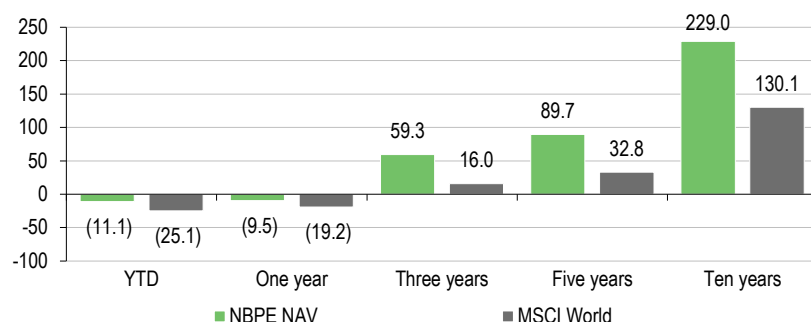


# NB Private Equity Partners

## Key takeaways from 2022 capital markets day

During NB Private Equity Partners' (NBPE) capital markets day (CMD) on 5 October 2022, its management team highlighted that, despite the recent tough macro conditions, NBPE's track record remains strong, as its direct co-investments delivered a gross IRR and multiple of invested capital (MOIC) at 18.5% pa and 2.6x over the five years to end-August 2022, respectively. With a sustained strong deal flow generated by the Neuberger Berman (NB) Private Markets platform (in which NBPE can invest on a case-by-case basis) and liquidity of US\$281m at end-September 2022 (c 21% of current investment portfolio), NBPE is well-placed to seize new opportunities as they arise.

### NBPE's historical NAV TR vs MSCI World Index



Source: NBPE. Note: TR in US dollars to end-September 2022.

## Earnings growth offsetting multiples contraction

NBPE's NAV TR in US dollar terms over the last 12 months (LTM) to end-September 2022 was c -10% and the ytd decline c 11%. Private valuations remained resilient with a 2.7% ytd increase in local currencies to end-June 2022 due to a combination of portfolio resilience and some technical aspects of private equity (PE) valuations (see our [previous note](#) for details). This was offset by lower share prices of listed holdings amid a broader public markets downturn, as well as a negative FX impact from the US dollar appreciation as 75% of NBPE's portfolio is in North America (NBPE's LTM NAV TR in sterling terms was up 10%).

Portfolio results (including both organic growth and M&A) remain robust with LTM revenue and EBITDA growth to end-June 2022 of 27.2% and 20.1%, respectively (18.4% and 16.2% excluding a large acquisition by one holding). Growth has been broad-based, with over 95% and 80% of portfolio companies (by value) reporting top-line and EBITDA increases, respectively. Still, some holdings (especially in the industrial and consumer sectors) experienced margin pressure from cost inflation.

Overall, growth in private portfolio earnings offset the softening valuation multiples (average LTM EV/EBITDA down to 16.5x at end-June 2022 vs 17.4x at end-2021). Average net debt to EBITDA rose to 5.7x from 5.2x at end-2021, partially driven by M&A (most of the debt is floating rate). Importantly, 73% of NBPE's investments by value have covenant-lite or no debt, 65% of the debt matures later than 2026 and overall debt represents on average c 35% of capital structures at present, providing a good degree of flexibility.

### Investment trusts Private equity

24 October 2022

**Price** 1,580p  
**Market cap** £738.8m  
**NAV\*** £1,141.0m  
**NAV\*** US\$1,273.9m

NAV per share\* £24.40

NAV per share\* US\$27.24

Discount to NAV 35%

\*As at end-August 2022.

Yield 5.3%

Shares in issue 46.8m

Code Ord/ISIN NBPE/GG00B1ZBD492

Primary exchange LSE

AIC sector Private Equity

52-week high/low US\$26.18 US\$15.61

NAV high/low US\$31.65 US\$27.70

### Gearing

Net gearing at 30 September 6.8%

### Fund objective

NB Private Equity Partners invests in direct private equity investments alongside market-leading private equity firms. NB Alternatives Advisers, an indirect wholly owned subsidiary of Neuberger Berman, is responsible for sourcing, execution and management of NBPE. Most direct investments are made with no management fee or carried interest to third-party general partners. NBPE seeks capital appreciation through growth in net asset value while paying a biannual dividend.

