



Graphite Enterprise Trust PLC  
Investing in long term growth

Half year results presentation  
26 September 2014

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## Graphite Enterprise

### Half year results presentation – September 2014

1. Introduction
2. Performance
3. Balance sheet
4. Investment activity
5. Portfolio
6. Outlook

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Managing Partner



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## 1. Introduction

**Graphite Enterprise has a distinct offering in the listed private equity sector**

### **FOCUSED STRATEGY**

Backing high quality managers of European buy-outs – mature, profitable companies

### **DISTINCTIVE INVESTMENT STYLE**

Focus on analysis of underlying companies and building long-term relationships

### **HIGHLY EXPERIENCED TEAM**

The senior team has over 20 years of private equity experience

### **CONSISTENTLY STRONG PERFORMANCE RECORD**

NAV per share has outperformed the peer group average over 3, 5 and 10 years

### **STRONG BALANCE SHEET**

Well placed to take advantage of current opportunities

### **FLEXIBLE APPROACH**

Portfolio construction and balance sheet management adapted to market conditions

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## 1. Introduction

### Highlights of the six months ended 31 July 2014

- **Good underlying portfolio performance** – 13% annualised
- **Solid NAV performance** – 3%, despite adverse currency
- **Very strong cash realisations** – £82m, 19% of opening portfolio
- **Strong new investment** – £53m in 6 months, £30m since
- **Record dividend paid** – 15.5p per share, £11m in total

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## 2. Performance

### The share price outperformed the FTSE All-Share Index

	<b>Jul-14</b>	<b>Jan-14</b>	<b>Total return 6 months</b>
Net asset value per share	<b>681.2p</b>	677.2p	+2.9%
Share price	<b>581.0p</b>	563.5p	+5.7%
FTSE All-Share Index	<b>3,586</b>	3,497	+4.5%

- The share price has increased by a further 2.1% since 31 July to 593p\*
  - The Index has decreased by 1.2% over the same period
- 98% of the portfolio was valued based on June reports

\* Close of business 25.09.14

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## 2. Performance

The portfolio made steady progress, increasing by 6.5% in local currencies

6 mths to Jul-14	% of opening portfolio	% of opening NAV	£m
<b>Underlying valuation gains</b>	<b>6.5 %</b>	<b>5.7 %</b>	<b>28.1</b>
Currency	(2.1)%	(1.9)%	(9.0)
Total portfolio	4.4 %	3.8 %	19.1
Expenses and other		(0.9)%	(4.9)
<b>Total return before dividend</b>		<b>2.9 %</b>	<b>14.2</b>
Dividend		(2.3)%	(11.3)
<b>Total NAV movement</b>		<b>0.6 %</b>	<b>2.9</b>

- Sterling : euro was 1.22 at Jan-14 and 1.26 at Jul-14 (1.14 at Jul-13)

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## 2. Performance

### Realisations continued to be the main driver of performance

6 mths to Jul-14	% of total gain	£m
Gains from realisations	61%	17.2
Unrealised gains	39%	10.9
Total portfolio	100%	28.1

- Gains from realisations represent full exits
- Unrealised gains include:
  - the effect of partial exits, including IPOs
  - movements in quoted stock prices (10% of the portfolio at 31-Jul)

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## 2. Performance

**Graphite Enterprise outperformed the fund of funds peer group over 3 and 5 years**

**Years to Jul-14<sup>1</sup>**

**Total return**

	<b>1</b>	<b>3</b>	<b>5</b>	<b>10</b>
<b>Graphite Enterprise NAV growth</b>	<b>2%</b>	<b>22%</b>	<b>79%</b>	<b>147%</b>
Fund of funds <sup>2</sup> average NAV growth	7%	17%	50%	149%

- This performance is despite taking lower balance sheet risk than the peer group
- The Company has also outperformed the average of the direct PE funds<sup>3</sup> over 3, 5 and 10 yrs

Notes 1. 12, 36, 61 and 121 month periods to 31 Jul 2014

2. Peer group (funds-of-funds): Aberdeen, F&C PE, HarbourVest, JPM PE, Pantheon, Princess, Private Equity Holding, SLEPET

