



## HgCapital Trust plc

How “thematic investing” Generates  
Outperformance in a Low Growth Environment

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- 10 Year Record      10 year annual compound growth of 14% p.a. vs FTSE All-Share +3.7% p.a., significant outperformance of peer group
  - Recent Performance      Share price total return +23% in 2010. LTM share price total return +38.8% vs. 13.7% FTSE All Share to 30 April 2011
  - Market Cap      The market cap rose from £212.6 million to £312.9 million in 2010, 47% over the period. As at 30 April 2010 the market cap stood at £351.5m
  - Portfolio      Top 20 buyouts (92% of value) growing earnings strongly, sales up 16%, and EBITDA 15% in LTM as at 30 April 2010
  - Investment Activity      Went into the downturn long cash with a compact portfolio and deployed significant capital in the short shallow buyers market of 2010. Significant gains have been realised over last 6 months in a much more active two-way market
  - Prospects      Short term growth will be driven by potential realisation activity from the 2006 vintage fund and continued strong trading performance  
Medium term growth will be driven by the performance of the 2009 vintage fund, the majority of which is valued at cost and growing strongly
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- HgCapital Trust plc currently represents 10% of the Manager's FUM (£3.4bn) and 15% of the current buyout fund (Hg6), investing alongside all other clients
  - The Trust has exposure to everything HgCapital invests in under the same terms as all other clients
  - HgCapital staff are currently the largest shareholder and represent 8% of the register, interests aligned with the Trust's performance
-

- £3.4 billion client assets managed. Current funds are:
    - Mid-market, control buyouts in Northern Europe in 4 sectors (business services, healthcare, industrials, TMT) - HgCapital 6: £1.9 billion (closed in 2009/10)
    - Mid-market, control renewable energy infrastructure in Europe RPP1: €300m (closed in 2006) – RPP2 target €500m (being raised now)
    - Lower mid-market, control buyouts in TMT sector in Northern Europe, HgCapital Mercury Fund: target £400m (just began fundraising)
  
  - Strong returns across multiple economic cycles with 106 investments/85 fully or substantially realised since 1990 producing gross returns of 2.4x original cost
  
  - Aiming to have the leading franchise in each of our sectors, generating best investment returns
    - “investors” not “asset gatherers”
-

**STRATEGY**

Mid-Market

- Mid-Market £100 million - £500 million EV buyouts/buy-ins
- Sole / lead / control investors
- Seek multiple value levers
- Conservative capital structures

Pan-Regional

- Primary coverage of northern Europe
- Cultural affinity with management teams and business environments
- Secondary coverage of other European markets via sector focus

**TACTICS**

Sector-focused

- 4 dedicated sector teams (developed over 13 years) covering c.70% of the market
- Annual business planning process drives agenda for each team
- Strategy superseding geography in investment targeting

Intensive post-transaction planning and management

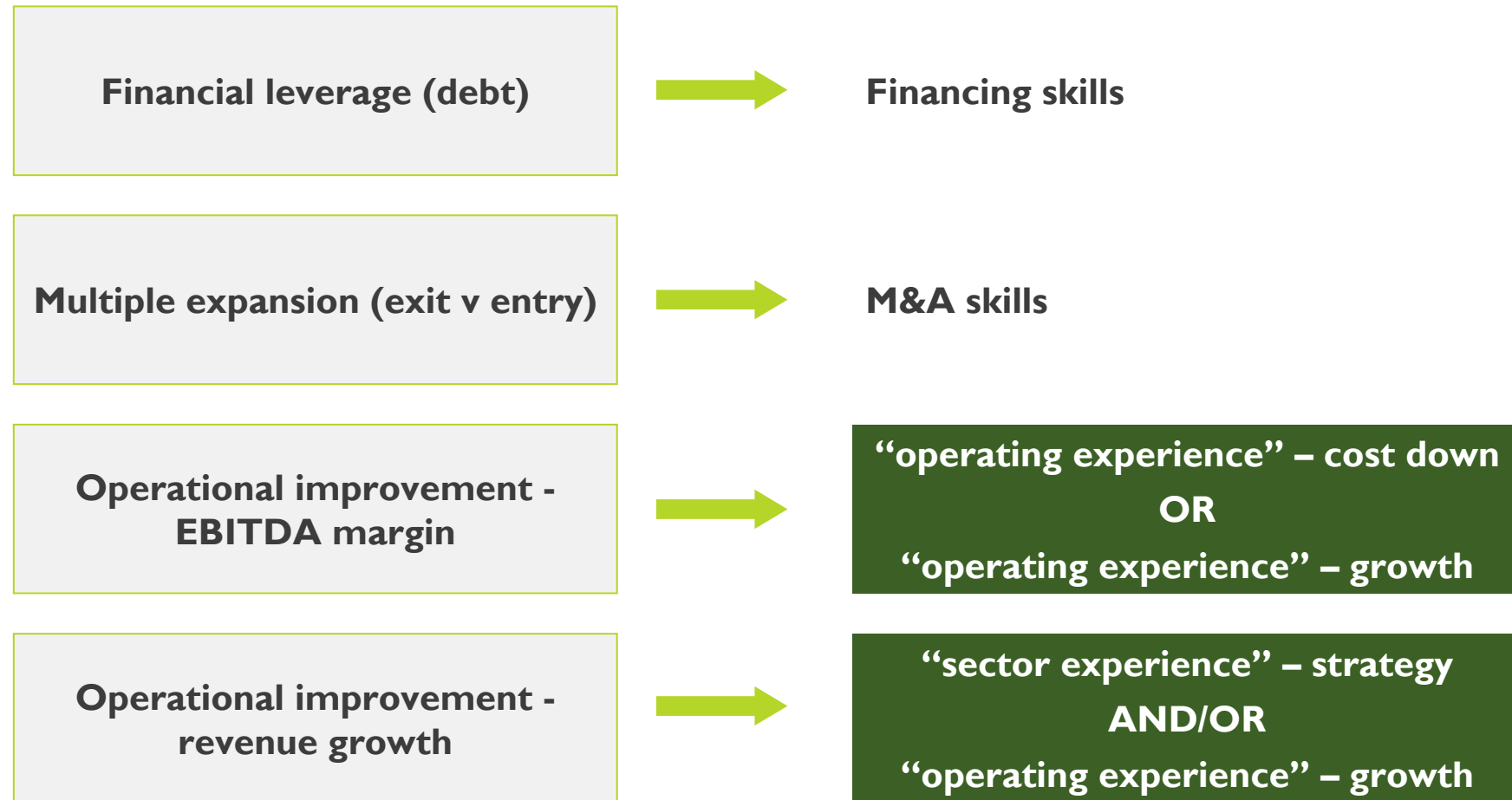
- Company and portfolio level activity (developed over 11 years)
- Dedicated resource and expertise (team of 6 professionals, plus support from other senior partners)
- Helps drive growth and optimise exits

**RESOURCES**

- Application of significant human resources across all areas of the business
- Favourable ratio of staff to deals - team of 83 with 20 active portfolio companies
- Partners average 16 years of private equity experience/worked together for 11 years

