



Rating Action: Moody's assigns Baa1 rating to 3i Group's new senior unsecured notes

31 May 2023

London, May 31, 2023 – Moody's Investors Service (Moody's) has assigned a Baa1 rating to 3i Group plc's (3i) proposed new €500 million senior unsecured notes. All existing ratings of 3i remain unaffected. The rating of the new notes is in line with the Baa1 issuer rating on 3i Group plc. The outlook is stable.

RATINGS RATIONALE

3i's Baa1 issuer rating reflects 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. 3i's portfolio displays concentration around its largest private equity investment, Peer Holding III B.V. (Action, Ba3 positive)- which accounted for 61% of the portfolio value as of 31 March 2023 (50% of the portfolio value as of 31 March 2022). The increase in the portfolio's concentration has been largely driven by Action's exceptional performance, which resulted in an increase in its valuation to £11.2 billion (for a 52.9% stake as of 31 March 2023) from £7.2 billion (for a 52.7% stake as of 31 March 2022). Moody's expects that Action will remain an anchor investment of 3i's portfolio in the foreseeable future.

The issuance follows the recent repayment of the £200 million maturing debt in March 2023. The net proceeds from the note issuance will be used for general corporate purposes. The proposed issuance will provide 3i with additional flexibility in navigating the current uncertain environment, while maintaining a solid balance sheet. 3i maintains low appetite for leverage and Moody's expects its market value based leverage (MVL) to remain low. As of 31 March 2023, 3i's (pro-forma for the transaction) market value-based leverage was at around 2x (on the Investment basis).

Moody's also expects that the improvement in 3i's interest cover (Funds from Operations (FFO) + Interest Expense/Interest Expense) in recent years will be sustained, supported by cash dividends from Action, as seen in FY2023 and FY2022 (ending in March). In FY2023, interest cover was at 8.3x (FY2022: 7.8x), which compares favorably to the weak levels of interest cover reported in previous years (hovering at around 2x for FY2019-FY2021). Moody's also expects liquidity (cash and cash equivalents and undrawn credit facilities) to remain at comfortable levels. As of 31 March 2023, 3i had £412 million of cash and cash equivalents as well as access to undrawn revolving facilities of £900 million, comprised of £500 million base facility maturing in March 2027 and an additional £400 million tranche maturing in July 2025.

OUTLOOK

The stable outlook on 3i reflects Moody's expectation that the overall performance of 3i's private equity and infrastructure portfolios will remain resilient despite the weakening of the operating environment.

FACTORS THAT COULD LEAD TO AN UPGRADE OR DOWNGRADE OF THE RATINGS

Factors that could lead to an upgrade of 3i's ratings include: (i) an improvement in the credit quality of the investment portfolio; (ii) a reduced portfolio concentration; (iii) strong operating cash generation on a sustained basis, derived from diversified sources.

Factors that could lead to a downgrade of 3i's ratings include: (i) a significant increase in the group's leverage; (ii) a significant reduction in the firm's liquid resources; (iii) a material deterioration in the quality of the firm's investment

portfolio and/or an increase in portfolio concentration; (iv) a structural decline in recurrent cash inflows, materially reducing the firm's operating cash generation.

PRINCIPAL METHODOLOGY

The principal methodology used in this rating was Investment Holding Companies and Conglomerates published in April 2023 and available at <https://ratings.moodys.com/rmc-documents/401316>. Alternatively, please see the Rating Methodologies page on <https://ratings.moodys.com> for a copy of this methodology.

REGULATORY DISCLOSURES

For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. Moody's Rating Symbols and Definitions can be found on <https://ratings.moodys.com/rating-definitions>.

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