

RATING ACTION COMMENTARY

Fitch Affirms Investcorp's Ratings at 'BB'; Outlook Stable

Thu 04 Nov, 2021 - 3:52 PM ET

Fitch Ratings - Chicago - 04 Nov 2021: Fitch Ratings has affirmed the Long-Term Issuer Default Rating (IDR) and Short-Term IDR of Investcorp Holdings B.S.C. and its related entities (collectively Investcorp) at 'BB' and 'B', respectively. Concurrently, Fitch has assigned a Long-Term senior unsecured debt rating of 'BB' to Investcorp's revolving credit facility. The Rating Outlook is Stable.

Today's rating actions have been taken as part of a periodic peer review of the alternative investment manager (IM) industry, which is comprised of 11 publicly rated global firms. For more information on the broader sector review, please see, "Fitch Completes 2021 Alternative Investment Manager Peer Review," available at www.fitchratings.com.

KEY RATING DRIVERS

IDR AND SENIOR UNSECURED DEBT

The rating affirmation reflects the locked-in nature of most of Investcorp's fee streams, its strong client franchise and high degree of brand name recognition in the Gulf, supported by its investment track record and long-term relationships in the region. The affirmation also reflects the vulnerability of Investcorp's business model to a market downturn and Fitch's view of the firm's ability to maintain credit metrics in line with expectations.

Rating constraints include the firm's increased earnings volatility and placement risk relative to peers, given its business model of offering investments to clients on a fully

underwritten deal-by-deal (DBD) basis and its sizable co-investment portfolio, which is subject to fair value changes. Activity fees, which are earned from transactional activities and have comprised almost half of Investcorp's core fees over the past several years, are also susceptible to market volatility.

While the impact of oil price volatility on Investcorp's portfolio companies is limited, it could have fiscal impacts in the region. Still, Investcorp's Gulf investors have demonstrated relatively low sensitivity to oil price movements, as evidenced by record levels of DBD placement activity during previous periods of volatility in the energy sector. Fitch believes Gulf investors will continue to explore opportunities to diversify outside of the region.

Investcorp has embarked upon several strategic initiatives and expansion efforts aimed at enhancing its product offerings and geographic representation, including the institutionalization of its investor base and the expansion of committed capital fund structures. Fitch believes there are execution risks associated with the firm's strategy, including integration risk associated with acquisitions, and increased group complexity related to product and geographic expansion, which will take time to evaluate.

Investcorp's AUM, which is largely invested in the U.S. and Europe, totaled \$37.6 billion at fiscal year-end 2021 (June 30, 2021), up 17.0% from FYE20, driven by strong market performance and solid fundraising. Investcorp raised more capital in committed capital fund structures in FY21, including launching its inaugural North America private equity (PE) fund.

Core operating performance, as measured by fee-related EBITDA (FEBITDA), which excludes investment income from co-investments, performance fees and performance-related compensation, improved in FY21 but remained modest. Fitch believes Investcorp has less variability in its compensation structure than peers, given its business model. As such, the agency has elected to allocate a greater portion of the firm's total compensation to fee-based compensation, which adversely impacts its FEBITDA margin.

The FEBITDA margin amounted to 20.2% for FY21; up from 10.6% in FY20, and at the low-end of Fitch's 'bbb' category benchmark range of 20%-30% for alternative IMs. Profitability could improve over time, to the extent that Investcorp is able to scale its platform.

Performance fees totaled \$33 million and balance sheet gains amounted to \$107 million in FY21, representing a significant improvement over the prior year.

When assessing Investcorp's leverage, Fitch takes a hybrid approach, given the firm's cash generative business model and heavy balance sheet utilization. On this basis, Fitch views Investcorp's leverage profile as commensurate with the current rating level, with its high debt to FEBITDA (8.5x for FY21) somewhat offset by more modest debt to tangible equity (0.5x at FY21).

Fitch believes Investcorp had adequate liquidity at FYE21 with \$289 million of cash, deposits with financial institutions and other liquid assets, along with \$789 million of borrowing capacity on its corporate revolvers. Additionally, Investcorp had \$705 million of balance sheet co-investments, which could serve as additional collateral for debt, although it is comprised of relatively illiquid investments. Aside from client assets, which are due on demand, the firm's nearest debt maturity is March 2030.

Interest coverage, as measured by FEBITDA to interest expense on corporate debt, was modest, at 2.4x for FY21, which is within Fitch's 'bb' category quantitative benchmark range of 2x-4x for alternative IMs.

