Op Assist Earnings Call
Conference Call
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Operator: Good morning, and thank you for joining today's Investcorp Credit Management BDC Second Quarter Fiscal Year 2024 Earnings Call. It is now my pleasure to turn the floor over to Rocco DelGuercio, CFO.

Rocco DelGuercio: Thank you, operator. I would like to remind everyone that this call is being recorded and that this call is a 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 would like to turn the call over to our chairman and CEO, Michael Mauer.

Michael Mauer: Thanks, Rocco, and thank you to everyone for joining us on our Second Quarter Fiscal Year 2024 Earnings Call. I'm joined by Suhail Shaikh, my co-CIO and President of Investcorp Credit Management BDC, and Rocco DelGuercio, our CFO. Before I begin the call, I would first like to address the change in leadership and the news that was announced in our 8-K on November 28th, 2023. Rocco DelGuercio has decided to resign as the company's CFO, CCO, Treasurer and Secretary effective March 31, 2024. We'd like to personally thank Rocco for his partnership and all his contributions over his eight years with us. We announce our revised financial results on Wednesday for our fiscal second quarter ended December 31, 2023 to reflect approximately $388,000.00 or $0.02 per share of adjustments relating to the incorrect accrual of certain expenses reported in the company's consolidated financial statement contained in the press release issued by the company February 12th, 2024. On today's call, I will provide an update regarding our performance in the quarter, the market commentary, and our non-accrual investments as well as our leverage, the dividend, and our outlook.

Suhail will walk through our investment activity during the December quarter and after quarter end. Rocco will then go through our financial results, and as always, we will end with Q and A.

During the quarter end of December 31, our net investment income was $1.6 million or $0.11 per share. This was a decrease of approximately 3% from the previous quarter's net investment income. Additionally, net asset value per share to client is approximately 6% to $5.48 per share from $5.83 per share at the end of the prior quarter. The decline in NAV was largely due to changes in valuations for two investments: Klein Hersh and American Nuts, as well as the restructuring of ArborWorks which closed on November 6. We remain highly focused on portfolio management and risk mitigation, especially for our borrowers that are experiencing periods of stress. We did not add any new positions to non-accruals during this quarter and our positions on non-accrual declined to 4.6% as a percentage of total fair value at portfolio compared to 10% as of previous quarter. We continue to rotate – I'm sorry, we continue to make progress rotating our portfolio and expect progress on the remaining non-accruals in the next 12 months. Regarding 1888, the company has entered into a sale agreement which is expected to close in the next week. We do not expect any changes to the value as a result of the sale.

We slightly underearned our December quarterly dividend, and the company is expected to earn its dividend through the next quarter ending March 31st. We are pleased to announce that on February 8th, 2024, the board of directors declared the distribution for the quarter ended March 31, 2024 of $0.12 per share as well as a supplemental distribution of $0.03 per share, both payable on April 5th, 2024 to stockholders of record as of March 15th. Our gross leverage this quarter was 1.7, and our net leverage is 1.51, both above our guidance of 1.25 to 1.5 times. As of February 16th, our gross and net leverage were approximately 1.62 and 1.6. With identified repayments, we expect this to reduce this leverage to approximately 1.5 during the quarter.

I will turn briefly to address the trends in market. Yield volumes have picked up compared to the previous quarter in this environment. We are focused on reasonable leverage and solid structures. Since quarter end, our investment pipeline has picked up, primarily driven by add-on financings, refinancings, and to a lesser extent, new LBOs.

We are specifically focused on lending into companies that are sponsored back, have financial covenants, high free cash flow, and recession resilience. As we look at our borrowers' operating performance, the credit quality of our portfolio continues to remain solid. Our weighted average loan to value for our portfolio of debt investments is approximately 50%; an increase from 41% last quarter. We continue rotating and diversifying the portfolio. Our portfolio diversification has improved since the prior year. During the quarter, we had investments in 44 borrowers against 25 industries, which is up from 37 borrowers in 19 industries in the prior year's December quarter.

