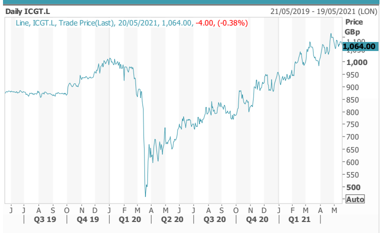
20 May 2021

HARDMAN & CO.

Closed-Ended Investment Funds



Source: Refinitiv

Market data

EPIC/TKR	**ICGT**
Price (p)	1,068
12m High (p)	1,130
12m Low (p)	640
Shares (m)	68.88
Mkt Cap (£m)	736
NAV p/sh (Jan'21, p)	1,384
Disc. to NAV	23%
Country of Listing	UK
Market	Premium equity closed-ended investment fund

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. Cte. Chr.	Alastair Bruce
NEDs	Lucinda Riches, Sandra Pajarola, Gerhard Fusenig
Inv. Mgrs.	Oliver Gardey, Colm Walsh
Contact	James Caddy +44 203 201 7700 www.icg-enterprise.co.uk

Key shareholders

None over 3%

Diary

Jun'21	End-April update

Analyst

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ICG ENTERPRISE TRUST PLC

FY'21 results: blew the roof off, not just the doors

We think the market expected that, to quote Michael Caine, ICGT would "only blow the bleeding doors off" in FY'21 with a known good uplift to NAV in 4Q from listed holdings. In the event, they blew the roof off with a 4Q 11.8% NAV total return (22.5% in the year against 15.9% five-year average). Portfolio returns (local currency) were 24.9% with the "High Conviction" (HC) portfolio generating 48.0% and third-party funds 22.4%. Underlying investee company revenue growth was 15%, reflecting ICGT's defensive growth strategy. Realisations have continued (at 31% average uplift to carrying value) and FY'22 has started well (£97m proceeds).

- **How these returns were delivered:** Our September 2020 note *Defensive growth: explaining downside resilience* noted why PE outperforms in downturns. ICGT further reduces risk with a "defensive growth" strategy. 4QFY'21 saw a strong performance in two of its largest listed holdings, PetSmart and Telos.

- **Outlook:** The growth side of "defensive growth" is now likely to be evident. ICGT is investing heavily in historically above-average-return HC investments and £201m of resources to take strong pipeline opportunities. In the first two months, FY'22 realisations are two thirds of the five-year annual average.

- **Valuation:** Valuations are conservative (uplifts on realisations averaging 36% over 10 years). The ratings are undemanding, and the carry value against cost modest. The 23% discount to NAV is anomalous, we believe, with defensive market-beating returns. The yield is 2.2%.

- **Risks:** PE is an above-average cost model, but post-expense returns are market-beating. Even though actual experience has been continued NAV outperformance in economic downturns, sentiment is likely to be adverse. ICGT's permanent capital structure is right for unquoted and illiquid assets.

- **Investment summary:** ICGT has consistently generated superior returns, by adding value in an attractive market, having a defensive growth investment policy and exploiting synergies from being part of ICG since 2016. The valuations and governance appear conservative. It has an appropriate balance between risks and opportunities. The risks are primarily sentiment-driven on costs and cyclicality, and the underlying assets' liquidity. As noted, it seems anomalous to have a consistent record of outperformance and to trade at an 18% discount to NAV.

Financial summary and valuation

Year-end Jan (£000)	2018	2019	2020	2021	2022E	2023E
Total income	22,386	5,969	7,441	6,594	13,684	14,590
Realised gains	-31,257	9,329	14,686	n/d	18,151	19,359
Unrealised gains	91,381	76,440	70,974	184,071	108,907	116,154
Investment Mgr. fees	-7,165	-7,984	-9,572	-10,728	-10,116	-11,253
Other expenses	-2,734	-2,903	-3,232	-4,070	-4,198	-4,333
Rtn. on ord. act. pre-tax	73,437	81,789	80,505	175,068	126,430	134,517
NAV per share (p)	959	1,057	1,152	1,384	1,543	1,713
S/P discount to NAV	-15%	-22%	-16%	-31%	-31%	-38%
Investments (£m)	576	670	778	908	968	1,061
Dividend per share (p)	21	22	23	24	25	26

Source: Hardman & Co Research

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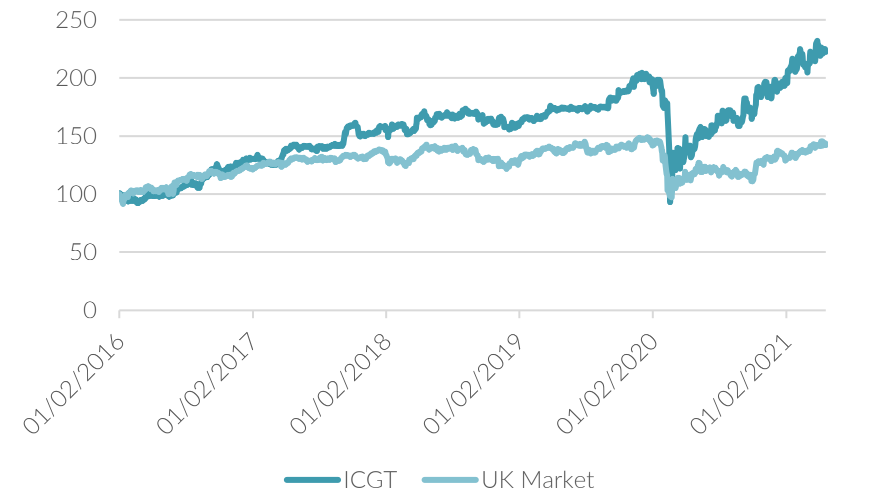
FY'21 results summary

2021 needs to be put into context of the fifth anniversary of ICG being appointed manager (Feb'16). With the access to deal flow and cultural approach to risk, over time, this has been delivering an increasing outperformance against the UK market.

