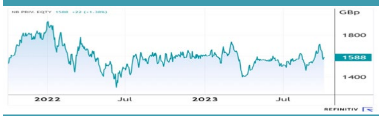
Closed End Investments



Source: Refinitiv

Market data

EPIC/TKR	**NBPE/NBPU**
Price (£)	15.98/$19.46
12m high (£)	17.4/$20.9
12m low (£)	13.0/$16.0
Shares (m)	43.44
Mkt cap (£m)	743
NAV (Aug'23)	£22.04/$27.93
Disc. to £ NAV (%)	-27
Free float	100%
Ctry/Ccy of listing	UK - GBP/$
Market	FTSE 250, STMM

Description

NB Private Equity Partners (NBPE) leverages the platform of its manager, the PE division of Neuberger Berman (NB), including NB's relationships, dea flow and expertise, and has built a portfolio of 90+ direct investments diversified by manager, sector, geography and size. It focuses on investing in companies that benefit from secular tailwinds and/or lower cyclicality, with high barriers to entry, or the delivery of mission-critical products or services.

Company information

Chair	William Maltby
NEDs	Trudi Clark, Pawan Dhir, John Falla, Louisa Symington-Mills, Wilken Von Hodenberg
Key NB Manager	Peter von Lehe, Paul Daggett

Tel: (+1) 214 647 9593
www.nbprivateequitypartners.com

Key shareholders (31 Dec'22)

Quilter Cheviot	13.3%
Evelyn Partners	9.0%
City of London IM	6.8%
Treasury shares	6.3%
Cazenove Capital	6.1%
New Jersey Div. of Inv.	5.3%

Diary

5 Oct (2pm)	Virtual CMD

Analyst

Mark Thomas mt@hardmanandco.com

Discloser: the relevant analyst is a shareholder in NBPE

NB PRIVATE EQUITY PARTNERS

1H'23 results summary: continued growth

We reviewed NBPE's business model in our initiation, *Co-investments generating superior performance.* We noted the high-secular-growth and downside-resilient investee companies, the value added by partner GPs, the good co-investing cashflow and return profile and the value added by the manager, NB. The *26 September results* confirmed all these trends. The key numbers were i) NAV p/sh $29.24 (£23.00) (Aug $27.93/ £22.04. ii) 4.8% NAV TR at 30 June 2023, iii) portfolio company weighted average LTM 14.9% revenue and 15.4% EBITDA growth, iv) EV/LTM EBITDA 15.4x, and v) debt/EBITDA 5.4x.

- **Further details:** Strong operating performance: the continued strong EBITDA and revenue growth across the portfolio drove a 3.8% return from private investments, which was further underpinned by positive returns from quoted and FX. NBPE also announced the intent to repay ZDPs in Oct'24, and the draw down minimum utilisation of credit line ($90m) and invested in T-bills.
- **CMD 5 October:** NBPE will provide a detailed analysis of the portfolio and its views on the private equity market (including ESG). In addition, case studies of underlying portfolio companies will be presented by two of the lead private equity firms, which NBPE has invested alongside. This will be followed by Q&A.
- **Valuation:** The 27% discount is above that of direct peers (average 24%), and it (like peers) rose sharply in 2022, to well above historical levels. Adjusting for the legacy income-investments (7% of portfolio), NBPE's discount rises to 33%. The NAV appears resilient and conservatively valued, making the discount absolutely and relatively anomalous.
- **Risks:** Sentiment to costs, the cycle, residual positions in highly rated listed companies following IPOs in 2020-21, the duration of the discount and valuation are the key issues for NBPE, as they are across the whole listed sector. As we detail, below, they are sentiment issues, and do not reflect reality, as we see it. The benefits from the current strategy may not yet be fully appreciated.
- **Investment summary:** With over 92% of the portfolio invested in direct equity, NBPE is the most focused listed vehicle in the low-cost, attractive co-investment subsector of the market-beating PE sector. The company and GP selection have proved resilient in downturns, and consistent, large premiums on exit should give investors comfort in the NAV. Its portfolio is diversified by name, sector, GP and geographically, but it has enough concentration for individual investments to add value. The discount is anomalous with long-term, market-beating returns.

