3i Group plc

Action at a public-market discount: a full look-through underwriting of Europe's best discount retailer

Ticker / price	Equity value	Q1 FY27 NAV / share	Current income yield
LSE: III / 2,802p	~£28.1bn	3,131p	~3.0% dividend

Market data as of August 14, 2026; NAV as of June 30, 2026. Price is ~0.90x reported NAV. [1][2][3]

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5-YEAR TSR REFERENCE CASE: 18.0% = 3.0% + 9.0% + 6.0%			
18.0%	**3.0%**	**9.0%**	**6.0%**
Annualized TSR	Dividend yield	NAV/share growth	P/NAV reversion

Mechanical bridge: ~0.90x current P/NAV reverts to an approximate 1.20x 10-year fiscal year-end mean. NAV/share—not consolidated EPS—is the economically relevant compounding measure for an investment company. [1][2][15]

Thesis

3i is now principally a listed wrapper around Action, a European non-food discounter with rare store economics: every store is profitable, average upfront investment is about €0.6m, mature store contribution margin is 24.7%, and payback is under one year. Action has 3,423 stores, yet management maps another 4,650 European locations before counting the United States. The market's objection is legitimate—3i marks Action at 18.5x run-rate EBITDA and Action is roughly three-quarters of portfolio value—but the shares trade near 0.90x reported NAV after a sharp slowdown scare. The setup combines Action's double-digit unit growth, cash distributions, 3i buybacks below NAV and U.S. optionality. It is attractive at a starter size, not a blind bet on the carrying value.

Four-question scorecard

Question	Score	Why it is not higher
Business quality	4.5 / 5.0	Action's unit economics, sourcing and rollout are exceptional; concentration and private marks prevent perfection
Price	4.0 / 5.0	~10% discount to NAV is attractive, but Action itself is marked at 18.5x run-rate EBITDA
People / allocation	4.5 / 5.0	Borrows transformed 3i; Hajji is a 29-year Action operator; buybacks below NAV are accretive
Hidden nugget	4.5 / 5.0	Store rollout + cash extraction + discounted buybacks create a three-layer compounding flywheel

2 Business and Industry

3i is the wrapper; Action is the engine—and deserves a retailer-level underwriting

Look-through portfolio

Asset / segment	3i value	Share of portfolio	Underwriting role
Action (65.4% stake)	£24.25bn	~75%	Primary growth, cash and valuation driver
Other Private Equity	~£6.0bn	~19%	Diversification; smaller realization pool
Infrastructure / Scandlines	~£2.2bn	~7%	Fee income, duration and partial ballast

June 30, 2026 portfolio values; percentages rounded. [1]

Action's operating system

System component	Evidence	Why it compounds
Extreme value proposition	~2/3 of items below €2; matched competitors index at ~158-195 vs Action 100	Traffic, trust and resilience in weak consumer environments
Flexible assortment	~6,000 SKUs; ~150 new products weekly; ~2/3 variable	Treasure hunt, purchasing agility and low fashion risk
Sourcing scale	~1/3 direct; balance importers, brands and stock lots	Volume savings fund lower prices and gross-margin resilience
One operating model	>90% common assortment; one brand, format and playbook	Repetition reduces store, systems and training complexity
Dense logistics	18 distribution centers and four hubs at 2025 year-end	High stock turns and low unit handling cost

Unit economics and runway

Metric	Action evidence	Underwriting implication
Average sales / store	~€4.8m	Small-box productivity at mass-market traffic levels
Average store contribution	~€0.9m	~19% contribution before central cost
Upfront investment	~€0.6m	Under-one-year payback; internally fundable rollout
Mature contribution margin	24.7%	Powerful cohort economics after ramp
European white space	+4,650 stores	Existing footprint can more than double
2026 target	At least 400 openings	~12% unit growth before LFL sales

QUALITY JUDGMENT Action is not merely a cheap retailer. It is a standardized purchasing-and-logistics machine whose low prices are funded by operating design, not promotional sacrifice.

