3i Group PLC

June 27, 2025

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Credit Highlights

Overview

Key strengths	Key risks
A permanent capital structure that is not subject to redemption risk, even in a stress scenario.	The investment portfolio's high concentration in discount retailer Action.
Strong leverage metrics that are supported by a relatively large asset base, compared with recourse liabilities.	Most portfolio assets being illiquid, could prove difficult to realize in a timely manner during a market downturn.
A strong track record in European midmarket private equity, maintaining resilient earnings in a challenging economy.	Exposure to investment market volatility.

3i Group PLC's portfolio valuation has improved with solid growth from Action and Royal Sanders. 3i’s portfolio value increased by 18.2% year over year to £25.6 billion as of March 31, 2025, driven by the firm’s long-term hold assets, Action and Royal Sanders, which contributed £3.7 billion and £0.3 billion, respectively, to the £4.0 billion increase. The valuation of the other eight investments in the top 10 also rose modestly, by £89 million in the same period. We are mindful of Action's concentration, with it representing 70% of the portfolio and the bulk of the valuation increase. However, the valuation increase is due to Action’s organic earnings growth rather than a change in valuation multiples. Its high cash-generating capability and relatively low leverage also benefit 3i’s liquidity. We expect Action's valuation to continue to rise in line with its EBITDA, and dividends to benefit 3i's performance.

3i demonstrates consistent and conservative gearing, maintaining its very strong risk-adjusted leverage assessment. The group posted net debt of £771 million as of March 31, 2025, reporting a low gearing (net debt to total equity) of 3%, on higher portfolio valuations. Its stressed leverage improved further to 9.0x from 7.5x the prior year and we expect it to remain comfortably above our 3.5x threshold over the next two years. Given Action's large exposure, we have considered leverage with and without the company. Even if we removed Action's valuation and its high dividends from our calculations, 3i's metrics would still be strong, which highlights the group's capital buffer.

In our view, 3i's funding and liquidity profiles remain adequate. Strong permanent capital and a diverse investor base fuels the strong assessment of the group's funding. We maintain our adequate assessment of 3i's liquidity based on cash levels of £400 million and a revolving credit facility (RCF) of £900 million. Action continues providing large dividends to 3i. Moreover, the private equity segment generated £659 million from two investment disposals, and the infrastructure business also reported stable fee income, notably from Scandlines and 3iN. We conservatively assume that much of the cash will be reinvested in new or existing companies or returned to shareholders.

Outlook

The stable outlook on 3i reflects our expectation that the group will preserve conservative financial leverage policy and adequate liquidity levels, while managing concentration risks in the investment portfolio and maintaining solid operating and financial performances.

Downside scenario

We could lower the ratings if 3i weakens its commitment to its conservative leverage, it materially increases debt, or the investment portfolio's quality or performance deteriorates meaningfully. A downgrade could also occur if its liquidity management becomes less prudent.

Upside scenario

We are unlikely to raise the rating given 3i's heavily concentrated investment portfolio, the illiquid nature of its investments, and its adequate liquidity position.

Fund Overview And Investment Strategy

3i is a U.K.-based investment trust company that invests in private equity and infrastructure assets. It is listed on the London Stock Exchange (LSE) and is part of the FTSE 100. The company's £25.6 billion portfolio has been performing well for many years. The group has one of the longest track records in European midmarket private equity, investing in companies with enterprise values of €100 million-€500 million. It focuses on the consumer and private label, industrial, healthcare, and services and software sectors, primarily in the Netherlands, France, Germany, the U.K., and North America. In addition to private equity, the group focuses on infrastructure. 3i owns 29% of 3iN, amounting to £856 million, and acts as its investment manager. 3iN is a FTSE 250 company that invests across midmarket economic infrastructure in developed markets.

