Hardman & Co Investor Forum November 2021

Join us for our next Investor Forum on Thursday 18 November at 3:00pm.

Hardman has been holding investor forums for over seven years, giving all types of serious investors the opportunity to meet company managements, hear their stories and pose questions.

The connecting theme of COVID-19 adversity has brought our presenting companies together. Fulham Shore has successfully navigated its way through the pressures of the restaurant industry, while in contrast, legal service firms, such as DWF, seem to have experienced more benign conditions. In addition, ICG Enterprise Trust will help us understand private equity investing – an asset class which has seen considerable growth in money managed.

Finally, our renewables analyst, Nigel Hawkins, will share his latest thoughts on the 21 quoted Renewable Energy Investment Funds, capitalised at c.£14.3bn.

In this pack you will find profiles of the company speakers and brief notes on each of the companies presenting. I would encourage you to read these before the forum to get the most out of the event.

During the forum we will conduct a number of polls; we will also be collecting feedback in other ways. These are excellent ways to influence management. You are also invited to submit questions to management during presentations, using the Q&A function in the webinar.

For professional investors, the forum has been authorised to count towards your Continuing Professional Development time. Click here to request certification after the event.

I hope you enjoy the event.

Keith Hiscock

CEO, Hardman & Co

CPD MEMBER
The CPD Certification Service

HARDMAN & CO.

Chair of the Forum

Keith Hiscock

CEO, Hardman & Co

Keith is personally responsible for the firm's relationships with its corporate clients and also for corporate finance. In addition, he is the author of several articles tackling the issues facing companies in today's climate. Keith has more than 35 years' stockbroking experience and has developed long-standing relationships with many major institutional investors, including Private Client Brokers and Wealth Managers. He started his career at James Capel, at the time the top-ranked research house in London. He was a founding member of Schroder Securities and of Agency Partners, a leading research boutique house, and was a member of the five-man securities board at Evolution. Keith was part of the group of investors that acquired Hardman & Co in late 2012. He holds an MA in Philosophy, Politics & Economics from the University of Oxford.

Q&A Host

Richard Angus

Head of Business Development, Hardman & Co

Richard has more than 30 years of City experience. His primary focus has been US equity capital markets, and he has been involved predominantly in the development of growth companies. He has experience on both the buy and sell sides. Having worked for M&G as a fund manager, Richard then worked for US investment banks Alex Brown & Sons and Furman Selz. Latterly, he was Managing Director and Head of Institutional Sales for Europe at FBR & Co. Besides being involved in many public flotations, Richard's experience includes pre-IPO capital raises. He joined Hardman & Co in September 2014. He holds a BA (Hons) in Economics from the University of Liverpool and is a Chartered Accountant.

Guest Speaker

Nigel Hawkins

Renewables & Infrastructure Specialist, Hardman & Co

Nigel specialises in the energy sector, with a particular focus on the expanding renewable generation market, both in the UK and overseas. He has been involved in analysing the utilities sector since the 1980s. He covered the privatisation of the water and electricity companies for Hoare Govett between 1989 and 1995. Subsequently, he researched the UK and EU telecoms sector for Williams de Broe. He has also written many feature articles for Utility Week magazine since the mid-1990s. Nigel joined Hardman & Co in February 2016. He holds a BA (Hons) in Law, Economics and Politics from the University of Buckingham and is a senior fellow of the Adam Smith Institute.

Company Speakers

Oliver Gardey

Head of Private Equity Fund Investments, ICG

Oliver joined the team in 2019. He has over 25 years' experience in the private equity industry. For the past decade, he has been a partner at Pomona Capital where he was a member of the global investment committee. Prior to this, he was partner and an investment committee member at Adams Street, Rothschild/ Five Arrows Capital and J.H. Whitney & Co. respectively. Oliver was previously the CEO of Inflight Service Corp., a global leading aircraft galley equipment manufacturer, and instrumental in the buyout, the operational turnaround and the successful exit of the business. Oliver graduated magna cum laude from Brown University and received his MBA from Harvard Business School.

Colm Walsh

Managing Director, ICG

Colm joined ICG in 2016 as part of the acquisition of Graphite Capital's private equity fund investment business and is a member of the investment team. He originally joined Graphite in 2010 and prior to this he was a finance executive at Terra Firma and a manager in the financial services audit group at Deloitte in London.

Chris Stefani

CFO, DWF Group

Chris joined the management team of DWF LLP in April 2016 and was appointed to the Board of DWF Group plc in September 2018. Chris has around 20 years of experience in the professional services sector. He was previously the finance director of Ernst & Young's EMEIA Advisory business (2014 to 2016), the Global Service Line reporting lead of Ernst & Young London (2013 to 2014), a director in the UK Core Business Services Finance team of Ernst & Young London (2012 to 2013) and the CFO of Ernst & Young Republic of Ireland (2010 to 2011). Chris has extensive experience in advising executive boards as well as a track record of business optimisation. Chris holds an LLB degree from the University of Strathclyde and was admitted to the Association of Chartered Certified Accountants in 2001.

David Page

Chairman, Fulham Shore

David trained as both a cartographer and a teacher. He was the owner and managing director of the largest PizzaExpress franchisee organisation – the G&F Group – from 1973 to 1993. The flotation of PizzaExpress plc took place in 1993. David was chief executive of PizzaExpress and then chairman until it was acquired by a private equity house in 2002. Following the sale of PizzaExpress in 2003, David founded and was chairman of The Clapham House Group plc from 2003 to 2010, the owner of Gourmet Burger Kitchen and Bombay Bicycle Club. In his spare time he grows grapes, figs and peaches in the south of France.

Nick Wong

CFO, Fulham Shore

Nick qualified as a chartered accountant with Baker Tilly and specialised, pre and post qualification in corporate finance. From 2005 to 2013, Nick was the group finance director and company secretary of The Clapham House Group plc and worked on the acquisition of several restaurant businesses including Gourmet Burger Kitchen, the disposal of several restaurant businesses and the recommended takeover of The Clapham House Group plc in 2010. During this time GBK grew from 6 to over 60 restaurants in the UK and over 10 internationally. Nick also looked after the IT and online strategy of various restaurant businesses, introducing numerous loyalty and social media systems into the business. Nick enjoys travelling and sampling cuisines from around the world in his spare time.

Company research from Hardman & Co analysts

Click on the title to jump to each note.