3 Financials and Business Quality

High-teens sales growth and self-funded stores; the debate is normalization, not survival

Action metric	2024	2025	LTM Jun-26	Read-through
Net sales	€13.8bn	€16.0bn	€17.0bn	Scale still compounding
LFL sales growth	10.3%	4.9%	3.6% H1	Normalizing after exceptional years
Operating EBITDA	€2.08bn	€2.37bn	€2.50bn	Absolute profit growth remains strong
EBITDA margin	15.1%	14.8%	14.7%	Q1 weakness recovered in LTM mix
Net new stores	352	384	121 H1	2026 opening cadence is back-end loaded
Year-end stores	2,918	3,302	3,423	15 countries by June 2026

Action 2025 and first-half 2026 metrics. LTM run-rate EBITDA was €2.73bn at June 2026. [1][4][5]

Five-year Action operating bridge

Metric	2026 run-rate	2031 base	5-year change	What must be true
Stores	3,423	~5,650	~10.0% CAGR	400-500 openings annually; no U.S. contribution required
Sales	€17.0bn LTM	~€29.5bn	~11.6% CAGR	Units + 2%-3% mature-store LFL
Operating EBITDA	€2.50bn LTM	~€4.35bn	~11.7% CAGR	14.5%-15.0% margin sustained
Free cash conversion	83% in 2025	~80%	Stable	Working capital and DC build remain controlled

Balance sheets, ratings, maturities and covenants

3i parent. June 2026 gross cash £724m, net debt £481m, 2% gearing and £1.92bn liquidity. Moody's A3/Stable and S&P A-/Stable. The £1.2bn RCF matures July 2030 and has no financial covenants. **Action.** Cash €718m, net debt/run-rate EBITDA 2.7x; S&P BB+/Stable and Moody's Ba1/Stable. Debt is ring-fenced from 3i, but leverage makes execution and refinancing material. [1][6][7]

Borrower	Instrument / amount	Maturity	Covenant read
3i	€500m 4.875% bond	June 2029	Senior unsecured; customary terms
3i	£375m 5.75% bond	December 2032	Senior unsecured
3i	£400m 3.75% bond	June 2040	Senior unsecured
Action	€/$ term facilities totaling ~€7bn	2030-2032	Secured leverage framework; thresholds not publicly quantified

BALANCE-SHEET CONCLUSION 3i itself is conservatively financed. The real credit exposure is Action's 2.7x leverage inside an 18.5x marked enterprise value—not a parent liquidity problem.

4 Valuation, Hidden Nugget and LBO

The listed discount is real; the Action mark still demands a long growth runway

P/NAV history and current valuation

At 2,802p versus June diluted NAV of 3,131p, 3i trades at about 0.90x reported NAV. A consolidated P/E is not decision-useful because unrealized private-asset revaluations drive earnings. The comparable reference is fiscal year-end P/NAV. The approximate 2017-2026 reporting-date range below uses published NAV per share and contemporaneous LSE closes; it should be treated as a valuation band, not false precision.

Current	10-year low	10-year average	10-year high
0.90x	~0.8x	~1.2x	~1.7x

P/NAV is approximate because market price and private NAV are observed at discrete reporting dates. [2][15]

Action look-through valuation

Item	June 2026	Sensitivity / interpretation
Run-rate EBITDA	€2.73bn	Includes annualization for stores opened in prior 12 months
Post-discount EV/EBITDA	18.5x	1.0x change moves 3i's Action value by roughly £1.2bn-£1.5bn
Implied Action EV	~€50.5bn	Premium growth-retail valuation
Action net debt	~€7.4bn	~2.7x run-rate EBITDA
Implied Action equity	~€43.1bn	3i's 65.4% stake maps to ~£24.25bn

Five-year shareholder scenarios

Case	NAV/share growth	Exit P/NAV	2031 value incl. dividends	5-year IRR
Bear	4%	0.75x	~£33.6	~4%
Base	9%	1.00x	~£54.0	~14%
Bull	13%	1.20x	~£76.0	~22%

Includes £5.0-£6.8 of cumulative dividends without reinvestment. Analyst scenarios, not company guidance.

Hidden nugget: three compounding layers

- Action compounds operating value through new stores with under-one-year payback and still has more European white space than its current estate.
- Action converts roughly four-fifths of EBITDA to cash, funding distribution-center expansion while returning capital to owners; 3i has received about £5.8bn cumulatively from an investment initiated in 2011.
- 3i is repurchasing up to £750m of stock below NAV. Each pound of Action value bought through the wrapper at a discount increases look-through ownership per remaining share.
- The first U.S. store is planned for late 2027/early 2028 with a separate team and localized assortment. No U.S. value is required in the base case, creating asymmetric optionality if the model travels.

