Initiation Report

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Investcorp Capital

Compelling play on lower rates and capital deployment. High DY should be sustainable.

BUY **AED 2.42**

Holding Companies / UAE

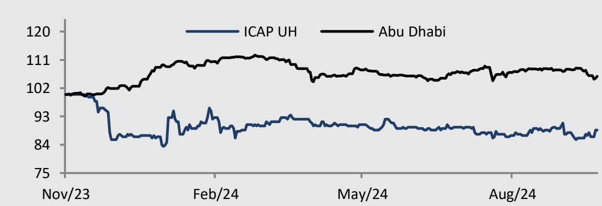
Bloomberg code	ICAP UH
Market index	Abu Dhabi
Target Price	2.42
Upside (%)	28.4

Market data 10/8/2024

Last closing price	2.0
52 Week range	1.9-2.4
Market cap (USD m)	4,471
Market cap (USD m)	1,217
Average Daily Traded Value (USD m)	2.0
Average Daily Traded Value (USD m)	2.0
Free float (%)	29%

Year-end (local m)	2023	2024	2025e	2026e
Operating Profit	107	117	130	162
Net Profit	113	105	115	134
EPS	0.07	0.05	0.05	0.06
P/E (x) (mkt price)	9.4	12.0	10.9	9.3
BVPS	-	0.67	0.67	0.67
Tangible BVPS	-	0.67	0.67	0.67
P/B (x) (mkt price)	-	0.9	0.9	0.8
P/TBVPS (x) (mkt price)	-	1.1	1.1	1.1
DPS	-	0.05	0.05	0.05
Div. yield (%)	-	9.35	9.34	9.45
EPPS	-	-	-	-
ROA (%)	7.9	6.0	5.9	6.1
ROE (%)	9.1	7.2	7.9	9.1
ROIC (%)	9.5	7.5	7.0	7.1
RE Yield (%)	-	5.0	7.0	7.0
Global Credit (%)	-	8.0	11.0	9.0
Recurring Cash Yield (%)	8.0	8.6	8.2	7.6
Recurring CFS Yield (%)	8.3	11.4	9.0	8.0
Recurring CDS Yield	9.3	7.8	7.9	10.1
Cash Conversion(%)	85.0	82.8	86.4	88.6
Recurring Cash Income	70.0	76.0	100.8	107.0
CFS Asset Base	418.0	430.0	750.0	900.0
CDS Asset Base	775.0	971.0	904.8	984.0
Numbers of shares	1,870	2,192	2,192	2,192

Price Performance



• We expect the RoE to improve from 7% in FY23/24e to 11.9% by FY 27/28 as it benefits from a drop in borrowing costs as it taps its finance facilities of up to USD 800m over the next four years and the IPO proceeds to expand its asset base (CAGR of 6% FY24-28) significantly, with significantly lower US policy lower rates driving up PE and RE values and enhancing CLO demand, particularly from PE and M&A activity.

• The company has an excellent track record in originating assets with credit costs and loss ratios significantly below industry averages. Moreover, the company has a highly low-cost base of 40bps assets and a C/I of <10% (through a master agreement), ensuring almost full pass-through of accrued earnings.

• It trades at 0.81x P/tNAV 24e vs RoE of 8% in FY25e. We set a TP of AED 2.43, offering a 23% upside. Catalysts: lower interest rates, capital deployment, strong growth of the parent company, improving RoE/EPS trajectory, and value discovery.

ICAP is an attractive listed investment vehicle comprising a mix of high-yielding asset classes (private equity, real estate (student housing and industrial segment), private credit (large corporate CLOs) and infrastructure and strategic capital) with global exposure, making a diversified pool of private assets available to global investors. The company has an excellent long-term track record in all those asset classes, with high sustainable returns, limited volatility, and credit losses. It benefits from and feeds its unlisted parent company, a leading global alternative asset manager and a global alternative asset provider, with its head office in Bahrain. ICAP is technically a carveout of Investcorp Holding. It benefits from 30 years of experience, supported by investor flows from the Middle East and deploying the assets globally. Investcorp Holding transferred its Corporate Investments, Global Credit, Real Estate, and Strategic Capital investments to ICAP.

FY24 (YE June 2024) ended on a solid note, with Q4 benefiting from gains on corporate investments. Net profit in FY24 drop moderatly to -7.5% y/y to USD 105m, with Q4 net profit at 55% of the FY24. Nonetheless, The RoE fell to 7.2% from 9.1%, behind its long-term IRR target of 11%, due to lower deal flow and higher borrowing costs (SOFR + 250bps). The total return on financial assets in the capital deployment at 8.2% (at YE balances) was below the long-term targets despite the significant catchup in Q4. Other assets provided resilient returns, such as a cash yield of 7.5% in global credit and 5.2% in real estate.

We pencil in significant EPS and RoE expansion in the coming years, with ICAP to improve the positive carry to 6.5% over the next 2-3 years. We pencil in 100bps lower rates for FY25e, 100bps for FY26e, and 50bps for FY27e, reducing SOFR by 225bps to c3% by YE26e. With the company paying SFOR + 250bps, its finance costs should drop materially from c.8.1% to 5.5% FY27, reducing carrying costs. This will allow ICAP to bolster earnings and RoE significantly, as we expect it to utilise USD 700m over the next four years, with earnings set to improve by USD 40m. Moreover, we expect the IRR of its assets in the CI segment to strengthen from an IRR of 2%-3% to a 14%-15% return hurdle due to increased deal flow and higher exit multiple environments as interest rates drop to neutral levels.

Investcorp Group continues diversifying its finance sources by listing the carve-out ICAP and raising USD 200m. Also, the parent-level AUM growth directly affects the CFS segment income of the ICAP. Investcorp Group's total AUM grew at a 15% CAGR from FY17 to H1 23, with ICAP planning to almost double its AUM to USD 100 bn in the medium term, consistent with its historical performance. The company has made three significant acquisitions in the Global Credit business segment since FY16, boosting AUMs by USD20bn. ICAP has 37 active real estate investment portfolios. 98% of ICAP's real estate exposure is in US RE invested in residential and industrial assets, the best long-term performing real estate assets, as it largely exited its US office building space in 2021.

Stock is trading 14% below its IPO price of AED 2.30 and at a 19% discount to NAV, offering a cash 9.4% DY. We believe the stock is overlooked by the market, underestimating the consistent solid track record of the company in the private asset classes, the expected EPS and RoE uplift from the capital deployment plans (IPO proceeds of USD 200m and utilization of the RCF finance facility of USD 800m), and the significant improvement FV gains booked in Q4 (ending June 2024). We believe the dividends - set at a minimum 8% of YE NAV – are sustainable, underpinned by the shareholder agreement (70%) with a similar structure like Aramco, and currently offering a DY of 9.4%, one of the highest cash DY in the GCC, and the highest in our Arqaam Capital coverage.

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Abacus *Arqaam Capital Fundamental Data*

Investcorp Capital plc

Year-end	2023	2024	2025e	2026e	2027e	2028e
Performance analysis						
CFS Yield(%)	8.3	11.4	9.0	8.0	8.0	10.0
CDS Yield(%)	9.3	7.8	7.9	10.1	10.1	10.2
Cost of Funds (%)	-	7.8	6.8	6.1	5.8	6.3
Average Asset Yield (%)	8.2	7.1	7.1	7.8	8.2	9.3
Cost / Income (%)	8.5	6.8	6.7	5.5	5.4	4.8
CFS / Operating Income (%)	38.5	39.2	48.5	42.0	39.9	43.1
CDS(Rental & Interest) / Operating income	23.4	23.2	25.7	21.6	21.4	19.3
Gains on Investment / Operating income (%)	40.2	39.2	27.5	37.6	39.9	38.5
ROE (%)	9.1	7.2	7.9	9.1	9.2	10.7
ROIC (%)	8.9	6.5	6.7	6.9	6.8	7.8
ROA (%)	7.9	6.0	5.9	6.1	6.2	7.3
Operating Income /Asset Exposure (%)	7.50	6.66	6.60	7.40	7.74	8.82
Cost/NAV (%)	0.81	0.58	0.64	0.63	0.65	0.66
Debt / Total Asset (%)	13.39	16.50	25.70	32.45	32.17	31.53
Net Debt /Equtiy (%)	15.47	19.77	34.58	48.05	47.43	46.05
Net Debt/OCF(Before Investments)(%)	9.47	7.46	6.97	7.12	6.97	7.99
Net Debt	58.57	173.68	436.31	598.27	640.74	545.48
Year-end	**2023**	**2024**	**2025e**	**2026e**	**2027e**	**2028e**
Asset Contribution						
CFS/Total Asset %	29.3	24.6	38.2	41.1	40.8	40.0
Corporate Investments/Total Assets %	23.5	29.7	21.9	22.1	24.5	26.9
Global Credit/ Total Assets (%)	17.7	13.8	13.2	12.4	12.8	13.1
Real Estate/Total Assets (%)	10.9	9.3	8.5	8.1	8.5	8.9
Strategic Capital / Total Assets (%)	2.3	2.7	2.4	2.4	2.6	2.8
Cash / Total Assets (%)	10.5	8.2	12.7	11.1	8.4	6.1
Year-end	**2023**	**2024**	**2025e**	**2026e**	**2027e**	**2028e**
Funding and Liquidity						
RCF Utilization (%)	7.6	16.5	55.0	80.0	87.0	87.5
Cash/ Total Assets	10.5	8.2	12.7	11.1	8.4	6.1
Cash/Net Debt (%)	365.9	109.1	56.9	38.1	26.7	19.7
Year-end	**2023**	**2024**	**2025e**	**2026e**	**2027e**	**2028e**
Capital and leverage ratios						
Core Tier 1 ratio (Basel III) (%)	9.3	7.8	7.9	10.1	10.1	10.2
Tangible equity / assets (%)	86.6	83.5	74.3	67.5	67.8	68.5
RWA / assets (%)	96.6	95.8	113.3	127.5	131.7	133.9
Year-end	**2023**	**2024**	**2025e**	**2026e**	**2027e**	**2028e**
Growth						
Revenue y/y%	18.2	6.8	11.3	23.2	5.4	15.5
Cost y/y%	(9.1)	(15.6)	10.8	(0.1)	4.0	4.0
Operating Profit y/y%	21.6	8.9	11.3	24.8	5.5	16.2
Taxes y/y%	(66.7)	(100.0)	-	16.4	2.3	20.0
Net Profit y/y%	29.9	(7.5)	10.2	16.4	2.3	20.0
Assets y/y%	22.7	22.8	12.2	11.3	0.9	2.0
CFS Assets y/y%	33.1	2.9	74.4	20.0	-	-
Finance y/y%	102.5	322.0	333.3	145.5	108.8	100.6
Total Liabilities y/y%	247.3	51.3	74.7	40.6	-	-

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Abacus *Arqaam Capital Fundamental Data*

Company profile

Investcorp Capital (ICAP) is a carveout of Investcorp Group, which is the Bahraini-based largest alternative asset manager in the MENA region with an AUM of USD 52 bn FY23 and aims to achieve an AUM of USD 100bn FY27. Investcorp Group was founded in 1982 to provide global opportunities for its GCC clients. Investcorp Group currently has 4000 active GCC clients, including family offices and banks and 300 global institutional clients. Despite Macro headwinds, Investcorp Group raised USD 7.4bn FY22 and successfully placed 80% of their deals.

AUM under private markets reached 13.1 trillion FY23, and it is expected to reach USD 23.3 trillion FY27, growing at a CAGR of 9.3%. Aggregate fundraising has become challenging due to macro-backdrops, higher interest rates and uncertainty, which has slowed the deal flow. However, it was reported in a survey conducted by Preqin c.95% of alternative asset managers plan to increase their allocation to private assets over the long term despite near-term headwinds due to higher long-term returns in private markets vs. public markets.

ICAP has two operating segments CFS (Capital financing Services) and CDS (Capital Deployment Services). In CFS business ICAP holds, finances, and disposes the investments across 4 underlying asset classes which are CI (Corporate Investments), RE (Real Estate), GC (Global Credit). Whereas Investcorp Group manages, governs, and arranges for the syndication of the underlying period. In the CDS segment, ICAP generates revenue in two forms: i) Cash yield and recurring revenue and ii) Net gain/loss on the net exposure within the CD business upon realisation or when revalued.

Investment thesis

ICAP benefits from its association with Investcorp Group which is a top tier alternative investment platform in the MENA region. Investcorp group affords access to the resources of the adviser, tapping into Investcorp deep bench of sector experts and investment professionals globally.

Effective dividend yield of 8%, multilayered income profile and diversified regional exposure.

Investcorp is well positioned as the leading regional MENA player which is positioning itself to capture secular growth trends in private markets. Private markets continue to offer higher returns in over longer time horizon compared to their public market peers.

Near-Term headwinds: higher interest rate environment and lower multiple environment which has slowing the deal flow, increasing the life of the funds and the distribution to funds.

Investcorp Capital plc

Year-end	2023	2024	2025e	2026e	2027e	2028e
Income statement (AEDmn)						
CFS Revenue	45	49	68	72	72	72
Gain on Financial Assets	47	49	38	64	72	80
Yield on Globa Credit	17	19	23	24	25	26
Dividend Income Financial Assets	8	8	10	11	11	12
Gross Operating Income	**117**	**125**	**139**	**171**	**181**	**209**
Operating Expenses	(10)	(8)	(9)	(9)	(10)	(10)
Net Operating Income	**107**	**117**	**130**	**162**	**171**	**199**
Interest Expenses	(2)	(19)	(20)	(33)	(39)	(39)
Interest Income	9	7	7	8	8	9
Pre Tax Profit	**114**	**105**	**118**	**137**	**140**	**168**
Taxes	(1)	-	(2)	(3)	(3)	(3)
Net Income	**113**	**105**	**115**	**134**	**137**	**165**
Recurring Cash Income	70	76	101	107	109	128
Recurring Cash Income per share	**-**	**-**	**-**	**-**	**-**	**-**
Dividends	-	99	117	117	118	120
EPS	0.06	0.05	0.05	0.06	0.06	0.08
Minorities	-	-	-	-	-	-
Others	-	-	-	-	-	-
Attributable net profit	**113**	**105**	**115**	**134**	**137**	**165**
Diluted EPS	0.1	-	0.1	0.1	0.1	0.1
DPS	-	0.1	0.1	0.1	0.1	0.1
BVPS	-	0.7	0.7	0.7	0.7	0.7
Tangible BVPS	-	0.7	0.7	0.7	0.7	0.7

Year-end	2023	2024	2025e	2026e	2027e	2028e
Balance sheet (AEDmn)						
Due from a related party	150	144	251	244	186	138
Recievables and other assets	83	206	60	60	50	50
Global Credit	-	-	-	-	-	-
CFS Assets	418	430	750	900	900	900
Croporate Investments	335	520	430	483	542	606
Global Credit	252	242	259	270	282	294
Real Estate	155	162	168	177	188	200
Strategic Capital	33	47	48	53	58	64
Total assets	**1,426**	**1,751**	**1,965**	**2,188**	**2,207**	**2,252**
Payables and Accrued expenses	150	157	65	70	75	75
Financing	41	132	440	640	696	700
Debt	-	-	-	-	-	-
Other liabilities	-	-	-	-	-	-
Total liabilities	**191**	**289**	**505**	**710**	**710**	**710**
Total equity	**1,235**	**1,462**	**1,460**	**1,478**	**1,497**	**1,542**
CFS Yield	1	1	2	2	2	2
Financial Assets at FV	233	350	311	304	236	188
FA at Amort Cost	(109)	(12)	189	396	510	562
Shareholders Equity	1,235	1,462	1,460	1,478	1,497	1,542
Net Debt/Equity	-	0.1	0.3	0.4	0.5	0.5
Cash Conversion	0.85	0.83	0.86	0.89	0.89	0.91

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Investment thesis: Multi-layered diversified income stream

ICAP is the carveout of MENA's largest asset manager, Investcorp Group, with an AUM of USD 52 bn (June 2023). It has a high ROA of >6% and a solid cash conversion of 85%, coupled with investment management, sourcing, and financing agreements at a favorable cost base, which would support an 8-9% dividend on NAV.

As MENA's alternative asset manager, it is well-positioned to benefit from the structural demand for private market alternatives driving secular growth.

- **Investcorp has been the leading alternative asset manager in the MENA regions since 1982.**
- **ICAP's relationship with the parent is governed by several long-term agreements, allowing it to gain exposure to an experienced management team with a strong track record of delivering solid returns across different private asset classes.**
- **We expect a 4-year operating income CAGR of 11% of FY24-28e and an EPS CAGR of 9%, underpinned by B/S growth in the CFS segment driven by higher utilisation for RCF financing and lower carrying costs and the CD segment (redeployment of IPO proceeds of USD 200m).**
- **We initiate coverage on ICAP (Investcorp Capital) with a Buy rating and a TP of AED 2.44. The stock offers a total return of 22%, including a 9.4% dividend yield.**

ICAP stands out as a compelling investment vehicle. It is a diversified mix of high-yielding asset classes, encapsulating private equity, real estate focusing on student housing and the industrial sector, and private credit. It targets explicitly significant corporate Collateralized Loan Obligations (CLOs), infrastructure, and strategic capital. This eclectic mix is designed to cater to investors seeking growth stability and sustainability in returns.

The company is backed by Investcorp Holding's strong legacy and expertise, which makes it a giant in the global alternative asset management space with its headquarters in Bahrain. It benefits significantly from Investcorp Holding's vast experience, spanning over 30 years, during which it has demonstrated consistent performance across the varied asset classes it commits to. Substantial investors further complement this depth of experience flowing from the Middle East, which has bolstered ICAP's standing and reach in the investment community.

Experienced management with strong origination and selection capabilities. These staff members further enhance the company's ability to scout, vet, and manage investments, delivering high, sustainable returns. These returns are characterised by limited volatility and credit losses, which is a testament to the robustness of ICAP's investment strategy and the skill set of its management team, which has an impeccable track record of 27 years.

Sector Focus – Defensive Approach: ICAP's CLO strategy prioritizes defensive sectors, shunning cyclical industries that are more susceptible to economic fluctuations. This reflects a risk-averse approach aimed at preserving capital while delivering stable returns. Investcorp's portfolio management practices include security selection, position sizing, rebalancing, and sector allocation—all supported by continuous stress testing to mitigate risks.

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Risk Management: Investcorp employs rigorous stress testing protocols for its CLO portfolio. It periodically reviews the constituent companies' compliance with key balance sheets, income statements, and cash flow ratio metrics to determine whether companies should be retained or exited from the portfolio. These risk management practices ensure that the portfolio remains resilient against potential downturns. Investcorp's CLO portfolio maintains a stable % loss ratio of 0.8-0.9% % and Loss Given Default (LGD) of <30%, with loss ratios at 17-18bps, well below the industry benchmark, signalling a high-quality credit portfolio.