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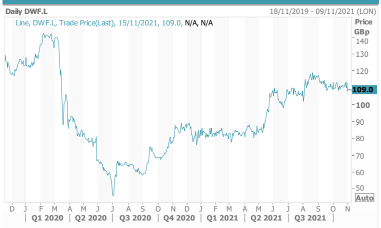
Support Services



Source: Refinitiv

Market data

EPIC/TKR	**DWF**
Price (p)	**108**
12m High (p)	119
12m Low (p)	74
Shares (m)	325.4
Mkt Cap (£m)	351.4
EV (£m)	411.6
Free Float (%)*	24.6
Country of listing	UK
Market	Main

Description

DWF Group (DWF) is global provider of integrated legal and business services with three offerings – Legal Advisory, Mindcrest and Connected Services. It has around 4,000 staff, with offices and associations across the globe.

Company information

CEO	Sir Nigel Knowles
FD	Chris Stefani
Chairman	Jonathan Bloomer

+44 0333 320 2220
www.dwfgroup.com

Key shareholders

DWF Employee Fund	9.7%
Premier Miton Investors	6.1%
Cartesian Capital	5.5%
Abrdn	4.8%

Diary

9 Dec	Interim results

Analyst

Paul Singer 020 3693 7075
ps@hardmanandco.com

DWF GROUP

A competitively well-placed legal service provider

DWF is a global provider of integrated legal and business services, with multi-jurisdictional expertise and an experienced management team. The business provides a model designed to perform through the cycle and a differentiated platform, with an established programme, to become a leader in ESG. The business offers a diverse, recurring and predictable revenue stream, with a quality M&A track record.

DWF went public in 2019, being the first legal services firm to list on the London Stock Exchange Main Market.

- **Strategy:** DWF's principal strategic objective is to become the leading global provider of integrated legal and business services. Management believes that its differentiated competitive position enhances its ability to combine any number of its offerings to deliver bespoke solutions for its clients.
- **Finance:** The early months of trading for 2021/22 have been strong, showing continued organic revenue growth and gross margin development, with the group's new operating model already leading to a greater sharing of clients across practice areas and countries.
- **Valuation:** We believe the shares' trading multiples compare favourably with sector peers, and that they appear undemanding for a quality growth stock. Furthermore, and conservatively assuming a maintained dividend, the prospective yield of over 4% appears appealing in the current low interest rate environment.
- **Risks:** The group's business depends on maintaining its existing client relationships and establishing new client relationships. Although DWF has longstanding relationships with many of its clients, these clients usually do not usually enter into long-term contracts. The group relies on retention of its partners and senior management in the locations in which it operates
- **Investment summary:** In our opinion, DWF offers an appealing investment, with a well-defined strategic development path and a long-term programme for creating a mid-tier growth stock with sound finances and a favourable valuation.

Financial summary and valuation

Year-end Apr (£m)	2019	2020	2021E	2022E
Sales	268.0	297.2	338.1	-
Underlying EBITDA	27.8	36.9	58.1	-
				-
Reported EBIT	27.3	22.2	-25.6	-
Underlying PTP	20.3	15.2	34.2	-
Statutory PTP	13.0	18.2	-30.6	-
Underlying EPS (p)	7.1	3.0	7.4	-
Dividend (p)	-	3.1	4.5	
Net (debt)/cash	-35.3	-64.9	-60.2	-
Shares issued (m)	221	229	274	-
P/E (x)	-	31	15.2	-
EV/sales (x)	-	-	1.2	-

Source: Hardman & Co Research

Disclaimer: This research has been paid for by the company. Please read the important disclaimers at the end of this document.

Corporate profile

DWF is a global provider of integrated legal and business services with multi-jurisdictional expertise and an experienced management team.

The business model is designed to offer a diverse, recurring and predictable revenue stream, along with a proven M&A track record.

In May 2021, DWF restructured the business into three client-focused offerings – Legal Advisory, Mindcrest and Connected Services.

ESG has been a growing influence on the legal services sector for a number of years, and its central themes are consistent with DWF's objectives, values and culture.

Commercial opportunity – a market growing at 5% p.a., with strong subsectors

Market of around $750bn, and growing at 5% p.a.

The global legal services market is estimated to be valued at around $750bn, and growing at 5% p.a. Sub-sets of the industry, such as Alternative Legal Services, worth around $15bn, are growing much more quickly, at 15%-plus, as they enter new phases of their life cycles.

Historically, the steady pace of growth across the legal services industry has allowed law firms to innovate only as quickly as necessary, not to fall behind. When combined with other market drivers, it is understood that those legal businesses most able to adapt and embrace technology-enabled disruption will be able to meet the changing needs of clients and capitalise on this growing market.

DWF's differentiated offering already gives the group an advantage through its ability to offer integrated legal and business services. As a listed business, its structure also gives the group the opportunity of a greater focus and expectation from stakeholders for longer-term planning and investment – an area in which many traditional players in the market have struggled.

As the only legal and business services provider to lead with the integrated proposition that multinational clients want, DWF is well-placed to acquire new work. Furthermore, as an owner of a top-tier provider of alternative legal services in Mindcrest, DWF is uniquely placed to win appointments to blue-chip ALSP panels. This combination of factors gives DWF a distinct advantage over the competition.

Markets emerging from COVID-19

COVID-19 has been a major contributory factor in the evolution of the legal services industry over the past 12 months. Technology-enabled disruption has accelerated and been more conspicuous throughout this time, resulting in changing needs and expectations from clients, as well as a permanent shift in ways of working. While COVID-19 has influenced most of the market drivers, the global economy's emergence from COVID-19 is also a market driver in its own right this year.

The world's emergence from COVID-19 is not uniform. Some countries have substantially reopened their economies, while others remain under pressure from high case rates – including some markets in which DWF operates. However, it is already clear that the global economy, post COVID-19, will be very different from that of early 2020 – in terms of ways of working and the implications for retaining culture, competition for talent, and the ways in which companies support clients. Adapting to this environment will be a key driver in the sector for some time.

The industry successfully transitioned to new ways of working throughout COVID-19, but now faces a challenge to establish the right balance between old and new working environments – while retaining organisational culture. In turn, this raises questions about the purpose and future use of office space, which is one of the highest costs of any professional services business. There will be implications for the competition for talent – in terms of both where companies recruit and the types of skills needed.

ESG a major opportunity

As attention now shifts to the prospects for economic recovery following COVID-19, focus has also increased on ESG factors, as businesses, investors and policymakers look to a greener or more equitable model.

