Chief Executive's statement

3i delivered another strong result

"The power of Action's compounding growth coupled with several other strongly performing portfolio companies underpins both our FY2024 result, and our conviction in allocating capital into our existing "winners".

Simon Borrows
Chief Executive

3i delivered another strong result in FY2024, against a backdrop of persistent global macro-economic headwinds and geopolitical uncertainty.

The shape of today's 3i portfolio has served us well in this challenging year and reflects investment decisions taken over the last 12 years.

Action's compelling growth story continues to be a major driver of the Group's return, with overall resilient performance across the remaining portfolio.

Amidst more difficult markets to match buyers and sellers, we have remained disciplined in capital deployment, prioritising reinvestment in our existing portfolio either directly or through buy-and-build acquisitions, whilst receiving good proceeds and income from some of our other high-quality portfolio companies.

In FY2024, we generated a total return on shareholders' funds of £3,839 million, or 23% (2023: £4,585 million, or 36%), ending the year with a NAV per share of 2,085 pence (31 March 2023: 1,745 pence per share), including a 33 pence per share loss (31 March 2023: 65 pence per share gain) on foreign exchange translation. Action remains a major driver of our overall result, following another very strong year of earnings growth, cash generation and the achievement of a number of important expansion milestones. We also increased our exposure to Action's returns in the year by acquiring further equity in the business and continuing to reduce the associated carried interest liability.

We have seen resilient performance across the remaining portfolio. A number of assets operating in the value-for-money and private label consumer and healthcare sectors delivered strong growth and some are exhibiting characteristics which could allow them to compound growth over the longer term. An example of this is Royal Sanders, which we have now designated as a longer-term hold asset, following consistent delivery of organic and acquisitive growth since acquisition (see further details on page 8). Our stronger performing assets more than offset softer performance from a number of portfolio companies operating in the discretionary consumer sector or in sectors that are working through adverse phases of their market cycles.

Action now has stores across 12 European countries, following the opening of new stores in Portugal in Q1 2024.

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Read more about Action

Our permanent capital, strong balance sheet and disciplined approach to capital allocation mean that we are under no pressure to invest or realise when market conditions are unfavourable and there is misalignment on pricing. This is particularly important in the current environment of subdued global private equity deal activity, characterised by a persisting dislocation between private and public market valuations.

Whilst we continued to build our origination pipeline in FY2024, we have remained extremely disciplined in considering new investment, primarily in response to unrealistic vendor expectations. Instead we focused our capital deployment into some of our most successful portfolio companies. Our Private Equity portfolio companies remained acquisitive, completing seven bolt-on acquisitions, whilst in Infrastructure, 3i Infrastructure plc ("3iN") completed further investments in three portfolio companies and our North American Infrastructure Fund completed three bolt-on acquisitions.

We generated total realised proceeds and portfolio income of £1.4 billion across our portfolios in FY2024, and in April 2024, we agreed the sale of nexeye, generating expected exit proceeds of c.€452 million. These exit proceeds, combined with distributions already received, result in a 2.0x money multiple. Also in early May 2024, we agreed to invest c.€116 million in a new investment for our Private Equity portfolio, Constellation, an IT managed services provider specialised in hybrid cloud and cyber security.

Private Equity performance

In the year to 31 March 2024, our Private Equity portfolio, including Action, generated a GIR of £4,059 million or 25% on opening value (2023: £4,966 million, or 40%). Action generated a GIR of £3,718 million, or 33%, on its opening value. In the last 12 months ("LTM") to the end of 31 December 2023, 93% of our portfolio companies by value grew earnings.

Action

Action, the fastest growing non-food discount retailer in Europe and our largest portfolio company, delivered another step up in performance in 2023, confirming the relevance of its winning formula to its customers. Action's continued focus on ensuring customers benefit from the lowest prices, as a result of its buying power and flexibility in its category assortment, saw the business reduce prices across 42% of its product catalogue in 2023, increasing the price gap against its competitors.