Financial summary and valuation

Year-end Dec ($m)	2019	2020	2021	2022
Interest and dividend income	13	10	6	5
Net fin. assets/liab. gains (FVTPL)	106	224	532	(76)
Total expenses	40	48	75	38
Net asset change from ops.	78	185	463	(109)
PE invest.	1,087	1,255	1,569	1,401
Net debt (incl. ZDP)	(184)	(189)	(46)	(66)
NAV per share ($)	19.11	22.49	31.65	28.38
NAV per share (£)	14.43	16.45	23.37	23.59
S/P prem./disc. (-) to NAV	-16%	-29%	-21%	-33%
Dividend p/sh ($)	0.57	0.58	0.72	0.94
Yield	3.2%	3.2%	3.7%	5.5%
Year-end exch. rate (£:$)	1.324	1.367	1.354	1.203

Source: Hardman & Co Research

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Results summary

1H'23 results

NBPE and benchmark annualised total returns (%)

As of 30 June, 2023	YTD	1 year	3 years	5 years	10 years
NAV TR ($)	4.8	5.4	20.6	13.6	13.0
MSCI World TR ($)	15.4	19.1	12.2	9.6	10.1
Share price TR (£)	(3.9)	6.1	22.6	11.8	14.6
FTSE All-Share TR (£)	5.3	7.9	10.0	3.1	5.9

Source: NBPE, Report and Accounts, Hardman & Co Research

- NAV p/sh was $29.24 (£23.00) with a 4.8% NAV TR in the six months to 30 June 2023.
- Strong operating performance has been driving value and further supported by positive returns in the quoted portfolio in period to June.
- The five-year gross IRR on direct investments has been 16.2%, with a 2.4x multiple to cost and an average uplift on exit of 38.2%.
- Valuations of private companies increased by 3.8% in constant currencies through 30 June 2023.
- Portfolio company weighted average LTM to 30 June 2023 operating performance was 14.9% and 15.4% for revenue and EBITDA growth, respectively, inclusive of M&A. Both have accelerated on the FY'22 rates and it is impressive to have EBITDA growth ahead of revenue growth at a time of inflationary cost pressures putting pressure on market-wide margins. 79% of the portfolio showed LTM growth (22% at more than 30%) while 78% reported positive LTM EBITDA growth (again 22% grew more than 30%).
- Private portfolio LTM/EBITDA valuation multiple was 15.4x, at 30 June 2023, an increase from 15.2x at 31 December 2022; the private company valuation increases were mainly driven by performance rather than multiple expansion.
- Weighted average net debt was 5.4x, a decrease from 5.5x at 31 December 2022. Strong LTM EBITDA growth was partially offset by debt to finance M&A in a number of companies. ca.85% of portfolio debt maturity falls in 2026 or later and the vast majority of debt (>80%) is covenant-lite.
- $291m of available liquidity was recorded at 30 June 2023, a very comfortable level, being at 6.6x the $44m commitments. The latter reflect historical exposures, as the co-investment model does not generate the multi-year exposure of committing to a GP fund.

August update

NBPE and benchmark annualised total returns (%)

As of 31 August, 2023	YTD	1 year	3 years	5 years	10 years
NAV TR ($)	1.8	4.3	18.6	13.0	12.4
MSCI World TR ($)	16.5	16.2	8.9	8.9	9.9
Share price TR (£)	0.9	0.5	24.4	10.9	15.2
FTSE All-Share TR (£)	2.7	5.2	10.5	3.4	5.5

Source: NBPE, Report and Accounts, Hardman & Co Research

- NAV p/sh, at 31 August 2023, was $27.93 (£22.04), a decrease of 3.0% in the month. $36m ($0.77 p/sh) and $7m ($0.15 p/sh) were attributable to declines in quoted share prices and negative foreign exchange valuation adjustments, respectively, during the month of August. 14% of valuations are as at August and 86% still at June.

