28 January 2021

3i Group plc

FY2021 Q3 performance update

Another resilient quarter from the 3i investment portfolio

- Increase in NAV per share to 936 pence (30 September 2020: 905 pence) despite the negative translation effect of sterling strengthening in the quarter (£156 million)
- Total return of 18.7% for the nine months to 31 December 2020 and 92% of our top 20 Private Equity portfolio by value grew last 12 month ("LTM") earnings to September 2020
- Good sales, EBITDA and cash generation for Action in 2020 despite significant Covid-19 disruption
- Continued very strong performance in portfolio companies operating in the consumer, e-commerce, healthcare and business services sectors
- Completed a new Private Equity investment in MPM and three bolt-on acquisitions for GartenHaus, Havea and Cirtec Medical. Signed a further bolt-on acquisition for Royal Sanders
- Good share price performance from 3i Infrastructure plc ("3iN") in the quarter

Simon Borrows, Chief Executive, commented:
"3i delivered another solid performance in the quarter ending 31 December 2020. Both our Private Equity and Infrastructure teams have continued to perform well. Our Private Equity portfolio continues to benefit from secular growth trends, with 92% of our top 20 investments by value growing LTM earnings to September 2020, with particularly strong performances in our high growth investments. This was another decent quarter from Action which has bounced back very strongly after each lockdown interruption."

Private Equity

Portfolio performance and valuation at 31 December 2020

The Private Equity portfolio continued to demonstrate resilient performance in the third quarter of FY2021 despite the return of significant disruption caused by the reintroduction of lockdowns and other Covid-19 related restrictions throughout Europe and the UK.

Recognising the particular interest of investors regarding how these additional lockdown measures have impacted the performance of Action, we are providing more information in this Q3 performance update than we ordinarily would do, noting that Action's 2020 year end audit is not yet complete. A more detailed update on its audited financial performance will be provided as usual at a separate Capital Markets Seminar in March.

In the financial year ending 3 January 2021, Action generated revenue growth of just over 10% and opened 164 new stores, taking its total to 1,716 stores across eight countries. Provisional EBITDA, subject to audit, in 2020 was €616 million, 14% ahead of 2019. Action generated strong cash flow over the year, finishing with cash of €590 million after the repayment of the outstanding RCF balance. Despite the periods of major disruption due to country lockdowns in March, April, May and again in November and December, like-for-like ("LFL") performance over 52 weeks came in at -1.4% with the Netherlands, Germany, Poland and Luxembourg all trading well ahead of their budgets in both LFL and EBITDA for the year.

Action started 2020 very strongly and traded ahead of budget for the first two months of the year. However, the spring lockdowns resulted in an EBITDA shortfall to budget of around €85 million by the beginning of May. This shortfall reduced to less than €15 million through very strong trading from May to the end of October. At this point, the further winter lockdown measures commencing in November reduced EBITDA against budget by a further €34 million, leading to an annual result c. €49 million below budget. Very strong trading in France, Belgium and Poland in December resulted in excellent sell through of all seasonal categories and closing stocks below 2019 levels.

The Action results for 2020 incorporate a 53rd week this year. This was a short trading week, with a significant number of Action stores closed or restricted to selling essential items. This extra week contributed around €7 million of EBITDA. The cash balance reduced by €38 million primarily as a result of a 5th quarterly interest payment.

At 31 December 2020, our valuation methodology for Action remained unchanged, reflecting run-rate earnings at 3 January 2021, a post discount run-rate multiple of 18.0x and the capital structure at Action's year end. The reduction in new store openings as a result of the pandemic from 230 in 2019 to 164 in 2020 led to a reduction in the EBITDA run-rate adjustment of €25 million to €35 million.

The lockdown situation across Europe is fluid and Action's current trading position is again affected by restrictions in a number of countries. In France, Belgium, Poland and Luxembourg stores are open and selling the full catalogue, while most German stores and all Austrian and Czech stores are open but selling essential items only. Action has now implemented a Click & Collect facility for non-essential items in stores in Germany and Austria. All stores in the Netherlands have been completely closed since the second half of December 2020. We expect lockdown restrictions will be a headwind for Action's Q1 2021, but we are planning for a very strong recovery as restrictions are lifted.

Royal Sanders, Cirtec Medical, Luqom and Tato continued to generate strong earnings growth and cash in the third quarter and are well positioned to maintain this performance into the final quarter of FY2021. The Basic-Fit share price increased by 48% in the quarter, despite the significant disruption caused by enforced gym closures. Our most recent new investments in MPM and GartenHaus and further investment in SaniSure are performing well and in line with our expectations.

Measures and initiatives put in place to mitigate the disruption caused by Covid-19 restrictions have enabled our portfolio companies in the retail sector (Hans Anders and BoConcept) to maintain a steady level of trading in the quarter. Following signs of a gradual recovery in the Asian automotive market, Formel D and Q Holding's automotive business saw more stable trading in the period, although market conditions are expected to remain challenging in Q1 2021.

The travel sector remains very challenging. Audley Travel saw an uptick in bookings from November following positive news on Covid-19 vaccines, but the extensive travel restrictions mean that significant uncertainty remains. Arrivia has been relatively resilient throughout the pandemic to date, largely due to the nature of its recurring membership business. However, no cruise sailings and a low level of resort vacations are expected to impact performance in the first half of 2021.

