EDISON

Electra Private Equity

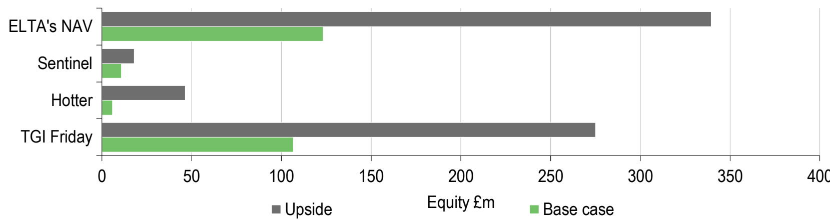
Initiation of coverage

Innovating, restructuring and realising

Investment trusts

Electra Private Equity (ELTA) has been following a realisation strategy since October 2016, when it had a market cap of c £1.7bn, and has since returned £2bn to shareholders. Despite this strong record, the shares currently trade at a 22% discount to NAV. In 2018, the board embarked on a major operational enhancement programme across the remaining three key portfolio assets: TGI Fridays, Hotter and Sentinel, installing new management teams in 2019. ELTA's team has identified significant earnings potential from operational initiatives, which on applying peer and sector multiples translates into significant valuation upside of up to 175% above the current NAV. ELTA is well placed to realise the remaining assets in 2021 and generate attractive shareholder returns before the company's subsequent wind up.

ELTA's NAV upside potential (from base case*, please see Appendix on p.12)



Source: ELTA, Edison Investment Research, at 9 December 2020. *Based on ELTA's management estimates. The base case is the current NAV at 30 September 2020.

Investment strategy: Asset realisation

ELTA's investment objective is to follow a realisation strategy, which aims to crystallise value for shareholders, through balancing the timing of returning cash to shareholders with maximisation of value. The chart above illustrates ELTA's NAV upside potential (c 175% to the current NAV) for the three key assets (c 91% of ELTA's current NAV). The upside (see the appendix on page 12) is built on applying peer and sector multiples to management's pro forma business scenarios.

Market outlook: Busy with operational enhancements

2020 has been a busy year for the global and EMEA private equity (PE) industry. The pandemic has prompted widespread operational restructuring of PE's portfolio companies to navigate them through the tough year. In Europe and the UK, despite lockdowns and resulting business disruptions, buyout, exit and M&A activity during Q320 continued across all sectors, including industrials and consumer discretionary, albeit at reduced year-on-year volumes.

Valuation: Still trading at a deep discount to NAV

ELTA's shares trade at a c 22% discount to the last-reported NAV per share of 353.4p. The average last three years' discount of c 39% reflects the realisation strategy and restructuring efforts around realisation of the remaining three key companies, up until the management at all three was changed in 2019. The discount has recently narrowed materially, after the company confirmed the engagement of Stifel Nicolaus Europe in the sale of Hotter on 13 November 2020.

16 December 2020

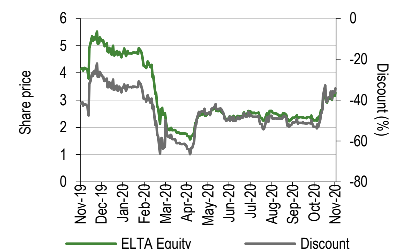
Price	**275.5p**
Market cap	**£105.5m**
NAV	**£135.1m**

NAV*	353.4p
Discount to NAV	22.0%

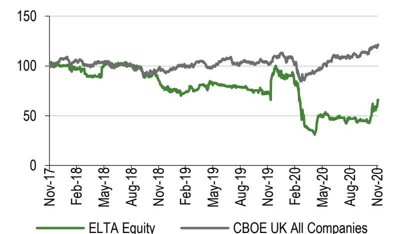
*as at 30 September 2020.

Yield	0.0%
Ordinary shares in issue	38.3m
Code	ELTA
Primary exchange	LSE
AIC sector	Private Equity
Benchmark	CBOE UK All Companies Index

Share price/discount performance



Three-year performance vs index



52-week high/low	427.0p	125.0p
NAV* high/low	548.4p	372.5p

*Including income.

Gearing

Net cash*	£6.9m

*Liquid resources available for deployment as at 30 September 2020.

Analysts

Victoria Chernykh +44 (0) 20 3077 5700
Richard Finch +44 (0) 20 3077 5700
investmenttrusts@edisongroup.com
Edison profile page

Electra Private Equity is a research client of Edison Investment Research Limited

Exhibit 1: ELTA at a glance

Investment objective and fund background

Electra Private Equity's investment objective is to follow a realisation strategy, which aims to crystallise value for shareholders through balancing the timing of returning cash to shareholders with maximisation of value.

Recent developments

- 9 December 2020: FY20 annual results published.
- 13 November 2020: the board of ELTA confirmed the appointment of Stifel Nicolaus Europe to sell its investment in Hotter. The timing of the launch of any sales process will be determined over the coming months.
- 27 August 2020: reduction of capital sanctioned for cancellation of the share premium account and the capital redemption reserve of the company on 21 July 2020.

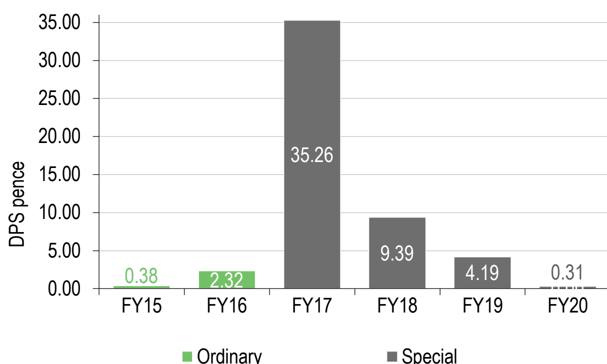
Forthcoming		Capital structure		Fund details	
AGM	March 2021	Ongoing charges	1.8% (30 September 2020)	Group	Electra Private Equity PLC
Interim results	June 2021	Net gearing	None	Manager	Electra Private Equity PLC
Year end	30 September	Annual mgmt fee	None	Address	17 Old Park Lane, London, W1K 1QT
Dividend paid	Special	Performance fee	No		
Launch date	1976	Trust life	Indefinite (until a potential windup)	Phone	+44 (0)20 3874 8300
Continuation vote	None	Loan facilities	None	Website	www.electraequity.com

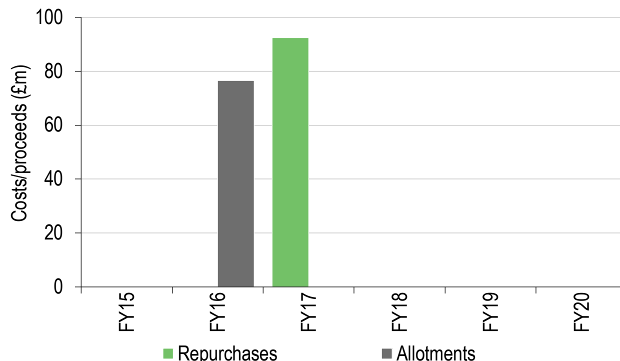
Dividend policy and history

Following the £12m special dividend to distribute the proceeds of asset sales in January 2020, and in light of the COVID-19 situation, no further distributions are scheduled during FY20.

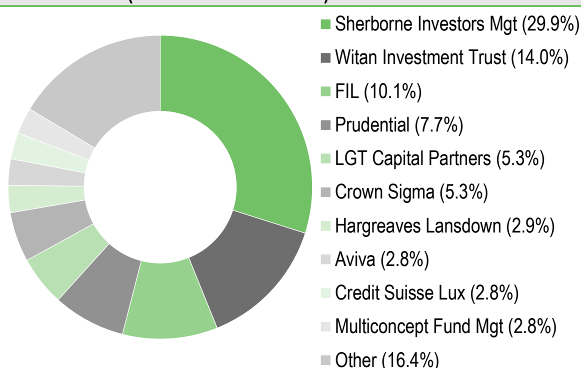
Share buyback policy and history

The group has an existing authority to implement an on-market share buy-back programme to generate shareholder value of up to 14.99% of the total number of ordinary shares in issue. This is renewed annually. Ordinary shares that are purchased under this authority may be held in treasury or cancelled.

