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**Op Assist Earnings Call  
Investcorp Credit Management BDC Call  
September 7, 2022**

**Operator:** Welcome to the Investcorp Credit Management BDC Conference Call. Your speakers for today's call are Mike Mauer, Chris Jansen, and Rocco DelGuercio.

Operator assistance is available at any time during this conference by pressing 0#. A question-and-answer session will follow the presentation. I would now like to turn the call over to your speakers. Please begin.

**Mike Mauer:** Thank you, Operator, and thank you for joining us on our Fourth Quarter Call today. I'm joined by Chris Jansen, my Co-Chief Investment Officer, and Rocco DelGuercio, our CFO.

Before we begin, Rocco will give our customary disclaimer regarding information in forward-looking statements. Rocco?

**Rocco DelGuercio:** Thanks, Mike. 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 filing, please visit our Investor Relations page on our website.

At this time, I would like to turn the call back over to our Chairman and CEO, Michael Maurer.

Mike Mauer: Thank you, Rocco.

The June quarter marks our fiscal year-end. This quarter and the 10 weeks since quarter-end have seen significant volatility in the broader markets as the Fed hiked rates several times, and both supply chain and inflationary pressures continued. Interest rates rose well above our average floor levels, and credit spreads widened in the broadly syndicated market going into the quarter-end. Although spreads have moderated somewhat in the weeks since, spread widening in the middle market has been more moderate. Despite the impact that credit spreads have had on the fair value of our debt investment, the underlying operating performance across most of our portfolio continues to be strong.

The primary market saw an increase in activity in the June quarter. Our pipeline remains robust and has been focused more on new LBOs. We made three new investments and reinvested in one of our existing portfolio companies, none of which were covenant-light, and three of which were club financings. We continue to execute under our plan to co-invest in equity positions with Investcorp's North America private equity group with one new position this quarter.

We also saw several of our loans in our portfolio get refinanced. Although the market has been active despite this volatility, we haven't chased deals with unattractive structures, even where we are comfortable with the fundamental investment opportunity. We remain selective about the structures we lend into and rigorous in our diligence.

We've generally seen loans with higher yields, stronger covenant protections, and lower closing leverage multiples. This quarter, we were successful in deploying capital at an average yield of 10.4%. Our investment strategy has not wavered, and we continue to maintain our credit discipline. Even in the face of the macroeconomic backdrop, we remain focused on investing in middle-market companies with attractive free cash flow characteristics, defensible market positions, and strong management teams and sponsors.

Sector selection remains a key tool in our portfolio management decisions. We're focused on resilient end-markets and are consciously avoiding adding exposure to sectors that are most vulnerable in periods of recessionary environments.

Chris will now walk through our investment activity during the June quarter and after quarter-end. After his discussion, Rocco will go through our financial results. I'll finish with commentary on our NAV, nonaccrual investments, or leverage the dividend and outlook for 2023. As always, we'll end with Q&A.

With that, I'll turn it over to Chris.

Chris Jansen: Thanks, Mike. We invested in three new portfolio companies this quarter, we fully realized our positions in three portfolio companies, we also fully realized our position, and then reinvested in one existing portfolio company.

First, we invested in the club financing for American Nuts, which supported the refinancing of the company and the acquisition of DSD Merchandisers. American Nuts provides procurement, processing, and packaging services of nuts, seeds, and dried fruits. The acquisition of DSD Merchandisers creates a fully vertically- integrated business. Our yield at cost is approximately 10.7%.

We led the club financing of WorkGenius, supporting its acquisition of JBC. WorkGenius is a technology-integrated staffing firm that focuses on end-to-end freelance hiring. We invested in both the first-lien term loan and common equity. Our yield on the term loan at cost is approximately 9.7%.

We made our third equity co-investment alongside Investcorp's North American private equity group. CrossCountry Consulting, listed in our scheduled investment as Victors CCC Aggregator LP, is a business advisory firm offering corporate advisory services to Fortune 500 companies.

