HgCapital Trust

Initiation of coverage

A specialist tech investor in the buyout market

Investment trusts

HgCapital Trust (HGT) is the largest single investor in funds managed by Hg, one of Europe's leading private equity (PE) investment managers in the software and services sectors with strong involvement in the strategic development and value creation of its portfolio holdings. Hg partners closely with its portfolio companies, supporting management to drive change. It has more than £10bn in assets under management (AUM) and nearly 30 years of overall PE experience. This expertise has been reflected in HGT's average compound share price return of c 14% pa over the last 10 years vs the FTSE All-Share at c 10% pa (on a total-return basis).

12 months ending	Share price (%)	NAV (%)	FTSE All-Share (%)	FTSE SmallCap (%)	STOXX Europe Small 200 (%)	STOXX Europe 600 Technology (%)
30/04/16	13.2	18.7	(5.7)	3.8	0.3	(0.3)
30/04/17	30.3	19.1	20.1	22.3	29.5	44.2
30/04/18	32.2	20.0	8.2	6.1	10.4	12.8
30/04/19	16.5	13.4	2.6	(5.3)	0.6	9.5

Source: Refinitiv. Note: All % on a total return basis in pounds sterling.

Investment strategy: Focus on defensive growth tech

Hg specialises in buyouts of software and service companies that offer a combination of growth and a defensive profile. It prefers companies with a high proportion of recurring and contracted (and often SaaS-enabled) revenues from loyal customers based on IP-backed products that are business critical but low spend. Importantly, these are often the foundation of a 'buy and build' approach, focused on certain clusters where Hg has extensive expertise, including tax and accounting, ERP and payroll, legal and regulatory compliance, automotive, SME tech and services, healthcare IT, capital markets and wealth management IT, and insurance.

Market outlook: Signs of late-cycle developments

We believe global PE markets show certain characteristics of late-cycle behaviour, including peak-level transaction volume, high valuation levels, a significant amount of dry powder and an increasing proportion of covenant-light corporate debt. In this environment, we believe investors looking for PE funds with direct investments should emphasise deep value-creation capabilities, including successful implementation of the 'buy-and-build' strategy. This is especially important as demanding market valuations limit the returns from deals based purely on financial engineering (which has never been Hg's focus).

Valuation: Trading at par with net asset value

HGT's shares trade at a c 1.2% premium to the last-reported pro forma NAV per share of 211.8p (which reflects deals signed but not yet closed). Over the last 10 years, the shares have traded at an average discount of c 10%, even though the company's portfolio valuation is mainly based on last 12 months' (LTM) earnings, which may be considered conservative. This is underpinned by the average uplift to book value of 40% over HGT's last 30 software and service businesses realisations.

3 June 2019

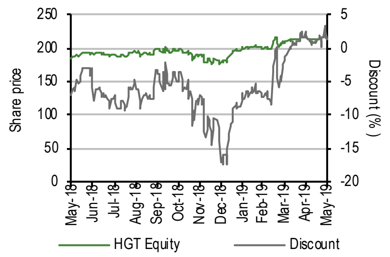
Price	**214.25p**
Market cap	**£799.7m**
NAV	**£790.4m**

NAV*	211.8p
Premium to NAV	1.2%

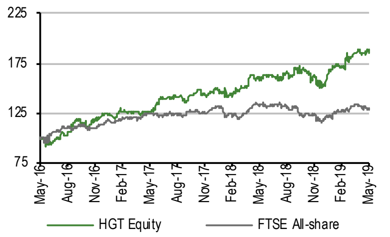
*as at 30 April 2019.

Yield	2.1%
Ordinary shares in issue	373.2m
Code	HGT
Primary exchange	LSE
AIC sector	Private Equity
Benchmark	FTSE All-Share Index

Share price/discount performance



Three-year performance vs index



52-week high/low	217.0p	175.0p
NAV* high/low	215.7p	191.0p

*Including income.

Gearing

Gross*	0%
Net cash*	£102m

*Liquid resources available for deployment as at 30 April 2019.

Analysts

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Edison profile page

HgCapital Trust is a research client of Edison Investment Research Limited

Exhibit 1: HGT at a glance

Investment objective and fund background

HGT aims to provide shareholders with consistent long-term returns in excess of the FTSE All-Share Index by investing predominantly in fast-growing, defensive unquoted companies and creating value through strategic and operational change. The company focuses on investments in software and service businesses primarily in Europe. It is able to invest in companies at enterprise values from £50m to over £1.0bn.

Recent developments

- 28 May 2019: HGT conducts a 1:10 stock split.
- 7 May 2019: HGT invests £32.1m in Litera Microsystems.
- 18 April 2019: further £19.5m equity investment in Visma.
- 19 March 2019: sale of Foundry with cash proceeds of £28m.
- 11 March 2019: publication of FY18 annual report along with a final dividend proposal of 30 pence per share payable on 30 April 2019 as well as a 10 for one share split.

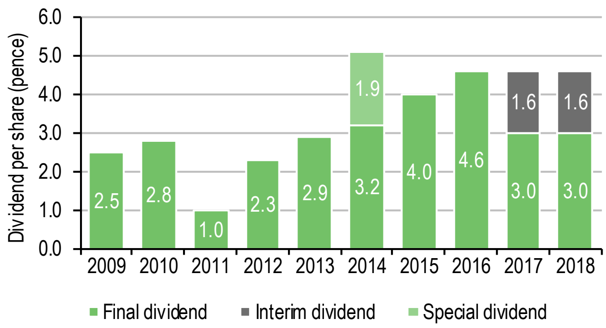
Forthcoming		Capital structure		Fund details	
AGM	May 2020	Ongoing charges	1.90% (FY18)*	Group	Hg
Interim results	9 September 2019	Net gearing	None	Manager	Hg Pooled Management (Hg)
Year end	31 December	Annual mgmt fee	1.5% of NAV (FY18)*	Address	2 More London Riverside, London SE1 2AP
Dividend paid	Semi-annually	Carried interest	20% of aggregate profits*		
Launch date	1989	Trust life	Indefinite	Phone	+44 (0)20 7089 7888
Continuation vote	2020	Loan facilities	£80m (undrawn)	Website	www.hgcapitaltrust.com

Dividend policy and history (2009–18)**

HGT's current dividend policy to pay out an annual dividend of at least 4.6p per share was introduced in 2016. The company aims to increase dividends if the market environment remains favourable.

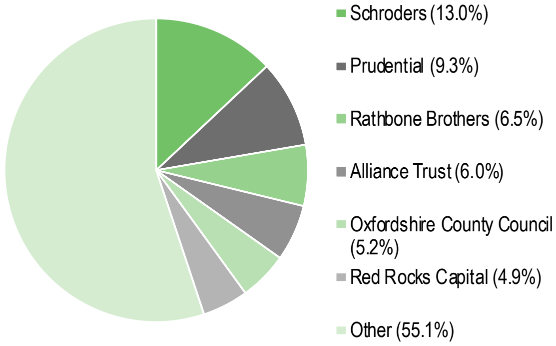
Share buyback policy and history

Each year HgCapital Trust's directors renew the authority to buy back up to 14.99% of the issued share capital at prices below the prevailing NAV per ordinary share, although the company has never executed the right. A general authority to allot shares up to a maximum nominal amount of £3.1m was also given to directors.

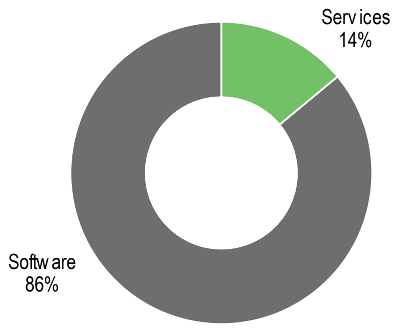


N/A

Shareholder base (as at 3 June 2019)



Portfolio exposure by sector (as at 30 April 2019)



Top 10 holdings (as at 30 April 2019)

			Portfolio weight %	
Company	**Location**	**Cluster/end-market**	**30 April 2019**	**30 April 2018*** **
Visma	Scandinavia	Tax and accounting/ERP and payroll	16.3%	15.7%
Sovos Compliance	North America	Tax and accounting	8.7%	10.0%
IRIS	UK	Tax and accounting/ERP and payroll	5.7%	10.9%
Transporeon	Germany	ERP and payroll	5.5%	N/A
The Access Group	UK	ERP and payroll	4.5%	N/A
CogitalGroup	UK	Tax and accounting	4.2%	4.1%
Mobility Holding	Germany	Automotive	3.9%	N/A
Mitratech	North America	Legal & regulatory compliance	2.9%	2.7%
Commify	UK	SME tech and services	2.7%	N/A
Combell	Belgium	SME tech and services	2.6%	N/A
Top 10 (% of holdings)	-	-	**57.0%**	**59.0%**

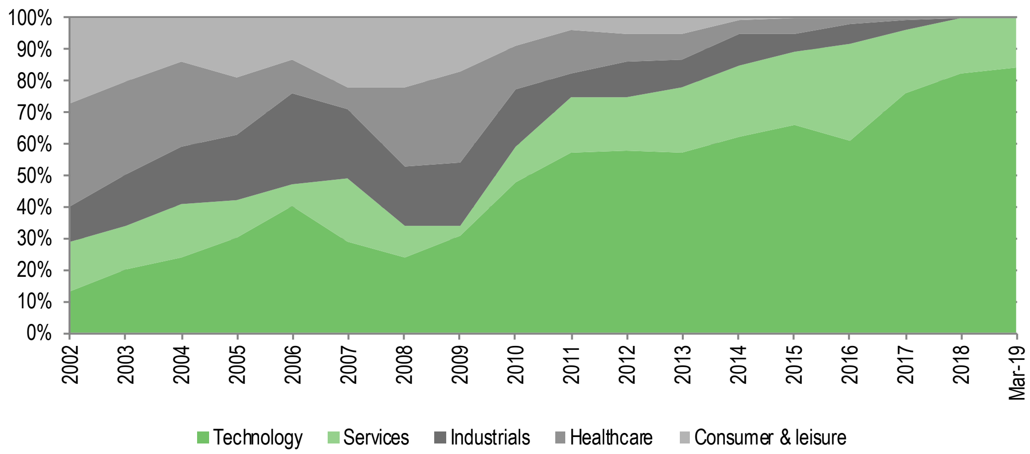
Source: HgCapital Trust, Edison Investment Research, Bloomberg. Note: *Please see the 'Capital structure and fees' section for further details. **Adjusted for the recent share split. ***N/A where not in end-March 2018 top 10.

Fund profile: A tech-focused, active PE investor

The company aims to provide shareholders with consistent long-term returns in excess of the FTSE All-Share Index by investing predominantly in unquoted companies (targeting a portfolio of around 30 growth holdings beyond the venture capital stage) and creating value through strategic and operational change. Apart from outperforming the FTSE All-Share, the company has no explicit target return. However, at the level of individual investments, it aims to deliver a gross IRR of 23–25%. One of HGT's success stories is Visma (HGT's largest portfolio holding at end-March 2019), where the company reported an unrealised IRR of 28% over 2014–18 through the Hg Genesis7 fund. Another example is IRIS (also within the five principal holdings), which yielded a realised gross IRR of 26% between December 2011 and September 2018 in the Hg6 fund. On average, Hg has delivered a gross IRR of around 30% for the last 30 software and service realisations.

The company focuses on companies that offer software and services across Europe with enterprise values (EVs) from £50m to more than £1.0bn. Hg was the most active global tech PE investor by investment volume in 2018 according to Pitchbook. Initially, its investment spectrum was broader and included technology and direct investments in sectors such as healthcare, media, consumer and leisure, industrials, consumer and other. However, it has since narrowed its focus to become an expert in tech and tech-enabled investments (see Exhibit 2).