Risk-Adjusted Leverage: Adequate

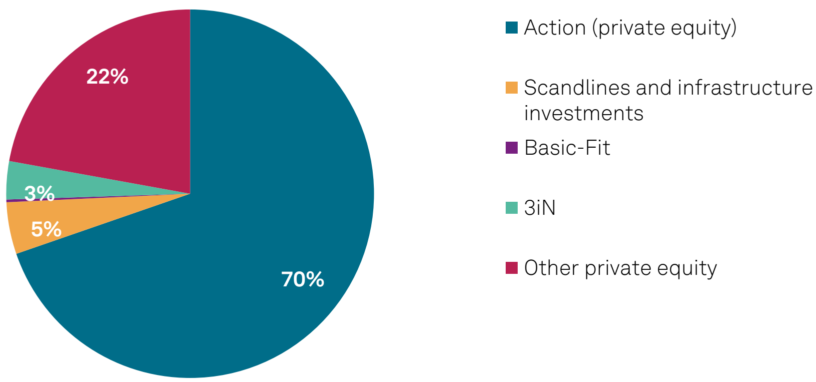
Our risk-adjusted leverage assessment is adequate, balancing 3i's very strong loan-to-value metrics and the company's high concentration.

Stressed leverage: Very strong

Stressed leverage is improving in line with 3i's portfolio valuation. We continue to view the group's stressed leverage assessment as very strong--our highest assessment--since it has consistently been above our 3.5x threshold over the past five years. We calculate the group's stressed leverage by applying different haircuts on its assets to reflect typical market movements in a 'BBB' stress scenario and compare the total stressed assets to cover the total recourse liabilities. We applied a higher haircut to the portion of the investment portfolio composed of illiquid assets, which could be challenging to realize quickly in a stress scenario. On March 31, 2025, this ratio was 9.0x and one of the highest in our peer group. We think there is a sufficient capital buffer to absorb large asset value declines in a market downturn. A rise in debt could worsen stressed leverage, but 3i has no appetite for structural gearing at the group level. It operates within a range of net cash equivalent to about 2.5% of net asset value (NAV) and net debt equivalent to about 5% of NAV. Net debt was £771 million as of March 31, 2025 with a low gearing of 3%, leaving stressed leverage at comfortable levels.

3i's assets depict a more concentrated portfolio

Portfolio composition



Source: S&P Global Ratings.

We use the following assets in our stressed scenario based on 3i's reported data on March 31, 2025:

- Cash and cash equivalents of about £400 million, assuming outflows for operational uses, dividends, and carried interest payables;
- Public equity of £916 million, comprising the quoted investment Basic-Fit (£60 million) and 3iN (£856 million); and
- Private equity of £24.7 billion, namely all other investments, including Scandlines and infrastructure.

In addition, we use the following total recourse liabilities:

- The €500 million, 4.875% notes due in 2029;
- The £375 million, 5.750% notes due in 2032;
- The £400 million, 3.750% notes due in 2040.

When calculating our stressed leverage ratio, we apply a 50% haircut on listed stocks (with Basic-Fit and 3iN listed as quoted investments) and a 60% haircut on unlisted stocks, which is commensurate with a 'BBB' stress scenario. Of the top 20 private equity investments, which account for 95% of portfolio value, 15 were earnings-accretive and generated value growth of about £5 billion. We think the portfolio could expand further considering Action's resilient performance. Action has proven its ability to replicate its successful strategy in existing and new countries. The company added 352 stores and two distribution centers by the end of 2024. It plans to open about 370 stores in 2025, including in two new countries, Switzerland and Romania. Still, we note Action's slower EBITDA growth of 29% compared with 34% the previous year, which is still high. As for the valuation of the rest of the portfolio, in fiscal year-end 2025 (March 31), only one company, Wilson, a global provider of recruitment process outsourcing and other talent solutions, declined in value by more than £20 million (£88 million) due to market uncertainty, as compared with nine companies a year earlier (totaling £452 million). The underlying leverage at the asset level excluding Action was also lower, at 3.5x from 3.9x the previous year, indicating good EBITDA resilience against the indirect effects of geopolitical risks, changes in U.S. trade policies, and market turmoil.

