Conference Call
Op Assist Earnings Call
November 13, 2024

Operator: Good afternoon and thank you for joining today's Investcorp Credit Management BDC Incorporated schedules earnings release for the quarter ended September 30, 2024. It's now my pleasure to turn the floor over to Walter Tsin, CFO.

Walter Tsin: Thank you, Operator. Welcome, everyone, to Investcorp Credit Management BDC quarter ended September 30th, 2024 earnings call. I am joined by Suhail Shaikh, President and Chief Executive Officer of the company.

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 this 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.

The format for today's call is as follows; Suhail will provide an overall business and portfolio summary, and I will then provide an overview of our results summarizing the financials, followed by a Q and. A.

At this time, I would like to turn the call over to Suhail.

Suhail Shaikh: Thanks, Walt, and thank you to everyone for joining us today. I'm pleased to announce that we delivered a strong quarter, reflecting our focus on maintaining a resilient portfolio and capitalizing on selective opportunities in a challenging market environment. Despite economic uncertainties, we are well positioned to navigate challenges and consistently deliver value to our shareholders.

Our net asset value rose by $0.34 per share to $5.55 up from $5.21 as of the quarter ended June 30th, 2024. The increase was primarily driven by higher net investment income, unrealized gain on investments from mark to market adjustments, and solid credit performance across our portfolio. For the quarter, we generated net investment income of $2.3 million or approximately $0.16 per share, reflecting a $1 million increase over the prior quarter. Additionally, we were successful in deploying $13.1 million across six portfolio companies, marking an uptick in activity compared to recent quarters. These achievements reflect the durability of our strategy and our continued focus on credit selection and proactive portfolio management, which remain unwavering even as economic conditions shift.

Turning to the broader market environment, new deal flow, particularly in M&A and LBO activity remains subdued. However, we achieved higher origination volumes this quarter, driven mainly by refinancing demand. We also made two secondary investments in attractive prices, allowing us to further diversify our portfolio with favorable terms. Although competition remains intense and high-quality opportunities are scarce, we continue to deploy capital strategically, maintaining our optimal portfolio leverage between 1 1/4 times and 1 1/2 times.

Our investment pipeline remains robust and we're optimistic about the opportunities ahead. We prioritize building relationships with high=quality sponsors and investing in companies within defensible industries that demonstrate strong cash flows. We continue to rotate the portfolio toward larger, more stable credits, and focus on senior secured investments within the core middle market. Our portfolio companies are performing well with only a small number of challenged positions. The median EBITDA of our portfolio rose from approximately $55 million last quarter to $61 million this quarter, while the weighted average net leverage declined from 5.1 times to 4.7 times over the same period. Nonaccruals as a percentage of total fair market value improved to 4.8% this quarter from 5.0% last quarter. These outcomes reinforce the durability of our strategy, our focus on credit quality, and our proactive portfolio management, as we look forward to a strong remainder of the year.

I will now turn to details of our portfolio activity during the quarter. During the quarter ended September 30th, we invested in three new portfolio companies and three existing portfolio companies. Funding for new investments total approximately $13.1 million at cost as I mentioned, of which $500,000 represents the reinstatement of previously recorded paydowns for interest received from Klein Hersh LLC while it was on nonaccrual status. The weighted average yield of debt investments made in the quarter was approximately 10.7%. In the same period, we fully realized two portfolio company investments totaling $13.4 million in proceeds, with an IRR of approximately 11.8%.

We invested in the first lien term loan of Argano to support the refinancing of the company’s capital structure. Argano is a leading provider of mission critical digital transformation services to corporations. Argano is a Trinity Hunt Partners portfolio company. Our yielded cost as approximately 11.5%. We also made an investment in the first lien term loan and delayed short term loan of Likewize Corporation to support the refinancing and Genstar Capital purchase of the company from Brightstar Capital. Likewize provides technology, device protection and support. Our yielded cost is approximately 11.5%.

