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Op Assist Earnings Call
Conference Call
February 14, 2023

Operator: Welcome to the Investcorp Credit Management BDC, Incorporated Schedules Earnings Release for Second Quarter Ended December 31, 2022. Your speakers for today's call are Mike Mauer, Chris Jansen, Suhail Shaikh, and Rocco DelGuercio. Operator assistance is available at any time during this conference by pressing 0#. A question-and-answer session will follow the presentation.

I would now like to turn the call over to your speakers.

Michael Mauer: Thank you, Operator, and thank you for joining us on our first quarter call today. I'm joined by Chris Jansen, Rocco DelGuercio, my CFO; and Suhail Shaikh. I would also like to welcome Suhail Shaikh as my new co-CIO.

Before we begin, Rocco will give 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 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 also 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'd like to return the call back to our chairman and CEO, Michael Mauer.

Michael Mauer: Thank you, Rocco. First, I would like to address a change in leadership. After 11 years as my co-CIO, Chris Jansen is taking on an advisory role and will retire later this year. I want to personally thank Chris for his partnership and all his contributions.

We're pleased that Suhail Shaikh has joined us as co-CIO. Suhail was most recently at Alcentra where he led their US private credit business and has over a decade of private credit experience, including seven years as a partner at Solar, now SLR. He also brings three team members with him. We believe the addition of Suhail and his team's expertise will enhance the origination and investment platform.

Suhail Shaikh: Thank you, Mike. I'm pleased to join the private credit team at Investcorp at such pivotal time. My team and I are excited to be a part of Investcorp's growth and look forward to contributing our resources, pursuing new opportunities, and continuing to build our Investcorp's private credit business alongside Mike, whom I've known for over 25 years in the industry as a former colleague at J.P. Morgan and a market participant. It will also be great to reconnect with some of you from my days at Alcentra Capital Corp.

Michael Mauer: Thank you, Suhail.

The December quarter marks the second quarter of our fiscal year. Macro factors persisted as a strong influence on the private markets. We continue to see a slowdown in new issuance activity, particularly LBO issuances, but this appears to be gradually gaining pace in the beginning of 2023. Refinancing activity has also been light, which we believe is likely due to higher credit spreads. We expect leverage in the deals we invest in to remain modest with the relatively lender-friendly documentation of 2022 continuing in 2023.

Deal flow remained modest during the quarter and we were extremely selective when investing in new opportunities. We invest in one new portfolio company during the quarter and after quarter end, and added opportunistically to one existing portfolio company after quarter end. Our debt investments during the quarter had an average yield of 10.6%. We remain highly focused on sector selection portfolio management and risk mitigation.

As we have stated before, we primarily invest in first lien loans that are supported by experienced sponsors and have significant equity cushions. Our average loan-to-value ratio for our performing loans is approximately 50%. This is especially beneficial in times of economic uncertainty. While we acknowledge that some of our borrowers may experience volatility over the life of our investment, we continue to maintain a systematic portfolio management process that has allowed us to proactively identify areas of concern and to work directly with our fellow lenders to understand and alleviate any issues. As we have said many times, our main goal is to preserve capital and maintain a stable dividend.

Chris will now walk through our investment activity during the December quarter and after quarter end. Rocco will go through our financial results. I'll finish with commentary on our NAV, nonaccrual investments, our leverage, the dividend, platform update, and our outlook for the rest of 2023. As always, we'll end with Q&A.

With that, I'll turn it over to Chris.

Chris Jansen: Thanks, Mike. We invested in one new portfolio company and fully realized our position in one portfolio company this past quarter. We invested in the club financing for Flatworld Solutions to support the acquisition of the company by Boeing Capital. Flatworld is a business process outsourcing company that provides technology and outsourcing services to a variety of end markets. We invested in the revolver, the first lien term loan, and common equity of the company. Our yield at cost is approximately 10.6%.

We fully realized our position in Barri Financial which was acquired by Dollar Express, Inc. Our position was refinanced as part of that transaction and our fully realized IRR was approximately 11.4%. After quarter end, we invested in one new portfolio company, added to our position in one current portfolio company, and had one realization. We invested in the first lien term loan of Sandvine. Sandvine is a leading provider of active network intelligence and security solutions for network operators and enterprises globally. Our yield at cost is approximately 11.8%.

We opportunistically added on to our position in LaserAway. LaserAway is a leading chain of laser hair removal and noninvasive aesthetic dermatology. Our yield at cost was approximately 10.5%. We fully realize our position in Liberty Oilfield Services as our debt was refinanced. Our fully realized IRR was approximately 11.3%.

Using the GICS standard as of December 31st, our largest industry concentration was trading companies and distributors at 15.4%, professional services at 14.0%, followed by IT services at 10.6%, internet and direct marketing retailers at 8.0%, commercial services and supplies at 6.6%, and chemicals at 6.2%. Our portfolio companies are in 19 GICS industries as of quarter end, including our equity and warrant positions.