Exhibit 2: HGT's historical portfolio split by sector



Source: HgCapital Trust reports and factsheets, Edison Investment Research

HGT displays the characteristics of a tech conglomerate and is not a private equity fund of funds. In fact, if Hg was classified as such, it would be the third-largest technology company in Europe with a focus on software and services by revenue (after SAP and Amadeus), as HGT's existing tech investments generate aggregate revenues of around £3.7bn a year while providing superior top-line growth. However, it must be noted that Hg's management incentive system is more effective than that of some conglomerates, as each management team is individually incentivised to align its interest with the portfolio company through a share in business performance. In addition, unlike a traditional conglomerate, Hg will realise each investment, constantly refreshing its group with younger companies entering their high-growth phase.

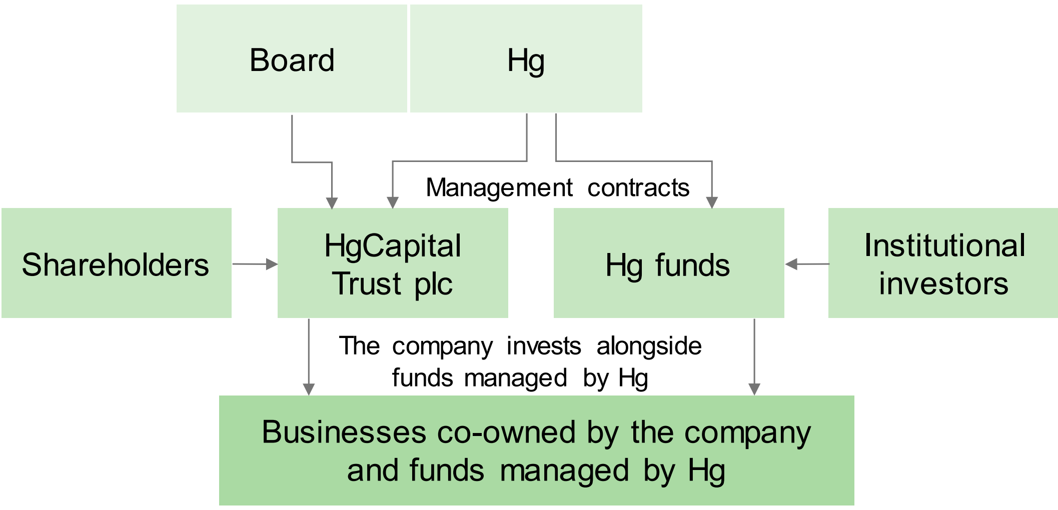
The fund manager: Hg

The company is managed by Hg Pooled Management (Hg), a subsidiary of Hg Capital LLP. Some administration and investment support services were delegated to Hg Capital LLP, which also acts as investment adviser to Hg. Hg Capital LLP was established in 1990 and operated as Mercury Private Equity within the Mercury Asset Management structures after acquisition by Merrill Lynch in

1997. In December 2000 it was spun off and became a fully independent partnership owned by its partners and employees. It now has a team of more than 170 employees in three offices in London, Munich and New York. Hg has a large community of more than 90 dedicated tech executives and operators.

Hg has more than £10bn of assets under management in several private funds targeting different segments of the PE market. HGT primarily invests alongside these funds (see Exhibit 3), declaring a certain level of investment commitment on the launch of the respective fund, which usually represents 10–15% of the fund's total AUM. The commitments are deployed proportionately to other fund investors in the respective portfolio companies. However, HGT may have the opportunity to increase its stake in selected companies through co-investments. Hg funds usually acquire a controlling stake in the portfolio companies.

Exhibit 3: Hg organisational structure



Source: HgCapital Trust

Below we describe all Hg's currently active funds:

- **Hg Saturn** was launched in 2017 with a final closing in October 2018, bringing its funds under management (FUM, including commitments) to £1.5bn. It pursues larger buyouts with EVs in excess of £1bn. The fund is already c 40% invested following the Visma and IRIS buyouts and Hg expects the remaining commitments will be invested over the next 12–18 months.
- **Hg8** (**Hg Genesis 8**) represents Hg's mid-market fund, which conducts buyouts at EVs of between £250m and £1.0bn. Its total AUM equals £2.5bn.
- **Hg Mercury 2** (FUM at £575m) invests in smaller companies with EVs of up to £250m, and is often the first professional financial investor in a business. The fund was set up in 2017 and is still investing (it currently holds four investments).
- **Transition capital** is a £75m fund covered fully by HGT's commitment (of which £59.5m is outstanding as at end-2018), aimed at acquiring minority positions in businesses as part of a long-term succession deal expected to be completed over a period of up to five years. The investments will be in the form of structured equity designed to provide a largely fixed return over a pre-defined period (ie with a set redemption date). This fund allows Hg to build the relationship with company owners at an early stage and facilitates the deal-origination process for other Hg funds. The fund has already made its first investment in BrightPay (allocated to the ERP and payroll cluster).

Hg also manages a number of buyout funds that have already entered the realisation stage (**Mercury 1, Hg5**, **Hg6** and **Hg Genesis 7**) and oversees the management of HGT's investments in two renewable energy funds (**Asper RPP1** and **Asper RPP2**). These are run by a specialist team that was formerly part of Hg and moved to a newly created independent investment management company in November 2017. This followed a value recovery plan launched by Asper in response to a deterioration in returns due to retroactive tariff changes in Spain, as well as depressed energy prices in Sweden in 2010–13. In the case of the Asper funds, Asper is responsible for preparing financial statements and performance reports for HGT. Hg will be involved if there are any issues arising from current investments on behalf of HGT's board. At end-March 2019, the Asper funds represented c 3% of the gross value of HGT's investments.

The investment manager has a solid track record in the software and services domain, with an average realised cash multiple of 2.5x (or 2.3x on a weighted average basis) and a gross IRR of 34% achieved on more than £6.9bn of proceeds (since 2001 as at end-March 2019 adjusted for Foundry exit). Importantly, more than 75% of these investments were exited at a cash multiple of 2.0x and above and only 12% at a multiple at 1.0x or below, according to our calculations based on company data. When taking all sectors into account since 1990, the weighted average cash multiple stands at 2.1x while gross IRR was 35%, with 52% of investments exited at a ratio at 2.0x and above, while 31% exited at 1.0x or below.

Below we present Hg's detailed track record by fund. We note that in terms of gross IRR in the case of Hg5 and Hg6 Hg's performance was somewhat below the subsequently launched funds. This may be partly because the former two were not purely focused on software and services investments (they represented 42% and 84% of the portfolio of Hg5 and Hg6, respectively), whereas all funds launched after Hg6 invested exclusively in software and services business. Having said that, MUST 4 was able to post a gross realised IRR of 32% with only 41% exposure to these sectors. We also note the 28% gross IRR achieved by Hg Saturn in the short time since launch was driven mostly by the investment in IRIS in September 2018 alongside the Intermediate Capital Group (with Hg6 being the seller).

Exhibit 4: Hg's track record since inception (as at end-March 2019)

Fund	Vintage	Phase	Strategy	Gross IRR (realised)	Gross IRR (total)	Gross cash multiple (realised)	Gross cash multiple (total)
Hg Saturn	2018**	Investing	Large buyouts	-	28%	-	1.2
Hg8 (Genesis)	2018	Investing	Mid-market buyouts	-	3%	-	1.0
Hg Mercury 2	2017	Investing	Small buyouts	-	74%	-	1.4
Hg7 (Genesis)*	2013	End of investment	Mid-market buyouts	28%	24%	2.2	1.9
Hg Mercury 1	2011	End of investment	Small buyouts	44%	38%	3.2	2.5
Hg6	2009	Realisation	Mid-market buyouts	18%		2.2	
Hg5	2006	Realisation	Mid-market buyouts	16%		2.0	
MUST 4	2001	Closed	Mid-market buyouts	32%		2.3	

Source: Hg, Edison Investment Research. Note: *Adjusted for Foundry exit. **Saturn was launched in 2017, but its final closing was completed in October 2018.

It is also useful to examine Hg's track record by subsector (see Exhibit 5). As illustrated below, the investment manager's tech expertise varies in the respective clusters from around five to 15 years, with the strongest track record in terms of both experience and realised exits in the tax and accounting and ERP and payroll domains. Here, Hg was able to realise gross multiples of c 3.1x and 3.3x and gross IRRs of 36% and 27%, respectively. All of HGT's five principal holdings at end-December 2018 (Visma, Sovos, IRIS, Access, CogitalGroup) are in these two segments.

Exhibit 5: Hg's track record by technology and services cluster

	Experience (years)	Total realised proceeds (£m)	Gross realised multiple	Gross realised IRR	Current NAV (£m)
Tax and accounting	15	1,630	3.1	36%	1,799
ERP and payroll	15	1,078	3.3	27%	1,122
Legal and regulatory compliance	12	370	2.1	39%	419
Automotive	10	766	2.4	22%	256
SME tech and services	9	589	2.2	20%	498
Healthcare IT	4	212	1.7	23%	257
Capital markets and wealth management IT	6	428	3.3	36%	108
Insurance	5	365	2.8	38%	180

Source: Hg, Edison Investment Research

The manager's view: Well positioned in the late stage of cycle

HGT's investment manager highlights that it has an active pipeline of investments in 2019 and is confident that in the current market environment, the clarity and distinctive focus of Hg's strategy provides the manager with several clear advantages as a cautious and disciplined investor. Last year, despite the focus on realisations, Hg continued to invest selectively, capitalising on situations where it has a specific angle and has many years of knowledge of the business and its end-market cluster, as well as strong relationships with the founders and management teams. It believes the relative de-risking of its existing portfolio (ie increased exposure to defensive companies with a high degree of recurring revenues coupled with a high number of realisations in recent years) gives the investment team more time and space to consider attractive new investments in the core areas of focus across Hg funds and the size spectrum.

Despite the relatively high valuations in the market, Hg continues to see attractive investment opportunities in its target clusters, just as it did in the closing stages of the last period of high valuations back in 2005–2008. This has led to several new investments and further capital deployed into businesses the manager knows well, with Transporeon (announced in January 2019) Visma (April 2019) and Litera Microsystems (May 2019) the most recent examples.

Hg continues to consider the UK's forthcoming exit from the EU and believes it will have a relatively limited impact on the current portfolio given the characteristics of these businesses, their geographic profile and their relatively defensive nature.

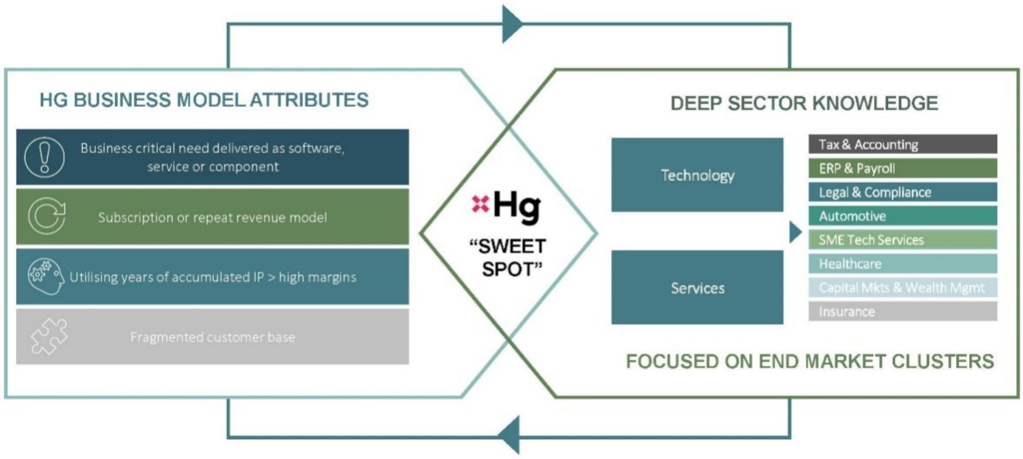
Asset allocation

Investment process: Active involvement to drive innovation

Hg's area of expertise (the manager's 'sweet spot') represent buyouts of defensive tech growth companies operating in one of eight core end markets: tax and accounting; legal and compliance; human capital management; automotive; insurance; SME tech services; financial data and fintech; and healthcare. These companies should display high levels of recurring and contracted revenues generated from products or services that are business critical but typically low spend. This includes solutions delivered in a cloud software-as-a-service (SaaS) setup, with several of HGT's top portfolio companies already operating in this model (eg Visma, Sovos, IRIS, Access, Allocate Software).