Investment selection and fundraising capabilities are the key to generating revenue in the CFS business. ICAP acquires, holds, finances, and disposes of the investments across the four main underlying asset classes: Corporate Investments, Real Estate, Global Credit, and Strategic Capital, while Investcorp Group (i.e., the parent) manages, governs, and arranges for the syndication during the underwriting period. ICAP's total asset exposure net of related party balances is USD 1.6bn, constituting c.35% of Investcorp Group's total asset exposure.

Strong placement capacity. Investcorp Group has over 4000 active GCC clients and more than 300 institutional clients on its private capital-raising platform. This will reduce the duration for which a deal or an acquisition remains unfunded and increase capital churn, supporting increasing CFS revenue. ICAP sees increased demand from Japanese institutions, alongside regional players such as banks and SWFs, because of the yield pickup vs other similarly rated securities.

The genesis of ICAP was marked by Investcorp Holding's strategic move to transfer its Corporate Investments, Global Credit, Real Estate, and Strategic Capital investment wings to ICAP. This move was not merely administrative but strategic, pooling resources, expertise, and strategic directions under the ICAP umbrella to create a more focused and potent investment platform. Through its well-established, long-term track record in delivering high returns across its chosen asset classes, ICAP presents a unique value proposition for investors.

Benefits from lower US policy rates. We see ICAP as well positioned to benefit from lower policy rates, primarily from:

- **Increased CLO demand from PE funds at stable cash on mid-teen cash returns.** With an estimated USD 2 trillion of dry powder for private equity (PE) players, ICAP anticipates an uptick in M&A activity and deal flows as the market adjusts to the recent rate cuts as EV/EBITDA multiples adjust to lower rates. This increased PE activity will likely fuel demand for CLO issuance, with an additional $2 trillion to $2.5 trillion in corporate loans expected to be underwritten over the next 4-5 years vs current global outstanding of USD 1-1.5 trillion. CLOs, being driven by PE sponsorships, stand to benefit significantly from this environment. Meanwhile, ICAP's CLO equity tranches will continue to provide resilient returns as CLOs are written on a floating basis, with SFOR +4% asset yields, SFOR + 2.5% funding costs and loss ratios of 17-18bps and leverage of 10x.

- **Higher exit values for real estate and private equity holdings, benefiting the capital deployment segment (outstanding of USD 682m, almost 50% of NAV).** Exits of ICAP's holdings should be easier as global markets have strongly performed amid the expected steep rate-cutting cycle in the US and EU and the support package in China.

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- **Lower funding costs, boosting RoE by well over 1%.** ICAP plans to significantly increase its leverage by up to USD 800m, with lower funding costs of its revolving credit (paying SFOR +250ps, tightened from 282bps last year) could benefit EPS significantly. A 250bps rate drop on a facility usage of USD 700m enhances earnings by USD 18m or 1.25 RoE points.

The stock trades at a 16% discount from its IPO price. It is positioned at a 23% discount to its Net Asset Value (NAV), making it an attractive offering with a 9.2% dividend yield (paid semi-annually). We believe the stock is undervalued vs its intrinsic value, especially considering the company's robust and consistent performance in managing private asset classes. Moreover, there's an anticipated uplift in the EPS and RoE, which can be attributed to strategic capital deployment plans in the CD and CFS segments. These plans involve utilising IPO proceeds of USD 200m and a Revolving Credit Facility (RCF) of USD 800m, further helped by reduced borrowing costs.

The strategy behind the dividends appears both ambitious and sustainable. With dividends set to be at least 8% of the year-end NAV, there is a clear commitment to delivering value to shareholders. This commitment is further supported by a shareholder agreement that secures the dividends of the minority shareholders (with the majority shareholder willing to defer its rights to dividends), mirroring the structure seen with big players like Aramco. This not only underscores the sustainable nature of the dividends but also highlights the commitment to a robust dividend policy. Currently, the stock offers a dividend yield of 9.2%, positioning it as the highest cash yield option within the GCC region.

We believe the stock is undervalued and not getting the attention it deserves for a few critical reasons.

- **A general perception of high risks is associated with its underlying assets and a significant share of level 3 assets**. This overlooks ICAP's consistent delivery of risk-adjusted solid returns and its approach to rigorous, selective underwriting, which mitigates such perceived risks together.
- **The perceived complexity of its Lines of Business plays a factor. Limited awareness of the sophisticated financial instruments that ICAP leverages leads to hesitation among** potential investors unfamiliar with these mechanisms.
- **ICAP's high exposure to developed market assets is a double-edged sword.** On the one hand, it suggests a diversified and potentially safer investment; on the other, it causes the stock to fall outside the investment mandate of many institutional investors that focus exclusively on the GCC or emerging markets, limiting its attractiveness to a broader investor base. However, we believe a compelling dividend offering will attract significant attention.
- **A noticeable gap in the marketing of the ICAP stock.** Specifically, the members of the IPO syndicate seem to be making a limited effort to market the stock through Investcorp's established distribution channels in the Middle East. This lack of targeted outreach in a region that could be highly receptive to ICAP's investment proposition further contributes to its undervaluation and underexposure in the market. Management plans to do several non-deal roadshows to educate the institutional and family office investment community, and plans to attend several conferences.

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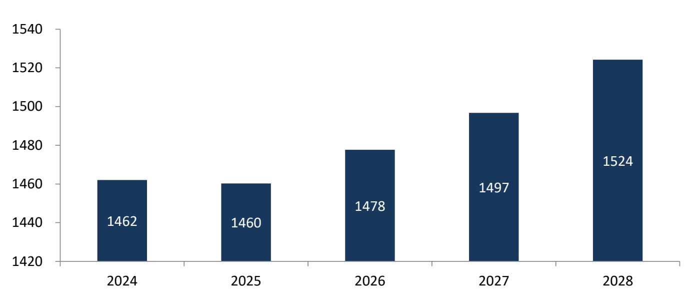
ICAP's stock presents a valuable investment opportunity currently overshadowed by misconceptions regarding risk, unfamiliarity with its business model among certain investor groups, geographical investment preferences, and insufficient marketing efforts. Addressing these areas could significantly enhance the stock's visibility and attractiveness to more investors, potentially realigning its market value more closely with its intrinsic worth.

We forecast operating income to grow at a four-year CAGR of 11% FY25-28, driven by CFS CAGR of c.10% and CDS CAGR of 12%. According to our estimates, Topline CAGR would be driven by robust balance sheet growth in the CFS segment, which can grow to USD 900m, with a maximum capacity of USD 1bn. In addition, USD 200m is available from the IPO proceeds earmarked for the CD segment. Based on management guidance**, Investcorp Capital invested USD 100m in CI FY 24 and plans to invest the remaining IPO proceeds FY25**, after which it will invest USD 40m annually until FY27. NAV accretion will be supported by unrealised gains on Corporate Investments**,** which amounted to USD49m FY24.

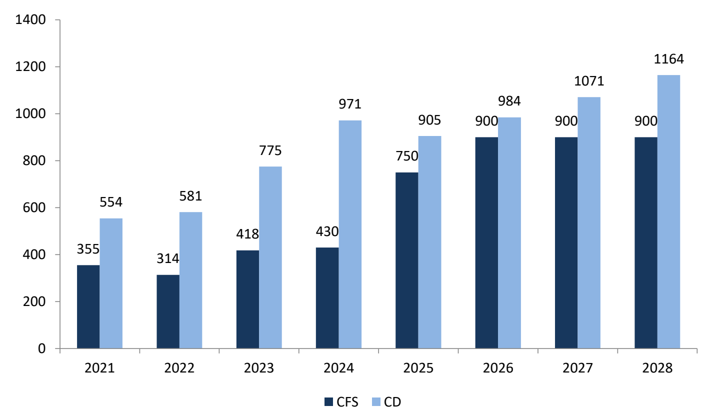
ICAP is expected to generate recurring cash yield, forming approximately 65% of operating income from the 8% underwriting fee in the CFS segment, interest income on global credit exposure, and rental income from real estate asset exposure.

Exhibit 1: NAV in USD



Source: Arqaam Capital Research, Company Data

Exhibit 2: CFS assets vs. CDS assets



Source: Arqaam Capital Research, Company Data

Operating profit CAGR of c.12% FY24-28e is based on topline growth and operating leverage. Total costs are set at USD 3.5 m and c.40 bps of NAV, with total costs at USD 8m FY24. Corporate expenses, e.g., finance, IT costs, operating costs, rents, etc., should remain reasonably stable. As a result, the cost-to-income ratio should drop from 6.8% in FY24 to 5.3% in FY28e, much lower than the regional and international peers due to the **Master's Agreement** with the parent.

EPS should grow at a CAGR of 9% vs. 11% of operating income due to higher RCF utilisation. We expect net income to grow at a 9% CAGR, behind the operating income growth, due to significant interest expense as we expect an RCF drawdown of up to USD 700 m. We forecast interest expense to be USD 20m FY25e and reach USD 39m in FY28, even as SOFR rates will decrease. ICAP had previously arranged a USD 600m RCF facility arrangement with the parent group, which was at SOFR +282 basis point, and the relationship was governed under the CFS

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segment. Now, it has entered into a facility arrangement with the consortium of international banks at SOFR + 250 basis points. The contract for the facility is for four years, with an option for one year of extension.

Capital Financing Services: revenue should increase at a CAGR of 10% FY24-28e based on higher RCF utilisation and improving private market outlook. ICAP, in the CFS business, has set an upper limit of USD 1bn for its asset exposure. We have modelled the CFS segment exposure to increase to USD 900m in the near term on the back of higher RCF utilisation. Lower interest rates should increase the net income generated from CFS, particularly as funding costs for the position drop. It generates an 8.25% underwriting fee (annualised investment return), charging Investcorp Group clients for syndicating assets through its balance sheet. Underwriting fees are a function of the CFS asset exposure each year. CFS business targets a gross IRR of 20%-25% and a net IRR of 11%-12% on the asset exposure, supported by the non-syndicated assets.

It has signed a new RCF facility with a consortium of international banks for USD 800m at SOFR+250 basis points on its utilised RCF, equivalent to 7.8%, at 32bps lower spreads than the USD 600-m facility with its parent company. ICAP remains well positioned for lower rates, with lower SFOR reducing its borrowing costs, particularly as we expect leverage ratios to increase as it builds its CFS asset base, earning a positive carry. The exposure of CFS business across asset classes is as follows: CI at 38 %, RE at 55.12%, Strategic Capital at 7%, and Global Credit at 5.8%.

We expect Capital Deployment asset exposure to increase from USD 971m FY24 to USD 1,163m FY28e at a CAGR of 5% due to additional capital deployment and fair value gains for their Corporate Investments. CDS comprises c. 55.4% of the overall asset base of USD 1.75bn FY 24. The USD 200m IPO proceeds will be deployed during FY24e-FY25e. In the Capital Deployment Segment (CDS), ICAP owns assets across four asset classes: Corporate Investments (CI), USD 520m; Real Estate (RE), USD 162m; GC (Global Credit), USD 242m; and Strategic Capital (SC) USD 47m as of FY24. The assets in the CDS segment are managed by the Investcorp Group, just as with other clients.

We expect recurring cash income in the CD segment to be USD 33m FY25e, increasing to USD 43m in FY28e, growing at a CAGR of 9% on the back of rental growth in industrial properties. Recurring cash income in the CDS comes from rental receipts from Real Estate investment properties, interest income from CLOs (GC), and dividends from Corporate Investments (CI) and Strategic Capital (SC). Unrealised and realised gains, which form non-recurring income from valuations of Real Estate (RE) Corporate Investment (CI) assets, are going to remain subdued FY24E-FY25 on the back of lower EBITDA multiple environments providing limited exit opportunities, coupled with elevated interest rates, both of which have contributed to explaining **66% the historical private equity returns.**

AUM under private markets is expected to grow at a CAGR of 9.3% from USD 13.7 tr in FY23 to USD 23.3 trillion in FY27. Private markets have outperformed public markets, amplified by sustained institutional investments and, more recently, private wealth allocation. Furthermore, the deployment universe has increased as companies stay private longer. Investcorp Group has raised USD 30bn since 2017 due to its 5000+ investor relationships. Recent capital raising case studies show resilient fundraising activity with less than an 8-week placement timeline and limited placement concentration.

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Effective dividend yield of 9.2% based on current NAV; however, the parent had to forgo its right to receive dividends. Investcorp Group declared an interim dividend of USD 59.6m for H1 24 and paid USD 34m, implying that Investcorp Group waived its right partially to receive the dividends. Investcorp paid another dividend of USD 55.4m dividends for H2 24. Investcorp can catch up on the waived dividends until June 30, 2026. Investcorp Group guarantees its shareholders an 8% dividend yield for the year-end NAV. However, the dividend guarantee will end by June 2026. Nonetheless, the dividends are sustainable as IRR and RoE pick up. ICAP has paid a total dividend of USD 115m FY24.

The DY of 9.2% and the EPS growth FY24-28e of 9% should lead to a TRS of c.18%. That said, the DY and NAV growth (CAGR of 1%) is more muted at 10.2%.

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ICAP, on average, represents 25% of the Investcorp Group's gross operating income based on FY21-22; because of the low allocated costs, net profit before taxes is, on average, 82.5% of the group. The average RoE FY21-22 of ICAP is similar to that of the group, averaging about 10.75% vs. 11.15% for the group.

Exhibit 3: ICAP's Gross operating Income represents 20% of FY22

Income Statement	ICAP		Investcorp Group		% of the Group	
Fiscal Year	**2021**	**2022**	**2021**	**2022**	**2021**	**2022**
Fiscal Year End Date	*6/30/2021*	*6/30/2022*	*6/30/2021*	*6/30/2022*	*6/30/2021*	*6/30/2022*
Gross Operating Income	139	99	463	520	30%	19%
Operating Expenses	(10)	(11)	(338)	(290)	3%	4%
Interest Expense	(2)	(1)	(31)	(31)	6%	3%
Net Profit before tax	142	90	138	151	103%	60%

Source: Arqaam Capital Research, Company Data

Exhibit 4: ICAP's Assets represent 50% of Investcorp Group's

Balance Sheet						
Fiscal Year	**2021**	**2022**	**2021**	**2022**	**2021**	**2022**
Fiscal Year End Date	*6/30/2021*	*6/30/2022*	*6/30/2021*	*6/30/2022*	*6/30/2021*	*6/30/2022*
Asset	1182	1162	2391	2295	49%	51%
Liabilities	124	55	1119	980	11%	6%
Equity	1058	1107	1272	1315	83%	84%

Source: Arqaam Capital Research, Company Data

Exhibit 5: The ROE of ICAP is similar to the RoE of the group

Ratios				
Fiscal Year	**2021**	**2022**	**2021**	**2022**
Fiscal Year End Date	*6/30/2021*	*6/30/2022*	*6/30/2021*	*6/30/2022*
RoE	13.4%	8.1%	10.8%	11.5%
Cost/ Gross Operating Income ratio	7.2%	11.1%	73.0%	55.8%

Source: Company Data, Arqaam Capital Research

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EVA/DDM valuation - initiated with a Buy and a TP of AED 2.42.

• Based on the DDM model, we arrive at an FV of AED 2.44 per share. We assume a CoE of 11.6% (risk-free rate 4.35% + ERP of 7.25%), a sustainable DY of 8%, and a perpetual growth rate of 3.9%, consistent with a sustainable DPO of 69%.
• Based on the DCF model, we set an FVAE of AED 2.42 per share. We assume a WACC of 10.6% (target capital structure equity: debt at 80%-20%, cost of debt at SFOR +250bps, with SFOR seen dropping to 3%) and a perpetual growth rate of 3.9%.
The share price is below the FY 24 NAV of AED 2.45/share and the IPO price of AED 2.30. We set a blended TP of AED 2.42/share (EVA and DDM at a 50:50 weighting).

We initiate coverage on **Investcorp Capital (ICAP)** with a **Buy** rating and set a target price of AED 2.42/share. **Our DDM valuation yields an FVE of AED 2.41/share.** The DDM best captures the intrinsic value given the parent's commitment to a minimum 8% dividend of the year-end NAV paid semi-annually, albeit guaranteed only until June 2026. The parent may also waive its right to receive dividends to ensure minority shareholders receive them.

Exhibit 6: Assumption (DPS CAGR FY 25-28e 10.9%, TG 3.9% (1-DPO of 69%/TTC IRR of 11.6%)

	Feb FY25e	Oct FY25e	Feb FY26e	Oct FY26e	Feb 27e	Oct FY27e	Feb 28e	Oct FY28e	perp
Dividends	58.5	58.5	58.4	58.4	59.1	59.1	59.9	59.9	121.9
PV Factor	0.946	0.912	0.879	0.847	0.817	0.787	0.758	0.731	8.567
Present value of Dividends	55.3	53.3	51.3	49.5	48.3	46.5	45.4	43.8	1044.6
PV OF TV	1044.6								
PV of Divs	393.4								
Total Value	1438.1								
Shares Outstanding	2,192								
TP(USD)	**0.66**								
TPAED	**2.41**								
Ke	11.6%								
g	3.9%								
DY	8.0%								

Source: Arqaam Capital Research, Company Data

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Exhibit 7: Sensitivity Analysis of TP

	Cost of Equity					
	2.41	**10.6%**	**11.1%**	**11.6%**	**12.5%**	**13.0%**
Terminal Growth	**2.1%**	2.03	1.99	1.95	1.88	1.85
	2.6%	2.14	2.10	2.06	1.98	1.95
	3.1%	2.27	2.22	2.18	2.10	2.06
	3.9%	2.51	2.45	**2.41**	2.32	2.27
	4.4%	2.68	2.62	2.58	2.48	2.43
	4.9%	2.88	2.82	2.77	2.66	2.60
	5.5%	3.17	3.10	3.04	2.92	2.86

Source: Arqaam Capital Research, Company Data

Our EVA valuation also yields an FVE of AED 2.42/share.

Our base case is based on a WACC of 10.6%. We use a CoE of 12% (US risk-free rate of 4.35% and a rich risk premium of 7.25%), a cost of debt of 6.5% (assuming mid-cycle SOFR will drop to 4%), and a target capital structure of 80-20% equity-debt. We apply the same perpetual growth rate, consistent with the internal capital generation (IRR of 11.6%) and expected payout (67% on a through-the-cycle basis).