In the 12 months to 31 December 2023, Action generated net sales of €11,324 million, 28% ahead of 2022 and like-for-like ("LFL") sales growth of 16.7%, mainly as result of an increase in footfall and transaction volumes. Operating EBITDA was €1,615 million in 2023, 34% ahead of 2022. Action's improved EBITDA margin of 14.3% compared to 13.6% in the previous year, reflected its scale benefits and continuous focus on cost control.

Action achieved a number of milestones in its store expansion roadmap in 2023. In total, the business added 303 stores in the year, another store opening record, and surpassed 750 stores in France, 500 in Germany, 300 in Poland, 100 in Austria and 50 in Italy. Action also entered Slovakia, its eleventh country and a new expansion market, with 15 new stores at the end of 2023. Action's youngest roll-out markets, Poland and the Czech Republic, and newly entered markets Italy, Spain and Slovakia, are all showing strong trading, providing sizeable expansion opportunities. Action's expertise in store roll-outs, efficient operations and dedicated resourcing means it can accelerate its ability to grow a significant store network after the pilot phase. In February 2024, Action entered Portugal, its twelfth country, with three stores opened to the end of March 2024. At the end of Action's P3 2024 (which ended on 31 March 2024), Action had 2,608 stores across 12 countries. Action's estimate of additional white space potential in existing and identified, in-scope countries is c.4,700 stores, and includes extending to Switzerland and Romania in 2025.

Action continues to optimise its storage and distribution channels to ensure it can serve its vast and rapidly growing store network. In 2023, the business opened two further distribution centres, in France and Poland, growing its distribution centre network to 13 across Europe.

Action continues to make good progress in delivering its Sustainability Programme, which is focused on the four pillars of people, planet, product and partnerships. It has continued to develop its employees, to improve the sustainability of its products and supply chain, to reduce its Scope 1 and 2 emissions and to expand its community partnerships. Importantly, it has measured its Scope 3 emissions and has committed to set science-based targets. For further details on Action's sustainability progress, see page 46.

Action's conversion of EBITDA to free cash flow is very strong, achieving 104% in 2023, as a result of particularly strong sales in the last quarter of 2023, and contributing to significant deleveraging over the course of the year. This, coupled with its remarkable growth, positioned the business well for its debut US dollar term loan issuance in the US leveraged loan market in October 2023. The issue was oversubscribed, with Action raising $1.5 billion at very attractive pricing. In October 2023, Action also completed a capital restructuring with a pro-rata redemption of shares. 3i used £455 million of the £762 million gross proceeds from the share redemption to acquire further shares in Action, increasing our gross equity stake from 52.9% to 54.8%.

In addition, Action made two dividend distributions to all shareholders, in December 2023 and March 2024, returning £375 million to 3i. This means that 3i received over £1.1 billion of cash from Action in FY2024. Cumulatively, since we first invested in 2011, Action has returned over £2.9 billion to 3i, and the potential for future distributions is considerable. After paying the dividends, Action had a cash balance of €558 million as at 31 March 2024 and a net debt to run-rate earnings ratio of 2.2x.

At 31 March 2024, we valued our 54.8% stake in Action at £14,158 million. This valuation reflects the continued strong growth in Action's LTM run-rate EBITDA, its low leverage and an unchanged LTM run-rate EBITDA valuation multiple of 18.5x, net of the liquidity discount. We benchmark our long-term, through-the-cycle view on Action's multiple against a broad peer group of discounters, with a higher weighting towards the top quartile subset of North American value-for-money retailers, noting Action's operating KPIs continue to remain superior to this peer group.

Action had strong trading momentum in the first three periods of 2024, delivering sales of €3,004 million and operating EBITDA of €397 million, 21% and 29% ahead of the same period last year, primarily driven by the increased volume of transactions. Action delivered LFL sales growth of 9.8% and added 42 stores in the three-month period.