These businesses should be able to use their intellectual property accumulated over several years to generate high margins. Moreover, Hg is looking for companies with a high level of customer loyalty and low sensitivity to market cycles (ie, with a defensive profile), as well as low customer penetration (which may be significantly enhanced using a SaaS cloud framework). The defensive aspect of HGT's portfolio is illustrated by its software and services investments (shl, Addison and Visma) executed in the pre-crisis period 2005–2007, which were exited during or immediately following the crisis in 2008–2010. These investments jointly generated a cash multiple at 3.9x and a gross IRR of 40%, each delivering a cash multiple of at least 2.2x and an IRR of at least 25%. Importantly, Hg does not invest in early-stage businesses.

Exhibit 6: Hg's 'sweet spot'



Source: HgCapital Trust

Hg favours companies that constitute a solid investment platform and allow it to implement a 'buy-and-build' strategy. It aims at acquiring businesses ranked second to fourth in their respective markets and creating the leading player through add-on acquisitions. Over the last 15 years, Hg has assisted its portfolio companies in conducting more than 200 bolt-on acquisitions. This approach is particularly attractive in the context of current valuations in the market that seem relatively demanding and call for more sophisticated PE strategies than plain financial engineering (see the market outlook section for details).

Hg's key competitive advantage is its strong involvement in the strategic development and value creation of its portfolio holdings. Hg's active management is executed by its in-house operations group (consisting of 35 staff and operating partners), which works with the company's existing management to develop plans in focus areas, including sales, digital marketing, pricing, customer success, IT and data analytics. The team relies on well-tested solutions summarised in proprietary 'playbooks', allowing Hg's portfolio companies to embark on new projects to stay on top of industry trends while largely mitigating the risk of implementation failure.

A good illustration of this is Hg's investments in the tax and accounting and ERP and payroll cluster. Following the re-investment in Visma in 2014, the management team successfully implemented a set of value-creation measures. This included an increase in SaaS revenues from less than 10% to more than 60% in 2018 through organic growth and M&A; divestment of the lower-margin business process outsourcing (BPO) division to convert Visma into a pure play that would be valued at higher sales/EBITDA multiples (with proceeds recycled into incremental SaaS business); and a number of larger, strategic acquisitions to expand the total addressable market in new regions.

Hg's high degree of involvement supports its deal-origination process (especially in the lower mid-market segment covered by Hg Mercury funds), as company founders that are considering selling their business normally display a cautious approach towards PE funds and are not exclusively driven by the price they can get for their stake. It is equally important for them to find an investor who will be able to successfully enhance and expand the company's operations (someone who will take proper care of their 'baby').

The operations group either becomes involved directly in the company's operations or mentors the company's senior management. Hg emphasises stimulating collaboration and experience sharing between management teams of its portfolio companies. This includes forums hosted by Hg (in 2018, it organised 14 events with more than 700 participants) and 10 online live communities with 400 active members in Hg's trusted environment, Hive.

Market outlook: High level of 'dry powder'

In terms of deal volume and valuations, 2018 marked a record post-crisis high for PE markets. Key themes were a focus on generating liquidity (exits) in the buyout market and continued growth in the levels of undeployed capital in both buyout and venture markets. Although there are similarities to the market conditions prevailing back in 2007, PE funds seem to be better prepared for a potential market downturn, whenever it may come, according to McKinsey's Global Private Markets Review 2019 (see below).

In 2018, global PE deal volume surpassed the 2007 peak with transactions worth a total of US$1.4tn (up from US$1.3tn in 2017), according to McKinsey. Growth was driven mostly by North America rising 20% y-o-y and Europe up by 5%, whereas deal volume in Asia dropped sharply by 42%, back to 2015 levels. The latter was affected, among other things, by the tightening asset management regulations for non-financial entities in China. However, the decline comes from a high base in 2017, which included a higher number of megadeals, including the sale of Toshiba's chip unit. The global volume was propelled by growth in deal size, as the number of deals decreased by 5% y-o-y to 9,000. An important contributor were megadeals (worth more than US$5bn) in North America and Europe; 19 transactions of this scale were struck in 2018 compared to 15 in 2017 and nine in 2016.

As global dry powder (uninvested capital committed) has increased (over US$2tn at end H118 compared to c US$1tn in 2007–2010), valuations have become more demanding (2018 global average EV/EBITDA at 11.1x vs 10-year average of 9.2x). At present, 68% of surveyed European investors and 62% of fund managers believe asset valuation will be a key challenge for returns in 2019 (according to the Global Private Equity and Venture Capital Report prepared by Preqin). To generate the desired returns on new deals, PE firms globally have to turn to value-creation strategies beyond pure financial engineering. This includes the buy-and-build approach (which forms an important part of HGT's investment strategy), as well as business internationalisation. The former strategy may also allow the PE fund to blend down the average investment entry valuation multiple, as add-on acquisitions are executed, often at less demanding multiples that do not discount the synergies to be realised by the investment platform, such as the creation of a player with a stronger market presence and thus a higher valuation multiple. The high level of dry powder is also encouraging PE funds to diversify into credit, real estate and infrastructure. The latter is illustrated by the 17% y-o-y increase in infrastructure fundraising to US$82bn, while global fundraising in private markets decreased by 11% to US$778bn driven by a decrease in PE fundraising. It is worth noting that Hg is resolved to stick to the sectors in which it has successfully invested.

Average deal size in 2018 rose by US$17m to a post-crisis high of US$157m. Growth was fueled evenly by higher valuation multiples and larger targets. Increases in valuations and deal size can be partially explained by general partners seeking higher-quality assets that will prove more resilient in an economic downturn.

In 2018, the PE market reached valuations last seen immediately before the financial crisis, with the proportion of covenant-lite debt increasing, shown by 38% of North American private credit lenders reporting lower financial covenants in the past year (survey by Alternative Credit Council). Looking ahead, equity markets have been recovering from Q418 declines and are nearing Q318 peaks, which has had a positive influence on the valuation of PE portfolios. Market volatility remains elevated, with macro and political uncertainties a potential source of further corrections that would affect PE pricing.

However, the market seems better prepared for a potential economic downturn than it was in 2007. The PE market is twice as large in AUM terms and the risk of being forced to sell at discounted prices is lower, as the secondaries market is now deeper and funds have a higher amount of dry powder at their disposal. On average, funds can continue purchasing activity for 1.9 years with their current resources, compared to 1.6 years in 2007. Since 2007, the median leverage on PE deals has decreased to 50% from 58%. There are also immeasurable differences in the current market environment, including increased awareness of vintage risk, lack of club deals (deals involving several different PE investors) and wider utilisation of pacing plans (distributing the investment commitment). One should also note that funds capable of purchasing at the prevailing low valuations during the last crisis achieved extraordinary returns and General Partners' desire to follow that approach in the current cycle should keep valuations from experiencing a substantial fall such as that seen in 2008–2009.

Current portfolio positioning

HGT's portfolio at end-April 2019 consisted of investments which the company held as one of the limited partners in Hg funds or as direct co-investments with a total valuation at £655.9m. Moreover, the company holds renewable energy investments through the Asper RPP I and II funds valued at c £22.1m. HGT's gross cash position at end-April 2019 was £153.2m or c 19% of total NAV, which, after accounting for provision for carried interest and net current liabilities, stands at £790.4m. Taking into account the transactions announced in April and May so far, HGT's liquid resources stand at £102m (as at 16 May 2019) or c 13% of NAV reported as at end-April.

Exhibit 7: Portfolio breakdown by sector

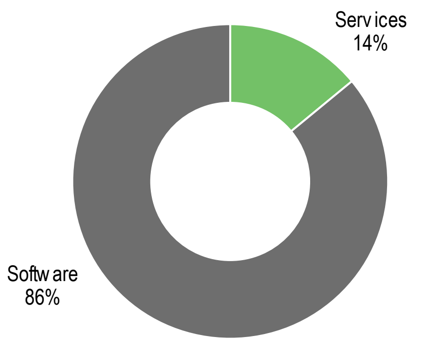
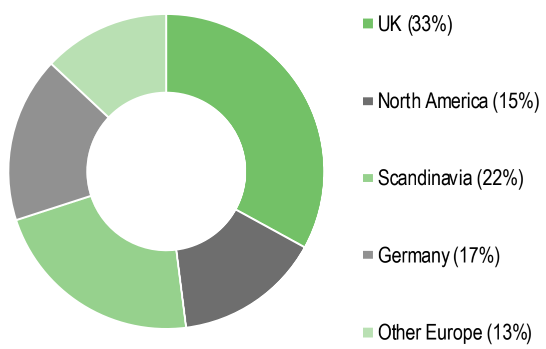


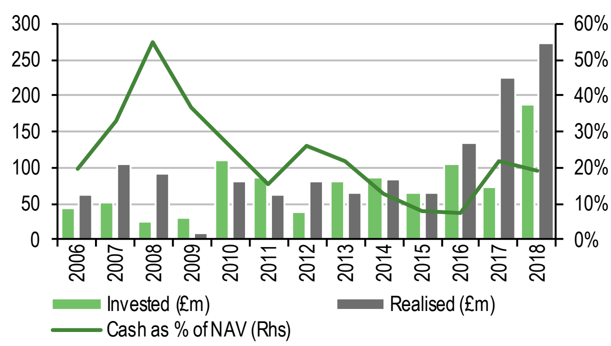
Exhibit 8: Portfolio breakdown by geography



Source: HgCapital Trust, Edison Investment Research. Note: Data at 30 April 2019.

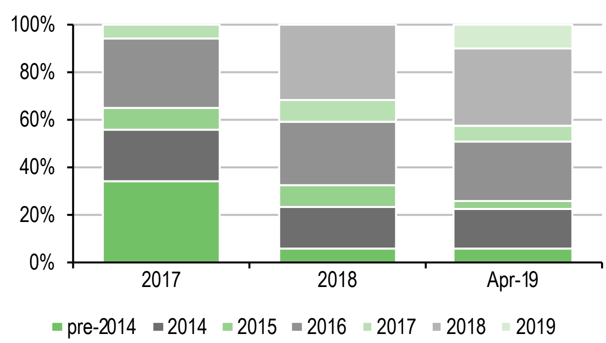
Following the high volume of realisations and new investments in 2016–2018 (see Exhibit 9), HGT's portfolio is relatively young, with only one major unrealised investment (Achilles) as well as some residual holdings (including in particular TeamSystem, P&I and Noventic) acquired before 2014. However, it must be noted that some holdings have a later vintage because the position was rolled over to another Hg fund (eg IRIS). The 2017–2019 vintages represented nearly half of the portfolio value at end-March 2019 (see Exhibit 10), as around 70% of all Hg investments held at the beginning of 2017 have been realised.