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Exhibit 8: EVA model yields an FVE of AED 2.42/share (WACC: 10.6%, TGR 3.6%)

	FY21	FY22	FY23	FY24	FY25	FY26	FY27	FY28	perp
Operating Profit after tax	122.0	85.0	106.0	116.6	127.4	159.3	168.2	177.7	184.6
Total Invested Capital	1103.0	1147.0	1276.0	1594.0	1898.9	2112.4	2184.7	2213.5	2299.9
Cost of Equity	10.4%	10.4%	10.4%	10.4%	10.4%	10.4%	10.4%	10.4%	10.4%
EVA	121.9	84.9	105.9	116.5	127.3	159.2	168.1	177.6	184.5
PV Factor				1	0.91	0.82	0.74	0.67	0.61
				116.5	115.3	130.6	124.8	119.4	1079.6
EV									1,686.0
Debt									-240.0
Equity value									1,446.0
TG	3.9%								
<u>**NoS**</u>									2,192
Ke	11.6%					TP (USD)			0.66
Cost of debt	6.0%					**TP (AED)**			**2.42**
WACC	10.4%					CMP			1.98
Mcap	1600	80.0%				Upside			16%
Debt	400	20.0%							
Total Invested Capital (target)	2000								

Source: Arqaam Capital Research, Company Data

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Peer group analysis – RE assets warrant a premium, while private credit exposures trade near their NAVs

- **BDCs are comparable to ICAP due to the high payout structures, private asset exposures, and close affinity to parent companies. However, ICAP's risk profile is significantly below average compared to its industry peers, as it targets larger companies instead of SME-based lenders for the US peers. ICAP’s exposure to private credit comprises USD 242m, or c.16% of assets. Private credit lenders trade at a P/BV of 1x, P/E of 9.5x, and DY of 11.7%.**
- **We also compare ICAP to industrial REITs, as ICAP’s exposure to REIT assets is USD 162m, or c. 10% of assets. Industrial REITs trade at a P/BV of 2.2x and multi-home REITS at 2.4x, with DYs of 3.5-3.7%.**
- **We also compare ICAP to global PE funds, which trade at a significant premium (P/BV of 10x, FY24e P/E of 46x, and DY of 3.6%), reflecting their higher fee income generation, albeit fully offset by ICAP’s lower cost structure.**

BDCs, sponsored by the top US asset managers, trade at a P/E of 9.5x and P/B of 1.0x, with a high dividend yield of 11.7%. However, ICAP’s credit risk is significantly lower.

Business development companies are listed as investment vehicles established by a parent entity that invests 70% of its assets in companies with a US market cap of USD 250m. These investment vehicles distribute up to 90% of their income as dividends. Typically, BDCs fund small to medium enterprises that struggle to gain financing from traditional means. To meet US federal regulations, BDCs must invest 70% of their assets in companies with market capitalisations under USD 250m, and no single investment can account for more than 25% of their holdings.

ICAP (GC) operates in a relatively liquid credit portfolio, and they invest in large-scale credits. Unlike BDCs, which focus on direct lending, ICAP focuses on a relatively liquid CLO market, which is relatively liquid. Moreover, ICAP invests in liquid debt and manages its risk by being able to trade around its investments, unlike BDCs, which operate in illiquid segments of the loan market. Furthermore, ICAP typically invests in large-scale corporate borrowers. ICAP’s average portfolio company EBITDA is roughly USD 450m- USD500m, compared to USD 100m for the BDCs. Meanwhile, ICAP’s Global Credit (GC) portfolio yields 9%-12%. ICAP’s loss ratio is significantly less than that of BDCs, with an average loss ratio of 0.2% vs. 0.4% for BDCs general index, justifying a premium for ICAP.

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Exhibit 9: Publicly listed Credit Lending Funds backed by Major Asset Managers

Credit Lending Peers (BDCs)		P/E	P/B	DY %
	FY23	FY24	FY24	FY24
Morgan Stanley Lending Fund	NA	7.2	0.96	11.5
Black Stone Secured Lending	6.7	7.7	1.12	10.3
Investcorp Credit Management	7.1	6.9	0.60	15.2
Black Rock US Equity	6.7	7.7	1.12	10.3
Encore Capital Group	22.9	21.1	1.17	N/A
Goldman Sachs	6.1	6.3	0.97	12.7
MidCap Financial Investment Corp	7.0	7.5	0.86	12.6
Main Street Capital	4.3	5.2	1.70	8.1
	14.8	16.3	0.8	13.3
Average	**9.5**	**9.5**	**1.0**	**11.7**
ICAP	**8.6**	**9.3**	**0.8**	**9.4**

Source: Arqaam Capital Research, Company Data

US Industrial REITs trade at a premium despite cyclical headwinds from the macro backdrop.

Exhibit 10: Publicly listed REITs with underlying exposure to the Industrial segment in the US

Industrial REITs	P/E		P/B	DY %
	FY23	FY24	FY24	FY24
Terreno Realty Corp	45.7	49.6	2.02	3.2
First Industrial Realty Trust	38.5	41.2	2.86	3.2
Plymouth Industrial REIT	42.2	36.5	2.13	4.5
Prologis Inc.	49.6	47.7	2.18	3.5
East Group Properties	36.0	35.6	3.00	3.1
STAG Industrial	49.7	50.8	2.10	4.3
Rexford Industrial Realty Inc.	53.5	49.1	1.41	3.8
Average	**45.0**	**44.4**	**2.2**	**3.7**
ICAP	**8.6**	**9.3**	**0.8**	**9.4**

Source: Arqaam Capital Research, Company Data

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Exhibit 11: Publicly listed REITs with underlying exposure to Multifamily segment

Multifamily Home REITS	P/E		P/B	DY %
	FY23	FY24	FY23	FY24
Invitation Home Inc	57.1	60.0	2.1	4.1
Essex Property Trust	45.1	54.5	3.5	3.4
Independence Realty Trust	63.7	87.1	1.3	3.2
Camden Property Trust	58.8	75.2	2.7	3.4
Average	**56.2**	**69.2**	**2.4**	**3.5**
ICAP	**8.6**	**9.3**	**0.8**	**9.4**

Source: Arqaam Capital Research, Company Data

Real estate investment trusts (REITs) are attractive ways for investors to own income-generating real estate without buying or managing property. Investors like REITs for their generous income streams and exposure to properties at prime locations. To qualify as a REIT, the trust must distribute at least 90% of its taxable income to shareholders. In turn, REITs typically don't pay corporate income taxes because their earnings have been passed along as dividend payments.

Industrial REITs that own properties in the Sunbelt region in the US are trading at rich valuations with average P/E FY24e at 44X and FY 24e P/B of 2X while offering a modest dividend yield of 3.7%. Industrial (REITs) have attracted significant attention in the current financial landscape due to their resilient occupancy levels and significant rental growth potential despite cyclical headwinds in the overall Real Estate market. This is because of the increasing demand for industrial warehousing space in the US, which has benefitted enormously from the robust growth in e-commerce post-pandemic, especially near major metropolitan areas, to meet the demand for rising same-day delivery and accommodating a larger share of e-commerce sales in the overall retail sales mix of the region. Furthermore, we noted that asking rents for specific properties increased by 20% annually.

Multifamily REITs with underlying property exposure in the multifamily residential segment in the Sunbelt area of the US are trading at FY24e P/E 69.2x and P/B of 2.4x with a slightly higher dividend yield of 3.5% vs. industrial REITs. The multifamily residential segment is another segment where ICAP has significant real estate exposure. REITs within the multifamily residential segment exhibit their own compelling metrics underpinned by investor confidence in their growth and stability prospects. Rising costs associated with home ownership and inbound migration to the Sunbelt region bode well for the multifamily residential rental growth in the medium term.

The multifamily housing segment will continue to benefit from favorable supply-demand dynamics in MT. A significant shortage of homes and unaffordable house prices are conducive to long-term rental growth in the multifamily segment. We expect the demand in the US rental market to remain robust, fueled by the housing deficit of 6.5 million homes from 2012-2022. This will lead to strong rental demand and a steady rise in rental households in MT, with higher mortgage rates for longer.

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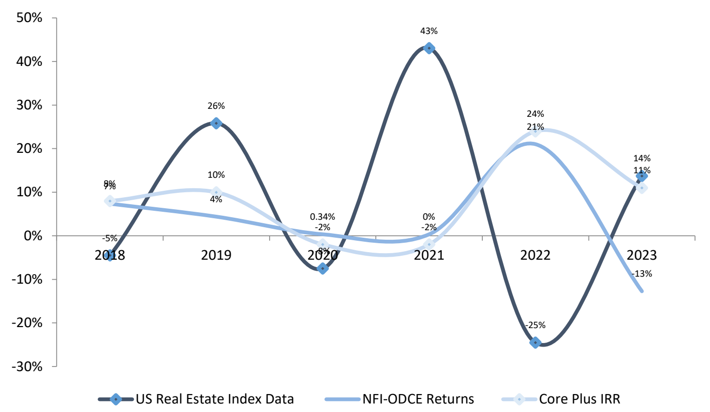
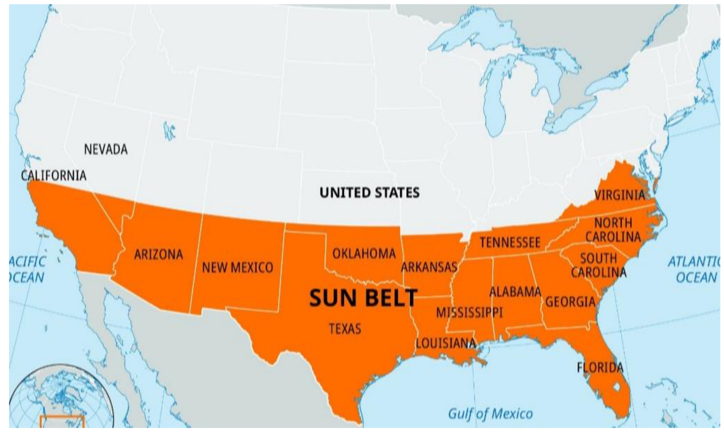
Exhibit 12: US REIT Index vs. NFF-ODCE vs. Core Plus IRR



Source: Arqaam Capital Research, Company Data

Exhibit 13: Sunbelt Region of US



Source: Arqaam Capital Research, Company Data

We also compare ICAP to global asset managers, private equity and local holding companies, and financial services.

It is worth noting that ICAP's most exposure is in PE MENA healthcare, logistics, and consumer. Private equity investments entail allocating funds to privately held companies that are not publicly traded. These entities commonly employ leveraged financing to acquire businesses, undertake restructuring, and subsequently seek to divest them at a premium. The appeal of private equity to investors lies in its potential for superior returns.

Exhibit 14: Global Peers for ICAP

	P/E	P/B		DY %
Asset Management and Private Equity	**FY23**	**FY24**	**FY24**	**FY23**
TPG	166.6	229.6	36.2	3.2
KKR	20.0	31.9	5.1	0.6
Bridgepoint US	30.1	38.1	3.8	4.0
Blackstone US	68.7	82.2	27.4	2.9
Partners Group Holding	30.4	32.7	13.5	3.4
Ares Capital Corp	8.4	9.3	1.1	9.3
3i Group	6.0	8.5	1.6	2.2
Eurazeo	2.7	2.9	0.7	3.2
Intermediate Capital Goup	10.1	14.3	2.9	3.6
Brookfield Asset Management	47.2	9.1	6.5	3.4
Average	**39.0**	**45.9**	**9.9**	**3.6**
ICAP	**8.6**	**9.3**	**0.8**	**9.4**

Source: Arqaam Capital Research, Company Data

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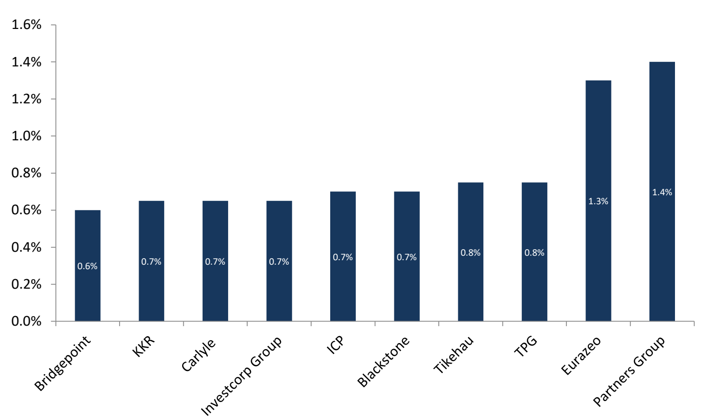
ICAP trades at a considerable discount compared to other listed global asset managers. Specifically, ICAP's P/E ratio for the forecasted year 2025 stands at 13.8x, significantly lower than the FY 24e 46x P/E ratio observed among its global counterparts. Additionally, its P/B ratio is valued at 0.80x times, starkly contrasted with a much higher 9.9x times among these international peers. Another point to highlight is ICAP's DY, which is at an impressive 9.2%, far surpassing the 3% typically offered by global asset management firms. However, there is an argument for ICAP's discount vs. its global peers.

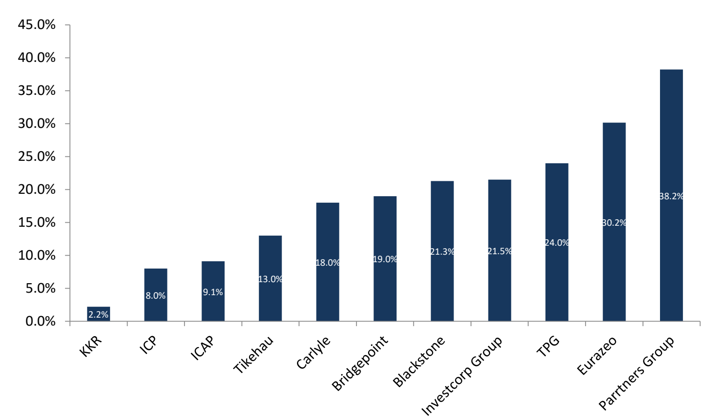
A rationale behind ICAP's discount relative to its global peers is that global asset managers operate with an i) asset-light capital structure, ii) have performance incentives, and iii) AUM fees charged to clients, all contributing significantly to their topline revenues. Based on our research, ICAP's business model significantly differs from its global asset manager peers because it necessitates substantial capital investments. For example, ICAP must use its capital to acquire assets for future syndications in its CFS business. At the same time, in the CD segment, it makes incremental investments to increase its asset exposure. On the other hand, global asset managers earn management fees on external AUM with lower capital intensity, i.e., without their investment. This significant commitment to capital deployment, the absence of incremental fees for performance incentives, and fees charged to clients are crucial factors contributing to the rationale behind ICAP's lower valuation metrics compared to those of global asset managers that benefit from less capital-intensive operations.

Exhibit 15: AUM Fees Relative to AUM FY22



Source: Arqaam Capital Research, Company Data

Exhibit 16: Operating Income to Assets FY22



Source: Arqaam Capital Research, Company Data

Regional holding and financial service companies trade at an average premium of 30% above their Net Asset Value. This is noteworthy, especially considering these companies exhibit a similar sustainable profile regarding RoE. WAHA stands out by offering a relatively high DY of 6%. Furthermore, a deep dive into operational efficiencies reveals another point of differentiation. ICAP boasts a cost-to-asset ratio of just 40 bps of NAV. This ratio significantly undercuts the figures reported by most other holding companies in the region, indicating a leaner, more efficient operation.

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Exhibit 17: ICAP's Local Peers

	P/E		P/B	DY %
Local Peers	**FY23**	**FY24**	**FY23**	**FY23**
Gulf Finance House	7.9	11.6	1.2	9.0
Waha Capital	7.1	6.5	0.8	6.0
BHM Capital	8.1	16.5	2.6	4.4
Mezzan Holdings	15.2	24.4	2.5	3.6
National Industries Group Holding	18.2	21.7	1.1	2.5
National Investments Company	43.3	45.4	1.1	63.6
Average	**17**	**21**	**2**	**15**
ICAP	**8.6**	**9.3**	**0.9**	**9.1**

Source: Arqaam Capital Research, Company Data

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Exhibit 18: CLOs, BDC and REITs Overview

Factor	CLO (Collateralized Loan Obligation)	BDC (Business Development Company)	REIT (Real Estate Investment Trust)
Definition	A structured financial product pools leveraged loans and sells them in tranches to investors.	A publicly traded investment vehicle provides small and mid-sized businesses with debt and equity financing.	A publicly traded investment vehicle that owns, operates, or finances income-generating real estate.
Purpose	Repackages loans into tranches, offering various risk/return profiles for investors, focusing on income generation.	Directly invests in small/mid-sized businesses, earning returns from interest, fees, and equity gains.	To invest in real estate assets, earn rental income and capital appreciation, and distribute profits to shareholders.
Target Assets	Primarily pools of leveraged loans issued by below-investment-grade companies.	Focuses on direct lending and equity investments in small to mid-market private companies.	Primarily income-generating real estate such as commercial, residential, industrial, or 20inimize20d20 properties.
Investor Base	Primarily institutional investors (e.g., pension funds, insurance companies) seeking high-yield debt.	Retail and institutional investors like BDCs are publicly traded and accessible, like REITs.	Retail and institutional investors seeking real estate exposure with publicly traded REITs.
Risk Profile	Tranches range from low-risk (AAA) to high-risk (equity). Default risks are tied to leveraged loans, with higher risks in lower-rated tranches.	Higher-risk investments are due to exposure to smaller companies, with default risk directly tied to portfolio companies' performance.	Risk is tied to the performance of real estate markets, tenant demand, and economic cycles. Typically, it is lower risk compared to CLOs and BDCs.
Revenue Sources	Income from interest on underlying leveraged loans and capital appreciation on loan portfolios.	Revenue from interest income, fees, and capital gains from equity investments in portfolio companies.	Rental income from properties, capital gains from property sales, and sometimes development income.
Liquidity	CLO tranches are not publicly traded but have liquidity in secondary markets for institutional investors.	BDCs are publicly traded, making them highly liquid and accessible to retail investors.	REITs are publicly traded and highly liquid, making them accessible to retail investors like stocks.
Regulatory Structure	Subject to Dodd-Frank regulations (including risk retention), focused on institutional-grade risk.	Regulated by the 1940 Investment Company Act, it ensures transparency and taxable income is required to be distributed 90% to shareholders.	Must distribute 90% of taxable income to shareholders, regulated as pass-through entities under IRS rules.
Return Potential	Returns depend on tranche; higher-risk equity tranches offer high yields (12%-15%).ICAP equity tranche offers 16% cash on cash return	Typically provide high dividend yields (8%-12%) due to required income distributions.	REITs typically provide dividend yields of 3%-7%, driven by rental income and property appreciation.
Leverage Use	CLOs are often highly leveraged, with tranches absorbing different levels of risk.	BDCs use modest leverage, maintaining debt-to-equity ratios below 2:1 by regulation.	REITs typically use moderate leverage (debt-to-equity ratios vary) but must maintain balance to avoid excessive risk in property markets.
Default Rates	AAA-rated CLO tranches historically have a **0.00% to 0.04%** default rate. BB/B-rated tranches average **1-3%** default rates, with equity tranches experiencing default rates of **10%+** during stress periods.	Default rates for BDC portfolios average around **3-4%** during normal conditions and rise to **5-10%** during economic downturns.	Default rates are tied to tenant occupancy and rent collection; vacancy risk increases during economic downturns, affecting income but typically lower than corporate loan default rates.

