Op Assist Earnings Call
Conference Call
March 26, 2025

Operator: Good afternoon and thank you for joining today's Investcorp Credit Management BDC's Incorporated Second Quarter and Fiscal Period Ended December 31, 2024 Earnings Call. It is now my pleasure to turn the floor over to Walter Tsin, CFO.

Walter Tsin: Thank you, Operator. Welcome, everyone, to Investcorp Credit Management BDC's Quarter and Fiscal Year Ended December 31st, 2024 Earnings Call. I am joined by Suhail Shaikh, President and Chief Executive Officer of the company. I would like to remind everybody 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 at 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 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 the company's registration statement on the SEC's EDGAR platform or 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'll then provide an overview of our results, summarizing the financials, following by a Q&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. Before I discuss the market environment and portfolio activity, it gives me great pleasure to announce that we have appointed Andrew Muns, Managing Director of the Advisor and a senior member of the investment team as Investcorp Credit Management BDC's Chief Operating Officer. Andrew has been with the firm for several years and has been a key member of the team. He brings a wealth of experience, and I am excited to have him join the executive team of the company.

For the quarter ending December 31st, 2024, we reported net investment income of $0.8 million or $0.06 cents per share compared to $0.16 per share in the prior quarter. Consequently, our net asset value per share decreased $0.16 per share to $5.39 compared to $5.55 as of September 30th, 2024. The decline in NAV was primarily driven by lower investment yields and market-to-market fluctuations reflecting broader market volatility and a tightening spread environment.

As we closed out 2024, we observed continued spread compression, especially, towards the end of December, largely due to refinancing and repricing activity amid heightened competition among lenders and strong demand for quality assets. Post-election market optimism raised expectations for a resurgence in M&A activity. However, the risk of tariff wars and change in fiscal policies is creating uncertainty leading to a dampening of M&A activity.

Despite economic uncertainties, we remain well-positioned to navigate challenges and consistently deliver value to our shareholders. We believe our portfolio is well positioned to weather the shifting economic environment. We have estimated that approximately 30% of our portfolio may experience moderate effects from tariffs on either a direct or indirect basis.

However, we believe these affected companies are well-positioned to navigate these challenges through a range of mitigation strategies, including the ability to pass through price increases to end customers, diversifying or switching suppliers, and optimizing their supply chain. We are working with our underlying portfolio companies and sponsor partners to understand these risks further.

Additionally, we are factoring in tariff risks when evaluating new investment opportunities to ensure the resilience and long-term stability of our portfolio. Heighted market volatility has led us to strategically target investments in critical sectors and defensive industries. A notable example is our recent investment in the data center sector.

We're also encouraged by improvement in our portfolio's credit quality, evidenced by lower non-accrual rate measured on a fair market value basis compared to the prior quarter. The median EBITDA of our portfolio remains relatively flat at approximately $61.6 million at the end of the quarter compared to previous quarter, while weighted average net leverage increased slightly from 4.8x to 5.0x over the same period.

The percentage of covenanted appeals increased from 70% in the previous quarter to 77% in the current quarter. These outcomes reinforce the durability of our strategy, our focus on credit quality, and our proactive portfolio management as we look forward to the remainder of the year. Additionally, although our net investment did not fully cover our declared dividend this quarter, accumulated spillover income from previous periods will partially offset the shortfall. We remain committed to delivering consistent returns to our shareholders while navigating the current earnings environment.

I will now turn to details of our portfolio activity during the quarter. During the quarter ended December 31st, we invested in two new portfolio companies and two existing portfolio companies. Fundings for new investments totaled approximately $9.9 million at cost. The weighted average yield of debt investments made in the quarter was approximately 11.8%. In the same period, we fully realized two portfolio company investments, totaling $7.6 million in proceeds with an IRR of approximately 17.2%.

First, we participated in the refinancing of Uniguest, which is an existing portfolio company in our other funds. Uniguest is a global leader in digital engagement software solutions across a number of end markets and is an Atlantic Street Capital portfolio company. Our yield at cost is approximately 9.9%. We made an investment in the first lien term loan of Wellful listed on our SOI as KNS Midco Corp., to support an add-on acquisition and recapitalization of the business. Wellful is also an existing portfolio company in our other funds. The company operates in the health, wellness, and nutrition space. Our yield at cost is approximately 9.5%.

Turning to our existing portfolio companies, we made an investment in the term loan and preferred equity of Techniplas. Techniplas is an automotive components manufacturer that specializes in designing and producing engineered plastic parts and components. Our yield, at cost for the term loan is approximately 20.0%. We also made another investment in Crafty Apes. Crafty Apes is a full-service visual effects studio with offices across the globe. Our yield at cost is approximately 14.5%.

Lastly, we realized our first lien term loan position in Amerit, which was refinanced during the quarter and our bridge loan in Crafty Apes. Our realized IRR on Amerit was approximately 17.3% and our realized IRR on Crafty Apes was approximately 15.4%.

As of December 31st, our largest industry concentrations by fair market value were: professional services at 14.4%, containers and packaging at 10.5%, trading companies and distributors at 8.6%, insurance at 7.8%, and IT services, diversified consumer services, and specialty retail at 7.1% each. Our portfolio companies are in 19 GICS industries as of the quarter end, including our equity and warrant positions.

