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Tikehau Capital SCA

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Tikehau Capital SCA

Credit Highlights

Issuer Credit Rating
BBB-/Stable/A-3

Overview

Key strengths	Key risks
Strong presence in its home market, France.	Geographic concentration of investments in France and Western Europe.
Solid track record of assets under management (AUM) growth and market expansion.	Relatively small scale compared with U.S. peers.
High level of locked-in fees supporting revenue stability and predictability.	Higher financial leverage than most alternative asset manager peers when measured with cash-flow metrics.

Tikehau Capital SCA (Tikehau) benefits from structural tailwinds of demand for alternative assets from institutional investors. Tikehau has grown exponentially over the past two decades, from an exclusively France-focused alternative asset manager with very limited scale to an institutional and more international player. Organic and inorganic growth allowed Tikehau to triple its AUM over the past five years to €38.8 billion at year-end 2022. We are confident institutional investors in search of higher real yields and diversification into private markets will continue to support its growth though the investment landscape remains competitive. In fact, we see Tikehau remaining agile amid heightened economic uncertainties, where we do not expect to see the run up in asset prices or record fund raising of the last few years.

Tikehau's growth plan will yield increased EBITDA generation through recurring revenue. We expect Tikehau to continue delivering its growth plan and consequently further enhance its recurring third-party management fee income. Tikehau has mostly closed-end recent funds providing locked-in fees for the next five to 10 years. It could also benefit from continuous investment of its funds' dry powder and still has about €4.0 billion of future fee-paying AUM as at year-end 2022, representing about €40 million of potential additional revenue. On the other hand, income from balance-sheet investment is more complex to predict because it depends on timing and valuations of asset realizations. The current challenging macroenvironment could delay such asset sales, which we factor into our metrics. Still, we forecast an S&P Global Ratings-adjusted EBITDA margin in the 60%-65% range over the next two years and S&P Global Ratings-adjusted EBITDA generation to pursue its increasing trend on the back of higher management fees.

Tikehau's balance sheet metrics should stabilize and are commensurate with an investment grade rating. We forecast Tikehau's modest balance-sheet financial leverage will stabilize in the next two years, as measured by S&P Global Ratings-adjusted debt to adjusted total equity in the 0.5x-0.6x range, mainly because we assume no further debt issuance in our forecasts. Tikehau's EBITDA expansion and hedging policy protecting from rising rates will support its EBITDA interest coverage ratio staying sustainably well above 6.0x.

Outlook

The stable outlook reflects our expectation that in the next two years Tikehau Capital will pursue its growth strategy and will show resilience thanks to locked-in management fees. It is also underpinned by our forecast of S&P Global Ratings-adjusted EBITDA to interest coverage above 6.0x and adjusted debt to average tangible equity below 0.8x.

Downside scenario

We could lower the ratings if Tikehau Capital materially increases its financial leverage appetite such that its debt to average tangible equity moves above 0.8x or if its interest coverage deteriorates below 6.0x on a sustained basis. We could also lower the rating if its investment performance deteriorates substantially causing long-term fundraising prospects to wane.

Upside scenario

Although unlikely at this stage, an upgrade would require Tikehau to materially grow its market presence and further lower its financial risk in line with higher rated peers.

Our Base-Case Scenario

Assumptions

- Fee-paying AUM growth over the next two years by 15%-20%, owing to solid fundraising prospects and dry powder deployment.
- As a result, we expect management fees to grow substantially as locked-in fee-paying AUM increase.
- Realized investment income averaging €80 million-€100 million in the next two years.
- Adjusted EBITDA margin (considering our 50% five-year average haircut on net realized performance fees and net realized investment income) remaining high and in the 60%-65% range.
- No new debt issuance; and gradually reducing cash on hand as the company invests in its own funds.

Key Metrics

Tikehau Capital SCA--Key metrics*

	--Fiscal year ended Dec. 31--			
Mil.€	**2021a**	**2022a**	**2023f**	**2024f**
Debt/adjusted total equity (x)	0.35	0.49	0.51	0.51
EBITDA interest coverage (x)	7.1	8.1	10.0-11.0	13.0-14.0
EBITDA margin (%)	59.00	58.80	60-65	60-65

*All figures adjusted by S&P Global Ratings. a--Actual. f--Forecast.

Company Description

Tikehau Capital is a Paris-based alternative asset manager founded in 2004 with €38.8 billion of AUM as at year-end 2022. It is a Euronext-listed investment company with its main geographic footprint in Europe, especially its home country France, but the company has increased its presence in Asia and North America more recently. Tikehau Capital operates through four business lines: private debt, real assets, private equity, and capital markets strategies.

