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Investcorp Reports Improved Performance and Successful Capital Raise in Second Half

Investcorp, the asset management firm specializing in alternative investments, today announced its results for the twelve months from July 1, 2008 to June 30, 2009 (Fiscal Year 2009).

The fiscal year has seen the worst period of sustained stress to the world economy and financial markets in living memory, and this has had a severe impact on Investcorp and its clients, as it has on financial institutions and investors worldwide. It has been the most challenging year since the formation of the Firm in 1982.

The second half of Fiscal Year 2009 saw an improvement in Investcorp's performance in spite of the continuation of highly challenging business conditions, as hedge fund returns rebounded strongly with a return of 12.3% for the six month period from January to June. At the same time, Investcorp took a conservative view towards marking-to-market its portfolio of private equity and real estate co-investments in light of continued uncertainty surrounding the global economy and its emergence from the current recessionary environment. This resulted in a net loss of $269.5 million for the second half, marking a significant improvement over the net loss of $511.1 million in the first half of the Fiscal Year. The overall loss for Fiscal Year 2009 was therefore $780.6 million, of which a significant portion related to unrealised mark-to-market valuation adjustments for private equity and real estate co-investments on the balance sheet.

Investcorp recently concluded its preference share issue, with subscriptions of over $500 million. Tier 1 capital adequacy ratio now stands at 20% (compared to 18% last year), which is 250% of the BIS capital adequacy guideline of 8% and 167% of the Central Bank of Bahrain's minimum requirement of 12%. This puts Investcorp amongst the strongest capitalized banks globally, providing a strong platform to benefit from an anticipated recovery in global economies and markets. With total liquidity now at $1.8 billion, the new preference share issue has boosted Investcorp's economic capital, helped meet Investcorp's deleveraging objectives and will support new business growth initiatives.

A new streamlined management structure was announced following the fiscal year end, designed to enable Investcorp to leverage its strong franchise and successful track record for future growth. Reporting to Executive Chairman & CEO, Nemir A. Kirdar, is a team of four senior partners comprising Rishi Kapoor, Investcorp's Chief Financial Officer; Christopher O'Brien, formerly Investcorp's Head of Direct Investment, now President, US and European Business; Mohammed Al-Shroogi, newly-appointed President, Gulf Business; and Mark Slaughter, newly-appointed Chief Administrative Officer.

Nemir A. Kirdar, Executive Chairman & CEO, said: "We have taken decisive action to position the Firm for the future and for the business opportunities that will present themselves as the market recovers. The capital increase is a strong vote of confidence in Investcorp's franchise by all our key stakeholders. Our new management structure, combining experienced new talent with home grown, will accelerate product development and the evolution of our distribution network as we drive the performance of our business to its fullest potential"

Summary of the full year:

- The systemic shock to the financial system that occurred from September 2008 impacted financial performance in two areas: reducing fee income and lowering the book value of balance sheet co-investments largely due to unrealized mark-to-market valuation declines. Fiscal Year 2009 was Investcorp's first ever loss. Prior to this, it has had a consistent record of profitability for over a quarter of a century.
- The timely action taken to manage costs has fed through, with total operating expenses of $206.3 million, 22% lower than in FY08, helping offset the decline in fee revenues due to lower transactional activity. The full year effect of the cost reduction program will be felt in FY2010.
- Total GCC and international placement and fund-raising in FY09, including proceeds from the preference share issue, was $1.6 billion.
- In the second half of FY09, hedge fund performance was strongly positive, generating non-dollar weighted returns of 12.3% on Investcorp's co-investment in its hedge funds, as a result of lower systemic risk, increased market liquidity and tactical portfolio positioning. Investcorp believes that the crisis will result in a trend towards institutionalization of the hedge fund industry, with a focus on managed accounts and transparency, customized client solutions and innovative

risk management. These are areas of historic strength for Investcorp's hedge fund program.

- In private equity, Investcorp's priority has been to ensure that its portfolio companies weather the economic crisis by focusing on operations and debt management. During the year, Investcorp acquired N&W Global Vending with an aggregate equity investment of €170 million, and several portfolio companies made add-on acquisitions funded through their own cash resources. The Gulf Opportunity Fund I completed its first two investments in Redington Gulf and L'azurde for a combined equity value of $228 million. The third technology fund, Investcorp Technology Ventures III, made two new investments, a $40 million investment in FleetMatics, and a $43 million investment in TDX Group. There were no exits during the fiscal year.
- The real estate business deployed $111.4 million of capital into debt investments, including transactions that were originated by its two real estate debt funds.
- The Investcorp Private Equity 2007 Fund and Gulf Opportunity Fund I were closed during the year and Real Estate Mezzanine Fund II was launched. Investcorp also moved ahead with the new MENA mezzanine debt financing business that will complement its existing private equity investment business in the region.
- Fee income for the full year was $129.4 million, compared to $382.9 million in the previous year, reflecting an unprecedented low level of investment acquisition and deal-by-deal placement that substantially affected activity fees.
- Fair values of private equity and real estate co-investments were written down significantly, by almost $350 million. These unrealized adjustments reflect a conservative view in light of continued economic uncertainty that could prolong a period of weaker earnings growth and lower multiples. There is no near-term pressure to sell any of these co-investments at current depressed values as the majority of Investcorp's private equity companies have in fact shown year-on-year EBITDA growth that is flat or positive.
- Total assets decreased by 24% to $3.6 billion. This reflects the successful actions taken to de-lever the balance sheet and increase accessible liquidity by reducing working capital balances and monetizing a significant portion of the hedge fund co-investments. Total liquidity as at June 30, 2009, including proceeds from the $500 million preference share capital raise, is $1.8 billion, of which $1.1 billion is held in cash or cash equivalents. This is sufficient to cover all debt maturities beyond the next four fiscal years until at least March 2014.

Excess liquidity was used to pay down short term debt and mitigate any near-term refinancing risk while maintaining a five year weighted average residual maturity on outstanding debt.

About Investcorp

Investcorp is a leading provider and manager of alternative investment products. It has offices in London, New York and Bahrain and is publicly traded on the London Stock Exchange (IVC) and the Bahrain Stock Exchange (INVCORP). Investcorp has five lines of business: private equity, hedge funds, real estate, technology investment and Gulf Growth Capital. Founded in 1982, Investcorp has grown to become one of the largest and most diverse alternative investment managers in terms of both product offerings and geography. Further information is available at www.investcorp.com.

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