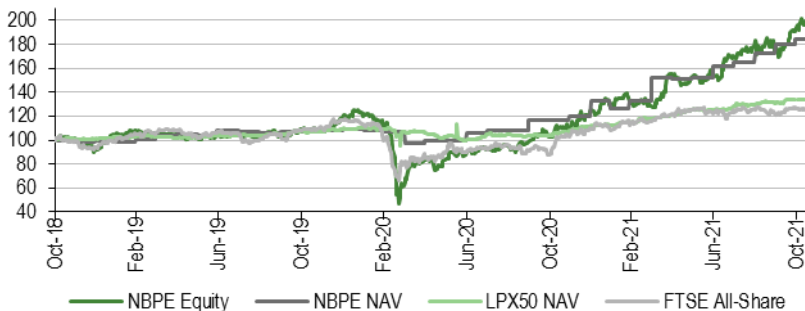


# NB Private Equity Partners

## Strong NAV contribution from exits

NB Private Equity Partners (NBPE) continues its strong performance driven by exits and valuation uplifts in existing portfolio holdings. In the 12 months ending October 2021, it delivered a NAV total return of 57.8% in US dollar terms, with 5.4pp from the recent IPO of the warehouse automation business AutoStore. The performance was also supported by growth in the remaining portfolio companies. The realisations have left NBPE with increased dry powder, while the investment level remained within the target range. Despite the strong returns and a one-layer fee structure, NBPE trades at a wide discount (21% versus the peer average of 14%).

### NBPE outperforms public and private markets over three years



Source: Refinitiv, Edison Investment Research.

## Why consider NBPE?

NBPE's recent strong performance illustrates the benefits of the company's focus on co-investments. It continues to favour investments alongside GPs in their respective core industries, leveraging the deal origination network of the NB platform. It offers moderately geared exposure, which should benefit NAV returns if the economic environment is sustained. Neuberger Berman, NBPE's asset manager, also puts strong emphasis on ESG factors (received highest score in the most recent Principles for Responsible Investment assessment), which is reflected in NBPE's portfolio (99% with no adverse sustainability impact).

## The analyst's view

The 2021 year-to-date realisations (supported by strong M&A and IPO markets) underline the manager's expertise (with 3.7x invested capital exit multiple) and conservative approach to valuation; the average uplift stood at 100% to end-FY20 carrying values. NBPE's announced exits of US\$365m year to date allowed the manager to repay its credit facility and leaves NBPE with ample resources to pursue new investments. This has also reduced the investment level to 111% which, while at the lower end of the target range, leaves NBPE with a solid capital structure ahead of the ZDPs maturing in 2022. At the same time, NBPE still sees exit opportunities in its portfolio, of which 61% is from 2018 and earlier investments. NBPE also maintained its dividend payout policy throughout the pandemic and the last 12-month dividends imply a c 3.1% yield.

## Investment trusts Private equity

29 November 2021

**Price** 1,755p  
**Market cap** £828.0m  
**NAV\*** US\$1,423.6m

NAV per share\* US\$30.44  
 NAV per share\* £22.21  
 Discount to NAV 21.0%

\*Including income. At end-October 2021.

Yield 3.1%  
 Ordinary shares in issue 46.8m  
 Code/ISIN NBPE/GG00B1ZBD492  
 Primary exchange LSE  
 AIC sector Private Equity  
 52-week high/low\* US\$24.68 US\$14.02  
 NAV\*\* high/low US\$30.44 US\$19.87  
 \*\*Including income

### Gearing

Net gearing at 31 October 2021 10.1%

### 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. The vast majority of 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.

### Bull points

- An attractive one-layer fee structure (as opposed to private equity funds-of-funds).
- Higher diversification than direct peers.
- Strong short- and long-term NAV total return.

### Bear points

- Timing of exits depends on the decision of GPs (but whose interests are largely aligned with NBPE).
- Structural leverage could increase NAV volatility.
- Short history as a pure direct co-investment play (but the manager has a 15-year track record).

