

Business Markets

Portfolio with some bumper promise

3i GROUP

Net asset value
760p

Quarterly cash proceeds £868m

Being a listed private equity firm makes 3i Group a rare beast (Miles Costello writes). In theory, it should mean that shareholders have access to some of the juicy returns available to investors in unlisted companies, along with their expertise in turnarounds and financial markets wizardry, often driven by high gearing.

3i is Britain's oldest private equity group, tracing its roots back to 1945 and a £15 million fund, the Industrial and Commercial Financial Corporation, set up by the government to help small and mid-sized companies to emerge from the ravages of the Second World War and invest for the long term.

Having changed its name to Investors in Industry, it shortened it to 3i in the late 1980s before listing on the stock market in 1994 with a valuation of £1.5 billion. Now a member of the FTSE 100, it specialises in investing in mid-market businesses, predominantly in Europe and America. Today it is worth just under £9 billion.

It is much more than that, though. It buys and takes stakes in listed as well as private companies, often reinvesting at the time when a traditional private equity investor would exit via a trade sale or listing. It also has a big interest in

Red-letter days

Share price



ADVICE Hold
WHY Great growth potential and sitting on some highly valuable holdings

infrastructure, through its holding in the separately listed 3i Infrastructure, with its £1.5 billion portfolio of holdings.

As an investment proposition, this makes 3i intriguing. Private equity investors like to say that the way they operate through gearing, turnarounds and then sales, mainly after three to five years, means that they are insulated from the vagaries

Biggest investment by valuation

Action	Retailer	€2.2bn
3i Infrastructure	Investor	€604m
Scandlines	Ferry operator	€539m
Basic-Fit	Fitness clubs	€334m
Weener Plastics	Packaging	€248m
Audley Travel	Tailor-made travel specialist	€238m
Q Holding	Precision engineer	\$235m
Cirtec Medical	optical retailer	\$219m
Hans Anders	Designer and maker of medical devices	\$191m
Smarte Carte	Makers of luggage trolleys and lockers	\$179m

Total portfolio **£12bn** Debts **£575m**

Source: Company reports

of the public markets. This is only partly true: they are reliant on the sentiment of the stock market if they try to exit their investment through a listing and on the bond markets to raise debt finance. Listed markets also play a role in valuing unlisted peers. 3i straddles both. Unlike traditional private equity, it uses its own cash and resources to invest and hasn't gone to outside investors to raise funds in 12 years.

It owns some intriguing businesses, not least Action, a Dutch non-food discount retailer that operates about 1,100 stores in seven countries and makes annual revenues of more than €3 billion. 3i values it conservatively at just over €2.2 billion, but the

outside world thinks it's worth much more. That helps to explain why 3i's shares trade at a substantial premium to the net value of its assets; investors suspect that there are some bumper businesses in the portfolio that are worth a lot more than it is accounting for.

Life has not been plain sailing for 3i. Its shares were laid low in the post-dotcom sell-off in 2000 and again during the financial crisis in 2007 and 2008. It also endured a run-in with investors in 2012 over its high borrowings and low investment returns. Michael Queen, the boss at that time, was replaced by Simon Borrows, the former Greenhill corporate financier, who has been running the business since. He has got rid of a large chunk of 3i's debts, sold unwanted assets (returning the proceeds to shareholders) and sharpened the investment focus.

3i set off at a healthy jog in its first quarter, generating a total return of 5.1 per cent over the three months to the end of June and improving its net asset value per share to 760p, from 724p at the end of March. It generated total cash proceeds from sales during the period of £868 million.

3i is slick and well managed. Its shares, up 25½p to 946½p yesterday, are volatile but have risen more than fourfold under Mr Borrows' leadership. They are not expensive, but the really sizeable opportunity to gain looks to have passed. Nevertheless, this is a very respectable share to hold.