ESG has been a growing influence on the legal services sector for a number of years, and its central themes are consistent with DWF's objectives, values and culture. A number of features of ESG have been a growing influence in the market for a number of years. However, there has been a very significant increase in the prominence of ESG as a driver in the legal services industry. Thanks to a variety of factors, such as high-profile environmental campaigns, the Black Lives Matter movement and the UK government's Build Back Better programme, we are seeing significant change in the sector.

More blue-chip companies are including ESG considerations as factors when it comes to choosing their legal and business services providers. Some companies are also awarding automatic panel reappointments to their panel firm with the best ESG credentials, such as performance against Diversity and Inclusion metrics. Increasingly, legal services firms cannot expect to secure panel appointments without a coherent and visible ESG strategy with demonstrable proof points of its success.

Strategic development

Source: DWF Group

Strategy – new operating structure

New internal operating structure and focusing on eight key sectors

DWF recently introduced a new internal operating structure to align with its three client offerings. From 1 May 2021, the group moved into the three highly streamlined and efficient global divisions of Legal Advisory, Mindcrest and Connected Services, from its previous five divisions of Commercial Services, Insurance Services, International, Connected Services and Managed Services. This new structure should ensure greater integration and alignment of its people and services, for the benefit of its clients.

The group's expertise is focused on the following key sectors – Consumer, Energy & Natural Resources, Financial Services, Government & Public Sector, Insurance, Real Estate, Technology, Media & Communications, and Transport.

DWF's principal objective is to become the leading global provider of integrated legal and business services. Management believes that its differentiated competitive position enhances its ability to combine any number of its offerings to deliver bespoke solutions for its clients. This Integrated Legal Management approach delivers greater efficiency, price certainty and transparency for its clients, without compromising on quality or service.

Finances – good cashflow

First few months of trading for 2022 have been strong

The early months of trading for 2022 have been strong, showing continued organic revenue growth and gross margin development, with the new operating model already leading to a greater sharing of clients across practice areas and countries. As COVID-19 restrictions continue to ease slowly, it is expected that the favourable trading environment for FY'22 and the approach to integrated legal management will continue to expand existing client relationships and secure new client wins. While there is competitive pressure for talent across what is proving to be a buoyant legal sector, which may lead to upward cost pressure, the removal of material adverse factors is expected to support continued growth in net profitability.

Medium-term goals achievable

The group's medium-term financial goals – net revenue growth (CAGR) of between 6% and 7%, the gross margin improving to between 53% and 54%, a cost to income ratio (including depreciation) target of 38% and leverage of 0.5x to 1x EBITDA (pre-IFRS 16) – appear realistic and achievable. Cashflow generation is strong, as is the group's working capital management, with lockup days currently standing at around 180 days (target 170 days).

In terms of capital management, capital expenditure (up to £8m per year) will be deployed to support and accelerate the group's stated organic growth strategy (e.g. scale-up of Mindcrest operations, its IT systems and infrastructure, and enabling future ways of working), with bolt-on acquisitions financed through its own resources. The dividend policy will be progressive, with a target payout of up to 70% of adjusted profit after tax. The interim dividend is payable in February/March, and the final dividend is payable in October. Share buybacks are not planned in the short/medium term.

Valuation – undemanding, with appealing yield

The shares are trading on prospective P/E and EV/sales multiples of 15.2x and 1.2x, respectively. The P/BV currently stands at ca.1.1x. We believe these multiples compare favourably with sector peers, and they appear undemanding for a quality growth stock. Furthermore, and conservatively assuming a maintained dividend, the prospective yield of over 4% appears appealing in a low interest rate environment.

Risks – well- mitigated

Client relationships and personnel retention key

The main risks relating to the group's business and that are being mitigated are detailed accordingly. The group's business depends on maintaining its existing client relationships and establishing new client relationships. Although the group has longstanding relationships with many of its clients, these clients usually do not have long-term contracts with the group.

DWF relies on its partners and senior management in the locations in which it operates. Its ability to attract, retain and develop key staff, and, in particular, the partners and senior management, is dependent on a number of factors, including prevailing market conditions, the group's values, culture and working environment, and its ability to offer competitive compensation packages.

DWF's gross profit is determined by its revenue and direct costs. Revenues generated by and direct costs related to fee earners make up a substantial majority of the group's revenue and direct costs, respectively. If the group's fee earners are underutilised, the group's results of operations, and, in particular, its gross profit and gross profit margin, are adversely affected.

The group may be unsuccessful in implementing its key strategies related to growing its market share, increasing its share of a client's overall legal work, increasing the fees generated per partner and substantially increasing the revenue from its divisions. Its strategy over the past few years and moving forward is focused on continuing its international expansion through strategic transactions, including additional acquisitions or other associations, or substantial team hires, in order to build operational scale in other key markets. This involves numerous risks and uncertainties.

Background

DWF is a global provider of integrated legal and business services, recently reorganised into three global divisions of Legal Advisory, Mindcrest and Connected Services. Legal Advisory provides premium legal advice, with a highly regarded client service, commercial intelligence and relevant industry experience. Mindcrest offers outsourced and process-led alternative legal services, designed to standardise, systematise and optimise legal workflows. Connected Services offers a range of products and business services that enhance and complement the principal legal offering.

The first Main Market Premium Listed legal company

The company became the first Main Market Premium Listed legal business on the London Stock Exchange in March 2019. Other listed companies include Gately Holdings, Keystone Law Group, Knights Group, The Ince Group and Rosenblatt Group.

Highly fragmented industry

The legal services industry is highly competitive, fragmented and subject to rapid change, and the group expects such competition to intensify in response to competitors' behaviour, client preferences, industry trends, technological changes, the impact of consolidation, regulatory actions and other factors.

The group's primary competitors are other legal and managed services firms, as well as, in some instances, the in-house legal teams of its clients. The group competes on both a global and a regional basis, and on the basis of a number of factors, including depth of client relationships, price, industry knowledge, quality of its personnel, transaction execution skills, range of products and services, innovation and reputation.

Many of the large, privately owned, international law firms with which the group seeks to compete have larger-scale, longer-established international operations, greater financial and other resources, name recognition, client bases and number of legal professionals, as well as greater global reach than DWF. Some of these and other competitors may be more able to respond to changes in the legal market, to compete for legal professionals, or offer greater remuneration, to finance acquisitions, to fund internal growth and to compete for market share generally. This may put the group at a competitive disadvantage, and could result in pricing pressures or loss of opportunities.