### Analysts

Milosz Papst +44 (0) 20 3077 5700  
 Michal Mordel +44 (0) 20 3077 5700

[investmenttrusts@edisongroup.com](mailto:investmenttrusts@edisongroup.com)

[Edison profile page](#)

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## Strong exit uplifts translate into high NAV return

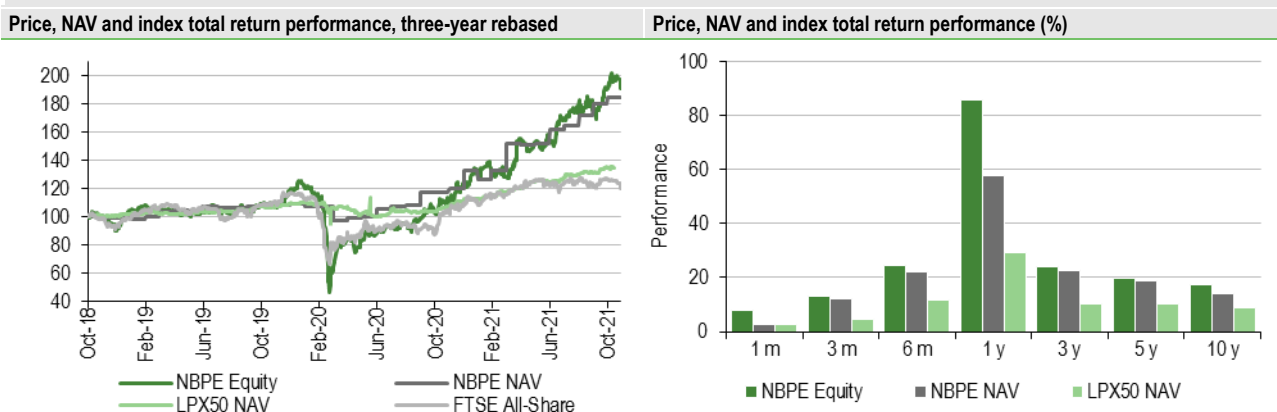
NBPE's one-year NAV total return (TR) in US\$ terms to end-October 2021 was 57.8%, significantly ahead of the broader private equity (PE) market (LPX50) posting 29.4% in NAV TR, its direct peers (see Exhibit 2) and its historical returns (five-year annual average at 18.8%). The NAV uplift was supported by 13 portfolio exit transactions (described below) carried out in 2021 to date, which drove the year-to-date NAV TR in US\$ to 39%. This performance, above NBPE's historical returns, is partially a result of portfolio repositioning from lower-yielding income and fund investments into direct co-investments (see our [initiation note](#) for details). Nevertheless, taking into account direct co-investments alone, their one-year IRR (to end-August 2021) is also strongly ahead of the 10-year average of 21.0%.

NBPE coinvests alongside general partners (GP) and mostly relies on valuations provided by them, which translates into an inherent lag in the NAV estimate. Having said that, the agreed transactions are already mostly reflected in NBPE's NAV estimate. Overall, the portfolio has performed well, with average revenue and EBITDA growth of 17.7% and 15.6% y-o-y respectively at end-H121 (last 12 months (LTM) calculation based on c 75% of portfolio) compared to 6.2% and 6.1% respectively in 2020 versus 2019. This indicates a strong underlying performance, although comparison is somewhat distorted by the low base effect from the initial lockdowns in H120 in some cases.

Favourable NAV performance, newsflow and exits have supported an 85.8% share price rally over the year to end-October in dollar terms (compared to 43.5% in dollar terms by the FTSE All-Share index), narrowing the discount to NAV to 23.1% from 36.7%. Despite the continued share price rallies since after the early 2020 pandemic-induced sell-off, NBPE's discount to NAV is still wider than the end-2019 level of 16.1% due to the significant NAV expansion.

NBPE's long-term NAV TR performance (18.8% pa over five years in US\$) is well ahead of the LPX 50 NAV Index (10.5% pa), despite the period capturing returns before the abovementioned portfolio transition. In this context, we also consider a comparison to the end-2019 discount to be more appropriate than NBPE's long-term average (23.8% in the five-year period).

