

CREDIT OPINION

29 March 2023

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

Resilient performance amid challenging market conditions

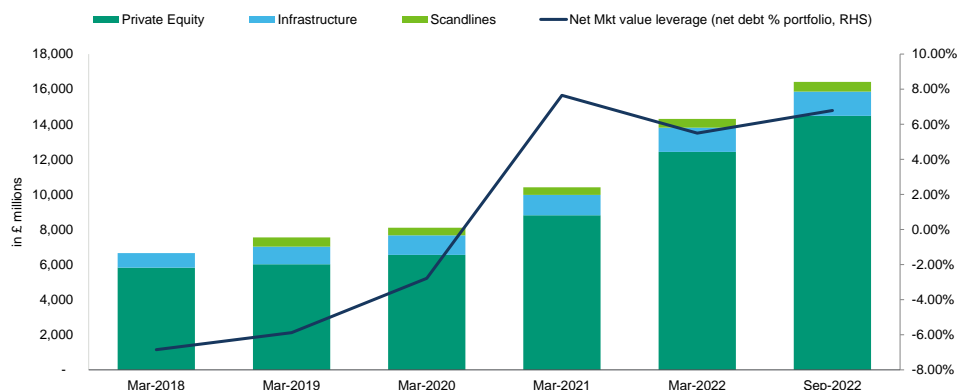
Summary

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.

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 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 rising economic uncertainty
- » Historically weak interest coverage (on a Moody's basis, which excludes capital proceeds from investment disposals and refinancings), albeit improving

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 overall 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

3i Group PLC [1]	Sep-22	Mar-22	Mar-21	Mar-20	Mar-19	Mar-18
Assets under Management	26.1	22.9	16.9	13.6	13.0	11.7
Investment Portfolio	15.4	13.4	9.9	7.4	6.8	6.1
Total Assets	15.6	13.9	10.3	8.6	8.7	7.9
Net MVL [2]	7.4%	6.0%	8.1%	-2.0%	-6.0%	-6.1%
Asset Concentration [3]	59.4%	56.5%	51.2%	47.7%	40.9%	40.7%

[1] Financial years ending 31 March, GBP billion, based on IFRS accounts if not stated otherwise. Latest data as of 30 September 2022. [2] The Net MVL calculated based on the Investment basis was 6.8%. [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.

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 £19.6 billion in assets under management (AUM) as of 30 September 2022, of which £14.5 billion is proprietary capital. 3i invests in midmarket companies and typically takes majority or significant minority positions. 3i's infrastructure business reached £5.9 billion of AUM as of September 2022. The company invests principally in midmarket economic infrastructure 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.

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, to a lesser extent, increased fundraising. 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 £19.6 billion as at 30 September 2022 from £16.7 billion as at 31 March 2022, mainly thanks to unrealized value positive movements. AUM at 3i's infrastructure division rose to £5.9 billion from £5.7 billion over the same period. 3i's proprietary investments totaled £16.4 billion as at 30 September 2022 (31 March 2022: £14.3 billion).

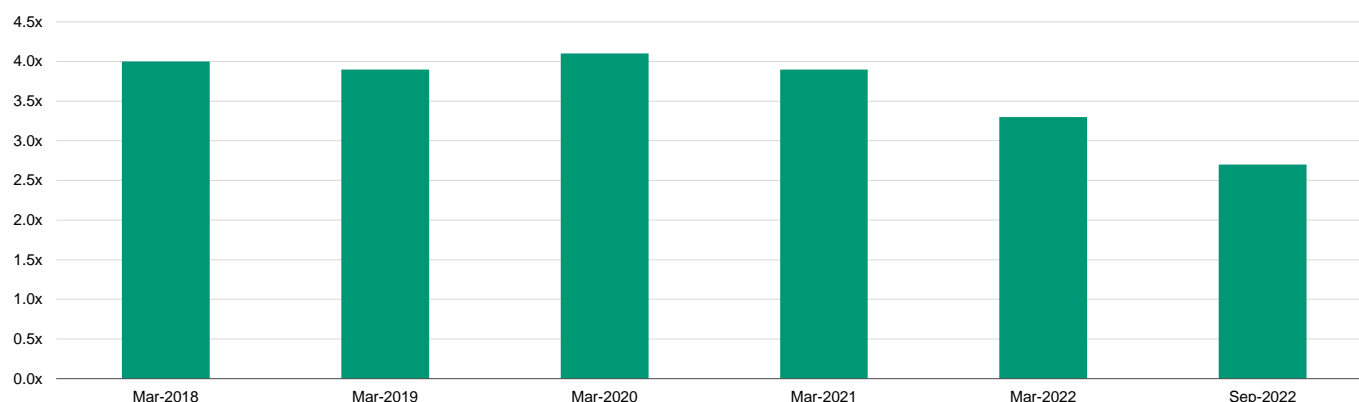
In the first 6 months of the reporting year (ending in September 2022), 3i invested a total of £298 million (£543 million in FY2022, ending in March), largely in relation to its private equity portfolio. £217 million were invested in the acquisition of four new portfolio companies, including £100 million investment in xSuite (business and technology sector) and £60 million investment in Konges Sløjd (consumer sector). The company further deployed £57 million for bolt-on acquisitions and to support growth in existing portfolio companies. During the same period, 3i's portfolio companies completed three self-funded bolt-on acquisitions. In infrastructure, proprietary investments of £6 million were added.