Exhibit 9: HGT's investments and realisations 2006–18



Source: HgCapital Trust

Exhibit 10: HGT's portfolio by vintage evolution



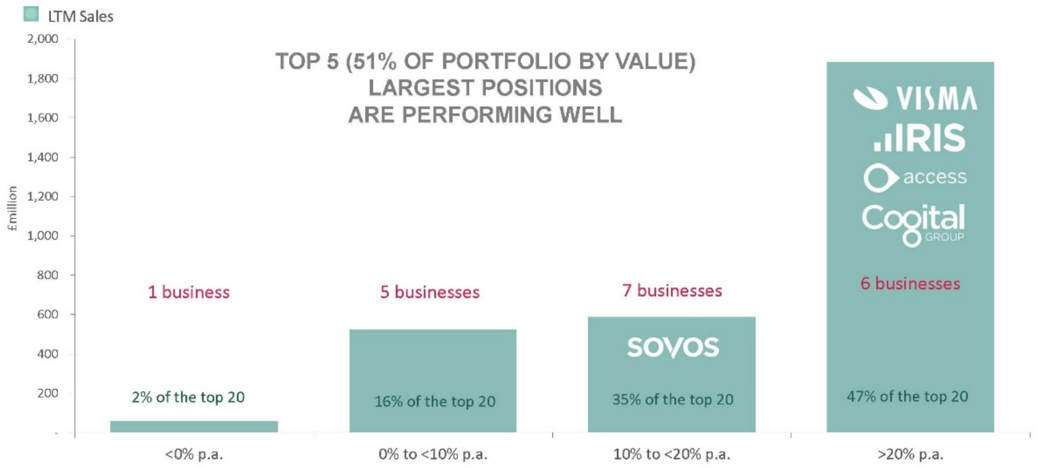
Source: HgCapital Trust, Edison Investment Research

HGT's portfolio is relatively concentrated, with the top 20 investments representing c 75% of NAV. Of this, the five principal holdings constituted 41% of NAV at end-April 2019, suggesting their performance will be an important driver of HGT's NAV. Visma alone made up 16.3% of NAV at end-April 2019, which will increase after the recent investment of £19.5m announced on 18 April (HGT and other Hg fund investors bought out Cinven's remaining stake). It is worth noting the company's investment policy includes a limit of a single holding upon investment at 20% of gross asset value (GAV), while Visma's share will increase to 20.5% of GAV post this transaction. Nevertheless, HGT's board agreed to the transaction and has identified several ways to reduce the exposure to 20% in the medium term. The recent transaction values Visma at an EV of €6.5bn, compared with 'well over €6.0bn' following the transaction involving Canada Pension Plan Investment Board in January 2019 (which involved a partial exit completed by Hg Genesis 7).

The top portfolio companies

Although we do not have the space in this note to review all of Hg's portfolio companies, below we provide a brief summary of five of HgT's principal holdings: Visma, Sovos, IRIS, The Access Group and CogitalGroup (for more details on these companies, see Appendix on page 19). In total, these five companies represented 51% of total portfolio value at end-2018 and 39% of NAV at 30 April 2019, following the Canada Pension Plan's investment in Visma and Cinven's exit. We note that HgT provides information on all its top 20 buyouts on the company's website.

Exhibit 11: Revenue growth of Hg's top 20 portfolio companies



Source: HgCapital Trust. Note: Data at 31 December 2018.

As can be seen in Exhibit 11, revenue growth at all five principal companies was in excess of 10% in 2018, with revenue growth over 20% for four of the five companies (except Sovos). Of the top 20 portfolio companies (one of which has been acquired by Visma), 82% saw double-digit revenue growth, with 76% also delivering double-digit EBITDA growth.

The growth of the top 20 holdings can be set in the context of the UK and European comparator group (Exhibit 15), where the European software (not SaaS) comparators are growing at c 10% but still trade at 15–20x FY1 EV/EBITDA (albeit with significantly higher EBITDA margins of 35–40%). The UK comparators comprise a diverse group of software businesses, averaging 30% EBITDA margins, with growth of c 15% and valued at FY1 EV/EBITDA multiples of 15–20x. By comparison, HGT's holdings offer stronger growth and greater recurring subscription/SaaS revenues, and HGT's valuations are backward-looking, based on historical EV/EBITDA.

Exhibit 12: Five of HGT's principal portfolio companies at year end

Investment	Fund	Sector	Location	Year of investment	Unrealised value (£000s)	Value (% of NAV)	Cum. value (% of NAV)
Visma*	Hg Genesis 7/ HGT/Saturn	Software	Scandinavia	2014	129,177*	16.3%*	16.3%*
Sovos	Hg Genesis 7/HGT	Software	N. America	2016	68,568	8.7%	25.0%
IRIS	Hg Saturn	Software	UK	2018	45,387	5.7%	30.8%
The Access Group	Hg Genesis 8	Software	UK	2018	35,388	4.5%	35.2%
CogitalGroup	Hg Genesis 7/ HGT	Services	UK	2016	33,090	4.2%	39.4%
Total investments					677,968	85.8%	
Cash and other liquid assets less provision for carried interest					112,459	14.2%	
Net asset value					790,427	100.0%	

Source: HgCapital Trust (data at 30 April 2019), Edison Investment Research. Notes: This analysis excludes Transporeon, a cloud logistics software company, a deal completed in March 2019, which becomes one of the top five holdings including co-investment. *30 April 2019 data exclude 1) Hg's further investment in Visma (announced 18 April 2019), where HGT contributed approximately £19.5m, increasing Visma's portfolio weighting to c 20.5%; and 2) the impact of the Litera Microsystems deal announced on 7 May 2019.

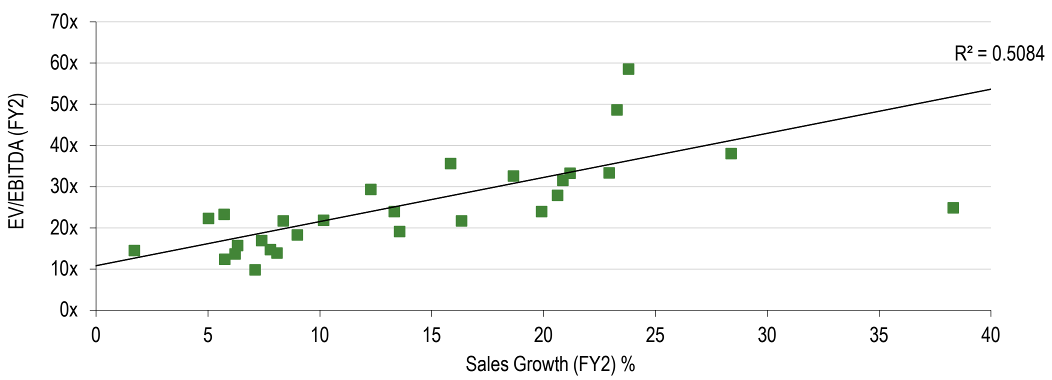
Framework for valuation of software/SaaS companies

As a framework, the two most important factors affecting the valuation of a SaaS business are public market multiples and how fast the business is forecast to grow relative to its peers. These two factors are sufficient to offer an indicative valuation, with other metrics then used to help refine pricing into a tighter range:

- strength of the management team
- size of the total addressable market
- lifetime / retention rate
- operating margins
- capital efficiency

Based on a (limited) universe of UK and European software businesses and US SaaS businesses (Exhibit 14 and 15), we have derived a scatter chart (Exhibit 13) setting out the impact of these two key variables, using consensus EV/EBITDA (FY2) multiples against expected sales growth (FY2), with a line of best fit.

Exhibit 13: Prospective EV/EBITDA multiple vs growth for a basket of SaaS businesses



Source: Refinitiv (at 3 June 2019), Edison Investment Research

Of course, this is a high-level theoretical framework and a true valuation will depend on the specifics of the company and what potential buyers are willing to pay. Hence, one of Hg's key strategic pillars is to identify potential buyers as part of the initial investment process to ensure strong relationships are established with these buyers as the asset is held and matures in Hg's portfolio.

Hg also highlights that successful and sustainable 'buy-and-build' strategies attract a significant market premium over non-serial acquirors, potentially attracting a 20–30% premium over equivalent market multiples (c 4–6x added to the EBITDA multiple). Integrating new areas of the enterprise software stack is a clear driver of M&A deals as acquirors see large gains from adding new offerings to their existing marketing channels. The vast majority of Hg's investments follow an active buy-and-build strategy.

Based on our universe (Exhibits 14 and 15), it is notable that there is a range of pure SaaS businesses listed in the US. However, in the UK and Europe there are no pure SaaS businesses, so we have had to focus on software businesses with partial exposure to SaaS revenues. Looking at high-level valuations, we would identify the higher revenue growth exhibited by the US companies (20–25%) versus their UK (10–15%) and European peers (8–12%) compared to the higher margins in the UK (c 30%) and Europe (35–40%) versus the US (c 20%).

US investors appear to prioritise higher growth over short-term profitability whereas in the UK and Europe, investors favour profitability and accordingly are prepared to sacrifice some level of growth.

Exhibit 14: Basket of US SaaS companies

	Name	Quoted ccy	EV ($m)	Sales growth 1FY (%)	Sales growth 2FY (%)	EBITDA margin 1FY (%)	EBITDA margin 2FY (%)	EV/ Sales 1FY (x)	EV/ Sales 2FY (x)	EV/ EBITDA 1FY (x)	EV/ EBITDA 2FY (x)	P/E 1FY (x)	P/E 2FY (x)
CRM.N	Salesforce.Com Inc	USD	116,142	21.4	19.9	23.6	25.1	7.2	6.0	30.5	23.9	56.9	44.2
INTU.OQ	Intuit Inc	USD	60,578	13.2	10.2	36.6	37.4	9.0	8.1	24.5	21.8	36.6	32.5
NOW.N	ServiceNow Inc	USD	47,600	32.2	28.4	27.3	28.3	13.8	10.8	50.5	38.0	82.3	61.3
WDAY.OQ	Workday Inc	USD	45,458	26.4	23.3	19.6	21.3	12.7	10.3	65.0	48.6	121.4	90.8
TEAM.OQ	Atlassian Corporation	USD	29,417	38.0	28.3	26.1	27.0	24.4	19.0	93.5	70.3	153.9	125.8
TWLO.N	Twilio Inc	USD	17,108	70.4	33.8	6.3	7.1	15.4	11.5	N/M	N/M	N/M	460.2
OKTA.OQ	Okta Inc	USD	12,631	36.9	30.8	N/M	N/M	23.1	17.7	N/M	N/M	N/M	N/M
PAYC.N	Paycom Software Inc	USD	12,352	27.1	22.9	41.3	42.0	17.2	14.0	41.5	33.2	64.5	51.4
ZEN.N	Zendesk Inc	USD	9,251	35.0	30.4	6.4	9.3	11.4	8.8	N/M	N/M	305.0	138.4
HUBS.N	HubSpot Inc	USD	6,651	28.2	23.8	12.4	14.0	10.1	8.2	81.3	58.4	134.8	102.4
COUP.OQ	Coupa Software Inc	USD	6,551	25.9	25.4	5.7	10.8	20.0	15.9	N/M	N/M	N/M	343.1
PFPT.OQ	Proofpoint Inc	USD	5,999	22.3	21.2	15.3	17.0	6.8	5.6	44.7	33.2	76.4	55.7
PCTY.OQ	Paylocity Holding Corp	USD	5,170	23.1	20.9	28.4	29.2	11.1	9.2	39.1	31.5	78.1	61.2
AVLR.N	Avalara Inc	USD	4,585	28.6	22.8	0.4	5.4	13.1	10.7	N/M	N/M	N/M	N/M
BLKB.OQ	Blackbaud Inc	USD	4,341	5.3	5.0	20.3	20.8	4.9	4.6	23.9	22.2	35.1	31.8
QLYS.OQ	Qualys Inc	USD	3,173	15.4	16.3	38.8	39.2	9.9	8.5	25.4	21.6	46.0	39.9
CSOD.OQ	Cornerstone OnDemand	USD	3,073	5.7	13.6	21.6	25.0	5.4	4.8	25.1	19.1	51.3	36.4
MIME.oQ	Mimecast Ltd	USD	2,750	23.5	20.6	16.9	19.5	6.5	5.4	38.6	27.8	107.1	68.0
BOX.N	Box Inc	USD	2,604	15.4	15.9	6.6	9.0	3.7	3.2	56.4	35.5	N/M	102.3
LPSN.OQ	LivePerson Inc	USD	1,738	15.6	19.2	3.8	7.5	6.0	5.0	N/M	N/M	N/M	215.5
UPLD.OQ	Upland Software Inc	USD	1,424	40.6	7.4	37.1	37.4	6.8	6.3	18.2	16.8	21.8	21.2
	Mean			**26.1**	**20.6**	**20.1**	**21.8**	**11.2**	**9.1**	**42.8**	**32.9**	**88.8**	**106.2**
	Median			**24.8**	**21.0**	**20.3**	**21.3**	**10.0**	**8.3**	**38.9**	**29.6**	**70.5**	**61.2**