Source: Arqaam Capital Research, Company Data

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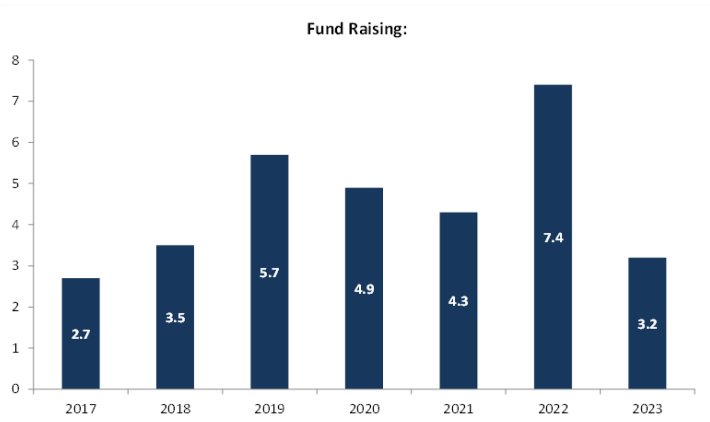
Introduction: two business lines with multi-layered income

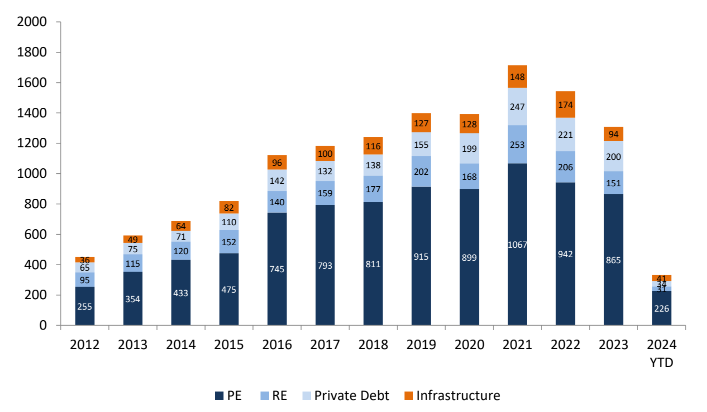
Investcorp Capital (ICAP) is a carveout of Investcorp Group, which is the Bahraini-based largest alternative asset manager in the MENA region with an AUM of USD 52 bn FY23 and aims to achieve an AUM of USD 100bn FY27. Investcorp Group was founded in 1982 to provide global opportunities for its GCC clients. Investcorp Group currently has 4000 active GCC clients, including family offices and banks and 300 global institutional clients. Despite macro headwinds, Investcorp Group raised USD 7.4bn FY22 and successfully placed 80% of their sourced deals. However, higher interest rates have pressured the fundraisings in 2023.

Exhibit 19: Investcorp Group's fund-raising track record



Source: Arqaam Capital Research, Company Data

Exhibit 20: Fundraising by Asset Class In USD (bn)



Source: Arqaam Capital Research, Company Data

Investcorp Group transferred two operating segments to ICAP: CFS (Capital Financing Services) and CDS (Capital Deployment Services). In the CFS business, ICAP holds, finances, and disposes of investments across four underlying asset classes: Corporate Investments (CI), Real Estate (RE), Global Credit (GC) and SC. Their exposure in the CFS segment varies depending on the type of investment asset being syndicated. Real Estate and Corporate Investments constitute most of the deals underwritten in the CFS segment. In the CDS segment, where ICAP generates recurring income and revaluation gains on (Corporate Investments, USD 520m), RE (Real Estate, USD 162m) across, GC (Global Credit, USD 242m), and SC (Strategic Capital, USD 47m).

In the CDS segment, the Investcorp group operates and manages ICAP's assets and those of its other clients. The CDS segment is also structured around the same four asset classes, owned by ICAP and managed by Investcorp Group. In the CDS segment, they generate a recurring income, i.e., the rental yield on their investment properties, interest income on their global credit exposure, and dividends from CI and SC. In addition, recurring income is complemented by capital appreciation on Corporate Investments, Real Estate, and Strategic Capital. CD segment has a total asset exposure of USD 971m FY24, 55.5% of total asset exposure.

ICAP has three primary sources of core income from its CFS and CDS operating segments:

1. **Underwriting Fee of 8% and 1.25% commitment fee**: In the CFS segment, 8% is charged on the syndication amount on average drawn capital for syndication and a commitment fee of 1.25% on committed yet undrawn capital. The underwriting fee is recurring income that ICAP charges to Investcorp Group clients for holding the assets on its

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balance sheet until they are syndicated to Investcorp clients. However, ICAP assumes the risk by acquiring, financing, holding and disposing of the 22inimient assets on its balance sheet. Meanwhile, Investcorp Group manages, governs, and syndicates the investments to its clients during the underwriting period. Investcorp Group has a successful deal placement rate of 80% on underwritten deals. We expect the CFS revenue to c.40-48% of net income.

2. **Cash Yield from the CD business segment:**

- **Interest income** on Global Credit asset exposure within the CD segment. Interest income is generated on the CLO exposure. It represents c.24% of CD income and c.15% of the overall gross operating income.

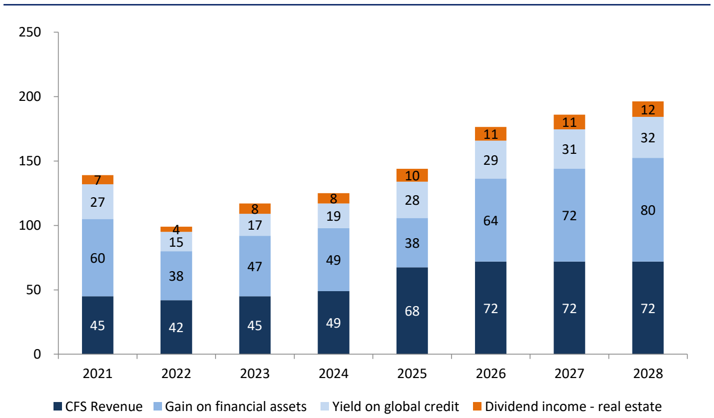
Rental Income is generated by its Real Estate asset exposure. Within the CD segment, RE contributed c.11% to the CD segment income and c.6%-7% to gross operating income.

Unrealized and realized gain/loss from investment assets of the CD business segment: This is a non-recurring source of income primarily constituted of fair value gains or revaluation gains on Corporate Investment and Real Estate assets in the CD segment income. These gains will form c.60%- 65% of CD segment income and approximately c.40% of the gross operating income.

The relationship between Investcorp Group and ICAP is governed by several agreements, which are the “Masters Service Agreement,” “Capital Financing Services Agreement,” and “Long Term Referral Agreement.”

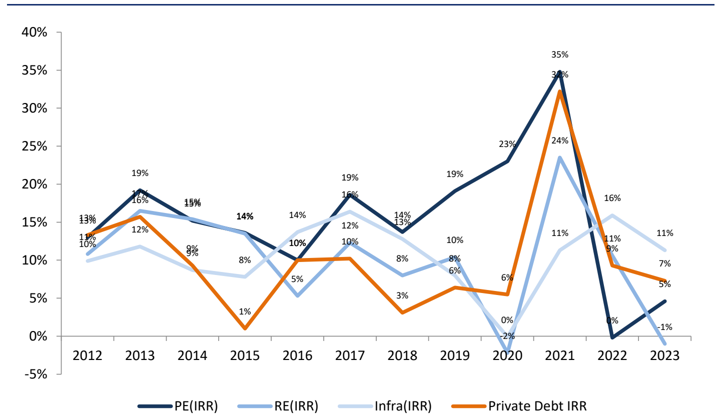
1. **Master Service Agreement:** This agreement governs the provision of support function services, including HR, accounting, legal, risk management, finance, and accounting. The initial term is three years, and ICAP will be charged 0.4% of year-end NAV.
2. Capital Financing Services Agreement governs the Capital Financing services business, defining the rules and responsibilities of Investcorp Group and ICAP. The initial term of the contract is 15 years.
3. **Long-Term Investment Referral Agreement:** This agreement governs the Capital Deployment business segment of responsibilities of Investcorp Group and Investcorp Capital through the investment process. The initial term of the contract is 15 years.

Exhibit 21: Operating Income per Segment



Source: Arqaam Capital Research, Company Data

Exhibit 22: Historical IRR for Investment Strategies



Source: Arqaam Capital Research, Company Data

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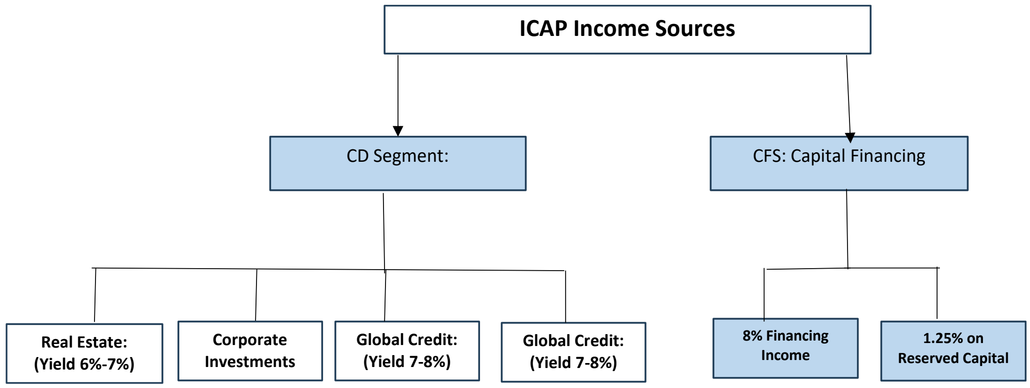
Exhibit 23: Investcorp Capital (ICAP) generated income from 2 segments and four asset classes



Source: Arqaam Capital Research, Company Data

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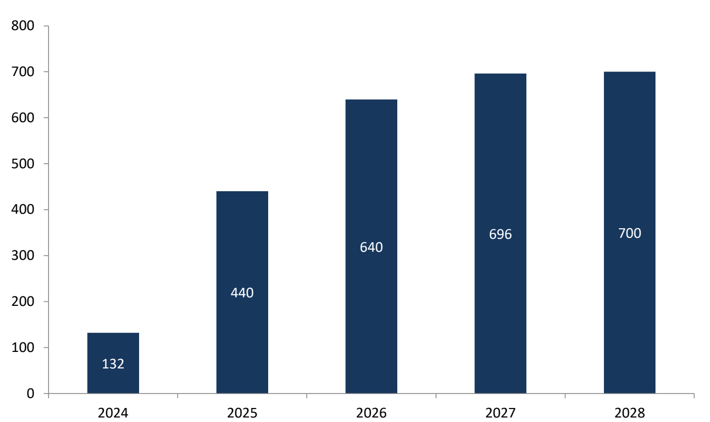
Investcorp Capital and ICAP are well-positioned to capitalize on secular growth in the fundraising market. Their multilayered income profiles, complemented by compelling dividend yields, make them attractive investments.

Alternative assets are expected to grow at a CAGR of 9.3% from USD 13.7 trillion to 23.3 trillion dollars. Based on higher allocation from institutional investors, c.95% of institutional investors want to increase or retain their allocation to private markets, indicating a strong commitment over the longer term, according to Preqin. Investcorp group offers a diversified exposure comprising six asset classes, which include CI (Corporate Investments), Strategic Capital (SC), Real Estate (RE), Infrastructure, and Absolute Return Investments. Investcorp Group raised USD 7.4bn in FY22, though it dropped to USD 3.5bn in FY23 due to adverse market circumstances and high interest rates.

Investcorp Group has significant experience and deep connections in private markets. ICAP benefits from its association with Investcorp Group, which has approximately 500 employees across its 14 offices globally. The group has an AUM of USD 52bn, recently supported by M&A that brought in USD 20bn in 2018/19, with MT targets to reach USD 100bn by 2027. In addition, it has more than 4000 active GCC clients and 300 global institutional clients. Investcorp Group offers diversified exposures across North America, Asia, and Europe for all asset classes.

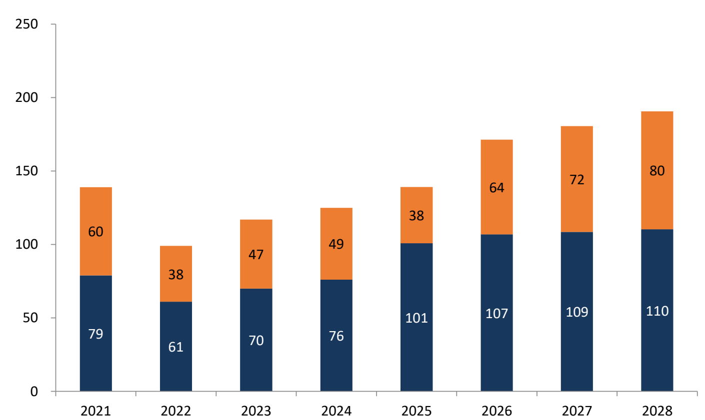
ICAP, on a carve-out basis, has a historical cash conversion of c.95% over the last three years, supporting an 8% dividend yield on NAV. FY24 Investcorp Capital intends to pay a semi-annual dividend of 8% on the year-end NAV FY23 + (IPO proceeds). FY25 and FY 26, ICAP intends to pay a minimum cash dividend of 8% on the year-end NAV FY24 and FY25**.** In addition, if each year the total amount of dividends paid is less than 8%, Investcorp, the 70% owner, will forgo its right to receive dividends to the amount necessary to pay the minimum 8% of dividends, providing an unusually strong underpin for the sustainability of the dividends.

Exhibit 24: RCF: we expect USD 700m of RCF to be utilized by 2028



Source: Company Data, Arqaam Capital Research

Exhibit 25: Recurring cash income to remain above 60%



Source: Company Data, Arqaam Capital Research

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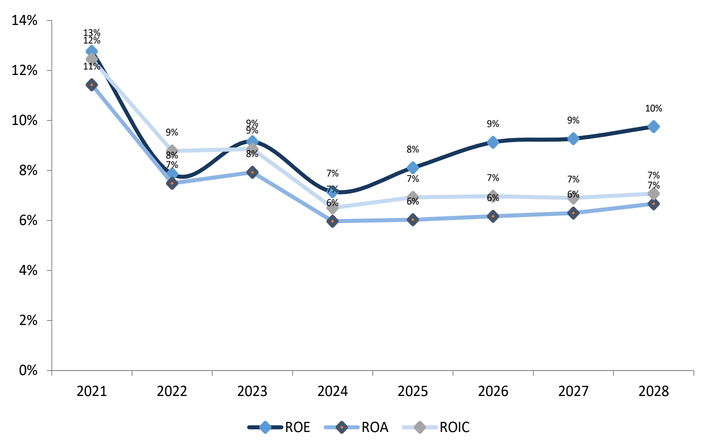
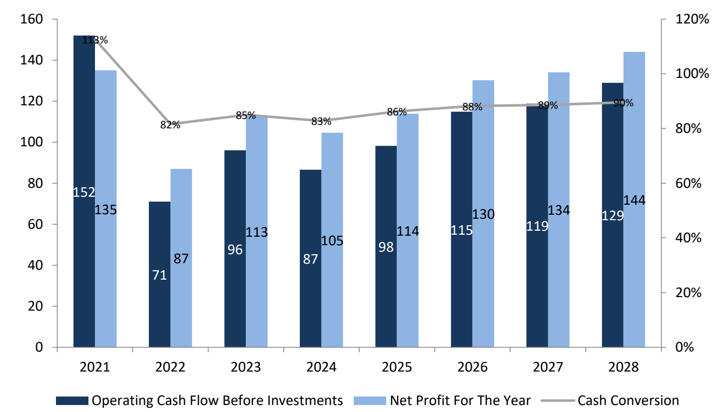
Exhibit 26: FED rate cuts will support RoE accretion



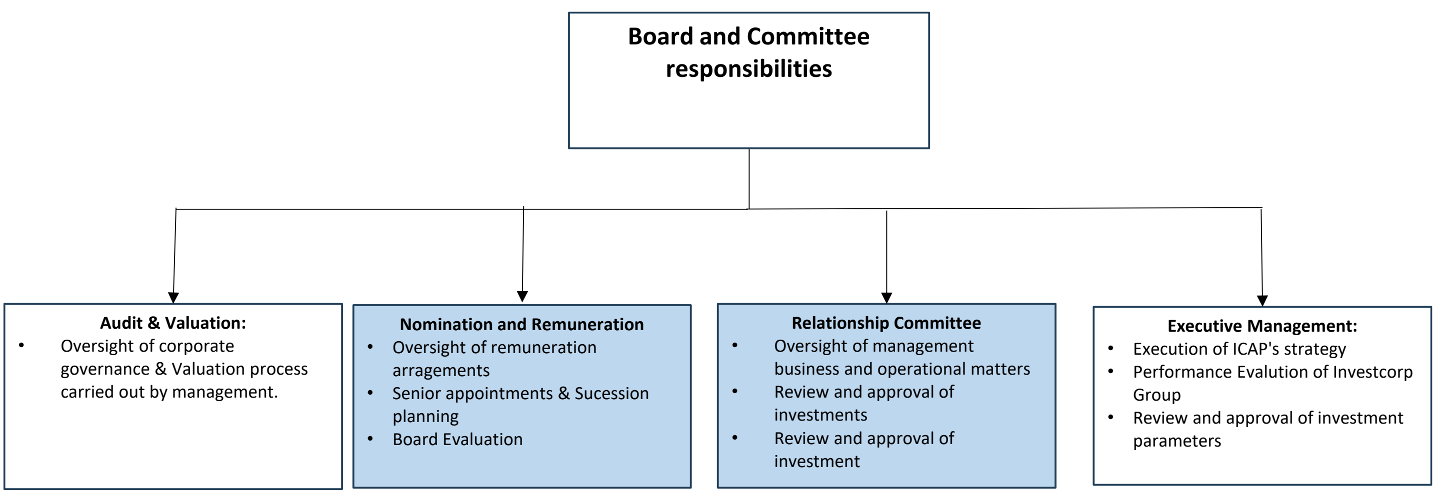
Source: Arqaam Capital Research, Company Data

Exhibit 27: Cash Conversion should remain high



Source: Arqaam Capital Research, Company Data

Exhibit 28: Responsibilities of ICAP's board and management



Source: Arqaam Capital Research, Company Data

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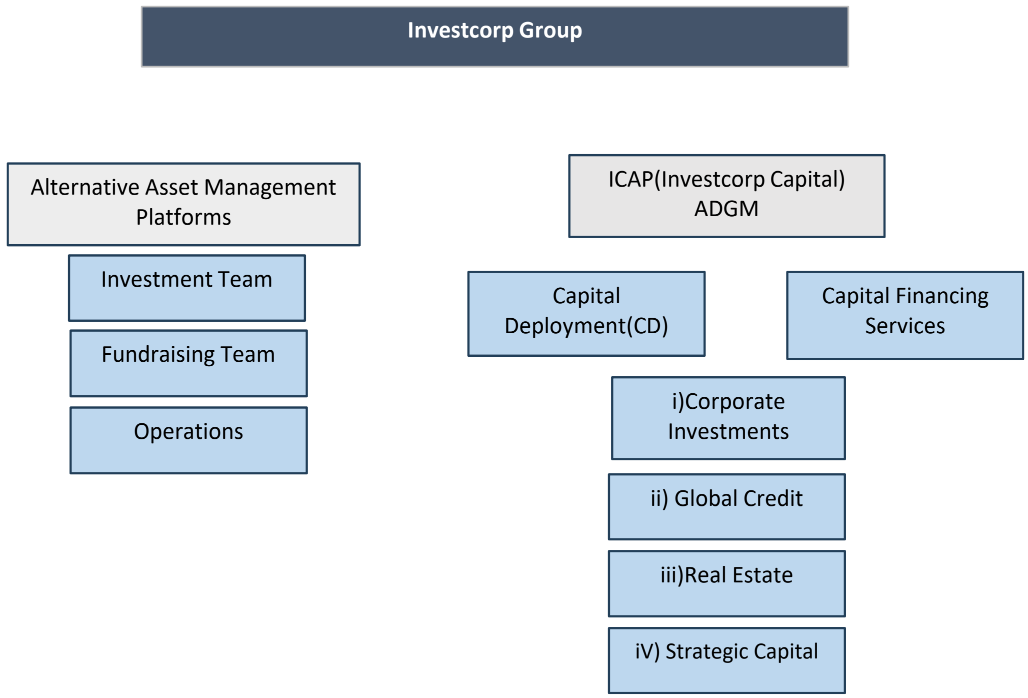
Exhibit 29: Legal Structure of the Organization



