MOODY'S
INVESTORS SERVICE

CREDIT OPINION
29 June 2020

Update

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RATINGS

Investcorp Holdings B.S.C.

Domicile	Manama, Bahrain
Long Term CRR	Not Assigned
Long Term Issuer Rating	Ba2
Type	LT Corporate Family Ratings
Outlook	Negative

Please see the ratings section at the end of this report for more information. The ratings and outlook shown reflect information as of the publication date.

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Investcorp Holdings B.S.C.

Update following change of outlook to negative

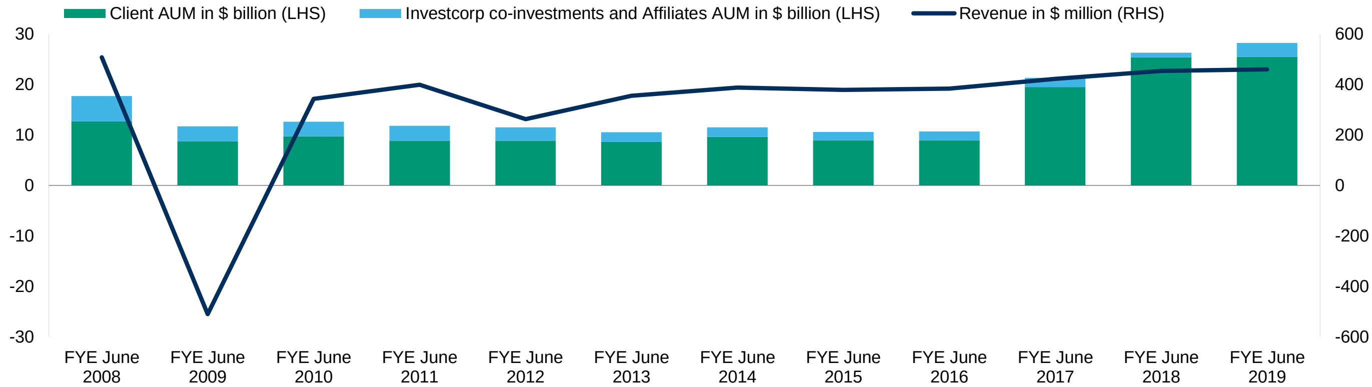
On 23 March 2020, Moody's revised its global outlook for asset managers to negative from stable. Market declines unleashed by the coronavirus pandemic will strain asset managers' revenue and cash flow, which are highly correlated with financial market performance. Lower valuation marks will also reduce performance fees. Increased economic uncertainty is likely to limit new fund flows into the industry, another important source of revenue growth for asset managers. We expect leverage to rise across the industry as earnings decline, and on a case-by-case basis, we will scrutinize leverage and liquidity closely.

Summary

Investcorp Holdings B.S.C.'s (Investcorp) Ba2 (negative outlook) corporate family rating reflects the company's solid market position in the Gulf Cooperation Council (GCC) region as a leading alternative investment provider, its global franchise, historically healthy operating margins, and good asset retention. Furthermore, Investcorp's level of assets under management, liquidity and equity are expected to remain resilient. The rating also reflects Investcorp's high leverage, and the expected impact the economic downturn prompted by the coronavirus will have on its financial performance which informs the negative outlook. This impact is expected to be seen through declines in the level of deal fees and fair value of the company's significant co-investment portfolio which will negatively impact earnings and leverage metrics.

On 5 June 2020, we affirmed Investcorp's ratings but changed the outlook to negative from stable.

Exhibit 1
The progression of fee income has contributed to higher stability of revenue growth



Note: Total AUM for FY2018 was restated as per FY2019, to reflect a change of real estate valorisation to gross value.
Sources: Company reports, Moody's Investors Service

Credit strengths

» Leading alternative asset manager in the GCC region, global reach

» Good AUM resilience rates supported by long-term locked-up capital commitments

» Strong capitalization and proven capital markets access even in difficult market conditions

Credit challenges

» Earnings headwinds via the economic downturn prompted by the coronavirus

» High financial leverage

» Elevated balance sheet risk owing to large co-investment activities

Rating outlook

The rating outlook is negative reflecting the expected impact the economic downturn prompted by the coronavirus will have on Investcorp's performance.