- A $22m dividend ($0.47 p/sh) was declared in July and paid in August 2023. There have been $5m of share repurchases in 2023 YTD ($0.05 accretive to NAV p/sh.).

- There were $210m of undrawn credit line and $67m of cash/liquid investments. In addition to these amounts, $67m of distributions are expected to be received over the coming months from announced realisations.

- The directors intend for NBPE to repay the final entitlement of £65m ($83m) of NBPE's 2024 ZDPs when they mature in October 2024. To facilitate efficient cash management, NBPE drew down the minimum utilisation amount on its credit facility ($90m) and invested a portion of this amount in US Treasury Bills, partially offsetting NBPE's minimum utilisation fee.

- 2023, YTD, has seen announced realisations of $127m with seven full or partial sales pending in 2023. Most exits were of smaller holdings and of the total, ca.20% was from listed holdings. The full sales were of Accedian, FV Hospital, Boa Vista, Concord Bio and Petsmart, as well as further liquidity from the partial sales of public stock in Vertiv and Holley.

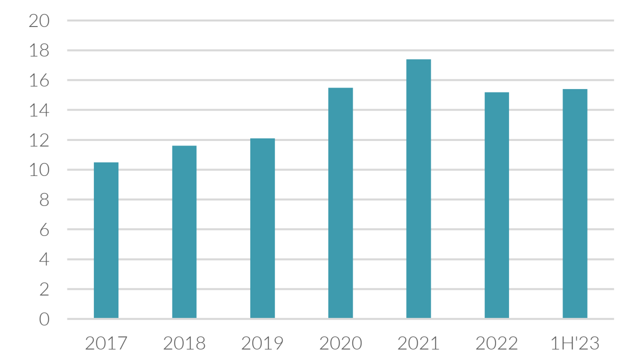
- YTD through 31 August 2023, there has been $20m of investment, including $13m follow-on investments in Solenis and Renaissance Learning to support transformative M&A.

- The public portfolio consisted of 17 positions ($167m fair value) with 74% held in the largest five holdings and a 1.8x/3.5x realised/total multiple, respectively, of invested capital generated by the top five investments.

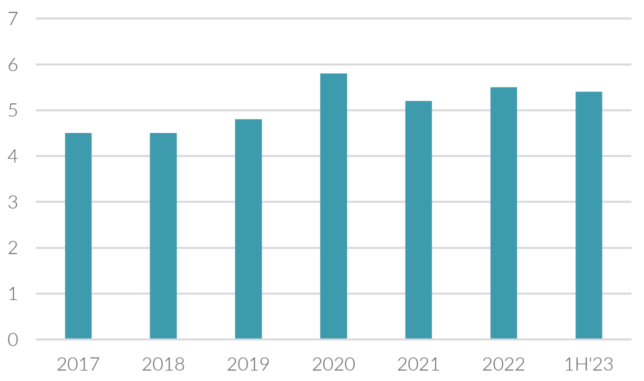
Key metrics

The charts below show some of the key metrics for NBPE.

EV/EBITDA (x)

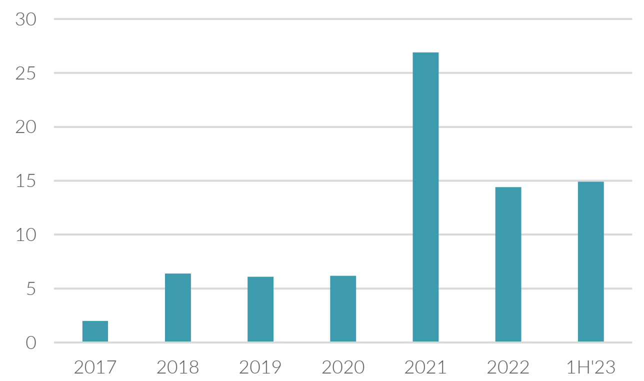


Debt to EBITDA (x)