Source: Arqaam Capital Research, Company Data

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Exhibit 30: KPIs

Dividend Policy	Management Guidance	AC Estimates
FY24	Investcorp Capital intends to pay semi-annual cash dividends (in Feb-2024 and Oct-2024 in equal instalments) of at least 8% of USD 1.235 bn+ USD200m raised in the IPO. For FY24, ICAP paid a cash dividend of USD 115m.	In line with Management Guidance
FY 25 & 26	ICAP will pay 8% on NAV in semi-annual payments in Feb & Oct on YE NAV	In line with Management Guidance
Dividend Policy	Investcorp Group FY24,25,& 26 will forgo its right to receive dividends to ensure an 8% dividend yield on NAV June 30th, 24 and June 30th, 2025	ICAP will generate sufficient recurring income to pay dividends
	Capital Financing Services	
CFS Underwriting Fees	8% on CFS asset exposure	In line with management guidance
Commitment Fee	1.25% p.a. on committed capital	In line with management guidance
Asset Exposure	Increase into US$ 800mn in ST and stable afterwards	In line with management guidance
	Capital Deployment	**AC Estimates**
	Cash Yield	
Real Estate	6.5%-7.5%	6%
Global Credit	9%-10%	9%
Strategic Capital	12%-13%	12%
	IRR	**IRR%**
Corporate Investments	15%-16%	15%
Real Estate	9%-10%	9%
Global Credit	9%-10% (CLO cash on cash equity return of 15-16%)	9%
Strategic Capital	12%-13%	12%
Performance Fee Rebate	5bps on CD asset exposure	In line with management guidance
	Expenses	
Corporate Expenses	40bps of net exposure	In line with the guidance
Direct Cost	USD 2.5mn	In line with the guidance
Interest Expense Utilized RCF	275 basis points + reference rate on Drawn RCF	In line with the guidance
Interest Expense non-utilized	35% of margin on Undrawn RCF	In line with the guidance
RCF Utilization	Increase to USD 400 mn	In line with the guidance
	Others	
Cash Balance	USD 100mn	In line with the guidance
Interest Income	4.5% of available cash balance	In line with the guidance

Source: Arqaam Capital Research, Company Data

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CFS Financing segment: ICAP Positioned to Benefit from Fed Rate Cuts via CFS Segment

- **We expect CFS revenue to grow at a CAGR of 10% FY24-28 on the back of higher no. of deal syndications and revolving credit utilization on the back of rate cuts**
- **We anticipate margin expansion and RoE accretion with 50 basis point rate cut as under the CFS agreement ICAP charges parent 8% and pays SOFR+250.**
- **CFS business is a key beneficiary of ICAP's strategic alignment with Investcorp Group. The Group's extensive relationships in private markets and strong fundraising-raising and deal-originating capabilities, will serve as the primary revenue drivers for the CFS segment.**

Exhibit 31: CFS revenue is expected to reach at USD 72m FY26, CFS revenue is driven by the size of the balance sheet.

	2021	2022	2023	2024	2025	2026	2027	2028
Revenue from Capital Financing Services	45	42	45	49	68	72	72	72
Average Balance of Capital Financing	355	314	418	430	750	900	900	900
Capital Financing Services Yield	**13%**	**13%**	**11%**	**11%**	**9%**	**8%**	**8%**	**8%**
Contribution to Revenue	**32%**	**42%**	**38%**	**39%**	**47%**	**41%**	**39%**	**37%**

Source: Arqaam Capital Research, Company Data

We expect CFS revenue is expected to increase from USD 68m to USD 72m, growing at a CAGR of 10%. Revenue in CFS is generated by 8% of fees charged on the amount of assets underwritten, which is the gross asset exposure of the balance sheet**.** Fees charged in the CFS segment are a function of the allocation of assets that are underwritten, which will increase from USD430m in FY24 to USD 900m in FY26 on the back of higher credit facility utilization due to an increasing number of deal flows coupled with infrastructure asset class offering which requires higher RCF utilization. We see downside risks from i) Deal flow volatility, which can slow down the underwriting of RE and CI transactions, and ii) Market risks from changes in expectations of interest rates, which can affect valuations.

Revenue from the CFS segment increased USD 49mn (+ 8.9% y/y) based on i) RCF utilization of USD 132mn (16.5% utilization FY24) and ii) a greater number of deal syndications in US RE and CI. We note that there is a greater number of unfunded deals reflected in receivables FY24 USD 196 mn (+ 161.3% y/y). We note that for the deals that are not yet funded, the risk of those investment assets is borne by ICAP.

ICAP is structured to benefit from the Fed's rate cuts through its CFS segment: Under the CFS agreement, Investcorp Group compensates ICAP by paying an 8% fee for bearing the risk of holding the investment asset; meanwhile, Investcorp Group is responsible for sourcing, syndicating and underwriting a deal. On the other hand, in order to support the deal execution, ICAP utilizes its Revolving Credit Facility (RCF) of USD 800m, which has a cost of SOFR + 250 basis points (floating rate exposure) whereas charging an 8% to Investcorp Group, effectively locking in an exposure of (pay floating and receive fixed-rate) placing it to benefit from FED rate cuts. The fixed 8% rate charged to the Investcorp Group provides a hedge against interest rate risks, providing an upside to further interest rate cuts.

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We expect the CFS segment's B/S to increase to USD 900m in MT. This is due to higher underwriting activity resulting from an uptick in global deal volumes supported by improved valuations (a higher exit multiple environment) and interest rate cuts, which warrant an increase in CFS B/S. We expect revenue to contribute c.37% -47% to the overall operating income FY25-28. Investcorp Group has set a USD1 bn asset exposure limit to the CFS segment's balance sheet.

Exhibit 32: CFS B/S key metrics in USD millions

Metric	FY2023	FY2024	y/y Change	Key Drivers
CFS Balance Sheet	418	430	+2.90%	Increased deal volumes in corporate investments and real estate allocations.
Corporate Investments	150	165	+10%	Strong capital deployment in North America and Europe.
Real Estate Investments	206	237	+15%	Growing demand for income-generating real estate assets, particularly in North America and Europe.
Global Credit Exposure	11	25	+127%	Higher allocations to private credit strategies in North America and Europe.
Strategic Capital	36	3	-91.60%	More cautious approach to strategic capital investments.
CFS related Receivables	75	196	+161%	
Total Asset Exposure	643	763	18.67%	Total exposure, including receivables and related party balances.
RCF (Borrowing)	-	132 16.5%(utilization)		Underwriting of deals with an uptick in deal volumes.

Source: Arqaam Capital Research, Company Data

The fee-based commercial model for Investcorp's CFS business should thrive on ICAP's association with Investcorp Group. The success of the CFS business is dependent on i) Investcorp Group's ability to source the investments and ii) Investcorp's ability to syndicate the deals to its client network. In the CFS business, the Investcorp Group makes investment recommendations, and Investcorp Capital underwrites the investment. The majority of the exposure of the CFS segment across asset classes is spread as is in Real Estate (RE) at 55.1%, Corporate Investment (CI) at 38.4%, Strategic Capital (SC) at 0.7%, and iv) Global Credit (GC) at 5.8%.

ICAP benefits from its association with Invescorp Group's top-tier alternative investments platform. The Invest platform affords ICAP access to the resources of the adviser, tapping into Investcorp Group's experienced bench of investment professionals and sector experts. ICAP is part of a robust direct origination platform and benefits from Investcorp Group's ability to structure and negotiate terms for underwriting investment assets. ICAP also benefits from Investcorp Group's substantial access to capital, driving the cost of borrowing rates in line with industry-leading platforms. In addition to its connections with the companies, it has a solid private capital raising platform comprising 5,000 investor relationships, including SWFs such as Mubadala, insurance companies, family offices, and private wealth relationships. Investcorp Group's parent fundraising track record includes USD30 bn in funds raised since 2017.

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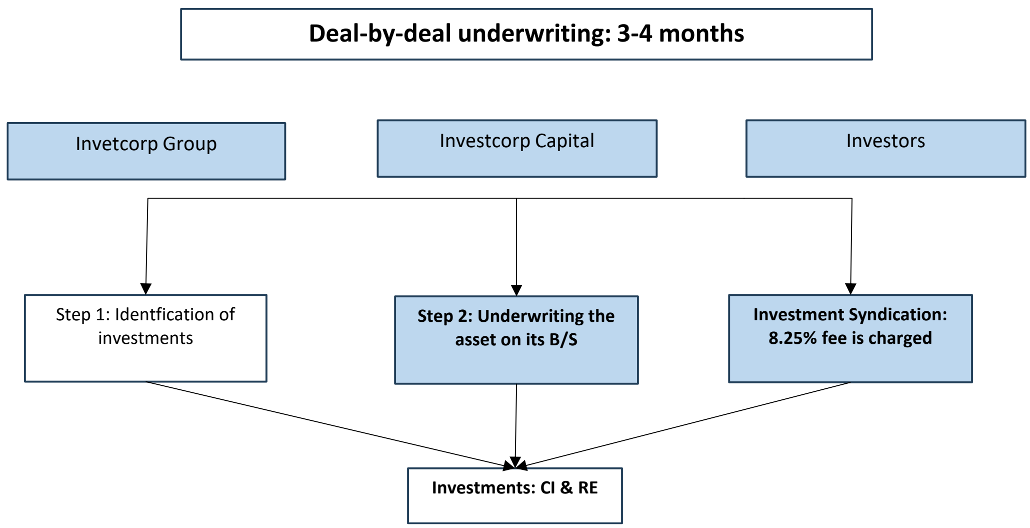
Exhibit 33: CFS Deal Syndication process

Step 1: Investcorp Group Screening	Step 2: Due diligence	Step 3 : ICAP underwrites the investment:	Step 4: Syndication of assets to Invescorp Groups's clients
• Thorughout the year Investcorp team is presented with multiple oppurtunties and only the ones which meet the investment parameters are selected.	• There are two components: firstly is about accuracy of the data presented and secondly the relationship managers ensure that the deal would have the potential to be syndicated.	• The deal is formally recommended to the ICAP which than issues the capital to hold the assets on its b/s. Typicall duration for holding the asset is 3-9months and the risk is borne by ICAP.	• Once the deal is underwritten than the relationship managers of Investcorp group sell the deal on its private capital fundraising platform.

Source: Arqaam Capital Research, Company Data

Exhibit 34: Deal by deal underwriting: for corporate investments (CI) and real estate (RE), the typical duration for which assets are on ICAP's B/S is 3-4 months



Source: Arqaam Capital Research, Company Data

Deal-by-deal underwriting: ICAP provides capital to fund an initial acquisition of corporate companies or real estate identified and sourced by one of the clients. ICAP holds the largest share of the equity on its balance sheet until clients syndicate it to investors. The typical time horizon for this structure is approximately 3-4 months.

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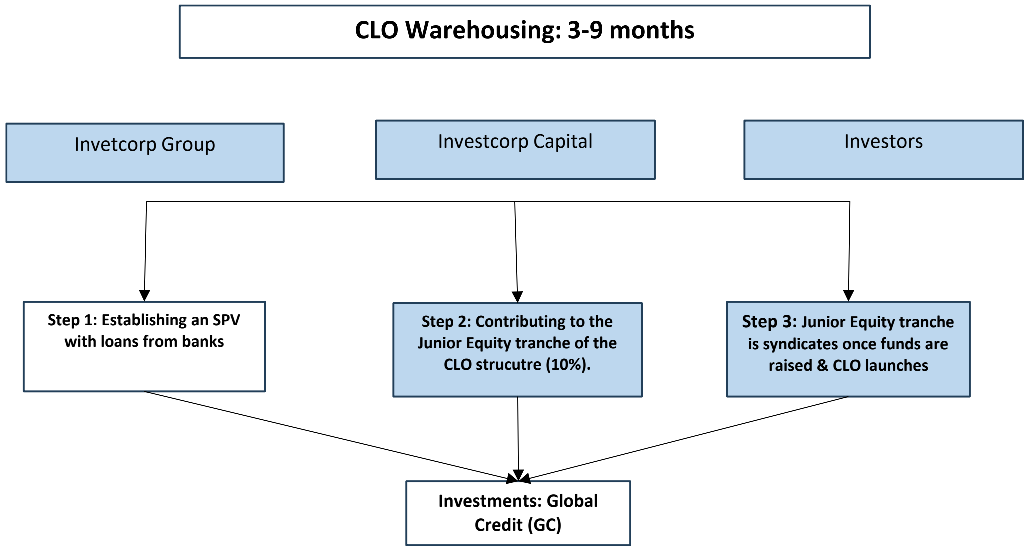
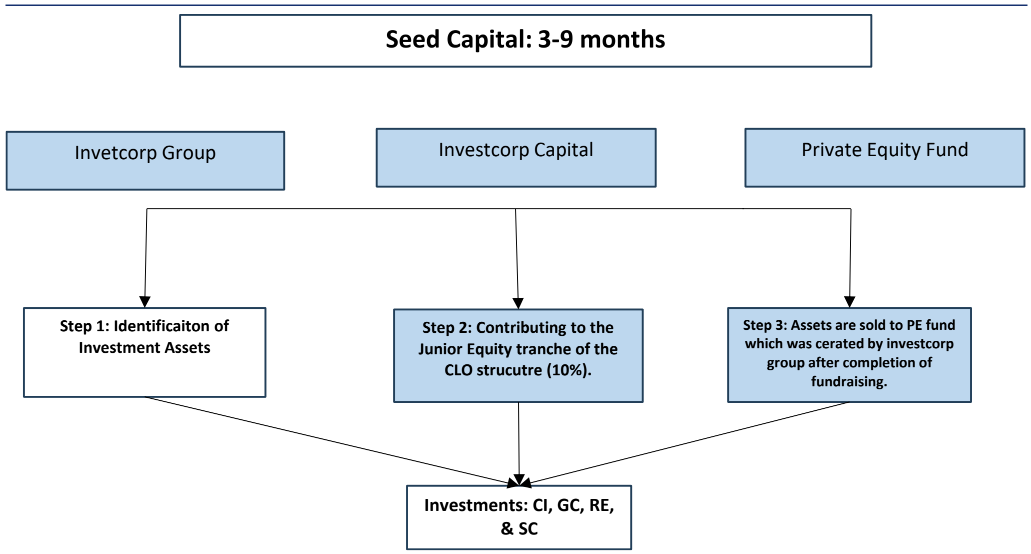
Exhibit 35: Catering to the global credit asset class and primarily of products for pension funds and insurance companies.



Source: Arqaam Capital Research, Company Data

CLO Warehousing: CLO Warehousing structure ICAP purchases the junior equity capital in a loan accumulation facility (referred to as a "CLO Warehouse"), which is formed by a client or its affiliates (historically, relevant CLO Warehouses have been formed by ICAP or its affiliates (or entities managed by such affiliates)). CLO Warehouses are short- to medium-term finance vehicles intended to aggregate loans for inclusion in a future CLO portfolio. In this structure, ICAP typically establishes the CLO portfolio with fundraising provided by third-party banks, with Investcorp Capital providing junior equity capital. Once sufficient funds are raised by the Client, ICAP junior equity capital in the relevant CLO Warehouse is bought out by the Client's investors, and the CLO Warehouse is removed from the ICAP balance sheet. The typical time horizon for these holdings is three to nine months.

Exhibit 36: Seed capital investment structure for all asset classes.



Source: Arqaam Capital Research, Company Data

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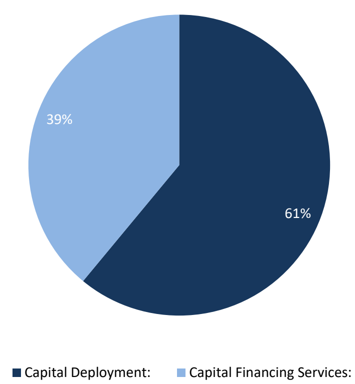
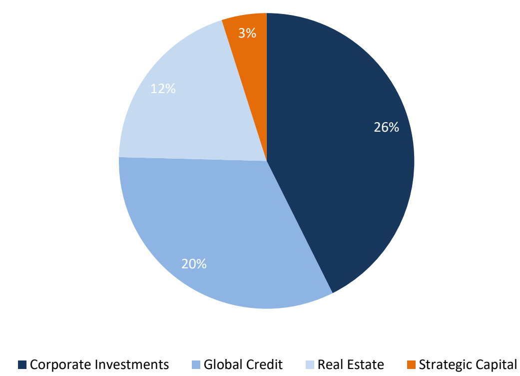
Seed Capital: In a typical seed capital structure, ICAP purchases certain corporate companies or real estate identified by a client. The Client then seeks to create a fund to purchase the assets on the ICAP balance sheet. Once the fundraising is complete, the fund buys the assets ICAP holds at cost plus the accumulated commitment and underwriting fees. The typical time horizon for holdings under the Seed Capital structure is between six and nine months.

Exhibit 37: Optimal capital mix between capital deployment and capital financing segment reduces risks



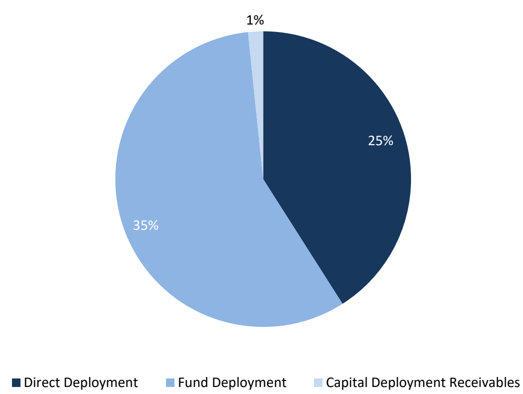
Source: Arqaam Capital Research, Company Data

Exhibit 38: An appropriate allocation mix between asset classes allows for risk management.