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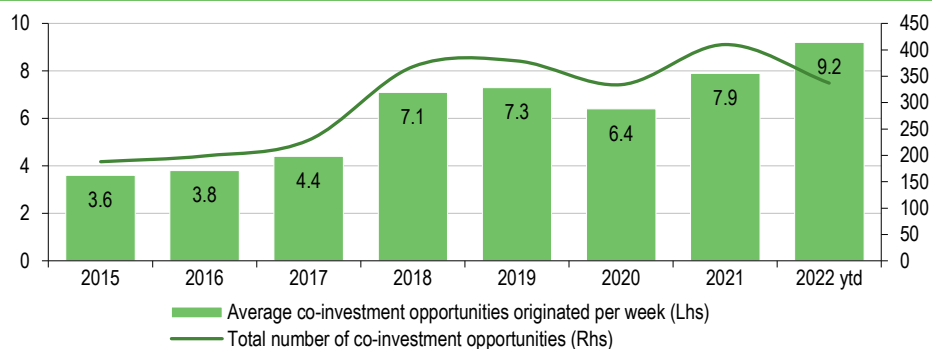
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## NB continues to see a healthy and growing deal flow

NBPE benefits from the deal origination network of the NB Private Markets platform, underpinned by NB's extensive relationships with top general partners through positions as limited partners in more than 595 third-party funds and 260+ advisory board seats across multiple NB private equity/debt strategies, in particular the primary PE platform. This has been further supported by NB's expertise in making both traditional co-investments (as part of a syndication process following deal closure by the lead sponsor), as well as more complex co-investments. The latter include deals in which NB works side-by-side with the lead sponsor on co-underwriting the transaction (45% of co-investments completed by NB between 2009 to Q122), as well as mid-life deals, ie investments in an existing portfolio company of a GP to provide additional capital for growth/add-on acquisitions, recapitalisations or partial exits of existing shareholders (22% of deals over the above period). All this has been driving a growing number of co-investment opportunities (see Exhibit 1).

**Exhibit 1: Co-investment opportunities originated by NB Private Markets platform**



Source: NBPE; Note: ytd figure to end-September 2022

In the current environment, certain groups of limited partners refrain from new co-investments due to portfolio allocation constraints, often arising from the so-called denominator effect (ie increasing portfolio share of PE investments due to a less significant de-rating compared to listed equities exposure). This represents an opportunity for NBPE as an experienced co-investor to gain market share. Nevertheless, we note that for now fundraising and deal volume in the PE space has slowed down after the record-high levels last year (according to Preqin and Pitchbook, respectively, as cited by NBPE). Moreover, we believe buyers' and sellers' expectations are yet to fully converge, and current deal activity is largely focused on quality assets which are not subject to material downward price adjustments.

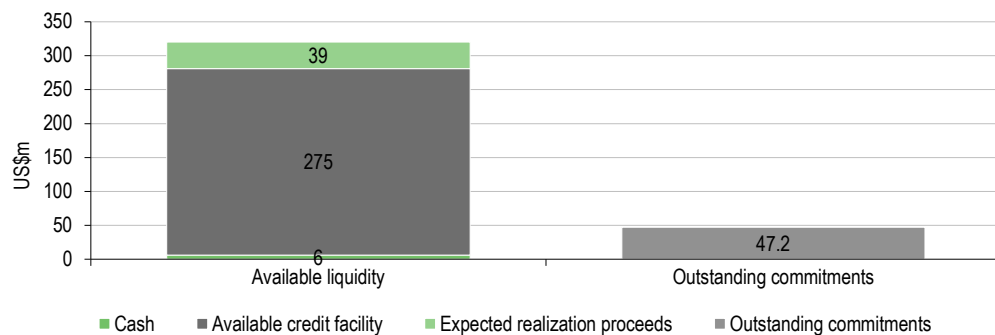
Together with the macro uncertainties, this led NBPE to remain highly selective in terms of new investments. So far in 2022, the company completed two new co-investments: a US\$26m investment in True Potential (a wealth management technology platform for advisors and retail clients) and another US\$15m investment in an undisclosed (due to confidentiality provisions) company. Having said that, NBPE maintains its focus on companies exposed to long-term secular growth trends and/or low expected cyclicality and NB remains positive on the long-term outlook of its portfolio despite the multiple macroeconomic and geopolitical challenges at present.