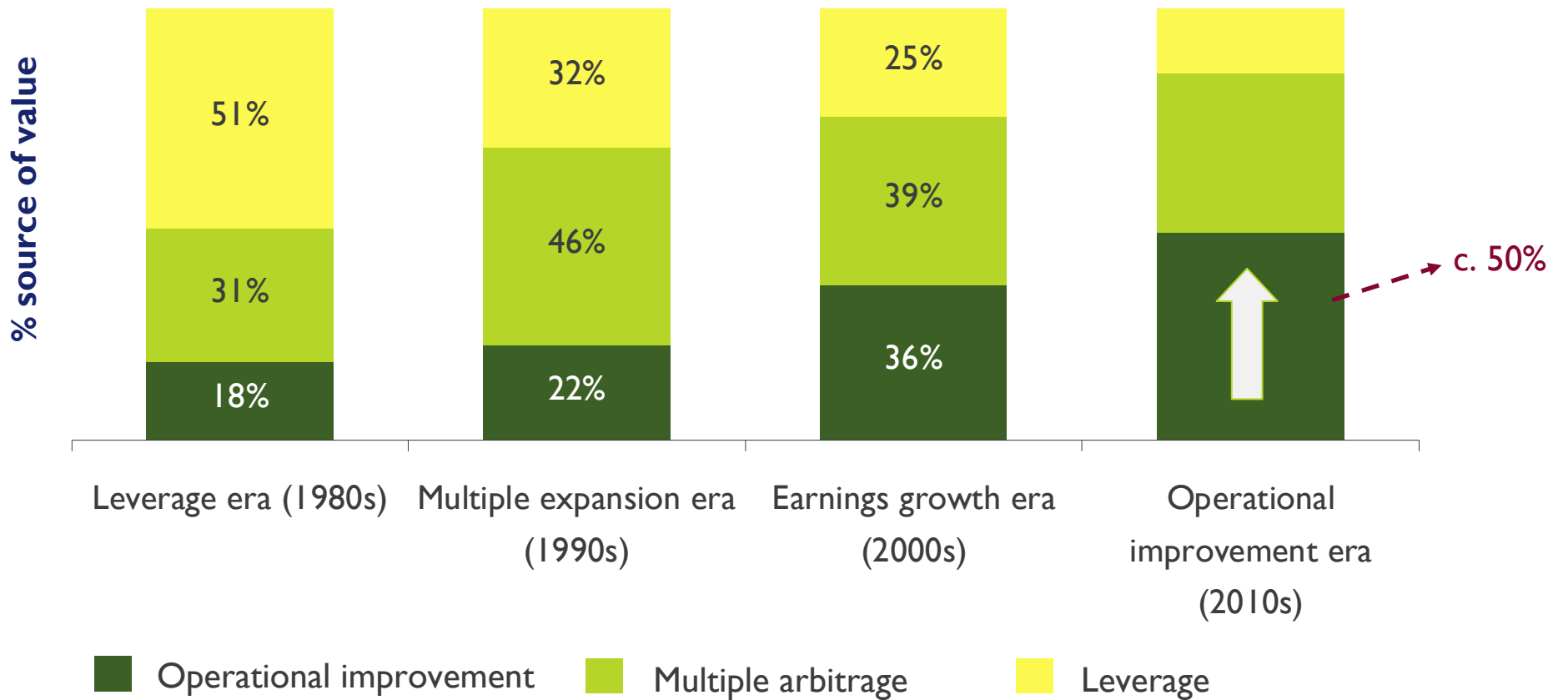
# How to Outperform } 4 Sources of Value-Creation

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# Appendices } How Private Equity Value Creation Has Evolved 1980 - 2010

The BCG study found that the way in which the private equity industry creates value has evolved over time, with operational improvements increasing in importance and leverage decreasing in importance