Klein Hersh refinanced its debt as part of a conversion to an ESOP structure. Our existing investment was fully realized with an IRR of approximately 12.5%. We invested in the new last-out term loan, which had a yield at cost of approximately 11.0%.

Regarding our other realization, the new Gexpro loans made in the first quarter were repaid in April as the company merged with Lawson Products. Our fully realized IRR on the term loan was approximately 19.7%. Although we are pleased with the return on the revolver and the delayed draw, the IRRs are not meaningful, given the short holding period.

We fully realized our position in ASSIA, which was acquired by DZS. Our position was refinanced as part of that transaction. Our fully realized IRR was approximately 23.7%.

We opportunistically exited our position in Momentum Manufacturing Group in favor of new opportunities that we originated this quarter. Our fully realized IRR was approximately 6.5%.

After quarter-end, we invested in four new portfolio companies and had one realization in an existing portfolio company.

First, we invested in Archer Systems, which supported the LBO of the company by Fortress. We invested in the revolver, term loan, and common equity. Archer is an outsourced provider of administrative services focused on providing mass tort settlement services. Our yield at cost is approximately 9.9%.

We invested in Evergreen North American Industrial Services, the portfolio company of the Sterling Group. We invested in the revolver and term loan. Evergreen is a provider of industrial cleaning and related specialty cleaning services. Our yield at cost is approximately 9.5%.

We also invested in the club financing of PVI Holdings, Inc. to support the LBO of the company by MiddleGround Capital. PVI Holdings is a leading flow control distributor focused on MRO applications in diverse end markets. Our yield at cost is approximately 9.7%.

We also invested in the club financing for Amerequip LLC to support the acquisition of the company by JMC. Amerequip is a designer and manufacturer of add-on equipment for OEMs in the construction, waste, lawn care, and snow removal markets. Our yield at cost is approximately 10.9%.

Lastly, we fully realized our position in Lenox as the company made a substantial acquisition and refinanced its debt. Our fully realized IRR was approximately 12.5%.

Using the GICS Standard, as of June 30<sup>th</sup>, our largest industry concentration was professional services at 11.6%, followed by IT services at 9.3%, internet and direct marketing retail at 9.0%, household durables at 7.4%, and trading company and distributors at 6.7%. Our portfolio companies are in 20 GICS industries as of quarter-end, including our equity and warrant positions. As of June 30<sup>th</sup>, we had 35 portfolio companies, unchanged from March 31<sup>st</sup>. As of today, we have 38 portfolio companies.

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

**Rocco DelGuercio:** Thanks, Chris. For the quarter ended June 30<sup>th</sup>, 2022, our net investment income was \$2.5 million or \$0.18 per share. Our fair value on our portfolio was \$233.7 million compared to \$242.0 million on March 31. Our portfolio's net decrease from operations this quarter was approximately \$4.1 million. Our debt investments during the quarter had an average yield of 10.4%, while realizations and repayments during the quarter had an average yield of 12.0%, and fully realized investments had an average IRR of 23.7%. Although this was distorted by the timing of a delayed draw before the repayment of GS Operating, which created an exceptionally high IRR, excluding GS Operating, the IRR was 15.3%.

The weighted average yield of our debt portfolio was 10%, an increase of 186 basis points from March 31. Approximately 22.9% of this change is the result of the increase in LIBOR/SOFR.

As of June 30<sup>th</sup>, our portfolio consisted of 35 portfolio companies. 91.9% of our investments were first-lien, and the remaining 8.1% 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 instruments. The average floor on our debt investments was 1.03%. Our average portfolio investment was approximately \$6.7 million, and our largest portfolio company is Fusion, at \$13.2 million.

We had a gross leverage of 1.57x and net leverage of 1.48x at June 30<sup>th</sup> compared to 1.71x gross and 1.63x net, respectively, for the previous quarter.