In addition to the group's larger competitors, a number of smaller, alternative legal service providers and managed services firms have emerged, with several showing rapid growth. As these firms and new entrants into the market seek to gain market share, there could be increased pricing pressure, which could adversely affect DWF.

The highly fragmented nature of the industry means that any normal consolidation across this global industry would be highly prevalent. COVID-19 has been a clear inhibiting factor in this regard, but it is anticipated that consolidation in the sector will slowly resume through the remainder of 2021, and then accelerate in 2022.

November 2021

Restaurants

Source: Refinitiv

Market data

EPIC/TKR	**FUL**
Price (p)	**17**
12m high (p)	19
12m low (p)	7
Shares (m)	619
Mkt cap (£m)	105
EV (£m)	192
Free float*	65%
Country of listing	UK
Market	AIM

**As defined by AIM Rule 26*

Description

Fulham Shore is an expanding UK restaurant business with two brands: Franco Manca (a pizza restaurant) and The Real Greek. It is run by a very experienced management team.

Company information

Managing Director	Nabil Mankarious
CFO	Nicholas Wong
Executive Chairman	David Page

+44 20 3026 8129

www.fulhamshore.com

Key shareholders

Directors	36%
Unicorn	5%
Cannacord	5%

Diary

Dec'21	Interim results
Jul'22	Final results
Sep'22	AGM

Analysts

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FULHAM SHORE

Restaurant platform ready for take-off

Fulham Shore has two restaurant brands that are honed and proven in the sector. There is an opportunity to expand the estate to nearly three times its size in the post-pandemic era. Competition has been reduced, and landlords are more realistic. There will still be some stresses with costs, but Fulham Shore's good-value menus will stand it in good stead. We believe investors should focus on the value of a fully rolled-out business, rather than the immediate earnings outlook. Nonetheless, trading is back to above pre-pandemic levels outside central London, and the recent trading update indicated strong central London growth of late.

- **Strategy:** The UK restaurant sector hit a peak of outlets in 2015. COVID-19 has accelerated that shrinkage. Possibly a further 20% of casual dining venues have closed, leaving the field wide-open for well-financed and managed businesses. Fulham Shore provides value meals in a convivial setting.

- **Roll out:** Fulham Shore has two complementary brands – Franco Manca and The Real Greek – offering well-priced, authentic dining experiences. With 76 outlets currently, we consider there is scope to grow this to over 200. The 4 November trading update indicated that the outlets "continue to trade strongly".

- **Valuation:** A straightforward peer group EV/EBITDA valuation multiple would put Fulham Shore on a price of 26p to 31p per share. We have also estimated the value of a 200 restaurant-strong business discounted back to today, and we have come up with a central equity value of £206m, or 33p per share.

- **Risks:** The key immediate risk remains the return of pandemic restrictions. After that, there are execution risks in the rollout plans and ongoing cost pressures for both staff and ingredients. Key to the success of growing the business is finding the right sites at the right prices and supporting the rollout operationally.

- **Investment summary:** The management has many years' experience in the UK casual dining sector. It has refined two restaurant concepts that are proven winners in a normal functioning market. The overcapacity in the sector seems to have been cleared out. This provides an ideal opportunity for a highly profitable rollout, with lease costs of expansion lower than pre-COVID-19. Expansion can be funded from cashflow and the group's existing debt facilities.

Financial summary and valuation

Year-end Mar (£m)	2018	2019	2020	2021	2022E	2023E
Revenues	54.7	64.0	68.6	40.3	71.4	96.2
Gross profit	22.7	25.7	27.9	15.1	28.5	38.5
Adjusted EBITDA	7.4	7.8	15.2	11.6	17.0	24.2
Adjusted EBIT	3.7	3.5	4.4	-2.2	4.5	9.7
EBIT	1.1	2.2	2.8	-3.3	2.7	7.5
PBT	0.8	1.8	0.2	-6.0	-0.3	4.2
Net income	-0.6	0.7	-1.2	-6.3	-0.3	3.4
EPS (fully diluted, p)	0.1	0.2	0.0	-0.8	-0.1	0.5
Net debt	-12.0	-9.4	-77.7	-74.6	-86.5	-103.0
Shares issued (m)	571	571	573	596	609	619
EV/Revenue (x)	2.1	1.8	2.7	4.5	2.7	2.2
EV/EBITDA (x)	15.8	14.7	12.0	15.5	11.3	8.6

Source: Hardman & Co Research

Disclaimer: This research has been paid for by the company. Please read the important disclaimers at the end of this document.

Experienced management team

Fulham Shore, which was listed on AIM in 2014, owns and operates The Real Greek and Franco Manca restaurant chains. The management had previously run the Clapham House restaurant business, before selling out in 2010. Before that, two of the team – David Page (Chairman) and Nabil Mankarious (Managing Director) – had worked together at Pizza Express, prior to its acquisition by private equity (PE) in 2002.

Management addressing improved market opportunity

Blueprint for expansion

Before the COVID-19 thunderbolt, the UK restaurant sector was already in difficulties. After years of over-expansion, restaurants were closing, and restaurant businesses were over-indebted. Fulham Shore focused on opportunities in this market:

- Management rolled out conservatively, particularly as property costs were significant.
- It built a brand with strong recognition in a variety of location types, but also with recognition for quality ingredients, ambience and value for money.
- Post-COVID-19 property costs are much lower, but there a headwinds on labour and ingredient costs, as well as availability.
- Management is experienced, has the financial resources to execute its growth plan and a market opportunity that appears attractive.

Fulham Shore has 76 restaurants, and has the blueprint for expansion to more than 200 restaurants. Investors buying into Fulham Shore today are getting both the current estate and the proven future plans.

Management's conservative approach

We have indicated that the UK restaurant market pre-COVID-19 exhibited signs of oversupply. Management built the brand carefully, pricing competitively, but maintaining rigorous adherence to fresh, authentic ingredients. Management proceeded with care, while establishing a visible presence in central and suburban London, and in certain regional towns. Expansion was measured. For example, in FY'18, the Chairman stated, "We will continue to approach expansion with caution. Our investment strategy will be much more circumspect than in 'normal' times. Careful property transactions will be even more crucial".