Factors that could lead to an upgrade

Investcorp is unlikely to be upgraded while the outlook is negative. Factors that could lead to an affirmation of the rating with a stable outlook include the following:

» Reduced debt levels with debt/EBITDA remaining consistently below 6x;

» maintenance of good liquidity;

» no increase in level of co-investments in relation to equity;

» continued resilience in level of AUM

Factors that could lead to a downgrade

Factors that could lead to a downgrade include the following:

» Debt/EBITDA sustainably above 6.5x;

» a deterioration in the company's ability to raise new client capital or reinvest client capital that would substantially affect its revenue generation capacity;

» a deterioration in liquidity;

» material on-balance sheet investment losses.

Key Indicators

Exhibit 2
Investcorp Holdings B.S.C.

Key Indicators									
Investcorp Holdings B.S.C.									
[1]	2019 FY	2018 FY	2017 FY	2016 FY	2015 FY [2]	2014 FY [2]	2013 FY	2012 FY	2011 FY
Assets Under Management (AUM) ($ b)	28	26 [5]	21	11	11	11	11	12	12
Net Flows ($ mm)	2,347	707	2,066	112.0	(645.0)	808.0	(104.0)	71.0	(935.0)
Revenues ($ mm) [3]	465	454	422	383	381	363	355	263	399
AUM Retention Rate (%)	85%	84%	49%	72%	80%	87%	80%	85%	82%
AUM Replacement Rate (%)	169%	123%	95%	105%	65%	172%	94%	106%	45%
EBITDA ($ mm)	199	186	160	125	150	135	155	222	166
EBITDA Margin (%)	43%	41%	38%	33%	39%	37%	44%	84%	41%
Total Debt ($ mm)	1,008	1,135	1,046	1,091	906	1,123	1,031	1,243	1,265
Total Debt/EBITDA (x)	5.1x	6.1x	6.5x	8.7x	6.0x	8.3x	6.6x	5.6x	7.6x
Total Shareholder's Equity / Self Managed Investments (x)	0.86x	0.87x	1.5x	1.2x	0.9x	0.8x	0.9x	0.7x	0.7x
Pre-Tax Income ($ mm)	142	138	127	94	117	103	107	66	140
Pre-Tax Income Margin (%)	31%	30%	30%	25%	31%	28%	30%	25%	35%
Stability of Revenue Growth (%) (20 qtr) [4]	42%	21%	47%	12%	29%	21%	-30%	-70%	

[1]Fiscal year end June 30. [2]Adoption of IFRS 15 in 2015. 2014 Income and balance sheet items have been restated to reflect the change. [3]Revenue is all operating revenue reported by the company. [4]Stability of revenue growth = the average of quarter over quarter revenue growth rates divided by the standard deviation of revenue growth rates, (using the past 20 quarters of growth rates). Here calculated with semi annual information. [5]FY2018 was restated as per FY2019, to reflect a change of real estate valorisation to gross value.
Company reports, Moody's Investors Service

Profile

Investcorp Holdings B.S.C. (Investcorp), previously Investcorp Bank B.S.C., is the principal parent of the Investcorp Group and primarily provides and manages alternative investment products in four main asset classes – private equity, absolute return, real estate and credit management investments – on behalf of high-net-worth individuals and institutional clien*ts*. Investcorp also owns a strategic 46.5% stake in Banque Pâris Bertrand, an independent Swiss regulated private bank in Geneva and Luxembourg. As at end December 2019, Investcorp had total assets under management (AUM) of $31 billion.

Investcorp has transitioned to a holding company and renounced its banking license on September 2nd 2019 to better align its operating structure with its business model.

Detailed credit considerations

Global player with strong niche market position in the GCC region

With total and client AUM of $31 billion and $28 billion respectively as at end December 2019 (June 2019: $28 billion and $25 billion) and reported revenue of $465 million as of June 2019, the company is a small player in the asset management industry. It's Ba market position reflects its strong brand name in the GCC region, supported by a more than 30-year track record. The company benefits from long-standing relationships with leading ultra-high-net-worth and institutional investors in the GCC region. More negatively, at least in the short-term, the company's revenues are likely to be impacted by the economic downturn prompted by the coronavirus.