The Stable Outlook reflects Fitch's expectation that Investcorp will maintain credit metrics in line with Fitch's 'bb' category quantitative benchmark ranges for alternative IMs.

The senior unsecured debt rating is equalized with Investcorp's Long-Term IDR, reflecting the largely unsecured funding profile, expectations for average recovery prospects under a stress scenario and joint and several guarantees by Investcorp S.A., which is the principal operating and asset owning arm of the firm.

SUBSIDIARY AND AFFILIATED COMPANIES

Investcorp S.A. is the principal operating and asset-owning subsidiary of the group and is a joint and several guarantor on debt issued by Investcorp Capital Ltd. Therefore, the Long-Term IDR of each entity is equalized with Investcorp.

RATING SENSITIVITIES

IDRs AND SENIOR UNSECURED DEBT

Factors that could, individually or collectively, lead to positive rating action/upgrade include fee-paying AUM growth, enhanced AUM diversity and scalability of the platform, resulting in FEBITDA margin expansion, further institutionalization of the investor base, an increase in management fee contribution from committed capital fund structures, enhanced incentive earning potential, a decline in balance sheet and/or cash flow leverage, such that

these metrics approach 0.50x and 4.0x, respectively, under Fitch's hybrid leverage analysis, improved interest coverage, while maintaining adequate liquidity and co-investment funding.

Factors that could, individually or collectively, lead to a negative rating action/downgrade include material declines in AUM, which impair the firm's management fee generating capacity; a reduction in liquidity; or material changes in leverage and/or interest coverage resulting from a material degradation of balance sheet assets and/or weaker investment performance which adversely affects the firm's ability to generate FEBITDA. More specifically, increases in debt to tangible equity and debt to FEBITDA, such that the combination of these metrics exceeds 1.0x and 6.0x, respectively, under Fitch's hybrid leverage analysis, could negatively affect ratings.

The senior unsecured debt rating is equalized with Investcorp's IDRs and therefore, would be expected to move in tandem. Although not envisioned by Fitch, were Investcorp to experience an increase in secured debt as a percentage of total debt, this could result in the unsecured debt rating being notched below Investcorp's Long-Term IDR.

SUBSIDIARY AND AFFILIATED COMPANIES

The ratings of Investcorp S.A. and Investcorp Capital Ltd. are linked to the IDR of Investcorp and are, therefore, expected to move in tandem.

BEST/WORST CASE RATING SCENARIO

International scale credit ratings of Financial Institutions and Covered Bond issuers have a best-case rating upgrade scenario (defined as the 99th percentile of rating transitions, measured in a positive direction) of three notches over a three-year rating horizon; and a worst-case rating downgrade scenario (defined as the 99th percentile of rating transitions, measured in a negative direction) of four notches over three years. The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to 'D'. Best- and worst-case scenario credit ratings are based on historical performance. For more information about the methodology used to determine sector-specific best- and worst-case scenario credit ratings, visit <https://www.fitchratings.com/site/re/10111579>

REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

ESG CONSIDERATIONS

Unless otherwise disclosed in this section, the highest level of ESG credit relevance is a score of '3'. This means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. For more information on Fitch's ESG Relevance Scores, visit www.fitchratings.com/esg.

RATING ACTIONS				
ENTITY/DEBT	RATING			PRIOR
Investcorp Capital Ltd.	LT	BB Rating Outlook Stable	Affirmed	BB Rating Outlook Stable
	IDR			
	ST	B	Affirmed	B
	IDR			
● senior unsecured	LT	BB	Affirmed	BB
Investcorp S.A.	LT	BB Rating Outlook Stable	Affirmed	BB Rating Outlook Stable
	IDR			
	ST	B	Affirmed	B
	IDR			

VIEW ADDITIONAL RATING DETAILS

FITCH RATINGS ANALYSTS

Dafina Dunmore
Senior Director
Primary Rating Analyst
+1 312 368 3136
dafina.dunmore@fitchratings.com
Fitch Ratings, Inc.
One North Wacker Drive Chicago, IL 60606

Nalini Kaladeen-Chabot

Director

Secondary Rating Analyst

+44 20 3530 1806

nalini.kaladeen@fitchratings.com

Nathan Flanders

Managing Director

Committee Chairperson

+1 212 908 0827

nathan.flanders@fitchratings.com

MEDIA CONTACTS**Eleis Brennan**

New York

+1 646 582 3666

eleis.brennan@thefitchgroup.com

Additional information is available on www.fitchratings.com

PARTICIPATION STATUS

The rated entity (and/or its agents) or, in the case of structured finance, one or more of the transaction parties participated in the rating process except that the following issuer(s), if any, did not participate in the rating process, or provide additional information, beyond the issuer's available public disclosure.