Before turning to the detail of the FY results, it is worth putting the results into the context of the five years since ICG was appointed manager. While there was a smooth transition of the individuals, structurally, ICG gave access to a new range of opportunities for the trust. It has been a key differentiator in getting access to deal flow, especially in the US and other geographies where the previous manager was weak. Additionally, as we highlighted in our initiation, there is a different culture in a business that, historically, was more debt-focused and that consequently had a different approach to managing downside risk. In the 20 quarters since the appointment, there have been just two quarters when the NAV has fallen. One of these was 1Q'FY'21 when, at the quarter ending April 2020 (i.e. close to the deepest point of the COVID-19 crisis), the NAV total return in the quarter was down just 4.1%.

ICGT share price and UK market total return indexed to 1 February 2016



Source: Refinitiv, Hardman & Co Research

NAV per share of 1,384p, NAV per share total return of 22.5% during the year and 11.8% during the quarter

Total return performance as at 31 January 2021

	NAV per share	Ord. share price	FTSE All-Share total return	NAV vs. FTSE All-Share
1 year	22.5%	2.8%	-7.5%	30.0%
3 years	53.1%	27.6%	-1.6%	54.7%
5 years	109.3%	101.8%	31.5%	77.8%
10 years	207.7%	290.3%	71.4%	136.3%

Source: Company results (latest NAV disclosure), Hardman & Co Research

FY'21 results summary

12th consecutive year of double-digit portfolio return on a local currency basis

The portfolio return on a local currency basis was 24.9% (10-year average 14.8%). HC investments (51% of the portfolio) generated local currency returns of +48.0% while ongoing third-party funds generated a local currency return of +22.4% (+9.0% including fund disposals, some at a discount to carrying value, which were undertaken to redeploy capital into more attractive opportunities). We detail below how the top two (listed) holdings added ca.6% to NAV in the quarter. While this performance is above average, the experience has been for HC investments to deliver superior returns and it is a key ambition and expectation of ICGT's model.

Top 30 companies driving performance

The top 30 companies represent 52% of the portfolio value (31 January 2020: 46%). Reported aggregated past 12-month revenue growth was 15%. demonstrating the strength of the focus on companies with defensive growth characteristics.

Realisations at significant uplifts to carrying value

Total proceeds during the year were £209m. They consisted of i) realisation proceeds of £137m, of which £86m was generated from 32 full exits that were executed at an average of 31% uplift to carrying value (10-year average 36%) and a 2.4 multiple to cost (10-year average 2.3x), and ii) fund disposals generated £72m proceeds and released £42m of undrawn commitments.

Maintained investment activity throughout the year

£139m of total new investment was made (36% into HC investments, FY'20 £159m) and £95m committed to 13 third-party funds, including three new relationships.

Robust balance sheet

At end-January 2021, ICGT had £201m available liquidity (£45m of cash and £156m undrawn revolving credit facility at 31 January 2021) against undrawn commitments of £418m (£77m of which are in funds outside their investment period). Effective from 26 February 2021, ICGT agreed a new four-year €200m revolving credit facility, replacing the £156m line.

Annual dividend of 24p

The final dividend of 9p, bringing total dividends for the year to 24p (an increase of 4.3% compared with FY20). We are forecasting that the steady 1p p.a. increase seen every year since FY'17 will continue.

Lessons from 2020

Management highlights that the key lesson is the importance of quality. Outperformance comes from top-tier firms, not average ones. They supported companies through the pandemic with operational, treasury and capital-market expertise to add value.

Momentum continues, outlook remains positive

In early February 2021, ICGT fully realised the holding in Telos, which. at 31 January 2021. was the second-largest holding. The investment was realised at a ca.33 multiple to cost and in line with the carrying value at 31 January 2021 (post sale, the shares are down by 21%). Total realisations and fund disposals since the year-end have been £97m (average £147m p.a. FY16-20) and £49m has been committed. There has been some weakness in the Chewy price, but ICGT reports a strong pipeline in both HC investments and third-party funds. Management notes that deal flow volumes are high.

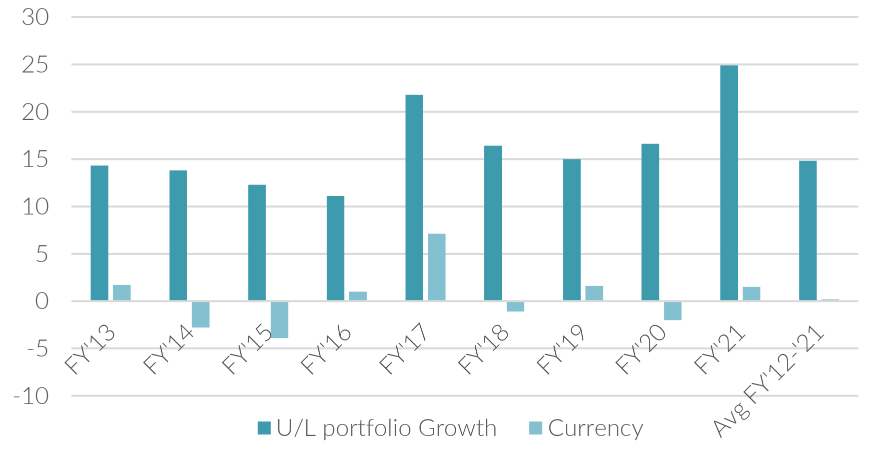
Results in more detail

Growth in portfolio

FY'21 24.9% underlying portfolio growth above 10-year average 14.8%. Been above 15% every year for past five.

The chart below shows the underlying constant-currency portfolio growth since FY'13. What is remarkable is the consistency of 15%+ returns over the past five years (ICG appointed manager 1 February 2016), including FY'21, which started just ahead of the pandemic in January 2020. The return that year was 24.9%, i.e. above the average 16.5% seen between FY'10 and FY'20.