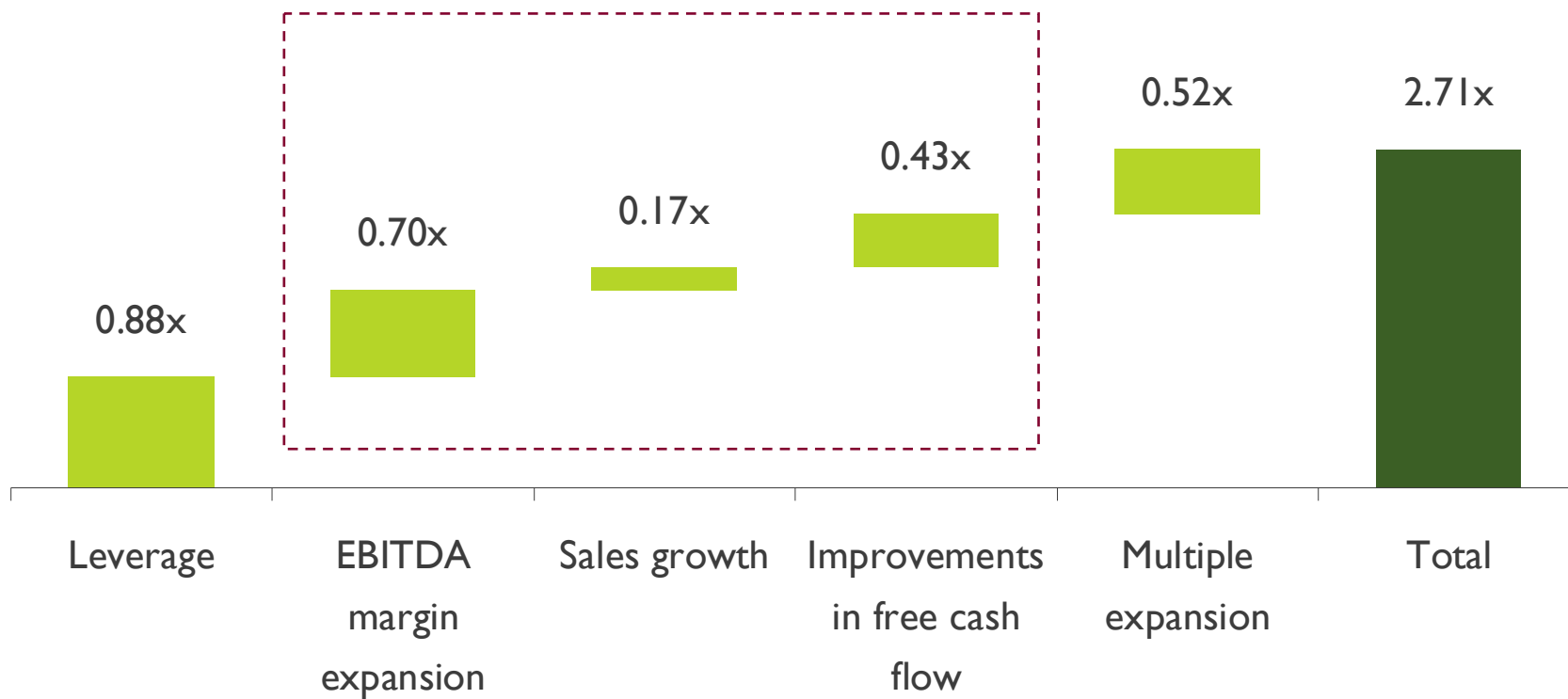




# How to Outperform } PE Industry Return Attribution 2001-2007

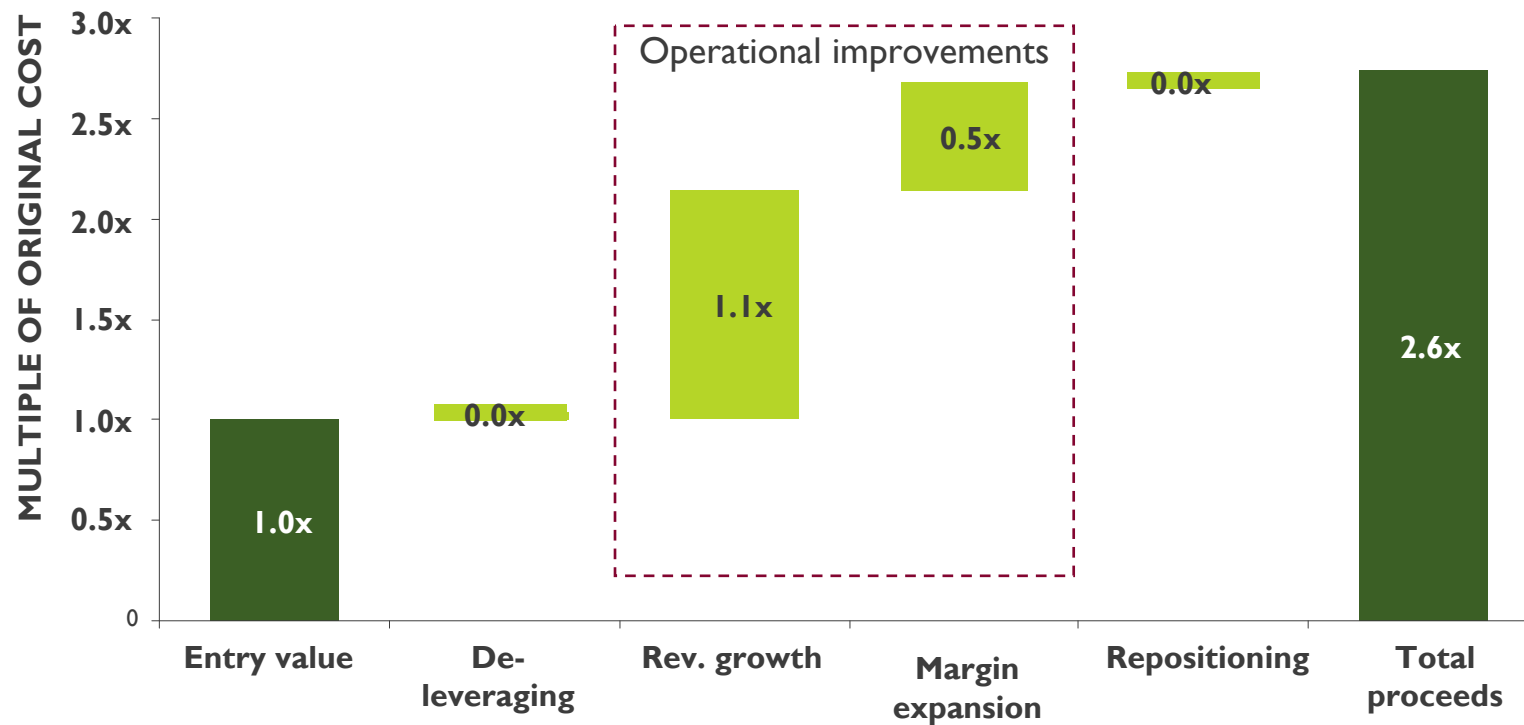
A more recent study\* agreed that 50%+ of value created was attributable to operational improvements  
**BUT**  
Most of this, 40% of the total, was from **EBITDA MARGIN** or cashflow improvement;  
Only 10% of the total was from **REVENUE GROWTH**

CoC x



How to Outperform } HgCapital strategy has generated consistent returns from replicable sources

Almost 100% of HgCapital's value-creation has been from operational improvements – picking strong companies and growing them (not leverage or deal-doing), OF WHICH 65% CAME FROM REVENUE GROWTH



# Our Vision } 4 Sources of Value-Creation: HgCapital View of the Future

Financial leverage (debt)

=> Financing skills: 1990's

Multiple expansion  
(exit v entry)

=> M&A skills: 2000's

Niche firms e.g. small buy-outs, local experts, distressed debt etc

Operational improvement  
- EBITDA margin

=> "operating skills": 2010 current vogue, but **BLUNT INSTRUMENT / ONE OFF GAINS**

Turnaround firms or shorter-term "IRR-driven" larger buyout firms

Operational improvement  
- revenue growth

=> "sector experience & operating experience": **THE FUTURE**  
=> **SUSTAINABLE GROWTH FROM BUILDING GREAT COMPANIES**

HgCapital }

Growth-orientated buy-out firms with operating experience. Driving "high CoC multiples"

Our Strategy and Tactics } HgCapital Strategy: sustainable growth from buying and building great companies

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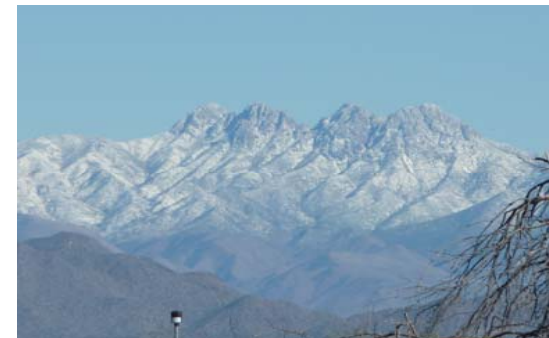
**Pick sustainable growth sub-sectors**

- ⇒ “thematic investing”
- ⇒ requires deep sector expertise to understand 10+ year growth trends



**Invest in the highest quality, sustainable growth companies in these sub-sectors**

- ⇒ “4P’s” toolkit
- ⇒ HgCapital proprietary toolkit for assessing and diligencing these types of companies



Our Strategy and Tactics } Top-down macro “themes” that will support many investments over many years plus proprietary “4Ps” toolkit to evaluate sustainable growth companies

