MOODY'S
RATINGS

Rating Action: Moody's Ratings upgrades 3i's ratings to A3, stable outlook

17 Mar 2025

London, March 17, 2025 -- Moody's Ratings (Moody's) today upgraded 3i Group plc's ("3i" or "the Group")'s issuer rating and senior unsecured ratings to A3 from Baa1. The outlook remains stable.

RATINGS RATIONALE

The rating upgrade reflects 3i's continuous portfolio value creation and its proven track record of investment and asset management, as evidenced by the resiliency of its portfolio through various cycles. The rating also reflects the Group's conservative balance sheet, with consistently low leverage and low leverage appetite at 3i level, as well as prudent liquidity management. These strengths are partly mitigated by the non-investment grade and concentrated nature of 3i's investment portfolio.

3i's portfolio value has increased significantly over the past few years, reaching £24.5 billion as of December 2024, nearly tripling over the past five years. The Group has benefitted from Action's (Peer Holding III B.V., Ba2 positive) excellent performance, which has driven significant value creation in 3i's portfolio, and represents 70% of the overall portfolio value as of December 2024. Action's valuation growth has outpaced that of other assets in the portfolio, leading to increased portfolio concentration.

We expect that Action will remain a core investment of 3i's portfolio and that 3i's stake in Action (57.9% as of December 2024) will continue to be significant in the foreseeable future. The increasing dividend contributions from Action have significantly strengthened 3i's interest cover in recent years, a credit positive. While we generally consider outsized exposure to one asset in the portfolio as credit negative, 3i continues to manage its balance sheet prudently and benefits from diverse sources of cash distributions that can support its operating needs. The credit profile of 3i remains robust, even if significant stresses are applied to dividend contributions from Action and its valuation (3i's stake in Action was valued at £17.1 billion as of December 2024). The Group's initial investment in Action was £106 million in 2011 and 3i has invested a cumulative of £1.8 billion since then, with follow-on investments funded by distributions from Action. 3i generally targets to invest in businesses with an enterprise value of €100 million – €500 million with a typical investment horizon of 4-6 years. Nevertheless, it has identified, in addition to Action, a small number of companies with significant compounding potential, which it expects to retain for longer and should support the overall credit profile of the Group.

3i's financial leverage, as reflected in our net market-value leverage (MVL), has consistently remained below 10% (3.8%, on an investment basis, as at September 2024). We expect 3i to maintain low appetite for leverage, in line with its operating tolerance of £1.0 billion net debt to £0.5 billion net cash. 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. 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. 3i has consistently met this target, even when excluding Action's dividends in recent years.

--OUTLOOK--

The stable outlook reflects our expectation that 3i's portfolio performance will remain resilient, and that it will maintain its strong balance sheet and good liquidity profile.

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

Given the recent upgrade, additional positive pressure is currently unlikely.

Factors that could lead to a rating upgrade include: (i) a continued track record of strong portfolio performance, coupled with increasing asset diversification; (ii) further improvement in the overall credit quality of its investment portfolio; (iii) strong operating cash generation on a sustained basis, derived from diversified sources.

Factors that could lead to a rating downgrade include: (i) a significant increase in the Group's leverage; (ii) a significant reduction in the Group's liquid resources; (iii) a material deterioration in the quality of the Group's investment portfolio; (iv) a structural decline in recurrent cash inflows, materially reducing the firm's operating cash generation, and/or reliance on limited sources to achieve operating cash profit.

PRINCIPAL METHODOLOGY

The principal methodology used in these ratings 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 .

For any affected securities or rated entities receiving direct credit support/credit substitution from another entity or entities subject to a credit rating action (the supporting entity), and whose ratings may change as a result of a credit rating action as to the supporting entity, the associated regulatory disclosures will relate to the supporting entity. Exceptions to this approach may be applicable in certain jurisdictions.

For ratings issued on a program, series, category/class of debt or security, certain regulatory disclosures applicable to each rating of a subsequently issued bond or note of the same series, category/class of debt, or security, or pursuant to a program for which the ratings are derived exclusively from existing ratings, in accordance with Moody's rating practices, can be found in the most recent Credit Rating Announcement related to the same class of Credit Rating.

For provisional ratings, the Credit Rating Announcement provides certain regulatory disclosures in relation to the provisional rating assigned, and in relation to a definitive rating that may be assigned subsequent to the final issuance of the debt, in each case where the transaction structure and terms have not changed prior to the assignment of the definitive rating in a manner that would have affected the rating.

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Regulatory disclosures contained in this press release apply to the credit rating and, if applicable, the related rating outlook or rating review.

The Global Scale Credit Rating(s) discussed in this Credit Rating Announcement was(were) issued by one of Moody's affiliates outside the EU and is(are) endorsed for use in the EU in accordance with the EU CRA Regulation.

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