The company's ability to provide tailored solutions and services to its client base engenders a loyal client base as shown by strong asset retention rates in both the company's private equity and real estate business segments. Furthermore, AUM retention benefits from closed end structures and committed capital.

Since 2017, Investcorp has been actively developing its franchise, incrementally adding AUM, geographic and product diversfication, a credit positive – the group has a strategic ambition of reaching $50 billion of AUM over the medium term. In March 2017, Investcorp completed the acquisition of the debt management business of 3i Group plc (Baa1 negative), which contributed an additional $11 billion of AUM. This acquisition more than doubled Investcorp's AUM and contributed $73 million to Investcorp's revenue in fiscal 2019, of which $50 million was fee income. More recent AUM growth initiatives include in 2019, the acquisition of Mercury Capital Advisors, an US investment advisory enterprise, and the acquisition of a majority stake in CM Investment Partners, a US based credit business focused on middle market lending in the United States. Over time, we expect the company to develop cross-selling opportunities within its different divisions.

Investcorp's fund raising capacity was strong throughout fiscal 2019 with $5.7 billion in placement and fund raising activity supported by continued client appetite for alternative investments. From June to December 2019, total fundraising was $2.6 billion, of which more than $1.6 billion was raised outside of the Gulf.

Increasing business diversification and global client reach

Investcorp's product and geographic diversification is good and is expected to benefit from the implementation of the strategic initiatives. The company's product range is diversified among alternative investments. The company operates under four main segments:

1) Private equity (previously corporate investments) (PE): The segment targets the acquisition of attractive corporate investments in North America, Europe, Asia, the GCC region and Turkey with enterprise values of between $400 million-$800 million.

2) Real estate (RE): The segment targets the acquisition of existing core and core-plus commercial, residential, industrial and logistics real-estate assets (primarily income-earning properties) situated in the 30 largest and most diversified US and European markets (UK and Germany mainly). The majority of real-estate investments are structured in a Shari'ah-compliant manner.

3) Absolute return investments (ARI): The hedge fund business which suffered outflows following the great financial crisis has been restructured through strategic hires, acquisitions, partnerships and fund launches. FY2018 and FY2019 were successful years for the company which raised $1.2 billion of new investor money. However the roll off of older non profitable AUM in multi manager solutions led only to a modest 2% ARI AUM increase in 2019 to $3.8 billion, although there was a 17% increase to $4.5 billion from June-December 19 primarily due to strong fund-raising for the company's hedge fund partnership platform. Recently, Investcorp has closed the joint venture with Tages Capital for a new combined ARI business leading to a global absolute return platform with more than $6 billion in revenue generating assets with no client overlap.

4) Credit management (CM): Investcorp manages open and closed end funds mainly in collateralized loan obligation (CLO) structures that invest primarily in senior secured corporate debt issued by mid- and large-cap corporates in Western Europe and the US. This business has widened Investcorp's product range and is expected to open up distribution synergies as it will provide access to new and incremental sources of capital to both former 3i Debt Management's and Investcorp's clients.

Geographic diversification is strong, with AUM sourced in the GCC region representing 39% of the total as at end December 2019, the rest sourced in the US, Europe and Asia.

Investcorp's distribution profile benefits from good customer granularity. Investcorp has broader client coverage of the GCC region than its peers, with a team of dedicated relationship managers operating through a regional office in Bahrain and through local offices in Saudi Arabia, Qatar and Abu Dhabi. In the US and Europe, Investcorp has a sales team that distributes its products directly to the institutional segment.

Significant financial leverage and co-investment risks are somewhat alleviated by strong liquidity and tangible equity

The level of Investcorp's financial debt has increased since the end of June 2019 via a $478 million drawdown of its revolving credit facilities ("RCF") as at the end of March 2020 partly as a precautionary measure in light of the Coronavirus-induced financial market turmoil. Prior to this, Investcorp's leverage had been trending down with a level (as measured by gross debt/EBITDA, including Moody's standard financial adjustments) of 5.1x at the end of June 2019 (6.1x end of June 2018) although this is still high compared to Ba-rated peers. However, as financial markets have recovered since March, Moody's expects the level of RCF drawdown to reduce meaningfully by the end of June off-setting to some extent the expected negative impact of the coronavirus on the debt to EBITDA metric.