Peer Comparison

Similarly rated alternative asset manager peers include U.K.-based Intermediate Capital Group (ICG), and U.S.-based Blue Owl, Oaktree, Ares, Apollo Global, and The Carlyle Group. ICG is a FTSE 100 listed alternative asset manager with third-party AUM of $68.5 billion, a locked-in fees structure, a more established leading position in mezzanine and leveraged credit, and higher balance-sheet financial leverage compared with Tikehau--although ICG announced a deleveraging plan. Moreover, we view Tikehau's size, scale, and track record and breadth of funds unfavorably compared with U.S. peers. We consider Apollo Global, The Carlyle Group, and Ares as more established as they tend to have much larger, broader, and more seasoned platforms.

Business Risk

Our assessment of Tikehau's business risk profile reflects our view of the company's overall market position, which is improving on the back of higher AUM, but which remains weaker than that of larger and more established U.S.-based peers. Our assessment also reflects Tikehau's diversified business lines, its niche market position, its ability to integrate new acquisitions, and its performance track record. Tikehau's adjusted EBITDA margin has increased gradually, also thanks to the reorganization that took place in mid-2021 and is above peers' average (>50%). In line with Tikehau's rated peers, we use our adjusted EBITDA calculation, factoring in 50% of the five-year average net realized performance fees and realized investment income.

Table 1

Tikehau Capital SCA--Adjusted EBITDA and margin calculation

(Mil. €)	31-Dec-20	31-Dec-21	31-Dec-22
Management fee income	198.6	263.8	293.5
Interest income and dividend income	97.1	104.8	182.0
Five-year average carried interest, performance fees and investment income (with 50% haircut)	39.0	54.4	35.5
S&P Global Ratings' adjusted revenues (B)	334.7	423.0	511.0
Fee-related earnings	43.9	171.7	269.5
Interest Expenses	28.4	33.8	36.1
OLA rent	6.2	6.0	6.0
Five-year net realized average carried interest, performance fees and investment income (with 50% haircut)	37.2	36.3	(10.9)
S&P Global Ratings' adjusted EBITDA (A)	115.7	247.8	300.6

Table 1

Tikehau Capital SCA--Adjusted EBITDA and margin calculation (cont.)

(Mil. €)	31-Dec-20	31-Dec-21	31-Dec-22
S&P Global Ratings' adjusted EBITDA margin (%) (A/B)	34.57	58.58	58.82

D&A--Depreciation and amortization. OLA--Operating lease-adjusted.

We view the management team as stable with a sound track record of business plan execution. Tikehau over-delivered on its previous strategic plan and reached targets ahead of schedule. With 56.7% of the company owned by management, including more than 100 partners and employees, we believe this leads to a strong alignment of interests with investors. The business has progressively evolved from a very narrowly focused player to a public, diversified, and fast-growing alternative asset manager with an expanding geographic footprint. Tikehau has continued its dynamic fundraising despite the challenging macroeconomic environment with a record €6.4 billion raised over 2022 and €7.0 billion of net new money in private markets strategies as at year-end 2022. We expect this momentum to continue over the next few years, with a double digit FPAUM growth rate over our forecast period, but still lower than Tikehau's goal of doubling its AUM by the end of 2026 versus 2021.

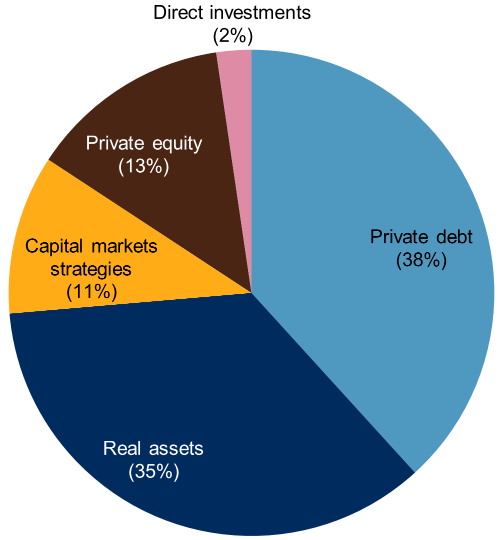
In line with peers, its S&P Global Ratings-adjusted EBITDA is calculated by including 50% of five-year average realized performance fees and realized investment income. Net gains on investments lower significantly from €138 million in 2021 to €12 million in 2022 as per Tikehau's plans to continue with existing investments. We expect this level to increase due to more visibility of future realization, especially from 2024 onwards.