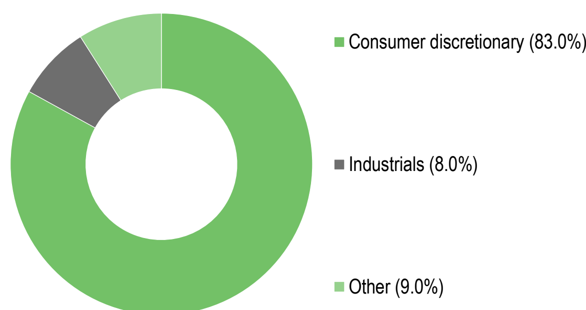




Shareholder base (as at 2 November 2020)



Portfolio exposure by sector (as at 30 September 2020)



Holdings (as at 30 September 2020)

Company	Country	Industry	30 September 2020	
			Unrealised value (£m)	Value (% of NAV)
TGI Fridays	UK	Consumer discretionary	106.6	79%
Hotter	UK	Consumer discretionary	5.8	4%
Sentinel	UK	Industrials	10.9	8%
Top 3 (% of holdings)	**-**	**-**	**123.3**	**91%**

Source: ELTA Private Equity, Edison Investment Research

Fund profile: Targeting wind-up and cash distribution

Electra Private Equity is a London Stock Exchange-listed investment trust focused on PE investments. Since 1 October 2016, ELTA has distributed over £2.0bn to shareholders through ordinary dividends, special dividends and share buybacks. In 2016, the directors began reviewing the company's strategy, considering options for the future of the company, other than retaining its diversified listed PE status.

On 4 October 2018, the board announced the outcome of its strategic review. The board concluded and recommended that it is in the best interests of shareholders to conduct a managed wind-down of the portfolio over a period of time, allowing optimisation of returns, the return of cash to shareholders and ultimately the winding up of the company.

The fund manager: Electra Private Equity (ELTA)

Team

The company is managed in-house. Neil Johnson is the executive chairman. Gavin Manson is the chief financial and operating officer. He works directly with the portfolio company CEOs to manage the assets. All ELTA's administrative functions are outsourced.

G10 Capital ('G10') is its alternative investment fund manager or AIFM. G10 is authorised and regulated by the FCA. G10 is appointed as AIFM to ensure regulatory compliance.

Strategic overview

The board considered that each of the remaining corporate investments represented an opportunity for value creation within an acceptable timeframe, typically up to seven years within the PE industry. The board concluded that reinvesting in a listed PE vehicle with a significant market discount to net asset value (NAV) was structurally inefficient. The very high concentration of the portfolio (three key investments: TGI Fridays, Hotter and Sentinel) means that a sale of an investment is more efficient, timely and the optimal option for the current shareholders, compared with building up the portfolio to become a more diversified listed PE vehicle.

The manager's view: Well positioned for realisations

ELTA believes that its three key companies have strong and effective management teams in place, improved product offerings and the determination to deliver value to shareholders consistent with the declared strategy. With significant structural improvements now implemented in each business, a return to 2019 levels of market activity should provide an opportunity for value realisation in excess of pre COVID-19 valuation levels.

The company highlighted in its annual report (to end-September 2020) that the pandemic and the resultant impact on equity market values has had the effect of reducing the combined valuation of the three larger investments by £58.4m from their valuations at end-September 2019. To mitigate that, during 2020, in the most challenging circumstances, the portfolio companies' management teams and their employees have worked tirelessly to protect their businesses and put them in a strong position for future growth, as the UK and world economies recover and consumer demand returns.

Investment objective, strategy and asset allocation

Strategic review

On 4 October 2018, the board announced the outcome of the third phase of its strategic review. The board announced that it considered that each of the remaining corporate investments represented an opportunity for value creation within an acceptable timeframe, but had decided that the concentration of the portfolio and the structural inefficiency in reinvesting in a listed PE vehicle with a significant market discount to NAV made it inappropriate to seek to do this within the existing investment objective and policy of the company. The board concluded, and recommended, that it is in the best interests of shareholders to conduct a managed wind-down of the portfolio over a period of time, allowing optimisation of returns, the return of cash to shareholders and ultimately the winding up of the company.

Investment objective and policy: A realisation strategy

ELTA's investment objective is to follow a realisation strategy, which aims to crystallise value for shareholders, through balancing the timing of returning cash to shareholders with maximisation of value.

The company will not make any new investments but will continue to support its existing investments to the extent required in order to optimise returns. The company will retain sufficient cash to meet its obligations and to support its portfolio assets, with cash from realisations being invested in AAA-rated money market funds, pending utilisation or return to shareholders.

Gearing is permitted up to 40% of total assets, should it be appropriate to utilise gearing in order to optimise the balance between timing of returning cash to shareholders and maximisation of value.

Since 1 October 2016, the company has distributed £2.0bn to shareholders through ordinary dividends, special dividends and a share buyback.

In February 2020, ELTA supported the trustees of the Electra Private Equity employee benefit trust in acquiring 600,000 ordinary shares in ELTA at an average cost of £3.29 per share. The trust acquired these shares to hedge against any pay out under the Executive Share of Value Plan (SoVP). The SoVP is a long-term incentive plan for management, covering the period from October 2017 until the planned realisation of assets. The payout is directly linked to the shareholder value realised and the liability carried on the balance sheet is quantified under IFRS. As the payout, if any, will depend on the amount ultimately returned to shareholders (targeted by the ELTA board at approximately £6 per share), ELTA has hedged the potential cash payout by acquiring shares through the SoVP.

Market outlook: PE sector tackles the operational crisis

2020 has thus far been a busy year for the global PE industry. The S&P Global Market Intelligence November 2020 PE EMEA report highlights that the global financial crisis was 'painful for everybody', and the asset class began changing and adding value creation teams, moving away from the focus on leveraged buyouts. This crisis has prompted PE operators to do operational restructuring, in comparison with the Global Financial Crisis (GFC), which was more to do with financial restructuring. Businesses backed by PE firms have access to capital and skills. Firms focused on the operational aspects of their portfolio companies were able to put these attributes n action, navigating their portfolio companies through the pandemic.

A substantial part of the c US$7.8tn of money printed globally in 2020 (source: Atlantic Council think tank at 1 December 2020) to fight the coronavirus-triggered economic crisis went into PE

investments, including those in Europe. Globally, the amount of 'dry powder' in the PE industry looking for transactions was estimated at $1.5tn (source: Funds Europe at August 2020). Buyout funds had $853bn in dry powder as of the third quarter, according to Ernst & Young’s third-quarter report on private equity trends (published October 2020). We believe, this substantial amount of capital will support valuations. The report shows that despite a noticeable decline of over 40% year-on-year in the number of PE deals in 2020 year-to-date and aggregated capital falling back to pre-2015 levels, the average fund size has climbed to a new record level of US$476m. Limited partners’ (LPs’) appetite for European assets continues to be high, with the US$119bn capital raised year-to-date (Exhibit 2), exceeding the numbers of the previous three years, with the average fund size rocketing to US$714m (Exhibit 3). This implies aggregation of capital in the hands of fewer, but larger, PE players.

Exhibit 2: Aggregate capital raised and number of deals

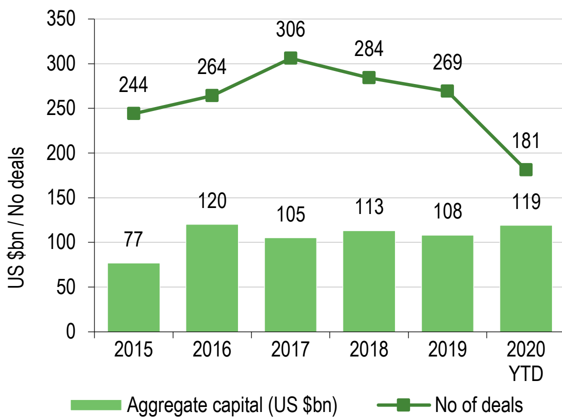
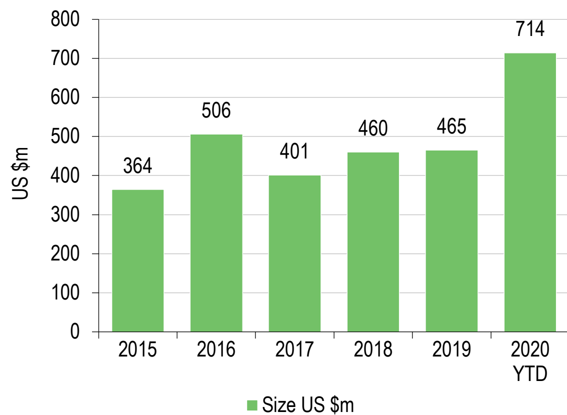


