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

Op Assist Earnings Call
Conference Call
September 19, 2023

Operator: Welcome to the Investcorp Credit Management BDC Incorporated Schedules Earnings Release of fourth quarter ended June 30th. Your speakers for today's call are Mike Mauer, 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. Please begin.

Mike Mauer: Thank you, operator, and thank you for joining us on our fourth quarter call today. I'm joined by Suhail Shaikh, my co-CIO and President of Investcorp Credit Management BDC, and Rocco DelGuercio, our CFO. Before we begin, Rocco will give our customary disclaimer regarding information and forward-looking statements. Rocco?

Rocco DelGuercio: Thank you, 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 also like to take - 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 filing, 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.

Mike Mauer: Thanks, Rocco. The June quarter marks the last quarter of our fiscal year. New deal activity in the primary markets, especially new LBOs and refinancings, remained limited during the quarter. High interest rates have discouraged sponsors from doing dividend recaps or acquiring new companies. As a result, our investment activity remained lower this quarter compared to previous periods. However, we expect to slowdown in primary deal activity to pick up the next few quarters and we continue to see compelling investment opportunities in our pipeline.

We made several investments this quarter in the secondary market. These opportunities were primarily borrowers we are familiar with and have exposure to in our other funds across our platform. During the quarter, we invested in two new portfolio companies and two existing portfolio companies. The weighted average yield of our debt investments during the quarter decreased to 12.5% from 13.4% at 3/31.

We remained very focused on portfolio management and risk mitigation. We continue to diversify our investments into new borrowers to reduce our average position sizes and to work with borrowers that have covenant or liquidity issues in the current high interest-free environment. This quarter, we increased our number of borrowers and the number of GICS industries across our portfolio to 21 industries when compared to the previous quarter. As we look at our borrower's operating performance, the credit quality of our portfolio remains stable. Our weighted average net leverage is relatively unchanged from the quarter ended 3/31 at 3.9 times. Additionally, our weighted average loan-to-value ratio for all debt investments is approximately 48%.

Looking forward, we expect to continue our theme of risk management and diversification. We are expecting repayments in both the current quarter and the fourth quarter this year, which we expect to redeploy across new borrowers in a smaller average size. While we suspect there is pent-up demand from primary issuance, we remain focused on secondary opportunities as well, where we can create positions with shorter maturities, convexity, and established track records of operating as leveraged borrowers.

Suhail will now walk through our investment activity during the quarter and the after-quarter end. Rocco will go through our financial results. I'll finish with commentary on our non-accrual investments, our leverage, the dividend, and our output. As always, will end with Q and A. With that, I'll turn it over to Suhail.

Suhail Shaikh: Thank you, Mike. As Mike mentioned, this quarter's activity was characterized by secondary opportunities. Market estimates have direct lending volume in this quarter down almost 50% year-over-year. However, we are beginning to see primary deal flow pick up after the summer slowdown. We're being highly selective in this credit environment, whether we are evaluating a primary or a secondary transaction. Our primary focus remains investing in a high cash flow, offering high cash flow generating businesses with enhanced structural projections and supported by experienced sponsors.

During the quarter, we invested in two new portfolio companies and two existing portfolio companies as Mike mentioned. We also fully realized our position in one of the [Unintelligible] company. During the quarter, funding for commitments in new investments totaled approximately $15.1 million of cost with a weighted average yield of approximately 15.5%. In the same period, repayments totaled approximately $8.7 million from one investment with an IRR of approximately 9.8%.

To talk you through the new investment, first, we made an investment in the first lien term loan of AMCP Clean Acquisition Company, also known as PureStar. This is a good example of an opportunistic secondary purchase of a credit that we had been tracking. PureStar is a portfolio company of Cornell Capital. It is one of the largest commercial laundry providers in the hospitality industry in the U.S. We invested in the first lien term loan and delayed draw term loan. Our yielded cost is approximately 16.5%.

Second, we invested in the first lien term loan of American Auction Group, also known as XLerate. This is an example of an investment that we own in other portfolios and we are able to find an attractive opportunity to purchase in the secondary market. A Brightstar Capital portfolio company, XLerate is a full-service used vehicle auction services provider for B2B customers. Our yielded cost is approximately 13.6%.

