

# MOODY'S

## INVESTORS SERVICE

### CREDIT OPINION

5 August 2022

#### 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.

#### Contacts

Alexandra Aspioti +44.20.7772.5315  
VP-Senior Analyst  
alexandra.aspioti@moody's.com

Vanessa Robert +33.1.5330.1023  
VP-Sr Credit Officer  
vanessa.robert@moody's.com

Simone Galimberti +33.1.5330.3417  
Associate Analyst 3  
simone.galimberti@moody's.com

Robert M. Callagy +1.212.553.4374  
Associate Managing Director  
robert.callagy@moody's.com

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## 3i Group plc

### Update to credit analysis

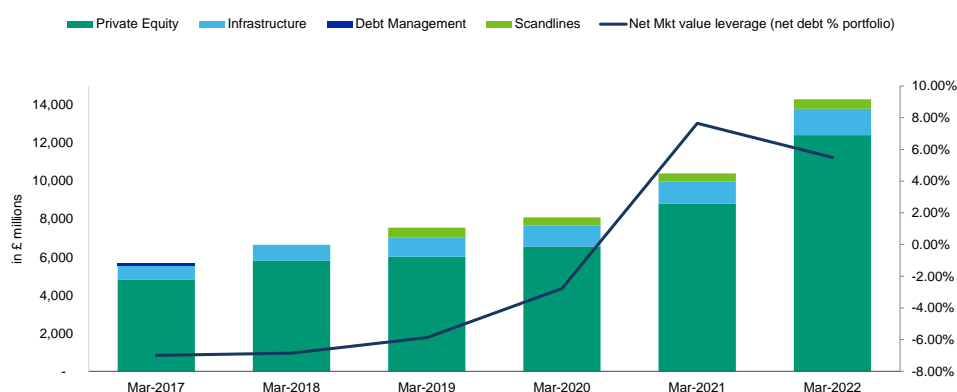
#### Summary

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

On 19 July 2021, we affirmed the company's Baa1 long-term issuer and senior unsecured debt ratings and changed 3i's outlook to stable from negative. The rating action reflected the resilient performance of 3i's private equity and infrastructure portfolios despite the economic downturn prompted by the coronavirus pandemic. It was also a reflection of the group's conservative investment management, strong balance sheet, and the structural growth trends that have supported its portfolio of companies, which have demonstrated their ability to adapt in a changing environment.

#### 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 Investors Service

## Credit strengths

- » Solid mid-market private equity franchise in the UK, the US and Northern Europe
- » 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 increased market volatility and economic uncertainty
- » Historically weak interest coverage (on a Moody's basis, which excludes proceeds from investment disposals), albeit significantly improved in FY2022

## Outlook

The stable outlook on 3i's ratings reflects Moody's expectation that the company will maintain its disciplined investment approach. We also expect that the performance of 3i's private equity and infrastructure portfolios will remain resilient despite the weakening of the operating environment. Notwithstanding economic uncertainties, 3i's credit profile- which benefits from a conservative balance sheet- is well positioned to withstand them.

## Factors that could lead to an upgrade

- » An improvement in the credit quality of the investment portfolio
- » A reduced portfolio concentration
- » An increase in operating cash generation on a sustained basis

## 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 an 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 [1]	Mar-22	Mar-21	Mar-20	Mar-19	Mar-18	Mar-17
Assets under Management	22.9	16.9	13.6	13.0	11.7	9.8
Investment Portfolio	13.4	9.9	7.4	6.8	6.1	5.2
Total Assets	13.9	10.3	8.6	8.7	7.9	6.7
Net MVL	6.0%	8.1%	-2.0%	-6.0%	-6.1%	-7.2%
Asset Concentration [2]	56.5%	51.2%	47.7%	40.9%	40.7%	37.2%

[1] Financial years ending 31 March, GBP billion, based on IFRS accounts if not stated otherwise

[2] 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

Source: Moody's Investors Service 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 Europe, the UK, and North America. The company's private equity business had a total of £16.7 billion in assets under management (AUM) as of 31 March 2022, of which £12.4 billion is proprietary capital. 3i invests in midmarket companies and typically takes majority or significant minority positions. 3i's infrastructure business reached £5.7 billion of AUM as of March 2022. The company invests principally in midmarket economic infrastructure in Europe and North America, as well as in greenfield and operational projects.<sup>1</sup>

## 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.

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 Europe, the UK, and North America. It selects companies that can benefit from the megatrends 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 and also increased fundraising. Despite the economic downturn prompted by the coronavirus crisis, 3i's private equity and infrastructure assets demonstrated good resilience during FY2021. The company's AUM in private equity totaled £16.7 billion as of 31 March 2022, increasing from £11.6 billion in March 2021. AUM at 3i's infrastructure division rose to £5.7 billion from £4.9 billion over the same period. 3i's proprietary investments totaled £14.3 billion (£10.4 billion in March 2021).

