



21 July 2022

3i Group plc FY2023 Q1 performance update

A good start to FY2023

- Increase in NAV per share to 1,406 pence (31 March 2022: 1,321 pence) and total return of 6.6% for the three months to 30 June 2022.
- A resilient quarter from the Private Equity portfolio with strong contributions from Action, AES, Dynatect, MAIT, nexeye (previously known as Hans Anders), SaniSure, Tato and WilsonHCG. 90% of our top 20 Private Equity companies by value grew their earnings to March 2022. The return for the quarter included material reductions in the value of two non-discount consumer companies, Luqom and GartenHaus.
- Very good sales and EBITDA growth from Action in the quarter. Sales for the quarter were €2,061 million, 22% above 2021 and 70% above 2019. EBITDA for the quarter was €263 million, 29% above 2021 and 115% above 2019. Action's LTM operating EBITDA to 3 July 2022 was €991 million.
- Announced the sale of Havea for expected proceeds of c.€540 million, representing a c.50% uplift on the value at 31 March 2022, resulting in an estimated sterling money multiple of 3.0x and IRR of 23%. Completed the sale of Q Holding's QSR division for proceeds of £190 million, meaning our sterling money multiple, including our remaining value in Q Holding, is 2.7x.
- Signed three new Private Equity investments in the quarter and announced a fourth new investment in July 2022. All are expected to complete by the end of Q2 FY2023.
- 3i Infrastructure plc ("3iN") completed the sale of its European projects portfolio to the 3i European Operational Projects Fund for £106 million.
- Recognised a £332 million (or 34 pence per share) gain on foreign exchange in the quarter, net of hedging, as sterling weakened against the euro and US dollar.

Simon Borrows, Chief Executive, commented:

"3i has made a good start to its new financial year. Both portfolios are trading resiliently in the current environment and Action is continuing to grow at an impressive rate. We have already announced a number of new investments this year and executed realisations at significant premiums to their carrying values in recent months, underlining the quality of our portfolio.

We see broader economic conditions deteriorating over the rest of the year but remain confident in the composition of our portfolio. We continue to focus on actively managing our portfolio and making sensibly priced investments and bolt-on acquisitions. We will also pursue our realisation projects where conditions allow."

Private Equity

Portfolio performance and valuation at 30 June 2022

Action's impressive performance continues. In the six months ending 3 July 2022, sales grew to €3,885 million (2021:€2,973 million) and operating EBITDA grew to €449 million (2021: €286 million). Action sales and EBITDA for the first half of the year were 69% and 119% ahead of the same period in 2019, the last financial year without any Covid-19 impact. In the six months ending 3 July 2022 like-for-like sales growth was 18.6% with footfall significantly ahead of last year, more than offsetting a slightly lower average basket size. Action continues to attract significant new customer flow through very low prices and good product availability in stores. Last twelve months ("LTM") operating EBITDA to 3 July 2022 reached €991 million, almost at the 2023 five-year plan target of €1 billion. Action has opened 87 net new stores so far this year and remains on track to exceed the 267 new stores opened last year. Cash generation continues to be strong with the group's cash balance standing at €529 million on 3 July 2022.

At 30 June 2022, Action was valued using the LTM run-rate earnings to 3 July 2022 (€1,068 million) and an unchanged multiple of 18.5x net of the liquidity discount, resulting in a valuation of £7,811 million (31 March 2022: £7,165 million) for 3i's 52.7% equity stake. Action's relative performance has continued to compare very favourably to its quoted peer group over recent years, despite being more impacted by Covid-19 compared to the majority of its peers. The sale of over 30% of Action's equity in the first quarter of 2020 remains an important mark for Action's current valuation multiple. The business is trading materially ahead of the business plan presented at that time and, based on the valuation at 30 June 2022, the buyers in that transaction have already made a 2.4x return.

The remainder of the Private Equity portfolio continues to trade resiliently in spite of the challenging inflationary environment. Of our top 20 Private Equity portfolio companies, 90% by value grew their earnings to March 2022, with notably strong performance from AES, Dynatect, MAIT, nexeye, SaniSure, Tato and WilsonHCG. However, we reduced the valuation multiples for Luqom and GartenHaus as a result of significant declines in digital retailer valuations over the quarter to the end of June 2022. The valuation of Luqom and GartenHaus reduced by £102 million and £74 million respectively in the quarter. We have seen a marked uptick in performance from our travel-related investments across both Private Equity and Infrastructure. We will assess all of these developments across the portfolio carefully at our Portfolio Company Reviews in September 2022 ahead of our half year results.