The challenges and opportunities

"Careful property transactions" referred to in the FY'18 statement above indicated that lease costs were somewhat high and the management had taken a defensive stance. There is no doubt that these real estate costs are now much lower. This is a major opportunity, for both unit profitability and also in terms of capital efficiency. Weighed against this upside is that demand patterns are problematic. It seems reasonable to assume that some of the swing towards city towns/villages and suburban locations, and away from city centres, is here to stay. It also seems reasonable to expect that, while takeaway business will shrink, it will be substantially larger than it used to be. Nonetheless, management had already positioned the business to weather potential market problems – before they were manifest. The menu remains competitive versus comparable market operators, and the scope for good trading stands firmly on this foundation.

Points from 4 November trading update

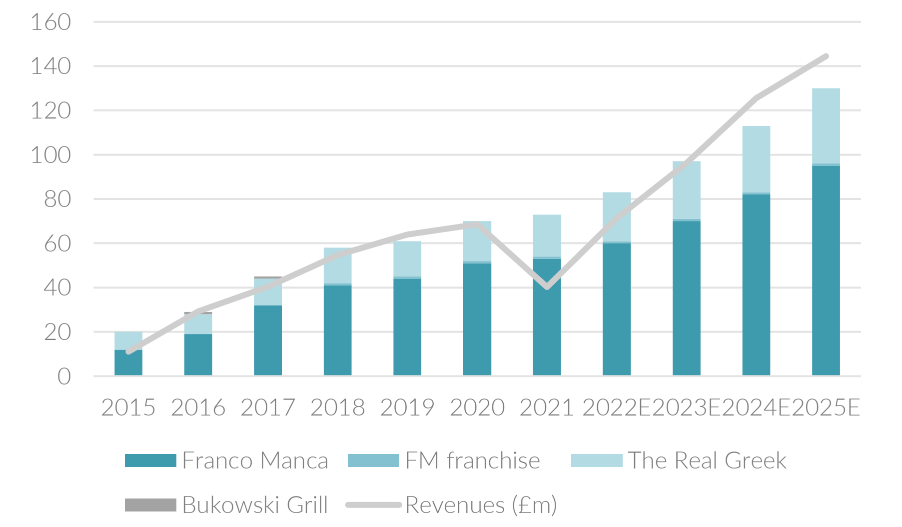
- Bank finance is in place to grow, including extending its revolving credit facility (RCF) rom March 2022 to November 2024, and increasing its size to £17.0m, from £14.25m.
- Almost £8m cash has been generated since end-March 2021.
- The central team is being reinforced in order to facilitate expansion.

Positive trading statement…

- Trading is ahead of 2019, including delivery meals.
- Notwithstanding input cost inflation, margins are being maintained.
- The strong revenue growth post-September "continues to be ahead of management's expectations."
- With 76 restaurants trading, three more will open by Christmas (one in London W1, one at the Bluewater shopping centre in Kent and one in central Manchester). A Greek franchise has also been entered into.

Expansion

Fulham Shore restaurant estate, 2015-25E



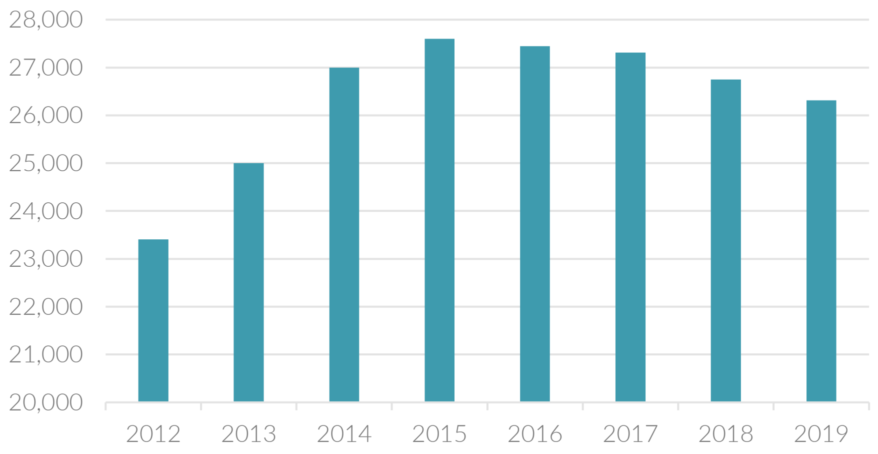
Source: Fulham Shore, Hardman & Co Research

…with management ready to address the market opportunity and the much improved capital cost profile of new openings

The expansion of Fulham Shore is helped, not hindered, by the market position now. The UK's eating out market is in flux, and home delivery could possibly take a greater share. Fulham Shore could cater to that too. However, the primary driver is the combination of a reduction in competition with other restaurants for diners and the reduction in competition with other restaurants for new space. We chart the evolution of restaurant numbers in the UK in a chart on the next page.

We consider that the scene will be set for Fulham Shore to expand against a background of substantially less capacity than at the peak, and with many amateurs forced out of business. Landlords will, largely, be more realistic about rents and be keen to help attractive tenants with their pre-opening costs. Investors should note that the capital and real estate costs of restaurants are both in the form of one-off upfront investment in equipment or lease premiums, and also rent. Lease premiums could disappear, or at least be much reduced, and rents are only going down. This provides a very promising backdrop for the platform that Fulham Shore has created.

Number of restaurants in the UK



Source: Alix Partners

Investment conclusion and risks

In expansion mode, but having demonstrated it can position itself well aware of the risks

- Finance is in place for substantial growth, and also as a potential "buffer" in the event of a resurgence of COVID-19.
- Management has just updated the market with a confident statement on how it is maintaining its margins by coping with cost pressures.
- Management confirms that growth is accelerating.

Turning to the risks, we expand on the summary outlined on page 1.

The key immediate risk remains the return of pandemic restrictions. The 4 November 2021 trading and financing update stated, "This net cash position, combined with the extended RCF and our existing £0.75m overdraft facility, give the Group financial headroom today of over £20m". While management will be deploying resources in order to expand, the financial resource situation right now can address the potential strains of a renewed lockdown.

There is execution risk in the rollout cost pressures for both staff and ingredients. The trading update stated, "We are maintaining margins in both our businesses as the rise in our restaurant sales is enabling the Group to deal with the well flagged inflation of utility costs and the wage increases that have been instigated".