Private Equity investments and realisations

Private Equity investment	Type	Business description	Date	Investment £m
MPM	New	An international leader in branded, premium and natural pet food	December 2020	124
Audley Travel	Further[1]	Provider of experiential tailor-made travel	November 2020	46
GartenHaus	Further[1]	Leading online retailer of garden buildings, sheds, saunas and related products in Germany, Austria, Switzerland and Netherlands	December 2020	13
Action	Further	General merchandise discount retailer	December 2020	9
Total Q3 FY2021 investment				**192**
H1 FY2021 investment				**231**
Total investment as at 31 December 2020				**423**

1 Net of subsequent return of funding in Q3 FY2021.

In December 2020, we completed the £124 million new investment in MPM, our second new investment in FY2021.

We have continued to grow portfolio value through our buy-and-build strategy. Following our new investment in GartenHaus in September, we invested a further £16 million to support the acquisition of Polhus, a leading online retailer of garden houses and related products based in Sweden. GartenHaus also returned £3 million of its funding in the quarter.

In addition, and with no funding from 3i, Havea completed the acquisition Laudavie, which owns Calmosine, the French specialist in children's food supplements, and Cirtec Medical acquired NovelCath, a fast-growing catheter-based delivery systems manufacturer based in Minnesota. At the end of December 2020, Royal Sanders signed the acquisition of Royal Herkel, a private label and contract manufacturing producer of nutritional supplements, medical devices, pharmaceutical and cosmetic products based in the Netherlands.

In November 2020, we invested a further £49 million of capital to support Audley Travel through this difficult trading period, £3 million of which was subsequently returned following investment by other shareholders. In December 2020, we purchased a small equity stake in Action for £9 million.

In the quarter, we received total Private Equity realisation proceeds of £28 million, including £17 million from the sale of Navayuga, £10 million of further proceeds from the sale of Kinolt and £1 million of other deferred consideration.

Infrastructure

3iN's share price performed well in the quarter, closing up 6% at 307.5 pence (30 September 2020: 289 pence), valuing 3i's 30% stake at £828 million (30 September 2020: £778 million). We also recognised dividend income of £13 million from 3iN in the period. 3iN completed the acquisition of further stakes in their existing Dutch PPP projects and overall the 3iN portfolio has continued to demonstrate its resilience.

In the period, we received proceeds of £30 million from the sale of our stake in Krishnapatnam Port.

Scandlines

Scandlines' performance was stable in the period, with freight volumes remaining close to 2019 levels. New travel restrictions were put in place in September 2020 between Germany and Scandinavia, which resulted in a reduction in both leisure travellers and border shop customers from the solid levels seen in the latter half of the summer. Our core DCF valuation assumptions remain consistent with the September 2020 valuation.

Top 10 investments by value at 31 December 2020

	Valuation basis	Valuation currency	Valuation Sep-20 £m	Valuation Dec-20 £m	Activity in the quarter
Action	Earnings	EUR	4,269	4,426	
3iN	Quoted	GBP	778	828	
Scandlines	DCF	EUR	452	456	
Cirtec Medical	Earnings	USD	374	379	Completed acquisition of NovelCath in December 2020
Royal Sanders	Earnings	EUR	294	349	
Tato	Earnings	GBP	247	308	
Evernex	Earnings	EUR	296	292	
Hans Anders	Earnings	EUR	272	270	
WP	Earnings	EUR	260	267	
Havea	Earnings	EUR	253	247	Completed acquisition of Laudavie in November 2020

The 10 investments in the table above comprise 78% (30 September 2020: 78%) of the total Proprietary Capital portfolio value of £10,048 million (30 September 2020: £9,578 million).

Total return and NAV position

We recognised a net £156 million loss on foreign exchange in the quarter, as both the euro and US dollar weakened against sterling. As at 31 December 2020, 69% of the Group's net assets were in euro and 14% were in US dollar. Based on that, a 1% movement in the euro and US dollar would result in a total return movement of £62 million and £13 million respectively, net of any hedging. The diluted NAV per share increased to 936 pence (30 September 2020: 905 pence) or 918.5 pence after deducting the 17.5 pence per share first FY2021 dividend, which was paid on 13 January 2021.

Balance sheet

At 31 December 2020, gross debt was £975 million (30 September 2020: £975 million), net debt was £559 million and gearing 6.2%. The first FY2021 dividend of £169 million (or 17.5 pence per share) was paid on 13 January 2021. At the end of December 2020, we increased our RCF from £400 million to £500 million and extended its maturity to 2026. The RCF is undrawn and, together with cash of £416 million, provided liquidity of £916 million at 31 December 2020.

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Notes

1. Balance sheet values are stated net of foreign exchange translation. Where applicable, the GBP equivalents at 31 December 2020 in this update have been calculated at a currency exchange rate of €1.1171: £1 and $1.3669: £1 respectively.
2. At 31 December 2020 3i had 966 million diluted shares.
3. Action was valued using a post discount run-rate EBITDA multiple of 18.0x based on its run-rate earnings to 3 January 2021.

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About 3i Group
3i is a leading international investment manager focused on mid-market Private Equity and Infrastructure. Our core investment markets are northern Europe and North America. For further information, please visit: www.3i.com.

All statements in this performance update relate to the three month period ended 31 December 2020 unless otherwise stated. The financial information is unaudited and is presented on 3i's non-GAAP Investment basis in order to provide users with the most appropriate description of the drivers of 3i's performance. Net asset value ("NAV") and total return are the same on the Investment basis and on an IFRS basis. Details of the differences between 3i's consolidated financial statements prepared on an IFRS basis and under the Investment basis are provided in the 2020 Annual report and accounts. There have been no material changes to the financial position of 3i from the end of this quarter to the date of this announcement.