Underlying constant-currency portfolio growth (%) from FY'10 to date



Source: ICGT Report and Accounts, Hardman & Co Research

Benefit from Chewy holding

Rise in Chewy share price accounted for ca.4% of NAV growth in 4Q

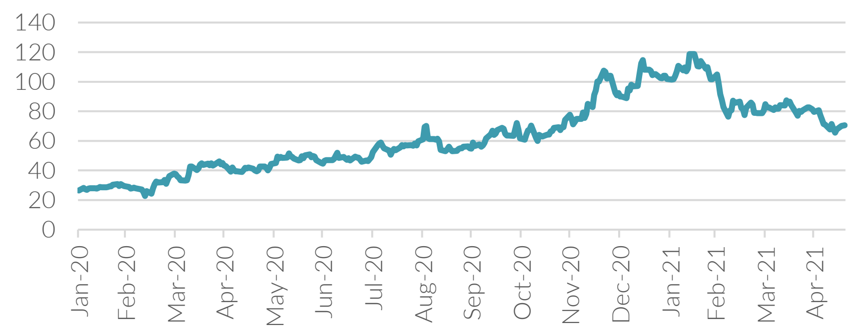
A core part of PE is ongoing support for investee companies. PetSmart has been an investment since 2015, but, through FY'21, its proportion of the balance sheet has risen sharply with the Chewy (structured as part of the PetSmart investment) share price doubling between end-Oct'20 and end-Jan'21.

PetSmart value as a % of the portfolio and relative rank in portfolio

	Jan'20	Apr'20	Jul'20	Oct'20	Jan'21
% of portfolio	2.4	3.4	4.3	5.8	9.6
Rank	5th	2nd	1st	1st	1st

Source: Company quarterly results, Hardman & Co Research

Chewy share price ($)



Source: Refinitiv, Hardman & Co Research

More recent correction may reduce ICGT NAV by 2% from Jan'21 level

The chart above shows that, since the end of January, the Chewy share price has fallen by nearly a third, which is likely to see a negative ca.2% impact on 1QFY'22 NAV total return. Management says that it expects some volatility in the share price but has confidence in the long-term trends supporting the business. ICGT is not in the business of holding listed stocks, but, from time to time, the private companies they invest in will list as a route to exit. Where the investment is held through a fund, it is for that manager to control the exit (we understand, for example, the manager started selling PetSmart in the market in April 2021). Where it is a direct investment, ICG can have more control, but usually works in co-ordination with the partnering manager.

Benefit from Telos holding

Telos added ca.2% of NAV in 4QFY'21. Since sold at January carrying value thus avoiding the 21% share price fall since.

At end-January, the second-largest holding was Telos, which listed in November 2020. At the end October 2020, it accounted for 2.9% of the portfolio; however, given the share price rise (see chart below), this rose to 4.6% at end-January 2021. This was a direct holding that has subsequently been sold at around the January 2021 carry value and thus avoiding the 21% fall in value seen since. The investment was realised at a ca.33 multiple to cost.

Telos share price ($)

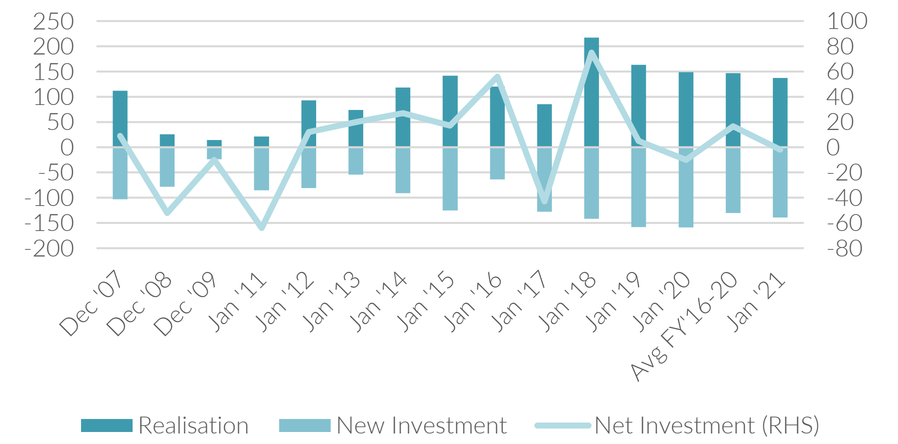
Source: ICGT Report and Accounts, Hardman & Co Research

Realisation and investment activity

Over whole year, ICGT realisations and investments in line with prior five-year averages

The chart below shows realisations and drawdowns since 2007. Again, what is visible is that, despite the pandemic, FY'21 was remarkably consistent with the previous five-year average. FY'22 has started well with the first two months seeing total proceeds of £97m (£88m from realisation proceeds, including £40m from Telos (at 33x multiple of cost)) and £9m from further fund disposals.

History of realisations and drawdowns (£m) since 2007



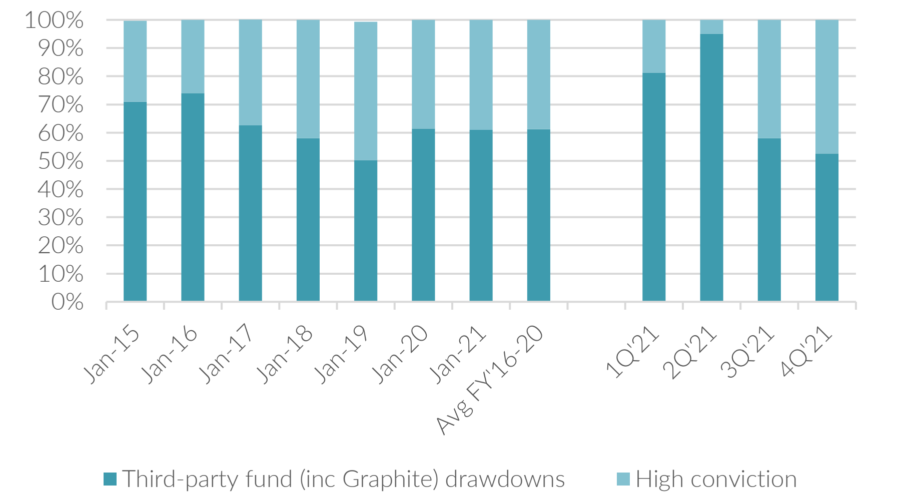
Source: ICGT Report and Accounts, Hardman & Co Research

New investments

HC 39% of new investments in line with prior five-year average

The chart below examines how new investments have been allocated by type. HC accounted for 39% of new investments in the five-year period FY'16-20 and were the same in FY'21.

