

CREDIT OPINION

12 April 2024

Update



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RATINGS

3i Group plc

Domicile	London, United Kingdom
Long Term CRR	Not Assigned
Long Term Issuer Rating	Baa1
Type	LT Issuer Rating
Outlook	Stable

Please see the [ratings section](#) at the end of this report for more information. The ratings and outlook shown reflect information as of the publication date.

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3i Group plc

Update following rating affirmation

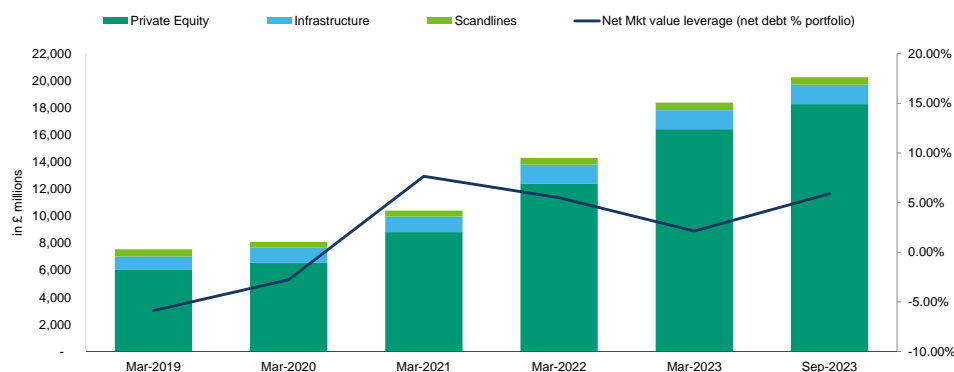
Summary

3i Group plc's (3i) Baa1 long-term issuer and senior unsecured debt ratings are supported by the firm's conservative balance sheet and prudent liquidity management, low leverage, and proven track record of investment and asset management. These strengths are partly mitigated by the illiquid, non-investment grade, and concentrated nature of the portfolio. We expect the firm to maintain its disciplined investment process, which has thus far supported good value creation.

Overall, 3i's private equity and infrastructure portfolio has a track record of resilient performance through various cycles thanks to the group's conservative investment management and the structural growth trends that have supported its portfolio of companies, which have demonstrated their ability to adapt in a changing environment. However, some assets, notably its discretionary consumer portfolio, have been impacted by the more challenging market conditions.

Exhibit 1

The progression of 3i's proprietary investments reflects its disciplined investment approach and conservative financial policy



The financial data presented in this chart is taken from the Investment Basis financial statements. The Investment Basis is an alternative (non-GAAP) performance measure.

Source: Company annual reports and Moody's Ratings

Credit strengths

- » Well-established mid-market private equity franchise in Northern and Western Europe, and North America
- » Limited leverage; strong track record of asset management and investment realisations
- » Conservative financial policy and disciplined investment process, supporting solid profitability

Credit challenges

- » Non-investment grade portfolio companies
- » Concentrated and illiquid nature of investment portfolio
- » Sourcing investment opportunities and realizing investments against a background of economic uncertainty

Outlook

The stable outlook reflects our expectation that 3i's portfolio performance will remain resilient against a backdrop of a challenging operating environment. The stable outlook also reflects our expectation that 3i will maintain its strong balance sheet.

Factors that could lead to an upgrade

- » Continued track record of strong portfolio performance, coupled with increasing asset diversification
- » Further improvement in the credit quality of its core investments and/or better visibility in their financial policies
- » A material reduction in portfolio concentration
- » Strong operating cash generation on a sustained basis, derived from diversified sources

Factors that could lead to a downgrade

- » A significant increase in the group's leverage
- » A significant reduction in the firm's liquid resources
- » A material deterioration in the quality of the firm's investment portfolio and/or a further increase in portfolio concentration
- » A structural decline in recurrent cash inflows, materially reducing the firm's operating cash generation

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the issuer/deal page on <https://ratings.moody's.com> for the most updated credit rating action information and rating history.