**Exhibit 1: NBPE performance to 31 October 2021 in US dollar terms**



Source: Refinitiv, Edison Investment Research. Note: Three-, five- and 10-year performance figures annualised.

## Discount wider than peers despite robust NAV returns

In Exhibit 2, we present a peer group comparison of listed PE funds in two subgroups: direct investors and funds of funds. The recent strong valuation uplifts in NBPE's portfolio have placed the company among the top performers in both groups (despite some adverse currency effects

because, unlike most peers, the majority of NBPE's assets are denominated in dollars). Because NBPE coinvests directly in private companies, we deem that direct PE investors are more suitable comparators. That said, due to NBPE's unique business model focused on co-investments (which partially relies on third-party expertise and allows for higher diversification) and the above-mentioned portfolio composition change, we also present a PE fund-of-funds peer subgroup. Over longer periods (three and five years) NBPE's NAV development is broadly aligned with the average returns of both subgroups and significantly outperforms them over the 10-year period (despite lower-yielding income and fund investments being a significant part of NBPE's portfolio in the past). Despite the strong performance and one of the highest dividend yields, NBPE continues to trade at an above-average discount, aligned much closer to funds-of-funds than direct peers. We should highlight that while NBPE's ongoing charge ratio may seem high (the second highest in the group), the ongoing charges of the fund-of-funds structures do not capture management fees (typically at 1–2%) and carried interest charges (around 20%) paid at the underlying fund level (which NBPE does not incur, like the direct PE investors).

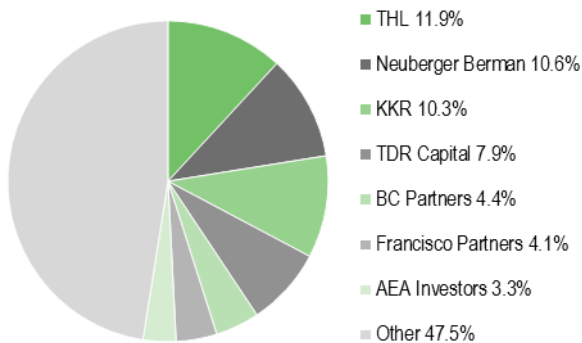
**Exhibit 2: Listed private equity investment companies peer group at 29 November 2021\* (in sterling terms)**

% unless stated	Market cap £m	NAV TR 1 year	NAV TR 3 year	NAV TR 5 year	NAV TR 10 year	Discount (cum-fair)	Ongoing charge**	Perf. fee***	Net gearing	Dividend yield
<b>NB Private Equity</b>	<b>771.9</b>	<b>50.0</b>	<b>72.4</b>	<b>110.6</b>	<b>345.7</b>	<b>(21.0)</b>	<b>2.2</b>	<b>Yes</b>	<b>108</b>	<b>3.1</b>
HgCapital Trust	1,879.2	40.4	113.0	193.0	369.4	1.3	1.6	Yes	100	1.2
Oakley Capital Investments	674.2	25.6	77.0	117.4	159.7	(15.2)	2.5	Yes	100	1.2
Princess Private Equity	775.5	20.2	50.3	83.8	195.3	(16.0)	1.9	Yes	100	4.7
<b>Direct funds average</b>	<b>1,109.6</b>	<b>28.7</b>	<b>80.1</b>	<b>131.4</b>	<b>241.5</b>	<b>(10.0)</b>	<b>2.0</b>	<b>-</b>	<b>100</b>	<b>2.4</b>
BMO Private Equity Trust	344.6	48.7	73.2	111.6	0.0	(15.7)	1.3	Yes	112	3.7
HarbourVest Global Private Equity	2,152.3	45.3	82.0	124.5	360.9	(16.6)	1.3	Yes	100	0.0
ICG Enterprise Trust	877.0	37.5	57.2	111.3	213.3	(16.0)	1.5	Yes	100	2.0
Pantheon International	1,745.9	31.0	51.3	89.2	242.5	(18.0)	1.2	Yes	100	0.0
Standard Life Private Equity	784.1	36.7	62.0	100.4	236.4	(16.8)	1.1	No	100	2.6
<b>Funds of funds average</b>	<b>1,180.8</b>	<b>39.8</b>	<b>65.1</b>	<b>107.4</b>	<b>210.6</b>	<b>(16.6)</b>	<b>1.3</b>	<b>-</b>	<b>103</b>	<b>1.7</b>
<b>Average (eight funds)</b>	<b>1,154.1</b>	<b>35.7</b>	<b>70.8</b>	<b>116.4</b>	<b>222.2</b>	<b>(14.1)</b>	<b>1.5</b>	<b>-</b>	<b>102</b>	<b>1.9</b>
<b>NBPE rank in sector</b>	<b>7</b>	<b>1</b>	<b>5</b>	<b>6</b>	<b>3</b>	<b>9</b>	<b>2</b>	<b>-</b>	<b>2</b>	<b>3</b>