Source: Refinitiv (as at 3 June 2019), Edison Investment Research

Exhibit 15: Basket of UK and European software businesses

	Name	Quoted Ccy	EV ($m)	Sales Growth 1FY (%)	Sales Growth 2FY (%)	EBITDA margin 1FY (%)	EBITDA margin 2FY (%)	EV/ Sales 1FY (x)	EV/ Sales 2FY (x)	EV/ EBITDA 1FY (x)	EV/ EBITDA 2FY (x)	P/E 1FY (x)	P/E 2FY (x)
UK													
MCRO.L	Micro Focus International	GBp	12,566	-26.7	-3.5	41.7	44.9	3.6	3.7	8.7	8.3	10.3	9.2
SGE.L	Sage Group PLC	GBp	10,785	5.9	6.3	26.2	26.3	4.4	4.1	16.7	15.6	24.5	22.9
AVV.L	AVEVA Group PLC	GBp	7,354	5.9	5.7	27.3	29.2	7.2	6.8	26.3	23.2	36.5	32.1
AVST.L	Avast PLC	GBp	4,922	6.1	7.1	55.1	55.0	5.7	5.4	10.4	9.7	12.9	11.9
SOPH.L	Sophos Group PLC	GBp	2,669	7.8	9.0	16.5	17.5	3.5	3.2	21.1	18.2	31.6	27.5
PRSMB.L	Blue Prism Group PLC	GBp	1,706	76.0	67.3	N/M	N/M	13.9	8.3	N/M	N/M	N/M	N/M
GBGP.L	GB Group PLC	GBp	1,489	18.1	38.3	23.3	24.3	8.3	6.0	35.8	24.8	40.0	36.7
CRW.L	Craneware PLC	GBp	990	18.6	18.7	32.1	32.3	12.4	10.5	38.8	32.5	56.7	47.5
EMISG.L	EMIS Group PLC	GBp	934	-5.6	1.7	30.4	31.4	4.6	4.5	15.2	14.4	24.1	22.5
LTGL.L	Learning Technologies	GBp	739	35.8	8.1	30.0	30.7	4.6	4.2	15.3	13.8	21.4	19.4
ALFAAL.L	Alfa Financial Software	GBp	423	3.7	5.8	33.9	35.0	4.5	4.3	13.4	12.3	20.0	18.3
	Mean			**13.2**	**15.0**	**31.6**	**32.7**	**6.6**	**5.6**	**20.2**	**17.3**	**27.8**	**24.8**
	Median			**6.1**	**7.1**	**30.2**	**31.1**	**4.6**	**4.5**	**16.0**	**15.0**	**24.3**	**22.7**
Europe													
SAPG.DE	SAP SE	EUR	160,451	10.8	7.8	30.9	33.2	5.3	4.9	17.0	14.7	22.9	20.8
DAST.PA	Dassault Systemes	EUR	36,957	12.7	8.4	34.9	36.1	8.4	7.8	24.2	21.6	38.0	34.4
AMA.MC	Amadeus IT Group	EUR	36,944	12.6	6.2	40.9	41.2	6.0	5.6	14.6	13.6	24.9	23.2
TEMN.S	Temenos	CHF	13,063	17.8	12.3	39.2	40.1	13.2	11.7	33.7	29.3	50.1	42.8
	Mean			**13.5**	**8.7**	**36.5**	**37.6**	**8.2**	**7.5**	**22.4**	**19.8**	**34.0**	**30.3**
	Median			**12.7**	**8.1**	**37.0**	**38.1**	**7.2**	**6.7**	**20.6**	**18.1**	**31.5**	**28.8**

Source: Refinitiv (as at 3 June 2019), Edison Investment Research

HGT values its portfolio holdings twice a year, predominantly by applying average EBITDA multiples of listed software and services peers or recent relevant M&A transactions to the holding's last twelve months (LTM) EBITDA. However, if the investment manager anticipates the company may post an earnings decline, it will use the forecast earnings and forward multiple in the valuation process. We consider this a conservative approach, underpinned by Hg delivering an average unweighted uplift to prior book value upon realisations of over 40% (or median uplift in excess of 30%) over the last 30 software and services realisations spanning 2011–2019.

At end-December 2018, the average LTM EV/EBITDA multiple for HGT's top 20 holdings (representing 89% of portfolio value) stood at 17.3x, compared to 15.9x at end-December 2017. Although this multiple is high in absolute terms, it is relatively modest by comparison with the quoted software/SaaS multiple shown in Exhibits 14 and 15. We would highlight the following factors as support for the valuation:

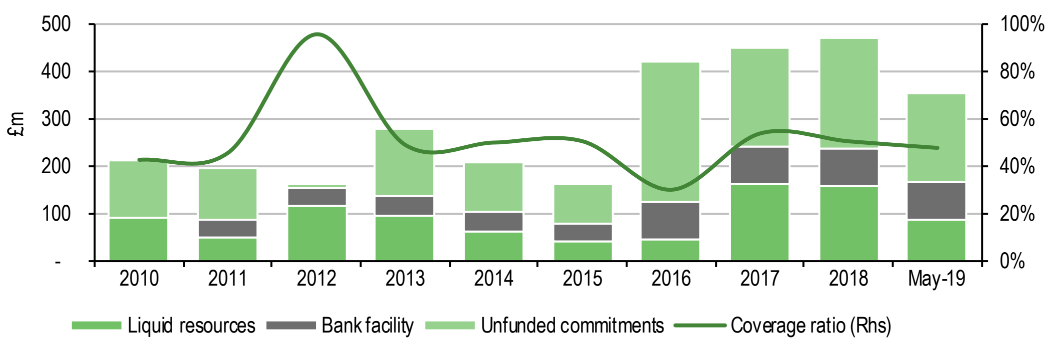
- the high growth delivered by HGT's portfolio holdings (CAGR of around 10–20% or even more at revenue and earnings levels historically), with a high proportion generated organically;
- Hg's 'buy-and-build' strategy, as platform investments may command a valuation premium in the market as discussed above;
- the defensive profile of portfolio companies due to a high proportion of recurring revenues generated from business-critical but typically low-spend products, coupled with strong customer loyalty; and
- Hg bases its valuations on historical multiples, whereas public market multiples tend to be forward looking.

Having said that, as the valuation of portfolio holdings is based on observable market multiples of listed peers, a potential significant market downturn would also be reflected in HGT's NAV. On the other hand, strong subsequent EBITDA growth would allow it to restore value in a relatively short timeframe.

Financial resources: Coverage ratio in line with past average

HGT's outstanding investment commitments at end-2018 stood at £470.8m (see Exhibit 16) and were predominantly associated with the most recent fund vintages, including Hg Genesis 8, Hg Saturn, Hg Mercury 2 and Transition Capital. The company's liquid resources amounted to £156.5m and it has an undrawn £80.0m standby facility, which was recently extended to 2022 (see the capital structure and fees section below for more details). The liquid resources in conjunction with this facility covered c 50% of the outstanding commitments, which is broadly in line with the company's average levels since 2010. Year to date, commitments have declined to £354m (as at 7 May), predominantly as a result of the investments in Combell (£22.1m), Transporeon (£35m plus a £6m co-investment), Visma (£19.5m) and Litera Microsystems (£32.1m). Liquid resources as at 7 May amounted to £88m (after accounting for the dividend payable in April), which together with the undrawn bank facility translated into a year-to-date decline in the coverage ratio to c 47%.

Exhibit 16: HGT's historical coverage ratio



Source: HgCapital Trust, Edison Investment Research. Note: Last column at 7 May 2019.

HGT's commitments should be drawn down over the next 12–18 months and be partially funded by prospective cash inflows from portfolio realisations and refinancing. The company expects it will announce further commitments to Hg funds in early 2020. The board of HGT has said it is also considering a share issue to fund future commitments, but this depends on market conditions and lack of meaningful discount to NAV. As the shares currently trade broadly in line with NAV, the prerequisite in this respect is met. We understand that a new issue would be welcomed by institutional investors, with the inclusion into the FTSE 250 Index in October 2018 driving additional interest in HGT's shares.

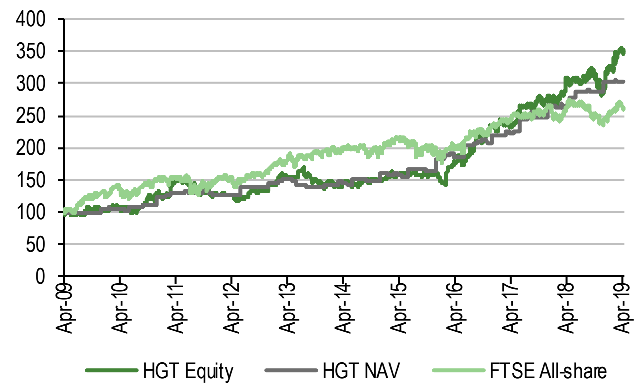
Importantly, in the case of all of the above-mentioned investment commitments, the board of HGT has negotiated a right to 'opt out' without suffering any penalties if it is not able to fund its commitments. However, the company has not exercised this right so far, as investors could see it as a sign that it is not able to effectively manage its liquidity. It is considered more 'disaster insurance' than a means to protect the balance sheet.

Performance: Well ahead of public benchmark

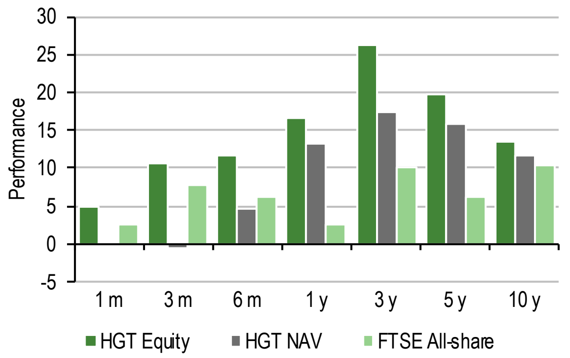
Hg's expertise is well documented by the company's historical share price and NAV performance. The company has achieved an NAV total return over the last 10 years of 11.7% per year at end-April 2019, slightly ahead of the FTSE All-Share Index at 10.4% pa. However, it must be noted that this is calculated from levels close to the stock market trough during the financial crisis in 2008–2009. Given that HGT's NAV performance was quite resilient at that time (one-year NAV total return to end-December 2008 at +0.5% compared with FTSE All-Share at -30%), the rapid rebound from trough levels have only boosted the benchmark performance. Still, HGT's shares outperformed the benchmark with c 13.5% total return per year over that period. HGT is also clearly ahead of the FTSE All-Share Index over one, three and five years as illustrated in Exhibit 17. This is also true for other relevant indices, such as the FTSE SmallCap, STOXX Europe Small 200, STOXX Europe 600 Technology or FTSE techMark Focus Index. HGT's shares have demonstrated particularly strong three-year performance at c 26% per year after rebounding from the market correction in early 2016, which pushed the discount to NAV to around 30% (see Exhibit 20). The subsequent share price increase was driven both by NAV growth and narrowing discount, hence the market correction provided an attractive entry point.

Exhibit 17: Investment company performance to 30 April 2018

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.