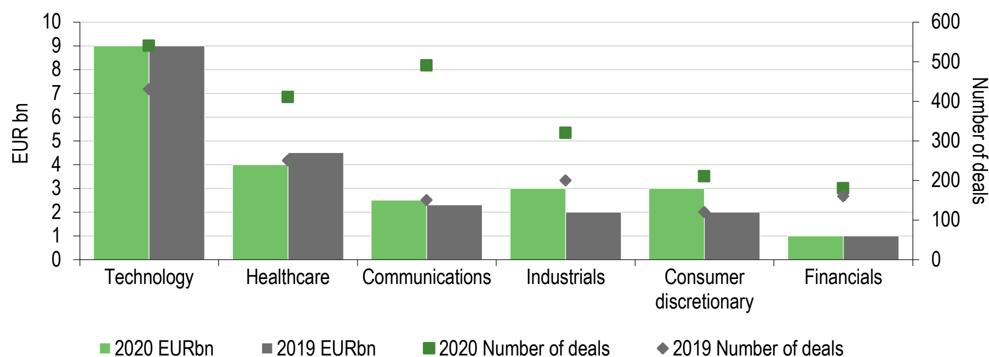
Exhibit 3: Average Europe-focused PE fund size



Source: Prequin, S&P Global Market Intelligence at 6 November 2020.

With technology and healthcare dominating the European PE landscape, both the consumer discretionary and industrials sectors demonstrated decent activity as well. Exhibit 4 illustrates higher entry volumes across five of the top six EMEA sectors (except healthcare).

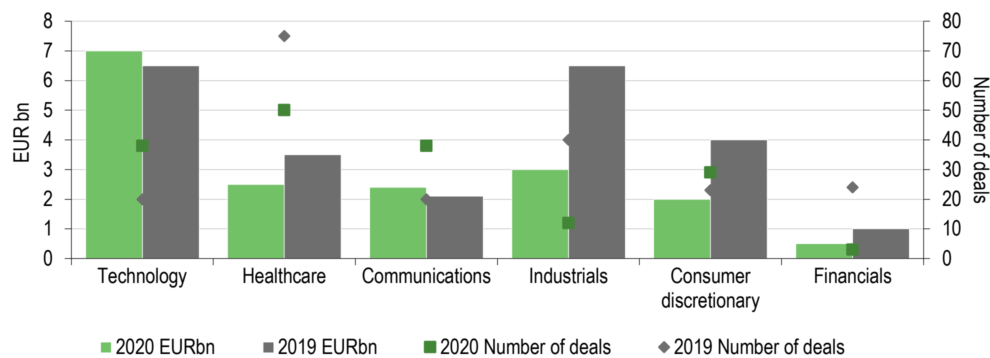
Exhibit 4: Volume (€bn) and number of EMEA PE entry deals in Q320 in top six sectors



Source: S&P Global Market Intelligence.

Exhibit 5 shows that exit volumes primarily were affected in the sectors most hit by the pandemic, lockdowns and resulting business disruptions, including industrials, consumer discretionary and financials. Nevertheless, exits in both the industrials and consumer discretionary sectors continued in Q320, albeit at about half of Q319 volumes. The consumer discretionary and industrials sectors recorded about 20 and 30 transactions, respectively, in Q320.

Exhibit 5: Volume (€bn) and number of EMEA PE exit deals in Q320 in top six sectors



Source: S&P Global Market Intelligence.

During Q320 in EMEA the UK dominated in terms of the number and volume of both entry and exit transactions. The close to 300 entry deals in the UK with c €8bn value in 2020, beat Q3 2019 valuation at €6.5bn of a similar number of deals. Despite UK exit numbers and volumes shrinking, Q320 still saw over 30 exits valued at €4bn in total, compared to over 60 exits at €7bn in Q319.

We used the S&P Global Market Intelligence Q3 2020 report for EMEA to illustrate the current valuations landscape in Europe, including the UK. As there is a wide range of exit multiples, from 6.4x to 36.8x (Exhibit 6), we have used the sector median for exits in EMEA of 12.3x as the average multiple. The consumer discretionary (83% of ELTA's portfolio NAV) and industrials (8%) sectors, where ELTA's portfolio is concentrated (see the current portfolio section), had very similar Q320 exit multiples of 11.1x and 11.4x, respectively. M&A EMEA multiples were 10.5x for both sectors in Q320.

Exhibit 6: PE multiples tables Q320 EMEA

Implied enterprise value/EBITDA (x)	EMEA private equity exits	M&A
Communication services	17.2	10.2
Consumer discretionary	11.1	10.5
Consumer staples	6.4	10.9
Energy	3.8	6.6
Financials	14.5	8.9
Healthcare	18.8	11.7
Industrials	11.4	10.5
Technology	18.9	14
Materials	11.9	10.7
Real estate	36.8	18.8
Utilities	12.3	10
Median	**12.3**	**10.5**

Source: S&P Global Market Intelligence, Edison Investment Research.

Current portfolio positioning

ELTA's portfolio had a valuation of £128.6m at 30 September 2020 (FY19: £192.4m).

Following the high volume of realisations between October 2016 and December 2020 (see Exhibits 7 and 8), ELTA's portfolio consists of buyout, secondaries and other investments.

Exhibit 7: ELTA investment portfolio FY17–FY20

Investment portfolio, £m	FY20	FY19	FY18	FY17
Buyout and co-investments	127.2	189.9	264.0	321.0
Secondaries	0.4	0.9	1.0	2.0
Debt	0.0	1.6	1.0	0.0
Fund and other investments	1.0	0.0	1.0	35.0
Total investment portfolio	**128.6**	**192.4**	**267.0**	**358.0**

Source: ELTA as at 30 September 2020.

The buyout portfolio category consists of direct equity investments in five private companies (2019: seven) with an aggregate value of £127.2m as at 30 September 2020 (FY19: £189.9 million). These include the three key ELTA investments – Fridays, Hotter and Sentinel – which together represent 97.0% (FY19: 98.0%) of the total value of the buyout category. The other two companies are Special Product Company (escrow) and Adjustoform. There are no co-investments in the portfolio as at 30 September 2020 and no assets are classified as held for sale (FY19: £10.6m).

ELTA's liquid resources stand at £5.6m (FY19: £17.3m) or c 4.1% of NAV reported as at end-September (£135.3m), held in money market funds.

The change in portfolio movement and valuation during the four years up to FY20 is presented in Exhibit 8.

Exhibit 8: Portfolio movement, £m FY17–FY20

Portfolio movement, £m	FY20	FY19	FY18	FY17
Opening portfolio value	192.4	267.0	358.0	1,696.0
Investments	4.1	9.0	45.0	46.0
Realisations	(12.0)	(119.0)	(63.0)	(1,623.0)
(Decrease)/increase in valuation	(55.9)	35.4	(73.0)	239.0
Closing portfolio value	**128.6**	**192.4**	**267.0**	**358.0**

Source: ELTA as at 30 September 2020.

The sale of the Special Product Company (SPC) business in December 2019 for £8.6m and the £1.6m sale of a debt asset accounted for the bulk of £12m realisations during FY20. ELTA's remaining interest in SPC is a share of an escrow account deposit and is classified in the 'other investments' category (£1.0m, Exhibit 7).

ELTA performs portfolio company valuations in compliance with the International Private Equity Valuation (IPEV) Guidelines. ELTA uses historical earnings figure (as a proxy for maintainable earnings) and a public market multiple for similar companies, with a consistent discount applied to reflect scale and other differentiating factors.

The reduction in market multiples as a result of COVID-19 led to a reduction of approximately £61.8m (34.8%) in the March 2020 valuation of ELTA's three larger investments (TGI Fridays, Hotter Shoes and Sentinel). Given the material disruption to the trading results of these three portfolio companies in the six months prior to the September year end, the determination of earnings required more judgement in the September 2020 valuations than in previous few years.

The September 2020 ELTA's valuation of the three largest investments of £123.3m (Exhibit 9) is broadly unchanged from March 2020 other than reflecting the utilisation and allowance for cash during the pandemic. As the businesses emerge from the pandemic, ELTA would target a market led recovery of value lost in March 2020 in addition to substantial value created by business improvements and market share opportunities.