In FY2022, 3i invested a total of £543 million (£510 million in FY2021), with £457 million invested in private equity. £335 million were invested in the acquisition of six new portfolio companies, including £87 million investment in Mepal (consumer sector), £69 million investment in ten23 health (healthcare sector) and £53 million investment in MAIT (technology sector). The company further contributed £45 million to fund a bolt-on and deployed £94 million in further investments. 3i provided a total of £55 million of funding to two of its portfolio companies, operating in the travel industry, (Audley Travel and arrivia) to provide them with additional liquidity as they are recovering from the pandemic. SaniSure and WilsonHCG returned £72 million of investment on aggregate. In infrastructure, proprietary investments of £85 million were added.

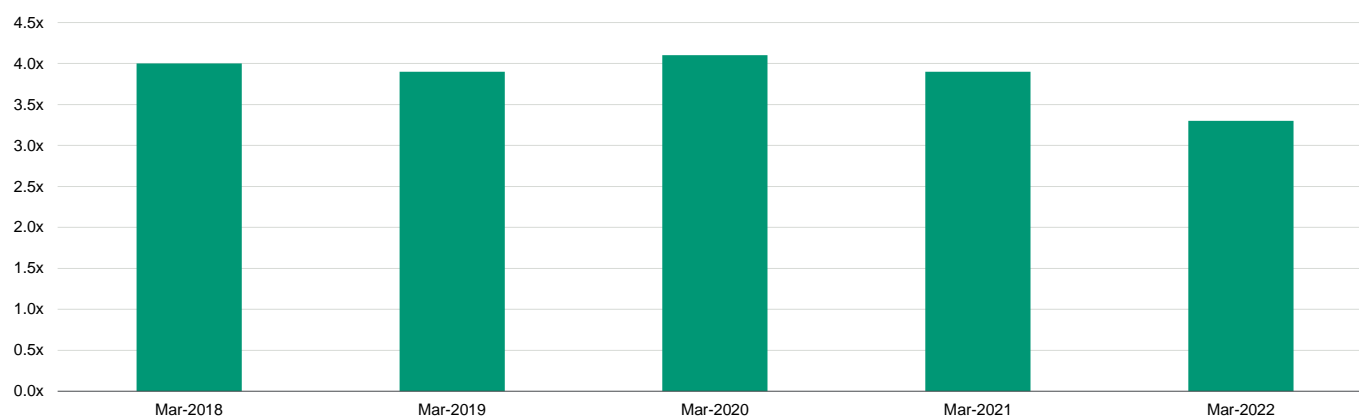
Realisations totalled £788 million in FY2022, increasing from a low of £218 million in FY2021, driven by the improved economic environment post pandemic. We expect 3i to continue to focus on maximising the value of its investments and to maintain a conservative

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 61% of its investee companies (by value) holding net debt-to-EBITDA ratios of 2x-3x. Across the private equity portfolio leverage was 3.3x (see exhibit 3) as of 31 March 2022 (31 March 2021: 3.9x) or 4.6x excluding Action (31 March 2021: 4.3x), and able to benefit from a degree of covenant flexibility. 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)