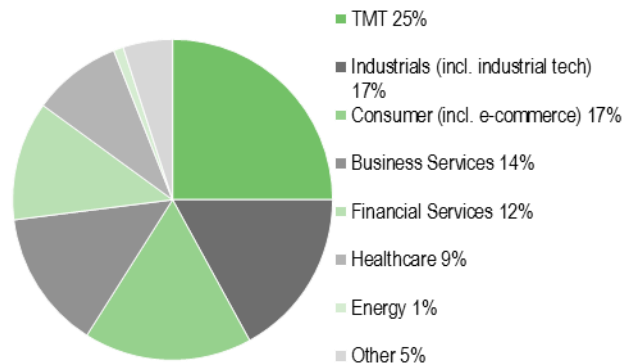
Source: Morningstar, Refinitiv, Edison Investment Research. Note: \*12-month performance based on latest available ex-par NAV (end-October for NBPE, Princess Private Equity, HarbourVest Global Private Equity, Pantheon International, Standard Life Private Equity; end-September for HgCapital Trust; end-July for ICG Enterprise Trust; end-June for Oakley Capital Investments and BMO Private Equity Trust). \*\*Ongoing charge at fund level only; does not capture the second layer of fees in the fund of funds subgroup. \*\*\*Performance fees paid at underlying funds level. Net gearing is total assets less cash as a percentage of net assets. 100=ungeared.

## NBPE continues to invest in resilient sectors

NBPE invests primarily as a coinvestor alongside other PE managers (direct equity investments made up over 90% of its portfolio at end-October 2021) and is well diversified by PE sponsor with its largest exposure at 12% (THL, as at end-August 2021). The remaining portfolio was held in legacy income and fund investments (with their exposure gradually diminishing). The portfolio is also well diversified by individual private investments with over 100 positions and the top 10 holdings represent 36% of NBPE's portfolio value at end-October 2021. In terms of the industries, NBPE has the largest exposures to TMT (25% of portfolio value), industrials (17%) and consumer (17%), with a number of industrials and consumer investments having a significant industrial technology or e-commerce profile, respectively. The focus is on software and other mission-critical applications (TMT), automation and sensing technologies (industrials), strong brands in the consumer sector with low cyclical products and a focus on e-commerce channels (consumer) and healthcare companies.

**Exhibit 3: NBPE's portfolio split by sponsor**


Source: NBPE data as at end-August 2021

**Exhibit 4: NBPE's portfolio split by industry**


Source: NBPE data as at end-October 2021

## Successful IPO of AutoStore

In 2021 to end-October, there were 11 full and partial exits within NBPE's portfolio performed at a healthy average 3.7x expected multiple of invested capital (multiple excludes the Agiliti IPO) and c 100% average estimated uplift to end-2020 carrying value. In total, realisations (including dividends and other) amounted to c US\$365m (of which US\$284m had been received at end-October 2021), which is visibly above the 2016–20 average of c US\$240m. This also implies a realisation of 32% of the opening portfolio value (ie at end-2020), compared to an average full year realisation of 22% in 2016–20. Ten of the transactions were announced earlier this year, highlighted in our [previous note](#).