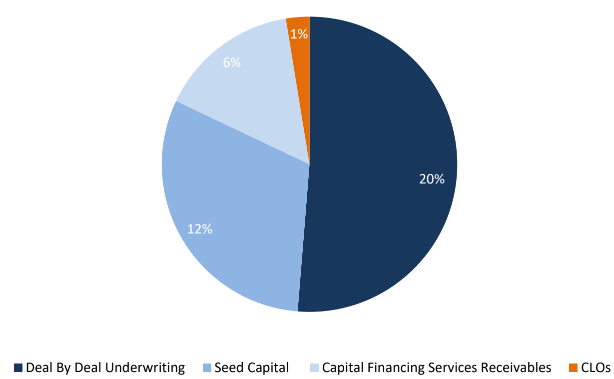
Source: Arqaam Capital Research, Company Data

Exhibit 39: Fund deployment provides opportunities for exposure in a niche segment, and direct deployment increases returns by lowering costs



Source: Arqaam Capital Research, Company Data

Exhibit 40: The number of deals is the key driver of capital financing service revenue, which charges SFOR + 250bps cost of capital fi



Source: Arqaam Capital Research, Company Data

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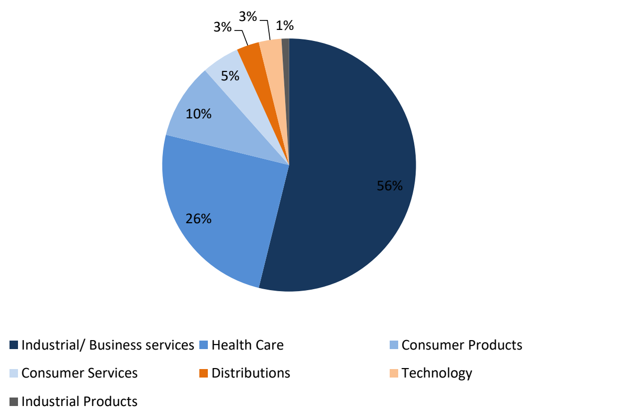
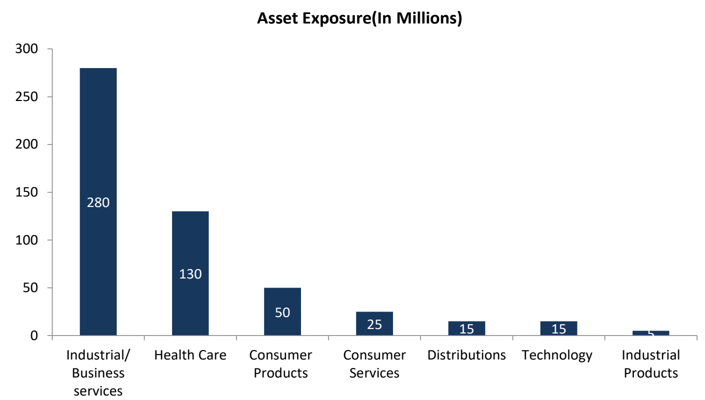
Exhibit 41: Deals in CI are well-diversified across sectors



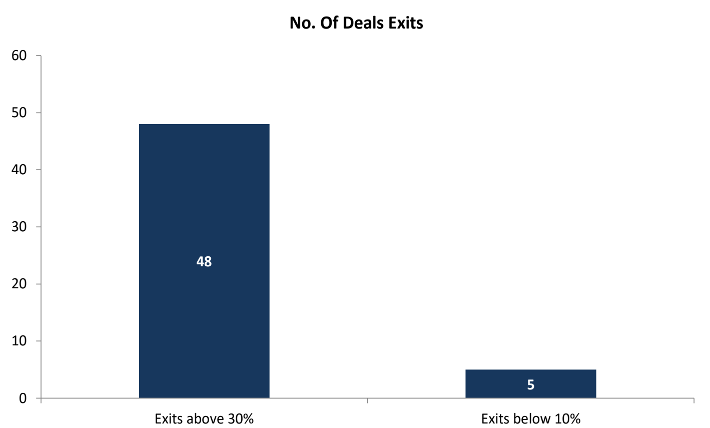
Source:

Exhibit 42: CFS Asset Exposure in CI



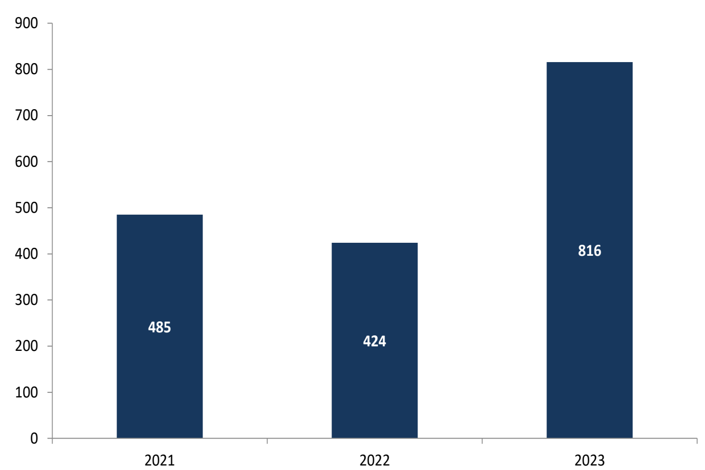
Source: Arqaam Capital and Company data

Exhibit 43: 48 exits by Investcorp



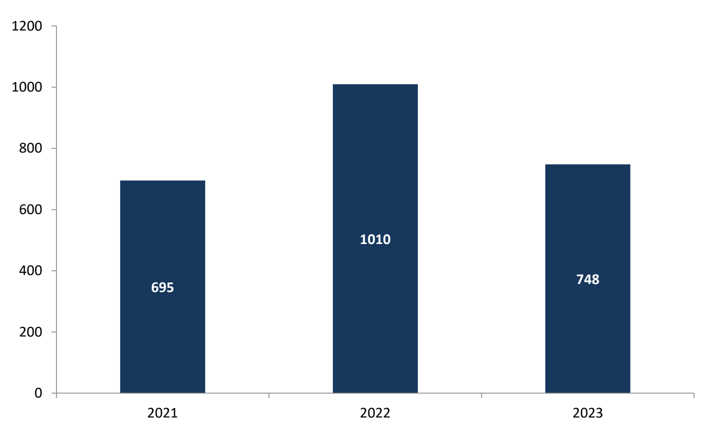
Source: Arqaam Capital Research, Company Data

Exhibit 44: Total average exposure of RE



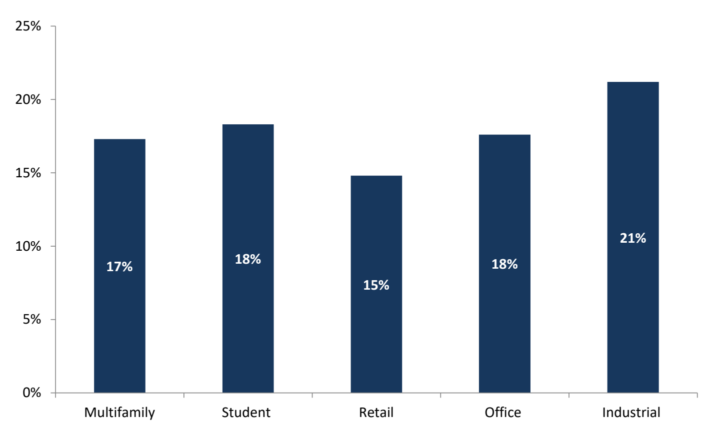
Source: Arqaam Capital Research, Company Data

Exhibit 45: Asset exposure



Source: Company Data, Arqaam Capital Research

Exhibit 46: Historical IRR in different RE segments



Source: Company Data, Arqaam Capital Research, Preqin

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Capital Deployment: Steady growth driven by robust deployment across corporate investments, real estate, and global credit

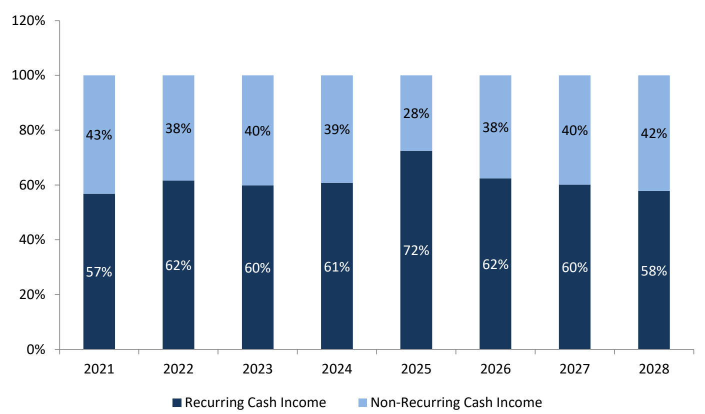
- **CD asset exposure is expected to increase by a cagr of 5% by FY28 to USD 1.16 bn on the back of fair value gains supported by macro-tailwinds from FED cuts**
- **FY24 Cash Yield was at 2.9% and investment gains at 5.05%**
- **Recurring cash Income (USD 27mn FY24 +8%y/y) is generated on GC and RE whereas Investment gains (USD49mn FY24 +4.3% y/y) are realized on the CI.**

Exhibit 47: CD Segment Income

	2021	2022	2023	2024	2025	2026	2027	2028
The yield on Global Credit:	27	15	17	19	28	29	31	32
Dividend income – real estate	7	4	8	8	10	11	11	12
Recurring Cash Income in CD	**34**	**19**	**25**	**27**	**38**	**40**	**42**	**44**
Fair Value gains on CI	60	38	47	49	38	64	72	80
CD segment Income	**94**	**57**	**72**	**76**	**77**	**104**	**114**	**124**

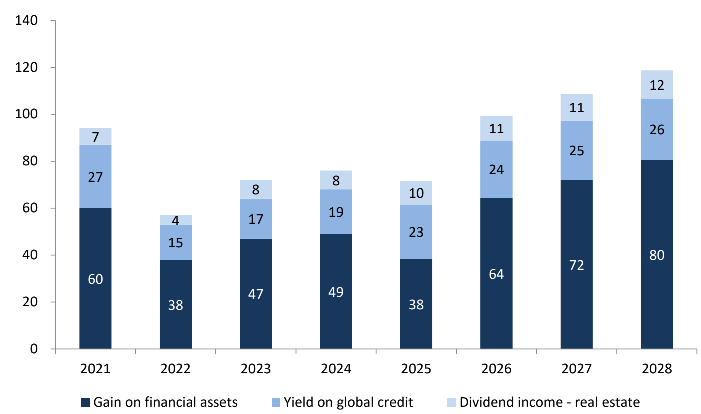
Source: Arqaam Capital Research, Company Data

Exhibit 48: Non-Recurring vs. Recurring Income Proportion



Source: Arqaam Capital Research, Company Data

Exhibit 49: Breakdown of CD Segment Income



Source: Arqaam Capital Research, Company Data

The CDS portion of the ICAP business comprises assets that were transferred to it by its parent, Investcorp Group. Assets in CDS are owned by ICAP and managed by Investcorp Capital, along with the latter's other clients. The CD segment has total assets of USD 971m. The exposure is comprised of 4 asset classes, which are (i) CI USD 520 m, ii) GC USD 242 m, iii) RE USD 162m, and iv) SC USD 47m (Strategic Capital). ICAP in the CD segment will generate recurring income and capital appreciation. It will generate rental income on RE investments, interest income on GC, and dividends on CI and SC. Furthermore, recurring income will be complemented by cap appreciation in real estate, corporate investment, and strategic capital.

100m annually for FY 24e-25e will be deployed from the IPO proceeds. Subsequently, investments of US$40mn per annum over the medium term will be generated from internal cash

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flow generation, with the difference arising from net 35inimize35d fair value gains from the mark-to-market of the asset exposure. We note that there was a net USD109m fair gain over the last three years. Internal cash flow generation would support an MT investment of USD 40mn.

We expect income from capital deployment to increase from USD76m in FY24 (ending June 30, 2024) to USD 124m, growing at a CAGR of 12% FY24-27. CD segment income consists of 3 components: i) gain on financial investments c.64.5% of the CD segment income FY24, ii) Yield on GC is recurring income c.25% to the CD segment income FY24, and iii) Rental income from the investment properties c.10.5% to the CD segment income. The Capital Deployment (CD) business of ICAP is investment assets retained by Investcorp Capital but managed by Investcorp Group along with their other clients.

We expect income from investment revaluations, realized and unrealized gains, to increase at a CAGR of 10% from USD 49mn to USD 80mn during FY24-FY28, supported by a lower interest rate environment coupled with higher multiples. Gains on financial assets historically contribute c. 62%- 65% to the CD (Capital Deployment) segment income and 40%- 45% to the firm's gross income.

We anticipate continued balance sheet growth supported by solid capital deployment across CI and RE FY25-28: Corporate investments exposure increased by +55% y/y to USD 520mn FY24 from additional deployment strategically positioning itself to benefit from fair value gains with FED rate cuts and expected higher exit multiple. Investments in RE assets grew by 4.5% y/y to USD 162mn, supported by demand for income-generating assets in North America and Europe. ICAP's RE holdings are primarily concentrated in the US, and they are invested in the Multi-Family and Industrial real estate sectors. The rapid growth of e-commerce, demand and supply dynamics will continue to support an increase in asking rents for prime properties in industrial segments.

Strategic reduction in GC exposure yield growth supported by realizations: Yield on Global Credit (GC) increased by USD 19 million (+11.76% y/y), driven by cash payments and realizations within the GC holdings. Despite this, **GC exposure** was strategically reduced by **(-4.1% y/y)** to **USD 242 million in FY24**, reflecting a deliberate move to minimize exposure ahead of anticipated Fed interest rate cuts. Looking forward, we do not expect further reductions in GC exposure but foresee **tactical adjustments** within the portfolio to optimize returns in the current rate environment. CLOs are collateralized loans in partnership with PE sponsors lent to companies in stable sectors with market-leading positions. We further discuss the global credit business of ICAP in the CLOs segment. The average asset exposure from GC and RE is expected to increase from USD 404mn to USD 494.1 m in FY24 and FY28, increasing at a CAGR of 5%.

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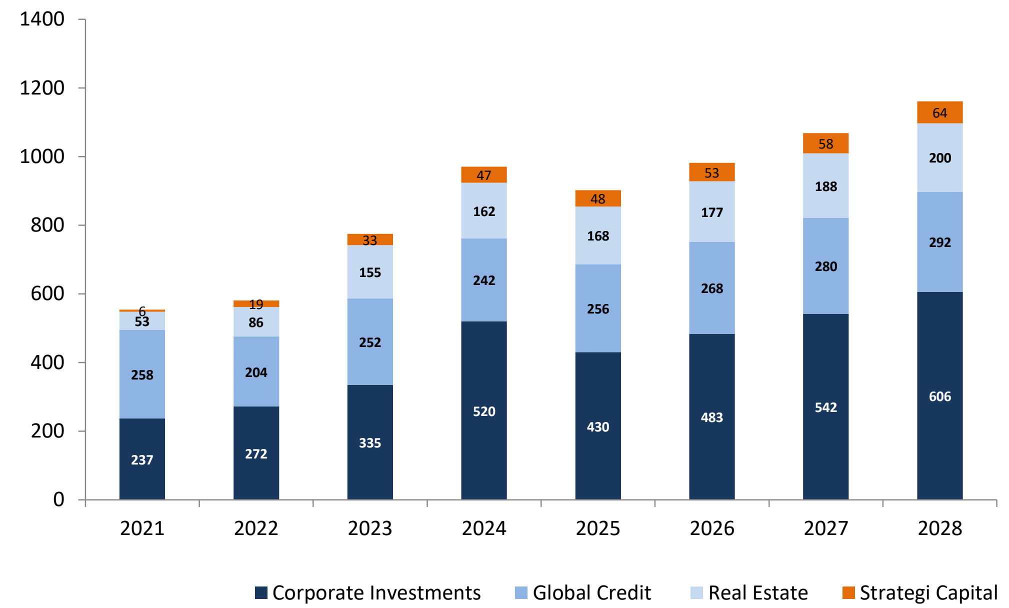
Exhibit 50: Capital Deployment Segment Exposure by Asset Class



Source: Arqaam Capital Research, Company Data

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Corporate Investments: high target IRR of 15-17%

- **CI investment exposure (54% of assets) in the CD segment is expected to increase from USD 520m to USD 606m, growing at a CAGR of 4% FY25-28.**
- **Tailwinds from interest rate cuts and an improving macro backdrop will support valuations and increase EBITDA multiples, which should increase deal flows and exit activity.**
- **CI investments target an IRR of 15%-17%, with c.20%-25 contribution to the topline.**

Corporate investments exposure was strategically increased by +55.2% y/y to USD 520mn FY24 to be strategically positioned to benefit from the FED rate cuts. CI (Corporate Investments), which is c.54% of ICAP's total capital deployment exposure. ICAP aims to gain a controlling stake or a significant shareholding of the target companies operating in middle markets. This strategy is referred to as a buyout strategy in the PE space. ICAP' focuses on acquiring companies with stable cashflows in non-cyclical sectors such as industrials, consumers, and technology. ICAP, to devise value creation, focuses on margin expansion through operational efficiency and revenue growth of the companies. The emphasis is on firms with **stable cash flows**, particularly in sectors less exposed to cyclical downturns, which supports the company's risk-adjusted returns.

Management typically targets an IRR of 15% on the CI segment in the MT. Investcorp screens, on average, 800 deals worldwide per annum. The selection process is rigorous. Only 4-5 deals are executed a year. ICAP Group's team includes 90 ICAP investment professionals with this business and (2) ICAP Group's track record of investment professionals with this business. They have deployed USD20bn of investments since 1983 into 245 private equity investments. The industrial sector accounted for 40% of investments during this period. Consumers come second at 30% of total investments. Technology-enabled and business services have accounted for c15% of investments since 1983.

We expect CI exposure in the CD segment to increase from USD 520 m to USD 606m FY25-FY28e, growing at a CAGR of 4% on the back of higher EBITDA multiple offering for exit opportunities coupled with a lower interest rate environment in MT FY 27e. A lower interest rate environment will increase the deal flow and support valuations. Historically management. It has targeted an IRR of 15%, and according to the COBE private equity benchmark, the historical IRR for the PE strategy has been 14%-15% as the company balances its capital allocation between realizations and **selective new investments**, aligning with its dividend commitment.

Higher Financing costs, lower multiples, and a volatile macroeconomic environment create near-term headwinds. Aggregate fundraising for private equity funds declined 15% y/y to $649 billion despite an 8% increase in AUM. Investcorp Holding raised an aggregate of $1.689 billion in FY22 for its corporate investment strategy, an increase of 55%. Buyout notched its highest fundraising year ever in 2023, and its performance improved, with funds posting a (still paltry) 5% Net IRR through September 30. Although buyout deal volumes declined by 19% y/y, it was still the third-most active year on record. This delays the investment distribution of the PE fund, increasing its life cycle.

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Near-term headwinds: including lower multiples from 11.9X to 11x EBITDA and higher interest rates, delay exit opportunities and increase the fund's life cycle. Value creation is heavily reliant on EBITDA multiple expansion and the use of leverage, accounting for approximately 66% of the expected returns.