Finally, we made an investment in the first lien term loan and delayed draw term loan of Integrity Marketing Acquisition. Integrity is an insurance broker that distributes and markets life and health insurance products and wealth management solutions. We purchased Integrity in the secondary market. Yielded cost is approximately 10%. We also made a follow-on investment in the first lien term loan of Victra, also known as LSF9 Atlantis Holdings LLC. We purchased Victra in the secondary market for a yielded cost of approximately 9.8%. Finally, we made another investment in Crafty Apes. Crafty Apes is a full-service visual effects studio that works with studios across the globe. Our yielded cost is approximately 14.9%. We continue to work with the company’s management to provide them with financial flexibility.

Lastly, we realized the first lien term loan positions in retail services, WIS Corporation and South Coast Terminals, both of which were refinanced during the quarter. We’ve been invested in both of these companies since May and December of 2021 respectively. Our realized IRR on WIS was approximately 12.9%, and our realized IRR on South Coast was approximately 10.7%.

As of September 30th, our largest industry concentrations by fair market value were professional services at 14.6% containers and packaging at 11.7%, commercial services and supplies at 10.3%, trading companies and distributors at 8.8%, followed by insurance at 7.6% and specialty retail at 7.2%. Our portfolio companies are in 20 GICS industries as of the 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 Walt to discuss our financial results.

Walter Tsin: Thanks, Suhail. For the quarter ended September 30th, 2024, the fair value of our portfolio was $190.1 million compared to $184.6 on June. 30th. Our net assets were $79.7 million, an increase of $4.9 million from the prior quarter. Our portfolio's net increase in net assets from operations this quarter was approximately $6.6 million. The weighted average of our debt portfolio was 10.5%, a decrease from 12.3% in the previous quarter ended June 30th, largely driven by declining SOFR and tighter spreads on new investments.

As of September 30th, our portfolio consisted of 45 borrowers. Approximately 82.5% of our investments were in first lien debt and the remaining 17.5% were invested in equity warrants and other positions. 97% of our debt portfolio was invested in floating rate instruments and 3.0% in fixed rate instruments. The weighted average spread in our debt investments was 4.3% and the weighted average floor was 0.9%, a slight decline compared to the previous quarter which had a weighted average spread of 5% and a weighted average floor of 1.0%. Our average portfolio company position on a fair market basis was approximately $4.2 million and our largest position portfolio company investments in a fair market basis is BioPlan at $17.4 million.

We are pleased to announce that on November 4th, 2024, the board of directors declared a distribution for the quarter ended December 1st, 2024 of $0.12 per share, payable in cash on January 8th, 2025 to stockholders on record as of December 20th, 2025. Gross leverage was 1.39X and net leverage was 1.26X as of September 30th, compared to 1.42X gross, 1.35X net respectively for the previous quarter. With respect to our liquidity as of September 30th, we had approximately $10.1 million in cash, of which approximately $8.3 million was restricted cash, with $52.5 million of capacity under our revolving credit facility with Capital One.

Additional information regarding the composition of the portfolio is included in our Form 10Q which was filed earlier this week.

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

Suhail Shaikh: Thank you, Walt. In closing, we are encouraged by our performance this quarter and are confident in our ability to navigate the complexities of the current environment. Our disciplined approach, strong sponsor relationships, and focus on resilient portfolio companies provide a solid foundation for continued success. Thank you all for your support and we look forward to taking your questions. That concludes our prepared remarks. Luke, please open the line up 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 seven pound on your phone now and you will be placed in the queue in the order received, or you can press seven pound 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. [Pause] Our first question comes from Mr. Christopher Nolan of Landenburg Thalmann. Go ahead, Sir.

Christopher Nolan: Hi. Congratulations on a good quarter. I didn't hear it, I had overlapping calls, what was the driver of the PIK income for the quarter, please?

Suhail Shaikh: Hi, Chris. Thank you. A big driver was the reversal of non-accrual to accrual of Klein Hersh. The company continues to perform well, and so that was, as you recall previous quarter over the last at least three quarters we've had it on non-accrual. That was put back in the pool, and a big portion of that coupon is PIK.

Christopher Nolan: Was there anything else?

Suhail Shaikh: That was the biggest driver, Chris.