During the first half of the reporting year, realisations totalled £193 million; a further £476 million received in early October, bringing the total amount to £669 million in the first 7 months of the reporting year (£788 million in FY2022). Despite the uncertainty around the

economic conditions, realisations were achieved at good premiums to the portfolio's carrying values. 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 62% of its investee companies (by value) holding net debt-to-EBITDA ratios of 1x-2x. Across the private equity portfolio average net leverage was 2.7x (see exhibit 3) as of 30 September 2022 (31 March 2022: 3.3x) or 4.1x excluding Action (31 March 2022: 4.6x); 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

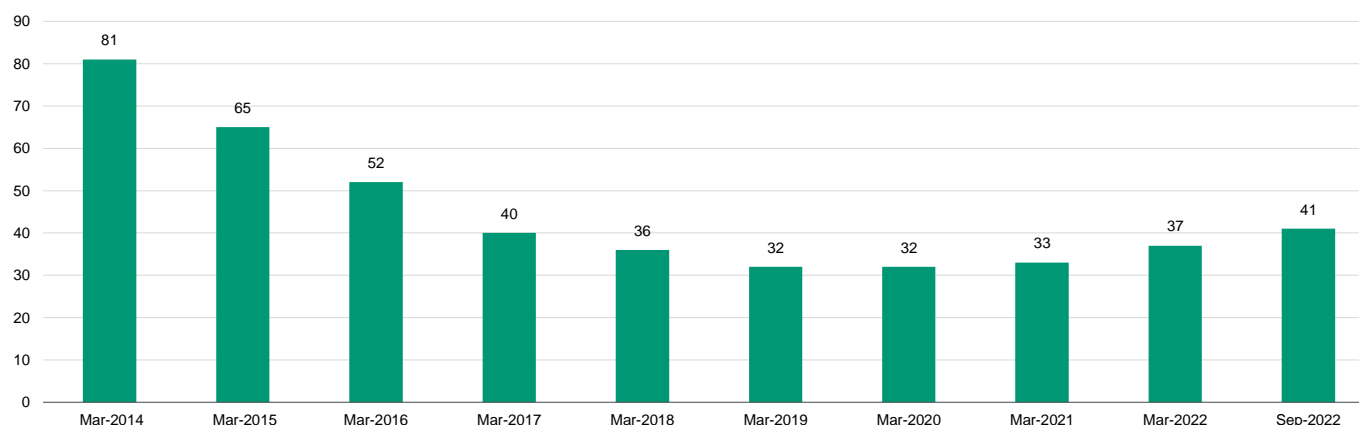
3i's private equity portfolio leverage (weighted average)

Source: Company annual reports and Moody's Investors Service

3i's largest investment creates portfolio concentration risk

3i counted 41 private equity investments in September 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

Source: Company annual reports

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 52.7% stake in it at £10.3 billion, corresponding to 59% of the group's total portfolio as at December 2022. We view asset concentration as a source of credit risk, notably considering Action's rating level. However, we

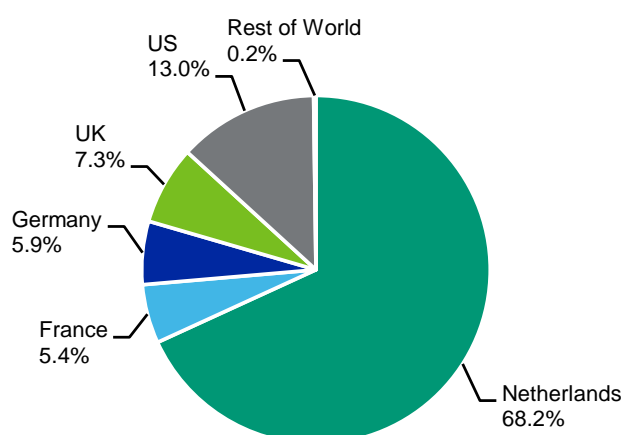
recognise that concentration has been largely driven by Action's exceptional performance. Action's positive track record, as evidenced by net sales and operating EBITDA CAGR of 19% and 21% respectively from 2017 to 2022, has boosted its valuation in recent years. Action's valuation growth outpaces that 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 £1.7 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