Key indicators

Exhibit 2

3i Group plc

3i Group PLC [1]	Sep-23	Mar-23	Mar-22	Mar-21	Mar-20	Mar-19
Assets under Management	32.9	29.9	22.9	16.9	13.6	13.0
Investment Portfolio	19.3	17.4	13.4	9.9	7.4	6.8
Total Assets	19.6	17.8	13.9	10.3	8.6	8.7
Net MVL [2]	6.3%	3.7%	6.0%	8.1%	-2.0%	-6.0%
Asset Concentration [3]	68.9%	65.4%	56.5%	51.2%	47.7%	40.9%

[1] Financial years ending 31 March, GBP billion, based on IFRS accounts if not stated otherwise. Latest data as of 30 September 2023. [2] The Net MVL calculated based on the Investment basis was 5.9%. [3] Market Value of the three largest investments (excluding cash balances and considering 3iN's portfolio granularity) as a percentage of total portfolio market value (including cash balances), based on the Investment Basis financial statements.

Sources: Moody's Ratings and company filings

Profile

3i Group plc (3i) is a UK-headquartered investment trust company, which we assess under our [Investment Holding Companies and Conglomerates](#) rating methodology. Its two main businesses are Private Equity and Infrastructure, which are focused on core investment markets in Northern and Western Europe, and North America. The company's private equity business had a total of £25.7 billion in assets under management (AUM) as of 30 September 2023, of which £18.3 billion is proprietary capital. 3i invests in midmarket companies and typically takes majority positions. 3i's infrastructure business reached £6.6 billion of AUM as of September 2023. The Infrastructure business invests principally in midmarket economic infrastructure businesses in Europe and North America, as well as in greenfield and operational projects.¹

Detailed credit considerations

Clearly defined investment strategy and disciplined process support solid profitability levels

3i applies a consistent and well-defined approach to making investment and divestment decisions, supporting the company's profitability. We expect the firm to maintain its disciplined investment process, which has thus far supported good value creation and has proven successful in generating returns through the cycle.

3i often monitors businesses for lengthy periods before deciding to invest in them, and adheres closely to the criteria governing the size of its target companies and the sectors they operate in. The company targets mid- to high-teen rates of return in percentage terms over a typical period of four to five years. It focuses on businesses with an enterprise value of €100 million – €500 million operating in the business and technology services, consumer, healthcare and industrial sectors in Northern and Western Europe, and North America. It selects companies that can benefit from the long-term growth trends it has identified, and uses its extensive network of business leaders to identify and access opportunities. 3i's network and focus on middle-market transactions in niche business sectors have allowed the company to avoid more aggressive auction-driven acquisitions, which tend to be more expensive, reducing the expected return.

3i invests on its own account and on behalf of third parties. The company has increased its AUM across its two business lines in recent years, reflecting principally higher investment values. Despite the more challenging economic environment, 3i's private equity and infrastructure assets demonstrated good resilience in recent quarters. The company's AUM in private equity increased to £25.7 billion as at 30 September 2023 from £19.6 billion as at 30 September 2022, mainly thanks to unrealized value positive movements. AUM at 3i's infrastructure division rose to £6.6 billion from £5.9 billion over the same period. 3i's proprietary investments totaled £20.3 billion as at 30 September 2023 (30 September 2022: £16.4 billion).

In the first 9 months of the reporting year (ending in December 2023), 3i invested a total of £581 million (£397 million in FY2023, ending in March), largely in relation to its private equity portfolio. More specifically, 3i utilised £455 million (over half of the proceeds from Action's share redemption following its refinancing in November last year) to purchase additional shares in Action, which led to an increase in its equity stake in Action to 54.8% from 52.9%.