Exhibit 18: 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 FTSE All-share	2.1	2.6	5.1	13.5	50.5	82.1	32.4
NAV relative to FTSE All-share	(2.6)	(7.6)	(1.7)	10.5	21.5	54.6	12.4
Price relative to FTSE SmallCap Index	0.3	4.5	7.4	23.0	63.3	86.0	7.2
NAV relative to FTSE SmallCap Index	(4.3)	(5.9)	0.5	19.7	31.9	57.9	(9.0)
Price relative to STOXX Europe Small 200 Index	0.4	2.3	4.9	15.9	39.5	62.0	8.1
NAV relative to STOXX Europe Small 200 Index	(4.2)	(7.8)	(1.9)	12.7	12.6	37.6	(8.2)
Price relative to STOXX Europe 600 Technology Index	(2.6)	(4.9)	(1.3)	6.4	12.7	21.4	6.2
NAV relative to STOXX Europe 600 Technology Index	(7.1)	(14.4)	(7.7)	3.5	(9.0)	3.1	(9.8)
Price relative to FTSE techMark Focus Index	(1.0)	(0.1)	(4.8)	2.8	40.6	38.0	(23.7)
NAV relative to FTSE techMark Focus Index	(5.5)	(10.0)	(11.0)	0.0	13.5	17.2	(35.2)

Source: Refinitiv, Edison Investment Research. Note: Data to end-April 2019. Geometric calculation.

HGT is also outperforming the above equity indices on a risk-adjusted basis, as illustrated by the Sharpe ratios presented in Exhibit 19.

Exhibit 19: Sharpe ratios for HGT and selected equity indices

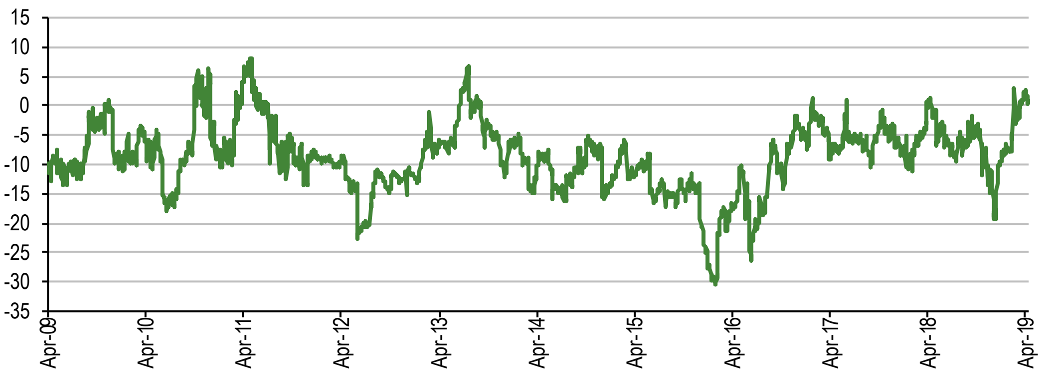
Time period	HGT price	HGT NAV	FTSE All-Share	FTSE Small Cap	STOXX Europe Small 200	STOXX Europe 600 Technology	FTSE techMark
1-year	**1.00**	**1.89**	0.20	-0.58	-0.01	0.56	0.94
3-year	**1.64**	**1.71**	1.04	0.62	1.23	1.36	0.99
5-year	**1.21**	**1.48**	0.62	0.54	0.81	0.99	0.99
10-year	**0.77**	**1.05**	0.74	0.67	0.65	0.60	1.15

Source: Thomson Reuters, Edison Investment Research. Note: Based on monthly data at end-April 2019.

Discount: Shares trading close to NAV

Over the last 10 years, HGT's shares have traded at an average discount to NAV of c 10%, occasionally moving deeper into the double-digit discount territory, which has usually coincided with major UK stock market corrections (such as the December 2018 correction). Subsequently, however, the discount has narrowed relatively quickly (see January 2019). There were a few instances when shares traded at a single-digit premium to last-reported NAV. Over the last two to three years, the discount has generally stayed within 0–10%. Currently, the shares trade at a minor premium of c 1.2%.

Exhibit 20: Share price discount to NAV over 10 years (diluted at par)



Source: Refinitiv, Edison Investment Research

Capital structure and fees

HGT pays a priority profit share corresponding to a base management fee that is specific to each of the Hg funds and calculated in respect of either HGT's commitments to or capital invested alongside the respective Hg fund (see Exhibit 21). The priority profit share in FY18 was £11.7m and equalled c 1.5% of HGT's average NAV in 2018. This compares with £7.7m and 1.2% in 2017, respectively. We believe the increase is driven by the launch of the Hg Genesis 8 fund in September 2018, where the fee is charged based on committed capital. Hence, as the commitments are gradually deployed (and reflected in HGT's NAV), the impact of fees as a percentage of NAV from this fund may soften. Moreover, Hg launched Hg Saturn in 2017, with 38% of the original HGT commitment of £150m already deployed at end-2018. Finally, HGT has committed £75m to invest in Transition Capital, with c 21% deployed at end-2018.

Exhibit 21: Priority profit share charged to HGT

Fund partnership	HGT's original commitment (£m)	Priority profit share (% per year)
Hg Saturn	150	1.0% on invested capital
Transition Capital	75	1.25% on invested capital
Hg Genesis 8	350	1.75% on the fund commitment during the investment period, stepping down to 1.5% on invested capital
Hg Mercury 2	80	
Hg Genesis 7	200	1.5% of original cost of investments in the fund less the original cost of investments that have been realised or written-off
Hg Mercury 1	60	
Hg6 and Hg6E	300	
HGT	N/A	0.5% on the value of investments held in that fund, excluding co-investments
Asper RPP II	36	1.25% of lesser of value or cost of investments
Asper RPP I	19	1.5% of original cost of investments in the fund, less the original cost of investments that have been realised or written-off

Source: HG Capital 2018 report, Edison Investment Research

HGT is charged a performance fee in the form of carried interest payable to Hg's investment manager once a certain level of repayments has been made to HGT. The company's investments alongside Hg Saturn are subject to a carried interest at 12% of aggregate profits after the repayment of capital invested by HGT (and the priority profit share) and a preferred return of 8% per year, which increases to 20% once the fund's performance surpasses a preferred return of 12% per year (with full catch-up). The company's investments alongside all remaining Hg funds are subject to a carried interest at 20% of aggregate profits after the repayment of capital invested by HGT (and the priority profit share) and a preferred return of 8% per year. In FY18, the company recognised a net-carried interest charge of £14.4m (equating to c 2% of its average NAV in 2018). In cash terms, HGT paid £55.0m in carried interest in FY18. However, it must be noted that this was paid on sizeable realisations (based on several years of accumulated profits), generating £271.8m in gross proceeds (vs a 10-year average value of gross proceeds from realisations at c £108m). Moreover, it is important to highlight the 14.3% NAV total return in FY18 was already net of carried interest.

Neither the priority profit share nor carried interest is applicable to any co-investment made alongside Hg5, Hg6, Hg Mercury, Hg Genesis 7, Hg Mercury 2, Hg Genesis 8 and Hg Saturn in excess of the company's pro rata commitment. These investments yielded a 1.8x multiple on cost so far and at end-December 2018 represented 14% of HGT's NAV. It is also important to note that, apart from the administration fee of 0.1% per year on the company's NAV, there are no separate fees charged at the HGT level. Together with other operating expenses (such as legal and audit expenses or directors' remuneration), HGT's total ongoing charges as a percentage of NAV were 1.9% in FY18 compared to 1.5% in FY17, with the increase primarily related to the higher-priority profit share on new commitments (which are not reflected in HGT's NAV yet) as described above.

In terms of leverage, the company had no borrowings at end-December 2018. Last year, HGT extended its £80m multi-currency revolving credit standby facility, which will expire on 30 June 2022 and remained undrawn. The interest rate on the amount drawn from the facility stands at LIBOR plus a margin of 2.15%. HGT pays a commitment fee on the undrawn part of the facility of 0.9% per year. The company may add a further £80m to the facility subject to the bank's approval.

HGT may make tactical use of the above-mentioned credit facility to fully exploit investment opportunities across the investment cycle. The company anticipates it will discuss the timing and size of new commitments in autumn 2019 and enter them at the beginning of FY20. HGT usually applies leverage at its underlying investment level, which is serviced using the entity's own cash flows. The average net debt to LTM EBITDA ratio across the company's top 20 holdings was 5.6x at end-2018 versus 5.2x at end-2017. The number is broadly comparable with the median (gross) debt to EBITDA ratio for global PE deals in 2018 at 5.5x, according to McKinsey Global Private Markets Review 2019 (based on PitchBook data). It is important to note that the good visibility associated with a high proportion of recurring revenues generated by HGT's portfolio companies allows for a higher leverage level in comparison to some other sectors where other PE funds invest.

HGT undertook its last capital raise in 2010, raising £50m of gross proceeds and additionally issuing 6.22m of new subscription shares. These were subsequently converted to ordinary shares in 2011–2013 at a pre-defined price of £9.50 (2011–2012 conversions) and £10.25 (for 2013 conversions). As a result, HGT collected total gross proceeds of c £110.4m. However, we understand HGT is unlikely to issue new shares at a meaningful discount to NAV.

HGT's Board recently proposed a 1:10 share split to attract more investors and improve the company's trading volume. The stock split was completed on 28 May 2019.

Dividend policy and record

HGT does not have an official dividend policy as it is predominantly a long-term capital appreciation vehicle rather than an income trust. Still, since 2016 it has aimed to pay out an annual dividend of at least 4.6p per share (adjusted for the recent stock split). This was in response to shareholders' preference to receive a predictable dividend stream in an environment of low interest rates and yields. Consequently, in 2016 HGT paid out a dividend of 4.6p, which translated into a dividend yield of c 3.0% at the time. Given the sizeable amount of its annual dividend, HGT decided to split its payout from 2017 earnings into an interim and final dividend of 1.6p and 3.0p, respectively. For 2018, the company again paid an interim dividend of 1.6p per share and recently paid a final dividend at 3.0p per share, totalling 4.6p per share and translating into a yield of c 2.1%. Interestingly, HGT intends to designate (to the extent possible) all dividends as interest distributions, which are treated as a tax deduction against taxable income.

The company aims to increase dividends if the market environment remains favourable. That said, HGT's annual distributable income may be subject to some variation, depending on returns on the liquid resources and realisations. As an example, in 2014 HGT received a substantial one-off dividend from the transaction in Visma, which it decided to pass to its shareholders in the form of a special dividend of 1.9p per share. Together with the FY14 final dividend of 3.2p per share, this amounted to a record-high distribution at 5.1p per share, representing a yield of 4.8% at the time. In contrast, in 2011 HGT generated a revenue loss at 0.2p per share and as a result, its dividend decreased to 1.0p per share reaching the lowest-ever level and a yield of just 1.0%.

Peer group comparison

Although HGT's specialisation in the service and services sectors makes it difficult to identify comparable listed PE companies, we have collated a set of potential peers (Exhibit 22). We consider Altamir to be HGT's closest peer among the selected companies, as it primarily invests through affiliated Apax funds and has a relatively high (and growing) exposure to the TMT sector (44% at end-2018). However, there are several differences compared to HGT including regional exposure (France is the main market), a significant position in non-tech sectors and an investment strategy that also covers growth capital.

Moreover, our peer group includes three PE funds that mostly follow a direct investment strategy in the buyout market (NB Private Equity Partners, Oakley Capital Investments and Princess Private Equity), although none has a focus on the technology sector. There are also certain differences in terms of regional split; for example, NB Private Equity invests mostly in North America, whereas Oakley has 36% of its portfolio in the German-speaking (DACH) region. Finally, we have added three PE players that are mainly funds of funds (BMO Private Equity, ICG Enterprise and Standard Life Private Equity), although we acknowledge they are more remote peers.

HGT has outperformed the peer group average in terms of NAV total return performance over three, five and 10 years. Importantly, it was also the top-performer among the peer group over these horizons. As highlighted earlier, HGT's total ongoing charge ratio was 1.9% in FY18, which is broadly in line with the peer group. Interestingly, PE peers trade at a high single-digit to low double-digit discount to reported NAV, as opposed to HGT, which is traded at a slight premium. HGT's dividend yield of 2.1% is below the peer average of 4.0%.

