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

Peter Sattelmair: Thank you, operator. 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 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 the CEO of Investcorp Credit Management BDC, Suhail Shaikh.

Suhail Shaikh: Thanks, Peter, and thank you to everyone for joining us on our third quarter fiscal year 2024 earnings call. I am joined by Michael Mauer, Chairman of Investcorp Credit Management BDC, and Peter Sattelmair, our CFO.

Before we begin our earnings call, I would like to provide a short update on leadership at the Company. As of yesterday, I have been appointed as Chief Executive Officer of ICMB effective immediately, and will now serve as the sole Chief Investment Officer of the advisor. It is an honor to be named CEO at this time where the current lending environment favors alternative lenders such as business development companies, and we are positioned well to execute our business strategy in the current market. Mike will continue to remain Chairman of the Board of Directors and has been appointed as Vice Chairman of Private Credit at Investcorp. I look forward to our continued partnership to grow our private credit platform. With that, I will now turn over the call to Mike.

Michael Mauer: Thanks Suhail and thank you to everyone for joining us on our Third Quarter Fiscal Year 2024 Earnings Call. It's been a pleasure to serve as CEO of ICMB. I'm proud of the lending platform we've built over the years and look forward to supporting Suhail, the Board, and the investment team as they seek to grow Investcorp's private credit platform.

On today's call, I will provide an update regarding our performance in the quarter, the market, commentary on our non-accrual investments, our leverage, the dividend, and our outlook. Suhail will walk through our investment activity during the March quarter and after quarter-end. Peter will then go through our financial results and, as always, we'll end with Q&A.

During the quarter ended March 31st, our net investment income was $2.1 million or $0.14 per share. This was an increase of approximately 32% from the previous quarter's net investment income. Additionally, net asset value per share increased approximately 0.2% to $5.49 per share, from $5.48 per share at the end of the prior quarter. The increase in NAV was driven by an increase in capital gains.

As mentioned last quarter, we continue to 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-accrual this quarter, and our positions on non-accrual declined to 3.9% as a percentage of the total fair value of the portfolio, compared to 4.6% as of the previous quarter. We continue to make progress rotating the portfolio and expect progress on the remaining non-accruals over the next 12 months. We partially realized our position in 1888 as the company was sold during the quarter. The majority of the consideration was received in cash at closing; the remainder is deferred non-contingent payments spread over the next 24 months. Other than a discount on the receivables due to the delayed payment, there has not been any material adjustment to the prior carrying value.

We covered our March quarterly dividends, not including the supplemental dividend with net investment income. We expect the company to earn its dividend through the next quarter end, June 30th. We are pleased to announce that on April 12, 2024, the board of directors declared a distribution for the quarter ended June 30th, 2024 of $0.12 per share, as well as a supplemental distribution of $0.03 per share, both payable on June 14th, 2024 to stockholders of record as of May 26, 2024.

Our gross leverage this quarter was 1.52, our net leverage was 1.36. Gross leverage was slightly above the target range and net leverage was squarely in the target range of 1.25 to 1.5.

I'll now briefly discuss market trends. We saw transaction volumes decline since the previous quarter. However, in this environment, our investment diligence has not waivered, and we continue to be focused primarily on lending to companies that have reasonable leverage and are supported by strong middle market sponsors. We also continue to take advantage of attractive opportunities in the secondary.

As we look at borrowers' operating performance, the credit quality of our portfolio continues to remain solid. Our weighted average loan-to-value ratio for our performing debt investments is approximately 52%, an increase from 50% 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 40 borrowers across 22 industries, which is up compared to 34 borrowers and 20 industries in the prior year's March quarter.

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

Suhail Shaikh: Thank you, Mike.

Our investment activity in new portfolio companies this quarter declined compared to the previous quarter as we saw broader market activity slow down. Sponsored middle market direct lending new money volume in the quarter ending March 31st was down almost 10% from the quarter ended December 31st. This quarter's portfolio activity was largely driven by investments in existing portfolio companies through M&A, add-ons, and dividend recaps in high-performing credits where we maintain a relationship with the sponsors.

We've continued to execute our portfolio rotation strategy that we have mentioned over the past year. In this time frame, we've rotated about a third of our portfolio. The weighted average EBITDA of the portfolio went from $42.6 million as of March 31st, 2023 to $63.5 million this quarter. Over the same period, the weighted average net leverage of the portfolio increased from 3.8 times to 4.6 times as we continue shifting towards larger, more stable credits. As part of this ongoing rotation, we aim to invest generally in larger credits that are backed by sponsors we know. We are also diligently managing our watchlist names, including ArborWorks, American Nuts, and Klein Hersh.