I'd now like to turn the call over to Rocco to discuss our financial results.

Rocco DelGuercio: Thanks, Chris. For the quarter ending December 31, our net investment income was $2.3 million or $0.16 per share, which is relatively unchanged from the prior quarter. The fair value about portfolio was $228.6 million compared to $239.2 million on September 30th. Our net assets decreased by $1.5 million or 1.65% from the prior quarter. Our portfolio's net increase from operation this quarter was approximately $600,000.00. Our debt investment income during the quarter had an average yield of 10.6%. We had one realization repayment during the quarter which had an average yield of 11.3% and the fully realized investment of 11.4%. The weighted average yield of our debt portfolio was 10.7%, a decrease of 12 basis points from September 30th.

As of December 31, our portfolio consisted of 37 portfolio companies, 91.2% of our investments were first lien, and the remaining 8.8% is invested in equity warrants and other positions. 99.5% of our debt portfolio was invested in floating rate instruments at 0.5% in fixed rate. The average floor of our debt investment was 1.04% and our average portfolio company investment was approximately $6.2 million and the largest portfolio company investment is Fusion at $12.8 million.

We had a gross leverage of 1.55 and a net leverage of 1.46 as of December 31 compared to 1.64 gross and 1.56 net respectively for the previous quarter. As of December 31, we had eight investments on nonaccrual which included all three

PGIs, three investments in 1888, Deluxe, and our investment in the first lien of Bioplan.

With respect to our liquidity, as of December 31, we had approximately $8.4 million in cash of which $7.9 million was restricted cash with $36.6 million capacity under our revolving credit facility with Capital One. Additional information regarding the composition of our portfolio is included in our Form 10-Q which we filed yesterday.

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

Michael Mauer: Thank you, Rocco. I would first like to address the NAV decline during the quarter. Part of the decline was attributable to a decrease in our marks for Fusion Series 8 preferred equity, Klein Hersh, and CareerBuilder. As mentioned previously, our methodology for valuing all of our debt investments are to take into account changes in credit metrics during the quarter, any change in the perceived credit risk, and we adjust our yield return expectations accordingly. This can sometimes result in a decline in our fair value which is exactly what happened during the quarter for a few of our names in the portfolio. We added one position on nonaccrual this quarter which was Bioplan. However, we are unable to discuss the situation in further detail due to confidentiality reasons.

Our gross leverage this quarter was 1.55x above our guidance of 1.25 quarter to 1.5x. Our debt leverage was 1.46x which is within the target range. As mentioned last quarter, we expect to see our gross and net leverage generally converge. As of February 9th, our gross and net leverage were 1.46 and 1.44.

As we have previously stated, the advisor will waive the portion of our management fee associated with base management fees over one turn of leverage. We covered our December dividend with NII. The company expects to earn its dividend through the next quarter ending March 31st. On February 2nd, our Board of Directors declared a distribution for the quarter ended March 31 of $0.13 per share and a supplemental distribution of $0.02 per share, both payable on March 30, 2023 to shareholders of record as of March 10, 2023.

I would also like to highlight a few additional platform developments. We closed on an SMA and had an initial close on our institutional fund. This doubles our platform

AUM since last quarter, increasing our dialogue and reducing average expenses across the fund. As we head into 2023, we remain optimistic in our ability to deploy capital and high-quality senior secured structures in middle-market companies at an attractive rate. Our current pipeline is robust and we are seeing significant deal flow especially in new LVOs. We believe that Suhail and his team's expertise will only elevate our underwriting and sourcing capabilities which will be additive to our platform. Our ultimate goal has not wavered and is, as always, focused on capital preservation and maintaining a stable dividend.

That concludes our prepared remarks. 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 state a question, please press 7# on your phone now and you will be placed in the queue in the order received, or press 7# at any time again to remove yourself from the queue. Please listen for your name to be announced and be prepared to ask your question when prompted. We are now ready to begin.

Our first question comes from Sean-Paul Adams with Raymond James. Go ahead.

Sean-Paul Adams: Hey, guys. In relation to your deal flow, it looked like you guys were averaging at least four, five, or six new investments each quarter for last year. I just wanted to get a comment on the underlying reasons behind the deal flow for this quarter and the outlook for the rest of 2023.

Michael Mauer: Yes. Thanks, Sean. I'd say that the fourth quarter slowed down for a couple of reasons. One was on our side, we sat back. We wanted to reassess the portfolio. At the same time, we saw - at least I'm not sure what you've seen away from us, but we saw flow slow down a bit in the fourth quarter. We saw that pick up over the last few weeks. I'd expect that we'll be back to a normal, I'll call it, four to eight as a broad band, but that's also subject to refinancings, roll-offs, etcetera, of the existing portfolio. We want to stay in this 1.25, 1.5 range. We're at the top end of that right now. To the extent that things are not paying off as quickly, we won't be making as many new investments.

