B.A.D.21 SRL

0849021796 CORPORATE

BBB ISSUER RATING
Long term

OUTLOOK
Stable

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Rating Action and Rationale

- EthiFinance Ratings initiates the long-term rating of B.A.D.21 SRL (B.A.D.21 or Otium), assigning a BBB rating with a Stable outlook, according to the investment holding methodology.
- B.A.D.21 is a family-owned investment holding company under Belgian law. It is owned by Pierre-Edouard Stérin, co-founder of Smartbox Group.
- Our rating is supported by B.A.D.21's solid credit metrics, characterised notably by a good LTV ratio (c. 12% weighted average as per EthiFinance Ratings's calculation for 2023-27). In addition, B.A.D.21's portfolio of assets, with a total value of €1.5bn at end-October 2024, is well diversified, by both value and industry. In particular, the reliance on Smartbox Group has significantly decreased over recent years, with the asset representing 17% of total assets at end-October 2024 compared to c. 40% in 2021. Furthermore, the financial and investment policies are assessed as adequate, commensurate with an investment grade rating, and reinforced by the company's good track record.
- However, our rating is partly constrained by the liquidity of the assets since B.A.D.21's portfolio is composed of privately-owned, non-listed companies. Even though, we do not foresee a short-term liquidity risk for the company as the level of debt is manageable and it has no commitments on annual investments to be made. Moreover, the average credit quality of the assets, as estimated by EthiFinance Ratings, weighs on our rating. Most of the companies are relatively small, in a ramp-up phase, and do not pay dividends. This has an impact on our assessment of the interest coverage ratio (below 2x in average over 2023-27) and highlights B.A.D.21's dependence on dividends received from Smartbox. However, the management expects an improvement in the coming years on that front as some assets are becoming mature. Finally, geographic diversification, despite some improvements, is another constraining factor. The company's investments continue to be focused on Europe, with a significant portion in France (c. 51% of NAV at end-October 2024).

Issuer Description

As of October 31, 2024, the net asset value (NAV) of B.A.D.21 was €1.3bn. The team is composed of around 100 professionals with wide sectoral expertise, and is based in France, Belgium, the US, Switzerland and Germany. The investment strategy revolves around 3 main lines (Otium Partners, Otium Studio, and Otium Investment) in addition to the longstanding assets (incl. Smartbox). Targeted companies usually operate in resilient, high-growth markets with significant development opportunities, and across various geographies. Smartbox is specialised in designing and selling gift boxes offering a wide range of experiences and activities. Its dividend payment contributed to the launch of B.A.D.21, now represents around 17% of the holding's assets (excluding cash and cash equivalents). In addition, B.A.D.21 has several investment holdings with both majority and minority stakes in more than 130 companies. As of October 31, 2024, the loan-to-value (LTV) ratio stood at 12.9%.

Fundamentals

Business Risk Profile

Investment Policy

- **Good investment policy, with a good track record, but only limited ESG considerations**

B.A.D.21's investment strategy is well disciplined and defined internally. Investment teams target companies operating in resilient markets, that have no or little debt (in any case there is no recourse of operational debt to B.A.D.21), and which offer promising growth opportunities (including M&A). In particular, the focus is on developing investment platforms within specific industries by acquiring small profitable companies ('roll-up' strategy). The group is also active in the creation (or co-creation) of companies, either through a business incubator or the creation of new venture companies.

B.A.D.21 relies on a team of around 100 professionals located in France, Belgium, the US, Switzerland and Germany, with sectoral expertise across the three investment lines and the longstanding assets. The group has no time constraints for its investments.

As the holding receives proceeds from divestments or dividends from its more mature investments, the aim is to expand its portfolio, especially through reinvestment, which is expected to increase in the years ahead with the acceleration of portfolio turnover.

Consequently, the group's investment policy is considered adequate, characterised by a balanced diversification strategy in value and by industry. With a solid growth track record - averaging 23% per year since 2015 - the group has experienced significant gross asset expansion, from €200m at end-2015 to €1.5bn at end-October 2024. It ambitions to further develop its assets to reach €5bn by 2030. Our assessment of the investment strategy is, however, partly constrained by the longstanding dependence on Smartbox's dividend payment to fund B.A.D.21's investments. This is something the company is expected to improve in the years ahead as some mature investments may bring new sources of funds.

