



26 January 2023

3i Group plc

## FY2023 Q3 performance update

A positive third quarter. On track to deliver another year of good growth

- Increase in NAV per share to 1,649 pence (30 September 2022:1,477 pence) and total return of 26.8% for the nine months to 31 December 2022
- Action produced another excellent result with very strong sales, EBITDA and cash generation in 2022. In the 12 months to 1 January 2023, net sales and EBITDA were 30% and 46% ahead of 2021
- The value for money, private label, healthcare and infrastructure investments continue to perform resiliently and represented 83% of our investment portfolio at 31 December 2022. We continue to see headwinds across our discretionary consumer portfolio companies
- Strong cash generation from the Private Equity portfolio in the quarter with £474 million of realised proceeds received from divestments and £166 million of cash dividends
- Our buy-and-build momentum continues with four bolt-on acquisitions completed or signed, including the acquisitions of two components of Q Holding's medical business by SaniSure and Cirtec Medical
- Signed the full disposal of Christ at a c.43% uplift on 31 March 2022 opening value, with completion expected in Q4 FY2023
- Good contribution from 3i Infrastructure plc ("3iN") and our US Infrastructure portfolio. Two bolt-on acquisitions completed for Regional Rail and one for EC Waste
- Well-funded balance sheet at 31 December 2022 with gross cash of £495 million and gearing of 3%

### Simon Borrows, Chief Executive, commented:

"Action has once again delivered some very impressive results and starts the New Year with good momentum across all ten of its geographic markets. The fundamentals of the business and financial model are very strong and its low prices and flexible category format are generating significant customer traffic. Action has a considerable white space roll-out opportunity ahead of it and we anticipate another strong year of performance in 2023.

The Private Equity and Infrastructure portfolio continues to demonstrate its resilience in challenging trading conditions. Our strategy of investing in assets backed by long-term, through the cycle growth trends means we are well equipped to mitigate macroeconomic headwinds that are impacting a small pocket of the portfolio, most notably the discretionary consumer segment. We remain disciplined and selective in deploying our proprietary capital and we continue to enhance our portfolio through targeted bolt-on acquisitions".

### Private Equity

#### Portfolio performance and valuation at 31 December 2022

In the 12 months to 1 January 2023, Action generated net sales growth of 30% and added 280 stores, taking its total to 2,263 stores across ten countries. Provisional 2022 EBITDA, which is still subject to audit, was €1,205 million, 46% ahead of 2021. Net sales (€8,859 million) and EBITDA (€1,205 million) were 73% and 123% ahead of 2019. Sales leverage and good cost discipline were the main drivers behind the increased EBITDA margin of 13.6%. Covid-19 restrictions were limited to the first quarter of 2022 with full store closures in the Netherlands in the first two weeks of the year.

Given the Covid-19 disruption in December 2021, like-for-like (“LFL”) sales growth was particularly strong in Q4 2022, averaging 23% in the quarter. Action generated LFL sales growth for the year of 18%, with transactions significantly ahead of last year. Action generated good sales across all its geographies. The new country openings in Italy and Spain have started very well and are trading materially ahead of their investment case. Action’s supply chain performed effectively throughout the year ensuring improved availability across the store base notwithstanding the global logistical challenges of 2022.

Action paid an interim dividend to shareholders in December 2022, resulting in a distribution of £159 million to 3i, and finished the year with a cash balance of over €697 million.

Action has performed remarkably well since the early days of the Covid-19 pandemic, reaching its 2019 five year plan target of €1 billion of EBITDA a year and a quarter ahead of schedule, and has more than doubled EBITDA over the three years since 2019.

At 31 December 2022, Action was valued using the LTM run-rate earnings of €1,312 million to 1 January 2023 and an unchanged multiple of 18.5x net of the liquidity discount, resulting in a valuation of £10,276 million (30 September 2022: £8,612 million) for 3i’s 52.7% equity stake.