Private Equity investments and realisations

In the period, we announced three new investments totalling c.£195 million: xSuite, an accounts payable process automation specialist focused on the SAP ecosystem; Konges Sløjd, a premium international lifestyle brand offering apparel and accessories for babies and children; and Digital Barriers, a provider of Internet of Video Things, surveillance and security products. In July 2022 we announced a new investment in VakantieDiscounter, a leading, technology-enabled online travel agency in the Benelux region focused on affordable holidays. All four are expected to complete by the end of Q2 FY2023.

We also invested a further £34 million in Luqom to support its acquisition of Brumberg, one of the best known B2B lighting brands in Germany, whilst MAIT completed the self-funded acquisition of Nittmann & Pekoil.

In May 2022, we completed the sale of Q Holding's QSR division for proceeds of £190 million, meaning our sterling money multiple, including our remaining value in Q Holding, is 2.7x and, in June 2022, we agreed the sale of Havea. Upon completion of the sale of Havea we expect to receive proceeds of c.€540 million, a c.50% uplift on opening value, resulting in an estimated sterling money multiple of 3.0x and IRR of 23%.

Infrastructure

At 30 June 2022, 3iN's share price closed at 329 pence (31 March 2022: 347 pence), valuing our 30% stake at £884 million (31 March 2022: £934 million). We also recognised dividend income of £14 million from 3iN in the period. In June 2022, 3iN completed the sale of its European projects portfolio to the 3i European Operational Projects Fund for £106 million.

Scandlines

Freight volumes remain strong, ahead of 2021 record levels and above expectations set for 2022. Leisure volumes continue to improve as we enter the peak summer period. In the period we received a dividend of £12 million from Scandlines.

Top 10 investments by value at 30 June 2022

	Valuation basis	Valuation Currency	Valuation Mar-22 £m	Valuation Jun-22 £m	Activity in the quarter
Action	Earnings	EUR	7,165	7,811	
3iN	Quoted	GBP	934	884	£14 million dividend recognised
Cirtec Medical	Earnings	USD	513	563	
Scandlines	DCF	EUR	533	541	£12 million dividend received
Havea	Imminent sale	EUR	304	453	Announced the sale of Havea which is expected to complete in Q3 FY2023
Tato	Earnings	GBP	407	449	
Luqom	Earnings	EUR	448	395	Acquisition of Brumberg, required £34 million of further equity funding from 3i
nexeye	Earnings	EUR	345	388	
SaniSure	Earnings	USD	277	350	
Royal Sanders	Earnings	EUR	297	310	

The 10 investments in this table comprise 80% (31 March 2022: 78%) of the total Proprietary Capital portfolio value of £15,101 million (31 March 2022: £14,305 million).

Total return and NAV position

We recognised a £332 million gain on foreign exchange in the quarter, net of hedging, as sterling weakened against the euro and US dollar. As at 30 June 2022, 70% of the Group's net assets were denominated in euro and 15% in US dollar. Based on that, a 1% movement in the euro and US dollar would result in a net total return movement of £94 million and £20 million respectively. The diluted NAV per share increased to 1,406 pence (31 March 2022: 1,321 pence) or 1,378.75 pence after deducting the 27.25 pence per share second FY2022 dividend, which will be paid on 22 July 2022.

Balance sheet

At 30 June 2022, cash was £426 million (31 March 2022: £229 million), and including our undrawn £500 million revolving credit facility ("RCF") liquidity was £926 million (31 March 2022: £729 million). Net debt was £549 million and gearing 4% (31 March 2022: £746 million and 6%). On 13 July 2022 we increased our available liquidity by introducing an additional two year £400 million tranche to the existing base £500 million RCF which matures in March 2027. The £400 million additional tranche provides the Company with additional financial flexibility at low cost.

The 27.25 pence per share second FY2022 dividend, totalling £262 million, will be paid on 22 July 2022.

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Notes

1. Balance sheet values are stated net of foreign exchange translation. Where applicable, the GBP equivalents at 30 June 2022 in this update have been calculated at a currency exchange rate of €1.1622: £1 and \$1.2149: £1 respectively.
2. At 30 June 2022 3i had 965 million diluted shares.
3. Action was valued using a post discount run-rate EBITDA multiple of 18.5x based on its LTM run-rate earnings to 3 July 2022 of €1,068 million. The LTM run-rate earnings used include our normal adjustment to reflect stores opened in the year.
4. Completion of the sale of Havea is subject to regulatory clearances.

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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 30 June 2022 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 2022 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.