Risk position: Weak, due to 3i's highly concentrated portfolio and illiquid assets. The group's portfolio consists of 36 private equity names but is highly concentrated. In particular, its investment in Action represented about 70% of the total portfolio on March 31, 2025, compared with 44% five years ago. Over the past five years, the portfolio size has increased in tandem with Action's strong performance. In fiscal 2025, Action generated robust sales and earnings growth and high dividends, contributing most of the £4.8 billion unrealized gain in 3i's portfolio as well as the group's portfolio income. Action is cash-generative, paying dividends of £433 million in fiscal 2025 and £375 million in fiscal 2024. It also adds to the portfolio's market volatility since the total valuation is increasingly sensitive to Action's performance. In addition, holding a large amount in one name can limit the recycling of capital. Action's earnings multiple was unchanged at 18.5x, based on an EBITDA run rate of €2.3 billion on March 31, 2025 (compared with €1.8 billion at March 31, 2024). Under our risk position assessment, we consider this a structural concentration risk in 3i's portfolio, which partly offsets the quantitatively strong stressed leverage metric, in our view. As for the rest of the portfolio, most companies are highly levered, unlisted, and equivalent to speculative-grade. A large number of assets could take more time to divest, even at a discount, compared with peers that hold mostly listed equities in their portfolio. Nevertheless, we regard positively 3i's strategy to focus on well-known sectors, primarily in the U.S. and Europe, and a more limited number of investments.

Top 10 largest exposures represent 88% of the investment portfolio

Company name	Valuation basis	Valuation, March 2025 (mil. £)	Share of total portfolio (%)
Action	Earnings	17,831	69.7
Royal Sanders	Earnings	865	3.4
3iN (29% stake)	Quoted	856	3.3
Cirtec Medical	Earnings	614	2.4
Scandlines	DCF	529	2.1
AES Engineering	Earnings	419	1.6
Tato	Earnings	382	1.5
Evernex	Earnings	350	1.4
Sanisure	Earnings	324	1.3
Smarte Carte	DCF	308	1.2
Top 10 total	N/A	22,478	87.9

Figures as of March 31, 2025. Source: S&P Global Ratings based on company reports. DCF--Discounted cash flow. N/A--Not applicable.

Foreign exchange and interest rate risks are well-managed. Historically, with unhedged exposures in Europe and the U.S., currency risks have caused volatility in 3i's accounts. Since fiscal 2023, the group implemented a medium-term hedging program to partially reduce the sensitivity of its returns to exchange rate movements as part of its overall capital management approach. The partial hedge includes forward foreign exchange contracts of (notional) €2.0 billion and $1.2 billion in addition to the €600 million foreign exchange hedge of its long-term investment Scandlines. In April 2025, the company completed a further €400 million of forward foreign exchange contracts to increase the total notional value of the Group's euro foreign exchange hedging program to €3.0 billion. As a result, it mitigated the foreign exchange loss of £361 million by £82 million in in fiscal 2025. Interest rate risk is limited. Across its private-equity portfolio, more than 70% of the term debt is hedged at a weighted-average tenor of more than three years, with the average all-in debt cost on the total hedged term debt at less than 6.5%.

Funding And Liquidity: Adequate

Funding: Strong

The permanent capital base is a key strength. The group benefits from its permanent capital structure since it is not subject to redemption risk, even in stress scenarios. Aside from its proprietary capital, 3i bears £1.2 billion of long-dated debt and a £900 million RCF that remains undrawn. We think the group has a strong capital structure and financial flexibility given the low balance-sheet gearing. 3i's strategy is to use investment proceeds and available cash to reinvest in new assets, because it aims to have very low-to-no structural gearing. In an extreme case of stress, the committed credit facilities could, in our view, be of use if exceptional investment opportunities arise or if 3i's cash reserves reach a low point. However, we view the latter scenario as remote. Furthermore, we think the group's renowned franchise and long-standing relationships with financial institutions support its funding profile.