Regarding ESG policy, B.A.D.21 is committed to two ESG KPIs in the legal documentation of its Euro PP and would have to comply with the corporate sustainability reporting directive (CSRD) for its financial year ending April 2025. However, its investment policy does not yet factor in these issues.

Portfolio of investments

- **Good portfolio diversification by value and industry, but only moderate geographic diversification**

The portfolio is well diversified in terms of both value and industry.

At end-October 2024, we have assessed B.A.D.21 diversification by value considering on the one hand Smartbox as the main asset, and on the other hand, Hadrena. At end-October 2024, Smartbox Group represented around 17% of total asset value (excluding cash and cash equivalents) whereas the top 3 accounted for 40%, a good improvement from end-October 2023 (24% and 46% respectively). The diversification in value has improved considerably over the years, with Smartbox reducing from c. 40% in 2021 to 17% in 2024, which is positive for our assessment of the diversification in value. This decrease came from a double effect: growth of Otium's portfolio of assets overall, and the reduction of Smartbox's value mainly linked to the disposal of its activities in the UK. With the construction of investment platforms as part of Otium's new strategy, Hadrena, the leisure platform combining several assets of the group of which Kids Empire (13.3% of the total asset value), would be the main asset. It represented c. 23% of total asset value by end-October 2024. However, as Hadrena's assets are not consolidated and the platform can divest of some stakes, we have partially retained it as the main asset. Overall, our assessment of the diversification by value is good.

We have also assessed diversification by sector as good. Otium makes investments in a wide range of sectors (5 to 6 dominant industries as per EthiFinance Ratings' estimates) with no more than 30% of total asset value allocated to a single industry. From a credit standpoint, such a level of diversification reduces the portfolio's vulnerability to fluctuations in any single sector or asset.

However, geographic diversification is assessed as slightly less positive, as Otium remains strongly reliant on Europe, particularly France, the rest of its investments being mainly allocated to the US (26% of the NAV in 2024). This geographical concentration could ultimately impact the portfolio's performance and resilience since economic conditions and regulatory changes in France and in Europe generally can directly influence the performance of the assets. Enhancing geographic diversification could strengthen the portfolio's ability to withstand market fluctuations and mitigate risks associated with dependence on a single market.

- **Poor credit quality of B.A.D.21's assets**

With some exceptions, most obviously Smartbox, B.A.D.21's investments are in developing companies, which are in a ramp-up phase and not always established leaders in their respective markets, albeit they offer good growth opportunities. EthiFinance Ratings assesses the general business risk profile of B.A.D.21's investments as rather weak. However, this is partly offset by a good overall financial risk profile on the back of a good LTV for the group.

- **Overall very illiquid assets but planned divestments and recuring revenues from its assets mitigate short-term liquidity risk**

B.A.D.21's strategy revolves around investing in small and medium-sized companies with the aim of fostering their growth, resulting in investments being primarily in unlisted companies. This approach inevitably means investment in illiquid assets. However, concern over liquidity is somewhat mitigated by the fact that B.A.D.21 has no commitments on the amount of investments being made annually, a limited use to debt financing, and additional debt facility authorised but not committed yet (a €50m RCF that can be drawn from May 2025), thereby diminishing the materiality of liquidity issues. Furthermore, regular negotiations with potential buyers, combined with certain liquidity mechanisms in legal contracts, also slightly limit a potential liquidity issue. Finally, Otium invests with no timing constraints, which also mitigates the liquidity risk.

Financial Risk Profile

Financial policy

- **Adequate policy with a good track record**

We assess B.A.D.21’s financial policy as adequate. The levels of LTV remain good (around 12% for the period 2023-2027) despite a deterioration in 2024 from the previous very low-to-negative LTV. This is mainly linked to the investments made by the group to foster its development. The level of LTV is subject to a financial covenant (LTV below 25%). Our assessment of the financial policy is, however, partly constrained by a weak interest coverage ratio on the back of the group’s ambitious programme of investments combined with limited, concentrated sources of funds, as explained in the investment policy.