As of June 30<sup>th</sup>, we had six investments on nonaccrual, which included all three investments in PGI, two investments in 1888, and one in [Deluxe](#).

With respect to our liquidity, as of June 30<sup>th</sup>, we had \$9.2 million in cash, of which \$6.6 million was restricted cash, with \$31 million of capacity under our revolving credit facility with Capital One.

Additional information and the composition of our portfolio is included in our Form 10, which we expect to file on Monday, September 12<sup>th</sup>.

With that, I'd like to return the call back over to Mike.

Mike Mauer:

Thank you, Rocco. First, I'd like to address the decline in NAV this quarter, which is driven from a variety of factors, including the broad-based market movement in credit spreads and a few specific portfolio companies, including TechniPlas, CareerBuilder, and PGI.

Approximately one-third of the change in unrealized depreciation in value of investments for the quarter is related to the markdown of the TechniPlas position, which was driven by inflationary headwinds into the auto sector and volatility in the public equity market. Our valuation is based on the fair value of the company using public comparables. If we look at the trends in the stock price of the public comp set we use, the significant decline from the quarter ended 3/31 to the quarter ended 6/30 has recovered with modest but broad-based gains over the past few weeks.

CareerBuilder's underlying business has been experiencing challenges for some time. For confidentiality reasons, I can't give details about the company's performance. That said, the revolver matured in July, and the term loan matures in less than one year; quotes have declined during the quarter. Our mark is informed by all of these factors. However, we are optimistic that a constructive conclusion is possible, and we believe that short maturity provides a catalyst for M&A or capital markets activity. CareerBuilder's mark accounted for just over 10% of the change in unrealized depreciation in value of investments for the quarter.

We experienced a significant write-down in our position in PGI this quarter. Efforts to monetize the company's assets have thus far been short of our expectations. We no longer expect to recover value on our term loan or second-lien position. We do expect a recovery on our revolver position, although that may take some time to fully realize and we expect significant impairment on that position. PGI is responsible for a further 14% change in unrealized depreciation in value of the investment.

The majority of our portfolio is marked using the yield method. Our fair value takes into account movements in broad market spreads as well as company-specific factors, both positive and negative. Over one-third of our NAV decline this quarter is attributable to the positions marked down using the yield method. Since June 30<sup>th</sup>, spreads have tightened fairly significantly, making us optimistic about a reversal of some of these mark-to-market effects.

Our gross leverage this quarter was 1.57x above our guidance of 1.25x to 1.50x and 14 basis points lower compared to last quarter. Our net leverage was 1.48x in the target range. As mentioned last quarter, we expect to see our gross and net leverage generally converge. As of September 2<sup>nd</sup>, our gross and net leverage were 1.63x. As we have previously stated, the advisor will waive the portion of our management fee associated with base management fees over 1x leverage.

We covered our June quarterly dividend with NII. Through the calendar year to date and fiscal year-end June 30<sup>th</sup>, the company has earned its dividend, and it is expected to earn its dividend through the next quarter-ending September 30<sup>th</sup>.

On August 25<sup>th</sup>, our Board of Directors declared a distribution for the quarter ended September 30<sup>th</sup>, 2022, of \$0.15 per share payable on October 14<sup>th</sup> to shareholders of record as of September 23<sup>rd</sup>. We believe the dividend level is sustainable and stable and that it represents an attractive yield given the market price of ICMB stock.

Looking ahead, we remain highly focused on our risk management. Although we cannot predict the timing of the Fed's actions, we believe the portfolio is well positioned to benefit from any increase in short-term rates and defensively positioned to navigate broader macro and geopolitical challenges. We believe we will continue to maintain our credit discipline and invest primarily in first-lien

floating-rate loans in a diverse set of industries. We remain focused on finding investment opportunities with attractive pricing and structural protections in order to achieve our goal to preserve capital and maintain a stable dividend.