Key to the success of growing the business is finding the right sites at the right prices and supporting the rollout operationally. The 4 November 2021 update stated, "We are accelerating our growth in the UK and abroad. We continue to trade ahead of our own expectations and have a strong pipeline of exciting new locations".

Valuation

We estimate equity value of around £206m, or 33p per share

Currently, Fulham Shore has 76 restaurants, but it has the potential to be nearly three times the size. One approach could be to calculate the value of the 200-strong chain, and discount the value back to today. We have assumed that the additional 128 restaurants (from the FY'21 year-end) cost £500k each to open. We have used our per restaurant estimates for FY'24 and rounded them to £350k EBITDA per restaurant. We include the lease liabilities on the balance sheet. We have estimated these at £700k per outlet. We put central costs, for a 200-strong chain, at £3m; the current level is a very modest £1m. Assuming eight years to develop the 128 additional restaurants, and using a 10x EBITDA multiple, we estimate an equity value for Fulham Shore of around £206m, or 33p per share. We note, however, that this is very much an illustrative exercise.

The range of values, using different numbers of years to develop the restaurants and differing EBITDA multiples, is shown in the table below.

Sensitivity table for equity valuation

Years to develop	7	8	9	10
EBITDA multiple	£m	£m	£m	£m
8x	158	144	131	119
9x	192	175	159	145
10x	227	206	187	170
11x	261	237	216	196

Source: Hardman & Co Research

Financials

Financial summary and valuation

Year-end Mar (£m)	2018	2019	2020	2021	2022E	2023E
Revenue	54.7	64.0	68.6	40.3	71.4	96.2
Adjusted EBIT	3.7	3.5	4.4	-2.2	4.5	9.7
Share-based, pre-opening and amortisation costs	-2.6	-1.3	-1.7	-1.1	-1.9	-2.2
Reported EBIT	1.1	2.2	2.8	-3.3	2.7	7.5
Net finance costs	-0.3	-0.3	-2.6	-2.7	-3.0	-3.3
PBT	0.8	1.8	0.2	-6.0	-0.3	4.2
EPS (fully diluted, p)	0.13	0.19	-0.04	-0.78	-0.05	0.53
Cash from operations	4.5	6.1	15.2	9.7	13.1	18.5
Net change in cash	0.3	1.5	0.2	10.2	-1.9	-2.5
Shareholders' funds	37.5	38.6	38.8	35.5	35.1	38.5
Net debt	-12.0	-9.4	-77.7	-74.6	-86.5	-103.0

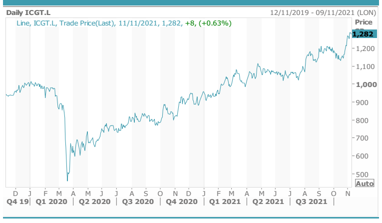
Source: Hardman & Co Research

November 2021

ICG ENTERPRISE TRUST PLC

Defensive growth leads to reliable outperformance

Closed End Investments



Source: Refinitiv

Market data

EPIC/TKR	**ICGT**
Price (p)	**1,278**
12m High (p)	1,294
12m Low (p)	800
Shares (m)	68.52
Mkt cap (£m)	883
NAV p/sh (adj., Jul'21, p)	1,523
Disc. to NAV	15%
Market (UK)	Premium equity closed-ended inv. funds

Description

ICG Enterprise Trust (ICGT) is a listed private equity (PE) investor providing shareholders with access to a portfolio of European and US investments in profitable, cash-generative, unquoted companies. It invests in companies managed by ICG and other leading PE managers, directly and through funds. It strikes a balance between concentration and diversification, risk and reward.

Company information

Chair	Jane Tufnell
Audit Cte. Chr.	Alastair Bruce
NED	Sandra Pajarola, Gerhard Fusenig, David Warnock
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Key shareholders

None above 3%

Diary

Feb'22	3Q update

Analyst

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ICGT gives all investors a liquid, managed option to replicate the above-market, compounding returns and risk diversification that institutional managers get by accessing PE. An investment in ICGT, made on the period-end date in any of the past 20 years, would have outperformed the FTSE All-Share Index (Total Return) if still held on 31 July 2021. To that date, it saw 247% 10-year share-price growth, outperforming the index by 156%. It has consistently delivered superior returns across cycles (five-year NAV per share total return 16% p.a., with only two down quarters in past 20 years). In our view, the discount to NAV (15%) offers additional value.

- **Why PE?:** PE today is about investing in growth, tech-enabled businesses with through-cycle resilience. It adds value with i) access to committed capital, ii) strategic optionality, iii) operational, financial and market expertise, iv) a long-term focus, and v) good governance. Recent sector changes enhance resilience.

- **Why ICGT?:** ICGT's policy is "defensive growth" – focusing on well-established businesses with strong competitive positions in a structural growth market, recurring revenues, high margins, strong cashflows and low customer concentration. This has delivered both growth and also downside protection.

- **Valuation:** NAV valuations are conservative (uplifts on realisations averaging 35% long term). The ratings are undemanding, and the carry value against cost modest. The 15% discount to NAV is anomalous, we believe, with defensive market-beating returns, and is above pre-pandemic levels. The yield is 1.8%.

- **Risks:** PE is an above-average cost model, but post-expense returns are market-beating. Even though actual experience has been of continued NAV outperformance in economic downturns, sentiment is likely to be adverse. ICGT's permanent capital structure is right for unquoted and illiquid assets.

- **Investment summary:** ICGT has consistently generated superior returns, by adding value in an attractive market, with a defensive growth strategy and ICG family synergies. The valuations and governance appear conservative. It has an appropriate balance between risks and opportunities. Risks are primarily sentiment-driven on costs, cyclicality and the underlying assets' liquidity. It seems anomalous that a consistent record of outperformance is trading at a 15% discount to NAV, which sees consistent uplift to carrying value on exit.

Financial summary and valuation

Year-end Jan (£000)	2018	2019	2020	2021	2022E	2023E
Total income	22,386	5,969	7,441	6,594	13,684	14,948
Realised gains	-31,257	9,329	14,686	0	18,151	19,836
Unrealised gains	91,381	76,440	70,974	184,071	108,907	119,018
Investment mgr. fees	-7,165	-7,984	-9,572	-10,728	-10,116	-11,396
Other expenses	-2,734	-2,903	-3,232	-4,070	-4,198	-4,333
Rtn. on ord. act. pre-tax	73,437	81,789	80,505	175,068	126,430	138,073
NAV per share (p)	959	1,057	1,152	1,384	1,543	1,717
NAV total return	12%	12%	11%	22%	14%	14%
S/P prem./disc. to NAV*	-15%	-22%	-16%	-31%	-16%	-25%
Investments (£m)	576	670	778	908	992	1,110
Dividend per share (p)	21	22	23	24	27	28

**S/P prem./disc. to NAV 2018-21 actual NAV and share price on that date, 2022-23 forecast NAV to current share price; Source: Hardman & Co Research*

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Why PE?

