P.O. Box 4689
Greenwich, CT 06831
Toll Free: 888-223-9488
International: +1-203-413-2423
transcripts@civi.com

Conference Call
Investcorp
May 11, 2021

Operator: Welcome to the Investcorp Credit Management BDC, Incorporated scheduled earning release of third quarter ended March 31st, 2021. Your speakers for today's call are, Mike Mauer, Chris Jansen and Rocco DelGuercio. Operator assistance is available anytime during this conference by pressing *0. A question-and-answer session will follow the presentation. I will now turn the call over to your speakers. Please begin.

Michael Mauer: Thank you, operator, and thank you to all of you for joining us today. I'm joined by Chris Jansen, my Co-Chief Investment Officer; and Rocco DelGuercio, our CFO. Before we begin, Rocco will give you our customary disclaimer regarding information and forward-looking statements. Rocco?

Rocco DelGuercio: Thanks, Mike. I would like to remind everyone that today's call is being recorded and that this call is the property of Investcorp Credit Management BDC. Any unauthorized broadcast of this call in any form is strictly prohibited. Audio replay of the call will be available by visiting our Investor Relations page on our website at icmbdc.com. I would like to call your attention to the Safe Harbor disclosure in our press release regarding forward-looking information, and remind everyone that today's call may include forward-looking statements and projections. Actual results may differ materially from these projections. We will not update forward-looking statements unless required by law. To obtain copies of our latest SEC filings, please visit our Investor Relations page on our website. At this time, I would like to turn the call back over to our Chairman and CEO, Michael Mauer.

Michael Mauer: Thanks, Rocco. This past quarter saw a marked increase in activity in the broader market. Refinancing activity, which began to pick up around year end, accelerated and drove a large number of transactions. We saw several of the loans in our portfolio get refinanced, both during and after quarter end. As we consider our pipeline, refis and new LBOs are the primary drivers.

With a robust primary market, we continue to see strong competition for deals, with most of the pressure coming on pricing at the larger end of the market. We have maintained our credit discipline. We haven't chased deals, which have unattractive structures, even when these deals are refinancing the portfolio companies that we are comfortable with. Apart from structural trends, we also see that most deals are pricing tighter. We are focused on credit quality and loan structure first. We accept that in this market, spreads are tightened.

Sector selection remains a key tool in our portfolio management decisions. We are avoiding new investments in oil and gas, as well as in sectors which were hit hardest by the pandemic, such as retail and hospitality. Many of our borrowers were well positioned to rebound from the effects of COVID on their businesses. We've seen this begin to play out in the numbers with strong second half performance in 2020.

Our investment activity during the quarter continues to be balanced between club loans and middle-market syndicated loans. During the quarter, we invested in one of each, and since quarter end, we have invested in two additional new portfolio companies.

Chris, we'll go into detail about the investments and realizations during the quarter, and then Rocco will discuss our financial results. I'll finish up with commentary on our financing activity during the quarter, our leverage, Investcorp's share purchases, our dividend, and our outlook for the next few months. As always, we'll end with Q&A.

With that, I will turn it over to Chris.

Chris Jansen: Thanks Mike. We invested in two portfolio companies this quarter, both of which were new. We also had three full debt realizations and one equity realization. Our first investment was in the first lien term loan for Galaxy brands. Galaxy designs, sources and markets, footwear products. Sponsor is Gainline Capital Partners. Our yield on this club loan, at cost, is 8.5%. A second new investment this quarter was in the first lien term loan for Auto Lenders. The company is a vertically integrated auto sales and leasing platform. Our yield, at cost, is 8.5%.

Now, to the realizations. Our first realization this quarter was Allsup's. While this is one of our lower yielding assets, our entry point was attractive, and we sold our loans over par before their refinance. Our fully realized IRR was approximately 12.7%. Our second realization was Limbach. Limbach's credit profile improved dramatically during the time of our investment, and the company refinanced our debt at much lower rates. Our fully realized IRR was approximately 16.1%. Our third realization was Empire Resorts, originally known as Montreign. The bulk of our position was repaid at par a year ago with a small portion refinanced into a one-year bridge loan. The bridge loan was repaid, and our IRR was 3%. Our fully realized IRR over the entire life of the investment was approximately 10.6%. We also had a realization of our position in Open Mobile warrants. Our combined IRR on all Open Mobile positions for the life of that investment was approximately 11.4%.

