

**Rating Action: Moody's affirms Investcorp's Ba2 corporate family rating; negative outlook maintained**

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11 Nov 2021

**Moody's assigns (P)Ba2 senior unsecured EMTN programme rating to Investcorp S.A.**

London, 11 November 2021 -- Moody's Investors Service (Moody's) has today affirmed the Ba2 corporate family rating and the Ba2-PD probability of default rating of Investcorp Holdings B.S.C. ("Investcorp" or "company") and has also affirmed the Ba2 backed senior unsecured debt ratings of Investcorp Capital Limited. The outlook for both entities remains negative. Concurrently, Moody's has assigned (P)Ba2 long-term foreign and local currency ratings and a (P)NP short-term rating to Investcorp S.A.'s new Euro Medium Term Note (EMTN) program, the outlook for this entity is negative. Moody's has also withdrawn the specific rating outlooks on Investcorp's corporate family rating and Investcorp Capital Limited's senior unsecured debt, consistent with Moody's rating practice for asset managers.

For a full list of all affected ratings, please refer to the end of this press release.

**RATINGS RATIONALE**

**RATIONALE FOR MAINTAINING NEGATIVE OUTLOOK**

The maintenance of the negative outlook reflects Moody's expectation that Investcorp group's gross debt / adjusted EBITDA will remain elevated as the company seeks to diversify its funding sources. Investcorp's gross debt / adjusted EBITDA reduced at FY21 to a historically low level of 4.7x (FY20: 9.6x) benefiting from a significant reduction in debt to \$732 million (FY20: \$981 million) and increased profitability. However, this level is still relatively high for the company's rating level and could potentially increase above 6x at least over the short term.

**RATING AFFIRMATION**

The affirmation of the ratings reflects Investcorp's solid market position in the Gulf Cooperation Council (GCC) region as a leading alternative investment provider, its global franchise, and good asset retention. Moody's expects the company's assets under management (AUM), which in total grew again in FY21 to \$38 billion from \$32 billion, to continue to benefit from closed end structures, committed capital and a sticky client base.

Furthermore, asset management fees have been the most stable source of income over the past few fiscal years with a growing contribution to overall revenue - for FY21, these fees increased by 15% to \$217 million. An objective of Investcorp is to grow its recurring fees and thereby reduce the relative contribution of the less predictable and meaningful sources of revenue such as deal fees and asset-based income which were especially impacted during FY20. The latter is inherently volatile considering the nature of the company's sizeable co-investments which are principally in private equity and CLOs.

Historically, the level of Investcorp's operating margins have been healthy and following the rebound in profitability at FY21 with pre-tax income of \$138 million in stark contrast to the FY20 loss of \$163 million, the pre-tax margin of 29% is comparable to that reported by the company from 2019-2017. Nevertheless, in light of the significant loss during FY20, the 5-year average margin remains very suppressed at 8%.

Investcorp also has a significant amount of loss-absorbing equity capital which counters its elevated balance sheet risk. Positively, at FY21 the level of co-investments reduced by 20%, and total equity, benefiting from the issuance of \$252 million of preference shares, increased by 47% following the 24% reduction at FY20. Going forward, we expect Investcorp to reduce the reliance on its balance sheet and to maintain good levels of liquidity -- total accessible liquidity at the end of June 2021 was \$1,078 million (excluding a \$462 million balance available from the multi-currency term and revolving loan) increased from \$993 million as of the end of June 2020 principally driven by operating activity.

**INVESTCORP S.A. EMTN PROGRAMME RATINGS**

The (P)Ba2 senior unsecured EMTN programme rating assigned to Investcorp S.A. is consistent with the Ba2 corporate family rating of its ultimate parent company, Investcorp Holdings B.S.C., and reflects the fact that Investcorp S.A. and its subsidiaries are the principal asset holding and operating entities within Investcorp. Consistent with covenants contained in the Group's medium and long-term debt agreements, at least 95% of the consolidated assets of Investcorp are held by Investcorp S.A. or its subsidiaries. The \$3 billion programme allows Investcorp S.A. to issue senior unsecured obligations, of any tenor and including short-term instruments, which rank at least equally with all other present and future unsecured and unsubordinated obligations of Investcorp S.A. The (P)NP short-term programme rating reflects the Not Prime status of Investcorp.

#### FACTORS THAT COULD LEAD TO AN UPGRADE OR DOWNGRADE OF THE RATINGS

Investcorp is unlikely to be upgraded while the outlook is negative. Factors that could lead to an affirmation of the ratings with a stable outlook include the following: 1) debt/EBITDA remaining consistently below 6x; 2) maintenance of good liquidity; 3) no increase in level of co-investments in relation to equity; 4) continued resilience in level of AUM.

Factors that could lead to a downgrade include the following: 1) debt/EBITDA sustainably above 6.5x; 2) a deterioration in the company's ability to raise new client capital or reinvest client capital that would substantially affect its revenue generation capacity; 3) a deterioration in liquidity; 4) material on-balance sheet investment losses.

Investcorp is an alternative asset manager domiciled in Bahrain. The firm had total \$38 billion of AUM as of 30 June 2021.

#### LIST OF AFFECTED RATINGS

Issuer: Investcorp Holdings B.S.C.

..Affirmations:

....Long-term Corporate Family Rating, affirmed Ba2, previously Negative debt level outlook withdrawn

....Probability of Default Rating, affirmed Ba2-PD

..Outlook Action:

....Outlook remains Negative

Issuer: Investcorp Capital Limited

..Affirmations:

....Backed Senior Unsecured Regular Bond/Debenture, affirmed Ba2, previously Negative debt level outlook withdrawn

..Outlook Action:

....Outlook remains Negative

Issuer: Investcorp S.A.

..Assignments:

....Senior Unsecured Medium Term Note Program, assigned (P)Ba2

....Other Short Term, assigned (P)NP

..Outlook Action:

....Outlook assigned Negative

#### PRINCIPAL METHODOLOGY

The principal methodology used in these ratings was Asset Managers Methodology published in November

2019 and available at [https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC\\_1186105](https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_1186105) . Alternatively, please see the Rating Methodologies page on [www.moodys.com](http://www.moodys.com) for a copy of this methodology.

## REGULATORY DISCLOSURES

For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. Moody's Rating Symbols and Definitions can be found at: [https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC\\_79004](https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_79004).

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