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Op Assist Earnings Call
Conference Call
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Operator: Good morning, ladies and gentlemen, and welcome to today's Investcorp Credit Management BDC's Quarter Ended March 31st, 2025 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 Ended March 31st, 2025 Earnings Call. I am joined by Suhail Shaikh, President and Chief Executive Officer of the company, and Andrew Muns, Chief Operating 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 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 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 summarized and financials, followed by a quick Q&A. At this time, I would like to turn the call over to Suhail.

Suhail Shaikh: Thank you all and thank you to everyone for joining us today. We are pleased to share the first quarter of 2025 marked a period of continued progress and asset stability for ICMB, while our strategic priorities in the past several quarters have centered around resolving legacy credit issues and repositioning the portfolio for a steady performance.

For the quarter ending March 31st, 2025, we reported net investment income before taxes of $0.7 million or $0.05 per share compared to $0.06 per share in the prior quarter. Our net asset value per share increased $0.03 per share to $5.42 compared to $5.39 as of December 31st, 2024. Increase in that was primarily driven by an increased non realized gain offset by a decline in net investment income per share which was largely due to reduced investment activity during the quarter and a continuation of repayment.

We believe this trend is reflective of the broader market environment where heightened uncertainty and reduced M&A and financing activity have slowed new deal flow. We are encouraged, however, that market fundamentals remain intact, and expect activity to pick up as macro uncertainty related to tariffs improve. Despite this, our portfolio remains stable, and we continue to prioritize credit quality and long-term value creation for our share order.

We have significantly reduced the number of nonaccruals and now have just two investments in nonaccrual status, representing approximately 1.7% of the total portfolio at fair value, down from five investments at 3.6% at fair value in the previous quarter. This marked a meaningful shift and underscores the success of our disciplined investing approach, as well as putting the most challenged names behind us, and as a result, we expect a more stable earnings profiles for the remainder of 2025, notwithstanding any macro shock.

Turning to the broader market, we continue to see a noticeable slowdown in new deal activity. Tariff concerns and broader geopolitical uncertainty have contributed to a decline in M&A volumes and sponsor-led financing. While this has impacted our deployment base, we remain highly selective, preferring to wait for opportunities that meet our risk adjusted return threshold. We believe patience and discipline in this environment will ultimately be rewarded. While cautiously optimistic that deal activity will rebound, we feel a reduction in macro volatility is a necessary condition for that to occur.

In addition. We continue to believe our portfolio is well positioned to weather the shifting economic environment. As an update to the prior quarter and as we continue to have more clarity on direct tariff exposure based on conversations with management and sponsors, we estimate that less than 20% of our portfolio may experience moderate direct effects from tariffs, and that is as of the beginning of the tariff announcement.

Importantly, the company is potentially affected and actively implementing mitigation strategies, including bouncing through price increases, switching or diversifying suppliers, and improving supply chain efficiency. We believe these proactive measures, coupled with the operational strength of our portfolio companies, provide a solid foundation navigating these events.

Overall, our direct exposure to tariffs remains minimal, and we will continue engaging with portfolio companies to monitor and manage these risks going forward.

I will now turn the call over to Andrew to discuss the details of our portfolio activity during the quarter.

Andrew Muns: Thank you, Suhail. During the quarter ending March 31st, we invested in one new portfolio company and two existing portfolio companies. Fundings for new investments totaled $5.1 million at cost. The weighted average yield of debt investments made in the quarter was approximately 10.2%. In the same period, we fully realized three portfolio company investments totaling $7.3 million in proceeds with an IRR of approximately 9.6%.

First, we participated in the LDO transaction of Accelevation by Olympus Partners. Accelevation is a vertically integrated provider of manufactured products and design installation services to the data center market. We invested in the revolver, the first lien term loan, and delayed draw term loan. Our yield at cost is approximately 9.9%. With regards to existing portfolio companies, we made an incremental investment in the first lien term loan of WorkGenius, a leading AI powered talent platform that connects businesses with highly skilled freelancers. Our yield at cost is approximately 11.3%. As part of our participation in this financing, we also received Class A1 equity units. Lastly, we also received warrants in CareerBuilder.

Turning to our realizations, we realized our first lien term loan positions in Victra Holdings and Flatworld Solutions, both of which were refinanced during the quarter. Our realized IRRs on Victra and Flatworld were 10.5% and 13.5% respectively. Finally, we realized our revolver position on American Teleconferencing, also known as PGI. Our realized IRR was -36.2%.

As of March 31st, our five largest industry concentrations by fair market value were professional services at 15.5%, containers and packaging at 9.2%, trading companies and distributors at 8.6%, commercial services and suppliers at 8.0%, and IT services at 7.9%. Overall, our portfolio companies at quarter end were in 19 GICS industries including our equity and warrant positions.

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

Walter Tsin: Thanks, Andrew. With the quarter ended March 31, 2025, the fair value of our portfolio was $192.4 million compared to $191.6 million on December 31st. Our net assets were $78.1 million, an increase of $0.5 million from the prior quarter. Our portfolio's net increase in net assets from operations this quarter was approximately $2.2 million. The weighted average of our debt portfolio is 10.8%, an increase from 10.4% in the previous quarter ended December 31st.

As of March 31st, our portfolio consisted of 43 borrowers. Approximately 77% of our investments were in first lien debt and the remaining 23% were invested in equity warrants and other positions. 98.2% of our debt portfolio was invested in floating rate instruments and 1.8% in fixed rate instruments. The weighted average spread on our debt investments was 4.7, a slight increase from 4.3 in the prior quarter. Our average portfolio company issuer on a fair market value basis was approximately $4.5 million, and our largest portfolio company investments on a fair value basis is Bioplan at 13.6.

