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Intermediate Capital Group (ICG)

Financial General

INVESTMENT SUMMARY

- **Intermediate Capital Group (ICG) is a specialist financial group supplying capital in the form of mezzanine finance, leveraged credit or minority equity. Established in 1989, the company has grown to become one of the largest independent mezzanine providers in the world with investment portfolios in Europe, Asia Pacific and the US.**
- **Despite the difficult market conditions, the group reported an excellent set of results for the year to 31 March 2012, with adjusted pre-tax profits, earnings per share and the dividend all increasing. In a trading update issued in July, the group revealed that assets under management had increased by 3.5% to €11.8bn since the year end whilst there was also a strong pipeline of investment opportunities.**
- **The group has successfully extended £640m of debt due to mature in May 2013 for a further three years to 2016. The balance sheet remains strong with unutilised bank lines of £449m at 30 June 2012.**
- **Long-term prospects for ICG are encouraging due to the lack of credit from traditional lenders and the group continues to successfully attract third party funding for its funds.**
- **The shares stand on a modest prospective p/e ratio of just 8.5x, sport a prospective dividend yield of 7.1% and stand on a useful discount of 22% to NAV.**
- **In addition, as part of a move to diversify its funding, the group has this week announced the issue of a new 6.25% 2020 retail bond (see page 4).**

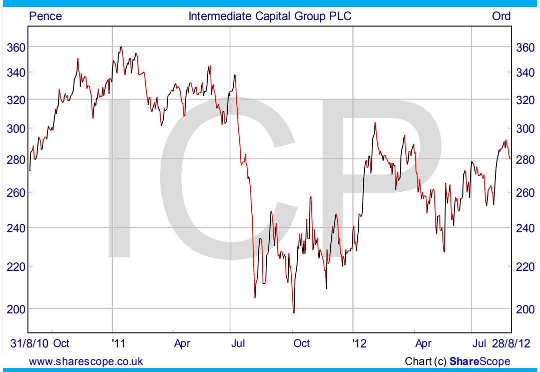
Results and Consensus Forecasts

Year to 31st March	Post-Tax Profit* (£m)	Earnings per Share* (p)	P/E Ratio	Net Dividend (p)	Net Yield (%)
2011A	190.1	33.2	8.5	18.0	6.4
2012A	198.8	39.2	7.2	19.0	6.7
2013E	181.0	33.1	8.5	20.0	7.1
2014E	200.0	38.3	7.4	21.0	7.4

* adjusted

KEY DATA

Share Price:	**282p**
Prospective p/e ratio:	**8.5x**
Prospective net yield *:	**7.1%**
Market Capitalisation:	**£1.13bn**
Next Results Due (Ints):	**NOV**
Gearing (at 31 March):	**66%**
NAV per share (at 31 March):	**362p**
Ticker:	**ICP**



2011/12 Price Range: 304p/196p

BULLET POINTS

- ICG is a leading specialist financial group and a constituent of the FTSE 250 Index
- Solid results despite difficult trading conditions
- Experienced management team
- Good long term prospects due to lack of credit from traditional sources
- The shares trade on a low rating and sport an attractive dividend yield

Date of Report : 31 August 2012

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History

Originally established in 1989, the company joined the stockmarket in 1994

ICG was originally established in 1989 by six investment professionals supported by nine leading financial institutions. It made its first investments that year in the UK (supporting Candover by providing a mezzanine loan for the buyout of Kenwood) and France. In 1990, the group made its first investment in Sweden, with investments in Italy and Portugal being made the following year. Between 1989 and 1994, the group invested exclusively using its own balance sheet, but following the success of its own investment activities it then began to manage funds on behalf of third parties through managed investment accounts. Today, third party funds account for 75% of assets under management. The company joined the stockmarket in 1994.

Activities

Strong network of overseas offices

Intermediate Capital Group is a specialist financial group supplying mezzanine finance, leveraged credit and minority equity. The group manages €11.8bn of assets comprising a combination of its own funds as well as those invested by third parties. ICG is one of the world's largest providers of independent mezzanine finance with investment portfolios in Europe, Asia Pacific and the US. The group can also boast one of the longest track records of any institutional investor in European senior loans and high yield bonds. Although the group's head office is in London, it also has a strong network of overseas offices in Paris, Madrid, Stockholm, Frankfurt, Amsterdam, Hong Kong, Sydney and New York.

The group deploys capital on behalf of more than 200 investors through mezzanine, credit and minority equity funds, whilst it also invests its own capital alongside these third party funds. There are two parts to the business as follows:-

The Fund Management Company (FMC)

Three fund management teams

The Fund Management Company is the operating vehicle of the group that sources and manages investments on behalf of both third party funds and the Investment Company (see below). There are three fund management teams within the FMC and these manage funds as follows:-

Mezzanine and Equity Funds

These invest in mezzanine and minority equity assets of proven mid-market companies with leading market positions. The Investment Company invests alongside the funds at pre-determined ratios. There have been nine such funds although two of these have been fully realised. At 31 March 2012, funds under management were €3.7bn.

Credit Funds

The credit funds deploy third party capital investing in senior loans and high yield bonds of proven European companies. The Investment Company provides seed capital to launch and develop new funds. There are 17 funds and funds under management were €5.0bn at 31 March 2012.

ICG Longbow Funds

These deploy third party capital investing in real estate mezzanine and high yield senior debt through two funds. At 31 March 2012, funds under management were £300m.

Fee income is received by the FMC both on third party funds and on assets managed on behalf of the Investment Company. This amounted to £91.2m in the last financial year.