I think part of the slowdown on things paying off is that we saw previous portfolio investments refinanced in an environment where we have low base rates and spreads were - I'll call them normal spreads have widened a little bit, and so there's not as much incentive for people to refinance also.

Sean-Paul Adams: Got you. Thank you. As far as NAV decline, you guys were ahead of the industry median for the last quarter but with your current NAV decline for the quarter, you guys are well above the projected median for the fourth quarter ended. Do you guys have any underlying ideas about if there's going to be continued NAV decline given the base rates, and is it more related to credit or just the underlying portfolio?

Michael Mauer: I'd say there are two things. One is we had just remark based upon where we saw rates and underlying portfolio, there were a couple of episodic names that I did mention but as of today, we don't see any other changes as of today to the NAV.

Sean-Paul Adams: Got you. Thank you. I appreciate it.

Operator: Thank you very much, Mr. Adams. Our next question comes from Mr. Christopher Nolan with Ladenburg Thalmann. Go ahead, please.

Christopher Nolan: Thanks for taking my call. Bioplan, the fair value seems to increase modestly quarter over quarter. Can you just give a little reasoning behind that?

Michael Mauer: Yes. We go through our detail on everything we know. That is confidential from the details, Chris, so I can't go into that, but we get all of the feeds from the company and agent and we go through and value it based upon our expected value. We expect that to complete a restructuring during this quarter, and then we'll have updates after that.

Christopher Nolan: Great. As a follow-up, there were lower yields and slightly lower asset volumes in the quarter. Was the flattish interest income due to timing issues or something?

Michael Mauer: Yes, it's a good point. You have two to three things working there. You've got Bioplan that did - you mentioned that went on nonaccrual, so that affected the overall average slightly. You had one of our larger positions, Barri, that was an attractive investment for us that was above the average yield, and that came off during the fourth calendar quarter. Then there's also a bit of a lag as far as us benefiting from the increase in SOFR during the quarter because of the three-month contracts.

Christopher Nolan: Great. Then finally, Chris, I want to thank you for your service and I hope green pastures going forward for you, and welcome to the new team. Thank you.

Michael Mauer: Long, straight, green pastures. Thank you.

Chris Jansen: Thank you, Chris.

Operator: Thank you very much, Mr. Nolan. Our next question comes from Mr. Paul Johnson. Again, if you have any questions, please press 7# on your phone.

Mr. Johnson, go ahead, please.

Paul Johnson: Hey, guys. Good afternoon. Thanks for taking my questions. In terms of the recent changes and the talk of growth of the platform and maybe potential scale that could come out of that, I was wondering if there's anything you could share and if you could quantify that at all in terms of how that might actually alleviate some of the expenses at the BDC, particularly for like G&A expenses just because for you guys, I think you've historically run a little bit higher than the sector in terms of G&A expenses just because of the overall decline of size of the BDC, but anything you could share there would be great.

Michael Mauer: Yes. I'd just say that — and I'll pass it over to Rocco. I'd just say that from an AUM - and that's really the basis in which we think about spreading expenses during this quarter, so it's kind of mid-quarter if this quarter won't be a full benefit. We're going to double the AUM between that separately-managed account in the first close on a small institutional fund. We're targeting to grow that institutional fund throughout the year, and we're targeting to have another fund closed during the year.

Rocco, I'll let you comment.

Rocco DelGuercio: Yes. The expenses on the public fund definitely that [Unintelligible] had mentioned definitely have come down. To Mike's point, it's going to be a look-back, so I'll take a look at the AUM at the end of the quarter and kind of look back. I can't really tell you how much it is right now, but they definitely are going to come down. I'm not quite sure if I answered your question, Paul.

Michael Mauer: There's no doubt directionally they're going to come down and we are working to continue to build that platform out.

Paul Johnson: Yes. That's good to know. Hopefully, you continue to do so. Then a lot of BDCs this quarter have provided just general and some more specific assessments of their portfolio. Just going into the year, obviously, with the expectation that we're potentially headed into a recession in terms of whether that would be just overall credit quality or interest coverage or that sort of thing, I was wondering if you have or, again, with the changes you've made there recently, if you intend to do so and provide those results with just kind of the overall performance of the portfolio.

Michael Mauer: Yes. We intend to continue looking at those from our ratings of one through five and four and five or the ones where we see the most credit risk and whether or not it's nonaccrual or not. Those, I think, are the ways that we are approaching it. I'm not sure we'll take a look at the way others are doing it, but we're not planning on starting additional metrics.

Paul Johnson: Got it. Okay. [That's] all for me. Thanks for taking my questions.

Michael Mauer: Yes. Thank you, Paul.

Operator: Thank you very much, Mr. Johnson. I don't see any other questions, none on the queue.

Michael Mauer: Well, I'd like to thank everyone. We look forward to talking to you after the March quarter end and following up in the meantime. Thank you very much.

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

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