During the quarter ended March 31st, we invested in four existing portfolio companies. Fundings for new investments totaled approximately $8.9 million at cost, with a weighted average yield of approximately 12.49%. In the same period, we fully realized six portfolio company investments totaling $21.2 million in proceeds with an IRR of approximately 17.09%.

First, we participated in the amend-to-extend of PureStar, which can be found on our SOI as AMCP Clean Acquisition Company. PureStar is the largest pure play commercial laundry provided to the hospitality industry in the US. PureStar is an example of proprietary sourced deal from the sponsor. Our yield at cost is approximately 11.2%.

We made another investment in the first lien term loan of Victra, also known as LSF9 Atlantis Holdings, LLC. As mentioned last quarter, our team has had a long-standing history with this name. Victra is the largest exclusive independent retailer for Verizon Wireless. We purchased Victra in the secondary market at an attractive price. Our yield at cost is approximately 11.9%.

We also upsized our investment in an existing portfolio company, Amerit Fleet Solutions. Amerit is one of the largest independent providers of commercial fleet maintenance. We supported the sponsor in rightsizing the capital structure. Our yield at cost is approximately 15.5%.

Lastly, we invested in the first lien term loan of XLerate, also known as America's Auto Auction. XLerate is the nation's second largest independent, full-service used car auction provider. We purchased XLerate in the secondary market at an attractive price. Our yield at cost is approximately 11%. Our team has had a long-standing relationship with this team across the platform.

Additionally, we had six portfolio company realizations during the quarter. First, we fully realized our position in the first lien term loan in Evergreen North America Acquisitions, LLC. Our realized IRR was approximately 13.8%.

As Mike mentioned, 1888 was sold during the quarter and we partially realized a full position, which includes the term loan A, the term loan C, the revolver, and our equity position. The majority of our position was received in cash and the remainder as deferred non-contingent payments that we expect to receive over the next 24 months.

We also sold our position in the first lien term loan of Victra to take advantage of an attractive trade opportunity in the secondary market. Our realized IRR for Victra was approximately 14.8%.

Our position in the first lien term loan of AHF was also sold during the quarter in a secondary trade. For this trade, our exit IRR was 10.8%.

Our position in PureStar was refinanced during the quarter as part of the amend-to-extend transaction. As mentioned earlier, we participated in the new transaction. Our realized IRR for the whole transaction of PureStar was approximately 28.2%.

Lastly, our position in the first lien term loan of Amerequip was refinanced. We did not participate in the refinancing as the loan was refinanced at a significantly lower rate. We continue to maintain discipline around our investment strategy as evidenced by this trade. Our realized IRR was approximately 13.3%.

After the quarter end, we invested in one new portfolio company and two existing portfolio companies. We also realized our position in one portfolio company.

After the quarter end, we invested in the first lien term loan of Crisis Prevention Institute or CPI to support the refinancing of the company's capital structure. CPI provides de-escalation training and consulting for human care professionals. CPI is a WendelGroup portfolio company. Our yield at cost is approximately 10.3%.

We also increased our existing position in the first lien term loan of Multi-Color Corp, also known as Label, to take advantage of an attractive price in the secondary market. Our yield at cost is approximately 10.9%.

We also participated in the refinancing of an existing portfolio company, Northstar. Our yield at cost there is 10.2%.

Lastly, we realized our first lien term loan position in Empire Office, which was refinanced during the quarter. We have been invested in Empire Office since April 2019. Our realized IRR was approximately 13.3%.

As of March 31st, our largest industry concentrations were trading company and distributors at 14.6%, commercial services and supplies at 11.6%, professional services at 9.9%, containers and packaging at 7.6%, followed by Internet and direct marketing retail at 4.6%, and IT services at 4.5%.

Our portfolio companies are in 22 GICS industries as of quarter-end, including our equity and warrant positions, which is a decrease of three industries from the previous quarter.

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

Peter Sattelmair: Thanks, Suhail.

For the quarter ended March 31st, 2024, our net investment income was $2.1 million or $0.14 per share, an increase of approximately 32% from the previous quarter's net investment income of $1.6 million or $0.11 per share. The fair value of our portfolio was $192.2 million compared to $207.4 million on December 31st. Our net assets were $79.1 million, an increase of $0.3 million from the prior quarter. Our portfolio's net increase in net assets from operations this quarter was approximately $2.4 million. The weighted average yield of our debt portfolio was 12.36% compared to 11.46% for the quarter ended December 31st.