The most recent transaction is growth financing provided to Renaissance Learning by Blackstone. The company produces education software used by more than a third of the schools in the United States, and NBPE invested in the company in June 2018 alongside Francisco Partners. According to [Blackstone's press release](#) the new capital will support both its organic growth and targeted acquisition strategy following two significant acquisitions earlier this year (research-based foundational literacy programme Lalilo and teacher-facilitated instructional delivery Nearpod) and the transaction resulted in an estimated 93% valuation uplift from its prior carrying value to US\$36.6m (as at end-September 2021, 2.4% of portfolio value).

We also highlight the case of AutoStore. In April 2021 SoftBank acquired 40% of the company (THL remained the majority shareholder), and Autostore recently performed a successful IPO on the Oslo Børs. The IPO valuation of US\$12.4bn was the largest IPO in Norway in two decades and resulted in a 72% uplift to the carrying value in NBPE's portfolio (since the IPO to 26 November, AutoStore's share price has risen by a further c 10%). According to our calculations, the transaction increased NBPE's NAV per share by US\$1.00 net of the performance fee and contributed 3.5pp to the September 2021 NAV return of 4.8%. NBPE sold only a small part of its exposure to AutoStore in the IPO and as a result at the end of October 2021 it became the largest holding, making up 6.6% of the portfolio. Consequently, NBPE's exposure to quoted assets increased to 21% at end-October 2021. The companies within the private portfolio were valued at 15.2x EV/EBITDA (LTM basis) on average at end-June 2021 (c 55% of the portfolio valued with the multiple; the remainder are predominantly public assets and new investments held at cost), which compares to 15.5x at end-2020.

## New investments with a particular emphasis on tech businesses

So far in 2021 (to the end of October), NBPE has invested US\$110m in seven new investments (markedly less than it received from disposals). Around 60% of investments in 2021 in terms of value were allocated to IT/software companies – US\$30m was invested in Stamps.com, a software

provider for e-commerce shipping; US\$15m in the business platform for app developers IronSource; US\$12.2m in Realpage, a software provider for rental housing; and US\$10m in Perspecta (recently acquired by Peraton), the provider of IT services for the US government. The remaining three investments were not disclosed in detail due to confidentiality provisions but were made alongside sponsors with significant experience in corresponding industries according to NBPE: a direct to consumer automotive products business was provided with US\$21.2m; a specialty chemicals and services provider with US\$19.5m; and US\$2.5m was allocated to a fintech company.

### **Well funded to invest in pipeline of investment opportunities**

The net proceeds allowed NBPE to fully pay down its credit facility and it only retains its structural leverage through its ZDPs maturing in 2022 and 2024 (US\$162.8m at end-October 2021). NBPE has a 111% investment level, which is at the lower end of its target range of 110–120%, and can be viewed as prudent, in our view, given nearing maturity of approximately US\$85m ZDPs in September 2022. NBPE calculates that including the available credit lines, it has US\$319m at its disposal to invest at end-October 2021. While the post-pandemic financial market recovery has significantly increased valuation multiples, the NB platform continues to see investment opportunities where it believes it can unlock further value. In the current environment, NBPE plans to continue its investment strategy focused on high-quality companies with a resilient customer base and/or high entry barriers and investments alongside sponsors in their respective areas of expertise, while seeking to maintain a prudent capital structure.

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Frankfurt +49 (0)69 78 8076 960  
Schumannstrasse 34b  
60325 Frankfurt  
Germany

London +44 (0)20 3077 5700  
280 High Holborn  
London, WC1V 7EE  
United Kingdom

New York +1 646 653 7026  
1185 Avenue of the Americas  
3rd Floor, New York, NY 10036  
United States of America

Sydney +61 (0)2 8249 8342  
Level 4, Office 1205  
95 Pitt Street, Sydney  
NSW 2000, Australia