New investments by type (%)



Source: ICGT results presentations and announcements, Hardman & Co Research

HC investments give flexibility in liquidity management

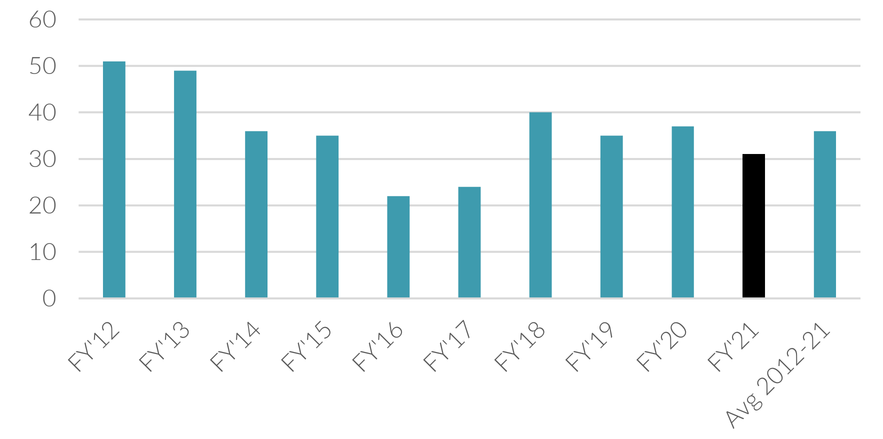
The flow through the year highlights another factor. New investment in HC fell to just 10% in 2Q'FY21 as ICGT maintained its disciplined approach to investment and decided to maintain capacity to invest in more attractive opportunities that appeared likely to emerge later in the year. This shows the flexibility inherent in such deals, as ICGT improved its liquidity by limiting drawdowns when required. We understand ICGT invested in just three proposals out of 20 that were put to it, which shows how selective they are in building this portfolio.

Realisation activity

Uplift on exit broadly in line with previous years, indicating both conservative accounting and an embedded value in the portfolio

A key consideration in whether a company has been conservative in its accounting is to consider the uplift to carry value when a position is sold. The chart below shows ICGT's history over the past 10 years. FY'21 was marginally below average but not significantly so. These uplifts are important for two reasons. First, it shows that the current valuation has been conservatively adopted. The proof of the pudding is that, when it comes to actual buyers, they have paid significantly more than the carry value. Secondly, they reflect an embedded value within the portfolio, which has been realised even in challenging market conditions.

Uplift in value on realisation against latest accounting book value (%)

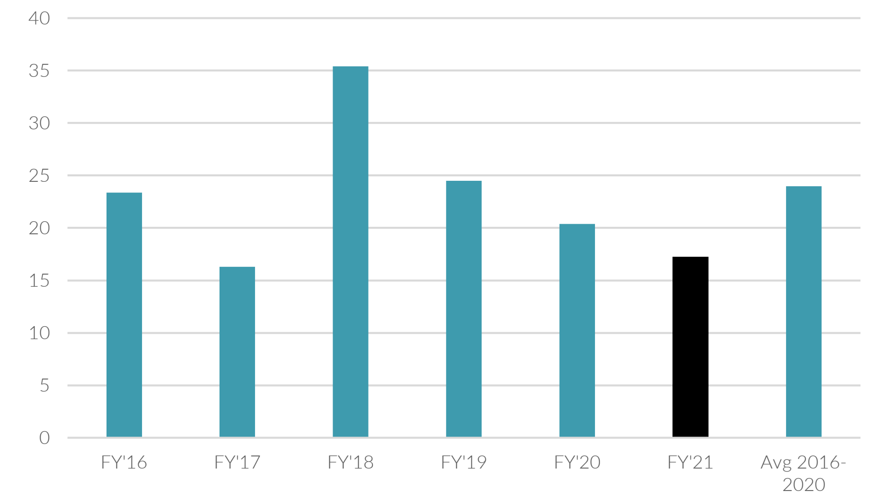


Source: ICGT Report and Accounts, Hardman & Co Research

The chart below shows the strong conversion of the portfolio into cash, with an average (since FY'16) cash conversion rate of 24%. FY'21 was slightly below this level at 17.2%, but 2017 was lower. Given the growth in the new investments and the portfolio, as management has focused on reducing the cash drag, the continued high level of cash conversion is impressive.

Cash conversion remains strong

Cash conversion (i.e. proceeds excluding secondary sales) as % of opening portfolio