Finally, we invested in the priority term loan of BioPlan. BioPlan provides packaging and sampling solutions to the beauty and fragrance industry. Our yielded cost is approximately 13.6%. During this quarter, we fully realized our position in Altern Marketing, which was refinanced. Our fully realized IRR was approximately 9.8%, as I mentioned above.

After quarter-end, we invested in one new portfolio company and one existing portfolio company. First, we invested in the first lien term loan of Axiom Global. Axiom is a leading and global provider of expertise and talent offering legal counseling and representation services. Axiom is a portfolio company of Permira. We have been an investor in Axiom for a few years in our other portfolios. Similar to XLerate, we have been able to purchase it at an attractive price. Our yielded cost is approximately 10.1%. We also made a follow-on secondary investment in PureStar. Our yielded cost is approximately the same as our original investment of 16.5%.

I'd like to note that the GIC standard was updated in May of this year. As such, our industry categorizations for existing portfolio companies have changed in some cases and our industry ratings have also changed. As of June 30th, our largest industry concentrations were the following: Trade company and distributors at 16%, professional services at 12.8%, followed by IT services at 10.7%, commercial services and supplies at 6.5%, and software at 6.3%. Our portfolio companies are in 21 GICS industries, as Mike mentioned, as of quarter-end, including our equity in one position. I now like to turn the call back over to Rocco to discuss our financial results.

Rocco DelGuercio: Thank you, Suhail. For the year ended June 30th, 2023, our net investment income was $9.4 million, or $0.66 per share. The fair value of our portfolio was $220.1 million compared to $221.3 million on March 31. Our net assets were $87.7 million, a decrease of 60 basis points from the prior quarter. Our portfolio's net increase from operations for this quarter was approximately $2.2 million. Our debt investments made during the quarter had an average yield of 5.5%. Our realizations and repayments during the quarter had an average yield of 11.3%, and our average IRR was 9.8%. The weighted average yield on our debt portfolio was 12.5%, a decrease of 90 basis points for March 31.

As of June 30th, our portfolio consisted of 36 portfolio companies; 89.2% of our investments were first lien and the remaining 10.8% is invested in equity, warrants, and other positions, 88.8% of our debt portfolio was invested in floating rate instruments and 0.4% in fixed rate investments. The average floor on our debt investments was 1.1%; our average portfolio investment was approximately $6.1 million; and our largest portfolio company investment is BioPlan at $13 million.

We had a gross leverage of 1.54 times and a net leverage of 1.44 times as of June 30th compared to 1.65 gross and 1.49 net, respectively, for the previous quarter. As of June 30th, we had six investments on non-accrual, which included the three investments in 1888, the PDI revolver, and two investments in American Nuts. This is an increase of two investments related to American Nuts from the previous quarter. With respect to our liquidity, as of June 30th, we had approximately $9.2 million in cash, of which $8.1 million was restricted cash, with $28.1 million of capacity under our revolving credit facility with Capital One. Additional information regarding the composition of our portfolio is included in our Form 10 filing, which will be filed later this week.

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

Mike Mauer: Thank you, Rocco. As mentioned earlier, we remain focused on portfolio management and risk mitigation especially in our borrowers that are experiencing periods of stress. We added two new positions on non-accrual, American Nuts Term Loan A and Term Loan B positions. American Nuts sources, procures, and distributes nuts, seeds, and dried fruits, among other products. Their results have been challenged in the recent period. We are currently working with the sponsor and other co-lenders on the path forward. We continue to make progress rotating the portfolio and expected progress on the remaining non-accruals over the next 12 months. Our NAV remained relatively unchanged, declining by 60 basis points. Our gross leverage was 1.54, above our guidance of 1.25 to 1.5 times. Our net leverage at 1.44 was within the target range.

As mentioned in the last quarter, we expect to see our gross and net leverage converge. As of September 15th, our gross and net leverage were 1.51 and 1.50. As we have previously stated, the adviser will waive the portion of our management fee associated with base management fees over one turn of leverage. We covered our June quarterly dividend with NII. The company is expected to earn its dividend through the next quarter ending September 30th. On September 14th, 2023, the board of directors declared a distribution for the quarter ended June 30th, 2023 of $0.12 per share, as well as a supplemental distribution of $0.03 per share both payable on November 2nd, 2023 to shareholders of record as of October 12th, 2023. It is worth noting that the three-cent supplemental distribution is related to fiscal year 2023 spill back.