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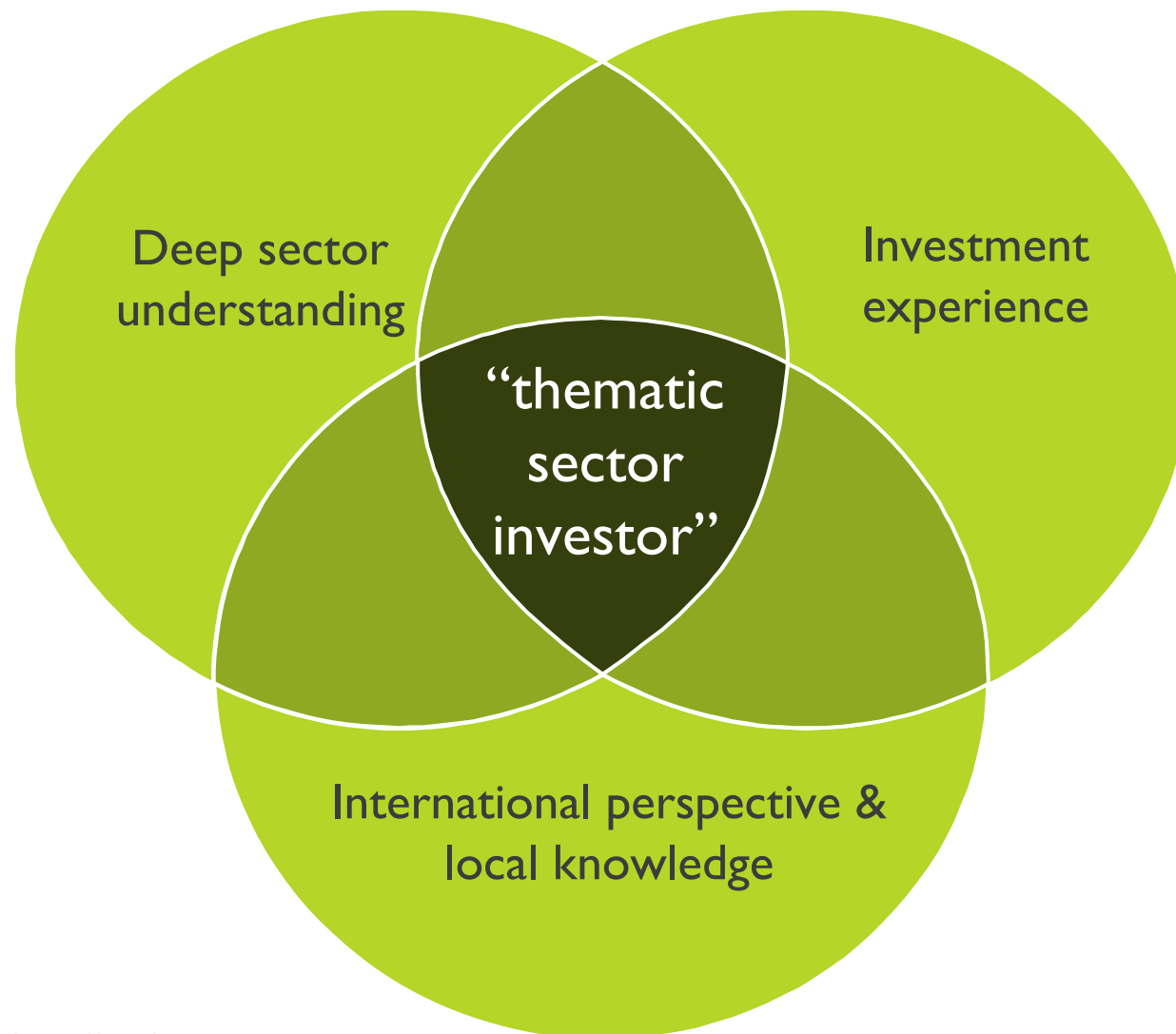
**“Thematic” origination**

- Processes for systematically innovating new macro-themes which will support multiple investments over several years
- Means HgCapital benefit from the “learning curve effect” – we become as knowledgeable as a trade player

**“4Ps” toolkit**













- Tools for evaluating companies to quickly filter those that are the highest quality and have the most sustainable growth
- To improve diligence and value-creation thesis on those that progress

Our Strategy and Tactics } What skills do you need to do “thematic sector investing”?



- HgCapital has 5 dedicated sector teams
- Each is headed by a Partner with LONG TERM EXPERIENCE OF INVESTING IN THAT SECTOR
- Large teams: 6-8 executives dedicated to each sector
- Seen by companies as “part of the industry”

# Our Strategy and Tactics } Examples of HgCapital “themes” & sustainable growth rates

SECTOR	SUB-SECTOR	EXAMPLES	APPROX. 2008 – 2010 REVENUE CAGR (%)
Business Services	SME outsourcing	 	7 – 10%
	Fiduciary compliance		15%
Healthcare	Acute healthcare services	  	7 – 10%
Industrial Services	Specialist B2B distribution		10% +
TMT	SME regulatory-driven software	  	7 – 15%
	Online B2B exchanges	 	15 – 25%

**Overall growth rate of “thematic originated” companies in HgCapital portfolio averages 8%-12% CAGR through 2008-10 i.e. through the recession (GDP averaged -2%)**



**“Thematic origination”:**  
Researched regulatory SME software since 2002

## “Thematic” origination



- **Unusual, conservative thinking in the technology sector:**
  - We do not seek any higher returns in TMT buyouts than in any other sector, because we don’t take risks that are any higher than in any other sector
  - We aim for 2.5x – 3.0x returns on a regular basis with low volatility
  
- **Coming out of the 2001-2 TMT recession, what areas of technology can we find that offer conservative growth and are resistant to recession?**
  
- **Apply “10+ years, macro, top down” thinking**
  - Number of SMEs & micro businesses growing faster than GDP
  - Software penetration into them growing faster than GDP
  - Regulation / compliance growing faster than GDP
  
- **Regulatory software for SMEs**
  - A segment growing at approx. 3x GDP (6% - 7% CAGR) over 10+ years





Multiple investment examples before we directly approached Visma => discussions with management were “trade player to trade player”



- Acquired 2004 £102m
- #1 for UK accounting practices. 4 bolt-on acquisitions
- Sold for £500m with CSG in 2007. Exit multiple: 14x EBITDA
- 65% IRR, 3.6x CoC (gross)



- Acquired 2005 for €70m
- #2 for German tax accountants. Acquired key competitor
- Sold for €220m+ in 2008. Exit multiple: 12.5x EBITDA
- 65% IRR, 3.8x CoC (gross)



- Acquired 2007 for £110m
- #1 for UK legal practices. 2 bolt-on's within 6 weeks
- Sold for £500m with IRIS in 2007. Exit multiple: 11x EBITDA
- 7200% IRR, 2.2x CoC (gross)

**2004-2007: 4 x platform investments with over 10 bolt-on acquisitions**



Our sector expertise identified the “sustainable growth theme” and the quality of the business (“4Ps”)

**Value  
Creation  
Thesis**

**1 & 2. “Protected & Predictable revenue growth”**

- >200,000 SME customers, business critical software
- >70% revenues contractual annual subscriptions, <5% churn
- Revenue growth modelled 6% pa => Achieved 10%+ pa

**3. “Performance Improvement”: significant EBITDA margin uplift potential**

- Visma margins 13% versus IRIS 42%, Addison 32%
- Modelled growing margins to 20% over 4 years => Achieved 18.5% within 24 months

**4. “Platform for Growth”**

- Highly fragmented market / competition – potential to buy a “platform” leader and then act as consolidator of smaller local competitors
- Modelled 1 acquisition / year => Achieved 5+ (at <6x EBITDA)



Our Portfolio Team then had the time and skills to help management improve the operations and position of the business: example Visma BPO division

**EXAMPLE:**

“What we found in the BPO division of Visma...”