PE-backed businesses have long-term track records of outperforming publicly owned or private businesses because PE adds value to its investee companies

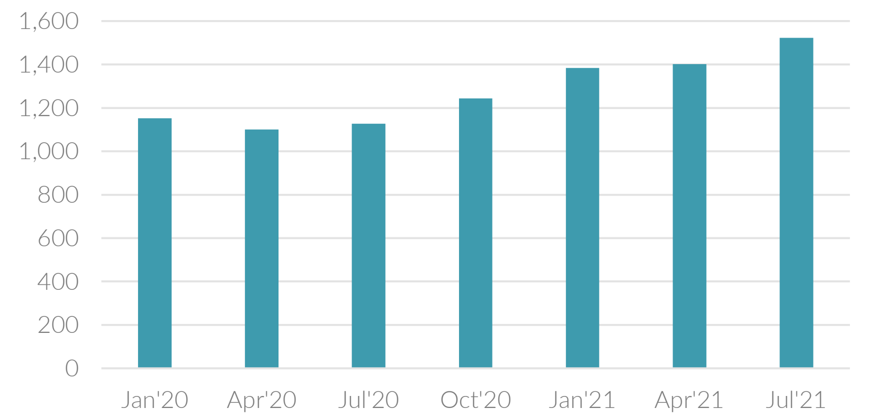
The bottom line is that PE, after all costs, has delivered superior investment returns to public markets. In the past, this performance may have been characterised by asset stripping and financial leverage, but PE today is a totally different animal. It has evolved into an engine for employment and economic growth by investing in tech-enabled businesses, with digital distribution and market-changing business models. It now adds value for shareholders in four key areas:

- **Strategy:** PE allows a transformation in strategic goals, as well as financial resources, to support growth objectives, and facilitate accretive mergers and acquisitions. It means a business can be managed for exit but still adopt a long-term focus, especially in areas like tech-enablement and digitalisation.
- **Performance enhancement:** Measures include operational improvements from adopting sector-wide best practice, the active management of capital structures/finances and the strengthening of management teams. Throughout COVID-19, PE-backed businesses got enormous operational support in areas like HR and supply chain management, which were unavailable to them as standalone businesses. This was reflected in market-beating NAV resilience.
- **Valuation opportunity:** PE can buy low and sell high, as i) many private company valuations are lower than listed ones and listed-market sales allow an arbitrage, ii) it is fishing in a bigger pool of potential targets, and iii) extensive due diligence can identify and price-in downside risks.
- **Corporate governance:** PE has the resources to consider ESG issues, when a standalone company may not. Managers' and shareholders' interests are closely aligned through common ownership at all levels of the investment chain.

PE-backed businesses have reported strong revenue and EBITDA growth through COVID-19

Investors can see this in ICGT's NAV through the COVID-19 crisis (see table below). The fall in market ratings affected the investee company ratings, but this was largely offset by strong business growth. In 1H'21, the top 30 investee companies reported 18% revenue and 26% EBITDA growth.

ICGT NAV (p) through COVID-19



Source: LSE, Hardman & Co Research

Downsides primarily sentiment-related to costs and economic cyclicality. Right vehicle to exploit illiquidity premium.

Investment downsides include i) costs – PE is a high-cost business, but the market-beating returns are after this investment has been made, ii) perceived sensitivity to economic cyclicality – the declines in NAV have been materially lower than market falls, and iii) investments are unquoted and illiquid – ICGT's closed-ended structure is the right one to exploit the valuation anomalies that arise with illiquidity, we believe.

Why ICGT?

Superior returns with lower downside risk

We have already identified that an investment in ICG Enterprise Trust made on the period-end date ***in any of the past 20 years*** would have outperformed the FTSE All-Share Index (Total Return) if still held on 31July 2021. ICGT has a "defensive growth" strategy, which has seen outperformance in downturns, thus reducing the real downside risk. We also highlight the benefits of compounding returns and the relatively low NAV volatility in our 14 September 2021 note, *ICGT in personal pensions: do as the professionals do*. Additionally, investors should consider:

Focused portfolio selection

- ICGT has a focused, multi-stage approach, with a stringent filtering process, which starts with the whole PE market but then narrows down investments to buyouts, in developed markets, mainly in the mid-market/larger deals and through leading PE managers. Individual opportunities must then meet the requirements of ICGT's defensive growth strategy.

Resilient sector exposure

- The resulting sector exposure adds to resilience, with 18% in TMT, 16% in Healthcare and 5% in Education, as at July 2021. Within other sectors, such as Consumer, the sub-sector focus is on more defensive sectors, such as digital, not physical, retail (e.g. the largest holding is PetSmart/Chewy). At July 2021, the average net debt/EBITDA for its largest holdings was 3.9x (down from 4.3x at end-January), reflective of being in non-financially geared sectors.

Balanced high-conviction, high-return portfolio with diversified funds. Overall, delivering market-beating revenue and EBITDA growth.

- ICGT balances a high-conviction portfolio (HCP, 48% of July 2021 investments), where the investment decision is directly under the control of ICG/ICGT. The HCP consists of commitments to five ICG strategies or ICG-originated direct investments (27%), direct investments through third-party PE fund manager partners and secondary investments. Over the five years to July 2021, the average local currency return has been ca.25%. It also balances a highly diversified portfolio of third-party PE funds (52% of book). The diversified fund portfolio's value-added comes from the careful selection of managers, where ICGT adds value in this area, given its 40-year history, the long experience of its managers and synergies from the ICG group, including a deep understanding of private capital markets. The relationships built through this process are important for generating co-investments, which are included in the HCP. The result of this careful selection is that ICGT's portfolio is delivering strong revenue and EBITDA growth – 18% and 26%, respectively, as at 1H'21.

Book value looks conservative. Five-year average 35% uplift on carrying value on realisation.

Undemanding valuation ratings on underlying companies. No incentive for PE managers to inflate valuation, and ICGT has appropriate controls in place.