As previously mentioned, we doubled our platform AUM through the acquisition of an SMA and an initial close on our institutional fund, which resulted in the expansion of our investable assets and reduced the average expenses across the fund. Our expanded team has already proved to be meaningful in terms of sourcing and originating, and as a result, we expect our pipeline to remain healthy for the remainder of the year. As always, we remain increasingly focused on capital preservation and maintaining a stable dividend. We are continuing our work on rotating and diversifying the portfolio, all while focusing on mitigating risk in our borrowers experiencing short-term stress. As we head into the back half of the year, we remain optimistic about our pipeline and our ability to deploy our capital in high-quality investments.

This concludes our prepared remarks. Operator, please open the line for Q and A.

Operator: Ladies and gentlemen, at this time, we will conduct the 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 to remove yourself from the queue. Please listen for your name to be announced and be prepared to ask [Audio Gap]. All right, our first question comes from Paul Johnson with KBW. Paul, go ahead please.

Paul Johnson: Yes. Good afternoon, guys. Thanks for taking my questions. Just clarifying your comments on repayments for the next quarter or the second half of this year, I guess. You said you expect repayments. Do you expect - is this net repayment that you're talking about above what you're expecting to redeploy or are these just repayments that you have kind of line-of-sight on for the rest of the year, not necessarily net repayments?

Mike Mauer: No, not net repayments, Paul. Thank you for taking the time today. These are payments that we have line-of-sight on today that there will be some coming in, but we will be redeploying.

Paul Johnson: Got you, okay. Thanks for that. Then my second question, or possibly a follow-up to that, a little bit broader, but just kind of taking a step back and looking at the quarter, I think in the context of the space, obviously, this has been a pretty good year for BDC so far, despite what we expected earlier in the year. A lot of BDCs, pretty much almost every BDC in this sector, has benefited quite a bit from the rate height cycle. I'm just kind of curious, your thoughts on the portfolio, this year, in particular, and why, I guess, that hasn't really worked to your benefit quite as much as the rest of the space. Then I guess, in addition to that, what are some of the things that you think you could do with the advisor to hopefully help improve performance? You mentioned a thing or two in terms of raising new funds and potentially lowering costs but anything to that end would be helpful.

Mike Mauer: Yes, Paul, thank you. I know what's on your mind, it's on our minds every day. How do we continue to advance the platform and I think that's - and you hit on it there, that we need to have a broader platform so we can originate more. We're making headway with that. We've done a first close as we talked about in the last call of a fund. That fund is bringing in additional money throughout this year. The second thing is, we did bring in an SMA. We're in discussions on another. We are targeting an additional fund first closed the first quarter of next year. All of that not only spreads cost and you touched on bringing down cost, but I think equally important, it generates more origination and better terms on origination as we have a bigger platform. We really just started getting traction on that earlier this year, and I expect that to continue to pick up. But those are the areas that we really focused on, because I think you've seen a lot of big platforms that have some small funds, and they are the beneficiary of it.

Paul Johnson: Thanks, Mike. Appreciate that. I mean, I guess at this point, the advisor, Investcorp, I think they came in roughly four years ago. Do you see it as a case in this point where the equity base has essentially shrunk to a point where scale is just not quite possible with the size of the BDC being roughly $90 million equity-based BDC, one of the smallest market cap BDC space, BDCs in our coverage, at least. I mean, do you see that as, I guess, an inhibitor to pulling these levers? What do you expect, I guess, out of this, the growth you're calling for in the next few years?

Mike Mauer: I don't think the BDC is an inhibitor. I think that there was a lot of time spent over the first two years looking at strategic ways to grow it, and those did not happen for a lot of different reasons I can't go into, but mostly our choice not to execute around a lot of that. We've been focused over the last 12 months on organic growth. So, the size of the external publicly-traded BDC has not been the inhibitor but going forward, hopefully, it will be one of the beneficiaries.

Paul Johnson: Got it. Thanks. Appreciate you for taking my questions, and that's all for me.

Mike Mauer: Thank you very much, Paul. Appreciate it.

