



3i Group plc – Q3 performance update

29 January 2015

3i Group plc (“3i” or “the Group”), a leading international manager of third-party and proprietary capital across mid-market private equity, infrastructure and debt management, today issues its performance update for the three-month period from 1 October 2014 to 31 December 2014 (the “period” or the “quarter”). Financial information is unaudited and is presented on 3i’s 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 2014 Annual Report and Accounts. There have been no material changes to the financial position of 3i from the end of this period to the date of this announcement.

Simon Borrows, 3i's Chief Executive said:

“The final quarter of 2014 was busy for 3i and all three of the Group’s businesses continued to perform well. We made two significant new Private Equity investments, completed a number of exits and refinancings and continued to support good growth in the portfolio. Our Debt Management team closed a new CLO in each of Europe and the US and also secured a first close of the European Middle Market Loan Fund, continuing its strong fund raising track record this year. The Infrastructure team advised on two new PPP investments in the period, the sale of Eversholt Rail Group and is pursuing a number of new Core investment opportunities.

The wider European economic and political environment continues to be a concern, but our portfolio remains well positioned and continues to perform strongly overall. Pricing in Europe in particular remains very full and, although keen to invest, we remain cautious and will continue to be an active seller of investments while this environment persists.”

Highlights for the quarter ended 31 December 2014:

- Received £245 million of Private Equity realisation proceeds, bringing total realisations across the Group for the nine months to 31 December 2014 to £569 million;
- Invested £275 million in Private Equity on behalf of 3i and funds, £200 million of which was proprietary capital, including two significant new investments;
- Strong value creation from the portfolio, supported by earnings growth of 15% in the Private Equity portfolio and £39 million of value growth from an increase in 3i Infrastructure plc’s share price;
- Significant growth in Debt Management AUM with the closing of Jamestown V US CLO, Harvest X European CLO and the first close of the European Middle Market Loan Fund adding £803 million of new AUM;
- Diluted NAV per share increased by 5% to 375 pence as at 31 December 2014, before payment of interim FY2015 dividend of 6.0 pence per share on 7 January 2015.

Realisations and investment activity

3 months to 31 December 2014	Private Equity	Infrastructure	Debt Management	Total
Cash proceeds	245	-	-	245
Cash investment	(200)	-	22	(178)
Net cash divestment / (investment)	45	-	22	67
Non-cash (investment)	(50)	-	-	(50)
Net divestment / (investment)	(5)	-	22	17

9 months to 31 December 2014	Private Equity	Infrastructure	Debt Management	Total
Cash proceeds	561	8	-	569
Cash investment	(304)	-	(73)	(377)
Net cash divestment / (investment)	257	8	(73)	192
Non-cash (investment)	(105)	-	-	(105)
Net divestment / (investment)	152	8	(73)	87

Note: 3i proprietary capital only.

Private Equity

Mid-market private equity assets remain fully priced, particularly in Europe, and debt has been readily available for good businesses. This has continued to provide us with the opportunity for realisations and refinancings, while we remain cautious in our assessment of new investment opportunities.

Market conditions continue to create opportunities for realisation and refinancings, which together generated cash proceeds in the quarter of £245 million. Notable realisations in the period included the completion of our exit from Hilite, the German headquartered automotive supplier, for a money multiple of 2.1x, as well as further partial exits of three of our US listed investments, Quintiles, Phibro and Gain Capital. Total proceeds in the nine months to 31 December 2014 were £561 million, at an uplift of 17% to the 31 March 2014 valuation and at an average money multiple of 1.9x.

We invested a total of £275 million in the period, £200 million of which was 3i's proprietary capital, including two significant new investments: £102 million into Q Holdings, a US headquartered leading global manufacturer of highly engineered, precision moulded rubber and silicone components, substantially funded by 3i's proprietary capital; and £173 million into Christ, a German headquartered jewellery retailer, funded from Eurofund V with £99 million provided by 3i's proprietary capital.

We announced the successful refinancing of Action in December and received proceeds of £102 million from that transaction in January. We continue to have an active pipeline of sales, refinancings and IPOs from the portfolio.

Infrastructure

The European portfolio continued to perform well and generated a good level of portfolio income to support both dividends and advisory fees payable to 3i by 3i Infrastructure plc ("3iN"). In the period, 3i accrued dividend income of £10 million from 3iN and recognised value growth of £39 million as the ex-dividend share price increased significantly from 140 pence at 30 September 2014 to 153 pence at 31 December 2014. Since the period end, on 20 January 2015, 3iN announced the sale of its interest in Eversholt Rail Group.

The Infrastructure investment team continues to see a healthy pipeline of investment opportunities, although competition for Core infrastructure investments remains high. During the period, 3iN completed two new Primary Public Private Partnership (“PPP”) investments: a commitment to invest €22 million in a PPP project to design, build and maintain the existing and new infrastructure of the A9 motorway in the Netherlands; and a commitment to invest €12 million in a PPP project involving the design, building, refurbishment and maintenance of various buildings for La Santé Prison in France.