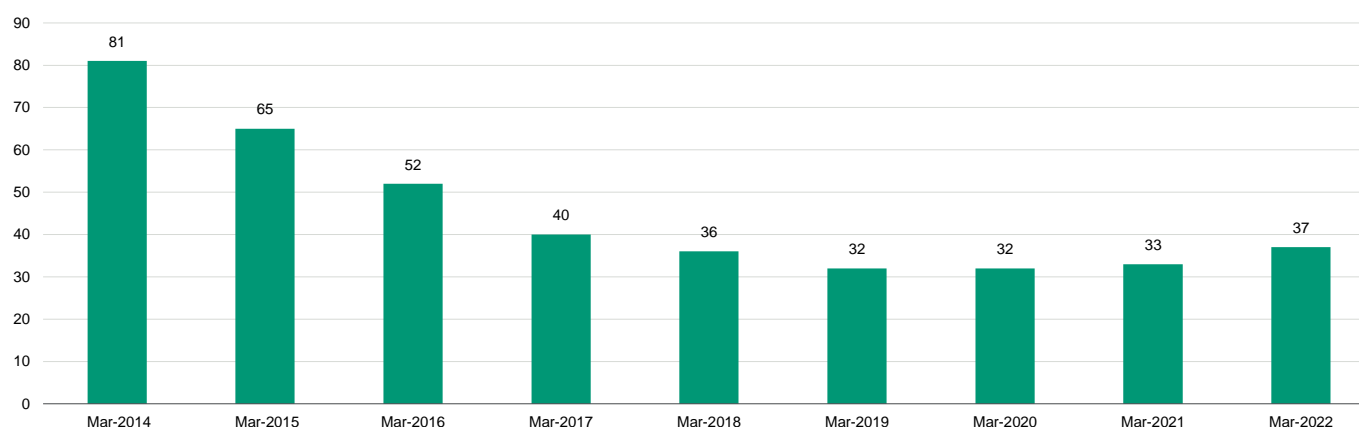
Source: Company annual reports and Moody's Investors Service

### 3i's largest investment creates portfolio concentration risk

3i's counted 37 private equity investments in March 2022 (see Exhibit 4). We expect that number to stay broadly stable, in line with the company's guidance. 3i 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



Excludes quoted investments.

Source: Company annual reports

However, the portfolio displays concentration around its largest private equity investment, Action ([Peer Holding III B.V.](#), Ba3 stable). Action is a leading European discount retailer and 3i values its own investment in it at £7.2 billion, corresponding to 50.1% of the group's total portfolio. Action has displayed an exceptional performance year-on-year becoming progressively a larger portion of the private

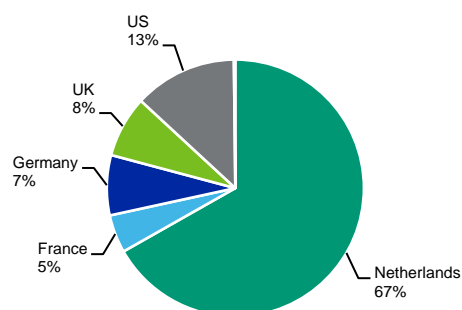
equity portfolio. Action's good performance is also illustrated by its ability to return capital to 3i; it distributed £1.5 billion to 3i since the firm's initial investment in 2011. As of 31 March 2022, 3i's gross equity stake in Action was 52.7%. 3i believes that Action's growth potential remains substantial and it outweighs the concentration risk it represents. Notwithstanding Action's positive track record of strong financial performance, which has boosted its valuation in recent years, Moody's views the elevated concentration as a credit risk, weighing on 3i's overall credit profile.

In terms of the rest of the portfolio, the group's principal infrastructure investment, 3iN (3i Infrastructure plc), remains the second largest investment, representing 6.5% of the group's proprietary capital. The ferry operator, Scandlines, which 3i expects to hold longer than the average investment period for its private equity portfolio companies, is the third-largest investment (c.3.7% of the portfolio). Scandlines and 3iN (3i Infrastructure plc) are core to the 3i portfolio as they generate strong capital returns and cash, while retaining some growth potential.

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

Exhibit 5

#### Geographic composition of 3i's private equity portfolio



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 £426 million in cash and cash equivalents as of June 2022 (£229 million as of March 2022) largely held in highly rated money market funds and bank deposits. 3i's good liquidity, albeit materially reduced in recent years, gives the company some flexibility regarding its investment policy, and should allow it to withstand unexpected market shocks.

The company 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. For the FY2022, the total dividend was 46.5 pence per share, increasing from 38.5 pence in the prior year.

#### Low leverage remains a key credit strength

3i's outstanding reported gross debt was £975 million as of 31 March 2022, stable year-on-year, following the bond issuance of a 20-year £400 million bond in FY2020 to strengthen liquidity and maintain financial flexibility. The group's net market value-based leverage (MVL), on the Investment Basis, was 5.5% as of 31 March 2022, which is consistent with an Aaa score for the sub factor. Overall, we expect leverage to remain low, a key credit strength underpinning the rating level.