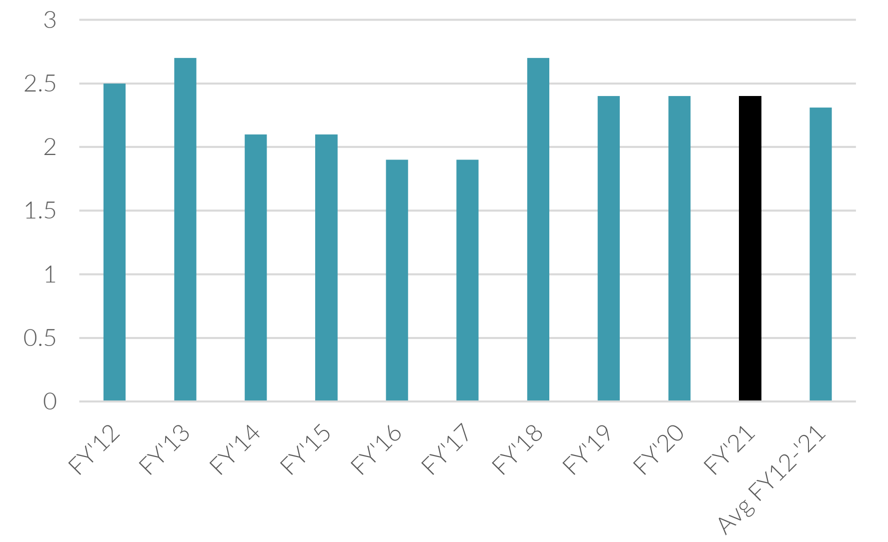


Source: ICGT results presentations, Hardman & Co Research

Realisation to cost 2.4x against 10-year average 2.3x

The chart below shows realisation value to cost multiples since FY'12. Again, the business message is that FY'21 is in line with the long-run average. The sale of Telos is likely to show positively on this metric in FY'22.

Realisation value to cost multiple (pre-incentives), FY'12 to date



Source: ICGT Report and Accounts, Hardman & Co Research

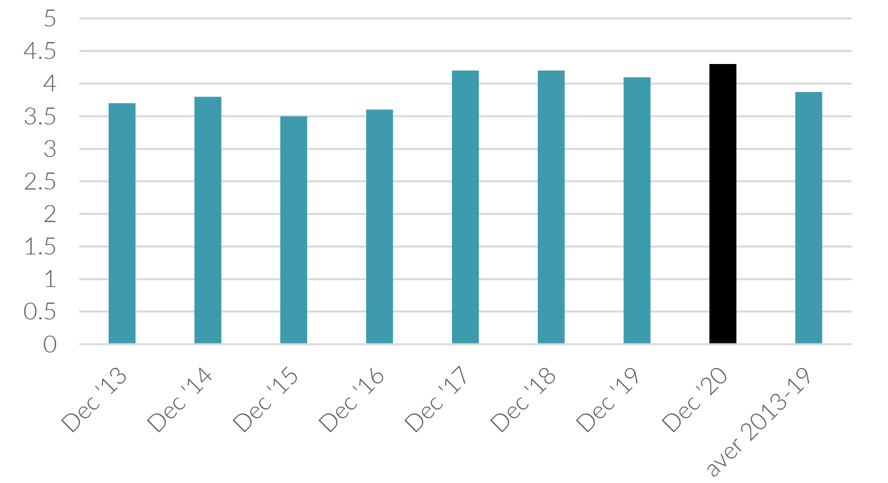
Portfolio company statistics

Gearing

Debt to EBITDA stable

The chart below highlights the stability of the net debt to EBITDA in the underlying companies, which is largely unchanged over the past four years.

Net debt to EBITDA multiples



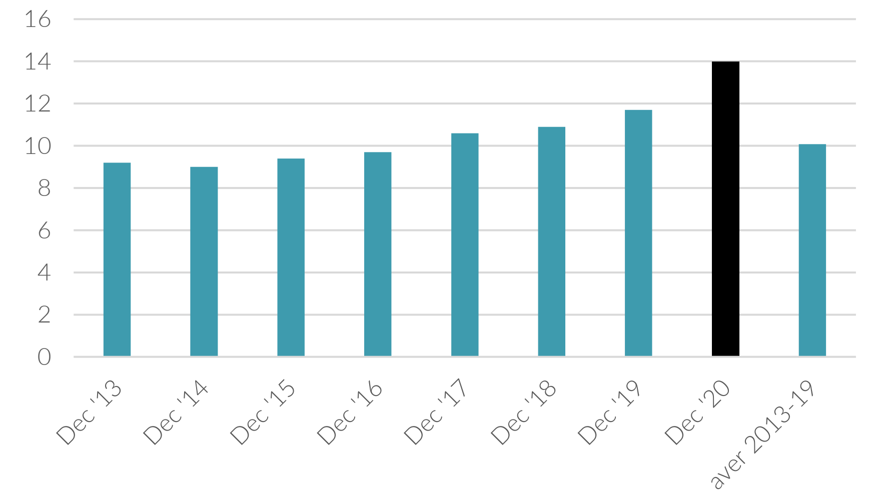
Source: ICGT Report and Accounts, Hardman & Co Research

Valuation – EV/ EBITDA multiple

EV/EBITDA risen from 11.7x to 14x driven by being in defensive-growth, tech-enabled businesses and sale of Graphite funds, which had lower-rated businesses

As can be seen in the chart below, there has been an expansion in the average EV/EBITDA multiple. This reflects i) being in defensive growth sectors, which have performed well through COVID-19, and ii) the tech-enabled nature of most of ICGT's portfolio companies, again where market multiples have risen. The sale of Graphite fund holdings also saw the exit of lower-rating businesses. The 14x excludes PetSmart/Telos/Allegro (three largest listed businesses) and Cognito as these businesses are valued off revenue multiples, not EBITDA.

EV/EBITDA rating multiple



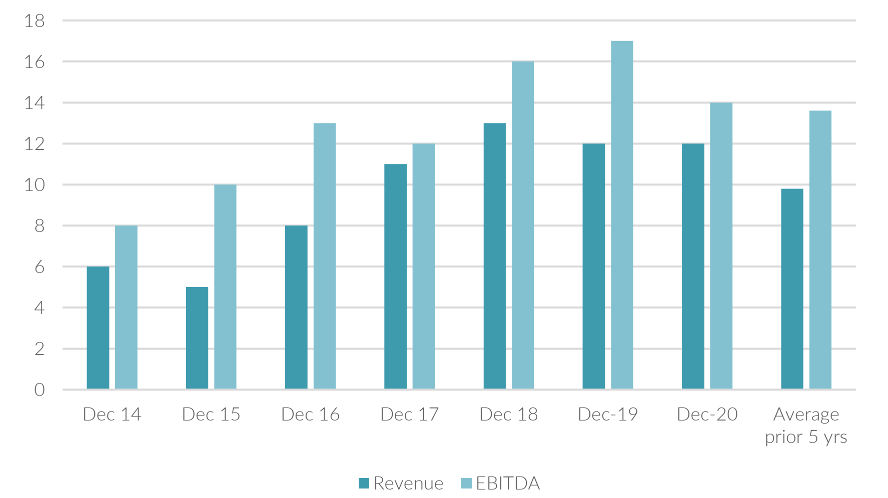
Source: ICGT results presentations, Hardman & Co Research

Revenue and EBITDA growth

Average revenue and EBITDA growth of top 30 companies ahead of average for previous five years

The chart below highlights how ICGT top 30 companies have continued to grow. Indeed, in 2020, the average growth rate was higher than the previous five-year average. The improving trend from 2015 has stabilised, partially because of the addition of new companies that are yet to fully benefit from the operational support by the underlying managers.