Exhibit 9: NAV split with three key investments – TGI Fridays, Hotter Shoes and Sentinel

Investment/asset	Sector	% of FY20 UK sales	Year of investment	Purchase price (£m)	Unrealised value (£m)	Value (% of NAV)	Cum. value (% of NAV)
TGI Fridays	Consumer discretionary	100	2015	99	106.6	79%	79%
Hotter	Consumer discretionary	c 80	2014	84	5.8	4%	83%
Sentinel	Industrials	<50%	2011	43*	10.9	8%	91%
Key portfolio investments					**123.3**	**91%**	
Other port. core assets					3.9	3%	94%
Other port. non-core assets					1.4	1%	95%
Total portfolio				**226**	**128.6**	**95%**	
Liquid assets					5.6	4%	
Cash					1.3	1%	
Other non-core assets & liab.					-0.2		
Net asset value (NAV)					**135.3**	**100%**	**100%**

Source: ELTA at 30 September 2020, Edison Investment Research at 9 December 2020. Note: *The initial February 2011 ELTA investment of £43m was reduced to £15.7m in April 2011 after a debt/equity refinancing.

Other portfolio core assets of £3.9m (or 3% NAV) and non-core assets of £1.4m (or 1% NAV) consist of four investments: a small trading company owned 100%, a property leasehold

investment, a minority holding in a trading company and an escrow account in relation to the sale of SPC in December 2019. ELTA deems all four values to be reasonable and expects to realise these investments during 2021.

Edison reviewed the portfolio companies and used their pro forma forecast, peers and sector multiples to provide valuation scenarios. A description of the scenarios and the potential upside of the three key portfolio companies as assessed by Edison are discussed in the Appendix on page 12. The base case is the current NAV at 30 September 2020, and thus includes the negative NAV impact from the economic crisis triggered by COVID-19.

In December 2014 ELTA invested £99m of equity in the buyout of TGI Fridays, the UK franchise of the eponymous American-styled restaurant chain. At the time of ELTA's investment, it operated from 66 (now 67) UK restaurants in a range of locations, including city centres, shopping centres and retail parks. The business offered a differentiated product, with a wide demographic appeal, in the growing casual dining market. In 2019 ELTA appointed the new management team, who restructured the business. The intention is to grow through improved customer proposition, market share gains, additional sales and brand extensions.

In February 2011, ELTA acquired Sentinel Performance Solutions for £43m in an all equity financed secondary buyout. In April 2011 ELTA's investment was reduced to £15.7m by a subsequent debt and equity refinancing. Based in Runcorn, Sentinel supplies water treatment products to improve the performance and efficiency of residential heating and hot water systems. It has a strong track record in new product development. In 2019 ELTA appointed the new management team, who continue to grow and develop the business. Sentinel has developed a market-leading position in the UK and is building a market presence in other European countries as well as the US and China.

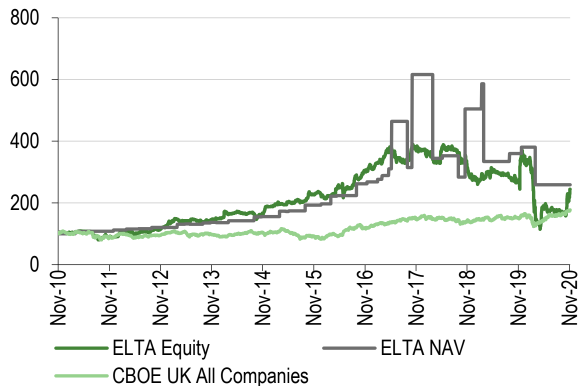
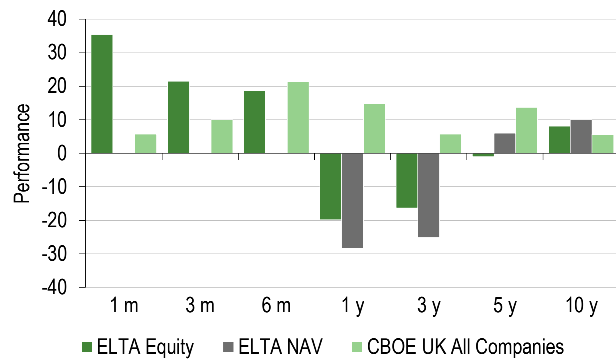
In January 2014 ELTA invested £84m in the buyout of Hotter Shoes. Hotter was then Britain's largest shoe manufacturer (see ELTA's FY14 annual report), selling over two million pairs of shoes each year in the UK and internationally in stores, via catalogues and online. Its customers comprise those whose age, health or lifestyle require more cushioned and supportive footwear. Hotter more than doubled its sales in the four years prior to ELTA's investment as a result of its UK store opening programme and its entry into the US market. Furthermore, the company benefits from a strong brand and favourable demographic trends. The new management team took over in 2019 to restructure the company, and bring in new skills and technologies to facilitate growth. This growth trend will be continued with new product development, digitalisation and technology enhancements and opportunities in international markets.

Performance has picked up on upbeat expectations

Exhibit 10 illustrates the considerable improvement in ELTA's performance over the past month as the company confirmed the engagement of Stifel Nicolaus Europe in the sale of Hotter (most likely a trade sale), on 13 November 2020. We believe this reflects the market's confidence in the success of ELTA's realisation strategy and its execution. Performance during 2020 suffered materially, as the market discounted the hospitality industry and restaurants' shares in Q1, after the pandemic hit and lockdown was imposed in the UK.

Exhibit 10 demonstrates that prior to the change to the realisation strategy, ELTA's NAV total return was superior to UK and European equities. Exhibit 11 demonstrates that ELTA's NAV outperformed the CBOE UK All Companies and MSCI Europe indices by 85.8% and 43.5%, respectively, over 10 years on a total return basis.

Exhibit 10: Investment company performance to 30 November 2020

Price, NAV* and index total return performance, 10-year rebased	Price, NAV and index total return performance (%)
	

Source: Refinitiv, Edison Investment Research. Note: Three-, five- and 10-year performance figures annualised. *NAV is backward looking.

Exhibit 11: Share price and NAV total return performance, relative to indices (%)

	One month	Three months	Six months	One year	Three years	Five years	10 years
Price relative to CBOE UK All Companies	29.7	11.5	(2.6)	(34.6)	(59.4)	(95.0)	44.7
NAV relative to CBOE UK All Companies	(5.7)	(10.0)	(21.4)	(43.1)	(76.1)	(56.4)	85.8
Price relative to MSCI Europe	22.1	14.4	7.4	(21.7)	(52.5)	(55.0)	2.4
NAV relative to MSCI Europe	(13.3)	(7.1)	(11.4)	(30.1)	(69.2)	(16.3)	43.5

Source: Refinitiv, Edison Investment Research. Note: Data to end-November 2020. Geometric calculation.

Discount: Shares still trade at a deep discount to NAV

Over the last three years, ELTA's shares have traded at an average discount to NAV of c 39%, reflecting the realisation strategy and high uncertainty around the remaining investments until 2019, when the management of all three investments was changed. In 2020 the discount has been volatile, coinciding with the March stock market correction in response to the pandemic. Subsequently, however, the discount has narrowed relatively quickly and remained stable around the 50% level until November. The discount has narrowed further recently after the company confirmed the engagement of Stifel Nicolaus Europe in the sale of Hotter on 13 November 2020. Currently, the shares trade at a discount of c 22%.

Exhibit 12: Share price discount to NAV over three years (%, including income at fair value)

Source: Refinitiv, Edison Investment Research

Capital structure and fees

There are no management charges as fund management is conducted in house. The only costs are the operating costs of ELTA, disclosed as a percentage of NAV. The maximum aggregate fee for

non-executive directors, including the chairman, are limited by the company's articles of association to £750,000 pa. The ongoing charge ratio (OCR) at end September 2020 was 1.8% of NAV. The OCR is calculated as annualised ongoing charges over average undiluted NAV in the year.

Dividend policy and record

A special dividend for FY20 of 31.0p per share was paid on 24 January 2020 for the aggregate amount of £12m.

Given the board's intention to target the end of 2021 for completion of ELTA's realisation strategy, the board has elected not to declare further dividends for the year ended 30 September 2020. It is the board's intention to distribute the proceeds of asset realisations in 2021, the timing and quantum of which will be dependent on the realisation processes.