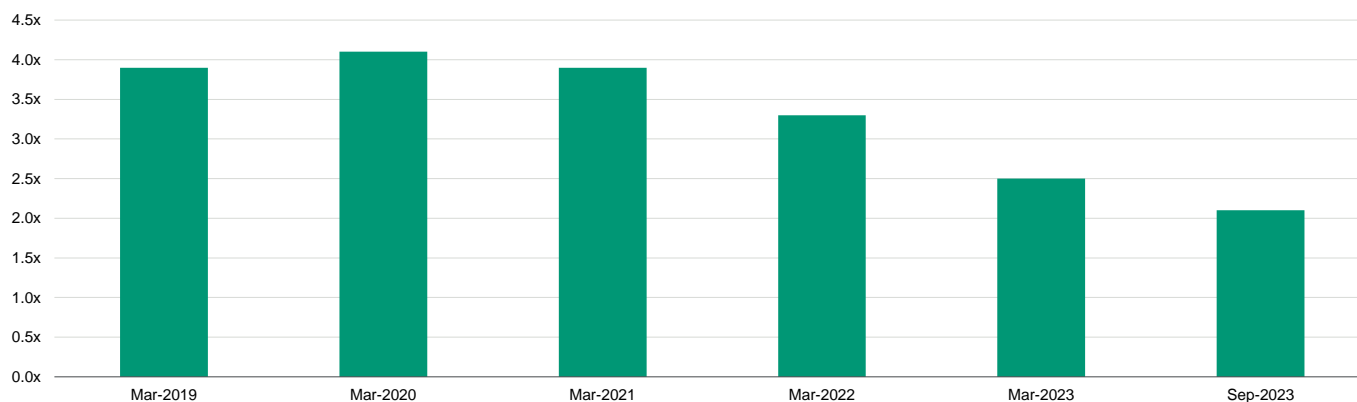
In the first 9 months of the reporting year, realisations stood at £845 million (£857 million in FY 2023), mostly driven by the proceeds following Action's refinancing. We expect 3i to continue to focus on maximising the value of its investments and to maintain a conservative

investment approach. Given the firm's structure, it is able to control the timing of investments and realisations without external pressure from third-party investors. This flexibility is credit positive.

3i private equity portfolio consists largely of speculative-grade investments, with about 71% of its investee companies (by value) holding net debt-to-EBITDA ratios of 1x-2x. Across the private equity portfolio average net leverage was 2.1x (see exhibit 3) as of 30 September 2023 (31 March 2023: 2.5x) or 3.8x excluding Action (31 March 2023: 4.0x); the portfolio benefits from a degree of covenant flexibility as well as hedges against interest rate risk. 3i's rigorous investment and asset management process to some extent offsets the risks related to the relatively high leverage of its portfolio, and its relatively high exposure to a small number of investee companies.

Exhibit 3

3i's private equity portfolio leverage (weighted average)



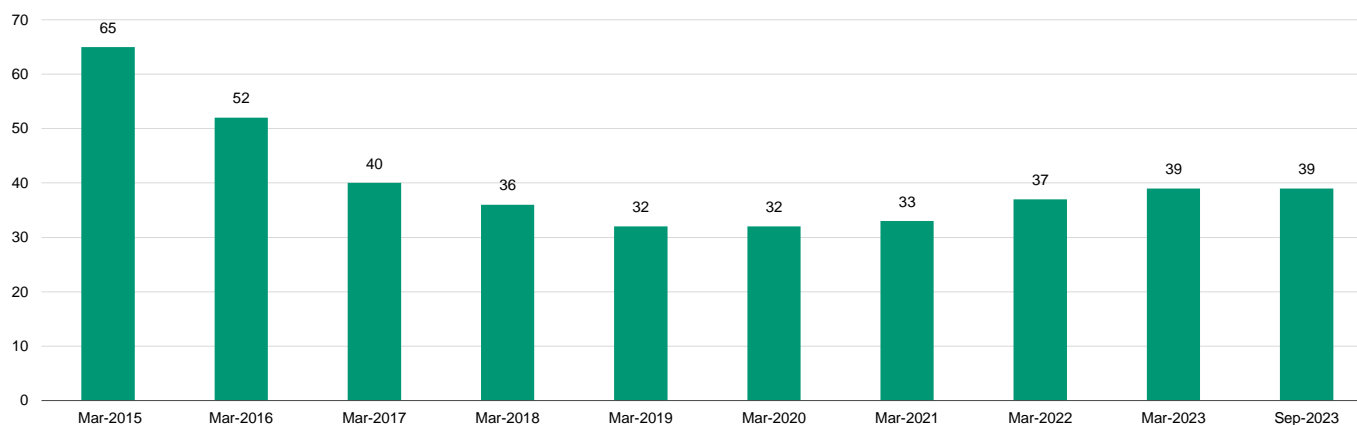
Source: Company annual reports and Moody's Ratings

3i's largest investment creates portfolio concentration risk

3i counted 39 private equity investments in September 2023 (see Exhibit 4). We expect that number to stay broadly stable, in line with the company's guidance. 3i has previously indicated that its desired number of investments is around 30-40, although availability of investment opportunities and changes in market conditions could cause it to diverge from this guidance.