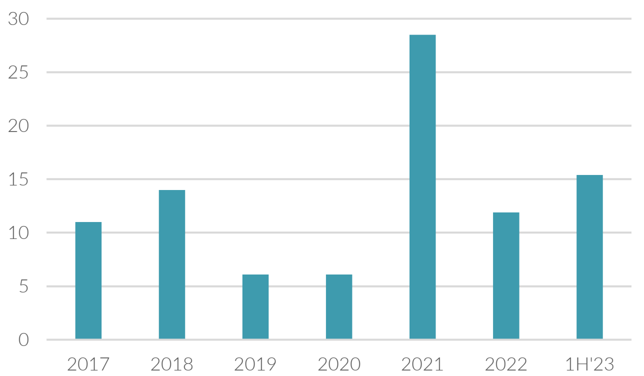


Source: NBPE Report and Accounts, Hardman & Co Research

Reported average LTM revenue growth (%)

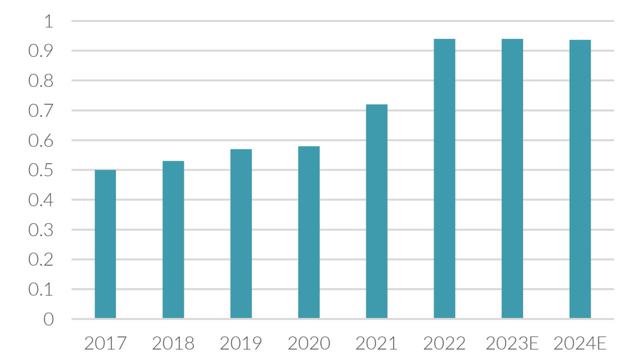


Reported average LTM EBITDA growth (%)

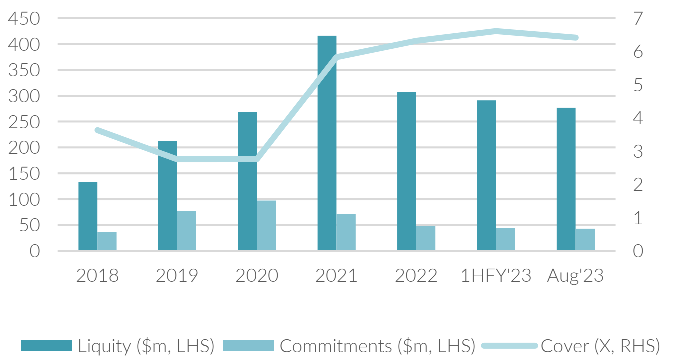


Note: unadjusted for 2022 methodology change, which stripped out some (high) outliers, Source: NBPE Report and Accounts, Hardman & Co Research

Dividend (c)



Available liquidity, commitments and cover ($m)

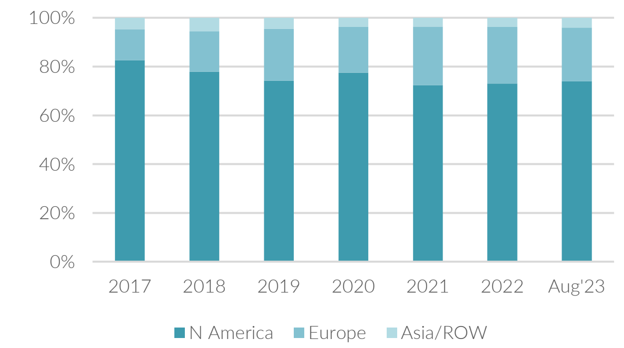


Source: NBPE Report and Accounts, Hardman & Co Research

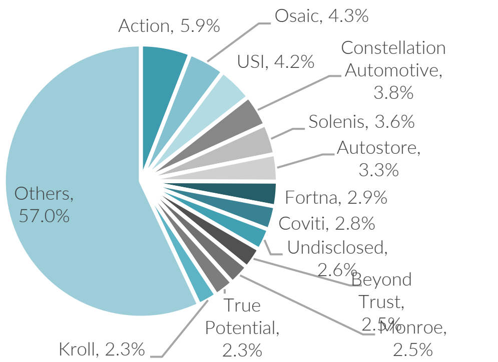
Portfolio summary (Aug'23)

The charts below show some of the trends in the portfolio. There has been a continuation of trends, rather than anything dramatic, which is not surprising, given the long-term nature of NBPE's investments.