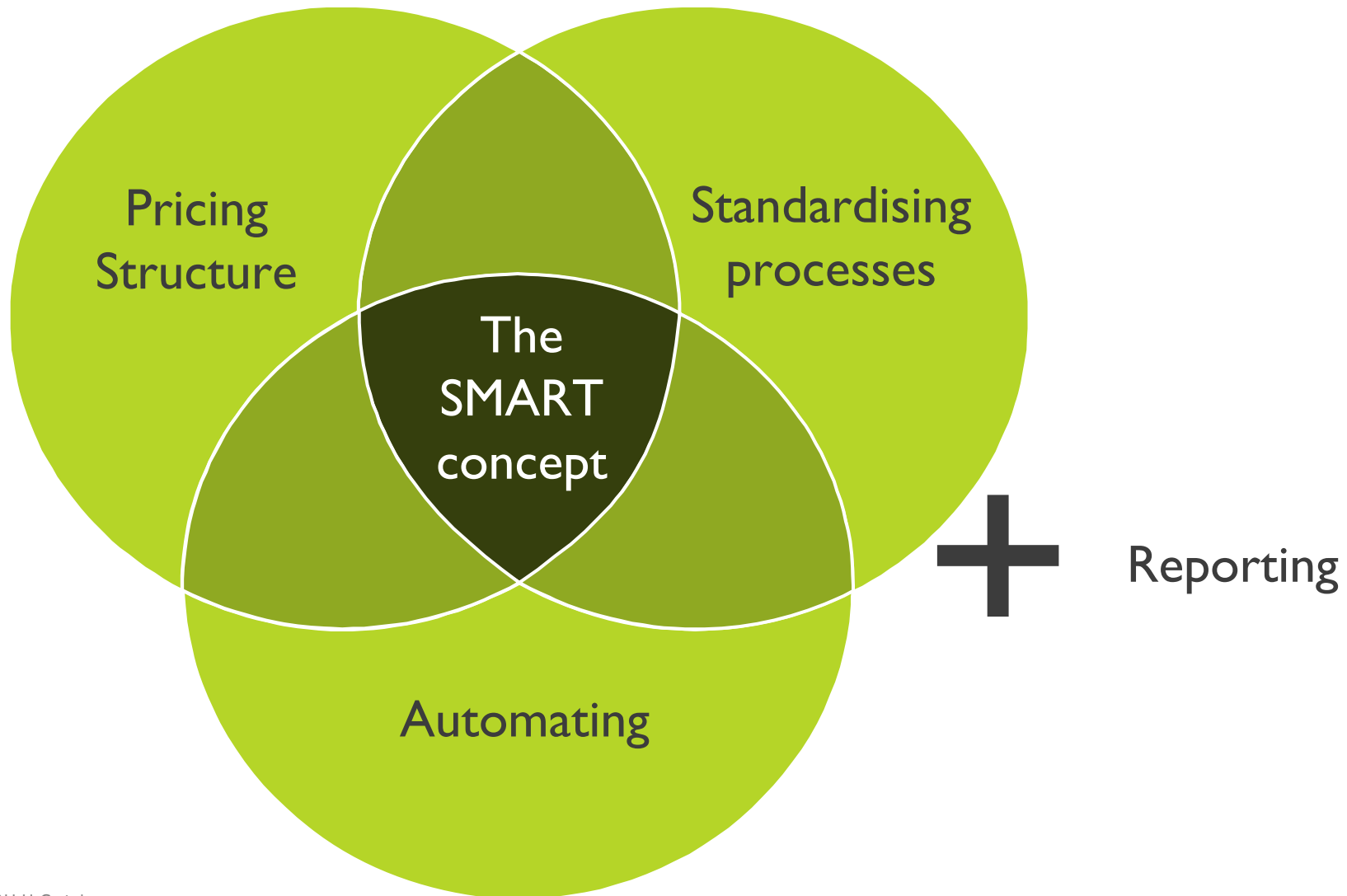
- A classic bookkeeping business, operating at single digit margins
- Built up over the course of 4 years through 40 acquisitions
- Operational rigour was not a focus area
  - Little standardisation
  - Working on different financial systems
  - No cultural integration across the 45 offices

**Initial conclusion:** driving efficiency improvement in a time and materials business does not work

**Action taken:** With the support of Visma management we agreed to second Jean-Pierre Dekker from HgCapital’s Portfolio Team (ex GE Capital, where he managed many revenue improvement projects) for 2+ days / week to help BPO divisional management figure out and then implement operational improvements



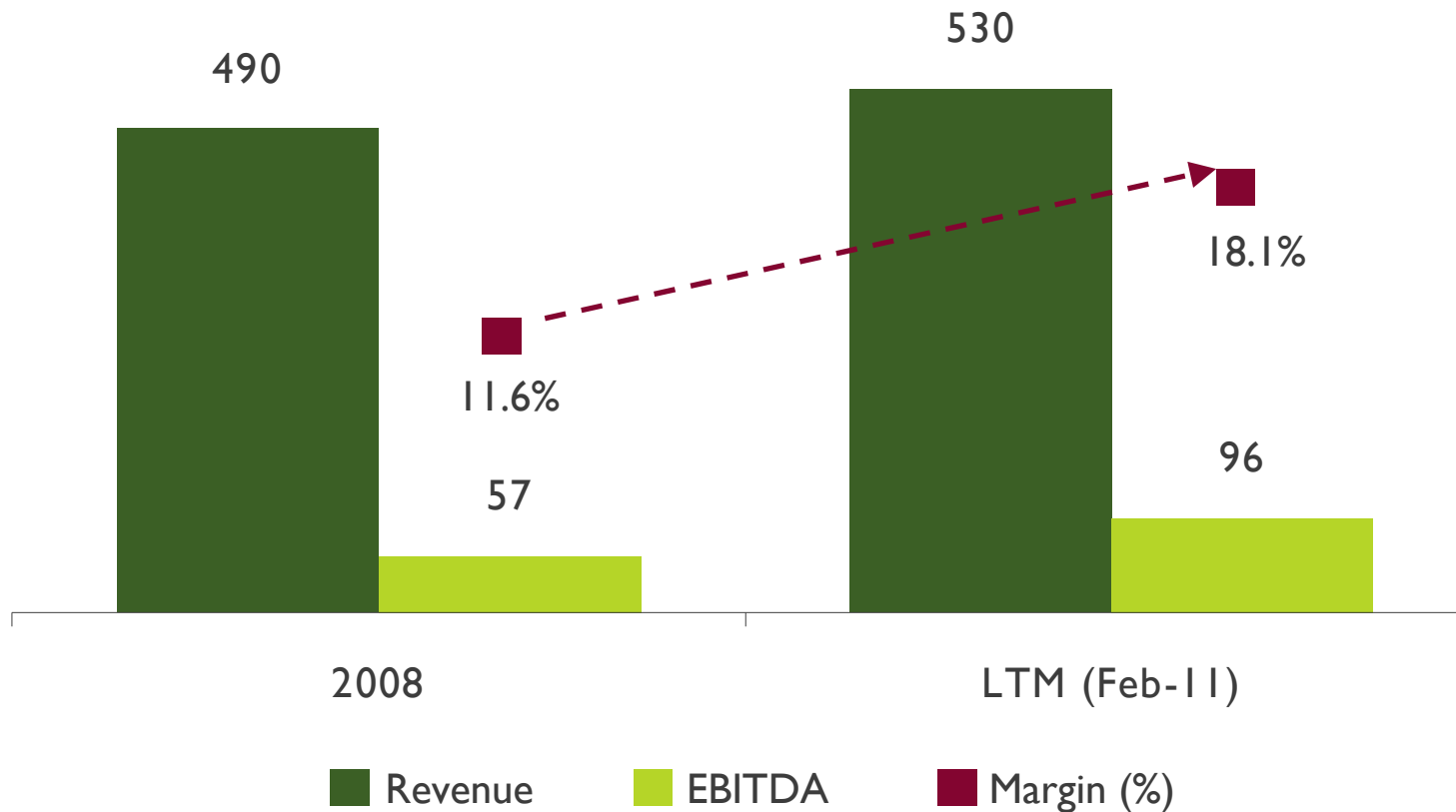
# What Did We Change in the Business?