Longer-term hold assets

Action is a truly unique business and, since our initial investment in 2011, has benefitted from our rigorous active management, strong governance model and ambitious long-term expansion strategy. We have been clear for some time that we are going to hold Action for the long term, enabling us to benefit from its compounding growth and returns. Across the remaining portfolio, a number of other companies are also starting to demonstrate significant compounding potential, with impressive earnings growth and cash generation. For example, since our initial investment in 2018, we have supported Royal Sanders' successful international expansion strategy, organically and by accessing new markets, with six bolt-on acquisitions, which have contributed strongly to earnings growth. The business is now a best-in-class operator in its sector and is cash generative, returning a total of £231 million in distributions to 3i over the six-year period, including £109 million from a successful refinancing in FY2024. Recognising this consistent performance, we have now designated Royal Sanders as a longer-term hold asset.

Healthcare portfolio companies

As one of the most differentiated and attractive businesses in the medical device outsourcing market, Cirtec Medical continues to demonstrate its commercial momentum, leveraging the capabilities and offerings of its nine acquisitions since our initial investment in 2017. The business delivered good top-line growth in 2023, driven by outperformance at a number of its sites, and is well positioned for another year of growth in 2024. ten23 health, our biologics-focused contract development and manufacturing organisation ("CDMO"), had another important year as it continued to execute against key operational and capability expansion initiatives. The business saw good customer uptake at its Visp and Basel sites and enters 2024 with a strong development and manufacturing pipeline. The remaining business of Q Holding, Q Medical Devices, performed well, largely driven by growth with new and existing customers. Since our investment in 2019, SaniSure saw a period of rapid expansion through the majority of 2022, reflecting strong growth in its bioprocessing end market and elevated demand during the pandemic. Over the past 18 months, however, the industry has been rebalancing stock levels, impacting demand for SaniSure's products. SaniSure somewhat mitigated the impact of this destocking with a strong order book coming into 2023 and through operational efficiencies, but its sales were softer through the majority of the year. Bookings across the industry are expected to further normalise from the middle of 2024 and SaniSure is very well positioned to capitalise on a full market recovery, as one of the market leaders in this space.

Other consumer portfolio companies

Following the transformational acquisitions of coolback and Panelto in 2023, supported with a 3i investment of £38 million, European Bakery Group ("EBG", formerly Dutch Bakery) has established itself as a key consolidator in its market, with a good pipeline of further potential M&A. Strong volume growth was an important driver of EBG's top-line growth in 2023. MPM continues to deliver good performance across all of its key markets, including the US, now its largest. Its online channel has strong momentum and the business has significant headroom for growth across its channels. Audley Travel's strong post-pandemic recovery has continued, driven by growth in booking numbers, and it ended 2023 with bookings ahead of 2019 pre-pandemic levels. Despite macro-economic uncertainty impacting consumer sentiment, Audley Travel saw strong performance in the US and the UK in the first quarter of 2024.

In April 2024, we agreed the sale of nexeye, the value-for-money optical platform in which we first invested in 2017. During our ownership we have supported the business in its market expansion and customer proposition. We expect to complete the sale in H1 FY2025, returning exit proceeds of c.€452 million to 3i. These exit proceeds, combined with distributions already received, result in a 2.0x money multiple.

We have continued to see challenging performance across the majority of our online retail and discretionary consumer businesses. Luqom's trading in 2023 remained impacted by lower consumer demand and discounting in the market due to overstocking. Encouragingly, there are initial green shoots of trading recovery in early 2024 and the business continues to expand its international footprint with the roll-out of webshops in further countries.

Whilst we have seen some improvements in trading at the start of 2024, the outlook for YDEON remains more challenged. Muted consumer demand continues to impact the furniture market and, whilst BoConcept largely outperformed its peers in 2023, softer order intake persisted, particularly across China and North America, coinciding with a slowdown in their real estate markets.

Industrial Technology portfolio companies

AES traded well in 2023, with strong financial, strategic and operational performance. Its new factory in Rotherham became operational in the year and is equipped with state-of-the-art automation in production and storage, resulting in increased capacity and efficiency. WP delivered good volume growth in 2023, outperforming the wider market. This was driven by its diversified geographic presence, new contract wins and the ramp-up of new projects. The business distributed £42 million to 3i in the year, including proceeds from a successful amend and extend of its funding facilities completed in December 2023.