Since quarter end, we had made two new investments. Our first is in a club loan for NWN Corporation. The company is a leading provider of managed cloud services, solutions and systems. Our yield, at cost, is approximately 7.7%. Our second recent investment is in the first lien term loan for Innovations in Nutrition and Wellness, or INW. INW formulates and produces a variety of products for the vitamin, mineral, and supplement markets. Our yield, at cost, is approximately 7.4%.

We also had two full realizations since quarter end. First, GEE raised equity in the public markets to repay its debt facilities in full. Our fully realized IRR was 21.3%. Second, Alta Equipment refinanced its term loan in early April with the proceeds of a bond offering. Our fully realized IRR was approximately 16.7%.

Using the GICS Standard, as of March 31st, our largest industry concentration was professional services at 12.4%, followed by energy equipment and services at 10.1%, trading companies and distributors at 9.8%, containers and packaging at 7%, and commercial services and supplies at 6.6%. Our portfolio companies are in 23 GICS industries as of quarter end, including our equity and warrant positions. As of March

31st, our portfolio company count was 35, versus 37 at December 31st. I'd now like to turn the call over to Rocco to discuss our financial results.

Rocco DelGuercio: Thanks, Chris. For the quarter ended March 31, 2021, our net investment income was $1.8 million or $0.13 per share. The fair value of our portfolio was $251.8 million, compared to $257.7 million at December 31. Our portfolio's net increase from operations this quarter was approximately $3.7 million. Our new debt investments during the quarter had an average yield of 8.5%, and realizations and repayments during the quarter had an average yield of 11.3%, and fully realized investments had an average IRR of 12.3%. The weighted yield of our debt portfolio was 8.77%, a decrease from 99 basis points from December 31.

As of March 31, our portfolio consisted of 35 portfolio companies. 87% of our investments were first lien, 4.6% of our investments were second lien, and 4.8% of our portfolio was in unitranche loans. The remaining 3.6% is invested in equity warrants and other positions; 99.3% of our debt portfolio was invested in floating rate instruments and 0.7% in fixed rate investments. The average LIBOR floor on our debt investments was 1.07%. Our average portfolio company's investment was approximately $7.2 million, and our largest portfolio company investment was GEE at $12 million. We were 1.96 times levered as of March 31, compared to 1.43 times levered as of December 31. Our leverage was subsequently reduced to 1.5 times when our baby bond was fully repaid on December 26th. We had four investments on nonaccrual as of March 31.

Finally, with respect to our liquidity as of March 31, we had $86.4 million in cash; of which, $6.5 million was restricted cash, as well as $20 million capacity under our revolving credit facility with UBS. As I noted, $51.4 million of this cash was earmarked to repay our 2023 notes, which occurred on April 26th. Additional information regarding the composition of our portfolio is included in our Form 10-Q, which was filed yesterday.

With that, I'd like to turn the call back over to Mike.

Michael Mauer: Thank you, Rocco. We are very pleased to place a new bond this quarter. We closed on $65 million of new 4 $^{7}/_{8}$% notes due 2026, which raised net proceeds of $63.1 million. In April, we used these proceeds to fully redeem our 2023 notes. The net effect is to provide us with additional long-term capital to fund our investing activities, as well as lowering the cost of leverage. Our guidance on leverage remains a target of 1 ¼ to 1 ½ times. Last quarter, we were within that target at 1.43 times. This quarter, our leverage artificially peaked at quarter end due to the notes placement before normalizing at 1.5 times. We anticipate that our normal investment activity will keep us around this range.

I do want to touch on the non-accruals in the portfolio. DSC, formerly known as Deluxe, was on nonaccrual last quarter. This position, a small stub from our investment in Deluxe Toronto Limited, represents our interest in the final wind down of the company. We have received a number of small paydowns and expect to collect additional funds over the coming quarters.