3. Peer group (directs): 3i, Candover, Dunedin, Electra, HgCapital, NB Private Equity, SVG Capital

(NAV performance: 3 yrs 17%, 5 yrs 63%, 10 yrs 113%)

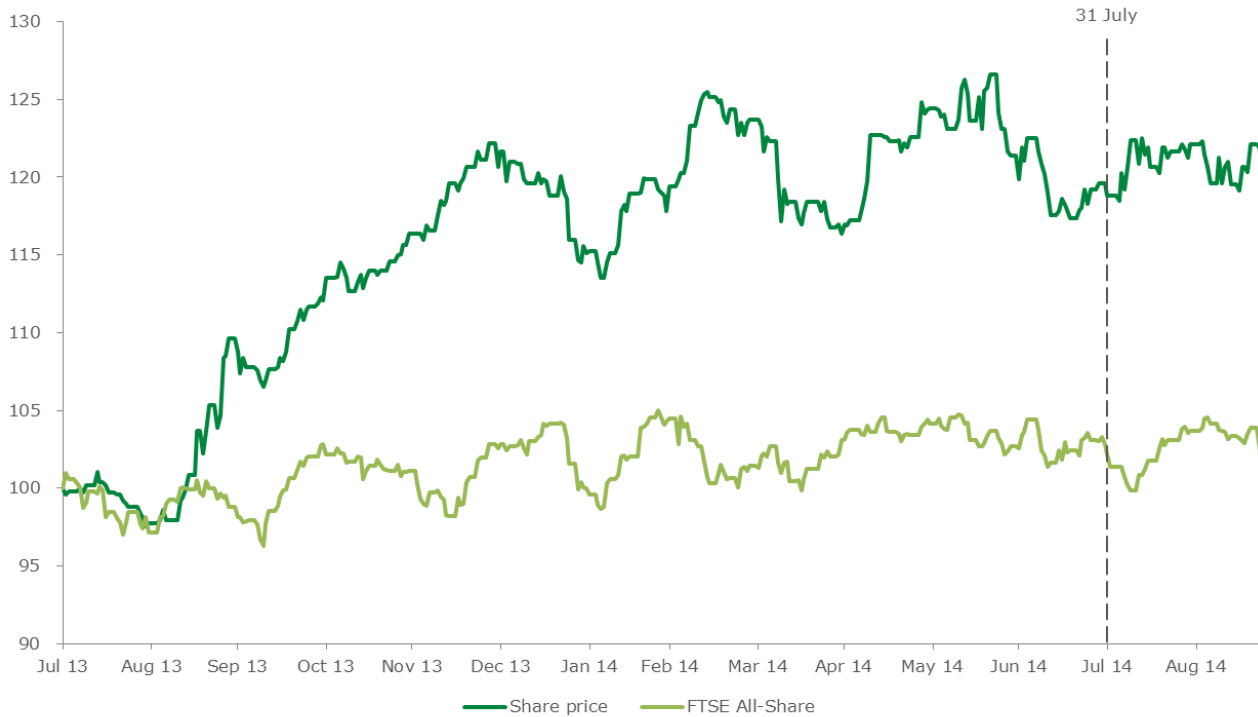
4. Data: total return, local currencies (Morningstar)