A good number of our large Private Equity portfolio companies continue to trade resiliently despite the tough macroeconomic backdrop. In the quarter we saw strong performance from AES following sustained demand in the global seal market, from Royal Sanders which continued to generate strong sales from existing customers, and from WilsonHCG which has continued to grow year-on-year. Whilst we saw some destocking effects across parts of the healthcare sector, we made significant strategic progress in consolidating our segment capabilities in our healthcare assets to ensure we can maximise their potential in the coming years. Our travel assets continue to recover strongly.

Our discretionary consumer portfolio companies continue to experience challenging consumer headwinds and detract from the overall performance of the Private Equity portfolio. Whilst this continuing pressure was largely expected, Luqom saw weak trading in December 2022, with muted consumer demand and mix effects causing a further reduction in its earnings forecast for the year which resulted in a value reduction of £72 million in the quarter to 31 December 2022.

Peer group multiples across the portfolio generally improved over the quarter, reflecting a partial recovery in stock market indices. No adjustments were made to the portfolio companies valuation multiples in the period.

### Private Equity investments

Private Equity investment	Type	Business description	Date	Investment £m
ten23 health	Further	Pharmaceutical product CDMO	October and December 2022	9
Formel D	Further	Quality assurance provider for the automotive industry	November 2022	11
YDEON	Further	Digital platform for home and garden projects across Europe	December 2022	15
Digital Barriers	Further	Provider of unique video compression technology	December 2022	10
xSuite	Return of funding	Accounts payable invoice automation software	December 2022	(7)
<b>Total Q3 FY2023 investment</b>				<b>38</b>
H1 FY2023 investment				292
<b>Total investment as at 31 December 2022</b>				<b>330</b>

In the quarter, we completed a £10 million further investment in Digital Barriers and a £9 million further investment in ten23 health as we continue to develop their platforms. We also invested £15 million in YDEON and £11 million in Formel D, supporting both businesses through challenging trading conditions.

Our buy-and-build momentum continued in the quarter. AES acquired Vibtech Analysis, a reliability service provider based in Canada and WilsonHCG agreed to acquire Personify, a provider of recruitment processing outsourcing services. This acquisition completed post the quarter end, with a 3i contribution of \$7 million.

Following our partial disposal of Q Holding's QSR division earlier in this financial year, we carved out two components of Q Holding's remaining QMD business, which are being acquired by our existing portfolio companies SaniSure and Cirtec Medical. In December 2022, SaniSure completed the acquisition of Q Holding's Twinsburg site, a leading silicone extrusion business, and its customers who operate in the single-use technology bioprocessing industry. Also in December 2022, Cirtec Medical agreed terms for the acquisition of Q Holding's Precision Components business, an elastomeric solutions provider in the medical device outsourcing market. Both acquisitions will be self-funded by the portfolio companies and will provide differentiated capabilities and enhance their strong growth momentum. As a result of this transaction, 3i is expected to receive a distribution of c.\$172 million from Q Holding in Q4 FY2023.

### Private Equity realisations

Private Equity Realisations	Realisation proceeds £m
Havea	471
Other	3
<b>Total Q3 FY2023 realised proceeds</b>	<b>474</b>
H1 FY2023 realised proceeds	193
<b>Total realised proceeds as at 31 December 2022</b>	<b>667</b>

In the quarter, we recognised total realised proceeds of £474 million, of which £471 million was from the full divestment of Havea.

In December we agreed the sale of Christ, our last investment in EuroFund V, for gross proceeds to 3i of up to €53 million, at a c.43% uplift on 31 March 2022 opening value.

### Infrastructure

3iN's underlying portfolio continues to perform very well, showing strong growth momentum and generating a good level of portfolio income. Its share price increased by 10% in the quarter to 31 December 2022 to 334 pence (30 September 2022: 304 pence), valuing 3i's 30% stake at £899 million (30 September 2022: £817 million). We also recognised £15 million of dividend income from 3iN in the quarter.

Smarte Carte continues to perform well, driven by strong footfall. Our North American Infrastructure platform was active in the quarter, with Regional Rail completing two bolt-on acquisitions, comprising three short-line rail assets in the mid-west region of the United States and a portfolio of rail assets located across central Canada. 3i invested a further £7 million to support these transactions. EC Waste completed the self-funded bolt-on acquisition of A&A Waste Management, a business that provides non-hazardous solid waste collections in Puerto Rico.