Revenue and EBITDA growth (%)



Source: ICGT results presentations, Hardman & Co Research

Balance sheet evolution

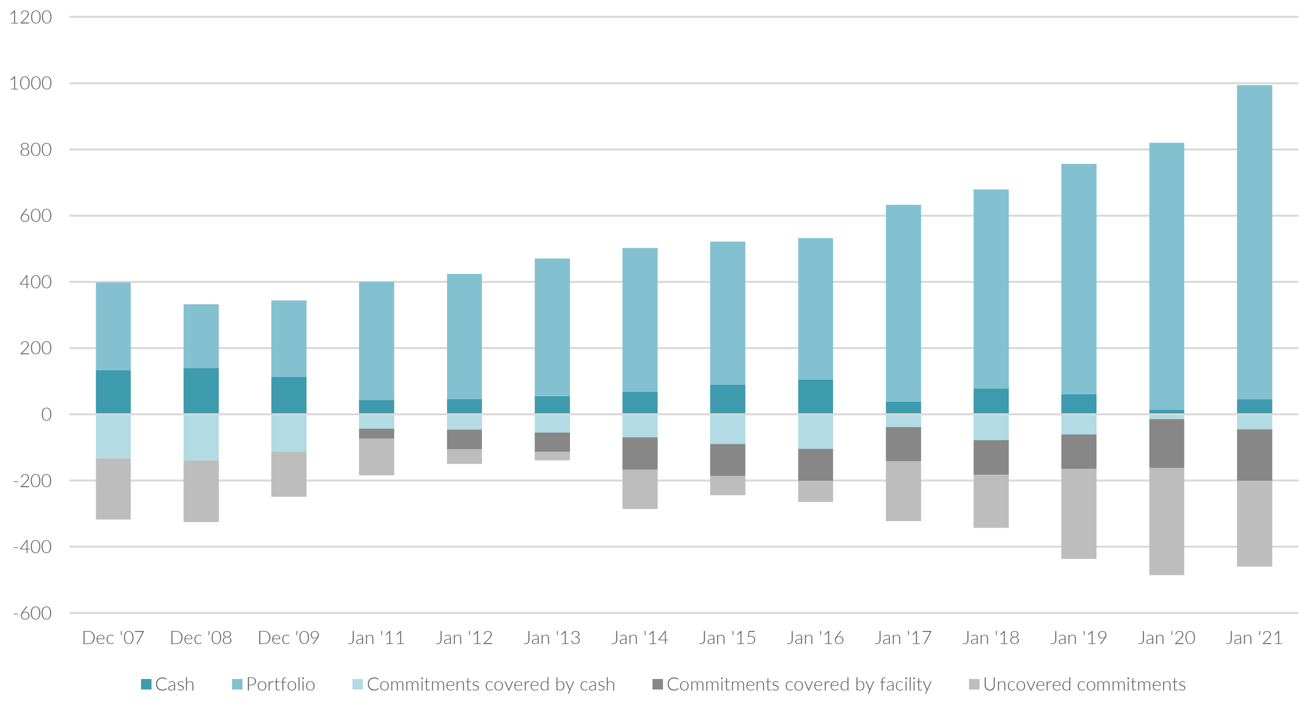
Over-commitment as a percentage of NAV down by a third in FY'21

Total liquidity rose to £201m of which £45m was cash and £156m undrawn commitments (January 2020 cash £14m, undrawn facilities £148m). Total uncalled commitments/other commitments were £460m (January 2020: £486m) of which £77m (January 2020: £82m) are to funds outside their investment periods. On a straight-line draw-down basis, the drawings over the next 12 months would be ca.£84m, i.e. more than twice covered by existing cash and credit facilities. The uncovered commitments (including those unlikely to be drawn) were thus £259m (2020: £324m), which is 27% of NAV (2020: 41%). These numbers include £42m of non-fund other commitments.

Growth in NAV means facilities could be comfortably increased again from here

This level of over-commitment has not been seen since January 2016. Given current market conditions and a strong pipeline of both HC and third-party fund commitments, we expect over-commitment to rise again in FY'22. It is worth noting the current finance line is just 16% of NAV. It could – we believe comfortably – be increased by at least another £100m, if required.

Balance sheet evolution since December 2007 (£m)



Note: Includes incentive that is not an investment commitment as such (e.g. 2020 total commitments £486m vs. commitment £459m) Source: ICGT Report and Accounts, Hardman & Co Research

Portfolio

More than half portfolio now HC, which, on average, earned 25% p.a. returns over five years.

The HC portfolio now accounts for 51% of the book, following an exceptionally strong performance in FY'21 and continued investment through the year. ICG HC investments account for nine of the top 30 companies while third-party direct and secondary investments a further 14. The five-year local currency return has been 25% (FY'21 nearly twice this level). Third-party funds account for the residual 49% of the portfolio and seven of the top 30 companies and have achieved an average five-year local currency return of 15%. As we detailed in our note *ICGT's steps to value-adding portfolio construction,* published 22 February 2021, third-party manager relationships are leveraged to generate HC ideas.