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## 2. Performance

The share price has outperformed the FTSE All-Share by 20.3% since 31-Jul-13



- The discount is currently 13.0% to the 31-Jul NAV

### 3. Balance sheet

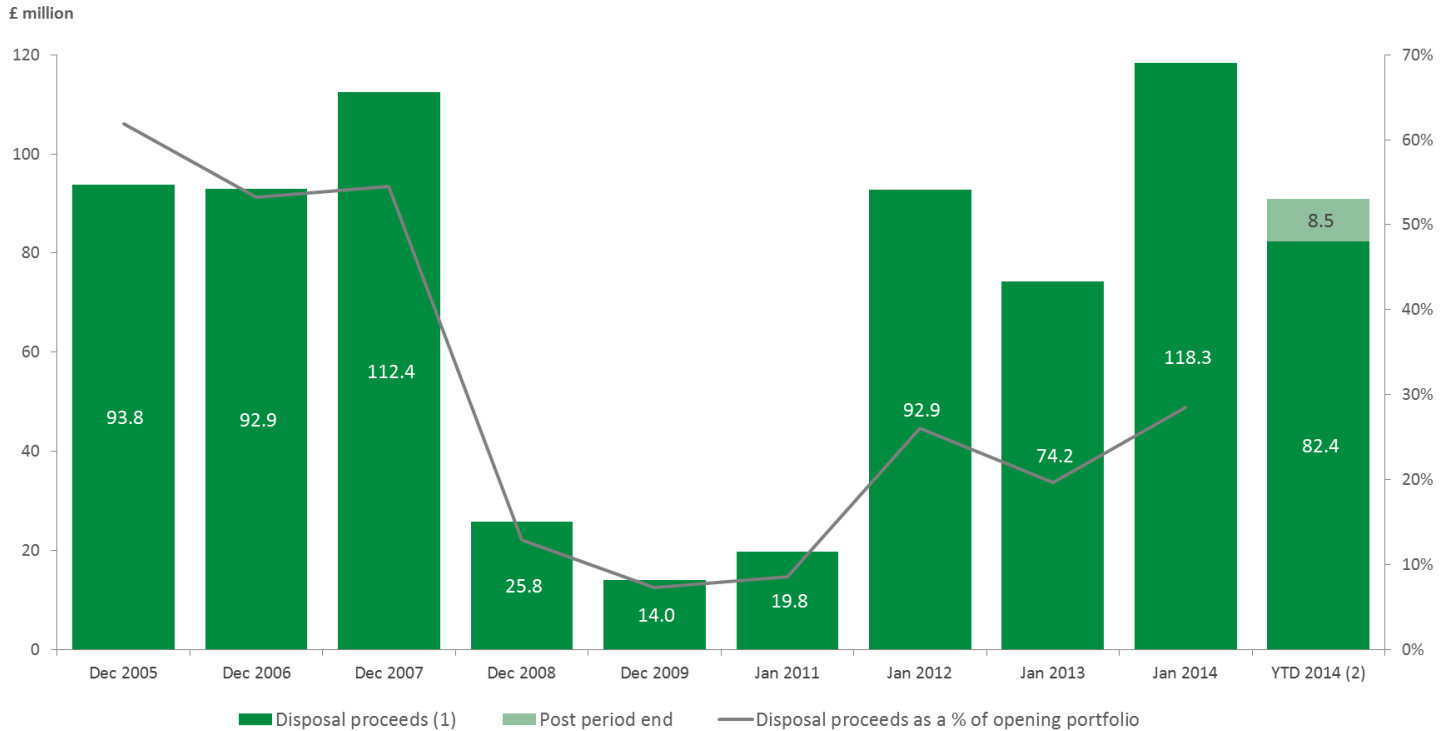
Despite strong cash inflows, we have broadly maintained the level of investment

	Jan-14 £m	Jul-14 £m	Pro forma <sup>5</sup> £m	Jan-14 %	Jul-14 %	Pro forma <sup>5</sup> %
Investments	433	402	<b>424</b>	86%	80%	<b>84%</b>
Net current assets	69	102	<b>80</b>	14%	20%	<b>16%</b>
Total assets less current liabilities	502	504	<b>504</b>	100%	100%	<b>100%</b>
Outstanding commitments	277	241	<b>236</b>			
Undrawn bank facility <sup>1</sup>	98	96	<b>96</b>			
Total liquidity <sup>2</sup>	166	197	<b>175</b>			
Overcommitment <sup>3</sup>	111	44	<b>61</b>			
Overcommitment %	23%	9%	<b>12%</b>			

- A net £21.5m has been invested since 31-Jul<sup>4</sup>
- The annualised rate of drawdown is expected to be between £55-65m
- There were no new commitments in the period