Peer group comparison

Although ELTA's winding up mode makes it difficult to identify comparable listed PE companies, we have collated a set of potential peers (Exhibit 13). The table reflects ELTA's chosen realisation strategy. It is the second smallest fund of the 11 peers. The three smallest funds also include Dunedin Enterprise and JPEL Private Equity, which are also in a realisation mode. ELTA's ongoing charge is third highest and it trades at the widest discount among the peers. ELTA's 11th performance ranking over one-, three- and five-year periods emphasises the change in the investment objective and strategy, which began to be followed through in 2016 and was formally adopted in October 2018.

Exhibit 13: Peer group comparison at 30 November 2020

	Market cap £m	NAV TR 1 year	NAV TR 3 year	NAV TR 5 year	NAV TR 10 year	Discount (ex-par)	Ongoing charge (%)*	Perf. fee	Net gearing	Dividend yield (%)
Electra Private Equity	101.8	(28.0)	(31.6)	2.9	105.4	(28.6)	**1.8**	No	93	0.0
Apax Global Alpha Trust	899.7	19.4	53.3	104.0		(11.9)	0.7	Yes	97	4.6
BMO Private Equity	235.1	3.5	24.7	59.5	149.4	(17.3)	1.2	Yes	115	4.1
Dunedin Enterprise Ord	68.5	(6.9)	18.3	40.8	55.7	(15.5)	1.2	No	94	1.3
HarbourVest Glob Private Eq	1,455.1	7.9	45.1	97.9		(17.5)	0.5	No	96	0.0
HgCapital Trust	1,264.4	25.6	76.7	171.6	368.5	2.0	1.6	Yes	100	1.7
JPEL Private Equity	116.7	(7.7)	(3.4)	45.0	48.1	(24.7)	1.3	Yes	93	0.0
NB Private Equity Partners	509.7	(0.0)	24.7	73.9		(22.9)	2.2	Yes	119	3.1
Oakley Capital Investments	475.0	14.9	60.3	109.8	299.8	(25.7)	1.1	Yes	93	1.3
Pantheon International	1,265.7	7.6	34.1	85.9	205.3	(22.3)	1.2	Yes	93	0.0
Princess Private Equity	697.7	17.7	40.8	125.4	192.7	(10.8)	1.8	Yes	111	2.2
Average (incl. ELTA)	**644.5**	**4.9**	**31.2**	**83.3**	**178.1**	**(17.8)**	**1.3**		**102**	**1.9**
ELTA's rank in sector	**10**	**11**	**11**	**11**	**6**	**11**	**3**	**N/A**	**3**	**4**

Source: Morningstar, Edison Investment Research. Note: Performance to 30 November 2020. TR: total return. Net gearing is total assets less cash and equivalents as a percentage of net assets. Ongoing charge excludes carried interest. *Please note that in case of some of the peers, the ongoing charge may not fully capture the charges levied on the underlying funds.

The board

ELTA's board consists of six directors, three of whom are independent from the investment manager.

Non-independent directors

Neil Johnson has been executive chairman since 1 March 2018. He has been on the board since 12 May 2016, when he was appointed non-executive chairman and director. Gavin Manson is an executive director and chief financial and operating officer. He joined the company in 2016, was appointed as a director on 23 March 2017 and is a director of the company's portfolio companies.

Stephen Welker was appointed a director on 18 July 2019, and has been a non-executive director of TGI Fridays, an ELTA portfolio company, since 2017. Stephen Welker is a representative of Sherborne, ELTA's largest shareholder.

Independent directors

Paul Goodson, who was appointed as a director on 26 May 2016, is chairman of the valuations committee and a member of the audit and risk, nomination and remuneration committees. David Lis was appointed as a director on 26 May 2016. He is chairman of the remuneration committee, the senior independent director since March 2018 and a member of the nominations, audit and risk and valuations committees. Linda Wilding was appointed a director on 1 December 2016. She is chair of the audit and risk committee and a member of the remuneration, nomination and valuations committees.

Appendix: ELTA's three principal portfolio holdings

TGI Fridays (79% of ELTA's NAV): UK nationwide chain of American-styled casual dining restaurants

Exhibit 14: TGI Fridays investment summary
Total cost: £142m (including December 2014 £99m, July 2017 £2m and August 2017 £35m)
Source: ELTA at end November 2020

Born of the eponymous original casual dining bar and grill in 60s New York, TGI Fridays offers authentic American food, an innovative cocktail list and a high level of service at its 85 restaurants across the UK. Notwithstanding high brand awareness since its successful introduction in 1986 under different ownership (Whitbread), the business has been newly renamed Fridays to reinforce the brand's promise of a renowned social experience, 'In Here, It's Always Friday.' This is just one of a series of significant initiatives led by the new management team to enhance the core offering and develop additional revenue streams.

Fridays holds exclusive UK rights to use the brand under its agreement with its American parent from whom it was acquired by ELTA in 2014.

That Fridays Feeling

In spite of the pandemic, 2020 has seen widespread implementation of measures arising from a comprehensive business review at the start of the period and the appointment as CEO of Robert Cook. He joined from Virgin Active, 'the world's leading health club', where he was credited with rapid and successful extension of an already iconic brand. This followed almost 30 years in hospitality, notably as CEO of Malmaison Hotels and Du Vin, where he created the standalone restaurant concept Smoak Bar and Grill, and then as CEO of De Vere group's Village Hotels and COO of Macdonald Hotels. Robert Cook is backed by a considerably strengthened management team.

Initial key measures already effected in support of That Fridays Feeling include:

- A new brand identity, namely the renaming from TGI Fridays to Fridays, a new logo, updated colours (red and white stripes and sports shirt, which is recyclable) and a new typeface.
- 'Famous at Fridays': 13 restaurants (c 20% of the estate) in larger cities, at first. As a nod to the chain's heritage, a focus on established favourite dishes (the Famous Fridays burger, loaded potato skins and pot stickers) and the restitution of classic cocktails (the top 10 in the UK were not on offer), which had become downplayed as Fridays became more of a family proposition rather than a whole evening venue.
- Some healthier recipes, with high-quality ingredients from known suppliers.

These have been complemented by further ambitious brand extensions:

- Click & collect takeaway now available at 27 locations (a third of the estate).
- Home delivery via partners (Deliveroo and Just Eat) from c 60 outlets and by an in-house Fridays team from one site.
- Broadening of the Fridays at Home offer: 'Butcher's Boxes' (typically 16 portions of steaks, ribs, burgers and sausages, delivered frozen on Thursdays for home cooking at the weekend; prices from £75 to £95), DIY meal kits (Fridays favourites such as chicken strips, ribs and glazed burger in portions of four or two, respectively £40 and £25), 'Cocktails at Home' (ready to serve packs of six or four – all the same – for £24 or £18 or individually for £6.50) and party packs for celebrations.
- The imminent launch of a new cocktail led bar and restaurant brand, 63rd + 1st (first opening in Cobham, Surrey, in January 2021). Although visibly different from Fridays (typically c 40%

smaller at 4,000 sq ft, a focus on adults with the bar at its heart and the plus motif to represent the New York street grid), the aim is still to cater for guest affection for the original brand, eg the feel of a Manhattan loft and high-level service. Importantly, it also meets changing market trends, notably the growing appeal of local/community all-day venues reflective of the popularity of boutique hotel and members' club environments. The Cobham site (previously Carluccio's) will have 96 covers with outdoor dining for a further 20. Deemed by management as 'a huge opportunity to drive further growth', 63rd + 1st is intended to be expanded across the UK during 2021 (initially in Lincoln, also ex Carluccio's, and then probably in Harrogate, Cambridge and Edinburgh).

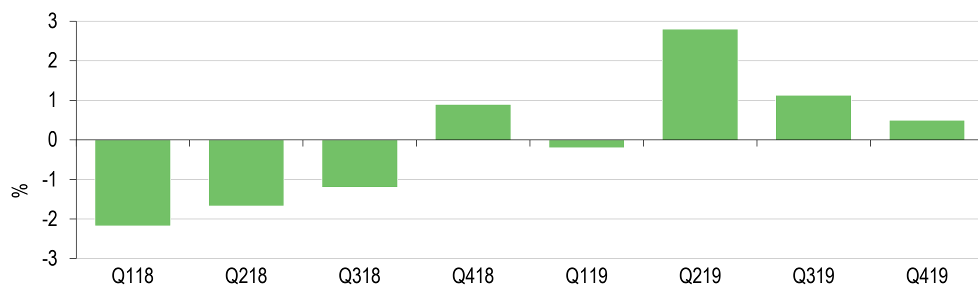
- Digitalisation is already strongly embraced in the aforementioned e-commerce as well as at dine in extensions such as Fridays and Go (quick service outlets in high foot traffic locations) and drive-in sites. In Q121 it will be stepped up materially as a new gamification strategy, offering spontaneous rewards, is applied to the company's guest loyalty programme, Stripes (management expects to increase its database further from the current 683,000 app users).

