

INVESTCORP

Investcorp Holdings B.S.C.
Holding Company

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June 8, 2020

Bahrain Bourse
P.O. Box 3203
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Dear Sirs,

Moody's Rating Action

Please find enclosed report issued on Moody's rating.

Sincerely,



Roberto Viano

Investcorp Holdings B.S.C.

Rating Action: Moody's affirms Investcorp's ratings; outlook changed to negative

05 Jun 2020

London, 05 June 2020 -- 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"). Moody's has also affirmed the Ba2 backed senior unsecured debt ratings of Investcorp Capital Limited. The outlook for both entities has been changed to negative from stable.

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

RATINGS RATIONALE

The change in the company's outlook to negative from stable reflects the expected impact the economic downturn prompted by the coronavirus will have on Investcorp's financial performance. Moody's expects to see this impact 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. Somewhat offsetting these negative factors, we expect Investcorp's level of assets under management (AUM), liquidity and equity to remain resilient, and for revenue to benefit from the growing contribution of AUM-related fees in recent years.

Investcorp's revenue base is very reliant on deal fees which 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. The disruptive economic impact from the coronavirus will reduce, at least in the short-term, these deal fees as well as the company's asset based income which historically has contributed meaningfully to Investcorp's revenue base. This income is inherently volatile considering the nature of the company's co-investments, which are almost at the same level as the company's equity and are principally in private equity and CLOs. Furthermore, the vast majority of Investcorp's CLO balance sheet exposure is via equity tranches which Moody's believes are more vulnerable than vertical tranches.

In addition to the expected negative impact on the company's earnings, 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. 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.

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, historically healthy operating margins and good asset retention. Moody's expects the company's AUM to continue to benefit from closed end structures, committed capital and a sticky client base. Furthermore, revenue has benefited in recent years from the growth in more stable and predictable asset management fees.

Investcorp also has good levels of liquidity with total accessible liquidity at the end of March 2020 of \$700 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. Furthermore, the company maintains a large tangible equity position, which represents a significant amount of loss-absorbing equity capital, and it has no refinancing needs until 2023.

The rapid and widening spread of the coronavirus outbreak, deteriorating global economic outlook, falling oil prices, and asset price declines are creating a severe and extensive credit shock across many sectors, regions and markets. The asset management industry has been one of the sectors affected by the shock given the severe decline in asset values, increase in risk aversion and decrease in market liquidity. We regard the coronavirus outbreak as a social risk under our ESG framework, given the substantial implications for public health and safety. Today's action reflects the impact on Investcorp of the breadth and severity of the shock,

and the potential deterioration in credit quality it has triggered.

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 rating with a stable outlook include the following: 1) reduced debt levels with 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.

LIST OF AFFECTED RATINGS

Issuer: Investcorp Holdings B.S.C.

..Affirmations:

....Long-term Corporate Family Rating, affirmed Ba2, outlook changed to Negative from Stable

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

..Outlook Action:

....Outlook changed to Negative from Stable

Issuer: Investcorp Capital Limited

..Affirmations:

....Backed Senior Unsecured Regular Bond/Debenture, affirmed Ba2, outlook changed to Negative from Stable

..Outlook Action:

....Outlook changed to Negative from Stable

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 . Alternatively, please see the Rating Methodologies page on www.moodys.com for a copy of this methodology.

Investcorp provides and manages alternative investment products on behalf of high-net-worth individuals and institutional clients. As of December 2019, the company had total assets under management of \$31 billion.

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.

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For any affected securities or rated entities receiving direct credit support from the primary entity(ies) of this credit rating action, and whose ratings may change as a result of this credit rating action, the associated regulatory disclosures will be those of the guarantor entity. Exceptions to this approach exist for the following disclosures, if applicable to jurisdiction: Ancillary Services, Disclosure to rated entity, Disclosure from rated entity.

The ratings have been disclosed to the rated entity or its designated agent(s) and issued with no amendment resulting from that disclosure.

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Regulatory disclosures contained in this press release apply to the credit rating and, if applicable, the related rating outlook or rating review.

Moody's general principles for assessing environmental, social and governance (ESG) risks in our credit analysis can be found at https://www.moody's.com/researchdocumentcontentpage.aspx?docid=PBC_1133569.

At least one ESG consideration was material to the credit rating action(s) announced and described above.

Please see www.moody's.com for any updates on changes to the lead rating analyst and to the Moody's legal entity that has issued the rating.

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