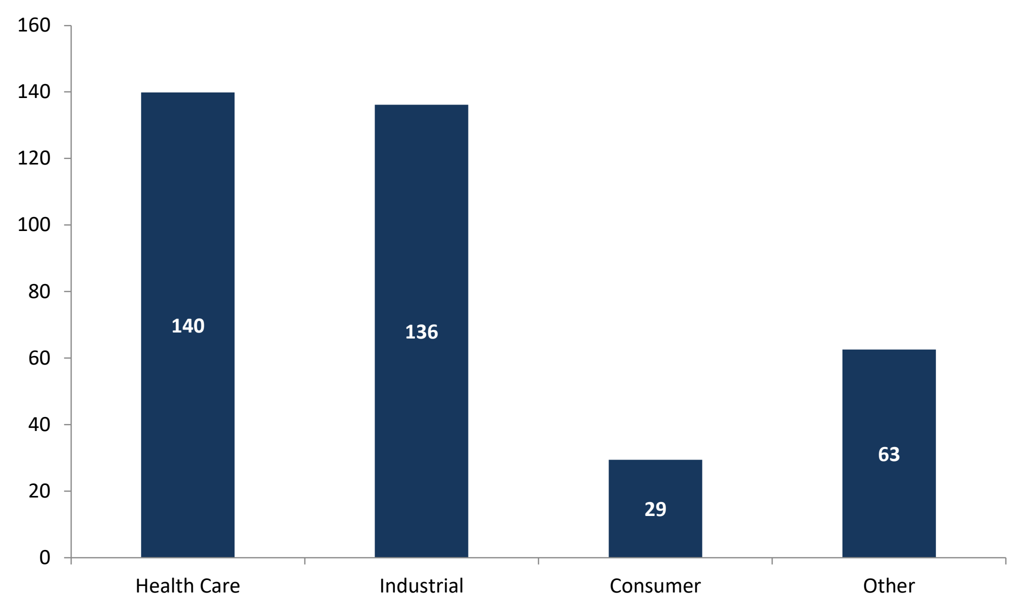
Following are the CI investment exposures: North America USD 125m, Europe USD 41m, USD168m in Asia, and MENA & Turkey USD 168m. Public pension funds, insurance companies, foundations & endowments, and the Sovereign Wealth Funds are the critical investor groups in the private equity investment strategy. ICAP Capital's aggregate balance sheet capital deployment exposure amount in CI assets in North America was USD 125 million. They have invested across fourteen companies. ICAP's aggregate balance sheet capital deployment exposure amount in CI investments in MENA was USD 189m invested across eight companies. Regional exposures can vary over time, depending on the realizations of investment assets.

Exhibit 51: MENA & North America have significant CI exposure

Geographical CI Exposure 9M 24	Regional Exposure	% of CI exposure
North America	125	24%
Europe	41	8%
MENA	186	36%
Asia	168	32%
Total	520	100%

Source: Arqaam Capital Research, Company Data

Exhibit 52: Overall CI investment exposure-based segments.



Source: Arqaam Capital Research, Company Data

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Distribution, Supply chain, and logistical solutions are the most significant exposures in the US: ICAP's US Exposure to Corporate Investments.

- **BICT (Best in Class Technology Services):** The majority stake provides commercial HVAC aftermarket services, including maintenance, repair, and project work. BCTS has 14 locations across seven states and employs over 500 people. Their strategy is to incorporate independent contractors into their network and provide them with the necessary training to succeed in the HVAC market. The BCTS service organizations offer HVAC, plumbing, electrical, and performance facility solutions with 24-hour emergency service every day of the year. We are attracting the best and most experienced service companies to provide you with a network of experts who can evaluate, execute, and maintain facility functions and equipment for the life of the building. The main driver of the business is several private contractors, which will be incorporated into the industry.
- **Shearer Supply: (Majority Stake)** is a leading independent distributor of HVAC products for residential and commercial properties in the United States.
- **Sunrise Produce:** is the leading distributor of fresh produce and other specialty products in Southern California to a diverse set of customers across various end markets, including restaurants, schools, universities, healthcare, and entertainment.
- **Cross Country:**
- **S & S Truck**: Parts is a leading distributor of private label and branded aftermarket truck parts to OEMs, OE dealers, independent warehouse distributors, and service shops.
- **RESA:** Power is a leading provider of mission-critical engineering, testing, and maintenance services for electrical infrastructure in the United States.
- **Road Safe Traffic Systems is the** leading provider of traffic management and road infrastructure services in the United States.
- **Fortune International:** A leading provider of premium seafood and gourmet products in the US.
- **Revature:** A leading recruiter, trainer, and manager of technology professionals in the United States.
- **Health Plus Management:** A leading manager, marketer, and administrator in the United States health sector.
- **ICR:** A leading provider of strategic communications and advisory services.

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MENA Corporate Investment Exposures:

UAE and Saudi Arabia's initiatives to gain self-sufficiency in healthcare will act as headwinds for the Healthcare sector, which will support them in gaining higher valuations.

NourNet is a leading pure-play provider of connectivity, information, and communications technology services in Saudi Arabia.

- **Trukker:** MENA's largest digital freight network with a leading position across Saudi Arabia, the UAE, and neighboring countries.
- **Reem Integrated Healthcare:** A state-of-the-art international Rehabilitation Center, Children's and Women's Hospital, and walk-in Family Medical Clinic.
- **Al Borg Medical Laboratories:** A leading private laboratory network in the GCC
- **Bindawood Holdings**: This is a leading chain of supermarkets and hypermarkets. It is rated as a sell, and the target price is AED 7.9 at Arqaam.
- **NDT Corrosion Control Services:** A leading industrial testing and inspection services provider in the GCC.
- **Namet:** One of Turkey's largest integrated producers of fresh-cut and packaged processed red meat products. Meat processing in the Middle East is growing exponentially.
- **Al Yusr Industrial Contracting Company:** A leading provider of technical industrial support services to the petrochemical, oil and gas, and other key industrial sectors in Saudia Arabia, Qatar.

Exhibit 53: Top 10 Corporate Investment Exposure

Corporate Asset Exposure	Asset Exposure	MOIC	Acquisition Price	Appreciation (Not Annual)
Reem Integrated Services	71	1.77	40.11	77%
Al Borg Medical Laboratories	54	1.04	51.92	4%
NDT Corrosion Control Services	41	1.38	29.71	38%
NAPE Continuation	20	1.25	16.00	25%
Digital Ventures Fund	19	1.05	18.10	5%
Namet	16	1.35	11.85	35%
Fortune International	10	1.95	5.13	95%
Roadsafe Traffic Systems	10	1.34	7.46	34%
S&S Truck Parts	9	1.15	7.83	15%
Cross Country Consulting	9	1.22	7.38	22%

Source: Arqaam Capital Research, Company Data

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RE-CDS: 98% of the RE exposure is in industrial and multifamily segments, generating NOI that will exceed expectations.

- **Geographical allocation will remain the same, with 81% of allocation going to the US, despite opportunities in emerging markets.**
- **Entry into emerging markets by investing in an industrial warehouse portfolio in India comprising 33 properties.**
- **Tail winds from Fed rate cut as the Fed ensures no further rate hikes and expected rate cuts will support cap rates and property prices.**

Exhibit 54: RE Cash yield and B/S exposure

Real Estate	2024	2025	2026	2027	2028
Dividend Income	8	10.1	10.7	11.4	12.1
RE Asset Exposure	162	168	177.7	189.2	201
Cash Yield	4.9%	6%	6%	6%	6%
Capital Appreciation	2.2%	6%	5.7%	6.5%	6.2%
IRR	7.14%	12.01%	11.72%	12.53%	12.22%
c. Operating Income	6.86%	7.5%	6.4%	6.47%	6.5%

Source: Arqaam Capital Research, Company Data

Under the capital deployment segment, the Real Estate asset class focuses on investing in commercial, residential, and industrial properties. FY 24, the total asset exposure is USD 162 mn, which is approximately 10% of Investcorp Capital's total asset exposure and 18% of the CD business asset exposure. Dividend income will increase from $8mn FY24 to $12mn FY28 growing at a cagr of 8% . Furthermore, 41% of the CFS deals are in the Real Estate segment.

ICAP will be able to leverage the team of the Investcorp Group in the US, which consists of i)150 dedicated investment professionals in North America and ii) Investcorp Group's 27-year track record with c.15.5% Gross IRR as of Mar 2023

The cash yield on Real Estate investment assets is expected to remain stable at 5%—6%. This is due to ICAP's exposure to the Real Estate investment universe's Value Add and Core Plus segments. These segments offer lower yields, too, due to sustainability in cash flows and asset prices. 98% of ICAP's RE portfolio is allocated to industrial and residential sectors, which were the best performing FY23 sectors.

Investcorp Group's Real Estate business strategy focuses on transactions involving various types of properties, ranging from properties that offer Clients and their ultimate investors stable rental income to properties that provide a potential for substantial capital appreciation due to major refurbishment or asset repositioning opportunities.

Investcorp Group's investment process includes screening hundreds of properties, with approximately 5% of these properties acquired per year. Investcorp Group's real estate investment strategy targets companies of various sizes and sectors (including multi-family residential, logistics, warehousing, office, retail, industrial, and student housing), but primarily industrial and multi-family residential properties across North America, Europe, MENA, and India.

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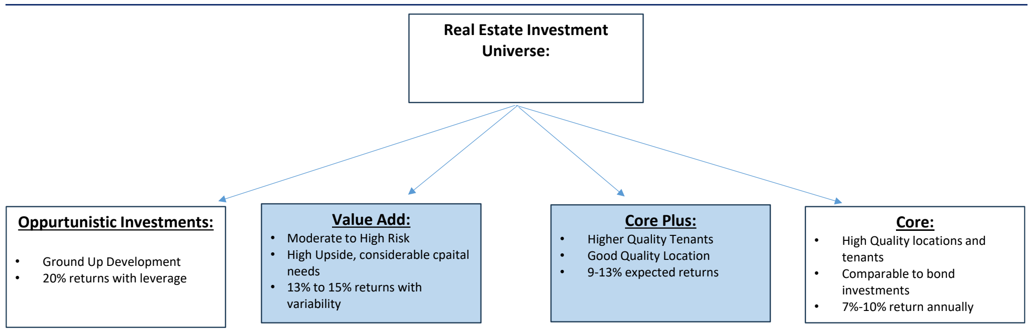
Core private real estate refers to a category of real estate investments typically considered the highest quality and least risky within the real estate risk spectrum. Core real estate assets are usually located in large or growing markets and have high occupancy levels with long-term leases held by creditworthy tenants. Core assets are typically financed using prudent debt in the capital structure. The asset class generates most returns from income and, to a lesser extent, capital appreciation.

Core properties are strategically located within top MSAs and growing markets. These can be 42inimize42d42ze by robust economic stability, job growth, population growth (typically highly correlated with job growth), well-developed infrastructure, technology or innovation hubs, a well-educated workforce, and/or investor-friendly regulations. The amenities associated with core real estate typically include high-quality finishes, local access to public transportation, advanced technological infrastructure (such as high-speed internet and advanced HVAC systems), fitness centers, modernized meeting spaces, and concierge services.

Core private real estate investments prioritise stability through long-term lease agreements with creditworthy tenants. The income generated from these leases provides a reliable and steady cash flow, making core properties resilient to short-term market fluctuations and providing a hedge against inflation. This stability is desirable to investors who seek consistent returns without exposing themselves to excessive risk.

Exhibit 55: Real Estate Investments are segmented into four subcategories



Source: Arqaam Capital Research, Company Data

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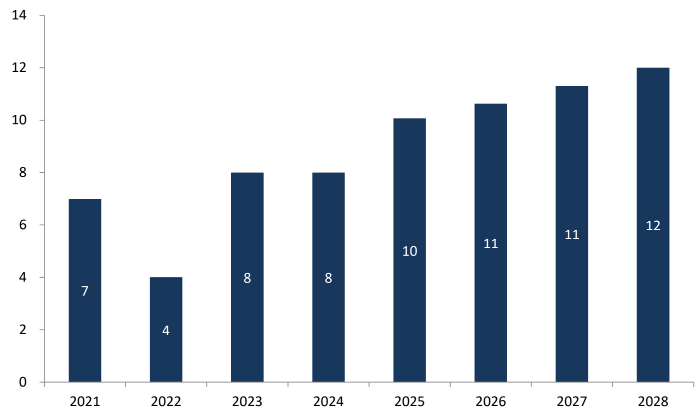
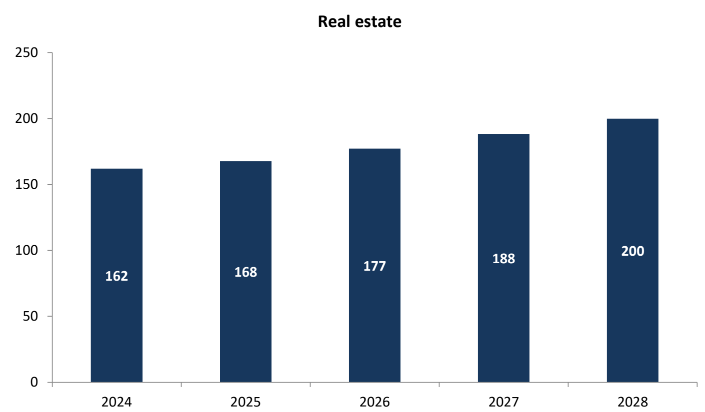
Exhibit 56: Rental proceeds from the RE portfolio are expected to increase on the back of rental growth (Industrial and Student Housing)



Source: Arqaam Capital Research, Company Data

Exhibit 57: RE portfolio will increase due to additional capital deployment as there are lucrative opportunities for portfolio expansion with rate cuts



Source: Arqaam Capital Research, Company Data

ICAP's majority of the real estate investment strategy includes investments in North America. It has a total exposure of 81% in the US. ICAP has shifted its focus to multifamily, student housing, and industrial segments due to the robust demand outlook and stability in occupancy levels during recessionary periods. Multifamily household segment demand will remain firm in MT on the back of the housing deficit of 3.4 million from 2012 to 2022 in the US.

We expect the demand for multifamily homes in the US despite near-term headwinds on the back of the housing deficit due to demand and supply mismatch. Between 2012 and 2022, 11.9 million new homes were built. This includes 8.5 million single-family homes and 3.4 million multifamily homes. Yet, over this same period, according to CE, 14.6 million new households will be formed, leaving a shortage of 2.7 million homes. Furthermore, higher interest rates and soaring labour costs should render many projects unprofitable. As a result, the value of rental homes would appreciate the current multifamily stock, keeping occupancy rates elevated.

The industrial property market in the US is seeing low vacancy rates of 3% coupled with accelerated rental growth, with asking rents climbing by 20% in FY22. The real estate industrial portfolio will achieve an accelerated growth rate of 3% on the back of the e-commerce boom, supply chain shifts, and limited supply of warehousing capacity near important metropolitan areas that can accommodate the needs of e-commerce businesses.

ICAP real estate currently has 37 active investment portfolios. 31 were on or ahead of plan, and only one office in downtown Washington, D.C., has been negatively impacted. Elevated interest rates have led to the other five portfolios being behind their original plan due to the impact of higher-than-anticipated costs, which have been delaying investor distributions, increasing the duration of the fund cycle. Four of these five portfolios have outperformed NOI projections and continue to have strong operational performance on the back, identifying prime locations for property selection and efficient portfolio composition. 98% of Investcorp Capital's US RE portfolio is invested in Residential and Industrial assets, which continue to be two of the best long-term performing real estate property investments.

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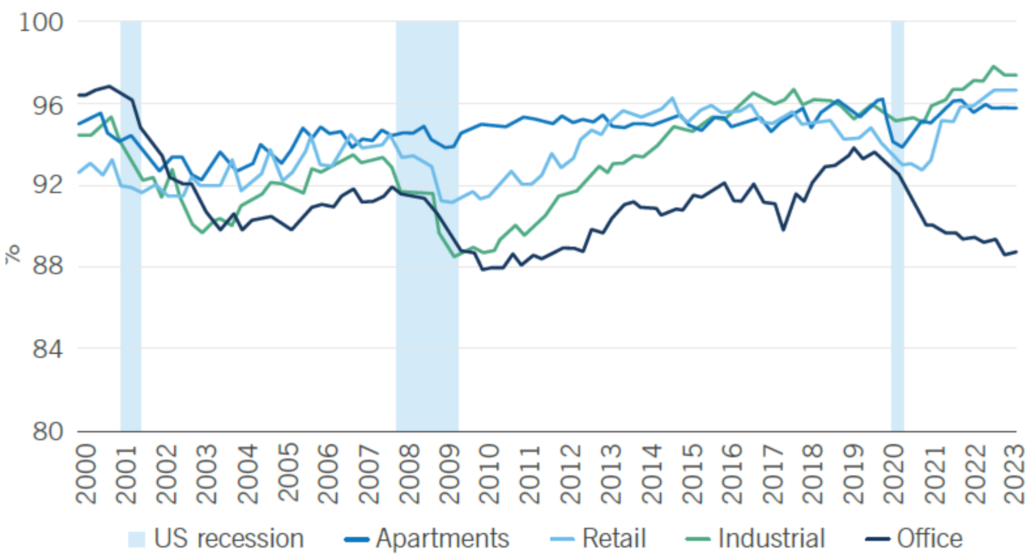
Exhibit 58: Occupancy levels of multifamily apartment REITs were the least volatile, followed by Industrial REITs.



Source: Arqaam Capital Research, Company Data,

Exhibit 59: Growth in home prices vs. rental growth FY21-22 in the main US metropolitan areas.