Thank you. That concludes our prepared remarks. Operator, please open the line 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 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 Robert Dodd with Raymond James. Robert, go ahead, please.

**Robert Dodd:** Hi, guys. Hi, Mike. In your prepared remarks, I mean, you said the underlying operating performance of most of the portfolio companies remain strong; obviously, some not the case. I mean, you outlined some specific ones, obviously CareerBuilder, etc., where the non-accruals are. Are there any others? Because if I do the math, it looks like you said just over a third was mark-to-market, which implies two-thirds wasn't. That implies there's something more than TechniPlas, CareerBuilder, and PGI accounting for probably credit markdowns. Is that just the small pieces of 1888, or is there another business - obviously, we don't have the 10-K, so I can't see the marks at the moment - or anything like that where there are incremental performance and credit concerns?

**Mike Mauer:** Robert, the answer, the short answer is no, there are not credit concerns away from the ones you've highlighted. I think if you look at CareerBuilder and TechniPlas, those two account for, I think, over half of the NAV write-down and then a third of it being market spread. So, you're between 80% and 90%, and the balance, I think, are small movements. But Chris?

**Chris Jansen:** Yes, hey, Robert. PGI is an additional 15% of that, so those three names basically are two-thirds.



Robert Dodd: Got it. Then, just on that, I mean, with rates going up, inflation's still running high obviously, it sounds like that was having impact at TechniPlas. I mean, if we look forward rather than the numbers you've already seen, which obviously are backwards looking in terms of performance numbers, are there any areas where you're concerned about the high levels of inflation eating away at interest coverage or anything like that? I mean, also, in the prepared remarks, you talked about staying away from certain industries, right? So, obviously, there are some. Do you have any exposure there that you'd be worried about if LIBOR or SOFR or whatever goes to 400 basis points, which is close to where the forward curve's indicating at the moment?

Chris Jansen: Yes, I think a couple of things, Robert. I think the last three or four quarters in particular, we've been really focused on lower leveraged companies. When I look at the bulk of our companies, they are 2+ and 3+ times levered. As they tended to be on the smaller side, we want to put another level of conservatism in there. And on all of our management calls, we're asking about more labor input costs and things of that nature, in addition to the diligence we're doing upfront. That's really where we see a lot of the cost pressures with a lot of our investments. To date, I don't think any management teams are really bullish on labor costs, but by and large, they have them a) under control and b) have taken other cost-saving initiatives out of their cost of goods sold to allot for that.

Mike Mauer: Robert, it's Mike. I'd just add a couple of things said. On the ones that Chris highlighted that we've been focused around lower leverage, there are two other key things.

We've been focused around loan to value. It's typically been, at the high end, low 50%. It's been significant equity and junior capital, and principally equity below us and all new deals, covenant-heavy, not covenant-light.

The other thing we've been focused on is the quality of the EBITDA, to your point around cash availability, and we've done a lot of sensitivities around LIBOR increases beyond where we are, as well as sensitivities to EBITDA deterioration, and we feel very good about the portfolio.

Robert Dodd: Got it, I appreciate that color. Thanks. If I can, one more? On the dividend, obviously, you said you expect to earn it in the September quarter, and I realize it's hard to project out long term, especially with the Fed doing whatever they're going to do. But just conceptually, to earn the dividend with NAV where it is right now, hopefully it rebounds, but where it is right now, you need an income return on equity before realized gains and losses, or unrealized as well, of about 9.5%. Do you believe that the business at this size with the management fee structure, the cost of debt, etc., the overhead cost, can the business sustain a 9.5% income ROE long-term, which is what, even as rates move around, that's what you need to earn the dividend, do you believe that's feasible with the business as it stands?

Mike Mauer: Yes. The short answer, we've looked at it.

Robert Dodd: Yes. Got it. Appreciate it.

Mike Mauer: Thank you very much, Robert.

Operator: Our next question comes from Chris Nolan with Ladenburg Thalmann. Chris, go ahead.