Tough before COVID-19

'There were too many restaurant businesses with owners and managers convinced they could swim like Mark Spitz, but which were actually being kept afloat by some badly made rubber rings and various leaky flotation devices,' according to David Page, chairman of Fulham Shore in October 2020.

Structural difficulties have long bedevilled the UK restaurant market as a result of excess capacity, frequency of 'me too' product, rising costs and narrow margins. Economic and political uncertainty following the result of the EU referendum in 2016 only made matters worse as the erosion of consumer confidence led to increasing vacant retail space being rented out to restaurant operators on historically cheap debt. As shown in Exhibit 15 below, like-for-like UK restaurant sales according to industry monitor Coffer Peach Tracker barely progressed in the two years before COVID-19, with apparent strength in the first half of 2019 against a weak comparative (exceptional weather – 'Beast from the East' and heatwaves – and the football World Cup). Such stagnation in sales and inflationary pressures (notably, business rates, the National Living Wage and food imports thanks to sterling weakness) have proved an especially sorry mix for restaurant groups, which were already highly indebted. High-profile chains entering administration or credit agreements in 2018 and 2019 included Jamie's Italian, Carluccio's, Gaucho and Gourmet Burger Kitchen.

Exhibit 15: Monthly % changes in like-for-like UK restaurant sales in 2020



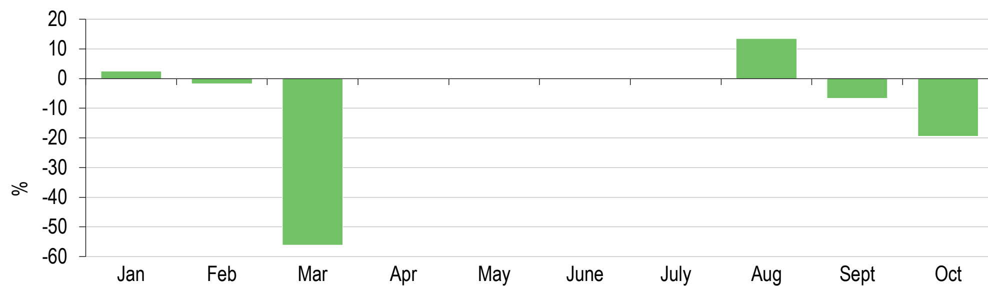
Source: Coffer Peach Business Tracker

COVID-19 and beyond

Persistent pressures on restaurant groups were of course accentuated seismically by the advent of COVID-19 in early 2020 and government-imposed restrictions on hospitality. While the current year began positively with UK restaurant sales up 2.5% (see Exhibit 16) in January, if admittedly against

a subdued comparative, the initial effects of the developing pandemic were felt in February, culminating in national lockdown on 20 March.

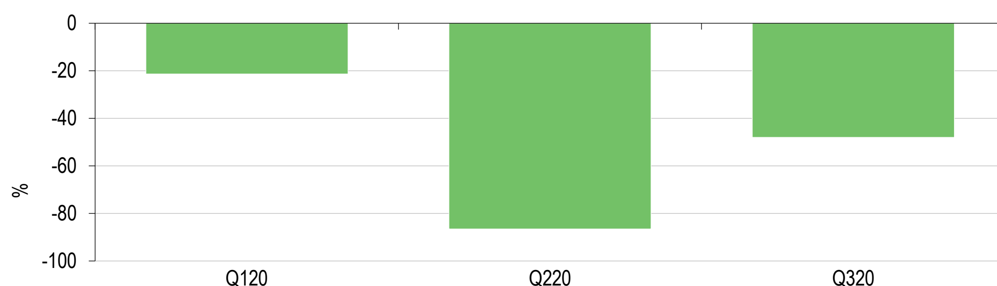
Exhibit 16: Monthly % changes in like-for-like UK restaurant sales in 2020



Source: Coffer Peach Business Tracker

With the Coffer Peach Business Tracker inactive for like-for-like data between April and August we refer to UKHospitality's monitoring of Q2 and Q3 turnover across the entire hospitality market (restaurants, pubs, bars, hotels, attractions and other hospitality venues) in Exhibit 17. Predictably, there was a virtual elimination of sales (down 87%) in Q2 and a near halving in Q3 despite a phased reopening from 4 July and the government's Eat Out to Help Out scheme in August, which is reported here to have driven a 13% y-o-y rise in like-for-like sales for UK restaurants. A further qualification is that because of continued site closures in July and August (respectively two-thirds and one-third of outlets trading pre-COVID-19), in absolute terms the restaurant sector's total sales were down 60% and 11% respectively in those two months. The renewed significant downturns in September and October highlight the boost from the government's campaign to eat out in August as well as the introduction of the 10pm curfew from 24 September and tougher regional (tier) restrictions from 15 October. The impact of England's second lockdown (four weeks from 5 November) is self-evident, as is that, for example, of the placing thereafter of over 40% of its population in areas subject to Tier 3 (Very High) rules, where restaurants must stay closed except for delivery and takeaway services (to be reviewed periodically).

Exhibit 17: Quarterly % changes in turnover of UK hospitality (all segments) in 2020



Source: Coffer Peach Business Tracker

There is a grim irony that a severely depleted restaurant sector (estimated up to c 30% contraction) and a fragile property market as a consequence of COVID-19 offer significant opportunity for those groups that survive. To date high-profile casualties include Carluccio's, Café Rouge, Ask, Zizzi, Byron, Frankie & Benny's and Yo! Sushi (all recently in administration), with further to follow, given continued punitive conditions and weakened finances, such as business interruption loans and delayed creditor payments. In addition to this paring of competition, restaurant operators confirm a growing availability of properties at ever lower rents.

Fridays: Financial resilience

Before 2016 there was opportunity for strong growth as demand was rising faster than supply.

- 2016: market equilibrium checked growth, hence widespread discounting by competitors. Fridays has consistently preferred to focus on retaining margins and differentiating by experience.
- 2017: Fridays' pricing policy was maintained in the face of increases in competition and discounting. Covers declined slightly but this was offset by higher average spend.
- 2018: the impact of these unfavourable market dynamics was compounded by extreme weather and the football World Cup because at that time it had minimal outside space during heatwaves and did not show TV sport. Management quantified the impact as 4% in sales and £2.5m EBITDA. Overall top-line decline on fixed and rising variable costs explains the sharp narrowing of EBITDA margin.
- 2019: partial recovery was led by the absence of the previous period's exceptional factors. However, there were first signs of competitor failure as a response to over-supply.

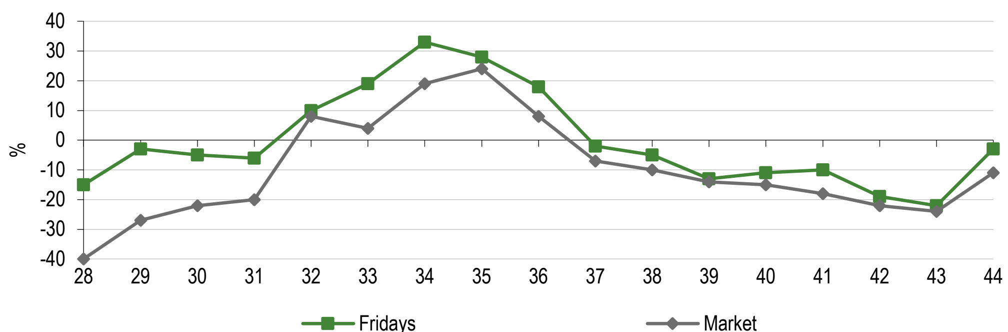
Exhibit 18: Analysis of Fridays annual revenue and profit

Year-end Dec (£m)	2016	2017	2018	2019	2020 (ytd)
Revenue	211	216	208.8	214.8	134
Change:					
Reported	11%	2%	-3%	3%	-38%
LFL	-2.70%	0.50%	-6.70%	1.00%	
Sites (period end)	76	81	83	87	85
EBITDA (pre IFRS 16)	33.2	33.1	24.6	25.6	1
Margin	15.70%	15.30%	11.80%	11.90%	0.80%
Change	12%	Flat	-26%	4%	-96%

Source: Fridays. Note: *Reflecting two closures in 2020 but full year contributions from five openings in 2019.