#### Operating cash income boosted by dividends received from Action

3i's cash operating income, which was significantly increased in FY2022, remains adequate to cover its operating expenses. Operating cash profit improved to £340 million in FY2022 (£23 million in FY2021), mainly thanks to the £284 million of cash dividends received from Action. Even when excluding Action's dividend, the company comfortably met its target of at least breaking even, supported by cash

dividends also received from 3iN, Scandlines, Hans Anders and Tato. The company's infrastructure funds also provided resilient revenue; cash income from the infrastructure business amounted to £91 million in FY2022.

3i maintains a tight discipline in managing its operating expenses. In the year ended 31 March 2022, cash operating expenses were £110 million (FY2021: £108 million).

### Liquidity analysis

Given its debt maturity profile, the available cash balance can cover more than 7 years of upcoming debt maturities, mapping to a Aaa score in our scorecard. In addition to £426 million (£229 million as of March 2022) of cash as of June 2022, 3i benefits from an undrawn credit facility of £500 million, maturing in 2027. In July 2022, 3i further boosted its available liquidity by launching an additional, to its existing £500 million RCF, £400 million tranche with a two year maturity. Notwithstanding the comfortable levels of liquidity, we note that the cash position has significantly reduced in recent years.

The group reported total debt commitment of £975 million as of 30 June 2022, with the first £200 million instrument maturing in 2023, followed by £375 million maturing in 2032.

### ESG considerations

#### 3i GROUP PLC's ESG Credit Impact Score is Neutral-to-Low CIS-2

Exhibit 6

##### ESG Credit Impact Score

## CIS-2

Neutral-to-Low



For an issuer scored CIS-2 (Neutral-to-Low), its ESG attributes are overall considered as having a neutral-to-low impact on the current rating; i.e., the overall influence of these attributes on the rating is non-material.

Source: Moody's Investors Service

3i's ESG Credit Impact Score is neutral-to low (**CIS-2**), reflecting the limited credit impact from social risks on the rating to date. 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

ENVIRONMENTAL

## E-3

Moderately Negative



SOCIAL

## S-3

Moderately Negative



GOVERNANCE

## G-2

Neutral-to-Low



Source: Moody's Investors Service

### Environmental

3i has moderately negative exposure to environmental risks, higher than the asset management sector. The heightened risk, notably in relation to carbon transition, stems 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 has moderately negative 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 neutral-to-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 Moodys.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 03/31/2022	Moody's 12-18 Month Forward View As of 03/31/2022[3]	
<b>Factor 1 : Investment Strategy (10%)</b>	Measure	Score	Measure	Score
a) Investment Strategy	Ba	Ba	Ba	Ba
<b>Factor 2 : Asset Quality (40%)</b>				
a) Asset Concentration	Ba	Ba	Ba	Ba
b) Geographic Diversity	Baa	Baa	Baa	Baa
c) Business Diversity	Baa	Baa	Baa	Baa
d) Investment Portfolio Transparency	Baa	Baa	Baa	Baa
<b>Factor 3 : Financial Policy (10%)</b>				
a) Financial Policy	A	A	A	A
<b>Factor 4 : Estimated Market Value-based Leverage (MVL) (20%)</b>				
a) Estimated Market Value-Based Leverage	Aaa	Aaa	Aa	Aa
<b>Factor 5 : Debt Coverage and Liquidity (20%)</b>				
a) (FFO + Interest Expense) / Interest Expense	7.8x	Aaa	1x-2x	B
b) Liquidity	Aaa	Aaa	Aaa	Aaa
<b>Rating:</b>				
a) Indicated Rating from Grid		A2		Baa1
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 03/31/2022

[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

Source: 3i Group, Moody's Investors Services

## Ratings

Exhibit 9

Category	Moody's Rating
<b>3i GROUP PLC</b>	
Outlook	Stable
Issuer Rating	Baa1
Senior Unsecured -Dom Curr	Baa1
<b>PEER HOLDING III B.V.</b>	
Outlook	Stable
Corporate Family Rating	Ba3
Bkd Sr Sec Bank Credit Facility -Dom Curr	Ba3

Source: Moody's Investors Service



## 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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