As of March 31st, our portfolio consisted of 40 borrowers, approximately 83.82% of our investments were first lien, and the remaining 16.18% is invested in equity, warrants 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 on an FMB basis was approximately $4.8 million, and our largest portfolio company investment on an FMB basis is BioPlan at $14.6 million. We had a gross leverage of 1.52x and a net leverage of 1.36x as of March 31st compared to 1.70x gross and 1.51x net, respectively, for the previous quarter.

With respect to our liquidity, as of March 31st we had approximately $12.9 million in cash, of which approximately, $10.2 million was restricted cash with $42.5 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-Q, which was filed yesterday.

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

Michael Mauer: Thank you, Peter. As we look towards the last quarter of our fiscal year, our top priority is focused on capital preservation and maintaining a stable dividend. As Suhail mentioned, we are actively working to rotate and diversify the portfolio into more stable credits. We're confident in our pipeline and our capacity to invest our capital in high-quality opportunities. Our approach to credit selection continues to be disciplined and we're committed to maintaining the quality of our portfolio.

That concludes our prepared remarks. Operator, please open the line for Q&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 your question when prompted. We are now ready to begin.

I see our first question which comes from Mr. Christopher Nolan with Ladenburg Thalmann. Go ahead, please.

Christopher Nolan: Hi. Suhail, congratulations on your elevation, and Mike, it was good working with you. I look forward to continue working with you. A couple of questions, first, the change in the yields on the portfolio, what was the driver for that, please?

Suhail Shaikh: Chris, thank you for the comment. Largely just the market. Basically, we're seeing spreads start to tighten and I'm sure you're hearing this from others as well. The market has gotten competitive. There's generally a lack of deal flow and lack of supply in the marketplace for new platform transactions so we're starting to see some yield compression.

Christopher Nolan: Yes. Then, I guess, Klein Hersh, which is one of your larger non-accruals, any update you can provide on that?

Suhail Shaikh: Not at this moment. We are actively working on the situation; it's a live discussion going on. We believe we are in a pretty good place, but we'll have more to share on that as restructuring gets finalized.

Christopher Nolan: Then, Mike, on your comments, you expect that the earnings will cover the dividend in the June quarter. Should we read that as covering the base dividend or the entire base and supplement?

Michael Mauer: Chris, at this point, the base. The supplement, I'm not sure that we will cover at this point. We'll see how that plays out.

Christopher Nolan: Okay, and then final question. I know it's a little far out, but looking at the 2026 notes, which have a pretty attractive coupon of 4.875%, I know it's early days, but if you were to refinance, it would be probably a much higher coupon. What are your thoughts in terms of your strategy for that or are you still in a wait-and-see mode?

Michael Mauer: We've been talking about it, but we are developing strategy around it. As you've seen, we've brought down our net leverage and our total leverage over time. So, that will be part of our discussions as we get closer and closer to that.

Christopher Nolan: Okay. Thank you for taking my questions.

Michael Mauer: Thank you very much.

Suhail Shaikh: Thank you.

Operator: Thank you very much. Our next question comes from Sean-Paul Adams with Raymond James. Again, if you have any questions, please press 7 #. Go ahead, please.

Sean-Paul Adams: Hey, guys, good morning. It looks like 1888 Industrial Services was sold off from the portfolio. Can you touch and provide a little bit more color on the resolution timeframe for the other non-accruals in the portfolio? Additionally, kind of talk about the overall health of the credit portfolio looking forward?

Suhail Shaikh: Sure. Mike, why don't I start and please jump in. I think, overall health of the portfolio, we're actually pretty pleased with generally all the names. I think you've seen, as I mentioned on the watchlist names, ArborWorks, American Nuts, and Klein Hersh. We're actively working on those situations. They're evolving from where we have those positions marked and where we think the outcome is going to be, we feel pretty good about the portfolio. There's nothing imminent, Sean, and far as we can tell in the portfolio, there are one or two names that are developing, but there's nothing, I think, at this point, alarming in the portfolio that we would say is I think the problems coming down the pike other than perhaps one or two situations that are developing real time.

Michael Mauer: The only thing that I would expand on there is that the watchlist that we talked about, the existing non-accruals, I think we have constructive dialogs going on and we have very good lender groups on all of those.

Sean-Paul Adams: Got it. Thank you for the color, I appreciate it.

Operator: Thank you very much. Again, if you have any questions, please press 7 # and we will open up your line. [Pause] I don't see any other questions.

Michael Mauer: I'd like to thank everyone and appreciate all of your time, and with that, we will talk to you soon.

Suhail Shaikh: Thank you, everyone.

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

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