- We believe the NAV is not only low relative to volatility, and benefits from compounding, but it also is a fair reflection of the real value of underlying assets, bearing in mind that i) realisations have, on average over the five years to April 2021, been at a 35% uplift to the latest book value (26% 1H'21) – even allowing for a sale premium, this gives considerable comfort that the underlying valuations are fair, ii) the underlying company valuation ratings, on which ICGT's NAV is based, are not demanding in absolute or relative terms, with the June 2021 EV/EBITDA of 14.4x, iii) there is limited incentive for PE managers to inflate accounting valuations, as their performance fees are based off realised, not accounting, values, and iv) ICGT's experience and breadth give it the opportunity to carry out a sense check, and there are the usual external accountants' reviews.

Benefits from ICG synergies

- Being part of the ICG family sees benefits, including market knowledge and experience, fee savings, access to investment opportunities, a range of specialist skills and economies of scale. The benefit has been especially valuable in rolling out the geographical diversity of the portfolio, with the UK accounting for just 18% of the July 2021 portfolio, against 41% when the manager took over just over five years ago.

Financials and valuation

Income statement

Year-end Jan (£000)	2021			2022E			2023E		
	Revenue	Capital	Total	Revenue	Capital	Total	Revenue	Capital	Total
UK investment income & dividends	6,523		6,523	4,538		4,538	4,959		4,959
Overseas interest & dividends	tbc		0	9,076		9,076	9,918		9,918
Deposit interest & other	71		71	71		71	71		71
Realised gains on investments		tbc	0		18,151	18,151		19,836	19,836
Unrealised gains on investments		184,071	184,071		108,907	108,907		119,018	119,018
FX gains & losses		-799	-799			0			0
Investment manager fees	-2,682	-8,046	-10,728	-2,529	-7,587	-10,116	-2,849	-8,547	-11,396
Other expenses	-2,129	-1,941	-4,070	-2,257	-1,941	-4,198	-2,392	-1,941	-4,333
Return before finance costs & taxation	**1,783**	**173,285**	**175,068**	**8,899**	**117,531**	**126,430**	**9,707**	**128,366**	**138,073**
Interest payable & similar expenses	0	0	0	0	0	0	0	0	0
Return on ord. activities before taxation	1,783	173,285	175,068	8,899	117,531	126,430	9,707	128,366	138,073
Taxation	0	0	0	-1,513	1,513	0	-1,650	1,650	0
Return on ord. activities after taxation	1,783	173,285	175,068	7,386	119,044	126,430	8,057	130,016	138,073

Source: ICGT Report and Accounts, Hardman & Co Research

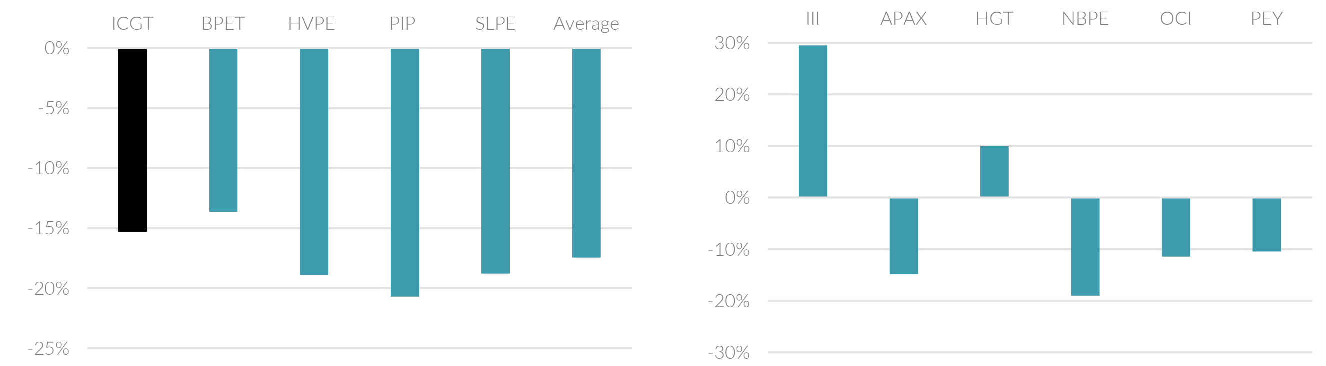
Balance sheet

@31 Jan (£000)	2015	2016	2017	2018	2019	2020	2021	2022E	2023E
Non-current assets									
Unquoted investments	357,830	356,939	491,099	478,362	519,806	571,143	604,306	676,232	741,164
Quoted investments	4,962	0	364	1,733	1,655	1,231	35,702	1,410	1,410
Subsidiary investments	56,217	57,168	80,718	96,392	148,611	206,042	267,554	314,173	367,785
Total non-current assets	419,009	414,107	572,181	576,487	670,072	778,416	907,562	991,815	1,110,359
Current assets									
Cash & cash equiv.	90,137	103,831	38,522	78,389	60,626	14,470	45,143	33,219	23,270
Receivables	4,177	4,038	2,384	10,410	548	1,142	162	33,087	43,379
Total assets	**513,323**	**521,976**	**613,087**	**665,286**	**731,246**	**794,028**	**952,867**	**1,058,121**	**1,177,008**
Creditors	6,459	634	354	963	386	483	851	851	851
Net assets	**506,864**	**521,342**	**612,733**	**664,323**	**730,860**	**793,545**	**952,016**	**1,057,270**	**1,176,157**
NAV per share (p)	**695**	**731**	**871**	**959**	**1,057**	**1,152**	**1,384**	**1,543**	**1,717**

Source: ICGT Report and Accounts, Hardman & Co Research

Despite its strong absolute performance and consistent uplift to carry value on exit, ICGT trades at a discount to NAV. This is not uncommon in the PE fund-of-fund space, and ICGT's discount is broadly in line with that of its immediate peers, noting that the NAVs for some peers are updated monthly, while others are updated quarterly. Since our initiation on 6 July 2020, ICGT's share price has increased by 72%, against its peers' average increase of 61%, bringing its discount closer in line with the average. As noted above, the discount to NAV has come down sharply from the peaks of the COVID-19 pandemic, but it is still above the pre-pandemic levels.

Latest share price discount to NAV for immediate peers (LHS) and wider peers (RHS)



Source: Company websites, factsheets and presentations, LSE, Hardman & Co Research; priced at 9 November 2021

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