Leverage and coverage

- **Debt structure**

As of end-October 2024, B.A.D.21's debt structure was composed of:

- €150m syndicated loan
- €22.5m Euro PP maturing in 2028
- €17m Euro PP maturing in 2030
- €50m revolving credit facility (RCF) maturing in 2028 (with a one-year extension option). As of October 31, 2024, €40m of the facility has been drawn.

An additional €50m RCF could be available for drawdown from May 2025 (requiring banks credit approval).

Finally, under the current terms and conditions of the syndicated loan and the €17m Euro PP maturing in 2030, B.A.D.21 is authorized to raise an additional €83m in the form of loans or bonds.

- **Weak interest coverage**

B.A.D.21’s interest coverage ratio is weak, at 1.7x at end-April 2024, a deterioration from the level of a year earlier, and will probably remain below 2x on average over our forecast period (2025-27). This is the result of new debt raised by the group to pursue its investments. In addition, the revenues of B.A.D.21 are limited, given the limited number of mature investments able to provide recurring sources of funds and the absence of management fees paid by the companies in which the group is invested. Moreover, B.A.D.21’s active investment strategy consists of quickly reinvesting proceeds from divestitures and financial income received from mature companies. Consequently, this limits B.A.D.21’s capability to improve its interest coverage by benefiting from more important cash investments as done by some peer companies. This is, however, partly mitigated by the fact that investments are at the discretion of management, and the investment strategy could always be adapted to the holding’s financial capacity.

- **Very good LTV ratio, expected to slightly deteriorate due to significant investments in the years ahead**

As at end-October 2024, B.A.D.21’s LTV ratio stood at 12.9%, a deterioration from the level at end-October 2023 (2.0%) linked to significant investments mainly paid by new debt raised. According to our conservative projections, the ratio is likely to slightly deteriorate around 15.0% over our forecast period (2025-27), on the back of significant investments being made, and assuming no revaluation of the existing assets.

Rating Sensitivity

- **Long-term rating positive factors (↑)**

We could upgrade our rating to BBB+ should B.A.D.21 improve its interest coverage. All things being equal, an interest coverage ratio above 3.0x on average would entail an upgrade. Finally, B.A.D.21’s long-term rating is constrained by the credit quality of the assets as well as their liquidity. Improving the overall credit quality of the portfolio could also lead to a general improvement of other metrics - and by extension of the rating - such as our assessment of the investment policy and/or an improvement of the interest coverage ratio with more regular sources of funds deriving from more mature assets.

- **Long-term rating negative factors (↓)**

Conversely, we could downgrade our rating should B.A.D.21 adopt a more aggressive financial policy or should the value of its portfolio be reduced to such a level that the LTV ratio would automatically jump above 15%, for a sustain period. In that regard, the higher the LTV, the more sensitive B.A.D.21 would be to a change in the valuation of its assets.

Sources of information

The credit rating assigned in this report has been requested by the rated entity, which has also taken part in the process. It is based on private information as well as public information. The main sources of information are:

1. Annual Audit Reports.
2. Corporate Website.
3. Information published in the Official Bulletins.
4. Rating book provided by the Company.

The information was thoroughly reviewed to ensure that it is valid and consistent, and is considered satisfactory. Nevertheless, EthiFinance Ratings assumes no responsibility for the accuracy of the information and the conclusions drawn from it.

Additional information

- The rating was carried out in accordance with Regulation (EC) N°1060/2009 of the European Parliament and the Council of 16 September 2009, on credit rating agencies. Principal methodology used in this research are :
    - Corporate Rating Methodology - Investment Holding : https://files.qivalio.net/documents/methodologies/CRA 192 V1.Corporate Rating Methodology Investment Holding.pdf
- The rating scale used in this report is available at https://www.ethifinance.com/en/ratings/ratingScale.
- EthiFinance Ratings publishes data on the historical default rates of the rating categories, which are located in the central statistics repository CEREP, of the European Securities and Markets Authority (ESMA).
- In accordance with Article 6 (2), in conjunction with Annex I, section B (4) of the Regulation (EC) No 1060/2009 of the European Parliament and of the Council of 16 September 2009, it is reported that during the last 12 months EthiFinance Ratings has not provided ancillary services to the rated entity or its related third parties.
- The issued credit rating has been notified to the rated entity, and has not been modified since.