The Investment Company (IC)

The Investment Company is the investment unit of the group and co-invests alongside third party funds. At 31 March 2012, the Investment Company's portfolio was valued at €2.7bn and included 77 assets. The portfolio is invested across a diversified range of industries with a wide geographic spread. At the last year end, the largest exposure geographically was to France (36.8%), the UK (20.5%0 and Asia Pacific (8.9%). The top 20 assets accounted for half the investment portfolio, with the largest asset accounting for less than 5%. UK investments include Biffa and BAA.

2012 Results/Financial

Increases in adjusted pre-tax profits, earnings per share and dividend

In the year to 31 March 2012, the group achieved adjusted pre-tax profits of £198.8m (2011: £190.1m) with the Fund Management Company generating £37.7m (2011: £35.9m) and the Investment Company generating £161.1m (2011: £154.2m). Earnings per share on the same basis rose to 39.2p (2011: 33.2p) and the dividend for the year was increased to 19.0p (2011: 18.0p).

Assets under management increased to €11.8bn

At 31 March 2012, the group had assets under management of €11.4bn (2011: €11.8bn) although these have increased since the year end to now stand at €11.8bn once again. In the year to 31 March, mezzanine funds under management increased to €3.71bn (2011: €3.46bn) helped by the launch of two new funds. These attracted €668m of new third party commitments whilst at the same time the business realised €416m from its older funds. Credit funds under management decreased by 11% to €4.97bn (2011: €5.57bn) as the older funds entered their realisation stage. As a result, net outflow from the older funds was €623m with just €13m of new investment being made. The Investment Company portfolio stood at €2.73bn (2011: €2.74bn) as realisations exceeded new investments during the year. Net debt at the year end was £957m, down 23% on a year earlier, for gearing of 66%.

Successful restructuring of debt

During the year the group made significant progress in restructuring its debt and in July's trading statement, it confirmed that it had successfully completed the legal documentation to extend £640m of debt that was maturing in May 2013 for a further three years. The balance sheet remains strong and at 30 June there were unutilised bank facilities of £449m.

New financial year started well

In the trading statement covering the period to 9 July, the group revealed that it was making further good progress. The mezzanine portfolio closed three deals in the first quarter of the new financial year and has exclusivity on a fourth deal whilst there is a strong pipeline of investment opportunities. The credit portfolios have been defensively positioned and are proving resilient with default rates remaining minimal. The group is also making good progress in expanding the investment product range with the launch of two new credit fund products. The Investment Company's portfolio performance remains resilient, although the general economic conditions are impacting a small number of weaker assets, and new investments totalling £88m were made during the first quarter.

Prospects

Longer term trends are favourable to specialist lenders such as ICG. The high level of volatility seen over the last five years together with the low yields currently available from traditional fixed income assets have increased appetite for alternative credit strategies. Regulatory changes imposed on institutional investors have also helped in this regard meaning that there is a ready demand for the group's products. And, for those companies looking to borrow money or raise finance, the lack of credit from traditional sources also creates a demand for funding. This applies to both senior and mezzanine debt.

ICG had increased its assets under management to €11.8bn by 9 July, but it is the group's ambition to grow this to €24bn by 2015. This will be achieved by launching new products for institutional investors and building on the group's strong record. To support this push for growth, the group has established an experienced distribution team and this will be expended to increase its institutional reach.

New Retail Bond

The company has this week announced a new retail bond issue, its second on the LSE ORB market, as part of its plan to diversify funding sources. The bond is a senior issue, ranked *pari passu* with existing bank debt and carries a 6.25% coupon with a maturity date of 19 September 2020. The bond is rated BBB– by both Fitch and Standard & Poor's, with outlook stable. Details of the bond are as follows:-

- Issuer - Intermediate Capital Group plc
- Issue Price - £100
- Issue Size - expected to be £50 million plus, subject to demand
- Coupon - 6.25% (paid half-yearly on 19 March and 19 September)
- Maturity - 19 September 2020 at £100
- Status - senior, unsecured
- Rating - BBB-
- Listing - LSE/ORB

SUMMARY FINANCIALS

INCOME STATEMENT

		March 2012 £m	March 2011 £m
Fund Management Company	Fee Income	91.2	81.8
	Other Income	2.9	4.1
	Admin Expenses	(56.4)	(50.0)
Fund Management Company Profit		**37.7**	**35.9**
Investment Company	Net Interest Income	183.5	179.8
	Div & other Inc	7.6	11.0
	Admin Expenses	(62.7)	(67.0)
	Impairments	(70.6)	(70.9)
	Net Capital Gains	103.3	101.3
Investment Company Profit		**161.1**	**154.2**
GROUP PRE-TAX PROFIT (ADJUSTED)		**£198.8m**	**£191.1m**

BALANCE SHEET

	31 March 2012 £m	31 March 2011 £m
Loans & Investments	2,352	2,575
Net Current Assets/(Liabilities)	78	(76)
	£2,430m	**£2,499m**
Shareholders' Funds	1,451	1,250
Borrowings	979	1,249
	£2,430m	**£2,499m**

GENERAL INFORMATION

COMPANY DATA

Stockbrokers:
JPMorgan Cazenove
Jefferies Hoare Govett Limited

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100 St Paul's Churchyard
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SIGNIFICANT SHAREHOLDERS

	%
Aviva Investors	8.18
Newton Investment Management Limited	7.24
F & C Asset Management PLC	7.00
Baillie Gifford & Co Limited	5.83
Legal & General Investment Management Limited	3.52
TD Direct Investing	3.24
LSV Asset Management	3.16
J O Hambro Capital Management	3.01

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