



Flash update: NB Private Equity Partners

NBPE has reported a very strong start to 2021, building on an excellent 2020...

Update
27 April 2021

Last week, NB Private Equity Partners made two announcements which show that its portfolio experienced strong progress during 2020, and also so far in 2021. Over the course of 2020, NBPE delivered a NAV total return of c. 21.4%. This was driven by resilient underlying portfolio company performance on an aggregate basis, which contributed to meaningful valuation uplifts. In the estimated March 2021 NAV announcement, the NAV total return increased a further c. 8.1%, including a dividend of US\$0.31 paid to shareholders. This brings the GBP NAV to 1737p, up 92p since the 31/12/2020 NAV.

These gains, as well as those in 2020, have been driven by a record level of distributions from the direct equity investments, with approximately \$165m of realisations. Of this, roughly \$121m came from five full/final exits and c. \$44m from partial realisations. The five full/final exits generated a 2.9x gross multiple of capital and robust uplift of 30% relative to carrying value three quarters prior (uplift excludes one public company where shares were exited through multiple open market sales). As a whole, the portfolio generated cash of c. \$199m through realisations, or 18% of opening portfolio value. So far in 2021 NBPE has announced seven full or partial exits in process, all of which have been announced but not all have yet closed. This will result in a total NAV uplift of c. \$142m, of which c. \$86m has been included in the 31/03/2021 NAV. The remaining c. \$56m is expected to be incorporated in the coming months, as information is received from underlying sponsors and in accordance with NBPE's valuation policy.

As of 31 December 2020, NBPE's direct equity portfolio had a total fair value of roughly \$1.1bn, and included 65 core investment positions (those greater than \$5 million of value), made alongside 38 different private equity sponsors. While we would comment that the portfolio is broadly diversified, the top 20 investments represented approximately 48% of fair value. Underlying LTM revenue and EBITDA growth from the portfolio were 6.2% and 6.1% respectively.

At the forthcoming AGM, Peter von Lehe (a managing director at NB) will not be seeking re-election, and once his replacement has been found the five-person board will be entirely independent.

Kepler view

The portfolio's gross IRR (i.e. before all costs) for 2020 was 21.3%, which compares against the slightly higher NAV total return of 21.4%. We think that this highlights the benefit to investors of

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the structural gearing provided by the zero dividend preference shares and credit facility. As we note below, with significant cash coming back from realisations and partial exits, this means effective gearing will likely come down. In our view, this will serve to reassure the market that NBPE is in a strong position from a balance sheet perspective.

As the estimated March NAV announcement highlights, the strong momentum behind realisations from 2020 has continued into 2021, with seven full or partial exits in process at the time of writing, contributing a further 8.1% to NAV total returns in Q1 2021. In aggregate, we understand that these seven investments are expected to result in a NAV uplift of approximately \$142m relative to 31 December 2020 valuations. Over half of this sum has been recognised already, but the remaining \$56m yet to be recognised should translate into further NAV uplifts of c. 4.96% once they have been incorporated into the NAV.

Including these gains, the adjusted NAV is \$25.16 (or £18.09), to which NBPE shares trade at a discount of 23% (based on a share price of £13.99). In our view,



this looks attractive on an absolute basis. We believe that several factors suggest that NBPE appears well placed to continue to deliver strong returns, and together leave the company in an attractive position. With a mature portfolio exposed to growth sectors and defensive companies, continued strong progress in the NAV during 2021 cannot be ruled out. At the same time, NBPE's gearing is coming down and the board will soon be entirely independent. As such, the current discount could be a potentially attractive entry point to get access to a diversified portfolio of the top private equity deals (mainly in the US), in a vehicle which pays only one layer of fees (no management fee or carried interest payable on the vast majority of co-investments), but which is clearly experiencing strong momentum behind it.

Vintage

As at 31/12/2020 within the direct equity portfolio, the 2017 and 2018 vintages were the largest exposures, and represent over 50% of the portfolio's vintage year exposure. Importantly, this is the result of strong positive performance of the companies within these vintages resulting in valuation write-ups as value creation progresses within individual investments. With a weighted average age of approximately 3.3 years, the portfolio is within the window of the three to five year holding period that is typically targeted by most private equity sponsors, and given the strong performance of the portfolio, the manager believes a number of companies are well positioned for near term exits.

Sector biases

Among the top 40 investments (representing 68% of value), technology and e-commerce was the largest growth theme, representing approximately 39% of value among the top 40 investments. NBPE's technology portfolio included a number of areas that the manager believed offered attractive growth potential together with reasonable downside protection characteristics which included infrastructure software (Accedian and Solace Systems), security (Beyond Trust and By Light), education software (Final Site and Renaissance Learning) and other technology businesses (Engineering).

Momentum

As highlighted in the estimated March NAV, strong momentum from 2020 has continued into 2021. Seven companies have announced transactions which will result in full or partial realisations to NBPE, which are expected to generate meaningful cash back and uplift relative to the year-end valuations. The manager expects these uplifts to be reflected in NBPE's NAV over the next few quarters. We understand that only two of these companies were in the top 15 companies, indicating that there is plenty of potential

from the other significant holdings in the portfolio. Certainly, this builds further on the strong performance delivered by NBPE's equity investments historically. Whilst past performance is not a reliable indicator of future results, NB provided information on the direct equity portfolio showing gross IRR's over 1,3,5 years (to 31/03/2021) of 23.1%, 15.1% and 17.9% respectively.

Balance sheet

NBPE invests directly into private equity companies, without the need for significant long-term commitments. As at 31/03/2021, NBPE had total available liquidity of \$280m. As at 31/03/2021, NBPE was 118% invested. However, the announced realisations are expected to return a significant amount of cash back to NBPE, which the manager expects to re-deploy into new investments, while maintaining a prudent capital structure.

[Click here to view the March 2021 NAV report on RNS](#)

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