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

Walter Tsin: Thanks, Suhail. For the quarter ended December 31st, 2024, the fair value of our portfolio was $191.6 million compared to $190.1 million on September 30th. Our net assets were $77.6 million, a decline of $2.3 million from the prior quarter. Our portfolio's net decrease in net assets from operations this quarter was approximately negative $0.6 million. The weighted average yield of our debt portfolio was 10.4%, a slight decrease from 10.5% in the previous quarter ended September 30th.

As of December 31st, our portfolio consisted of 43 borrowers. Approximately 81.2% of our investments were in first lien debt and the remaining 18.8% is invested in equity, warrants and other positions. 96.4% of our debt portfolio was invested in floating rate instruments and 3.6% in fixed rate investments. The weighted average spread on our debt investments was 4.3% and the weighted average floor was 0.9%, which is unchanged compared to the previous quarter.

Our average portfolio issuer on a fair market value basis was approximately $4.5 million and our largest portfolio company investment on a fair market value basis is BioPlan at $15.4 million. We are pleased to announce that on March 20th, 2025, the

Board of Directors declared a distribution for the quarter ended March 31st, 2025 of $0.12 per share, payable in cash on May 16th, 2025, to stockholders of record as of April 25th, 2025.

Gross leverage was 1.57x and net leverage was 1.42x as of December 31st, compared to 1.39x gross and 1.26x net, respectively, for the previous quarter. With respect to our liquidity, as of December 31st, we had approximately $12.1 million in cash, of which approximately $11.3 million was restricted cash, with $41.5 million of capacity under our revolving credit facility with Capital One.

As disclosed in the 8K filed on November 20th, 2024, we repriced the Capital One revolving credit facility during the quarter, bringing the borrowing cost spread over base rate from 310 BPs to 250 BPs. Additional information regarding the composition of our portfolio is included in our Form 10-KT.

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

Suhail Shaikh: Thank you, Walt. As we move into 2025, we remain highly focused on executing our strategy with a focus towards capital preservation and NAV stability. We believe that our disciplined investment approach, combined with our strategic focus on critical sectors positions us well to navigate the evolving market landscape and drive long-term value to our shareholders.

Thank you for your continued support, and we look forward to taking your questions.

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. Our first question comes from Mr. Christopher Nolan with Ladenburg Thalmann. Go ahead, sir.

Christopher Nolan: Hey. How are you doing? The increased leverage, well, let me back up. What was the cause for the drop in PIK income quarter-over-quarter, please?

Suhail Shaikh: Actually, the increase in PIK income for the September quarter, Christopher, was really driven by reversing the non-accrual for one of the portfolio companies, Klein Hersh, that actually drove PIK income higher than usual in the September quarter. So, it looks like it's a drop in the December quarter, but actually it is fairly consistent. That's the big reason why it sort of pops up and jumps out and looks like PIK income has come down.

Christopher Nolan: Got it. Then I guess my question is on the sustainability of the dividend, because you, like a lot of other BDCs, are experiencing lower yields, but also you, unlike a lot of BDCs, have a much higher leverage ratio, and in my view, that leverage ratio gives you a lot less flexibility to manage earnings and sustain the dividend. What are your comments on that, please?

Suhail Shaikh: Great question. Look, we're constantly evaluating that. Our portfolio is running at about 18% or so. It's the portfolios in non-income generating assets that puts pressure on the ability to earn income. We will continue to monitor that, Christopher, and we'll take it up to the Board and decide if it makes sense for us to reevaluate the dividend. No such decision has been made to date, but I think your observation is the right one.

Christopher Nolan: Okay. I guess going forward, I saw in the 10-Q where you are, I believe, changing over to a calendar fiscal year. Is that correct?

Suhail Shaikh: Yes, we did. We already did. It's actually a 10-KT that we filed. We didn't file a 10-Q this past quarter. So, we've changed the fiscal year end from June to December, which is why if you look at the 10-KT, you'll see the comparatives are usually more than what's required in the filings.

Christopher Nolan: Okay. So, next quarter will be first quarter 2025?

Suhail Shaikh: Correct, exactly, yes.

Christopher Nolan: Got you. I guess the final question would be, where do you see the trend for your investment yield over the next quarter or two?

Suhail Shaikh: I suspect it's going to be similar. We don't see anything on the horizon where we think spreads are going to widen. In fact, spreads have that, and as you rightly pointed out, we're operating in the same market as all our competitors. So, investment yield ought to remain in a similar ZIP code, that's sort of 10.5% plus or minus, unless there's a shock to the economy, there's a leg down or something where spreads start to widen up, liquidity dries up in the marketplace.

Based on what we're seeing right now, we don't foresee any of that. The only thing that we're watching very carefully is potential impact of tariffs on our portfolio, in the M&A market, talking to our sponsor partners. That's something that only time will tell how that manifests itself into spreads in the marketplace.

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

Suhail Shaikh: Sure. Thank you.

Operator: Thank you very much. Again, if you have any questions, please go ahead and press 7# on your phone. That's 7# on your phone. I don't see any other questions, sir.

Suhail Shaikh: Great. Thank you, everyone, and thank you again for taking time, and we look forward to seeing you at the end of the March quarter's discussion. Thank you. Luke, we can end the call.

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

- End of Recording -