Illustrative Action sponsor test

Entry / exit	EBITDA	EV/EBITDA	Net debt	Equity / return
Entry mark	€2.73bn	18.5x	€7.4bn	~€43.1bn equity
2031 base	~€4.40bn	14.0x	~€8.8bn	~€52.8bn equity
Sponsor return	10% EBITDA CAGR	Multiple compresses	No dividend recap	~1.43x / ~7% IRR

LBO CONCLUSION Action is too expensive for a conventional five-year buyout return at a 14x exit. The public opportunity depends on longer-duration compounding, 3i's NAV discount and cash distributions—not financial engineering.

5 CEO and Capital Allocation

Two unusually experienced operators: Borrows allocates the wrapper; Hajji executes the retail machine

Simon Borrows — 3i Chief Executive

Period	Role	Relevance
Pre-1998	Managing Director, Baring Brothers International	Advised on 3i's 1994 IPO; deep corporate-finance grounding
1998-2011	Founded Greenhill Europe; later co-CEO / international chair	M&A judgment, negotiation and capital-markets experience
2011-2012	3i Chief Investment Officer	Brought portfolio focus and investment discipline
2012-present	3i Chief Executive	NAV/share +986% from FY2012-FY2026; chairs Action holding-company board

Official 3i biography and annual report. Borrows holds law and MBA degrees from London University and London Business School. [2][8]

Borrows inherited an overextended, unfocused investment company and reset costs, geography, balance-sheet risk and holding periods. The result is extraordinary. The deduction is that success has concentrated both NAV and succession risk around Action and a long-tenured CEO.

Hajir Hajji — Action Chief Executive

Action tenure	Role progression	What it signals
1997-present	Joined Action; rose through store and commercial operations	Culture and unit economics learned from the floor upward
1999-2011	Regional manager, head of sales	Direct responsibility for repeatable store execution
2011-2021	Director store operations; commercial director	Scaled the network and assortment system
2022-present	Chief Executive Officer	Internal succession; no imported strategy reset

Hajji's 29-year rise is a genuine advantage: the organization is not dependent on a hired visionary learning the model. CFO Joost Sliepenbeek adds decades of consumer and retail finance experience, including Albert Heijn/Ahold, HEMA and C1000.

Capital-allocation audit

Decision	Evidence	Assessment
Hold Action long term	Initial investment £106m; stake now £24.25bn plus ~£5.8bn distributions	One of the great modern private-equity outcomes
Increase Action ownership	Stake rose to 65.4% through exchanges / purchases	Rational if mark is conservative; increases concentration
3i buybacks	Up to £750m; £344m completed by July 21	Clearly accretive below conservative NAV
Dividends	FY2026 84.5p/share; +18% CAGR since FY2012	Strong distribution record without stressing parent balance sheet
Action reinvestment	400+ stores and seven DCs planned 2026-27	High-return growth properly ranks ahead of maximum distributions
Action leverage	~2.7x run-rate EBITDA	Productive but should not be pushed materially higher at an 18.5x mark

PEOPLE / ALLOCATION — 4.5 / 5.0 The evidence is exceptional. The remaining questions are 3i succession, the discipline of carrying Action at a premium multiple, and whether U.S. expansion preserves European returns.

6 Risks and Disconfirming Evidence

The key failure mode is paying a premium private mark for a retailer whose store economics quietly deteriorate

Risk	Why it matters	Early warning / thesis killer	Response
Action valuation	18.5x run-rate EBITDA drives NAV	Sustained peer de-rating or 1.0x-2.0x mark cut	Underwrite P/NAV after a conservative Action haircut
LFL / margin slowdown	New stores cannot mask weak cohorts forever	LFL <2% and EBITDA margin <13.5% for four periods	Cut long-run store economics and position
France / Germany saturation	Largest markets anchor density and profit	Cannibalization, payback >2 years, contribution decline	Lower white-space and mature margin assumptions
Sourcing / freight / tariffs	Low prices require procurement advantage	Price gap narrows or inventory markdowns rise	Track gross margin, turns and direct sourcing
Competition / imitation	TEDi, Pepco, Temu and generalists target value	Matched-price index compresses with traffic loss	Re-underwrite moat, not just demand
U.S. expansion	Different labor, rent and consumer context	Large rollout before a profitable test cohort	Assign zero value; demand disciplined pilots
Action leverage	Private subsidiary has ~€7.4bn net debt	Leverage >3.5x or costly 2030-32 refinancing	Require cash retention; haircut equity value
3i concentration / FX	Action dominates NAV; euro assets translated to sterling	Action thesis breaks or FX masks operating weakness	Position as single-company exposure
Key-person succession	Borrows and Hajji are unusually important	Unclear transition or strategic drift	Cap size until bench is visible

Pre-mortem: it is 2031 and the investment failed

Action opened hundreds of stores but mature cohorts cannibalized one another, Germany required more marketing, and direct-sourcing savings were absorbed by freight, wages and shrink. EBITDA grew only mid-single digits while the private mark fell from 18.5x to 12x. Action's debt stayed flat, magnifying the equity hit. U.S. pilots consumed management attention without proving the format. 3i's discount to NAV was not protection because the NAV itself was too high.