Tato experienced pressure on volumes across all of its regions in 2023, in line with the wider specialty chemicals and biocides industry, as a result of inflation and supply driven pressure on input costs, subdued end-market demand and heightened pricing competition. Encouragingly, performance at the start of 2024 is showing signs of improvement.

Services portfolio companies

Evernex delivered a number of third-party maintenance contract wins in 2023, including a new significant client in the US, progressing its North American expansion strategy. As a global consolidation platform in its sector, the business completed its sixth acquisition since our initial investment in 2019, acquiring Maminfo in Brazil, and doubling the group's presence in this region. MAIT has also seen good momentum in its performance in 2023, through a combination of organic sales growth and strategic M&A, completing the bolt-on acquisitions of etagis and Quadrix in the year. Building on our IT services expertise and experience, we agreed a new c.€116 million investment in Constellation in early May 2024, an IT managed services provider specialised in hybrid cloud and cyber security. We expect this to complete in H1 FY2025.

The market for white collar recruitment faced significant headwinds in 2023, following reduced hiring demand and lower voluntary employee turnover. As a result of these challenging trading conditions, WilsonHCG has seen pressure on recruiter spend across the majority of its end-markets resulting in a top-line decline against 2022. New customer wins and optimisation of resource have somewhat mitigated the short-term softness, and have positioned the business well for a wider market recovery, albeit the timing of this rebound remains uncertain. arrivia exhibited favourable performance in 2023, driven by strong recovery within its core travel markets. However, the loss of a significant client will impact bookings going forward.

Infrastructure performance

In the year to 31 March 2024, our Infrastructure portfolio generated a GIR of £99 million, or 7% on opening value (2023: £86 million, or 6%).

3iN generated a total return on opening NAV of 11.4% in FY2024, again exceeding its 8-10% return objective, and delivered its dividend target of 11.9 pence, a 6.7% increase on last year. Its underlying portfolio continues to perform robustly, delivering income growth and capital returns throughout the economic cycle, with particularly strong performance from TCR, Tampnet and Valorem. The demand for high-quality infrastructure assets was reflected in the successful realisation of Attero for proceeds of €214 million, a 31% uplift on opening value. Whilst 3iN continues to perform well, its muted share price performance, with an increase of only 4% in the year to 327 pence at 31 March 2024, was reflective of weak demand across the market for shares of listed infrastructure investment companies and a lack of liquidity in the FTSE 250 index.

Our proprietary capital investment in Smarte Carte performed well in 2023, as a result of sustained US and international travel volumes and positive contract economics. The addition of a long-term contract with London's Heathrow Airport provides Smarte Carte with a foothold for further expansion into the European market. Our North American Infrastructure Fund had its final close in December 2023. The Fund completed a new investment in Amwaste, a provider of non-hazardous solid waste disposal services in the southeastern region of the US. Regional Rail and EC Waste, two existing investments in the Fund, completed a total of three bolt-on acquisitions, as they continue to execute their scaling strategies.

We have agreed to sell our operational projects infrastructure fund capability to certain members of 3i's Infrastructure team. The transfer will comprise the mandates for the management of the BIIF and 3i European Operational Projects Funds ("3i EOPF"). The rationale for the sale is to simplify 3i's Infrastructure business and to facilitate its focus on core-plus infrastructure. This sale is expected to complete shortly and its impact will not be material to the Group.

Scandlines performance

Scandlines delivered a steady performance during the year. Leisure traffic volumes were ahead of last year after a strong summer. This offset a reduction in freight volumes which was disproportionately felt across its Scandinavian and German markets, as a result of the more challenging macro-economic backdrop. Cash generation remains strong and we received dividends totalling £25 million from Scandlines in the year.