# VISMA® } Financial Impact of Transformation Process

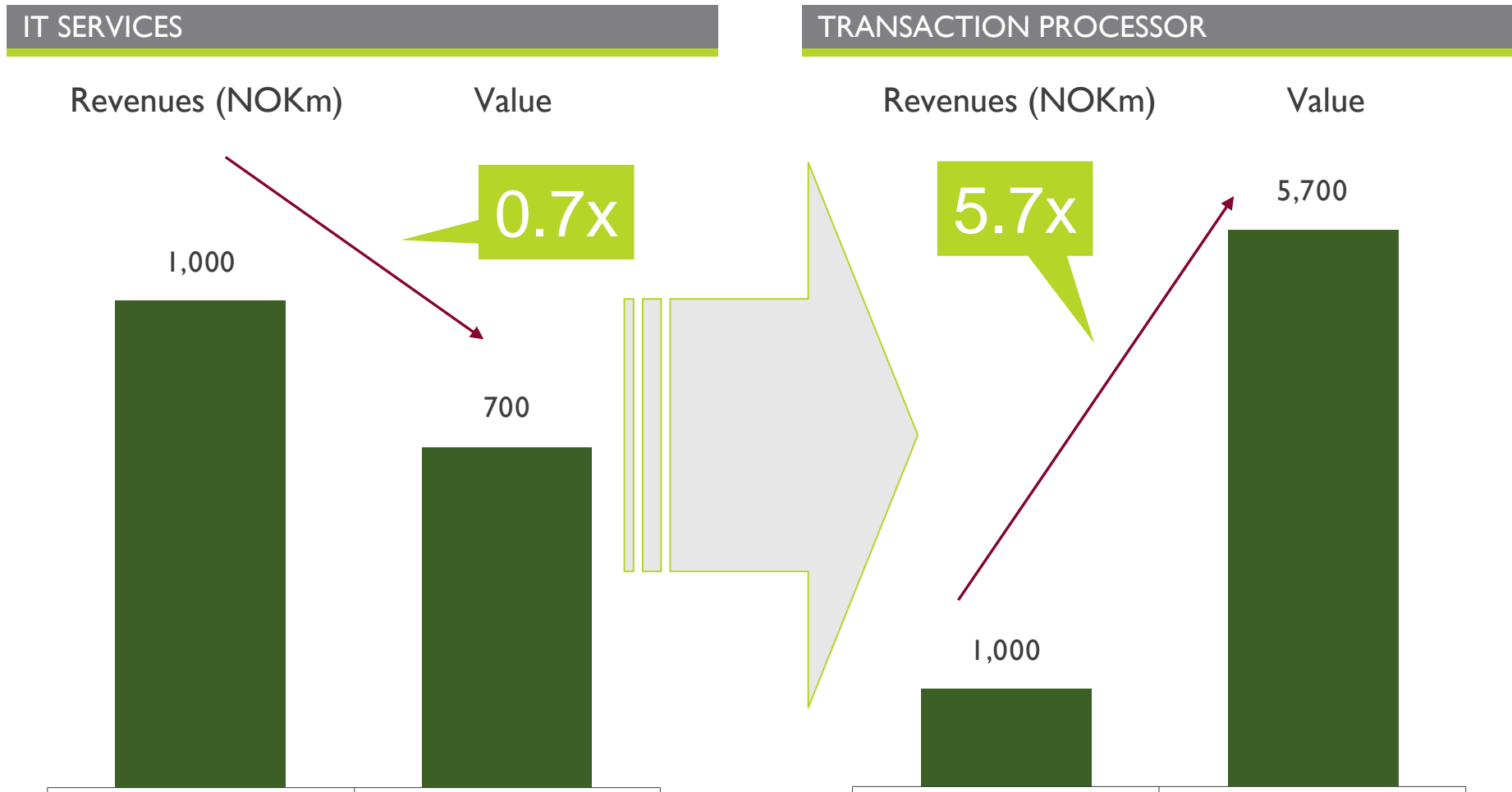
- 5% revenue CAGR despite 2008-9 recession
- 6.5% EBITDA expansion from efficiency not cost cutting

## REVENUE AND EBITDA IN VISMA BPO SME (NOKm)





What next? We have realised £240m (2.4x CoC / 37% IRR) but still have £140m (1.4x CoC) invested...

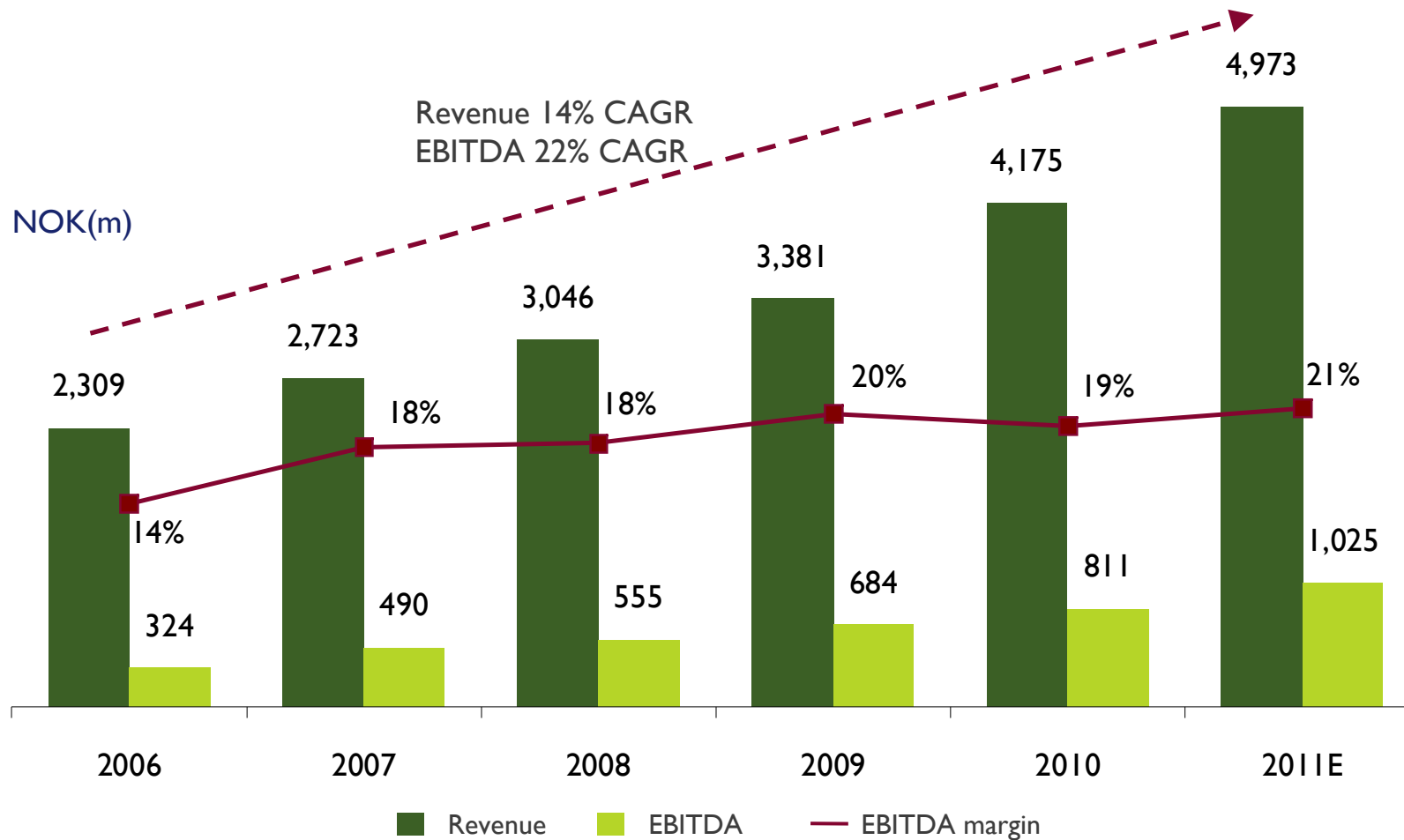




# 2006 – 2011B Revenue and EBITDA Evolution

Proof of "building high quality sustainable growth businesses"