Our financial leverage ratio includes the company's short-term debt (following the conversion of the parent from a wholesale bank into a holding company client money has been pooled into a multi-currency revolving loan), although the loan amounts are matched by cash on balance sheet. Excluding this short-term debt, the leverage ratio at YE19 reduced to 3x, stable compared to June 2018.

In addition, through its co-investments, Investcorp makes active use of its balance sheet through principal investments in private equity, Absolute Return Investments (including hedge funds), CLO and real estate. The objective is to align its interests with those of its clients and to comply with regulation as far as European CLOs are concerned. The disruptive economic impact from the coronavirus will reduce, at least in the short-term, the company's asset based income which is inherently volatile considering the nature of the co-investments, which are almost at the same level as the company's equity. Furthermore, the vast majority of Investcorp's CLO balance sheet exposure is via equity tranches which we believe are more vulnerable than vertical tranches.

The company's intention is to maintain co-investment/long-term capital of 1.0x or lower, such that the entire balance sheet co-investment portfolio is fully funded through permanent or quasi-permanent capital and does not rely on medium-term debt financing. The aggregate level of co-investments of $1,097 million at end December 2019, net of a $84 million revolving facility secured against credit management co-investments, remained fully covered by permanent and long-term sources of capital and represented an increase of $80 million compared to June 2019. In February 2020, Investcorp sold TPx Communications which was its biggest single co-ivestment exposure, and we expect the underlying level of co-investments to stabilize at around current levels, a credit positive.

Our overall assessment of Investcorp's financial flexibility also takes into consideration the quality of its equity capital base. The company maintains a large tangible equity position, which represents a significant amount of loss-absorbing equity capital. This position helps mitigate risks that may arise from losses in the company's principal investment portfolio.

Resilient profit margins have been emerging, but coronavirus-induced headwinds will pressure earnings

Investcorp had a pre-tax income margin of 31% for fiscal year 2019. The company's gross revenue can be broken down into three components: (1) AUM fees, (2) deal fees and (3) asset-based income.

AUM fees have been the most stable source of income over the past three fiscal years and their contribution to overall revenue has grown. AUM fees were 181 million in FY19, 5% higher than FY18. The increase reflects a higher level of client assets under management, primarily driven by the acquisition of the credit management business in H2 FY17, but also the progresses made in the ARI business.

Investcorp's revenue base is also very reliant on deal fees which are less predictable and represent around 50% of the company's fee revenue. These fees depend on the acquisition and placement of new investments, the sale and exit of investments (realizations) and the performance of existing investments. Deal fees increased by 30% in FY19 to $167 million reflecting strong private equity investment activity supported by the new China focused investment offering and the new technology fund. However, the disruptive economic impact from the coronavirus will reduce, at least in the short-term, these deal fees which will negatively impact earnings metrics.

Asset-based income (ABI) is the most volatile profitability component as it is based on the annual return on Investcorp's proprietary investments. Gross asset-based income during FY19 decreased to $84 million (excluding $5 million via the investment in Banque Pâris Bertrand) from $133 million in FY18 mainly driven by lower income from the private equity division and by valuation declines in certain US retail sector exposures and in a legacy investment. For the six months ended December 2019, ABI reduced significantly by 49% to $25 million largely attributable to lower PE returns. The disruptive economic impact from the coronavirus will reduce, at least in the short-term, the company's ABI which historically has contributed meaningfully to Investcorp's revenue base.

Longer term, we expect Investcorp's strategic acquisitions and growth initiatives in all divisions including the ARI business in the US, and the PE business in Asia, to deliver cross-selling opportunities, that should support revenue growth.

Liquidity analysis

Investcorp's credit profile benefits from its good liquidity management practices and good liquidity position. Total accessible liquidity at the end of March 2020 was $717 million (excluding a $263 million balance available from the Multi currency term and revolving loan) albeit reduced from $1.1 billion as at end June 2019 principally driven by operating activity.