Exhibit 4

3i's controlled number of private equity investments brings tighter portfolio control



Source: Company annual reports

The portfolio displays concentration around its largest private equity investment, Action ([Peer Holding III B.V.](#), Ba2 stable). Action is a leading European discount retailer and 3i values its 54.8% stake in it at £13.8 billion, corresponding to 65% of the group's total portfolio as at December 2023. We view asset concentration as a source of credit risk, notably considering Action's rating level.

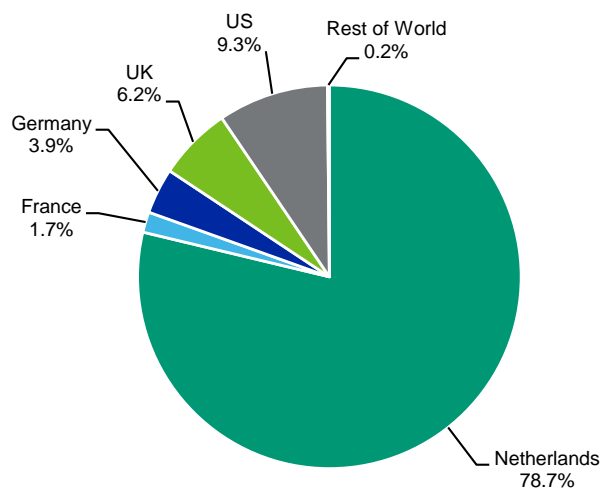
However, we recognise that concentration has been largely driven by Action's exceptional performance. Action's positive track record, as evidenced by net sales and operating EBITDA CAGR of 22% and 29% respectively from 2018 to 2023, has boosted its valuation in recent years. Action's valuation growth outpaces that of other assets in the portfolio and, as a result, it now accounts for a larger portion of 3i's private equity portfolio. Action's robust performance is also illustrated by its ability to return capital to 3i; it has distributed approximately £2.8 billion to 3i since the firm's initial investment in 2011. 3i believes that Action's growth potential remains substantial and it outweighs the concentration risk it represents. We do not expect concentration to improve materially in the foreseeable future, as Action will likely remain a core investment of 3i's portfolio. Whilst we recognise that the increasing dividend contributions from Action have strengthened 3i's interest cover in recent years, a credit positive, we view the outsized exposure to a single, non-investment grade portfolio company as a constraining factor to 3i's rating.

In terms of the rest of the portfolio, the group's principal infrastructure investment, 3iN (3i Infrastructure plc), remains the second largest investment, representing 4% of the group's proprietary capital. 3i's third largest investment, Cirtec Medical- part of its healthcare portfolio- represented 3% of the total portfolio while the ferry operator, Scandlines, which 3i expects to hold longer than the average investment period for its private equity portfolio companies, is now the fourth-largest investment (3% of the portfolio). Scandlines and 3iN (3i Infrastructure plc) are core to the 3i portfolio as they generate consistent cash income, while retaining some growth potential.

Beyond Action, 3i's portfolio across private equity and infrastructure is well diversified by sector, given the firm's size and target market. The private equity portfolio is mostly exposed to Northern and Western Europe, and the US (see Exhibit 5).²

Exhibit 5

Geographic composition of 3i's private equity portfolio



Data as of September 2023
Source: Company annual reports

A conservative and consistent financial policy offsets the risks of a speculative-grade portfolio

3i has historically maintained large cash balances to support its business, including during periods of high market volatility. The company had a total of £666 million in cash and cash equivalents as of December 2023 (£412 million as of March 2023) largely held in highly rated money market funds. 3i's good liquidity, albeit reduced in recent years, gives the company some flexibility regarding its investment policy, and should allow it to withstand unexpected market shocks.

3i aims to maintain or grow the dividend each year. However, in setting the dividends, 3i intends to maintain a conservative financial approach. In addition, the dividend policy is subject to careful consideration of outlook for investments and realisations and market conditions.

Low leverage remains a key credit strength

We expect 3i to maintain low appetite for leverage, in line with its operating range of £1.0 billion net debt to £0.5 billion net cash, and with tolerance to operate outside of this range on a short term basis. 3i's outstanding reported gross debt was £1.2 billion as at 30 September 2023, up from the £775 million amount outstanding at FY2023, following the issuance in June 2023 of €500 million senior unsecured note. Its net market value-based leverage (MVL), on the Investment Basis, was 5.9%, which remains consistent with an Aaa score for the sub factor. Overall, we expect leverage to remain low, a key credit strength underpinning the rating level.