Disconfirming evidence hierarchy

A volatile 3i share price is not disconfirming. One weak weather period is not disconfirming. The strongest evidence is deterioration in mature-store contribution, payback moving above two years, persistent LFL below inflation, margin compression that sourcing cannot offset, or leverage rising while the valuation multiple remains unchanged.

SINGLE MOST IMPORTANT UNKNOWN Are Action's newest country and infill cohorts reproducing the mature 24.7% store contribution margin after cannibalization, wage inflation and distribution-center cost?

QUARTERLY DASHBOARD Transactions | LFL by country | store contribution by cohort | openings and closures | direct-sourcing mix | inventory turns | EBITDA margin | net leverage | Action mark

7 Portfolio Decision and Research Plan

The holding period is always 5-8 years; position size recognizes both exceptional economics and mark risk

Conviction	Score	Reason
Analytical	4 / 5	Action data are unusually rich; private valuation and cohort disclosure remain imperfect
Portfolio	4 / 5	Consumer-value exposure diversifies growth portfolios, but 3i is effectively one large asset
Temporal	5 / 5	A 5-8 year horizon matches store maturation, DC density and U.S. option testing

Position-size recommendation

Initiate a 2.0% starter near 2,800p. Increase toward 4% only if Action's mature-store economics, LFL trajectory and cash conversion remain intact while the public shares stay at or below conservative NAV. Treat the position as direct Action exposure with a listed wrapper—not diversified private equity.

Action	Price / evidence rule	Rationale
Buy starter	≤2,850p and ≥10% discount to reported NAV	Discount offsets part, not all, of the 18.5x Action mark
Add	≤2,500p, or Action LFL >3% with margin ≥14.5% and leverage ≤2.7x	Require either price or operating proof
Hold	2,850p-4,200p while NAV/share compounds ≥9%	Let unit rollout and buybacks work
Trim	>1.4x NAV without faster cohort economics	Returns become dependent on wrapper premium
Exit	Mature payback >2 years, leverage >3.5x, or unchanged 18.5x mark despite broken KPIs	Core quality / valuation thesis disproven

Next research steps

- Build country-by-country store cohorts: sales, contribution, rent, cannibalization, payback and distribution-center density.
- Reconstruct Action's direct-sourcing economics, price gap and inventory turns versus TEDi, Pepco, B&M, Dollarama and Temu.
- Model Action equity value at 12x-20x EBITDA and 2%-12% EBITDA growth; reconcile every case to 3i NAV/share.
- Track the 2027/28 U.S. pilot with zero value until repeatable payback and localized sourcing are visible.
- Assess 3i and Action succession, minority-owner governance, debt documents and dividend capacity before a full position.

FINAL DECISION BUY A STARTER POSITION / MODERATE-HIGH CONVICTION. Business quality is 4.5/5.0 and the hidden nugget is 4.5/5.0. The gating item is proof that Action's newest cohorts deserve the carrying multiple.

Source notes

[1] 3i FY2027 Q1 performance update (June 30, 2026)
[2] 3i Annual Report and Accounts FY2026
[3] 3i Group market quote
[4] Action Capital Markets Seminar presentation (2026)
[5] 3i Action portfolio update (March 2026)
[6] 3i bonds and facilities
[7] 3i credit ratings
[8] Simon Borrows official biography
[9] 3i FY2026 results / Action financial metrics
[10] 3i FY2025 results / Action refinancing
[11] 3i FY2021 results
[12] 3i FY2020 results
[13] 3i FY2017 results
[14] 3i FY2025 annual highlights
[15] 3i historical market-price series

Framework source: Chapter 4 and Appendix E of Investing Book July 34(1). Facts are drawn primarily from company materials. P/NAV history, Action look-through valuation, scenarios, LBO returns and position sizing are analyst estimates; approximate historical bands avoid false precision.

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