## 4. Investment activity

### The rate of realisation remained very high



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## 4. Investment activity

### Realisations continue to generate significant uplifts over prior valuations<sup>1</sup>

Year ended	Jan-12	Jan-13	Jan-14	Jul-14
Valuation uplift <sup>1</sup>	51%	49%	36%	<b>40%</b>
Number of full realisations	18	14	33	<b>15</b>
Multiple of original cost	2.5x	2.7x	2.1x	<b>1.9x</b>

- On average, exits were of larger holdings than in the previous year
  - Including three of the top ten at 31-Jan (Education Personnel, CEVA, London Square)
- Approximately half the proceeds were from post-financial crisis investments

## 4. Investment activity

### Secondaries and co-investments significantly increased the rate of new investment



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## 4. Investment activity

### Example - Education Personnel (ICG buy-out / co-investment)

#### Background

- Leading provider of supply teachers and educational support staff in England and Wales
- Acquired by Graphite Capital Partners VII in 2010
- Sold to management and ICG in May 2014

#### Investment rationale

- Market leader in attractive sector
- Growth in pupil numbers driven by demographics and immigration
- Trend towards outsourcing by local authorities underpinned by regulation (criminal checks etc.)
- Education budgets broadly protected from austerity cuts
- Further opportunities for roll-out of branch network
- Highly capable, incentivised management team
- Strong financial performance under Graphite ownership: 60% revenue growth over 4 years
- Low due diligence risk given our prior involvement with the business

#### Reinvestment

- Graphite Enterprise received proceeds of £14.9m from the sale to ICG
- We reinvested £9.0m alongside ICG Europe V giving total exposure of £9.7m
- Net proceeds of £5.2m represented over one third of value realised
- Education Personnel has moved from 6th largest to 4th largest underlying company

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## 4. Investment activity

### Case study – London Square (Graphite Capital disposal)

#### Background

- Graphite identified a market opportunity in 2009
- Existing companies in the sector were not attractive targets
- Backed an industry-leading management team in a new venture
- Supported with £50m of equity and secured equivalent amount of bank debt

#### Performance

- Quickly established as a high-quality house builder
- Early developments were impacted by planning delays
- All subsequent developments generated high returns
- Six other sites underway at time of sale

#### Exit




- Timing influenced by strength of London property market and future capital requirement
- Sold to funds managed by Ares Capital for an equity value of £110m
- Returned a multiple of twice cost, at a IRR of more than 20%

**Proceeds of £9.8m were received through Graphite VII**



## 5. Portfolio

**Graphite Capital directly manages 23% of the portfolio\***

Graphite portfolio	Third party portfolio	
 <p>Graphite Capital</p>		
23%	Funds 66% (of which secondaries: 12%) Direct co-invests 11%	

● 46% of the portfolio is in investments over which we had full discretion:

- Graphite portfolio 23%
- Secondaries 12%
- Co-investments 11%

\* Pro forma for secondary acquisition of interest in Graphite Capital Partners VI made after 31-Jul

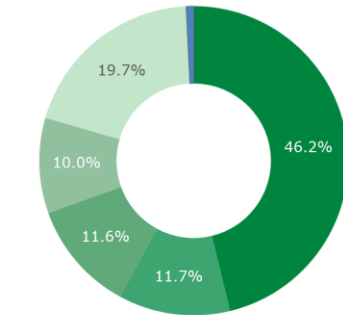


## 5. Portfolio

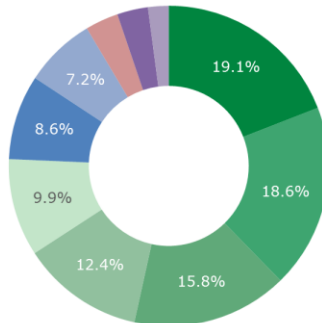
### The portfolio is balanced and well diversified

- The portfolio strikes a good balance between diversification and concentration
  - Exposure to 371 underlying companies
  - The top 30 underlying companies represent 44% of the portfolio value

