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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, and diversifying.	Higher geographic concentration of investments in France and Western Europe than peers.
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 in terms of cash flow.

Tikehau Capital SCA (Tikehau) is continuing to expand amid tighter market conditions. The France-based firm has delivered good results over the past 18 months despite a more challenging environment for fundraising. Assets under management (AUM) amounted to €44.4 billion as of March 2024, an 8.3% increase compared to first-half 2023. Tikehau has increased its footprint worldwide with 17 offices globally, including the Montreal office, which opened in first-quarter 2024, and the soon-to-be-opened Hong Kong. While the market for alternatives is expected to continue expanding in next decade, some institutional investors may have reached their target allocations in certain asset classes--particularly private equity--which could increase fundraising competition. Finding drivers of growth outside its home market will be key for Tikehau to sustain its expansion.

Still, institutional investors' and the affluent retail segment's ongoing search for diversification into private markets could support Tikehau's growth, especially in private credit, but the overall investment environment remains competitive. Anticipated rate cuts in the second half of 2024 and improving business confidence could fuel Tikehau's business plan, which was partly delayed by the macroenvironment in 2023. We will track the firm's ability to adapt to a more cautious economic climate, with potentially slower asset price appreciation and fundraising compared to recent years, and also noting leveraged corporates' anticipated increased risk of default. In this context, Tikehau Capital could benefit from downside protection with the low leverage levels of its funds.

Tikehau's growth has been delayed and its margins are somewhat lower than we previously expected. Under our base case we estimate S&P Global Ratings-adjusted EBITDA for 2024 will increase toward €350 million-€375 million and €450 million-€475 million for 2024 and 2025, lower than the €425 million-€450 million we previously forecast for 2024 due to lower management-fee revenues. We now forecast its S&P Global Ratings-adjusted EBITDA margin will be 58.5% in 2024, also lower than our previous forecast. This margin compression is stemming from the AUM mix generating lower fees rather than from fee pressures--Tikehau has been growing its collateralized loan obligations (CLOs) and secondaries segments faster than its higher margin private equity. Over the longer term we anticipate a margin recovery, to over 62%, considering Tikehau's scalable platform, potentially more private equity in the AUM mix, and reduced upfront investment requirements.

The company's focus on closed-end funds provides a predictable medium-term stream of management fees given their locked-in nature. As of year-end 2023, Tikehau also had about €4.2 billion of future fee-paying AUM, representing an estimated €42 million of potential additional revenues when funds are invested.

We see income from balance sheet investments as being the most exposed to greater variability. As was the case in 2023, this income is likely to become more volatile in the next two years due to the timing and valuation of asset sales. Despite these considerations, we project S&P Global Ratings-adjusted EBITDA margins to remain around 60% over the next two years.

Tikehau's financial leverage is expected to increase in the short term along with higher interest costs. We forecast EBITDA interest coverage will remain above 6.0x while weighted adjusted debt to adjusted total equity should stay below 0.8x over our rating horizon. This incorporates the benefit from its hedging policy mitigating the impact of higher interest rates when the RCF is drawn. Our projections also incorporate the financial flexibility of the RCF during 2024-2025, factoring in net balance sheet acquisitions.

Tikehau has a €500 million bond that matures in 2026, and we do not expect new debt issuance in the coming year. We also believe Tikehau will soon have more financial flexibility thanks to investments on balance sheet and limited additional funding needs; we assume cash from realizations will compensate for cash used in new seed companies from 2025.

Outlook

The stable outlook reflects our expectation that in the next two years Tikehau will pursue its growth strategy and 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 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 14%-16%, 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.
- Net realized investment income averaging €20 million-€40 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 around 60%, ranging between 58% and 62%.
- No new debt issuance, with the RCF offering financial flexibility when needed.
- Cash on hand gradually reducing as the company invests in its own funds.

Key metrics

Tikehau Capital SCA--Key Metrics*

	--Fiscal year ended Dec. 31--			
Mil.€	**2022a**	**2023a**	**2024f**	**2025f**
Debt/adjusted total equity (x)	0.5	0.6	0.8	0.7
EBITDA interest coverage (x)	8.1	8.5	6.0-7.0	8.0-9.0
EBITDA margin (%)	59	54	58-60	60-63

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

Company Description

Tikehau is a Paris-based alternative asset manager founded in 2004 with €44.4 billion of AUM as of March 2024. It is a Euronext-listed investment company with its main geographic footprint in Europe, especially its home country France, but with an increased presence in Asia and North America more recently. Tikehau operates through five business lines: private debt, real assets, private equity, tactical strategies (special opportunities and multi asset), and capital markets strategies.