14% revenue CAGR & 22% EBITDA CAGR even through 2008-9 recession



Note: All percentages calculated using constant currency



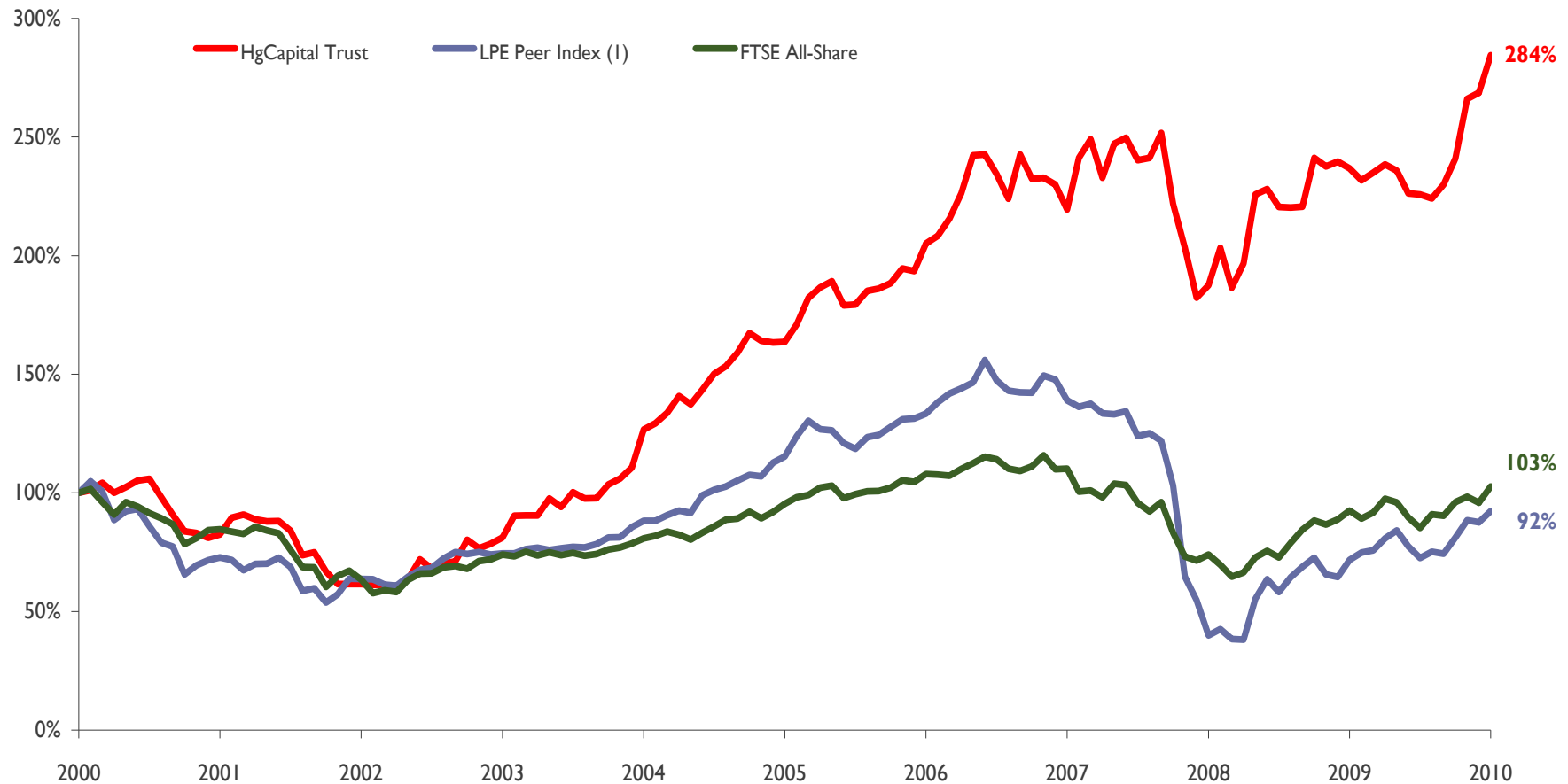
- Our resources and investment strategy lead us to believe that we can continue to deliver superior returns to our clients
  - Short term NAV growth will be driven by potential realisation activity from our 2006 vintage fund and continued strong trading performance of the unrealised portfolio. In a two way market in M&A, owning 20 companies delivering 16% growth in EBITDA will attract the attention of buyers
  - Medium term growth will be driven by the performance of our 2009 vintage fund, a majority of which is valued at cost and growing strongly
  - Taking a longer term view, it remains our belief that the combination of capital and the patient, committed approach we offer companies will be attractive to the businesses we invest in
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# HgCapital Trust

HgCapital Trust has rewarded the patient investor – outperforming the FTSE All-Share Index by 2.8x and listed PE peers by 3.1x over the last 10 years

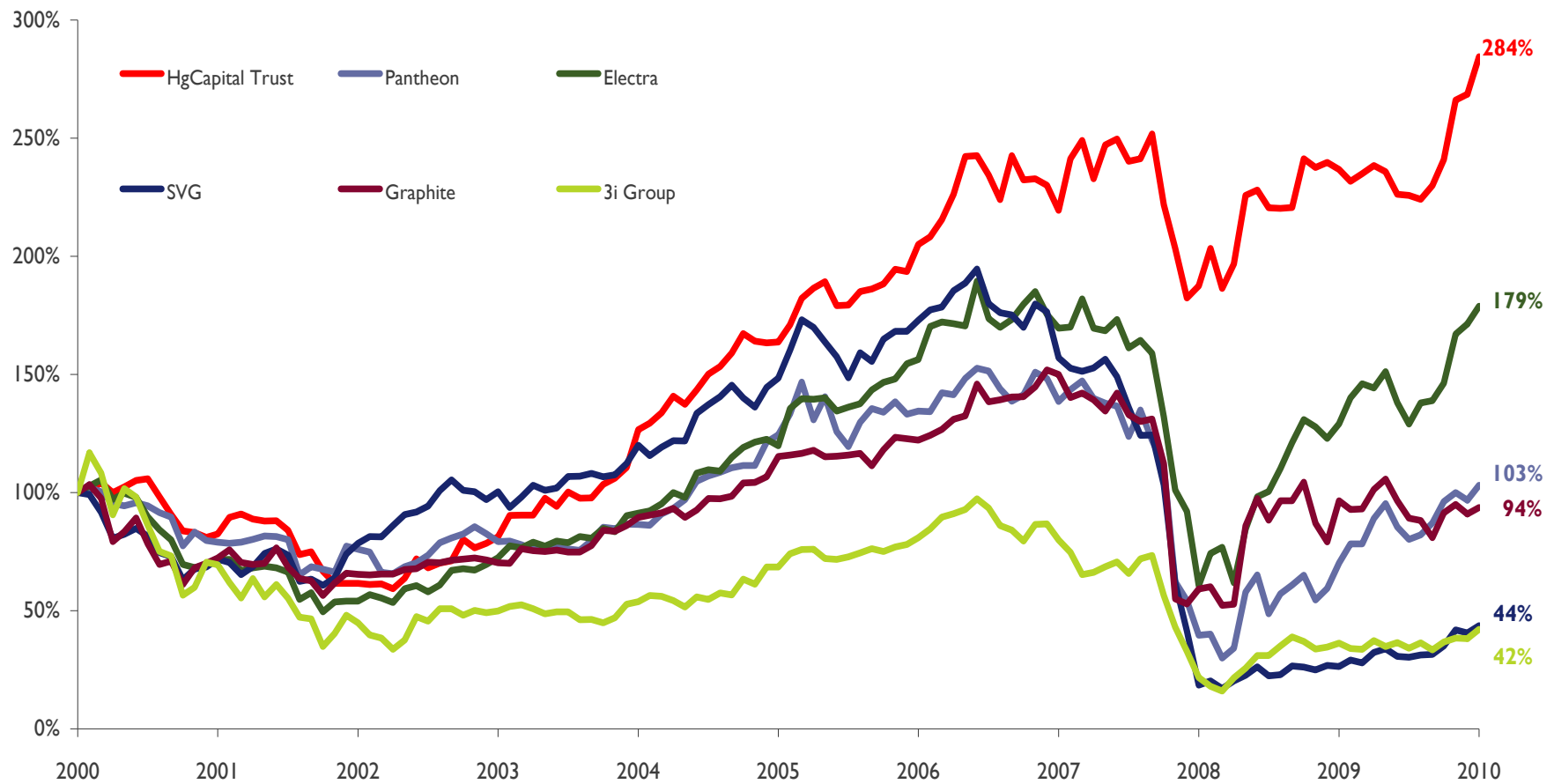
+11.0% p.a. share price appreciation for HgCT vs. -2.1% p.a. for LPE Peers, 0.3% p.a. for the FTSE All-Share Index  
10 year total return of 14.0% p.a. for HgCT vs. 3.7% p.a. for the FTSE All-Share Index