Operator: Thank you, Paul. Our next question comes from Robert Dodd with Raymond James. Robert, go ahead, please.

Robert Dodd: Hi, guys. First, a housekeeping one. That was a fairly sizable dividend in the fourth quarter. Was that related to a one-time event or is that a new position in preferred equity or something? Is it going to continue or was that a one-off source of income?

Mike Mauer: That $0.05 that you're, I think, referring to was a one-time event so we've got the base going forward to 12 and we'll have a supplemental to the extent that it makes sense. We will, as we have in the past, give visibility for the next quarter and we said we expect to cover the dividends for the next quarter.

Robert Dodd: I appreciate it. I meant the income to the BDC, that was at $690,000.00 dividend in total investment income for the BDC this quarter. Is that a sustainable number?

Suhail Shaikh: Robbie, you're talking on the income statement, correct?

Robert Dodd: Yes. Yes, correct.

Suhail Shaikh: Mike, he's talking about the Techno Plas dividend that we got. I think some of the equity positions paid a dividend. I don't think they were - I think they're one-offs.

Mike Mauer: Yes, those are one-offs, the dividends coming in. I would not think about those as recurring dividends. We do think that we'll get them episodically but not on a quarterly basis.

Robert Dodd: Got it, got it. Appreciate that. Then can I – I saw you, obviously, amended the credit facility and we spoke about that last quarter, that amendment does not - and I apologize for the background noise - hasn't changed the revolving period? So, can you give us any color on what you're doing to extend that, obviously, because the revolving period expires August next year, that's part of it. Also, I do know that in the credit facility amendment, you've now added an investment bucket for broadly syndicated loans. Is it a plan to do more of that within the BDC, in terms of more secondary purchases on VSLs or is that just…?

Suhail Shaikh: Hi, Robert. This is Suhail. I'll let Rocco pick up on the credit facility. The short answer is we didn't have an expiration coming due. I think we have amended the credit facility to allow for some financial flexibility in it. With respect to secondary positions, I think we are - the big picture response is, we are being very selective in this marketplace, from a deal-flow perspective. As you know, primary deal flow for buyouts is down almost 50% year-on-year. So, what we see is, frankly, a lot of that stuff we are passing on so we're looking at secondary investments where either we know the credit or we can leverage the broader Investcorp platform, our private equity or liquid credit business to source ideas from. That's really the idea behind doing some of those investments. Because they are somewhat more liquid than your traditional middle-market loans, we can move in and out of those when we have to, to make room for primary deals as they come through. So, hopefully, that answers your question.

Robert Dodd: Yes. That answers that question. Thank you. Then just on - there's no maturity on the revolving credit facility, but the revolving period now has less than 12 months. [Crosstalk] plans on that?

Mike Mauer: The term out goes further, the revolver ends in 12 months.

Rocco DelGuercio: The revolver, the Capital One facility ends in 2026.

Robert Dodd: Right, but the revolving - the reinvestment period ends in 2024.

Mike Mauer: We'll go back and review all that but we've been working with Capital One ongoing and all those relationships are very healthy. I'll double-check that, Robert and we'll come back to you.

Rocco DelGuercio: Yes, sorry Robert, I don't have…

Robert Dodd: Yes, no worries. Appreciate it. Thank you so much.

Operator: Thank you very much. Our next question comes from Paul Johnson, again with KBW. Paul, go ahead, please.

Paul Johnson: Yes, thanks. Sorry, one more follow-up. During the remarks, you guys said that you expect to cover the distribution, I believe next quarter. I just want to make sure I'm clear. Are you talking about the full $0.15 distribution or are we talking about just simply the base distribution of $0.12?

Suhail Shaikh: No - Paul, this Suhail. It's the base distribution of $0.12 and to the extent that if any spillover or supplemental, that's going to be on top of that.

Paul Johnson: Okay, thanks. That's all for me.

Operator: Thank you very much, Paul. I see no other questions in the queue. Go ahead.

Mike Mauer: Thank you. If there are no other questions, we'll talk to everyone next quarter. This was a long gap because of the yearend, but we'll be talking to everyone after the September quarter. Thank you very much.

Suhail Shaikh: Thank you.

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

- End of Recording -