Peer Comparison

Similarly rated alternative asset manager peers include U.K.-based Intermediate Capital Group (ICG), Citadel Limited Partnership, Grosvenor Capital Management Holdings LLP, and EIG Management Company, LLC. ICG is a FTSE 100 listed alternative asset manager with third-party AUM of $98.4 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 has announced a deleveraging plan. Moreover, we view Tikehau's size, scale, and track record and breadth of funds less favorably than U.S. peers. We consider Citadel, Oaktree, Ares, and KKR to be 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 peers. Our assessment balances Tikehau's diversified business lines, its sticky revenue profile thanks to locked in management fees, and its growth track record with its still-niche position in the fast-expanding alternative asset management market. Tikehau's adjusted EBITDA margin remains healthy and is gradually improving thanks to the reorganization in mid-2021.

Table 1

Tikehau Capital SCA--Adjusted EBITDA and margin calculation

(Mil. €)		31-Dec-21	31-Dec-22	31-Dec-23
	Management fee income	263.6	293.5	312.3
+	Interest income and dividend income	104.8	182.0	189.5
+	Five-year average carried interest, performance fees and investment income (with 50% haircut)	(83.6)	18.2	31.7
=	S&P Global Ratings' adjusted revenues (B)	423.0	511.0	535.0
	Fee-related earnings	171.6	268.9	219.0
+	Interest Expenses	33.8	36.1	32.7
+	OLA rent	6.0	6.0	6.0
+	Five-year net realized average carried interest, performance fees and investment income (with 50% haircut)	36.4	(10.3)	29.5
=	S&P Global Ratings' adjusted EBITDA (A)	247.8	300.6	287.2
D&A--Depreciation and amortization. OLA--Operating lease-adjusted.	S&P Global Ratings' adjusted EBITDA margin (%) (A/B)	58.6%	58.8%	53.7%

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. Moreover, we believe that with 54.6% of the company owned by management, including more than 100 partners and employees, this leads to a strong alignment of interests with investors. The business has evolved from being narrowly focused into a public, diversified, and fast-growing alternative asset manager with an expanding geographic footprint. Tikehau has continued its dynamic fundraising despite the challenging macroeconomic backdrop, with €5 billion raised over 2023. We expect this momentum to continue over the next few years, with a double digit FPAUM growth rate over our forecast period.

Tikehau has also gained in credibility internationally with a stronger presence in Asia: two new partnerships, nikko AM (distribution agreement; investment JV; equity stake in Tikehau) and UOB KayHian (joint launch of credit strategy in Asia), although Tikehau's activity in Asia remains oriented toward fundraising for institutional investors rather than investing. Tikehau has also announced the opening of two new offices in 2024 in Hong Kong and Montreal.

Since 2018, Tikehau has been developing its presence in North America both in infrastructure and CLOs, particularly mid-market infrastructure investing (transportation, social infrastructure, the environment, and communication), with the well-conducted acquisition of Star America that has enhanced Tikehau's presence in America. At year-end 2023, around 9% of AUM were from North America.

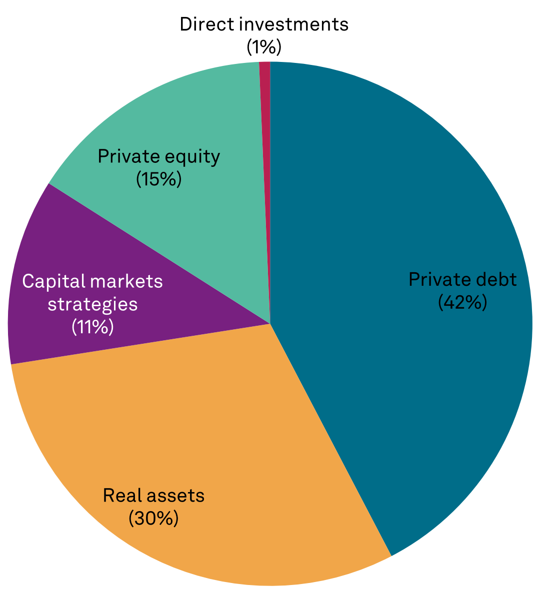
We understand that after this fast-paced growth management could target a more stable platform, slowing growth in employee numbers (a key company expense) and focusing instead on gaining scale with current teams.

Most of Tikehau's fee income is from long-term closed-end funds that generate stable management fees, providing earnings protection in the short term compared with traditional asset managers' open-ended structures. Management fees grew 4.4x in 2018-2023 and were €312 million at end-2023 (up 6.5% year on year). Management fees over average fee-paying AUM decreased from 0.98% in 2022 to 0.94% one year later--still above the 0.57% of 2017--as the assets mix is featuring an increasing share of lower margin credit strategies like CLOs. Tikehau retained good dealmaking access in a tough market with €5.9 billion funds deployed as of year-end 2023, compared to €6.9 billion in 2022.