HgCapital Trust – Outperforming its listed PE peers

HgCapital Trust outperformed key competitors by an average of 3.1x over the last 10 years  
 Best performing peer Electra was outperformed by 1.6x and worst performing 3i by >6.8x



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“4Ps toolkit”: analysis shows that the business model offers protected and predictable growth, ideal for PE returns

**“4Ps” toolkit  
to evaluate  
business  
model**



**1. “Protected”**

- Business critical applications (tax, payroll, accounting), so secure in an economic downturn because need to have not nice to have
- Industry / geography specific so protected from large consolidators in the software sector (Microsoft, SAP, Oracle)

**2. “Predictable revenues”**

- Regulatory-driven (tax) so customer need for regular refresh / interaction
- Large numbers of small customers, no dependency
- Ideally placed to be a regular “subscription” revenue model (high margin, high ROCE, high cashflow)

**3. “Performance Improvement”**

- Identified potential for EBITDA margin improvement after peer benchmarking
- Revenue growth potential through investments in R&D, the sales force, and product innovations

**4. “Platform for Growth”**

- Highly fragmented market / competition – potential to buy a “platform” leader and then act as consolidator of smaller local competitors

# Appendices } Financial Highlights – Share Price

SHARE PRICE	AT 30 APRIL 2011	<b>AT 31 DEC 2010*</b>	AT 31 DEC 2009	% CHANGE OVER YEAR TO 31 DEC 2010
Share price (ordinary shares at mid-market)	1,130.0p	<b>1,006.0p</b>	844.0p	19.2%
(Premium)/Discount (%) over NAV (basic)	(0.3%)	<b>10.1%</b>	9.9%	n/a
Share price (subscription shares)**	178.0p	<b>105.0p</b>	n/a	n/a

\* Since 31 December 2009, an issue of £50 million of new ordinary shares completed at an issue price of 845p

\*\* Each subscription share entitles the holder to subscribe for one Ordinary Share at a price of £9.50 per Ordinary share. The first opportunity to exercise such right is 31 May 2011, and thereafter on 31 October and 31 May in each year to 2012. The final exercise date is on 31 May 2013 at a subscription price of £10.25 per Ordinary share.

# Appendices } Total Return\*

Consistent and significant outperformance of the Index

	1 YEAR TO 31 DEC 2010	3 YEARS TO 31 DEC 2010	5 YEARS TO 31 DEC 2010	7 YEARS TO 31 DEC 2010	10 YEARS TO 31 DEC 2010
Net asset value (basic)	22.6%	8.5%	15.0%	18.6%	12.8%
Net asset value (diluted)	19.5%	7.6%	14.5%	18.2%	12.5%
<b>Share price</b>	<b>22.8%</b>	<b>12.0%</b>	<b>14.3%</b>	<b>22.5%</b>	<b>14.0%</b>
FTSE All-Share Index	14.5%	1.4%	5.1%	8.5%	3.7%
<b>Share price outperformance per annum against the FTSE All Share Index</b>	<b>8.3%</b>	<b>10.6%</b>	<b>9.2%</b>	<b>14.0%</b>	<b>10.3%</b>

\*assuming re-investment of dividends

Note: All figures are annualised

# Appendices } Portfolio as at 30 April 2011

The top 10 buy-out investments represent 60% of the portfolio value

Investment	Year of Investment	Sector	Location	Residual Cost £'000	Total valuation* £'000	Portfolio value %	Cumulative Value %
1 TeamSystem	2010	TMT	Italy	24,432	25,136	9.7%	9.7%
2 Visma	2006	TMT	Nordic Region	701	23,116	9.0%	18.7%
3 Frosunda	2010	Healthcare	Nordic Region	14,296	15,418	6.0%	24.7%
4 SLV	2007	Industrials	Germany	5,999	14,532	5.6%	30.3%
5 SHL	2006	Services	UK	7,984	14,224	5.4%	35.8%
6 Stepstone	2010	TMT	UK	19,316	19,085	5.4%	41.2%
7 Mondo	2007	Industrials	Nordic Region	6,987	12,676	5.0%	46.3%
8 Achilles	2008	TMT	UK	5,226	12,788	4.8%	51.1%
9 Midas (Goldshield)	2009	Healthcare	UK	8,545	11,962	4.5%	55.7%
10 JLA	2010	Services	UK	11,476	11,476	4.5%	60.2%
<b>Top 10 Investments</b>				<b>104,962</b>	<b>160,413</b>	<b>60.2%</b>	

\*including investment valuation and accrued interest

# Appendices } Portfolio as at 30 April 2011

The top 20 buy-out investments represent 92% of the portfolio value

Investment	Year of Investment	Sector	Location	Residual Cost £'000	Total valuation* £'000	Portfolio value %	Cumulative Value %
11 Manx	2010	TMT	UK	11,033	11,033	4.11%	64.33%
12 SimonsVoss	2010	Industrials	Germany	10,065	10,360	4.00%	68.33%
13 ATC	2011	Services	Netherlands	9,913	10,569	3.93%	72.27%
14 Teufel	2010	Industrials	Germany	9,418	9,605	3.71%	75.98%
15 Epyx	2009	TMT	UK	6,388	9,414	3.61%	79.59%
16 Schleich	2006	Consumer & Leisure	Germany	4,634	8,305	3.26%	82.85%
17 Americana	2007	Consumer & Leisure	UK	4,625	7,947	3.09%	85.94%
18 Sporting Index	2005	Consumer & Leisure	UK	7,207	6,444	2.48%	88.43%
19 Voyage	2006	Healthcare	UK	13,136	4,926	1.98%	90.41%
20 Atlas	2007	Services	UK	9,597	4,034	1.57%	91.97%
<b>Top 10 Investments</b>				<b>190,978</b>	<b>243,050</b>	<b>92%</b>	

\*including investment valuation and accrued interest



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