Chris Nolan: Hi. Given the delay in the K, can you tell us what the percentage of the portfolio the nonaccrual investments were on a cost basis and fair value?

Mike Mauer: Yes, as of June 30<sup>th</sup>, the nonaccruals based upon a fair value are 1.08%, approximately \$2.5 million fair value.

Chris Nolan: And cost basis?

Mike Mauer: I do not have that in front of me.

Rocco DelGuercio: Chris, it's Rocco. I'll have to get back to you. The numbers of, just so - the nonaccruals have not changed from quarter to quarter, so they are the exact same nonaccrual.

Mike Mauer: So, the names have not changed; the amounts have actually gone down quarter over quarter, so that nonaccrual fair market value is 3.4 in March and is now 2.5.

Chris Nolan: Okay. Then, I guess in terms of your operating leverage, taking it all in and understanding, to Robert's point earlier about the dividend, you're operating at a very high leverage at a time when the economy can really weaken and your credit quality can erode quickly. What's your plan in terms of your debt-to-equity ratio going forward for the second half of the calendar year?

Mike Mauer: Yes, I think we are over 1.70x at a point earlier in either December quarter or March, and it came down from there. June, we were at net of 1.48x, 1.57x gross. We're around 1.60x now. That is knowing that we've got some maturities and repayments coming in.

We're going to continue to try to target in this 1.25x to 1.50x range. Now, we may straddle back and forth, but we want to stay away from where we were earlier in the year in that 1.70x range, Chris.

Chris Nolan: Okay, and can you sustain the dividend at a 1.25 leverage ratio, or would you have to be higher than that?

Mike Mauer: In the range of the 1.25 to 1.5? Yes.

Chris Nolan: Okay, thank you.

Mike Mauer: Okay.

Operator: Thank you very much, Chris.

Mike Mauer: Thank you.

Operator: Thank you very much. Our next question comes from Paul Johnson with KBW.

Paul Johnson: Yes, yes, good afternoon, guys. Thanks for taking my question. I only have one. I was just wondering if we can get your expectations around the portfolio yield for the

portfolio? Obviously, with rates going higher, BDCs are going to benefit from that; you have mainly floating-rate assets in there, but we've seen kind of a trend with the yield differential coming down with higher-yielding investments that are getting repaid or exited. Do you have any kind of expectations in terms of the benefit you might expect for yield in the portfolio going forward with higher rates, or do you expect, for the most part, to maintain relatively what you have today, give or take some benefit from QT?

Mike Mauer: Let me answer that with maybe some detail. As we watch LIBOR and SOFR go up, we've had contracts that keep rolling off and resetting. All those resets are causing an average to increase. June has not seen the peak. That will continue over the short to medium term. That's number one.

Number two is that spreads, while they're widening, not tightening, which is, in my experience over 25 years, that won't continue. For the high-quality borrowers where you keep seeing the base rate go up, you'll see a little bit of contraction on spread. But we're actually seeing that widen a bit right now, and we're continuing to see first-lien and first-lien or first-lien stretch, but first-lien loans have significant equity components in new deals. I'd say that if you go back two, three quarters, the average yield was probably around 840/850 on the portfolio. That has increased. New deals we're looking at, on the low side, are 9% to 9.5%, and I'd say the core of what we're looking at is over 10% on new deals, and that's an all-in yield, including that SOFR where it is today as well as the spread and assuming an OID of 2%.

So, long way of saying if you look at our portfolio today, I think there is some increased potential in it; I wouldn't say it's significant. In my definition of significant, it would be over 100 basis points on average, but I do think that the directionally is up, not down from where it is today.

Paul Johnson: Appreciate that. It's great detail. Those are all my questions for today.

Mike Mauer: Thank you.

Operator: Thank you very much, Paul. As a reminder, if you have any questions, please press 7#.

We have no further questions.

Mike Mauer: Thank you very much. We appreciate everyone's time.

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

- End of Recording -