Suhail will now walk through our investment activity during the December quarter and after quarter end. With that, I'll turn it over to Suhail.

Suhail Shaikh: Excuse me. Thank you, Mike. We saw an increase in this quarter's activity compared to the prior quarter, primarily driven by investments in new portfolio companies and to a lesser extent opportunistic secondary purchases. We're also focused on managing our watch list names such as Klein Hersh, ArborWorks, and American Nuts. As we rotate the portfolio, we're seeking to invest in credits that are generally larger in size. We rotated approximately a third of the book within the past year. The weighted average EBITDA of the portfolio went from $55.6 million at the end of December 31, '22, to $59.9 million at the end of this quarter. In the same period, the weighted average leverage of the portfolio companies has increased slightly as we continue to rotate into larger, more stable status.

We continue to be highly selective in looking at new buyouts financings. Sponsored middle market direct lending new money volume in the quarter ended December 31st was more than 20% higher than the quarter ended September 30th, but still lower when compared to the quarter ended December 31st, 2022. We saw a similar trend with primary deal flow picking up during the quarter compared to the previous quarter. Our pipeline continues to remain robust and we believe we can continue to execute on our mandate to invest in sponsor-backed, core middle market companies as Mike mentioned.

During the quarter ended December 31st, we invested in five new portfolio companies and one existing portfolio company. We also fully realized our position in four portfolio companies. During the quarter, fundings for commitment in new investments totaled approximately $19.1 million at cost with a weighted average yield of approximately 13.9%. In the same period, repayments totaled approximately $29.2 million from four investments with an IRR of approximately 13.8%.

First, we supported the LBO of Altia by PIA partner. Altia is a contract manufacturer of premium dry sets food ingredients. We invested in the first lien term loan and our yield, at cost, is approximately 10.7%. We had been invested in Altia through our other funds, and were able to re-underwrite the risk for the new LBO.

Second, we invested in the first lien term loan of Victra, also known as LSF9 Atlantis Holdings, LLC. Victra is the largest exclusive independent retailer for Verizon Wireless. We purchase Victra in the secondary market at an attractive price. Our yielded cost is approximately 13.7%, and our team has had a longstanding history with this name, which is what led us to re-underwrite this risk.

We also invested in Amerit Fleet Solutions. This was a directly sourced opportunity from Brightstar Capital Partners, and we supported the sponsor in rightsizing the capital structure. Amerit is one of the largest independent providers of commercial fleet maintenance. Our yield, at cost, is approximately 13.7%.

We invested in the first lien term loan of NorthStar Group Services. This is a good example of an opportunistic secondary purchase of a credit that we had been tracking. NorthStar is a portfolio company of J.F. Lehman. It is a large provider of diversified infrastructure and environmental services across the US. We were previously invested in this name and were able to re-underwrite the risk. Our yield, at cost, is approximately 10.7%.

We made a preferred equity investment in Discovery Behavioral Health. A Webster Equity Partners portfolio company, Discovery is one of the largest providers of residential and outpatient treatment for behavioral health services across eating disorders, mental health, and substance abuse disorder. Our yield, at cost, is approximately 20.4%.

Lastly, we made a follow-on investment in the incremental equity of RESA Power, listed in our schedule of investments as Investcorp Transformer Aggregator LP. RESA is one of our equity co-investment positions alongside Investcorp's North American private equity group.

On the realization that happened during this quarter, first, we fully realized the position of the first lien term loan of Advanced Solutions International, also known as ASI. We originally invested in the first lien term loan in preferred equity in September of 2020 and remained invested in the preferred equity. Our wholly realized IRR on the term loan was approximately 10.8%.

We also fully realized the position in the first lien term loan of Cook & Boardman, which was repaid as part of an LDO by Platinum Equity. Our fully-realized IRR was approximately 8.7%.

We also fully realized a position in the first lien term loan of NWN, which we have been invested in since May of 2021. The company was sold during the quarter, and our fully-realized IRR was approximately 22.2%.

Lastly, our position in the first lien term loan of Archer Systems was refinanced. Our fully-realized IRR was approximately 13.2%.