Debt Management

Fee income from Debt Management remained strong in the quarter, with the majority of the funds continuing to pay both senior and subordinated fees and new fund launches adding to total fee income.

The Debt Management team closed Harvest X, a new European CLO in November 2014, and Jamestown V, a new US CLO, in December 2014. 3i invested £29 million of proprietary capital in these two CLOs. We also announced the first close of the European Middle Market Loan Fund in November 2014 at €250 million, diversifying the product offering. In aggregate, in the quarter, the team added £803 million of new AUM.

We continue to use warehouse facilities that allow the build up of portfolios ahead of transfer to new CLO structures. We have warehouses established in both Europe and the US but received a net £51 million return of capital in the period from these warehouses following the close of the Harvest X and Jamestown V CLOs.

Assets under management

New CLO issuance in Debt Management and new investments in Private Equity more than offset the effect of divestment activity in Private Equity and in the older CLOs. AUM of £13.3 billion at 31 December 2014 compared to £12.9 billion as at 30 September 2014; 74% of the AUM at 31 December related to third-party capital (September 2014: 74%). Debt Management, Private Equity and Infrastructure accounted for 51%, 31% and 18% respectively of total AUM.

Portfolio

The unaudited valuations of our top 10 investments as at 31 December 2014 are shown in the table below. These comprise 57% of the total Proprietary Capital portfolio by value.

Top 10 investments by value at 31 December 2014

Investment	Valuation basis	Valuation Sep-14 £m	Valuation Dec-14 £m	Activity in the quarter
Action	Earnings	573	595	Refinancing announced, completion in January 2015
3i Infrastructure plc	Quoted	421	459	Ex-div 27 November 2014, closing share price 153p on 31 December 2014
Scandlines	DCF	218	221	
Amor / Christ	Earnings	51	149	Additional investment into Christ
Mayborn	Earnings	122	128	
Element	Earnings	112	124	
Quintiles	Quoted	137	120	Proceeds of £29m received during the period, closing share price \$58.87
ACR	Other	111	116	
Basic Fit	Earnings	100	108	
Eltel	Earnings	94	102	

The Private Equity portfolio continues to perform well and value weighted earnings growth over the last twelve months was 15% (September 2014: 17%).

The value weighted average EBITDA multiple used to value the Private Equity portfolio decreased by 2% to 10.8x before marketability discount (September 2014: 11.0x) and 10.1x after liquidity discount (September 2014: 10.2x).

Action continues to perform very well, with 110 new stores opened in the year to 31 December 2014. The valuation at 31 December 2014 was based on run-rate earnings as at 30 September 2014. The multiple used to value Action was unchanged at 12.5x run-rate EBITDA, post liquidity discount.

Quoted assets increased in value during the quarter, including growth of £39 million from 3i Infrastructure plc and £7 million, £4 million and £4 million from our remaining holdings in Phibro, Quintiles and Gain respectively.

Returns

During the quarter, foreign exchange translation gains totalled £16 million, driven by the strengthening of the US dollar against sterling, partially offsetting exchange losses experienced in the first half of the year. For the nine months to 31 December 2014, foreign exchange losses totalled £57 million. Based on the balance sheet at 31 December 2014, a 1% movement in the euro and US dollar would lead to a movement of approximately £17 million and £8 million in total return respectively.

The IAS 19 revaluation of the UK defined benefit pension scheme at 31 December 2014 resulted in a total return gain of £22 million in the quarter.

The strong value growth from the Private Equity portfolio in particular led to an unaudited total return of £162 million, or 5% on opening shareholders' funds, for the period (three months to 30 September 2014: £99 million, 3%). Diluted NAV per share as at 31 December 2014 of 375 pence increased by 5% (September 2014: 358 pence), before taking into account the payment of the interim dividend of 6.0 pence per share in January 2015. After accounting for the interim dividend, the diluted NAV per share was 369 pence on a pro-forma basis as at 31 December 2014.

Balance sheet

The Group's balance sheet remains strong with low gearing and a high level of liquidity.

Gross debt as at 31 December 2014 was £832 million (September 2014: £831 million). Net debt as at 31 December 2014 was £76 million, representing gearing of 2% (September 2014: £161 million, 5%). The reduction is driven by the net realisation proceeds received during the period.

Liquidity as at 31 December 2014 was £1,106 million (September 2014: £1,020 million), comprising £756 million cash and cash deposits and £350 million undrawn committed facilities.

Shareholder distributions

As announced on 13 November 2014 we expect to pay a minimum total dividend of 15 pence per share in respect of the financial year ended 31 March 2015. An interim dividend of 6.0 pence per share was paid on 7 January 2015.

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Notes to editors:

About 3i Group

3i is a leading international investment manager focused on mid-market Private Equity, Infrastructure and Debt Management across Europe, North America and Asia. For further information, please visit: www.3i.com.