valued

- Revenues and EBITDA grew by an average of 5.8% and 8.4% respectively (LTM to Dec-14)
- Aggregate FTSE 250 revenues were flat and EBITDA grew by 2.4%[3]





- The Top 30 were valued on average at 9.0x EBITDA and had net debt of 3.8x EBITDA
- Compares with 10.6x EBITDA current valuation of FTSE 250[3]

Notes: 1 Revenue growth excludes Guardian Financial Services where revenue is not meaningful
2 EBITDA metrics excludes two Top 30 companies (Intermediate Capital Group and Guardian Financial Services) for which EBITDA is not a relevant metric.
3 Source: FactSet.

4. Portfolio

Six of the top ten holdings are managed directly by Graphite Capital

	Company	Country	Manager	% of portfolio
1	Distributer and retailer of tyres	UK	Graphite	5.4%
2	Provider of home care services	UK	Graphite	3.2%
3	Provider of repair and maintenance services	UK	Graphite	3.0%
4	Provider of temporary education staff	UK	ICG	2.4%
5	Provider of foster care services	UK	Graphite	2.3%
6	Provider of recruitment services	UK	Graphite	2.0%
7	Provider of e-learning content to businesses	USA	Charterhouse	2.0%
8	Supplier and operator of modular buildings	USA	TDR	1.9%
9	Manufacturer of automotive refinishing products	UK	Graphite	1.5%
10	Operator of premium health clubs	UK	TDR	1.4%
				25.1%

5. Market
Valuations and leverage increased notably in 2014

European buy-out market

- The European buy-out market was slightly more active in 2014:
  - Europe ex UK >€50m EV: volumes -3% and value +3%
  - UK deals >€50m EV: volumes +20% and value -2%
  - The UK is around one quarter of the market but is half of our portfolio

- Valuations increased significantly to an average of 10.0x EBITDA (vs 8.7x in 2013)[1]
  - Average prices paid were slightly higher than the 9.7x in 2007, but:
    - the timing relative to the economic recovery should be more favourable
    - on a like-for-like quality basis we believe pricing remains below 2007

- Debt levels were also slightly higher at 5.3x EBITDA (vs 4.7x in 2013)[1]
  - This remains below the 6.3x average debt in 2007
  - The proportion of investments financed with debt >6x has increased

Note 1. Source: S&P. Data covers Europe including UK

5. Market

Fundraising fell by more than 40% following the exceptionally high level in 2013

Fundraising

- The total amount raised by European buy-out funds fell by more than 40% in 2014
  - Funds of more than €1bn raised half as much as in 2013 (€20bn vs €41bn)
    - 8 funds over €1bn were raised vs 12 in 2013 (-33%)
    - A high proportion of the largest buy-out managers raised funds in 2013
  - Funds of €250m to €1bn raised slightly more than in 2013 (€8bn vs €7bn)
    - 19 funds in this size range were raised vs 15 in 2013 (+27%)
- The market remains bifurcated within all segments
  - Some managers are reaching, or surpassing, targets relatively quickly
  - Others are taking a long time, or failing, to reach targets
- We continue to view this as an opportunity
  - We often disagree with the market view of an underlying manager
  - Failure to reach target can potentially increase the need for co-investment
  - Secondaries in a manager’s prior funds may increase if there is churn in the primary investor base

Note Source: Preqin

5. Market

The secondary market has become increasingly competitive

Secondary market

- The total secondary market grew strongly in 2014: $42bn of volume vs $28bn in 2013
- Average prices are reported[1] to have fallen from 100% to 95% of net asset value, however:
  - Average pricing masks a wide variation in quality, maturity, undrawn commitment etc.
  - Rises in underlying net asset value may mean transaction prices actually increased
- We operate in a smaller part of the market for which there is no reliable data on volumes or pricing
  - High distributions are reducing potential vendors' propensity to transact
  - Opportunistic sales are more likely if NAV or a premium can be achieved
- Our own activity gives an indication of the market for single interests / small portfolios:
  - Last year we priced more than 80 opportunities but only completed 4 (excluding ICG 2006 rollover)
  - This was our lowest conversion rate since starting our secondary programme in 2010
- We continue to believe that selected secondaries represent good value
  - However, scaling our secondary purchases substantially would be challenging

Note 1. Source: Cogent

6. Balance sheet

Despite strong cash inflows, we have broadly maintained the level of investment

	Jan-15 £m	Jan-14 £m	Jan-15 %	Jan-14 %
Investments	**432**	433	**84%**	86%
Net current assets	**85**	69	**16%**	14%
Total assets less current liabilities	**517**	502	**100%**	100%
Outstanding commitments	**234**	277		
Undrawn bank facility[1]	**96**	98		
Total liquidity[2]	**186**	166		
Overcommitment[3]	**48**	111		
Overcommitment %	**9%**	23%		

- The 2011 tranche of the bank facility (£58m) has recently been refinanced
- It had been due to expire April 2015 and was extended to April 2019
- The cost was significantly reduced

Notes
1. £50.0m and €61.7m translated at balance sheet date. Facility remains fully undrawn
2. Undrawn facility plus cash
3. Outstanding commitments less total liquidity

6. Balance sheet

We are considering a programme of share buy-backs

- At nearly £80m today, cash has remained higher than we would like
- Realisations are expected to remain high:
  - 25-35% of opening portfolio is possible (average over the last 4 years is 27%)
  - This would generate £110-150m of proceeds
- Fund drawdowns are likely to absorb £70-90m of this
  - This would leave a further £40-60m to be re-invested
- Secondaries are highly priced and co-investments are in high demand
  - It is important to maintain pricing discipline and not to dilute the quality of the portfolio
- We may use share buy-backs to reduce cash balances
  - In 2007/8 we bought back approximately £40m of shares
  - We are considering a programme of a similar size
  - Discount control is not the aim

7. Conclusion

Graphite Enterprise is well positioned to grow further

- The environment for realisations remains favourable and managers will be seeking exits
  - The post-crisis vintages are expected to drive performance
- The market for new investment has become more challenging as prices have risen
  - Experienced managers should be able to select investments which justify the valuation
  - They can control the pace of investment
- The portfolio continues to perform well
  - The Top 30 companies grew EBITDA in the 12 months to Dec-14 by 8.4%
  - The performance of more recent vintages is encouraging
- The performance of the Top 30 is stronger than the FTSE 250 and its valuation is lower[1]:

	Top 30	FTSE 250
EBITDA growth 12m to 31-Dec-14	8.4%	2.4%
Implied EBITDA multiple at 24-Mar-15[1]	8.0x	10.6x

Note 1. Applies share price discount to the valuation of the 30 largest underlying companies at 31-Jan. Source for FTSE 250 data: FactSet.

Useful information

Structure: Company registered in England and Wales
Investment trust tax status
Registered company number: 01571089

Ticker: GPE.LN
ISIN: GB0003292009
SEDOL: 0329200

Listing: Premium London listing

Website: www.graphite-enterprise.com

Broker: J.P.Morgan Cazenove

Angus Wilton (sales): + 44 (0) 20 7155 8122

Manager: Graphite Capital Management LLP
Authorised and regulated by the Financial Conduct Authority under the Alternative Investment Fund Manager Directive

Contacts: Tim Spence + 44 (0) 20 7825 5358 tspence@graphitecapital.com
Emma Osborne + 44 (0) 20 7825 5357 eosborne@graphitecapital.com

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