Exposure to over 600 companies, top 30 52% value giving a balance between diversity and concentration risks/benefits

ICGT has an effective exposure to more than 600 underlying companies of which the top 30 account for 52% of the portfolio value (top 198 companies ca.90%). Management believes this concentration balance is an important differentiator from listed peers in that there is enough diversity to provide some protection but also the upside when a large investment performs well (as we saw in FY'21). The portfolio is weighted towards the mid-market (34%) and large deals (56%), which we view as more defensive than smaller deal sizes, benefiting from stronger management teams and often market-leading positions.

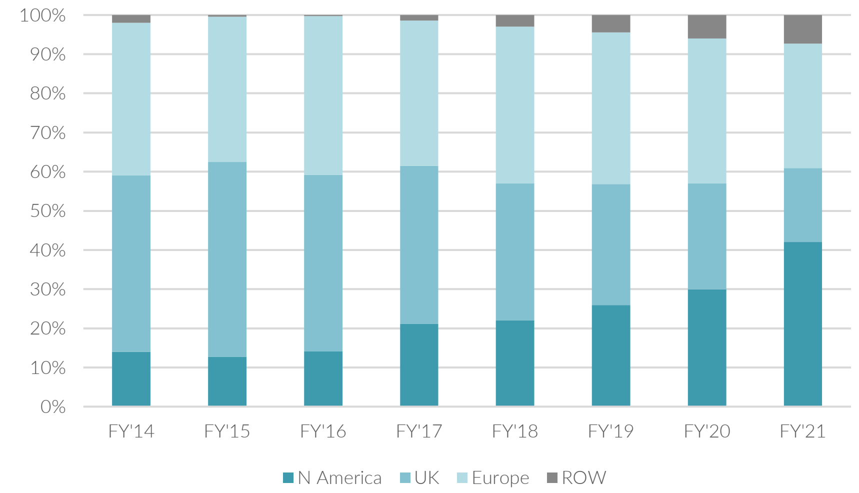
Unusually high proportion in listed

At end FY'21, ICGT had an unusually high proportion of the book in listed companies (20.4% vs. 5.4% January 2020). There are 45 investments in such companies – ICGT does not invest in them but gains listed investment exposure when IPOs are used to exit an investment. 9.6% of the portfolio was in the PetSmart holding (Chewy being part of PetSmart).

UK shrinking, US growing

The UK continues to shrink as a proportion of the portfolio (accelerated this year by the sale of Graphite fund holdings). The trend for rising US exposure (made available through having ICG as the manager given its local insight and deal access) has continued with it now accounting for 42% of the book against 14% five years ago.

Geographical mix (%)

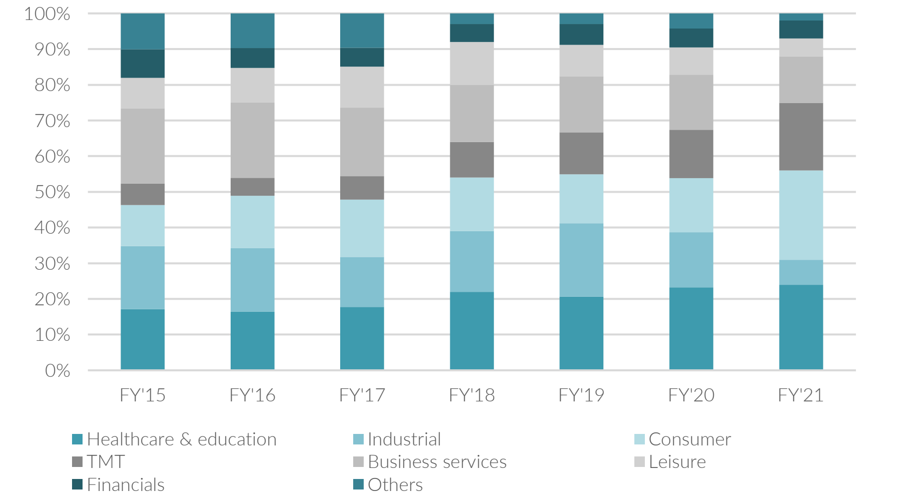


Source: ICGT results presentations, Hardman & Co Research

Diverse by sector but need to recognise tech-enabled businesses in sensitive sectors can still show defensive growth

The trends in sector mix are illustrated below. We would caution against over-reliance on it as, for example, in consumer, most business models are tech-enabled and were beneficiaries from changes in customer behaviour in 2020, even though many consumer businesses suffered. ICGT's portfolio is much broader/more defensive than the simple sector analysis below implies.

Sector mix (%)



Source: ICGT results presentations, Hardman & Co Research

Financials

Income statement (£000)

Year-end Jan	2021			2022E			2023E		
	Revenue	Capital	Total	Revenue	Capital	Total	Revenue	Capital	Total
UK investment income & dividends	6,523		6,523	4,538		4,538	4,840		4,840
Overseas interest & dividends	tbc		0	9,076		9,076	9,679		9,679
Deposit interest & other	71		71	71		71	71		71
Realised gains on investments		tbc	0		18,151	18,151		19,359	19,359
Unrealised gains on investments		184,071	184,071		108,907	108,907		116,154	116,154
FX gains & losses		-799	-799			0			0
Investment manager fees	-2,682	-8,046	-10,728	-2,529	-7,587	-10,116	-2,813	-8,440	-11,253
Other expenses	-2,129	-1,941	-4,070	-2,257	-1,941	-4,198	-2,392	-1,941	-4,333
Return before finance costs & taxation	**1,783**	**173,285**	**175,068**	**8,899**	**117,531**	**126,430**	**9,385**	**125,132**	**134,517**
Interest payable & similar expenses	0	0	0	0	0	0	0	0	0
Return on ord. activities before taxation	1,783	173,285	175,068	8,899	117,531	126,430	9,385	125,132	134,517
Taxation	0	0	0	-1,513	1,513	0	-1,595	1,595	0
Return on ord. activities after taxation	1,783	173,285	175,068	7,386	119,044	126,430	7,789	126,727	134,517