APPLICABLE CRITERIA

[Non-Bank Financial Institutions Rating Criteria \(pub. 28 Feb 2020\) \(including rating assumption sensitivity\)](#)

[Corporate Hybrids Treatment and Notching Criteria \(pub. 12 Nov 2020\)](#)

ADDITIONAL DISCLOSURES

[Dodd-Frank Rating Information Disclosure Form](#)

[Solicitation Status](#)

[Endorsement Policy](#)

ENDORSEMENT STATUS

Investcorp Capital Ltd.
Investcorp Holdings B.S.C.
Investcorp S.A.

EU Endorsed, UK Endorsed
EU Endorsed, UK Endorsed
EU Endorsed, UK Endorsed

DISCLAIMER

ALL FITCH CREDIT RATINGS ARE SUBJECT TO CERTAIN LIMITATIONS AND DISCLAIMERS. PLEASE READ THESE LIMITATIONS AND DISCLAIMERS BY FOLLOWING THIS LINK: [HTTPS://WWW.FITCHRATINGS.COM/UNDERSTANDINGCREDITRATINGS](https://www.fitchratings.com/understandingcreditratings). IN ADDITION, THE FOLLOWING [HTTPS://WWW.FITCHRATINGS.COM/RATING-DEFINITIONS-DOCUMENT](https://www.fitchratings.com/rating-definitions-document) DETAILS FITCH'S RATING DEFINITIONS FOR EACH RATING SCALE AND RATING CATEGORIES, INCLUDING DEFINITIONS RELATING TO DEFAULT. PUBLISHED RATINGS, CRITERIA, AND METHODOLOGIES ARE AVAILABLE FROM THIS SITE AT ALL TIMES. FITCH'S CODE OF CONDUCT, CONFIDENTIALITY, CONFLICTS OF INTEREST, AFFILIATE FIREWALL, COMPLIANCE, AND OTHER RELEVANT POLICIES AND PROCEDURES ARE ALSO AVAILABLE FROM THE CODE OF CONDUCT SECTION OF THIS SITE. DIRECTORS AND SHAREHOLDERS RELEVANT INTERESTS ARE AVAILABLE AT [HTTPS://WWW.FITCHRATINGS.COM/SITE/REGULATORY](https://www.fitchratings.com/site/regulatory). FITCH MAY HAVE PROVIDED ANOTHER PERMISSIBLE SERVICE OR ANCILLARY SERVICE TO THE RATED ENTITY OR ITS RELATED THIRD PARTIES. DETAILS OF PERMISSIBLE SERVICE(S) FOR WHICH THE LEAD ANALYST IS BASED IN AN ESMA- OR FCA-REGISTERED FITCH RATINGS COMPANY (OR BRANCH OF SUCH A COMPANY) OR ANCILLARY SERVICE(S) CAN BE FOUND ON THE ENTITY SUMMARY PAGE FOR THIS ISSUER ON THE FITCH RATINGS WEBSITE.

[READ LESS](#)

COPYRIGHT

Copyright © 2021 by Fitch Ratings, Inc., Fitch Ratings Ltd. and its subsidiaries. 33 Whitehall Street, NY, NY 10004. Telephone: 1-800-753-4824, (212) 908-0500. Fax: (212) 480-4435. Reproduction or retransmission in whole or in part is prohibited except by permission. All rights reserved. In issuing and maintaining its ratings and in making other reports (including forecast information), Fitch relies on factual information it receives from issuers and underwriters and from other sources Fitch believes to be credible. Fitch conducts a reasonable investigation of the factual information relied upon by it in accordance with its ratings methodology, and obtains reasonable verification of that information from independent sources, to the extent such sources are available for a given security or in a given jurisdiction. The manner of Fitch's factual investigation and the scope of the third-