Liquidity: Adequate

Liquidity is further supported by large dividends from Action and our adequate assessment in a potential stress scenario. 3i's liquidity could facilitate opportunistic investments in line with the group's strategy. We project liquidity sources would exceed liquidity uses by 1.35x in a 'BBB' stress scenario, pointing to an adequate liquidity cash flow assessment, although some uses are discretionary in such a stress scenario.

Liquidity sources include:

- Cash balances of about £400 million;
- The RCF of £900 million;
- £30 million of listed stocks (only Basic-Fit) after applying a 50% haircut;
- Dividend and interest income with a 50% haircut of £295 million, although this amount could be substantially lower if Action does not pay a dividend; and
- Fee income from external funds of £32 million after applying a 50% haircut.

Liquidity uses include:

Assuming no share repurchases, liquidity uses in a 'BBB' stress scenario over a 12-month horizon include:

- £704 million of announced dividend distributions;
- £150 million of operating expenses;
- £400 million estimated for opportunistic acquisitions and further investments to support the portfolio.

We assume rolling three-year minimum cash levels of about £400 million since we expect 3i to deploy much of its cash into private equity investments if opportunities arose. We consider that cash could also be provided to 3i's existing companies to support strategies or for any liquidity issues. Although simulated at about £400 million in our liquidity assessment, we estimate in any case that such investments will remain commensurate with 3i's capacity and would not jeopardize any upcoming debt repayment.

When calculating the liquidity ratio, we assume that 3i would not divest 3iN--which is listed on the LSE--or sell any of its private equity companies in a timely manner in an extreme stress scenario. We also apply the appropriate haircuts to assets in a 'BBB' scenario, including 50% for the sale of Basic-Fit, which is the only publicly listed stock in 3i's portfolio aside from 3iN.

Action has provided another large dividends of £433 million, which was greater than last year’s £377 million. This supports our adequate liquidity assessment. That said, in a stress scenario, if Action did not provide a large dividend, we consider that 3i Group’s net investments would also be correspondingly lower, which would maintain the liquidity ratio. We expect 3i's liquidity profile to remain adequate and supportive of the group's strategy.

Other Key Credit Considerations

3i is listed on the LSE, with its shares widely held, and is a constituent of the FTSE 100, which reinforces its sound governance. It is not regulated, but some subsidiaries are. 3i Investments PLC is regulated by the U.K. Financial Conduct Authority and 3i Investments (Luxembourg) S.A. by local Commission de Surveillance du Secteur Financier. As a U.K. investment trust, 3i's capital gains are exempt from tax.

Track record and investment performance: Adequate

The management team, under long-serving CEO Simon Borrows, has set strategic objectives with linked key performance indicators, such as gross investment returns, operating cash profit, and gearing. Mr. Borrows is also chairman of Action's board. Despite economic and geopolitical challenges in the year, Action's dividend recapitalization allowed 3i to realize significant proceeds and fully settle the carried interest liability related to Action. Management also has a history of not incurring unexpected declines in earnings or cash flow from operational risks. This is also reflected in 3i's share price, which rose 29% in fiscal 2025, making it one of the solid performers of the FTSE 100.

Risk management: Neutral

Risk management is consistent and supportive of the group's strategy. The board reviews 3i's strategic objectives and risk appetite at least annually. It is responsible for 3i's risk assessments, risk management process, and protection of the group's reputation and brand integrity. The group's risk management framework is designed to support the delivery of its strategic objectives. The board considers the most significant risks 3i faces and uses quantitative analyses, such as vintage controls--which consider the portfolio concentration by region and sector--and liquidity reporting where appropriate. The group's risk appetite policy, which is consistent with that of previous years, is built on rigorous and comprehensive investment procedures and conservative capital management. It has exposure to infrastructure and health care, which should provide some protection against inflation. The team's consistency and very low turnover are qualities that underpin the management.