Christopher Nolan: Okay. Then I was curious whether or not there are timing issues at play in the quarter here. Last quarter's results tend to be, if I recall, a little bit on the lower side, and I just didn't know whether or not any deals which normally would have closed last quarter actually spilled over to this quarter.

Suhail Shaikh: Yes, you're absolutely right. There were a couple of the deals that did spill over into this quarter. We've been working on them for a while, and as you know, this is a lumpy business. So, we'll have that trend every now and then because it's hard to sort of plan when some of those transactions are going to close. What we're trying to do is –

Christopher Nolan: Right. Then –

Suhail Shaikh: Sorry, go ahead.

Christopher Nolan: No, please continue.

Suhail Shaikh: I was just saying what we're trying to do in the interim is, as you've noted in the portfolio, we've tried to smooth out some of that activity by purchasing some loans in the secondary market, whether it's to add on to existing positions or something that we find attractive that we know well, leveraging our expertise on some of those names.

Christopher Nolan: Great. I'll get back in the queue. Thank you.

Suhail Shaikh: Thank you.

Operator: Thank you very much. Again if you have any questions, please press seven pound, seven pound to ask your question. [Pause] Please press seven pound for your questions. We will wait for a few more seconds. All right, I'll open the line up for Mr. Nolan again. Go ahead, Sir.

Christopher Nolan: Hi, I'm back. Also, could you give a little detail in terms of the realized loss and the unrealized gain? I presume some of the unrealized gain was just a through up but a little detail would be helpful.

Suhail Shaikh: Sure. The realized loss was a function of a couple of names. Hold on one second. Let me just get my - Unrealized was really was a function of Klein Hersh markup and BioPlan markup, so that is easy. Both of those have performed well, so we've marked both of those names up. The realized was Crafty Apes, which happens to be on non-accrual, and we have had to take realized loss on that piece. There's more to come on that name in the subsequent period, so we will have some more to talk about, and then we did clean up the portfolio with some smaller trades, but those are the big movers in the portfolio.

Christopher Nolan: I guess my final question, Suhail, given that you are new into the CEO spot, could you articulate a little bit of your vision in terms of where in the market you want ICMB to source deals and if there's a particular strategy and/or competitive advantage you might have?

Suhail Shaikh: That's a great question, Christopher. What we are trying to do is build the business around what we described as core middle market, and that's really companies with $15 million to $20 million of EBITDA on the low end to $50 million to $75 million on the upper end.

A large portion of those deals that we look at and what we actually end up investing in are clump deals. These are, I'd say, more than 50% of our transactions are coming in directly sourced from sponsors, which is why the portfolio tends to be heavily weighted towards sponsor-backed deals, and then the rest are opportunistic investments, they could be sponsored-backed names in the secondary market, and leveraging at times our liquid credit teams analysis on various things which are less liquid for them but fit our yield focus.

That's what we're trying to do. Given we have three other vehicles that we manage besides ICMB, we can actually write decent sized checks and meaningful checks for sponsors to actually have us be relevant to their solutions. That number of checks size will continue to grow as we continue to raise money, which ultimately benefits ICMB, and as you can tell over the last 12 to 18 months, we've been steadily increasing the average EBITDA of the portfolio, decreasing the leverage, increasing the ability to do more deals we have directly sourced from sponsors.

That's really our strategy. We expect to have ICMB benefit from a wider portfolio of opportunities that we seek in the marketplace in that core middle market.

Christopher Nolan: Final question. Your expenses tend to be a little bit heavy in terms of as a percentage of revenues.

Suhail Shaikh: Yes.

Christopher Nolan: Any plan in terms of improving operating efficiencies? That's it for me. Thank you.

Suhail Shaikh: Great question. We are taking a very deep dive into just across our portfolios and across our business, and specifically for ICMB, ways that we can efficiently manage our expenses. That number is going to come down over time as the rest of the portfolio and our business grows. ICMB is obviously one portion of our strategy. So, that number should come down organically, but also on an inorganic manner, we are looking at ways to use technology more efficiently to lower our expense base.

Operator: Thank you very much. There are no further questions.

Suhail Shaikh: Great. Thank you, everyone. We look forward to talking again in a few months. Thank you.

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

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