In terms of the rest of the portfolio, the group's principal infrastructure investment, 3iN (3i Infrastructure plc), remains the second largest investment, representing 5.1% of the group's proprietary capital. 3i's third largest investment, Cirtec Medical- part of its healthcare portfolio- represented 3.2% 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 (c.3.2% 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 well 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).²

Exhibit 5

Geographic composition of 3i's private equity portfolio



Data as of September 2022
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 £495 million in cash and cash equivalents as of December 2022 (£229 million as of March 2022) largely held in highly rated money market funds. 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. The first FY2023 dividend was set at 50% of the total FY2022 dividend and was paid in January 2023.

Low leverage remains a key credit strength

3i's outstanding reported gross debt was £1.1 billion as of 30 September 2022, consisting of £975 million of fixed debt and £154 million of drawn RCF. Its net market value-based leverage (MVL), on the Investment Basis, was 6.8%, which remains consistent with an Aaa score for the sub factor. In October 2022, the group repaid its drawn RCF. In March 2023, it also repaid its maturing £200 million fixed rate bond, a credit positive. Overall, we expect leverage to remain low, a key credit strength underpinning the rating level.

Operating cash negative in first half but expected to turn positive in FY2023

In the first 6 months of the reporting year, 3i reported an operating cash loss of £17 million (September 2021: operating cash loss of £19 million), as the higher cash income for the period, on a year-on-year basis, was more than offset by higher operating expenses. However, similar to FY2022, the group expects to report operating cash profit in FY2023.

In FY2022, 3i's cash operating income significantly increased and it remained 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, nexeye (formerly 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 maintained 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 £495 million of cash as of December 2022 (£229 million as of March 2022), 3i benefits from an undrawn credit facility of £900 million, out of which £400 million matures in 2024 and the remaining matures in 2027. 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 31 December 2022, with the first £200 million instrument maturing in March 2023, which the group has recently repaid, 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

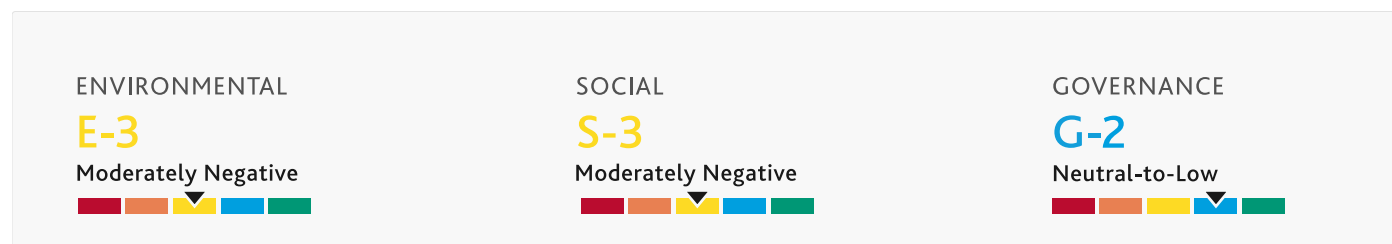
For an issuer scored CIS-2 (Neutral-to-Low), its ESG attributes are overall considered as having a neutral-to-low impact on the current rating; i.e., the overall influence of these attributes on the rating is non-material.



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

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]	
Factor 1 : Investment Strategy (10%)	Measure	Score	Measure	Score
a) Investment Strategy	Ba	Ba	Ba	Ba
Factor 2 : Asset Quality (40%)				
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
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	Aa	Aa
Factor 5 : Debt Coverage and Liquidity (20%)				
a) (FFO + Interest Expense) / Interest Expense	7.8x	Aaa	1x-2x	B
b) Liquidity	Aaa	Aaa	Aaa	Aaa
Rating:				
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
3i GROUP PLC	
Outlook	Stable
Issuer Rating	Baa1
Senior Unsecured -Dom Curr	Baa1
PEER HOLDING III B.V.	
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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