Exhibit 22: Comparison of HGT vs peers

	Form of investments	Strategy by stage/size	Sector exposure	Regional exposure
HgCapital Trust	Direct alongside and through Hg's funds and co-investments	Lower mid-, mid- and large buyouts	Software and services	At end-April 2019: UK (33%), North America (15%), Scandinavia (22%), Germany (17%), Other Europe (13%)
Altamir	Alongside Apax Partners SAS and Apax Partners LLP, occasionally co-investments	Mid-market and large buyouts, as well as growth capital investments	At end-2018: TMT (44%), services (32%), consumer (19%), healthcare (5%)	At end-2018: France (43%), Other (57%)
NB Private Equity Partners	Predominantly Direct Equity Investments (83% of portfolio as at end-April 2019)	Buyouts	At end-April 2019: IT (19%), industrials (19%), healthcare (16%), consumer discretionary (14%), business services (13%), financial services (8%), comms/ media (6%), energy (3%), transport (2%)	At end-April 2019: North America (78%), Europe (17%), Asia / RoW (5%)
Oakley Capital Investments	Investments in the Oakley Capital Private Equity funds and through co-investments (NAV split at end-2018: Oakey Fund investment: 52%; debt and Equity co-investment: 30%; cash and other assets/liabilities: 18%	Buyouts in the high-growth mid-market	TMT, consumer and education	At end-December 2018: DACH (36%), UK (18%), North America (18%), Italy (18%), France (9%)
Princess Private Equity	Direct PE investments, as well as co-investments with other managers and direct senior or subordinated investments. Direct investments represented 90% of portfolio at end-March 2019	Predominantly small- and mid-market buyouts (60% at end-March 2019)	At end-March 2019: consumer discretionary (32%), IT (15%), healthcare (13%), consumer staples (9%), industrials (8%), financial (8%), materials (7%), energy (4%), telecom (2%), utilities (2%)	At end-March 2019: Europe (51%), North America (34%), Asia-Pacific (7%), RoW (8%)
BMO Private Equity	Fund of funds (61%) and direct co-investments (39%)	Predominantly buyout funds, but also a small proportion of venture capital and mezzanine funds	N/A	At end-2018: UK (47%), Europe (35%), US (16%), Global (1%), Emerging (1%)
ICG Enterprise	Fund of funds and direct. ICG-managed (19.9% at end-January 2019), third-party direct co-investments (15.8%), third-party secondary (5.7%), third party primary (58.6%)	At end-January 2019: mid-market buyouts (47.2%), large buyouts (44.7%), small buyouts (4.6%), other (3.5%)	At end-January 2019: healthcare and education (20.8%), industrials (20.6%), business services (15.8%), consumer goods and services (13.6%),TMT (11.8%), leisure (8.7%), financials (5.5%), other 3.2%)	At end-January 2019: UK (30.9%), Continental Europe (38.8%), North America (25.9%), RoW (4.4%)
Standard Life Private Equity	Fund of funds. At end-September 2018: primary buyout funds (84%), Buyout funds acquired via secondary market (15%), other funds (1%)	Buyouts, in particular in the mid-market	At end-September 2018: industrials (22%), consumer services (20%), healthcare (16%), consumer goods (14%), tech (13%), financials (10%), other (5%)	At end-September 2018: Scandinavia (17%), France (16%), Benelux (15%), UK (15%), North America (14%), Germany (10%), Other (13%)

Source: Company data, Edison Investment Research

Exhibit 23: Peer group comparison at 3 June 2019

	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 (%)
HgCapital Trust	**799.7**	**8.6**	**63.9**	**110.4**	**201.4**	**1.2**	**1.9**	**Yes**	**78**	**2.2**
Altamir	530.5	3.5	45.4	75.7	184.1	(25.4)	3.2	No	100	4.5
BMO Private Equity Trust	238.8	13.2	42.4	74.7	145.3	(14.4)	1.2	Yes	80	4.4
ICG Enterprise Trust	607.2	10.9	51.7	75.6	185.5	(16.5)	1.9	Yes	90	2.4
NB Private Equity Partners	513.0	13.4	56.5	109.9	N/A	(21.1)	2.8	Yes	N/A	3.6
Oakley Capital Investments	444.6	15.4	47.5	47.5	173.2	(22.0)	0.8	Yes	83	2.1
Princess Private Equity	594.3	8.2	53.2	95.5	128.3	(16.0)	1.7	Yes	96	7.7
Standard Life Private Equity	538.1	8.3	42.7	81.9	160.4	(14.1)	1.1	No	85	3.6
Average (excl. HG Capital)	**495.2**	**10.4**	**48.5**	**80.1**	**162.8**	**(18.5)**	**1.8**	**N/A**	**89**	**4.0**
HGT's rank in sector	**1**	**5**	**1**	**1**	**1**	**1**	**4**	**N/A**	**7**	**7**

Source: Morningstar, Edison Investment Research. Note: Performance to 30 April 2019. 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

HGT's board consists of six non-executive directors, all of whom are independent from the investment manager. One board member (Mark Powell) retired in April 2018, while two new directors (Jim Strang and Guy Wakeley) joined the board in March 2018. Jim Strang leads the business in the EMEA region for the PE firm Hamilton Lane and has more than 15 years of experience across the PE market and deal structures. Guy Wakeley is the CEO at Equiniti Group, a provider of processing, share dealing and payments platforms and services to large businesses in UK and the US. He brings additional expertise in understanding the tech and tech-enabled businesses, as well as international M&A and large-scale operational leadership and transformation to HGT's board. The company's chairman is Roger Mountford who has been on HGT's board since 2004. He is a former managing director in the corporate finance department of Hambros and also worked as corporate treasurer of a global communications company. The remaining three board members are Richard Brooman (chairman of the Audit and Valuation Committee), Peter Dunscombe (chairman of the Management Engagement Committee) and Anne West (who is senior independent director).

Richard Brooman was a qualified chartered accountant with Price Waterhouse with prior experience at Mars (where he held senior operational and financial positions) and SmithKline Beecham (as CFO of the global consumer healthcare business), as well as VCI (group finance director) and Sherwood International (CFO). He has served on HGT's board since 2007. Peter Dunscombe has experience in senior management positions of several pension funds, such as the Imperial Tobacco pension fund and the BBC Pension Trust. He has been on HGT's board since 2014. Anne West joined HGT's board in 2014 after a career as equity investment manager at Cazenove Capital Management, where she spent 23 years and rose to the position of CIO. Anne has significant experience in the wealth management sector, providing the board with insights into the decision-making process of the company's shareholders and potential investors.

Appendix: Five of the principal portfolio holdings

Visma: SME business software and services

Exhibit 24: Visma investment summary

Investment	Fund	Sector	Location	Year of (latest) investment	Unrealised value (£'000)	Value (% of NAV)
Visma*	Hg Genesis 7/ HGT/Saturn	Technology	Scandinavia	2014	129,177*	16.3%*

Source: HgCapital Trust (data at 30 April 2019), Edison Investment Research. Note: *30 April 2019 data exclude: 1) Hg's further investment in Visma (announced on 18 April 2019), where HGT contributed approximately £19.5m, increasing Visma's portfolio weighting to c 20.5%; and 2) the impact of the Litera Microsystems deal announced on 7 May 2019.

Visma is a leading provider of business-critical software to SMEs and the public sector in the Nordic and Benelux regions. It is headquartered in Oslo with significant revenues in Norway, Sweden, Finland, Denmark and the Netherlands. Visma has more than 8,500 employees across its network, including 3,400 software developers. The company serves 900,000 enterprise customers offering software and services including accounting software; HR and talent management solutions; enterprise resource planning and payroll software; and transaction process outsourcing, such as debt collection and procurement.

Strategic outlook

Visma operates in the Nordic region, high cost, tech-savvy markets with a strong drive for increasing efficiency, providing customers with software solutions that make their business and admin processes more efficient than their competition. Visma's leading regional competitors include Evry, Sage and Tieto with many other software/ERP providers providing overlapping solutions in other markets (eg Intuit, Xero).

Over the next few years, Visma will be looking to expand into similar, well regulated, stable countries through the acquisition of market leading local SaaS companies (eg Hungary and Poland in 2018). Visma wants to be a market leader in new territories, consolidating its local leadership position, rather than spreading itself thinly (eg 2018 saw the acquisition of Raet in The Netherlands, a market leader in HR and government software, together with other niche software providers).

Investment in product development and innovation is a key success factor. As such, Visma has an ongoing programme to rewrite and convert all of its solutions from Windows to cloud. In 2017, R&D expenses amounted to c 15% of revenues, of which approximately two-thirds are related to SaaS projects. This conversion programme (and therefore a similar level of R&D spend) is expected to continue until 2020.

Market background

As well as considered geographic expansion, we anticipate continuing M&A activity in Human Capital Management (HCM) software (recruiting, talent management, learning, collaboration and engagement). A number of Visma's recent acquisitions have been in the HCM software space and adjacent areas, including learning and training. This is a core focus for Visma as the HCM software market is still fragmented and employee experience is a growing point of differentiation in tight labour markets, with more money allocated to HR budgets. This strategy ties in with the core thesis behind the M&A-driven model of adding new offerings into Visma's existing marketing channels.

Hg saw Visma's SaaS potential early

Hg initially invested in Visma in 2006 at a valuation of c €450m, having identified regulatory-driven, subscription-based software as an attractive sub-sector with scope for considerable growth. Hg was attracted by Visma's high degree of recurring revenues, serving a fragmented SME customer base with business-critical application software – today's 'sweet-spot' investment criteria. As well as the potential for organic growth and acquisitions, Hg was drawn by the opportunity to accelerate Visma's transition to a SaaS-focused business model. As at Q119, monthly SaaS e-invoicing transactions are growing at 27% y-o-y.

A serial investor and re-investor over the past decade and more

Following Hg's initial investment, the business became one of the leading SaaS companies in Europe through a combination of organic and M&A-driven growth. In April 2014, following KKR's decision to sell part of its original 2010 stake, Hg chose to sell its remaining holding, generating a total return between 2006 and 2014 of 5.2x original cost and a gross IRR of 33%. Via the Hg Genesis 7 Fund and co-investment, Hg clients then reinvested £409m in the business for a 31% stake as a co-lead investor, alongside KKR (reinvesting) and Cinven. This valued the business at a total EV of NOK21.0bn (£2.1bn).

In 2017, Hg announced further investment into Visma following the sale of KKR's stake, valuing the business at NOK45bn (£4.2bn). In 2018, Hg made a further investment in Visma (via Hg Saturn) and in 2019 brought in the Canada Pension Plan Investment Board (CPPIB) as an investor, valuing the business at NOK61bn (£5.5bn). In April 2019, together with CPPIB Hg and its investors acquired Cinven's residual stake in the company, allowing Cinven to exit in a deal valuing Visma at €6.5bn. This continued reinvestment in Visma reflects Hg's conviction in the strength of the business, backing a proven management team with a strong track record of creating investor value. HGT's residual stake in Visma is valued at £129m as at 30 April 2019. However, following HGT's latest investment, we believe this valuation (and its portfolio weighting) will rise once the deal completes.

Organic growth supported by M&A

Since 2006, Visma has acquired over 150 companies across the Nordic and Benelux regions. This aggressive M&A agenda has supplemented organic growth from product innovation and additional margin improvement from the reorganisation of Visma's internal processes. Visma is now positioned as one of the leading SaaS companies in Europe, with US$1bn of true cloud revenues in 2018 and US$612m of annualised recurring pure SaaS revenues (65%+ of revenues are pure SaaS). The company continues to see double-digit revenue and EBITDA growth (33% and 32% respectively in FY18), including M&A, and generated revenue CAGR over 2001–2018 of 18% and EBITDA CAGR of 27% (22% per year since 2009). Visma expects to continue its high rate of acquisitions for the foreseeable future.

Sovos: B2G tax compliance software solutions

Exhibit 25: Sovos investment summary

Investment	Fund	Sector	Location	Year of (latest) investment	Unrealised value (£'000)	Value (% of NAV)
Sovos	Hg Genesis 7/HGT	Technology	N. America	2016	68,568	8.7%

Source: HgCapital Trust (data at 30 April 2019), Edison Investment Research

Sovos is a leading global provider of business to government (B2G) tax compliance software solutions, headquartered in Boston, Massachusetts. Most revenue is generated from a US customer base of c 4,500 businesses (predominantly large enterprises), but the company also has a developing presence in Europe and Latin America. Services include sales, tax determination and filing, 1099 and 10 series tax information reporting, beverage alcohol compliance reporting, VAT compliance reporting, e-invoice filing and reporting, and Automatic Exchange of Information reporting (FATCA, CDOT and CRS).