After this quarter ends, we fully realized the first lien term loan position in Evergreen North America acquisitions, LLC. Realized IRR was approximately 15.3%.

As of December 31st, our largest industry concentrations were: Trading Company & Distributors at 13.6%, Commercial Services & Supplies at 9.6%, Professional Services at 8.8%, Containers & Packaging at 7%, followed by IT services at 4.3%, and Broadline Retail at 4.3%.

Our portfolio companies are in 25 GICS industries as of quarter end, including our equity and warrant, positions which is an increase of one industry from the previous quarter.

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

Rocco DelGuercio: Thanks, Suhail. For the quarter ended December 31, 2023, our net investment income was $1.58 million or $0.11 per share, a decrease of approximately 3% from the previous quarter's net investment income of $1.63 million or $0.11 per share. The fair value of our portfolio was $207.4 million compared to $223.4 million on September 30th. Our net assets were $78.8 million, a decrease of $5 million from the prior quarter. Our portfolio's net decrease in net assets from operations this quarter was approximately $2.9 million. The weighted average yield of our debt portfolio was 11.5% compared to 11% for the quarter ended September 30th. As of December 31, our portfolio consisted of 44 borrowers. Approximately, 85% of our investments were first lien, the remaining 15% is invested in equity, warrant and other positions. 99.6% 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%. Our average portfolio company position was approximately $4.7 million, and our largest portfolio company investment is Bioplan at $14.5 million. We had a gross leverage of 1.7 and a net leverage of 1.51 as of December 31, compared to 1.58 gross and 1.41 net, respectively for the previous quarter. With respect to our liquidity, as of December 31, we had approximately $14.7 million in cash, of which $11.5 million was restricted cash, with $30 million capacity under our revolving credit facility with CapitalOne. Additional information regarding the composition of our portfolio is included in our Form 10-Q which was filed on Tuesday. With that said, I would like to turn the call back over to Mike.

Michael Mauer: Thank you, Rocco. As we look towards the second half of our fiscal year, we will continue work on rotating and diversifying the portfolio. We are optimistic about our pipeline and our ability to deploy our capital in new high quality investments. Our credit selection remains disciplined, and we remain focused on maintaining the quality of the book. Our investment strategy has not waivered as we remain increasingly focused on capital preservation and maintaining a stable dividend. That 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 seven pound (7#) on your phone now, and you will be placed in the queue in the order received, or press seven pound (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. And our first question comes from Mr. Christopher Nolan with Ladenburg Thalmann. Go ahead, please.

Christopher Nolan: Hi, guys, and Rocco, congratulations. Good working with you, and I hope future endeavors are good.

Rocco DelGuercio: Thank you. Thank you.

Christopher Nolan: Suhail, in the comments that you made in terms of the - was it the size of portfolio companies that are going to increase going forward or was it the size of the investments the BDC will make, or is it both?

Suhail Shaikh: Great question, Chris. It's more the size of the portfolio company. I think the size of the investment, as Mike pointed out, and as I may have alluded to as well, is actually decreasing. So, we increase the number of borrowers. And so, we're trying to diversify the portfolio as much as we can.

Christopher Nolan: Okay, and then for the portfolio companies, what is the average EBITDA coverage?

Suhail Shaikh: Interest coverage?

Christopher Nolan: Yes, please.

Suhail Shaikh: Yes. Interest coverage, we typically when we are underwriting a new deal, we're targeting interest coverage of at least two times, Christopher, and that's – it's a rule of thumb, but that's – we look at cash flow and the ability of the company to service the debt. I mean, we mainly focus on that obviously in this market. So, it's two times. It depends in the industry, it depends on the business, and in most cases, it's north two times.

Christopher Nolan: Okay. That's it for me. Thank you.

Operator: Thank you very much. And again, if you have any questions, please press seven pound (7#). I don't see any other questions.

Rocco DelGuercio: Thank you, operator, and thank you, everyone for your time today.

Operator: All right, and this concludes today's conference call. Thank you, everyone, for attending.

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