- 2020: The headline figures (above) make inevitably harsh reading as the period includes 15 weeks of spring lockdown, four weeks of phased re-opening, four weeks of Eat Out to Help Out and eight weeks of increasing controls, culminating in a second English lockdown (four weeks).

Exhibit 19: Fridays' weekly like-for-like % growth in sales from July reopening until end November 2020



Source: Fridays, Coffer Peach Business Tracker

Therefore, in assessing Fridays' underlying performance in 2020 it is more useful to look at its like-for-like sales relative to the restaurant market. Exhibit 19 shows that encouragingly Fridays has consistently outperformed since the end of the spring lockdown. We are heartened also that net bank debt appears to remain in check, with September's balance of £39m (after adjusting for delayed creditor payments) on a par with that at December 2019, ie pre COVID-19 (£30m at March 2020). Management reiterates that its medium-term development plans for about five net new sites per year should still be funded from its operations, given their cash generative nature.

Post-COVID-19 optimism

While even with the promising news of the development of vaccines, it remains extremely challenging to predict when trading normality will resume, we support management's approach of using 2019 sales levels as a base for a pro forma assessment of potential annual profitability. On their base assumption of zero like-for-like top-line growth, EBITDA (pre IFRS 16 as in 2019) is seen to grow by almost 20% to £30.4m (see Exhibit 20. This absolute rise of £4.8m derives in part (£1.8m) from net openings in 2019, ie a full year contribution rather than part year from five stores opened during 2019 less three removed (one closed in 2019 and two in 2020), which explains the stated £8.9m rise in pro forma sales despite assumed flat like-for-likes. The bulk (£3m) of the projected EBITDA gain reflects changes in the cost base, ie labour efficiency cost savings (already implemented) of £3.9m and other fixed implemented cost savings (mainly rent reductions) of £2.6m, partly offset by a 'no deal' Brexit risk of £4m (predominantly food costs).

Management confidence in this zero like-for-like growth scenario appears well justified. First, market conditions, as already explained, were already difficult in 2019 owing to chronic overcapacity in the sector, significant cost pressures, particularly owing to labour costs, and consumer uncertainty on the eve of Brexit. COVID-19 led reduction in supply and competition of up to 30% yields a more benign trading environment. Secondly, there is the expected benefit of Fridays' own wide-ranging brand extension initiatives, already largely implemented and bearing early fruit in recent sustained market outperformance.

Consequently, on resumption of trading normality it is not unreasonable to foresee annual like-for-like sales growth rates of up to 10%, which with margin gain could drive a rise in EBITDA of over 50% on 2019 demand levels, according to management (see Exhibit 20).

Exhibit 20: Management's pro forma scenarios based on 2019 demand levels

	2019 actual	0% growth	5% growth	10% growth
Revenue (£m)	214.8	223.8	235	246.2
EBITDA (£m)	25.6	30.4	34.5	39.5

Source: Company accounts

Of course, this takes no account of Fridays' site expansion plans (typically five openings per year, which is 6% of the current estate). The noted availability of attractive sites at ever cheaper prices provides assurance that this may be achieved satisfactorily.

Valuation

Assuming 2020 to be a trading aberration and using pre IFRS 16 numbers for easier peer comparison, management's valuation of Fridays at £106.6m at September 2020 suggests an EV/EBITDA multiple of under 5x pro forma zero life-for-like growth on 2019 (see Exhibit 20). On a similar basis, ie pre-COVID-19 reported results, its closest listed competition, Loungers and Fulham Shore, trade on significantly higher multiples (13x and 8x, respectively). While Restaurant Group's rating is close to that of Fridays, it may reflect company-specific issues, notably indebtedness, continued restructuring and exposure to businesses that management does not term as 'growth.' Also we have used the mid-point of their 'illustrative' and wide-ranging (£110m to £125m) EBITDA 'capability' on 2019 sales levels, hence some potential downside. In the absence of reported results, given its recent listing, we admit a caveat about our computed rating for Various Eateries. Even so, its very listing amid the pandemic endorses the opportunity for well-funded hospitality businesses. In summary, a blended average of 10x EV/EBITDA for its four peers is twice that of Fridays on apparently cautious trading assumptions (the multiple falls to under 3x on management's best-case 10% growth).

Exhibit 21: Peer comparison of EV/EBITDA rating, assuming return to 2019 sales levels

Pre IFRS16	Management valuation	Historic net debt	EV	Historical EBITDA	EV/EBITDA
	£m	£m	£m	£m	x
Fridays*	**107**	**40**	**147**	**25.6**	**5.7**
	Mkt cap			Pro forma 30.4	4.8
Loungers**	223 (218p)	35	258	18.8	13.7
Fulham Shore***	61 (10p)	9.5	70.5	8.8	8.0
Restaurant Group*	371 (63p)	311	682	117.5▲	5.8
Various Eateries****	60 (67p)	c10 §	70	5.3 #	13.2
Average					**10.2**

Source: Company accounts. Note: *Year to December 2019; **Year to April 2020; ***Year to March 2020; ****Year to September 2020; § after £25m placing proceeds; ▲Mid-point of management's 'illustrative' October 2020 indication of annualised EBITDA post restructuring on 2019 sales; # Adjusted run rate EBITDA. Pricing at 11 December.

Hotter (4% of ELTA's NAV): A digitally led UK shoe manufacturer with a focus on customised comfort

Exhibit 22: Hotter investment summary

Total cost: £118m (including January 2014 £84m, 2017 £5m, 2018 £19m and 2019 £7.5m)

Source: ELTA at end November 2020

Established in 1959, Hotter specialises in the design and manufacture of stylish comfort footwear (1.6m pairs last year making it the UK's largest shoe manufacturer). It is renowned for its product quality and innovation as well as customer service, epitomised by its pioneering digital Footprint 3D fit technology, use of BASF's Infinergy foam inserts and over 40 width and size combinations via its Comfort Lab. The current target market is females over 55 with specific fit and comfort needs; while this is a favourable demographic, the company aims to broaden significantly its proposition. Sales are primarily through digital direct channels with a limited retail exposure (c 20 stores). Hotter's customer database exceeds four million, with one million active shoppers. 20% of sales are international, predominantly in the US, where it has a profitable and scalable operation.

Recreating the Hotter moment

A silver lining of the pandemic is its acceleration of the digitisation strategy, which was already firmly in progress under the leadership of Ian Watson and his new management team. Most notably this has involved retail de-risking with the recent closure of over 70% of the UK estate as a result of a company voluntary arrangement (CVA). Although retail development had driven growth (sales doubled between 2010 and 2014), the subsequent consumer downturn and operational complexities, eg inventory management and head office costs, prompted a renewed strategic focus on the core customers in UK direct business, already the major profit centre.

With its targeted operating model now effectively in place (over 85% of revenue from direct channels), Hotter should now be able to focus on identified opportunities, which include:

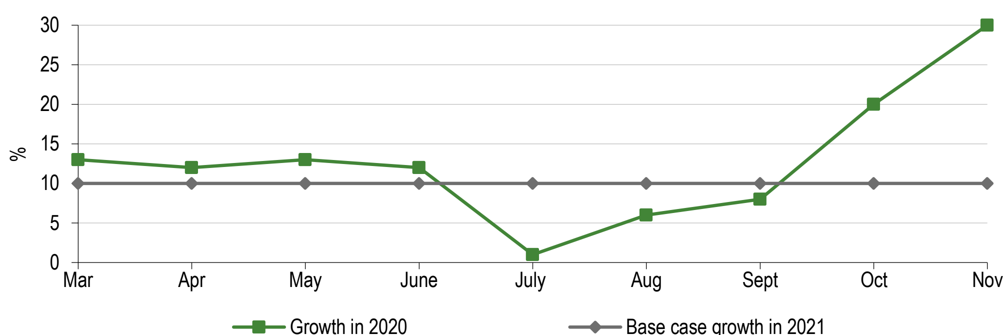
- Improved digital marketing, personalisation and loyalty scheme, facilitated by a new app in Q121. Enhanced management of loyal customer base (four million, with 100,000 added annually) with long-term scope to market all manner of products and services related to footwear and customer profile.
- Shops restyled as Technology Centres in Q221.
- Broader product offering: menswear and specialist footwear (safety shoes) according to industry requirements, eg nurses, restaurant staff, airline stewards.
- Reduction in product ranges to avoid duplication (currently down 40% y-o-y).
- Mobile commerce with new payment methods.