However, most of Tikehau's fee income is from long-term closed-end funds that generate stable management fees, providing some earnings protection. Management fees grew 5.5x from 2017 to 2022 and were €293.5 million at end-2022. They grew 11% between 2021 and 2022. Management fees over average fee-paying AUM steadily increased from 0.57% in 2017 to 0.98% in 2022 as real assets and private equity increased their weight in total AUM. Tikehau has good access to deal flow with €6.9 billion in funds deployed in 2022 with high selectivity, which is key to assessing market position.

Tikehau continues to build its brand name, especially outside France, through impactful fundraising like Tikehau Direct Lending V (€3.3bn raised) and Regenerative Agriculture Fund (launched in partnership with Axa Climate and Unilever). It also priced two additional CLOs and launched three SPACs over 2021 and 2022, with at least one run down after not finding a target and one combining with FL Entertainment, a global entertainment group. The asset management increase over the year (12 months) of 2022 was strong (+15% overall versus year-end 2021) with the notable exception of the capital markets vertical and investment activity (-19% at year end-2022). Private debt grew 26%, real assets 15%, and private equity 25%.

Chart 1

Total AuM at year-end 2022, €38.8bn



Source: S&P Global Ratings.

Financial Risk

Our assessment of Tikehau's financial risk profile reflects its modest debt to S&P Global Ratings-adjusted total equity (ATE) of below 0.8x. Its increased locked-in management fees have also strengthened its EBITDA interest coverage ratio, which we forecast will remain comfortably above 6.0x in the coming 18-24 months.

Table 2

Tikehau Capital SCA--Net debt to adjusted total equity calculation

(Mil. €)	31-Dec-19	31-Dec-20	31-Dec-21	31-Dec-22
Financial liabilities	997	999	1,301	1,472
OLA debt	30	30	30	30
Gross debt	1,027	1,029	1,331	1,502
Cash and cash equivalents	1,307	914	1,014	455
- Haircut	654	457	507	100
Surplus cash	654	457	507	355
Net debt (A)	374	572	824	1,147
Reported equity	3,139	2,797	3,041	3,144

Table 2

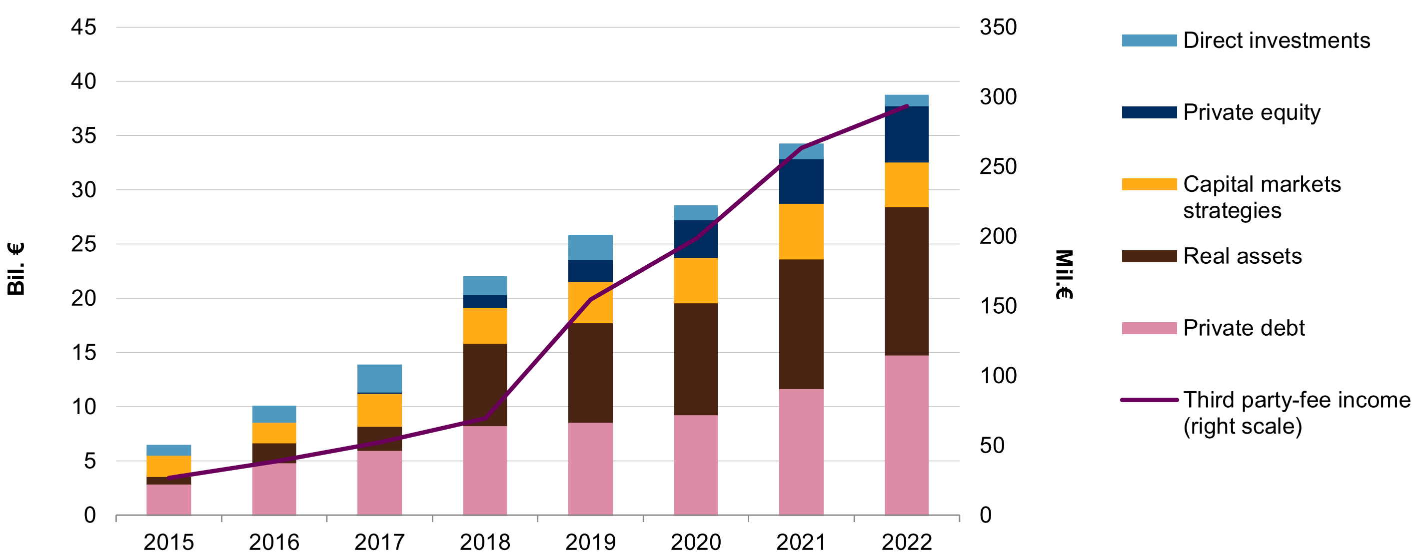
Tikehau Capital SCA--Net debt to adjusted total equity calculation (cont.)