Market background

A global B2G tax compliance market has only evolved over the past few years after becoming established in Latin America, notably Brazil, to increase government tax take and transparency. Digitisation of tax payments is now being adopted worldwide. Sovos has positioned itself to become a market leader in this new segment, reflected in its B2G revenues having risen from $0m to $50m over the past two years, with 17% growth anticipated in the current year. Other leading tax and accounting software solutions are also pushing into this market, with leaders such as Intuit, Xero, Avalara and Vertex.

A 'sweet-spot' investment proposition

Hg tracked Sovos (previously Taxware) for two years after identifying it as a scale specialist in tax compliance for enterprise customers. Sovos sits in the Hg 'sweet-spot' with a strong and predictable business model including c 95% contractually recurring revenue; a fragmented, loyal customer base; high margins; and robust cash conversion. Sovos's largest core products have achieved close to double-digit organic revenue growth. In addition, Hg saw the potential to expand the company outside the US market.

Organic growth supplemented by M&A

Sovos has seen rapid growth since Hg's initial investment in early 2016, driven by strong organic growth in its core products. In addition to continuing to grow revenues organically, Sovos has a strong track record of acquiring and successfully integrating tax compliance software companies. The market remains fragmented and Hg believes there will be continuing M&A opportunities as well as additional profit growth potential through further margin improvement.

In June 2016, Sovos announced the acquisition of Invoiceware International, based in Atlanta and Sao Paulo. This expanded the company's capabilities in Latin America and added the industry's only solution for handling electronic invoicing and fiscal reporting in multiple countries from a single platform. In August 2017, Sovos announced the acquisition of Paperless, based in Santiago, Chile, which complements Invoiceware's product offering and provides Sovos with a sector-leading solution for business to government reporting – a form of regulatory compliance that has spread to more than 60 countries. In July 2018, Sovos completed the acquisition of TrustWeaver, a leading provider of cloud software that helps businesses authenticate and centrally archive electronic documents for VAT audit purposes, extending Sovos's e-invoicing footprint across the EMEA region.

Attractive returns with more to come

HgT's stake in Sovos is valued at £81.1m (of a total Hg investment of £262m), with a 2.1x gross valuation multiple at December 2018 representing a gross IRR of 40%. Sovos has generated a revenue CAGR of 12% over 2015–2019 and a corresponding EBITDA CAGR of 19%.

IRIS Software Group: SME accounting software

Exhibit 26: IRIS investment summary

Investment	Fund	Sector	Location	Year of (latest) investment	Unrealised value (£'000)	Value (% of NAV)
IRIS	Saturn	Technology	UK	2018	45,387	5.7%

Source: HgCapital Trust (data at 30 April 2019), Edison Investment Research

IRIS Software Group is a leading UK-only provider of business-critical software solutions for compliance and regulatory-driven industries, such as accountancy, education, bookkeeping and human capital management. Over the last decade, IRIS has become one of the most trusted providers of business-critical software and services to SMEs in the UK. Over 21,000 accountancy practices, 10,000 schools and academies and more than 80,000 SMEs, corporates and payroll bureaus rely on IRIS.

Market background

The UK remains a competitive market, with disruption driven by the government's Making Tax Digital (MTD) initiatives (eg mandatory MTD VAT service from April 2019) as well as new lower-cost entrants targeting the accountancy practice market. In 2018 this led to significant disruption with market leaders including Thomson Reuters, Wolters Kluwer, Sage and IRIS losing market share to lower-cost cloud alternatives for their internal systems. This competitive pressure prompted IRIS to accelerate its own transition to a SaaS model, supported by Hg.

Competitors include Intuit, Xero, Advanced Business Solutions and Epicor as well as global groups such as Thomson Reuters, Wolters Kluwer and Sage.

Investment track record spanning 15 years

Hg and IRIS have a longstanding history, starting with the 2004 buyout led by Hg. Hg then retained a minority shareholding following IRIS's sale to Hellman and Friedman in 2007. In 2011, Hg again became the majority shareholder through an investment by the Hg6 Fund. In September 2018, Hg6 completed the sale of IRIS to Hg Saturn and Intermediate Capital Group in a joint control deal, at an EV of £1.3bn.

IRIS is an early example of Hg's focus on business-critical software firms operating in attractive, predictable end markets. The original investment decision was based on the potential for organic growth and acquisition-led consolidation. IRIS operates a highly recurring business model with over 85% of revenues from software and managed service subscriptions, much of which is based on annual renewals paid in advance.

IRIS continues to deliver added value to its existing customers through regulatory and feature updates, leading to high customer loyalty. The strong level of re-investment into new product development and outstanding customer support has continued to fuel outperformance vs other providers, delivering organic growth of c 9% per year.

A continuing and attractive investment proposition

The UK accountancy and SME software markets remain fragmented, offering additional acquisition opportunities. IRIS has always been at the forefront of providing innovative products to its customers and continues to invest in new technology to meet their needs. Hg believes there is substantial upside in broadening IRIS's SaaS offering to target adjacent sectors.

IRIS has successfully expanded its offering, both organically and by acquisition. It has also established a cloud division to sell SaaS products to UK accountants and SMEs. In 2016, IRIS acquired Octopus HR and PS Financial, then SAAF Analytics, Results Squared and ParentMail in 2017 and Contact Group, Taxfiler and STAR Payroll in 2018.

Exhibiting consistently strong growth

IRIS has been able to maintain strong levels of revenue, EBITDA and cashflow growth across market cycles with an 18% EBITDA CAGR (2002–19) and 13% CAGR since 2009. For the past few years, revenues have seen high double-digit growth rates year on year and the annual EBITDA margin has consistently been close to 50%, excluding the investment in its cloud division.

The Access Group: Business management software

Exhibit 27: Access investment summary

Investment	Fund	Sector	Location	Year of (latest) investment	Unrealised value (£'000)	Value (% of NAV)
The Access Group	Hg Genesis 8	Technology	UK	2018	35,388	4.5%

Source: HgCapital Trust (data at 30 April 2019), Edison Investment Research

Access is a provider of fully integrated, business-critical business management software to over 16,000 UK mid-market organisations. It has over 1,600 employees and its software supports companies in the finance, HR, payroll, hospitality, recruitment, health and social care, manufacturing and distribution, education and not-for-profit sectors.

In June 2018, Hg Genesis 8 completed an investment in Access at an EV of £1.0bn. As part of the transaction, TA Associates rolled over part of its stake to take an equal stake to Hg, while management and AlpInvest also rolled over as minority shareholders alongside Hg and TA.

The investment builds on Hg's prior experience in SME, accounting and tax as well as HR and payroll software. Hg has made multiple investments in this space already and Access demonstrates many of the characteristics that Hg looks for in an investment including business-critical software, a growing base of loyal customers, a strong management team and M&A potential.

Market background

Access launched Access Workspace during FY18, a new platform designed to integrate business software in one place and provide a holistic view of business performance and data analytics.

Acquisitions are critical to Access's future growth strategy and it intends to look for innovative companies that can extend its offering into new sectors and industries. By way of example, the recent acquisitions of Unicorn and Riliance together make Access the UK leader for online training, compliance and risk management in the financial and legal sectors as well as extending its digital learning capabilities. Recent acquisitions in the hospitality sector in 2018 (Designmynight, ProNett and Procure Wizard) mean that Access can offer online booking, ticketing and event management software, as well as P2P, supply chain management, time and attendance solutions. These acquisitions have established the hospitality sector as Access's second largest sector.

Competitors include Advanced Business Solutions and FinancialForce as well as other niche service providers.

Hg brings sector insight and finance

Following completion of its investment, Hg has supported multiple workstreams including M&A (acquisitions have included Riliance, Unicorn, Eazy Collect, Volcanic, Rapidata, iCareHealth, Microdec and Conquest); evaluating the basis for the transition of the business to a fully SaaS and subscription sales model; and exploring a data analytics project and sales incentive refresh to support the company's cross-selling efforts.

The top priorities for the board and management team include integration of recent acquisitions; acceleration of the pace of transition to subscription sales; building capabilities acquired through recent M&A; successfully launching the Workspace user interface across multiple products; delivering growth in bookings in accordance with management's plan; and continuing M&A execution.

Another year of strong trading in 2018

Access is trading well and reported significant year-on-year growth in FY18, with turnover rising 42% from £101.1m to £143.1m and EBITDA growing 71% from £27.9m to £47.6m year on year. This growth was fuelled by a combination of strategic acquisitions and 13% organic growth, with recurring revenue making up 70% of total revenue.

Although this is a new investment to Hg's portfolio, strong trading has led to a £4.9m increase in the company's valuation of its stake by from £30.5m in 2018 to £35.4m. Access generated a gross IRR in 2018 of 33%.

CogitalGroup: Business support, BPO, accounting and advisory

Exhibit 28: CogitalGroup investment summary

Investment	Fund	Sector	Location	Year of (latest) investment	Unrealised value (£'000)	Value (% of NAV)
CogitalGroup	Hg Genesis7/ HGT	Services	UK	2016	33,090	4.20%

Source: HgCapital Trust (data at 30 April 2019), Edison Investment Research

CogitalGroup was launched in December 2016 through the acquisition and merger of Nordic-based Azets (formerly Visma BPO) and UK-based firms Baldwins and Blick Rothenberg. The group's focus is on providing BPO and advisory services to entrepreneurial businesses, their owners and managers and provide private clients with tax, compliance and reporting services.

In total, CogitalGroup now has c 90,000 customers with more than 6,000 employees operating from 177 offices in the UK, Norway, Sweden, Denmark and Finland and 700 employees based in Romania (nearshoring) and Lithuania (software development).

Company background

The group's strategic goal is to become a leading, technology-led international business services group focused on the entrepreneurial and private company segments.

In July 2018, CogitalGroup acquired the regional accountancy firm, Wilkins Kennedy (£54m turnover, 700 employees and partners, 18 offices across London and the South East), one of the largest practices in the Home Counties. Including this acquisition, CogitalGroup had £453m revenues FY18 (approximately 50/50 between the UK and Nordics) and EBITDA of £68m.

Revenue is split across five divisions: BPO and outsourced services (49%), payroll and HR (18%), IT-related services (15%), consulting (11%) and audit (7%).

A 'sweet-spot' investment

Cogital continues Hg's record of investing in regulatory-driven businesses in Hg's 'sweet spot'. Hg has been tracking the SME accountancy and advisory services sector for many years as it exhibits several attractive criteria including a high share of repeatable revenue due to the business-critical nature of the services; high retention rates due to the trusted nature of the adviser relationship; its breadth of customer base; fragmented competitive landscapes allowing for significant M&A opportunities; and an opportunity for margin improvement driven by the increased use of technology, nearshoring and scale.

Hg is principally focused on three valuation-creation levers at Cogital: driving organic growth across the group; pursuing the acquisitions of small accounting, tax and payroll offices; and improving EBITDA margins through technology and nearshoring.

Organic growth supplemented by M&A

Since Hg invested in December 2016, CogitalGroup has completed over 45 acquisitions, refinanced the business to ensure headroom for future M&A and rolled out a group-wide incentive scheme.

Over this time, it has seen a more than 60% increase in its sales and profits and CogitalGroup continues to trade in line with expectations, with strong double-digit revenue and EBITDA growth over 2018. Hg anticipates a 29% revenue CAGR (2017–19) and a 32% EBITDA CAGR. This strong performance has led to a 14% increase in the valuation of Hg's stake since 2018, from £29.0m to £33.0m and a gross investment multiple of 1.6x at December 2018, representing a 24% gross IRR.

EDISON

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