We are pleased to announce that on April 15th, 2025, the Board of Directors declared a distribution for the quarter ended June 30th, 2025 of $0.12 per share payable in cash on June 14th, 2025 to all stockholders of record as of May 24th, 2025. Gross leverage was 1.53x and net leverage was 1.37x as of March 31st, compared to 1.57x gross and 1.42x net respectively for the previous quarter.

With respect to our liquidity, as of March 31st, we had approximately $13 million in cash of which approximately $10.7 million was restricted cash with $44 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.

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

Suhail Shaikh: Thanks, Walt. As we head into the rest of 2025, we remain focused on maintaining mass stability, sustainable net investment income, while selectively deploying capital in high quality opportunities. We believe the second half of the year will provide some interesting investment opportunities as volatility in the market evades. We are proud of the work we have done to position the company to be in a stronger position today than we were 12 months ago and we are confident in our ability to deliver consistent risk adjustment returns going forward.

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. Again, that's 7# and you will be placed in the queue in the order received. You may also press 7# 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.

Our first question comes from Mr. Paul Johnson with KBW. Go ahead, Sir.

Paul Johnson: Good morning. Thanks for taking my question.

Walter Tsin: Good morning.

Paul Johnson: One question I have is just I'm wondering how can the advisor scale, or any sort of benefit that can come be divided to the BDC here? Because as I'm looking at it, the allocation of expenses from the inside are $1.4 million per year, so it's almost $0.10 a year that shareholders have to eat through just on the expense allocation alone. There are a few items on here. Insurance, I mean that's a penny per quarter, and this quarter, if you strip out the pick income, it doesn't really appear that you're cash flow positive.

So, I'm just wondering what sort of things could you talk about? Maybe you're waiving a little bit of fees here, but is there room from the advisors to waive additional fees? Is that's something that they would do if NII falls below zero and goes negative? Anything there even just on the cost of debt that can be improved? That would be helpful.

Suhail Shaikh: Yes, that's a great question. I think I'll try to answer it in two sorts of parts. One, the simple answer on waiving fees, that's always something that we can consider. That's something that's within our control.

The second is absorption of cost. I think is that, and we've mentioned this before as well, we continue to work on scaling the private credit platform at Investcorp, and that is a real time effort that's going on and has been going on, and then it's going to continue to go on. As that happens, there will be a natural absorption of overhead and expenses that the advisor is going to bear, which will help the BDC, and also from an allocation of resources plus as well as tracking new deployment as well, all of that's going to benefit BDC, and it has in the last say a few quarters. If you notice how the book has reshaped, that's all part and parcel of the strategy of doing it. That's step one. Step two is obviously expanding the platform which we are continuously doing, raising new capital, working on raising new capital, etcetera.

Hopefully that gives you some sense of where we are. We've done the stability, we've sort of stabilized the book, turned the book over, and now we're very focused on, as rightly you pointed out, in expenses and increasing NII every which way possible.

Paul Johnson: Got it. Thanks for that. Do you have any kind of idea maybe into the runway for that, whether it's fund launches or just the pace of the capital raising that's going on on the platform that shareholders might start to see some benefit from that, if you think that's a 2025 sort of event or it's going to be a longer process?

Suhail Shaikh: Yes, it's a 2025 event. We are currently in the process of raising another pool of capital, so that's live, and we are going, that's underway. So, it is a second-half 2025 event.

Paul Johnson: Okay. Thank you very much for helping me.

Operator: Thank you. And again, if you have any questions, please press 7#. Our next question comes from Mr. Christopher Nolan with Ladenburg Thalmann. Go ahead.

Christopher Nolan: Yes, hi. Just following up on the questions. When you say you're raising capital, are you talking about equity or debt?

Suhail Shaikh: Not for this vehicle, Christopher. We're raising capital for other vehicles, which will help and sort of expand the platform and have some overhead absorption. That's equity capital that we're raising.

Christopher Nolan: Okay. I applaud your efforts to clean up the balance sheet and so forth. Why don't you just do share repurchases at this point, given the dividend yield and everything else?

Suhail Shaikh: That's something we talked about. We won't take it off the table. There are no plans in place in yet, but it's obviously a tool that we have and something we consider all the time.

Christopher Nolan: No plans? I mean your stock's trading in half book, your dividend yield is above what your loans are, and you haven't even discussed it. Really?

Suhail Shaikh: We have talked about it. We have not discussed it as something that we would launch right now.

Christopher Nolan: Got it. The nonaccrual exits, congratulations on that. Should we see a bump up in NII in the second quarter?

Suhail Shaikh: You should. I mean, look, I think the big picture, the macro picture is that so far, the curve is coming down, and we are seeing some spread widening, and especially in the new opportunities that we're looking at, we're seeing about 25, 50 basis points spread widening. So, you might see a little bit of an increase in NII, holding everything else constant, just from the deployment, but as the curve comes down, it's being made up. So, yields on asset yields are going to be relatively flat, at least for the time being. As we go into the second half of the year, your guess is as good as mine as to what happens from a macro perspective in the economy. That's really going to drive where we see spreads, but from where we sit right now, we're starting to see about 25, 50 basis points of widening on new opportunities.

Christopher Nolan: Okay. Thank you.

Operator: Thank you very much. I currently don't see any other questions.

Suhail Shaikh: Great. Thank you, everyone, and thank you again for the good questions. We look forward to speaking to you again after the June quarter.

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

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