(Mil. €)	31-Dec-19	31-Dec-20	31-Dec-21	31-Dec-22
Goodwill and intangibles	-492	-538	(547)	(552)
Equity in finco or structured product	-113	(97)	-167	(247)
Adjusted total equity (B)	2,534	2,162	2,327	2,346
Net debt/ATE (x) (A/B)	0.15	0.26	0.35	0.49

We do not consider debt to adjusted EBITDA in our core metrics given the specific nature of Tikehau's growth model, through which it invests a significant share of its balance sheet (€3.5 billion at Dec. 31, 2022). We note the increasing proportion of investments in Tikehau's own strategies is now about 79% compared to a low 33% five years ago. As management fee income expands and the role of income from its on-balance sheet investments in portfolio companies reduces within total revenue, we will align our assessment with how we look at other asset managers and put more emphasis on cash-flow leverage. We still monitor its adjusted debt to EBITDA, which remains elevated (expected at about 3.2x-3.5x at end-2023) but is gradually decreasing toward levels similar to its peer group.

Chart 2

Growth in AUM and fee income



Source: Company disclosures.

Tikehau's most recent debt issuance was its inaugural U.S. private placement for $180 million in two tranches (10 and 12 years)in February 2022. Before that, it issued a €500 million sustainable bond in March 2021 with an eight-year maturity. The company has another €500 million bond due in October 2026 and a €300 million bond due in November 2023. The group additionally has access to an undrawn revolving credit facility, which was increased to €800 million in

March 2022 with a maturity extended to July 2027.

Regarding its financial policy, management is publicly committed to maintaining a leverage ratio (gross debt to common equity) below 0.8x. We do not expect any transformative M&A soon but anticipate small bolt-on acquisitions. Dividends-wise, there was a payment of €288.7 million in fiscal 2022 in line with Tikehau's guidance to distribute to shareholders over 80% of its asset management EBIT.

Liquidity

Based on likely sources and uses of cash over the next 12-18 months, we consider that Tikehau Capital has a strong liquidity profile, and believe it could withstand current adverse market circumstances while maintaining sufficient liquidity to service its obligations.

Principal liquidity sources	Principal liquidity uses
• €300 million-€400 million of cash and cash equivalent in 2023-2024; • €800 million of undrawn revolving credit facility; • €400 million to €450 million of cash funds from operations in 2023.	• €120 million-€140 million in annual dividend distribution in 2023. • €290 million-€300 million acquisition budget included in our model despite no specific target or amount disclosed by Tikehau.

Debt maturities

- €300 million bond due November 2023
- €500 million bond due October 2026
- €800 million RCF due July 2027 (additional maturity extension option is exercisable by end-June 2023 to extend the maturity to 2028)
- €500 million bond due March 2029

Covenant Analysis

The main covenants are that loan-to-value (LTV) ratios be kept below 47.5% and minimum liquidity remains above €150 million. These covenants are on the syndicated term loan and the revolving credit facility. Tikehau has headroom in its LTV ratio as it was 25% on average at the end of 2022. Tikehau also benefits from ample liquidity of more than €355 million as of year-end 2022.

Rating Score Snapshot

Issuer Credit Rating: BBB-/Stable/A-3

Business risk: Fair

- Country risk: Low
- Industry risk: Intermediate
- Competitive position: Fair

Financial risk: Modest

Anchor: bbb-

Modifiers

- Diversification/Portfolio effect: Neutral (no impact)
- Capital structure: Neutral (no impact)
- Financial policy: Neutral (no impact)
- Liquidity: Strong (no impact)
- Management and governance: Satisfactory (no impact)
- Comparable rating analysis: Neutral (no impact)

Related Criteria

- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings , Oct. 10, 2021
- General Criteria: Group Rating Methodology , July 1, 2019
- Criteria | Corporates | General: Corporate Methodology: Ratios And Adjustments , April 1, 2019
- Criteria | Corporates | General: Reflecting Subordination Risk In Corporate Issue Ratings , March 28, 2018
- Criteria | Corporates | General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers , Dec. 16, 2014
- Criteria | Corporates | General: Corporate Methodology , Nov. 19, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities , Nov. 13, 2012
- General Criteria: Principles Of Credit Ratings , Feb. 16, 2011

Ratings Detail (As Of June 26, 2023)*	
Tikehau Capital SCA	
Issuer Credit Rating	BBB-/Stable/A-3
Senior Unsecured	BBB-
Issuer Credit Ratings History	
21-Mar-2022	BBB-/Stable/A-3
Sovereign Rating	
France	AA/Negative/A-1+

Ratings Detail (As Of June 26, 2023)*(cont.)

*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.