19 March 2020

Action Capital Markets Seminar

Introduction by Simon Borrows

Good morning and welcome to 3i's Capital Markets Seminar in respect of Action's 2019 financial results. My name is Simon Borrows, I am the CEO of 3i and also on the line we have Julia Wilson, CFO of 3i, as well as Sander van der Laan, CEO of Action, and Joost Sliepenbeek, CFO of Action. We plan to go through the Action presentation which has been put on our website this morning.

Given the recent developments of the COVID-19 situation and the significant volatility of the financial markets we also wish to update on year to date 2020 trading for Action, how the Group is managing through the various emergency measures put in place by European Governments and give you an indication of the strength of Action's cash position as well as the flexibility of its cost base.

We will also plan to give you a general update on 3i. At the end there will be time for some Q&A for those of you who have questions.

So let me turn to the presentation and start at **Slide 2**.

We completed the liquidity event for Action's Eurofund V investors in January this year and achieved this by bringing in a new syndicate of blue chip, long-term co-investors who had received diligence materials based on Action's results to September last year. The same materials and numbers were used for the banking syndicate to raise the additional term loan. Since September the profit growth and cash flow of Action have been very strong and the company has effectively de-geared to 4.2x EBITDA from the 5x at which the event financing package was signed in November last year. The Action facility is an all senior facility with no covenants and bullet repayments in 2025 and 2027.

As you know, Action operates exclusively in continental Europe and within that has no exposure to Italy or Spain. In the countries where it does operate, governments have taken differing approaches in the application of their lockdown policies to the non-food retail sector. I understand some people are speculating that Action may have to close all of its stores for a month or more. That is certainly not the case today, but given the uncertainty we have of course looked at a number of scenarios and started to reduce the Action expense base and cash expenditures. We can see Q2 will be a very tough quarter for everyone in Europe and Action is no exception. It's not one of Action's big quarters and normally represents about 23% of annual sales and slightly less in profitability with Action's big quarters being Q3 and Q4. Q1 was well ahead of budget with like for likes over 7% to the end of last week but will probably finish close to budget as a result of the disruption since the weekend.

Putting all that together with the current blizzard of emergency measures across Europe we have looked at a hunker-down scenario to cover a highly disrupted 2020.

Let me take you through some important numbers. Action's 2019 operating costs totalled €1.36 billion, that's about €113 million per month. About €74 million are people costs, €20 million per month is rent and the other €19million is marketing, transport and general expenses.

At the moment, about half the countries Action operates in want our stores to be open so people can access the significant volume of non-discretionary products that we sell, and in the remainder, such as Austria or Belgium, the governments have put in place emergency measures to reimburse Action for substantially all of the wages effected by the closures.

So in a very severe, complete lockdown scenario where all stores are closed for an extended period of time, we will have to take radical action on the cost base. We have flexibility and options to reduce our store and DC wage bill, and in such circumstances we would also have to reduce the headquarter costs through a series of measures. We also believe we can significantly reduce rents either through local emergency provisions or through negotiations and we will have very little cost in terms of transport, marketing or general expenses in this scenario.

In this radical "no stores open" scenario we therefore believe we can reduce our monthly expenses to some €26 million for as long as these emergency protocols are in place. You then need to set this monthly expense together with €8 million of monthly interest expense against Action's current cash balance of €300 million which is supplemented by an RCF of just over €100 million. You don't need a calculator to see that Action can hunker down for far longer than even the most pessimistic scenarios for COVID-19. But we are not currently in this situation. As things stand today we have 700 Action stores open and operating and we also have permission to open in France as long as we sell only our non-discretionary categories which account for about 50% of our sales. We are taking our time to open in France because our stores are very popular but we need to protect staff carefully in the current situation. If any of you were watching the BBC News on Tuesday you will have seen a Carrefour in France being completely swamped by customers and hopefully our stores can help take some of that pressure off the supermarkets – without suffering as much over-crowding.

Now before I hand over to Sander let me also briefly talk about the 3i Group. We have run a very conservative balance sheet structure over the last 8 years and today we have considerable net cash on our balance sheet, as well as a shiny new £400 million RCF courtesy of Julia and her team. Our annual cash costs are about as much as Action's normal monthly costs. So we have plenty of firepower to look after the Group and its portfolio if it is necessary.

In general the portfolio is in OK shape. We have not been big investors in the last year or two, as you know, which is helpful given today's markets. Yes in our PE portfolio we do have some travel, transportation and retail exposure, but the portfolio also has a good share of B2B companies as well as health and personal care manufacturing businesses that are unlikely to see the problems our retail investments see.

I would like to remind you that our approach has always been to mark our portfolio on cross cycle multiples, and as a result we have typically used multiples lower than market comparables. We have seen a significant market decline but we have been wary of valuation levels for some time. Also the currency movements are helping to mitigate any declines in value in sterling terms. It's too early to call the aggregate impact of all of this but we are long term investors with considerable balance sheet strength behind us.

I am confident we are in a good position to manage the volatility ahead and we continue to have faith in both the 3i team and our portfolio companies and their management teams to take the right actions to protect value for 3i shareholders.

OK, thank you for your patience and I will now hand over to Sander to take you through the Action situation.

SLIDE 70

Thank you Joost. So if I can finish with Slide 70 which I used at 3i's Interims in November. 2019 was the first year of this 5 year plan and finished ahead of budget on all key measures. As has been said, the first 11 weeks of this year saw the Group's performance accelerate further although we now appreciate that Q2 is likely to have a material negative impact on profitability this year. Fortunately it is not one of Action's biggest quarters.

It is not clear when Europe will be able to move on from Covid-19 which is the most serious global virus outbreak for 100 years. It is a huge public health challenge but there are now clear models for managing and reducing the virus as well as limiting loss of life.

Q2 will be a serious challenge for most retailers in Europe and brutal for some but we remain confident that Action's popular, value format and strong supply chain will spring back very quickly once the severe lock-down restrictions are removed.

Thank you for listening and we are now going to open the lines for questions.