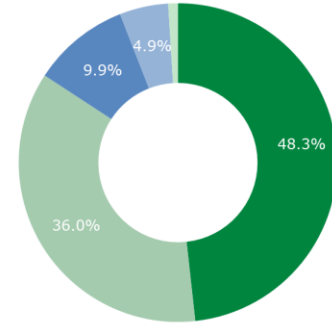
Geography



Sector



Deal type



Note Geography denotes where a company is headquartered

## 5. Portfolio

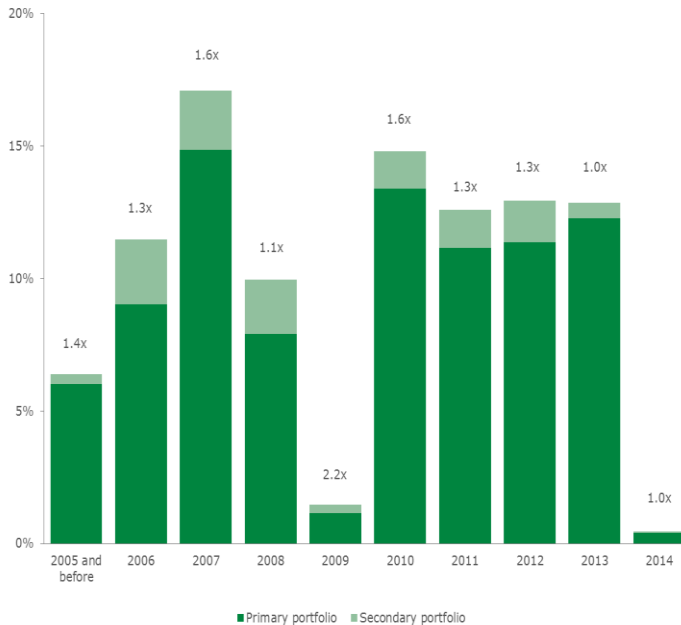
The portfolio was valued at 1.4x cost and its average maturity was 4.3 years