### Scandlines

Scandlines produced another solid result in the quarter following a good peak summer season. Whilst 2022 was a strong year for freight volumes, there is an expectation of tougher macroeconomic conditions in 2023. Good operational performance and liquidity management continues and the business is well equipped to mitigate potential headwinds. A dividend of £12 million was paid to 3i in the quarter.

## Top 10 investments by value<sup>1</sup> at 31 December 2022

	Valuation basis	Valuation currency	Valuation Sep-22 £m	Valuation Dec-22 £m	Activity in the quarter
<b>Action</b>	Earnings	EUR	8,612	10,276	£159 million dividend received
<b>3iN</b>	Quoted	GBP	817	899	£15 million dividend recognised
<b>Cirtec Medical</b>	Earnings	USD	613	569	Agreed terms to acquire the bolt-on acquisition of Q Holding's Precision Components business
<b>Scandlines</b>	DCF	EUR	554	557	£12 million dividend received
<b>Tato</b>	Earnings	GBP	437	428	£7 million dividend received
<b>SaniSure</b>	Earnings	USD	422	404	Completed the bolt-on acquisition of Q Holding's Twinsburg site
<b>nexeye</b>	Earnings	EUR	401	396	
<b>Royal Sanders</b>	Earnings	EUR	322	339	
<b>AES Engineering</b>	Earnings	GBP	298	314	
<b>Evernex</b>	Earnings	EUR	314	303	

1. The valuations are translated at the spot rate of the balance sheet date and exclude the impact of the foreign exchange hedging. Sterling weakened by 1% against the euro and strengthened by 8% against the US Dollar in the quarter to 31 December 2022.

The 10 investments in the table above comprised 83% (30 September 2022: 78%) of the total investment portfolio value of £17,528 million (30 September 2022: £16,417 million).

## Total return and NAV position

In the quarter, we implemented a medium-term foreign exchange hedging programme to partially reduce the sensitivity of the Group's future returns to euro and US dollar exchange movements. Over that period, sterling weakened by 1% against the euro and strengthened by 8% against the US dollar resulting in a foreign exchange gain of £102 million and a foreign exchange loss of £171 million respectively, before the impact of hedging. Including the impact of hedging, we recognised a net £28 million gain in the quarter on foreign exchange translation, and a net gain of £739 million in the nine months to the end of December 2022.

Based on the net assets at 31 December 2022 and including the impact of hedging, a 1% movement in the euro and US dollar would result in a net total return movement of £96 million and £13 million respectively. The diluted NAV per share increased to 1,649 pence (30 September 2022: 1,477 pence) or 1,625.75 pence after deducting the 23.25 pence per share first FY2023 dividend, which was paid on 11 January 2023.

## Balance sheet

At 31 December 2022, cash was £495 million (30 September 2022: £55 million), and, including our undrawn £900 million revolving credit facility, liquidity was £1,395 million (30 September 2022: £801 million). Net debt was £480 million and gearing 3% (30 September 2022: £1,074 million and 8%). The first FY2023 dividend of £223 million (or 23.25 pence per share) was paid on 11 January 2023.

The Group will repay its £200 million fixed rate bond when it falls due in March 2023.

**- ENDS -**

## Notes

1. Balance sheet values are stated net of foreign exchange translation. Where applicable, the GBP equivalents at 31 December 2022 in this update have been calculated at a currency exchange rate of €1.1276: £1 and \$1.2025: £1 respectively.
2. At 31 December 2022 3i had 964 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 1 January 2023 of €1,312 million. The LTM run-rate earnings used include our normal adjustment to reflect stores opened in the year.
4. As at 31 December 2022, the notional amount of the forward foreign exchange contracts held by the Group was €2.6 billion (including €600 million associated with Scandlines) and \$1.2 billion.

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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](http://www.3i.com).

All statements in this performance update relate to the three-month period ended 31 December 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.