Geographical mix of assets (% portfolio value)

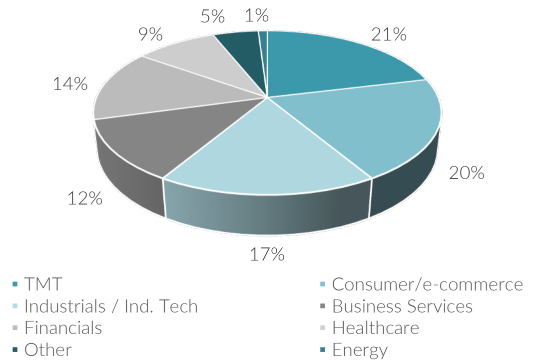


Largest holdings (% NAV)

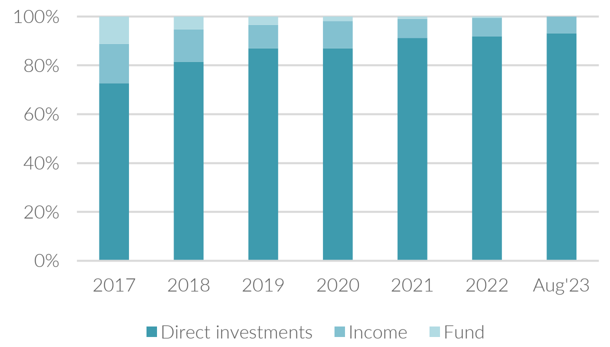


Source: NBPE Report and Accounts, Hardman & Co Research

Sectoral mix of investments (% portfolio value)

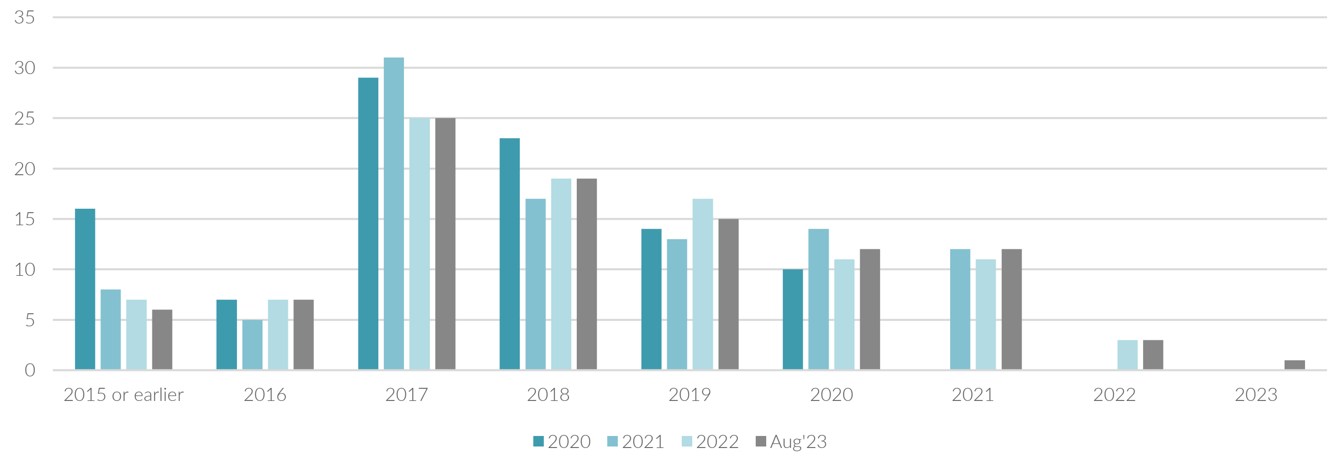


Mix by type of investment (% portfolio value)



Source: NBPE Report and Accounts, Hardman & Co Research

Mix of investments by vintage (% portfolio value)