## Ample firepower for new investments and buybacks

We note that NBPE is in no rush to step up its new investments, as it maintained an investment level (defined as total investments to NAV) of 107% at end-September 2022 and following the redemption of its 2022 zero dividend preference (ZDP) shares on 30 September 2022, it held only a

minor cash balance of US\$6m. Still, it has sufficient dry powder with liquid resources of US\$281m at end-September 2022 (c 21% of current investment portfolio), including US\$275m of available credit facility (which matures in 2029), as well as US\$39m of net proceeds expected in 2022 from announced (and not yet closed) realisations. Due to the above and its flexible co-investment model, NBPE does not have any significant unfunded commitments. Overall, NBPE said during the CMD that it expects the realisations announced and closed so far this year to generate US\$114m in proceeds (US\$119m indicated in the subsequent September NAV release, ie c 8% of portfolio value at end-2021) at an uplift of 26% (vs carrying value three quarters prior) and a strong MOIC of 2.7x. NB acknowledges though that near-term exit volume may be below the record-high level seen in recent years.

**Exhibit 2: NBPE's current liquidity position at end-September 2022**



Source: NBPE. Note: outstanding commitments exclude US\$49.8m of commitments unlikely to be drawn.

Amid the wide discount to NAV of 35% (versus five-year average of 26%), NBPE recently announced that it has entered into a new buyback agreement with Jefferies. Share repurchases may be executed at the discretion of Jefferies, subject to the criteria set by NBPE's board including, among others, the absolute level of discount, NBPE's discount compared with a peer group as well as broader equity market movements. The NAV accretion coming from prospective share repurchases is an additional benefit to shareholders on top of NBPE's attractive dividend yield of c 5.3% at present (based on a policy assuming an annualised dividend at 3% of opening NAV, paid semi-annually). NBPE's LTM dividend payment of US\$0.94 per share represents a healthy 30% y-o-y increase and we note that the company maintained the latest interim payment at a level in line with the previous one despite the decline in NAV (the LTM dividend is 2.6x covered by realisations announced so far in 2022).

## Case studies from Thoma Bravo and Platinum Equity

During the CMD, representatives of two of the lead private equity firms NBPE invested alongside presented case studies of two of NBPE's underlying portfolio companies, which was a good opportunity to hear first-hand from these leading private equity firms.

Tara Gadgil (partner) from Thoma Bravo, a leading specialist investor in software companies with whom NB has a relationship of over 20 years, discussed the investment in **RealPage**, a cloud-based platform provider for the multi-family rental industry. Thoma Bravo and its co-investors took the company private in April 2021 and facilitated the company's succession planning process, leading to the appointment of a new CEO. The lead sponsor also facilitated a cost optimisation programme which resulted in US\$83.3m cost savings by end-2021 (targeting 2022 run-rate cost savings at US\$93m). Moreover, since the take-private deal completion, RealPage completed four acquisitions with a total enterprise value of c US\$800m (with further M&A in the pipeline). As a result, the company's EBITDA target for 2022 is US\$551.2m vs US\$324.7m posted in 2020. NBPE's investment in RealPage was valued at US\$13.8m at end-August 2022, or c 1% of its NAV.

Jacob Kotzubei (partner) from Platinum Equity presented the case study of **Solenis**, a provider of specialty chemicals and mission-critical services focused on solving environmental and sustainability challenges of water-intensive businesses in sectors such as pools, packaging, consumer products, municipals and industrials. The company has over 1,700 patents and targets 2022 sales and pro forma adjusted EBITDA of US\$4.4bn and US\$675m, respectively, which implies a significant increase in profits from the moment of being acquired by Platinum Equity in November 2021, driven by a combination of operational improvements and add-on acquisitions.

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