Jan-14

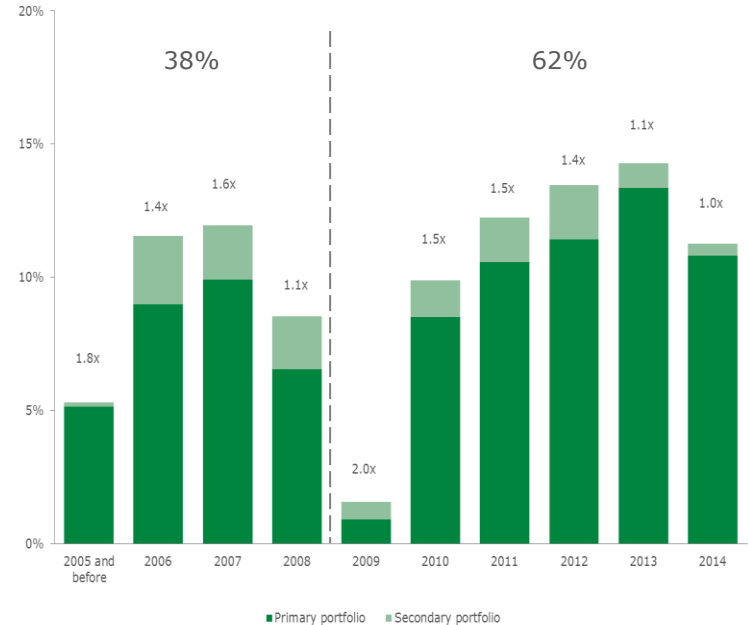


Jul-14

Portfolio by underlying vintage year, with multiple of original cost



Portfolio by underlying vintage year, with multiple of original cost

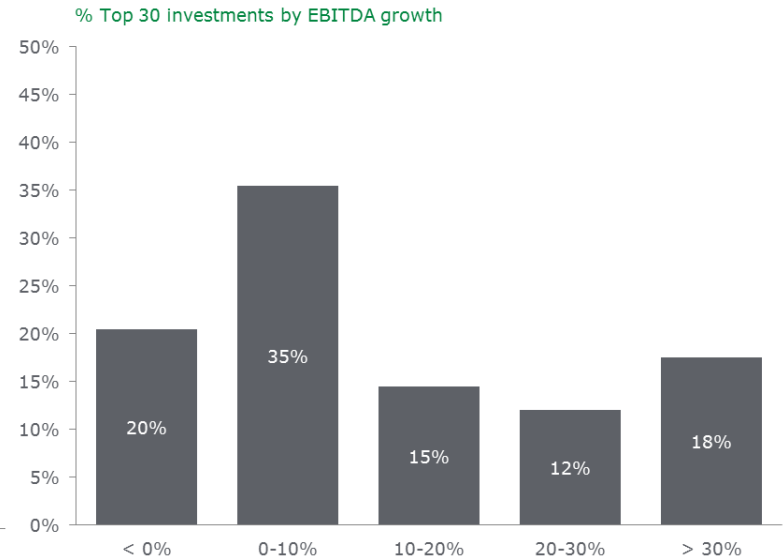
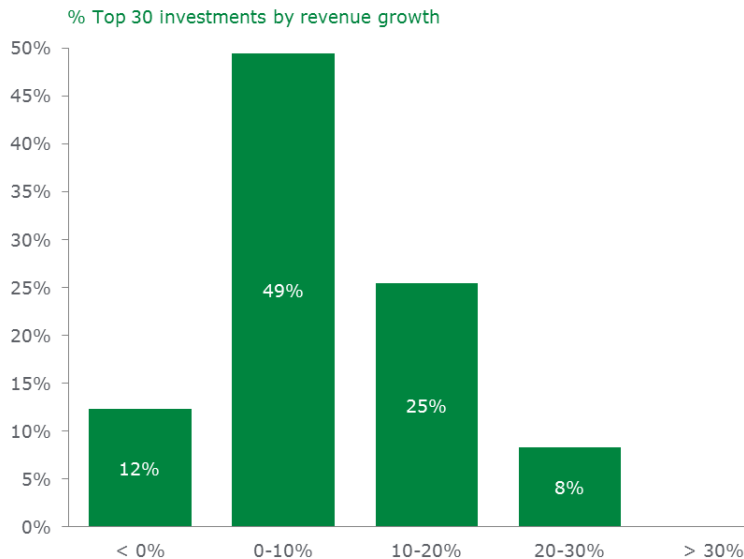


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## 5. Portfolio

### The Top 30 companies continue to perform strongly

- Revenues and EBITDA grew by an average of 7.4% and 12.5% respectively (LTM to Jun-14)

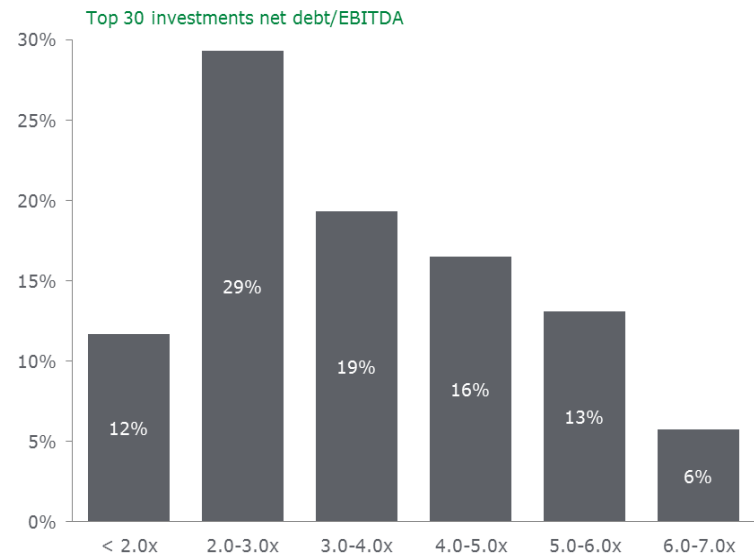
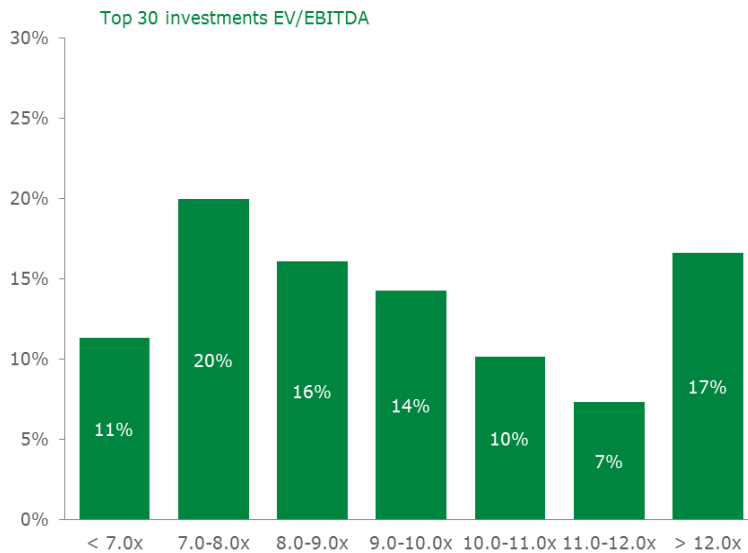