Net gains on investments are lumpy by nature and reduced significantly to €12 million in 2022 and nil in 2023, from €138 million in 2021. To account for this volatility, and in line with peers, we calculate Tikehau's S&P Global Ratings-adjusted EBITDA by including 50% of five-year average net realized performance fees and net realized investment income. We expect investment income to bounce back once the market for realizations improves.

Chart 1

Total AuM at Q1 2024, €44.4bn



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. It also incorporates our expectation that its EBITDA interest coverage ratio will remain comfortably above 6.0x in the coming 18-24 months.

Table 2

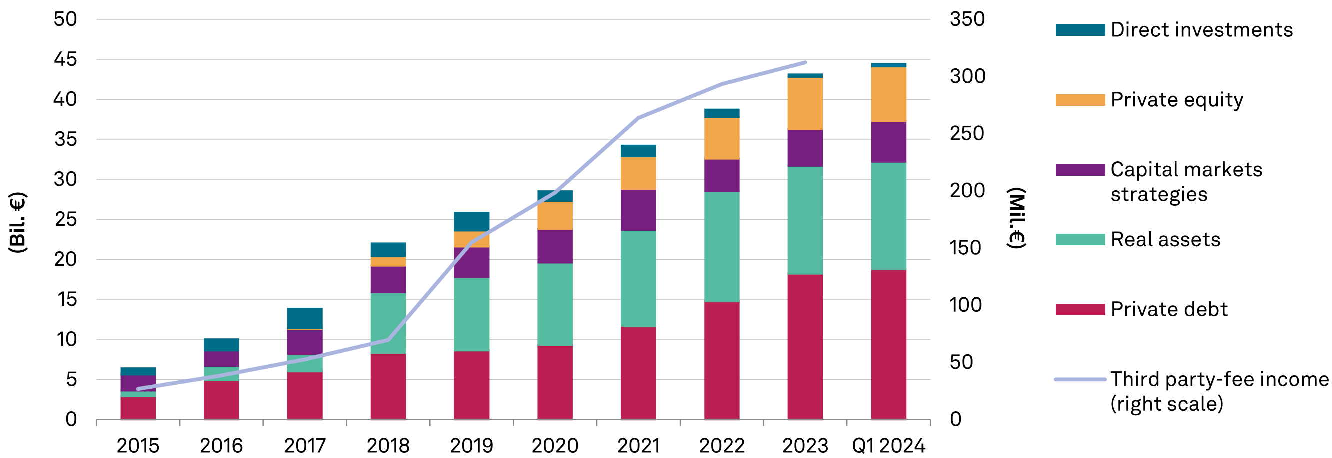
Tikehau Capital SCA--Net debt to adjusted total equity calculation

(Mil. €)		31-Dec-20	31-Dec-21	31-Dec-22	31-Dec-23
	Financial liabilities	999	1,301	1,472	1,470
	OLA Debt	30	30	30	26
=	Gross Debt	1,029	1,331	1,502	1,495
	Cash and cash equivalents	914	1,014	455	208
	- Haircut	457	507	100	100
=	Surplus cash	457	507	355	108
=	Net debt (A)	572	824	1,147	1,387
	Reported equity	2,797	3,041	3,144	3,184
	Goodwill and intangibles	(538)	(546)	(552)	(549)
	Equity in Finco or Structured Product	(97)	(167)	(247)	(423)
=	Adjusted total equity (B)	2,162	2,328	2,346	2,212
=	Net debt/ATE (x) (A/B)	0.26	0.35	0.49	0.63

Unlike for larger peers, 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 (€3.86 billion as of Dec. 31, 2023). The proportion of investments in Tikehau's own strategies is now about 79% compared to 33% six years ago. As management fee income expands and the role of income from on-balance-sheet investments in portfolio companies reduces as a share of 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 Tikehau's S&P Global Ratings-adjusted debt to EBITDA, which remains elevated (likely 4.5x-5.0x at end-2024) but is gradually improving as FPAUM increase more rapidly than the balance sheet.