Environmental, Social and Governance (ESG) Considerations

Environmental

Macro/Sector: The asset manager sector is classified as "low" risk in our Environmental Heatmap. Sectors in the low risk category have either no sector-wide exposure to meaningful environmental risks or, if they do, the consequences are not likely to be material to credit quality or ratings. Typically, this would mean that according to our most likely scenario, existing and prospective environmental risks have minimal potential to move ratings over the next seven years.

Asset managers' own environmental footprints do not typically raise credit concerns. Environmental risks to asset managers are largely indirect, through their investment exposures and decision making. This indirect exposure is less significant for asset managers that are well diversified both by industry and geography. However, environmental risks are more significant for asset managers with concentrated geographical exposures to climate risks, or investments in fossil-fuel infrastructure and energy transportation.

Issuer: Investcorp's exposure to environmental risks is moderate, consistent with our general assessment for the asset manager sector.

Social

Macro/Sector: Asset managers generally have moderate exposure to social risks because they are reliant on human-capital assets. Social risks may stem from internal organizational dynamics, external customer relations, and demographic factors. The industry is absorbing information technology that is giving rise to risks from changes in management systems and personnel relations, as well as from interactions with intermediaries and clients. Asset managers are increasingly exposed to the risk of breaches of data security and customer privacy, which can affect their reputations and client retention. Additional risks in some regions stem from new disclosure requirements of organizational diversity, gender pay, and board composition. The risk of population ageing may constrain asset growth in affected countries. Asset managers who adopt socially ESG-driven agendas may better appeal to investor populations who show increasing concern for these issues.

We also regard the coronavirus outbreak, the impact of which has driven the revision of our global outlook for asset managers to negative, as a social risk under our ESG framework, given the substantial implications for public health and safety.

Issuer: Investcorp's exposure to social risks is consistent with our general assessment for the asset manager sector.

Governance

Like all other corporate credits, the credit quality of Investcorp is influenced by a wide range of governance-related issues, relating to financial, managerial, ownership or other factors, all of which can be exacerbated by regulatory oversight and intervention.

While Investcorp's investments in illiquid asset classes entail above average risk levels, the group has strong risk management processes that mitigate various governance risks. It also displays high levels of transparency. Under the oversight of its Board of Directors, the Group's management team has a strong track record and experience.

Rating methodology and scorecard factors

Exhibit 3

Investcorp Holdings B.S.C.

Investcorp Holdings B.S.C.									
Rating Factors									
Asset Managers Scorecard (weights)[1]	Aaa	Aa	A	Baa	Ba	B	Caa	Score	Adjusted Score
Business Profile								Baa	Ba
Factor 1: Market Position (25%)								Baa	Ba
Scale and Franchise Strength				X					
AUM Resilience			X						
Factor 2: Business Diversification (25%)								Baa	Baa
Geographic and Product Diversification			X						
Distribution					X				
Financial Profile								Ba	Ba
Factor 3: Financial Flexibility (30%)								B	B
Debt / Adjusted EBITDA						5.1x			
Total Shareholder's Equity / Self-managed Investments							1.0x		
Factor 4: Profitability & Revenue Stability (20%)								Baa	Baa
Pre Tax Income Margin (5 yr ave)				23.0%					
Stability of Revenue Growth (20 qtr, YoY)				42.1%					
Operating Environment								Baa	Baa
Stand-alone Credit Profile Before Qualitative Notching Factors								Ba1	Ba2
Indicated Instrument-level Outcome									Ba2

[1] The scorecard in this rating methodology is a relatively simple tool focused on indicators for relative credit strength. As described in the methodology, there are various reasons why scorecard-indicated outcomes may not map closely to actual ratings.

Moody's Investors Service

Ratings

Exhibit 4

Category	Moody's Rating
INVESTCORP HOLDINGS B.S.C.	
Outlook	Negative
Corporate Family Rating	Ba2
INVESTCORP CAPITAL LIMITED	
Outlook	Negative
Bkd Senior Unsecured	Ba2

Source: Moody's Investors Service

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Americas	1-212-553-1653
Asia Pacific	852-3551-3077
Japan	81-3-5408-4100
EMEA	44-20-7772-5454

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