**Note:** Revenue growth excludes two Top 30 companies (Intermediate Capital Group and Guardian Financial Services).

## 5. Portfolio

The Top 30 were valued on average at 9.3x EBITDA and had 3.6x EBITDA net debt











- Compares with 9.5x EBITDA current valuation of FTSE 250



**Note:** Excludes two Top 30 companies (Intermediate Capital Group and Guardian Financial Services) for which EBITDA is not a relevant metric.

## 5. Portfolio

Five of the top ten holdings are managed directly by Graphite Capital

	Company	Country	Manager	% of portfolio
1	 * Distributer and retailer of tyres	UK	Graphite	4.5%
2	 Provider of home care services	UK	Graphite	3.5%
3	 Provider of repair and maintenance services	UK	Graphite	2.7%
4	 Provider of temporary education staff	UK	ICG	2.4%
5	 Supplier and operator of modular buildings	USA	TDR	2.2%
6	 Provider of foster care services	UK	Graphite	2.1%
7	 ** Operator of private hospitals	Spain	Doughty Hanson	1.6%
8	 Manufacturer of automotive refinishing products	UK	Graphite	1.6%
9	 Operator of premium health clubs	UK	TDR	1.6%
10	 Provider of outsourcing services	Netherlands	Doughty Hanson	1.5%
				<u>23.7%</u>

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## 6. Outlook

### The European buy-out market

#### New investments

- Valuations are significantly higher than 2013, at 9-10x EBITDA vs 8-9x<sup>1</sup>
  - Prices paid are as high as in 2007
  - But the timing relative to the economic recovery should be more favourable
- However debt levels are only slightly higher than 2013, at 4.5-5.5x vs 4.0-5.0x
  - Remains below the 6.0x average debt in 2007
  - A few of the best credits are raising debt at 6-7x (or higher in the US)

#### Fundraising

- Fundraising volumes are materially lower this year after a strong 2013
  - The market remains bifurcated
  - We continue to view this as an opportunity

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## 6. Outlook

### Graphite Enterprise is well positioned to grow further

- The environment for realisations remains favourable and managers will be seeking exits
  - More recent vintages are maturing and have already produced strong exits
  - Older vintages continue to perform
- Market for new investment is becoming more challenging as prices rise
  - But the flow of opportunities has increased
  - Experienced managers should be able to select investments which justify the valuation
- The portfolio continues to perform well
  - The top 30 companies grew EBITDA in the 12 months to Jun-14 by 12.5%
  - The performance of more recent vintages is encouraging
- The performance of the top 30 is stronger than the FTSE 250 and its valuation is lower\*:

	<b>Top 30</b>	<b>FTSE 250</b>
EBITDA growth 12m to 30-Jun-14	12.5%	8.4%
Implied EBITDA multiple at 25-Sep-14*	8.4x	9.5x

\* Applies share price discount to the valuation of the 30 largest underlying companies at 31-Jul.

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## Useful information

Structure: Company registered in England and Wales  
Investment trust tax status  
Registered company number: 01571089

Ticker: GPE.LN  
ISIN: GB0003292009  
SEDOL: 0329200

Listing: Premium London listing

Website: [www.graphite-enterprise.com](http://www.graphite-enterprise.com)

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