Interest cover improvements thanks to dividends from Action

In recent years, 3i's credit profile has benefitted from improvements in its interest cover (Funds from Operations (FFO) + Interest Expense/Interest Expense), which we expect to be sustained. In LTM ending September 2023, interest cover was at 9.4x (FY2023: 8.3x), which compares favorably to the weak levels of interest cover reported in previous years (hovering at around 2x for FY2019-FY2021).

3i aims to maintain an operating cash profit, which means that its business running costs are covered by cash income from the Group's portfolio and by fees received from managing external funds. The group has consistently met this target, even when excluding Action's dividends. We expect 3i to maintain a tight discipline in managing its operating expenses.

Liquidity analysis

Given its debt maturity profile, cash balances and access to credit facilities, liquidity remains a key credit strength. In addition to £666 million of cash as of December 2023 (£412 million as of March 2023), 3i benefits from an undrawn credit facility of £900 million, comprised of £500 million base facility maturing in March 2027 and an additional £400 million tranche maturing in November 2026.

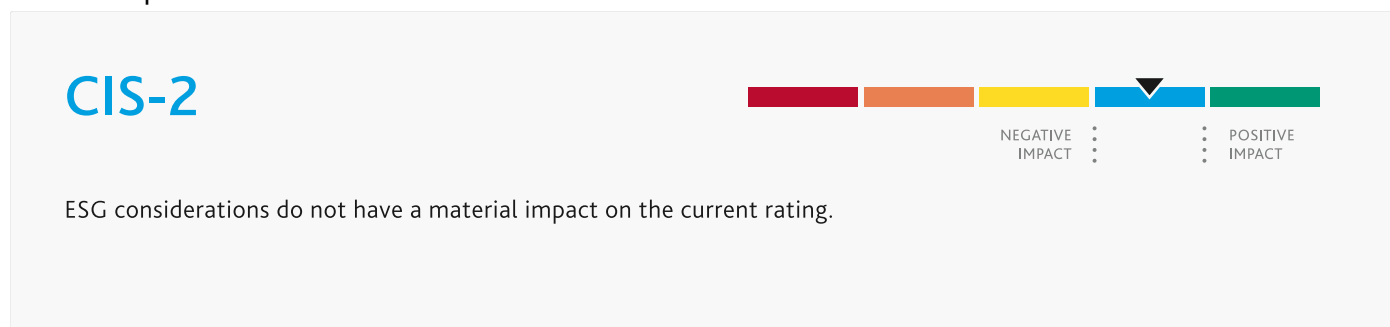
The group reported total debt commitment of £1.2 billion as at September 2023, of which €500 million senior unsecured maturing in 2029, £375 million senior unsecured debt maturing in 2032 followed by £400 million maturing in 2040.

ESG considerations

3i Group plc's ESG credit impact score is CIS-2

Exhibit 6

ESG credit impact score

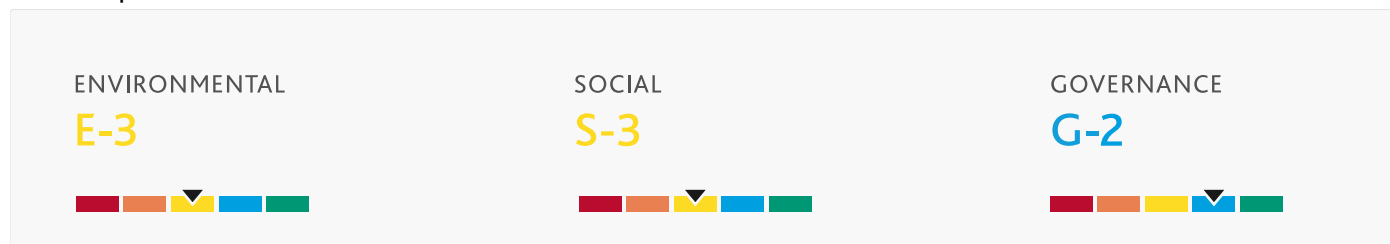


Source: Moody's Ratings

3i's **CIS-2** indicates that ESG considerations do not have a material impact on the current rating. 3i's solid governance, including its well-defined investment framework and risk management functions, mitigates some risks stemming from its exposure to demographic and societal trends as well as to environmental risks through its portfolio of investments.