party verification it obtains will vary depending on the nature of the rated security and its issuer, the requirements and practices in the jurisdiction in which the rated security is offered and sold and/or the issuer is located, the availability and nature of relevant public information, access to the management of the issuer and its advisers, the availability of pre-existing third-party verifications such as audit reports, agreed-upon procedures letters, appraisals, actuarial reports, engineering reports, legal opinions and other reports provided by third parties, the availability of independent and competent third-party verification sources with respect to the particular security or in the particular jurisdiction of the issuer, and a variety of other factors. Users of Fitch's ratings and reports should understand that neither an enhanced factual investigation nor any third-party verification can ensure that all of the information Fitch relies on in connection with a rating or a report will be accurate and complete. Ultimately, the issuer and its advisers are responsible for the accuracy of the information they provide to Fitch and to the market in offering documents and other reports. In issuing its ratings and its reports, Fitch must rely on the work of experts, including independent auditors with respect to financial statements and attorneys with respect to legal and tax matters. Further, ratings and forecasts of financial and other information are inherently forward-looking and embody assumptions and predictions about future events that by their nature cannot be verified as facts. As a result, despite any verification of current facts, ratings and forecasts can be affected by future events or conditions that were not anticipated at the time a rating or forecast was issued or affirmed. The information in this report is provided "as is" without any representation or warranty of any kind, and Fitch does not represent or warrant that the report or any of its contents will meet any of the requirements of a recipient of the report. A Fitch rating is an opinion as to the creditworthiness of a security. This opinion and reports made by Fitch are based on established criteria and methodologies that Fitch is continuously evaluating and updating. Therefore, ratings and reports are the collective work product of Fitch and no individual, or group of individuals, is solely responsible for a rating or a report. The rating does not address the risk of loss due to risks other than credit risk, unless such risk is specifically mentioned. Fitch is not engaged in the offer or sale of any security. All Fitch reports have shared authorship. Individuals identified in a Fitch report were involved in, but are not solely responsible for, the opinions stated therein. The individuals are named for contact purposes only. A report providing a Fitch rating is neither a prospectus nor a substitute for the information assembled, verified and presented to investors by the issuer and its agents in connection with the sale of the securities. Ratings may be changed or withdrawn at any time for any reason in the sole discretion of Fitch. Fitch does not provide investment advice of any sort. Ratings are not a recommendation to buy, sell, or hold any security. Ratings do not comment on the adequacy of market price, the suitability of any security for a particular investor, or the tax-exempt nature or taxability of payments made in respect to any security. Fitch receives fees from issuers, insurers, guarantors, other obligors, and

underwriters for rating securities. Such fees generally vary from US\$1,000 to US\$750,000 (or the applicable currency equivalent) per issue. In certain cases, Fitch will rate all or a number of issues issued by a particular issuer, or insured or guaranteed by a particular insurer or guarantor, for a single annual fee. Such fees are expected to vary from US\$10,000 to US\$1,500,000 (or the applicable currency equivalent). The assignment, publication, or dissemination of a rating by Fitch shall not constitute a consent by Fitch to use its name as an expert in connection with any registration statement filed under the United States securities laws, the Financial Services and Markets Act of 2000 of the United Kingdom, or the securities laws of any particular jurisdiction. Due to the relative efficiency of electronic publishing and distribution, Fitch research may be available to electronic subscribers up to three days earlier than to print subscribers.

For Australia, New Zealand, Taiwan and South Korea only: Fitch Australia Pty Ltd holds an Australian financial services license (AFS license no. 337123) which authorizes it to provide credit ratings to wholesale clients only. Credit ratings information published by Fitch is not intended to be used by persons who are retail clients within the meaning of the Corporations Act 2001

Fitch Ratings, Inc. is registered with the U.S. Securities and Exchange Commission as a Nationally Recognized Statistical Rating Organization (the "NRSRO"). While certain of the NRSRO's credit rating subsidiaries are listed on Item 3 of Form NRSRO and as such are authorized to issue credit ratings on behalf of the NRSRO (see <https://www.fitchratings.com/site/regulatory>), other credit rating subsidiaries are not listed on Form NRSRO (the "non-NRSROs") and therefore credit ratings issued by those subsidiaries are not issued on behalf of the NRSRO. However, non-NRSRO personnel may participate in determining credit ratings issued by or on behalf of the NRSRO.

[READ LESS](#)

SOLICITATION STATUS

The ratings above were solicited and assigned or maintained by Fitch at the request of the rated entity/issuer or a related third party. Any exceptions follow below.

ENDORSEMENT POLICY

Fitch's international credit ratings produced outside the EU or the UK, as the case may be, are endorsed for use by regulated entities within the EU or the UK, respectively, for regulatory purposes, pursuant to the terms of the EU CRA Regulation or the UK Credit Rating Agencies (Amendment etc.) (EU Exit) Regulations 2019, as the case may be. Fitch's approach to endorsement in the EU and the UK can be found on Fitch's [Regulatory Affairs](#) page on Fitch's website. The endorsement status of international credit ratings is provided

within the entity summary page for each rated entity and in the transaction detail pages for structured finance transactions on the Fitch website. These disclosures are updated on a daily basis.

Non-Bank Financial Institutions	Middle East	Asia-Pacific	Latin America	Bahrain
Cayman Islands				