Chart 2

Growth in AUM and fee income since 2015



Source: Company Disclosures.(1) no third part-fee income data available as of Q1 2024

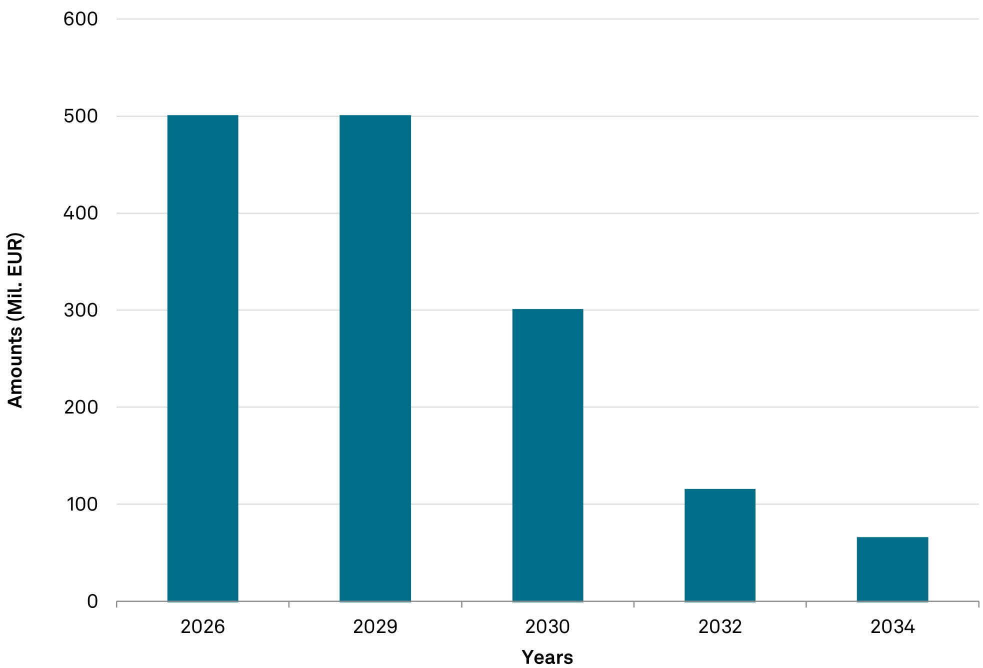
Tikehau's most recent debt issuance was in September 2023--a €300 million sustainable bond at 6.625% maturing in March 2030. Before that, it issued a U.S. private placement for $180 million in two tranches (10 and 12 years) in February 2022. Remaining debt amounts to €1.3 billion with a well laddered maturity profile. The group also has access to an undrawn RCF that was increased to €800 million in March 2022 with maturity extended to first-half 2028.

Regarding its financial policy, management is publicly committed to maintaining a leverage ratio (gross debt to common equity) below 0.8x. We do not include any transformative M&A in our assumptions. Regarding dividends, it made a payment of €132 million in fiscal 2023 in line with its guidance to distribute to shareholders over 80% of its asset management EBIT.

Chart 3

A well laddered debt maturity profile

Tikehau's debt maturity schedule



Source: S&P Global Ratings.(1): Excluded €800 mil. undrawn RCF due 2028)

Liquidity

Based on likely sources and uses of cash over the next 12-18 months, we assess Tikehau's liquidity as strong and believe it could withstand current adverse market circumstances while maintaining sufficient liquidity to service its obligations.

Principal liquidity sources	Principal liquidity uses
• €208 million of cash and cash equivalent; • €800 million of undrawn RCFs of December 2023; and • €125 million-€175 million and €225 million-€275 million of cash funds from operations respectively in 2024 and 2025.	• €100 million-€150 million in annual dividend distribution in 2024; and • Substantial seed investments and capital calls committed in own funds, despite no specific target or amount disclosed by Tikehau.

Debt maturities

- €300 million sustainable bond at 6.625% maturing in March 2030
- €500 million bond at 2.25% due October 2026
- €800 million RCF due July 2028
- €500 million bond at 1.625% due March 2029
- $180 million private placement issued in February 2022, in two tranches, USPP 10-year $115 million maturing 2032 and USPP 12-year $65 million maturing 2034.

Covenant Analysis

The main covenants are that loan-to-value (LTV) ratios be kept below 47.5%, minimum liquidity remains above €150 million, secured debt be limited to 20% of total consolidated assets, and unsecured debt in subsidiaries be limited to 20% of total consolidated assets. These covenants are on the RCF and $180 million USPP. Tikehau has headroom in its LTV ratio and also benefits from ample liquidity of €208 million as of year-end 2023.

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: Neutral (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
- Jan 07, 2024, Jan. 7, 2024 Criteria | Corporates | General Sector-Specific Corporate Methodology, April 4, 2024
- Management And Governance Credit Factors For Corporate Entities,
- General Criteria: Principles Of Credit Ratings , Feb. 16, 2011

Ratings Detail (As Of July 15, 2024)*	
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-/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.