Exhibit 7

ESG issuer profile scores



Source: Moody's Ratings

Environmental

3i faces moderate exposure to environmental risks, stemming from its portfolio of investments. While the Group primarily invests in sectors that have low exposure to environmental risk, its investment concentration to Action -which is a retail company- increases its exposure to carbon transition, in line with the retail sector. Overall, the risk is contained as the group has set out clear objectives in its responsible investment policy and is committed to investing in businesses that benefit from sustainable growth trends.

Social

3i faces moderate exposure to social risks. The Group invests in sectors that could benefit from structural trends, while adhering to strict investment criteria, taking into consideration ESG risks and opportunities. The Group's investments are tightly monitored and controlled by an efficient risk framework. 3i carries out detailed reviews of its portfolio of companies on a semi-annual basis and performs extensive reviews on ESG risks and opportunities on an annual basis. Although societal trends can present opportunities for 3i, its long-term investment horizon prevents the Group from quickly shifting its investment portfolio in case of unforeseen changes to consumer preferences. In addition, the Group's portfolio lacks the benefit of diversification, given the concentration around its largest private equity investment.

Governance

3i faces low governance risks. It displays solid corporate governance practices and has a long track record in operating within its risk appetite and under a robust risk framework. 3i's board is accountable for the long-term sustainable success of the company by approving the group's strategic objectives and monitoring its performance against those objectives. It has delegated the day-to-day management of the business to the CEO who regularly reports back to the board on financial and operational performance, risk management and progress in delivering the strategic objectives. Overall, the group follows a prudent and consistent financial policy.

ESG Issuer Profile Scores and Credit Impact Scores for the rated entity/transaction are available on Moody's.com. In order to view the latest scores, please click [here](#) to go to the landing page for the entity/transaction on MDC and view the ESG Scores section.

Rating methodology and scorecard factors

Exhibit 8

3i Group Plc				
Investment Holding Companies Industry Grid [1][2]				
	Current LTM 03/31/2023		Moody's 12-18 Month Forward View As of 03/31/2023[3]	
	Measure	Score	Measure	Score
Factor 1 : Investment Strategy (10%)				
a) Investment Strategy	Ba	Ba	Ba	Ba
Factor 2 : Asset Quality (40%)				
a) Asset Concentration	Caa	Caa	Caa	Caa
b) Geographic Diversity	Baa	Baa	Baa	Baa
c) Business Diversity	Baa	Baa	Baa	Baa
d) Investment Portfolio Transparency	Baa	Baa	Baa	Baa
Factor 3 : Financial Policy (10%)				
a) Financial Policy	A	A	A	A
Factor 4 : Estimated Market Value-based Leverage (MVL) (20%)				
a) Estimated Market Value-Based Leverage	Aaa	Aaa	Aaa	Aaa
Factor 5 : Debt Coverage and Liquidity (20%)				
a) (FFO + Interest Expense) / Interest Expense	8.3x	Aaa	9x-10x	Aaa
b) Liquidity	Aaa	Aaa	Aaa	Aaa
Rating:				
a) Indicated Rating from Grid		A3		A3
b) Actual Rating Assigned				Baa1

[1] All ratios are based on 'Adjusted' financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations

[2] As of 03/31/2023

[3] This represents Moody's forward view; not the view of the issuer; and unless noted in the text, does not incorporate significant acquisitions and divestitures

Sources: 3i Group, Moody's Ratings

Ratings

Exhibit 9

Category	Moody's Rating
3i GROUP PLC	
Outlook	Stable
Issuer Rating	Baa1
Senior Unsecured	Baa1
PEER HOLDING III B.V.	
Outlook	Stable
Corporate Family Rating	Ba2
Sr Sec Bank Credit Facility -Dom Curr	Ba2

Source: Moody's Ratings

Endnotes

- [1](#) The financial data presented in this paragraph is taken from the Investment Basis financial statements. The Investment Basis is an alternative (non-GAAP) performance measure.
- [2](#) The financial data presented in this paragraph is taken from the Investment Basis financial statements. The Investment Basis is an alternative (non-GAAP) performance measure.

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