1888 has several term loans. The Term Loan B is subordinated to the Term Loan A, B, and revolver. With those loans remaining on accrual abstinence significant changes in growing activity in 1888's market, we do not expect the Term Loan B to resume paying interest.

PGI unexpectedly failed to make its interest payment on both its first and second lien loans. We are engaging constructively with our fellow lenders in both tranches, as well as the sponsor. For confidentiality reasons, we can't say more on this at this time.

We did not cover our March quarter dividend with NII. However, using our prior quarter spillover income, we more than covered the March dividend. While disappointing, we are committed to the disciplined investment approach, and we are confident that we have the appropriate capital resources to generate NII, to cover the dividend going forward.

As we've committed to do, we've waived the portion of the management fee associated with base management fees over one turn of leverage. Our Board of

Directors declared it distribution for the quarter ended June 30, 2021 at $15.00 [* $0.15] per share, payable on July 9, 2021 to shareholders of record as of June 18th.

The Board did not declare a supplemental dividend distribution this quarter. We believe that this dividend level is stable, and the supplemental distribution approach remains the best way to capture fluctuations in the portfolio's income generation.

Investcorp has made two separate commitments to purchase shares in ICMB. Investcorp did not make any open market purchases under the 10b-5 program this quarter. To-date, 281,775 shares have been purchased since the inception of that program. Secondly, Investcorp has committed to purchase shares at NAV. Investcorp did not make any purchases between December 31st and March 31st, and has purchased 227,000 shares to date. In an increasingly frothy market, we continue to focus our efforts on the core middle market, especially for deals we find that structural protections, pricing and covenants are holding up much better than in the larger broadly syndicated transactions.

Our team is working hard to identify additional investment opportunities to deploy cash we have in the portfolio. As I said last quarter, we want to seize the opportunities we are presented with, manage the portfolio through the cycle, and keep our focus on consistent income generation and the preservation of shareholder capital.

That's the end of what we have prepared. Operator, please open the line for Q&A.

Operator: Ladies and gentlemen, at this time, we will conduct a question-and-answer session. If you would like to say any question, please press *1 on your phone now and you'll be placed into the queue in the order received, or press # at any time to remove yourself from the queue. Please listen for your name to be announced and be prepared to ask a question when prompted. Once again, to ask a question, please press *1 on your phone now. [Pause]

Our first question comes from Robert Dodd from Raymond James. Please state your question.

Robert Dodd: Hi, guys. On Premiere Global, and I understand there's confidentiality, so without going into all the details of what went on, can you give us any color on what's a reasonable time frame to expect either resolution of the asset entirely or the current, whatever they may be, issues going on with the business?

Michael Mauer: Yes, Robert. Unfortunately, we don't have a timeline. It has been a recent event. So, everyone is in the beginning stages of discussions. It's not in the later stages. So, we do not have a timeline at this point on that.

Robert Dodd: Got it. Thank you. Another one that stands out, kind of, Exela Intermedia. Obviously, it's marked down. It's still on accrual, but it's marked down pretty substantially. So, can you give us any color on what your expectations are there? I mean, will it stay on accrual, for starters? On that mark, is there anything you can tell us about expected or potential outcomes with regard to that asset?

Michael Mauer: Yes, Robert, on that, we keep watching it closely. We have discussions among some of the lenders. It is one that the company continues to make moves, and they're all public information out there on some of the financings they've done, some of the contracts they've gotten. So, they've made several moves in order to keep liquidity. So, they have continued to make payments. We think that we've got it marked at actually a pretty attractive level. We think that that is indicative from a market perspective. Until we get some guidance that they're not going to make an interest payment, we're going to keep it on accrual.

Robert Dodd: Okay, fair enough. Then just in, in general, with – so, beyond those assets. Are there any other assets that that you're seeing any warning signs in or anything that we should be paying particular attention to, given obviously, there is still some stress out there in the economy, etc?

Michael Mauer: Yes, I know. It's a great question, and I'll just use your question as maybe digress on two or three things. One is, I think, in speaking, my partner kicked me from six feet away under the table here. I think I said $15.00, not $0.15 for the dividend next quarter. So that, I wanted to highlight. The other thing is, when we look forward the

June quarter, I would expect too that because of the bond and we had several investments to repay in this strong market, and we had two or three delay in funding, that the June quarter will not necessarily cover the dividend, but our projections are with the reinvestment, we should be covering the dividend going forward, beyond that. So, I think that's one important thing.