Sustainability

During the year, we continued to advance our sustainability agenda. Our main focus stayed on climate change. We achieved progress across several initiatives, including:

- Climate transition and targets – we are pleased to announce that our science-based targets were validated by the SBTi on 22 March 2024. Our targets cover our direct Scope 1 and 2 emissions, as well as the Scope 3 emissions associated with our portfolio. Our targets are described in the Sustainability section of this report and in our TCFD disclosures.
- Climate strategy and risk management – we completed a second phase of climate change scenario analysis. The results provided further insights into climate change physical and transition risks and opportunities across our portfolio, and were used to enhance the climate element of our ESG investment assessment framework.
- Data and disclosures – we further improved our portfolio greenhouse gas ("GHG") emissions data coverage and enhanced the quality and consistency of this data through the roll-out of a dedicated portfolio ESG data collection software. This has allowed us to make aggregate portfolio emissions data disclosures for the first time, in compliance with TCFD-aligned disclosure requirements for asset managers. Our TCFD disclosures are on pages 58 to 68 of this report.

We have also begun to address other important areas that impact the sustainability of our portfolio, including biodiversity and human rights.

3i is keen to support charities which relieve poverty, promote education and support elderly and disabled people. Our charitable giving for the year totalled £1.05 million. This included supporting our nine charity partners, matching staff fundraising, making a number of one-off donations and promoting the give-as-you-earn scheme in the UK, through which we matched c.£55,000 of staff donations. Our portfolio companies also supported a variety of charities relevant to them and their operations, with donations totalling c.£4.7 million.

We continued to advance our sustainability agenda, focusing on climate change.

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Read more about sustainability

Balance sheet and foreign exchange management

Our proprietary capital model and conservative balance sheet strategy are a clear advantage in challenging macro-economic conditions. We are under no pressure to invest or accelerate the realisation of investments in order to protect shareholder value over the longer term. We ended the year as net divestors, and continued to reduce the carried interest liability related to Action, with total payments of £735 million in the year. As a result of these payments and the further investment in Action increasing our gross equity stake from 52.9% to 54.8%, our net holding in Action, after carried interest, is now 53.2% (31 March 2023: 48.9%). Over the last five years, we have increased 3i's net ownership of Action from 33% to 53.2%, through stake purchases and carry buy-back transactions.

We also further strengthened our balance sheet and liquidity position with the successful issue of a six-year €500 million bond at a coupon of 4.875% and successfully extended the tenor of the £400 million tranche of our £900 million Revolving Credit Facility ("RCF") to November 2026. We ended FY2024 with net debt of £806 million and 4% gearing, after returning £541 million of cash dividends to shareholders in the year and with liquidity, including our undrawn RCF, of £1,296 million, meaning we are well funded when suitable investment opportunities arise. We remain disciplined on costs and generated an operating cash profit of £467 million in the year, or £92 million excluding dividends received from Action.

In FY2024, we generated an unrealised gain of £116 million from our foreign exchange hedging. In total, including the gain on hedging, we recorded a total foreign exchange loss of £316 million in the year, as sterling strengthened against the euro and US dollar.

Outlook

We expect that the current macro-economic conditions and geopolitical uncertainty will persist in the near term and that this will continue to impact confidence and pricing expectations in the wider mid-cap M&A market. Against this backdrop, our rigorous and disciplined approach to capital allocation remains unchanged; we are long-term thematic investors, with the aim of compounding value via organic and acquisition growth, and our active asset management means we are on the front foot, building resilient portfolio companies that are capable of navigating through these challenging trading conditions.

Over the last financial year, 3i has delivered a very strong total shareholder return of 71%, the majority of which relates to our share price performance. Indeed, 3i's share price has come a long way since the restructuring of the Group in June 2012. Whilst Action continues to power ahead, some of our other significant portfolio companies are also showing strong growth and longer-term compounding characteristics. Together with Action, these other portfolio companies should support strong future returns for our shareholders.

I would like to close by thanking the team at 3i and the teams in our portfolio companies for another good performance in challenging trading conditions.

Simon Borrows
Chief Executive
8 May 2024