Source: ICGT Report and Accounts, Hardman & Co Research

Balance sheet (£000)

@ 31 Jan	2015	2016	2017	2018	2019	2020	2021	2022E	2023E
Non-current assets									
Unquoted investments	357,830	356,939	491,099	478,362	519,806	571,143		706,571	754,527
Quoted investments	4,962	0	364	1,733	1,655	1,231		692	692
Subsidiary investments	56,217	57,168	80,718	96,392	148,611	206,042		260,684	306,273
Total non-current assets	419,009	414,107	572,181	576,487	670,072	778,416	907,562	967,948	1,061,492
Current assets									
Cash & cash equiv.	90,137	103,831	38,522	78,389	60,626	14,470	45,143	62,203	78,345
Receivables	4,177	4,038	2,384	10,410	548	1,142	162	2,605	15,919
Total assets	**513,323**	**521,976**	**613,087**	**665,286**	**731,246**	**794,028**	**952,867**	**1,032,755**	**1,155,756**
Creditors	6,459	634	354	963	386	483	851	851	851
Gross debt									
Net assets	**506,864**	**521,342**	**612,733**	**664,323**	**730,860**	**793,545**	**952,016**	**1,031,904**	**1,154,905**
NAV per share (p)	695.16	730.93	871.05	959.14	1,056.51	1,152.12	1,384.41	1,543.26	1,712.87

Source: ICGT Report and Accounts, Hardman & Co Research

Cashflow (£000)

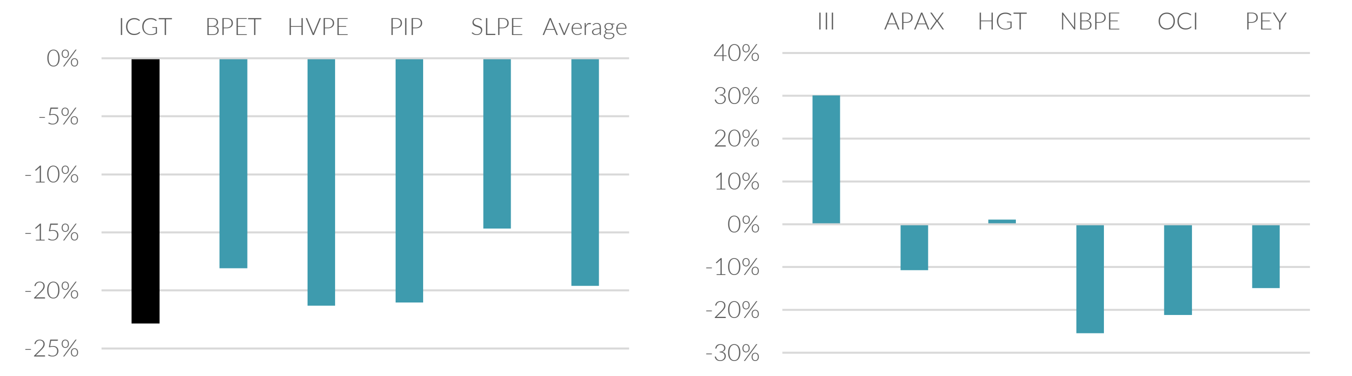
Year-end Jan	2015	2016	2017	2018	2019	2020	2021	2022E	2023E
Sale of portfolio invests	132,953	89,941	50,338	160,712	135,461	107,179	147,545	90,000	90,000
Purch. of portfolio invests	-102,185	-56,213	-102,621	-99,601	-101,790	-95,417	-86,134	-50,000	-50,000
Net cashflows to subs. investments				-12,824	-32,427	-34,446	-6,486	-6,486	-6,486
Interest income	8,382	8,951	7,263	15,967	3,994	5,832	1,231	1,231	1,231
Dividend income	5,458	2,882	2,629	6,230	1,883	1,290	5,445	12,382	13,288
Other income	644	384	259	129	216	381	71	71	71
Invest. mgr. charges paid	-5,815	-5,840	-6,143	-7,090	-7,956	-9,499	-10,334	-10,116	-11,253
Other expenses	-983	-1,269	-1,380	-1,456	-1,749	-1,227	-1,419	-1,419	-1,419
Net cash inflow/(outflow) from op. activities	38,454	38,836	-49,655	62,067	-2,368	-25,907	49,919	35,664	35,432
Cashflows from fin. activities									
Bank facility fee	-1,651	-1,963	-1,089	-1,320	-1,081	-2,576	-1,410	-1,410	-1,410
Interest paid						-61	-440	0	0
Proceeds from borrowing							0	0	0
Purchase of shares into treasury	0	-9,110	-6,201	-7,810	-709	-2,628	-775	0	0
Dividends	-11,302	-14,816	-11,357	-13,896	-14,543	-15,192	-15,822	-17,192	-17,879
Net cash inflow from fin. activities	-12,953	-25,889	-18,647	-23,026	-16,333	-20,457	-18,447	-18,602	-19,289
Net increase in cash & cash equiv.	25,501	12,947	-68,302	39,041	-18,701	-46,364	31,472	17,062	16,143
Opening cash & cash equiv.	65,390	90,137	103,831	38,522	78,389	60,626	14,470	45,142	62,203
FX effects	-754	747	2,993	826	938	208	-799	0	0
Closing cash & cash equiv.	90,137	103,831	38,522	78,389	60,626	14,470	45,142	62,203	78,345

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 broadly in line with immediate peers noting that the NAVs for some peers are updated monthly while others are quarterly. Since our initiation on 6 July 2020, ICGT's share price has increased by 42%, against its peers' average increase of 36%, bringing its discount closer in line with the average.

Current share price discount to January NAV (ICGT's latest reported NAV) for immediate peers (LHS) & wider peers (RHS)



Source: Company websites, factsheets and presentations, LSE, Hardman & Co Research; priced at 20 May 2021

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