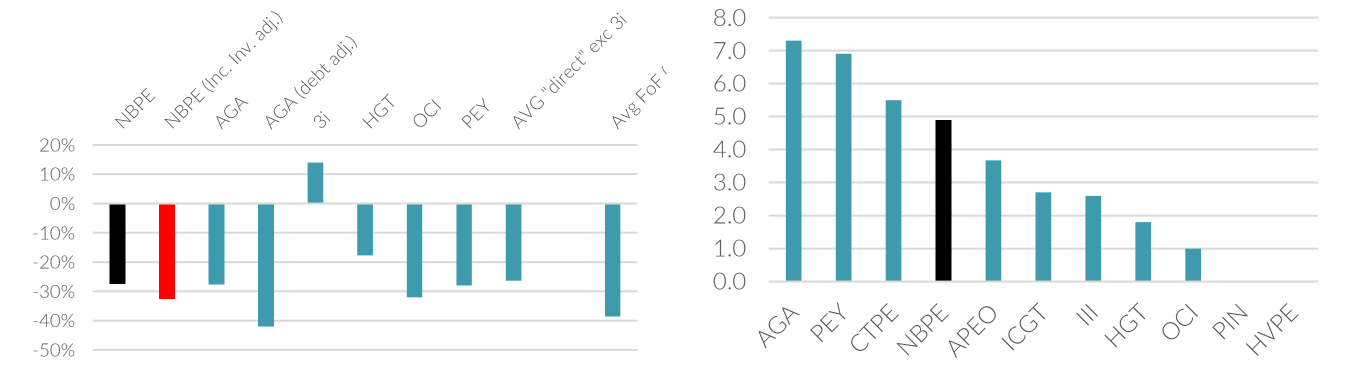
Source: NBPE Report and Accounts, Hardman & Co Research

Valuation

Discount is above direct investing PE names and approaches FoF level, once adjusted for income investments

As the chart below shows, NBPE's current reported discount to NAV (27%) is at the higher end of the direct investing listed PE trusts. If we adjust for the income investments at their carrying value, the PE business discount rises to 23%. This appears anomalous with its business model. Its dividend yield is appreciably above the sector average.

Current share price discount to latest NAV (LHS, %), and dividend yield (RHS, %) for narrow and wider peers



Source: Company websites, factsheets and presentations, Hardman & Co Research, priced at 13 June 2023

Sector-wide concerns about the validity of the current NAV and its resilience have been addressed in earlier sections and appear to be more sentiment issues than reality.

If NBPE were a trading company, we would use a GGM model, to reflect the value added by management. Using this model, it should trade on a multiple appreciably above NAV, given returns are a long way above cost of capital and that it has grown strongly over the medium term.

What could lead to a rerating?

We reviewed in detail in our initiation our view that there are two possible elements to a rerating, namely:

First element is sector rerating, which, arguably, has already started

The first element of a rerating would be a reversal of the 2022-1Q'23 increase in sector-wide discounts. This requires more confidence in NAV and economic resilience, driven by i) continued exit uplifts and returns, which could give investors this confidence, and ii) a risk-on rather than risk-off environment, which will help. This may coincide with further confidence that a US recession has been avoided or a market view that interest rates have peaked.

Second element is final 15%-20% of discount to par. NBPE requires delivery of returns but may take more time.

The second element to a rerating is the elimination of the historical discount shown on page 1. At the end of 2019, pre pandemic, the discount had fallen to 16%. This rose to 29% at the end of 2020 on COVID-19, before falling again, at end-2021, to 21%. Within this noise, overall, we would characterise the trust as having a sustained discount of around 15%-20%. Given the market-beating returns in underlying companies driving market-beating investor returns, and the strong capital structure inherent in a co-investing vehicle, such a discount appears a fundamental anomaly. In our view, eliminating it over the longer term is about delivery of returns, which, at some stage, will be recognised by the market.

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The full detail is on page 26 of the full directive, which can be accessed here: https://ec.europa.eu/transparency/regdoc/rep/3/2016/EN/3-2016-2031-EN-F1-1.PDF

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