Transparency and complexity: Neutral

The strategy is focused, with comprehensive reporting. Since it is listed on the LSE, 3i is subject to comprehensive market reporting requirements. The company has consistent reporting across both International Financial Reporting Standards rules and its own management method to present a clearer picture of investments that should not be consolidated, in the group's view. 3i's business is not complex and is focused on execution with a set risk appetite, mostly investing in key known sectors.

Comparable rating analysis: A positive one-notch adjustment

We view listed investment funds The Mercantile Investment Trust PLC (AA-/Stable/A-1+), a U.K. midcap equity investment trust fund, and Pershing Square Holdings Ltd. (A-/Stable/--), a similar size private equity firm, as peers. Compared with 3i, Mercantile Investment Trust invests in liquid equity securities and is less concentrated, explaining the rating difference. We assess Pershing Square's risk-adjusted leverage at adequate, the same as 3i, but its funding and liquidity is assessed at strong given that its asset liquidity is better because it invests in listed equities vs illiquid private equity investments at 3i. However, for 3i, we have a positive one-notch adjustment in CRA reflecting our cautious approach but highlighting improving flexibility, both in leverage and in liquidity. Given the group’s very low leverage, track record of keeping very low debt and funding and liquidity that is stronger than other peers with adequate assessment, we think ‘A-’ is holistically a better reflection of 3i’s creditworthiness when compared with that of peers.

Issue Ratings

At fiscal 2025, 3i's debt consisted of well-laddered, unsecured term notes of €500 million maturing in 2029, £375 million maturing in 2032, and £400 million maturing in 2040. We do not notch down because the debt is not subordinated since 3i does not hold any other secured debt. There are also no covenants on any of the previously mentioned notes.

3i Group PLC--Ratings score snapshot

Issuer Credit Rating	**A-/Stable/A-2**
Risk-adjusted leverage	Adequate
Stressed leverage	Very strong
Risk position	Weak
Funding and liquidity	Adequate
Funding	Strong
Liquidity	Adequate
Preliminary anchor	bbb+
Jurisdictional risk	0
Anchor	bbb+
Modifiers	
Track record and investment performance	Neutral
Risk management	Neutral
Transparency and complexity	Neutral
Comparable rating analysis	Positive (+1)

3i Group PLC--Ratings score snapshot

Issuer Credit Rating	A-/Stable/A-2
Stand-alone credit profile	a-

Related Criteria

- Criteria | Financial Institutions | Other: Alternative Investment Funds Methodology, Dec. 9, 2021
- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- General Criteria: Group Rating Methodology, July 1, 2019
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Related Research

- Research Update: 3i Group Plc Upgraded To 'A-' On Higher Financial Flexibility; Outlook Stable, July 5, 2024
- 3i Group PLC, June 10, 2024
- Peer Holding III B.V. Affirmed At 'BB' On Proposed Recapitalization Transaction; Outlook Stable, June 13, 2024

Ratings Detail (as of June 18, 2025)*

3i Group PLC		
Issuer Credit Rating		A-/Stable/A-2
Senior Unsecured		A-
Issuer Credit Ratings History		
05-Jul-2024	*Foreign Currency*	A-/Stable/A-2
23-Jul-2021		BBB+/Stable/A-2
25-Feb-2020		BBB/Positive/A-2
05-Jul-2024	*Local Currency*	A-/Stable/A-2
23-Jul-2021		BBB+/Stable/A-2
25-Feb-2020		BBB/Positive/A-2
Sovereign Rating		
United Kingdom		AA/Stable/A-1+

*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings’ credit ratings on the global scale are comparable across countries. S&P Global Ratings’ credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.