The other thing is the asset that we always talk about, and you did not ask about today, so I thank you, but I'll bring up, 1888. If oil continues to hold in this 60-plus or minus, it's been $64.00, $66.00 last couple of weeks, but high 50s, low 60s. We are seeing a fairly slow but constant increase in rigs, especially in the Permian. It's still significantly below where it was pre-COVID, but we are seeing a very nice consistent pickup in that business. So, we're not concerned on that one in the current environment.

Robert Dodd: Got it. Thank you.

Michael Mauer: Okay.

Operator: Our next question comes from Paul Johnson. Please state your question.

Paul Johnson: Good morning, guys. Thanks for taking my questions - or good afternoon, I should say. I suppose that non-accruals were a big driver of this. I know you answered the question a little bit to Robert with around the dividend. In terms of the interest income coming off the portfolio, just given yields and spreads and repricings that are taking place in the market, do you expect to be able to bring that level of interest income kind of up from this quarter, $6 to $7 million kind of range, or do you have any line of sight on maybe where we run from here?

Michael Mauer: So, new investments, we are assuming because of the environment and we're not going to stretch and take on undue risk. We're assuming they are kind of in an 8.5% to 9% average. We also are assuming that from our quarter end, which was around 251 of invested assets that we are in the process and we've got a pipeline of deals we're looking at that we should be closer to a 270 to 275. That would not change our leverage. That's primarily using the additional cash that came from the baby bond. Hopefully, that helps.

Paul Johnson: Got you, okay. Then I guess just one kind of broader question. Within your portfolio, all your companies or even deals that you've looked at, particularly with the businesses that are maybe more labor - manual labor-intensive. Have you seen any signs of inflation pressure throughout the economy or just in middle market businesses?

Chris Jansen: Yes, it's Chris. A good question, Paul. We haven't seen it specifically. We're aware in the lower middle market, there are those pressures with hourly workers. A number of our businesses that rely on more skilled workers, they've seen some wage pressure, but they're seeing pricing coming in. Some of our companies like in IEA, for example, that can draw at pricing. Others, across the portfolio, we've been surprised by the resiliency on their revenue side as well, say, for the discussion we've had on PGI and a couple others.

Paul Johnson: Okay. Thanks. Those are all my questions. Appreciate it.

Chris Jansen: Thank you, Paul.

Operator: Our next question comes from Christopher Nolan. Please state your question.

Christopher Nolan: Mike, what was the driver for the decrease in portfolio yields in the quarter?

Michael Mauer: Yes. The primary driver of the decrease in portfolio was that we had repayments, and they were coming in. That averaged around 11.3%, and our new investments were at about 8.5%.

Christopher Nolan: Great. Then a more strategic question, a month or so ago, there was talk about significantly increasing the capital gains tax. How do you think that affects your company, the BDC Group, given so many deals come from private equity?

Michael Mauer: Yes, it's a great question. The short answer is I'm not sure it changes it materially, other than there's a real motivation by private equity sponsors at the margin to monetize so that they can, to the extent available, avoid the increased tax rate, assuming that the tax rate goes up prospectively, not retrospectively. That having been said and why I say I don't see it it's huge is there is about a $1.5 trillion, depending on who you talk to, of private equity capital that's been raised. So, from a new deal, forget about deals being refinanced, new deals, there are significant amount of new deals and a fairly good pipeline of things for us to look at. So, I think that you will see some pressure from the $1.5 billion of sourcing new deals, but the capital gains tax definitely is the motivation for monetization at the margin. People aren't going to sell things below where it makes economic sense.

Christopher Nolan: Great. Thank you. That's it from me.

Operator: Once again, if you would like to ask a question, please press *1 on your phone now. [Pause] At this time, we have no further questions.

Michael Mauer: Thank you, everyone. We look forward to talking to you soon.

Operator: This concludes today's conference call. Thank you for attending.

- End of Recording -