- International expansion, eg capitalising on successful US operation, possibly with a partner (or even a disposal), and addressing new markets in the Far East.
- UK and international wholesale markets.

2020: Early digital payoff

With Hotter's financial year under review ending before COVID-19 and the current period marred by the halt in production and retail in March and subsequent restrictions, it is more meaningful to look at the performance of direct channel sales, which is key to the new operating model. Exhibit 23 shows this to have been very encouraging with double-digit percent year-on-year sales growth for the majority of the period since March lockdown and a marked acceleration of late.

Exhibit 23: Direct channel's y-o-y % sales growth in 2020 and management's base case growth of 10% in 2021



Source: Company

Exhibit 24: Analysis of annual revenue and profit including FY20 adjusted for rationalisation of retail estate to show continuing operations

Year-end Jan (£m)	2018	2019	2020		2020
			Reported	Discontinued (retail closures)*	Continuing
Revenue	100.8	93	85.5	-25.0	60.5
Direct channel	51.4	44.6	41		41
% of revenue	51%	48%	48%		68%
EBITDA	9.5	3.6	4.3	Trading loss 0.4 Central costs 0.7	**5.4**
Margin	**9.40%**	**3.90%**	**5.00%**		**8.90%**

Source: Hotter accounts. Note: *Closure of 59 shops (72% of estate) as a result of August 2020 CVA.

This complements our analysis in Exhibit 24 of the impact of the removal of the bulk of the retail estate (August 2020 CVA), which prompted the step-change in significance of direct channel business (from 48% to 68% of adjusted FY20 revenue) and the elimination of retail losses and a portion of central costs.

With a spring in its step

Taking management's reasonable approach of using FY19 sales levels as a base for a pro forma assessment of potential annual profitability, we look at its various revenue growth assumptions from direct channels. The base case of 10% growth fits well with performance in 2020, as discussed (see Exhibit 25). Indeed, trading in October and November suggests 20% may be closer to the mark.

The assumption of flat sales at the retained stores may be cautious, given their selection as optimum sites and planned conversion into Technology Centres next year. Management estimates that a 10% fall in retail revenue could depress EBITDA by £0.5m.

Exhibit 25: Management's pro forma scenarios based on FY20 demand levels

Year-end Jan (£m)	2020 actual	Direct channel revenue growth assumptions		
		10% growth	15% growth	20% growth
Direct channels	41.0	45.1	47.2	49.2
% of revenue	68%	70%	71%	72%
Retail and wholesale	19.5	19.5	19.5	19.5
Revenue	60.5	64.6	66.7	68.8
EBITDA	5.4	7.3	8.3	9.2
Margin	8.90%	11.30%	12.40%	13.40%

Source: Hotter accounts

Valuation

Management's valuation of Hotter at £5.8m at September 2020 suggests an EV/EBITDA multiple of 3x pro forma 10% direct channel sales growth on FY20. Notwithstanding residual retail exposure and risk of executing planned business enhancements, such a rating appears unduly low. Favourable macro trends, eg a growing older population with increasing disposable incomes, a coherent strategy (largely in place) and proven management are grounds for optimism, while the joker in the pack may be Hotter's database, providing direct access to valuable customers and the opportunity to add related products and services.

Exhibit 26: Peer comparison of EV/EBITDA rating, assuming return to FY20 sales levels

	Valuation	Net debt	EV	EBITDA	EV/EBITDA
	£m	£m	£m	£m	x
Hotter	5.8	18*	23.8	Historic 5.4**	4.4
				Pro forma 7.3***	3.3
Q320 EMEA Private Equity Exits (Consumer discretionary, see Exhibit 6)					11.1

Source: Hotter. Note: *At September 2020; **Year to January 2020 adjusted for rationalisation of retail estate as a result of August 2020 CVA; ***Base case 10% sales growth scenario.

Sentinel Performance Solutions (8% of ELTA's NAV): UK manufacturer of water treatment products for heating systems

Exhibit 27: Sentinel investment summary

Total cost: £18.7m (£16m in 2011, £1m in 2015, £0.2m in July 2019 and £1.5m in December 2019)

Source: ELTA at end November 2020.

Sentinel is a leading provider of products and services to clean and protect the water in heating systems from the effects of corrosion and limescale. Thanks to a longstanding reputation for innovation and product development, Sentinel is endorsed internationally by principal boiler OEMs and merchants who ensure availability of the company's product alongside that of OEMs. With a sales presence in key EU and US markets, it addresses both commercial and residential custom, eg respectively major corporates such as Travelodge and McDonald's and a 40% share of UK social housing providers (management estimate).

Launched in the UK by Grace Dearborn in 1988 and subsequently a subsidiary of multinational General Electric, Sentinel operated independently from 2005 until mid-2019 when ELTA obtained management control despite being the majority shareholder since 2011.

Back to basics

The relative maturity of the UK market means that growth will be driven internationally. ELTA's 2019 review on taking control found that Sentinel had mistakenly targeted UK growth through the development of high-tech products that were not accepted by the plumbing and heating industry, which remains comparatively low tech. A new management team under David Barrett, initiating significant efficiencies in H219, led a renewed focus on core products in the UK, less mature export markets such as France and Italy (already over 50% of sales in FY20) and new territories. To this end there is encouragement in Sentinel's previous strong international growth in 2017/18 thanks to new products, primarily next-generation filters tailored for country-specific requirements. Evidently,

China offers considerable potential, given the appeal of foreign brands to upscale consumers and the endorsement of Sentinel by OEMs, particularly Vaillant. Other replicable markets with low penetration include eastern Europe. In addition, in the UK management sees continued scope for market share gains and benefits of innovation both in existing ranges and in development of renewables-focused chemical products.

Operational turnaround and COVID-19 resilience

The step-change in FY20 profit was an early endorsement of new management's focus on profitable organic and new product growth as well as efficiencies. This was also reflected, as planned, in a further marked shift in revenue towards export markets (53% against 49%), which comfortably made up for domestic weakness with a 16% gain.

Exhibit 28: Analysis of revenue and profit including assumption of flat year-on-year H221e

Year-end March (£m)	2018	2019	H120	H220	FY20	H121	H221e	FY21e
Revenue	19.7	19	8.5	11.8	20.3	7	11.8	18.8
Change	9%	-4%			7%	-18%	Flat	-7%
Domestic	11	9.7			9.5			
Change	7%	-12%			-2%			
% of revenue	56%	51%			47%			
Export	8.7	9.3			10.8			
Change	13%	7%			16%			
% of revenue	44%	49%			53%			
EBITDA	3.2	1	0.4	2.6	3	0.9	2.6	3.5
Margin	16%	5%	5%	22%	15%	13%	22%	19%

Source: Sentinel accounts

This profit momentum borne of operational measures was maintained in H121 (EBITDA more than doubled) despite COVID-19, which contributed to revenue down 18% y-o-y (the international share is not disclosed).

Encouragingly, early indications of key winter trading (annual profit is sharply H2-biased) suggest a resilience to COVID-19 restrictions in both the UK and Continental Europe and bolster management optimism that recent EBITDA improvement will be sustained, albeit tempered by the impact of COVID-19. We are therefore showing in Exhibit 28 the potential current full-year outcome (management estimate), assuming only a maintained year-on-year financial performance in H2, which is arguably cautious.

Valuation

While the prospective EV/EBITDA multiple may be fair, given market pressures, there may well be scope for profit to surprise, as explained.

Exhibit 29: EV/EBITDA rating assessment

	Valuation (£m)	Historical net debt (£m)	EV (£m)	EBITDA (£m)	EV/EBITDA (x)
Sentinel	10.9	10	20.9	Historic 3.0	7.0
				Pro forma 3.5**	6.0
Q320 EMEA Private Equity Exits (Industrials, see Exhibit 6)					11.6

Source: ELTA. Note: *At September 2020. **Year to March 2021, assuming flat y-o-y H2 (see Exhibit 28).

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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