Metro Area	Price Growth % Y/Y	Rental Growth % Y/Y
West Palm Beach / Boca Raton	24.7	5.6
Fort Lauderdale	23.8	5.6
Miami	20.8	5.6
Tampa	25	10.6
Atlanta	18.5	5.7
Phoenix	19	6.3
Riverside-San Bernardino	16	4.4
Anaheim	13.7	2.1
Seattle	11.6	2.1
Denver	12.8	5.1
Los Angeles / Long Beach	9.7	2.1
Dallas	19.1	11.9
St. Louis	11	4.1
Fort Worth – Arlington	18.6	11.9
Baltimore	9.6	3.4
Philadelphia	9.4	3.3
Houston	12.8	7
Detroit	10.5	4.7
Chicago	9.8	4.5
New York / Jersey City	10.5	5.7
Boston	9.8	5.8
Minneapolis	7.8	5.3
San Francisco	6.3	6.4
San Diego	13.2	15.9
Washington	7.2	12.2

Source: Arqaam Capital Research, Company Data

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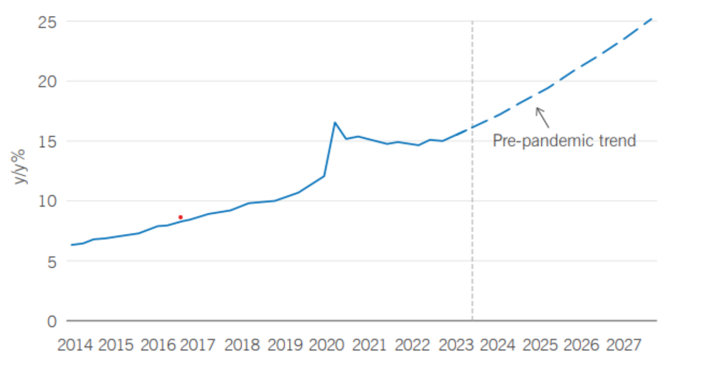
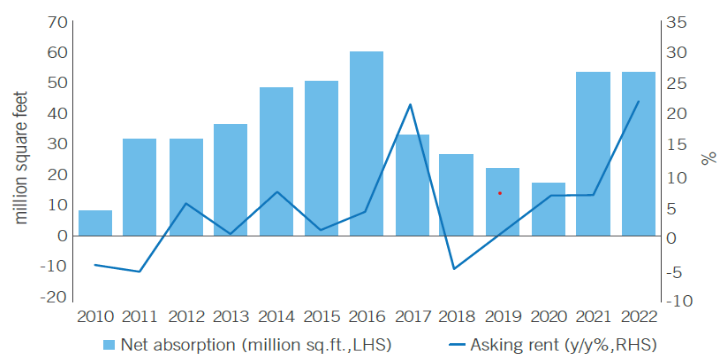
Exhibit 60: E-commerce sales c.25% FY27 and have increased exponentially post-pandemic, requiring more specialized warehousing near urban centers.



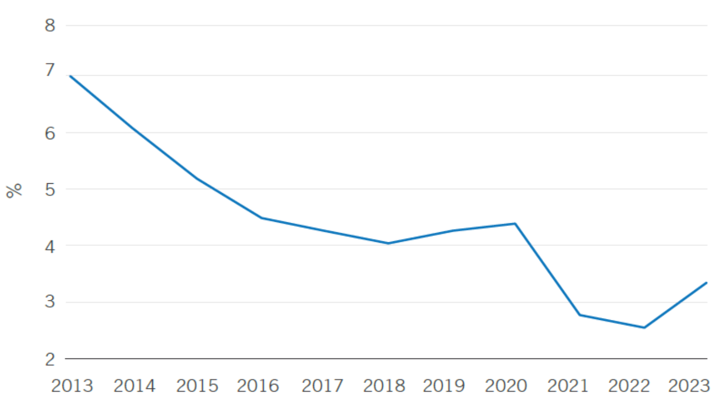
Source: Arqaam Capital Research, Company Data, Capital Economics and Refinitiv

Exhibit 61: Asking rents for industrial warehousing space peaked at 20% FY22 despite adding 100 mn sqft of warehousing space FY21-22 due to robust demand.



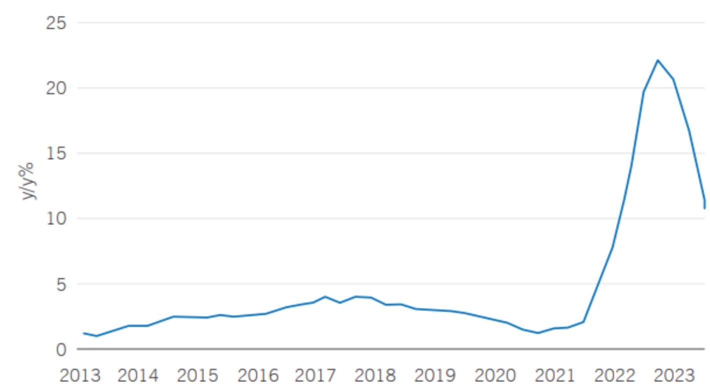
Source: Arqaam Capital Research, Company Data, Capital Economics, and US Census Bureau

Exhibit 62: US industrial vacancy rates bottomed out at 2.2% in FY22. Increased online spending and demand for same-day delivery will keep occupancy elevated.



Source: Arqaam Capital Research, Company Data, Capital Economics and CBRE

US industrial warehouse asking rent growth peaked at 21% in FY22. Due to supply constraints, we expect rental growth to remain above 10% in MT.

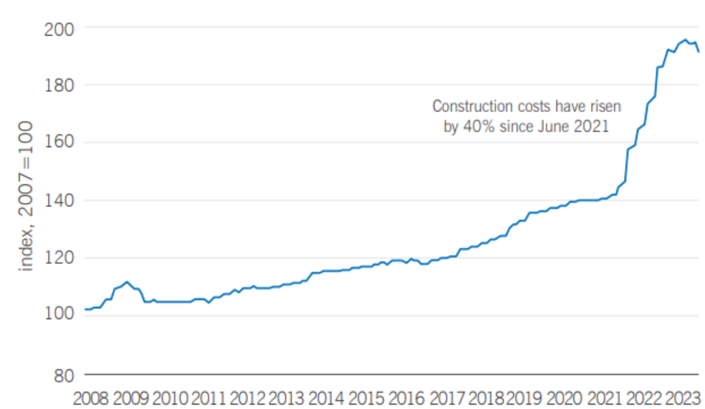


Source: Arqaam Capital Research, Company Data, Capital Economics, and REIS

Exhibit 63: Non-residential construction costs accelerated due to skilled labor shortage.

Source: Arqaam Capital Research, Company Data, Capital Economics and US Bureau of Labor Statistics

Exhibit 64: Inflationary headwinds have impacted on the supplies.



Source: Arqaam Capital Research, Company Data, Capital Economics, and US Bureau of Labor Statistics

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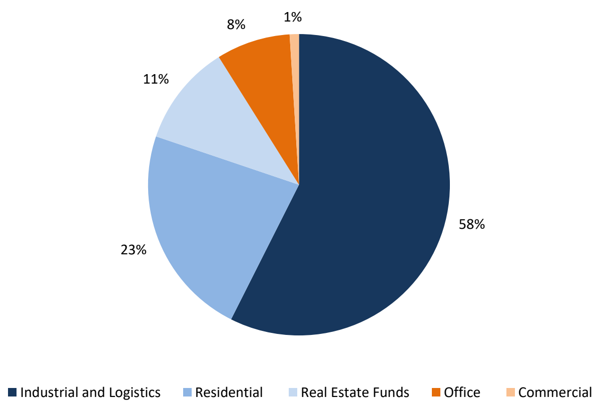
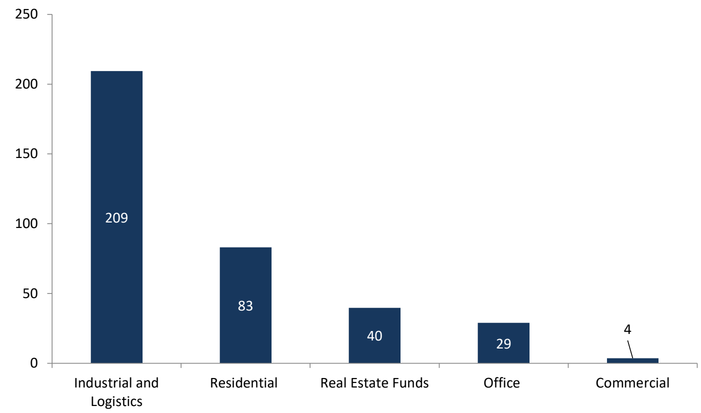
Exhibit 65: Sector Allocation of RE portfolio through CFS(%)



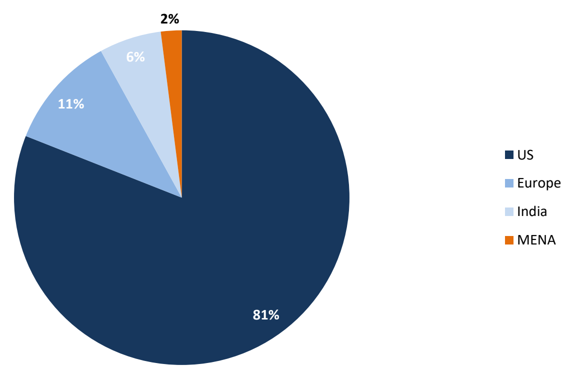
Source: Arqaam Capital Research, Company Data

Exhibit 66: Total real estate exposure of ICAP segment-wise



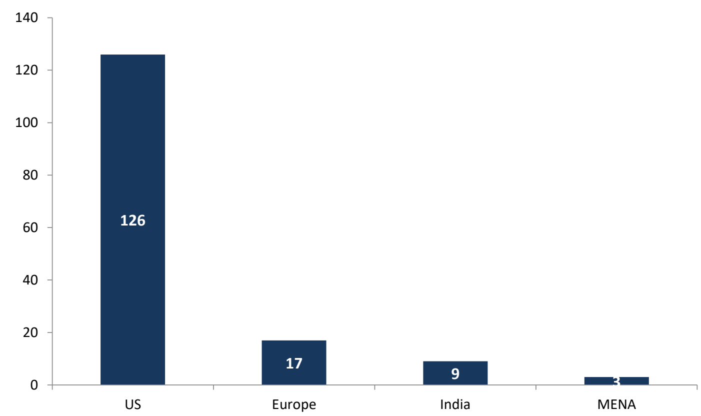
Source: Arqaam Capital Research, Company Data

Exhibit 67: Higher allocation of CD Real Estate portfolio in NA



Source: Arqaam Capital Research, Company Data

Exhibit 68: CD segment RE exposure geographically



Source: Arqaam Capital Research, Company Data

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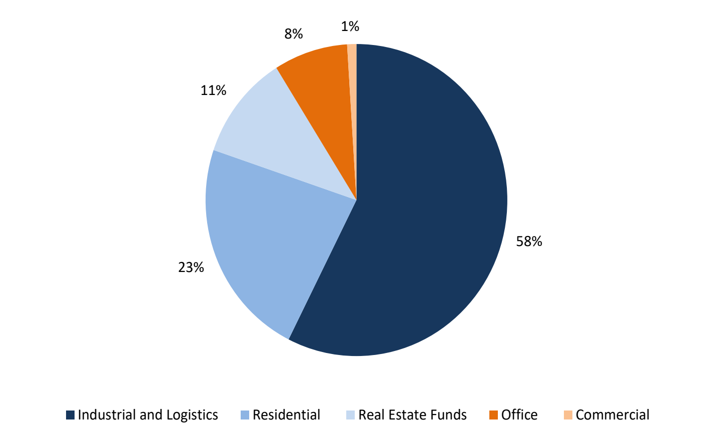
Exhibit 69: Top Ten exposure for ICAP making up 79% of Real Estate exposure from the capital deployment segment

US Real Estate Portfolio	Country	One-year Cap Rate	Asset Exposure	NOI(In USD mn)
Industrial Fund Recap	US	6%	38	2.17
Boston and Minneapolis Property Portfolio	US	6%	25	1.55
2022 Resi Properties Portfolio	US	5%	19	0.93
UK VI Portfolio	UK	7%	7	0.49
Infra India Opportunities P.E.L.	India	NA	6	
2020 Warehouse and Logistics Portfolio	US	6%	6	0.38
Florida Residential Portfolio	US	5%	5	0.23
2024 Light Industrial Portfolio	US	6%	4	0.23
US Student Housing Portfolio	US	6%	4	0.24
Las Vegas Infill Industrial Portfolio	US	6%	4	0.23

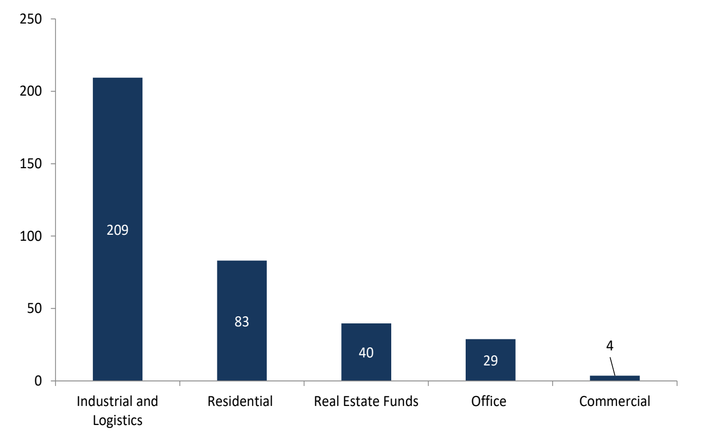
Source: Arqaam Capital Research, Company Data

Exhibit 70: Industrial and logistical assets comprise 58% of RE



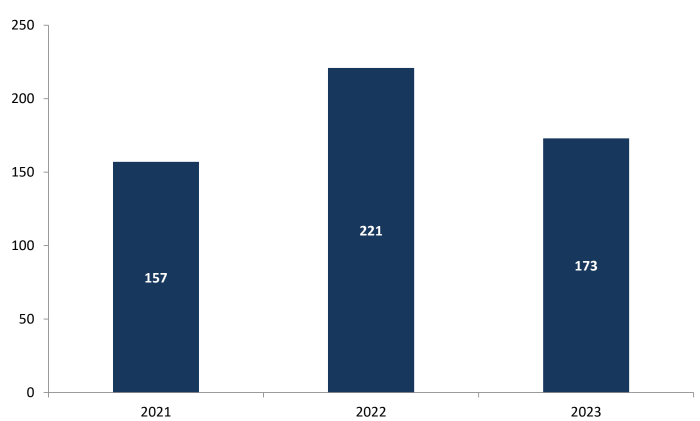
Source: Arqaam Capital Research, Company Data

Exhibit 71: RE sector exposure (USD m)



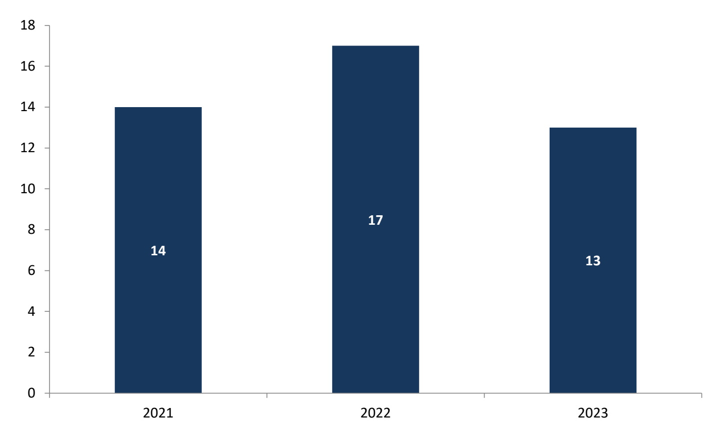
Source: Arqaam Capital Research, Company Data

Exhibit 72: The value of RE deals syndicated through CFS in USDm FY 23.



Source: Arqaam Capital Research, Company Data

Exhibit 73: Revenue from real estate capital financing services is going to be driven by the number



Source: Arqaam Capital Research, Company Data

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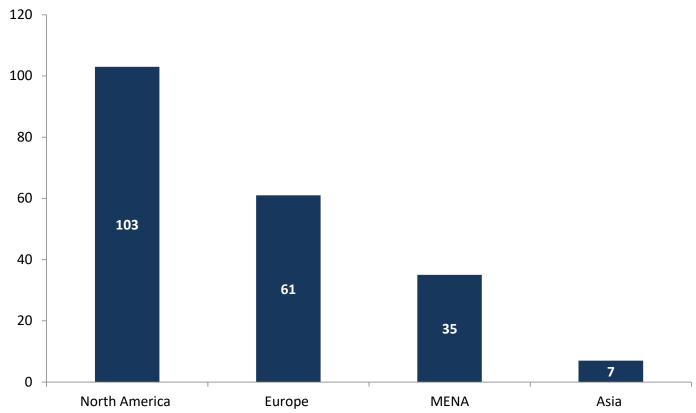
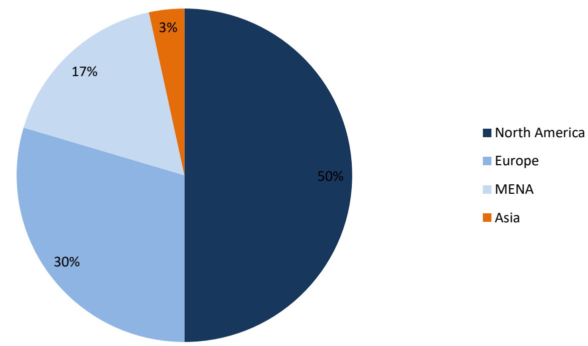
Exhibit 74: CFS segment real estate deals done geographically



Source: Arqaam Capital Research, Company Data

Exhibit 75: Majority of the CFS deals are underwritten in the US



Source: Arqaam Capital Research, Company Data

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Global Credit: equity and mezzanine CLO exposure risk mitigated by strong underlying corporate credit

- **Invest Corp Group's credit opportunity provides a Shariah-compliant chance to generate a 13% p.a. average cash distribution from equity and mezzanine positions in a diversified portfolio of Collateralized loan obligations.**
- **Collateralized Loan Obligations represent a high-yielding, scalable, floating-rate alternative investment with a strong credit history. Currently, they are offering SOFR+400basis-point.**
- **Credit performance has stood the test of time through the GFC and COVID-19 risk cycles, has supported growth in the CLO market, broadened the investor base, and added secondary market liquidity.**
- **ICAP's long-term experience with Invest Corp group, with a track record of 10 years of track record in credit research, structural analysis for security selection, and sector allocation, allowed them to capture the attractive relative and fundamental value in CLOs.**

Exhibit 76: Interest Income from the CLO and B/S exposure

	2024	2025	2026	2027	2028
Interest Income	19	28	29	31	32
Global Credit	242	229	240	251	262
Cash Yield(IRR)	8%	12%	12%	12%	12%
c. Operating Income	15%	20%	17%	16%	16%

Source: Arqaam Capital Research, Company Data

Exhibit 77: ICAP (Investcorp Global Credit Exposure) (break down at the time of IPO)

	Asset Exposure	% of Global Credit Exposure	% of Total Asset Exposure
CLOs			
Junior Equity	104	42%	8%
Senior	97	38%	8%
BDCs	38	15%	3%
Loan Funds	11	4%	1%
SMAs (separately managed accounts)	2	1%	0%

Source: Arqaam Capital Research, Company Data

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As of FY24, ICAP's total exposure in global credit stands at USD 242 m, which is 14% of its total asset exposure and c.31% of its capital deployment asset exposure. ICAP's affinity to Investcorp Group's platform, its relationship with banks, PE sponsors, and other intermediaries, and a professional team of 50 sector specialists in credit provide it with the support it needs to operate in the primary and secondary CLO market.

Investcorp Group has USD 22bn AUM in Global Credit , with investments in 750 companies. The geographical mix of AUM is split into US10.7bn in Europe and US13bn in the US. Investcorp Group is the fifth largest credit manager in Europe. Historically, in the US, Investcorp Global Credit business is 0.6% vs. the 1.8% index; in Europe, Investcorp Group had a default rate of 0.3% vs. 1.4% of the index.

ICAP's global credit business is comprised of high-quality global credit businesses. In the international credit portfolio, CLOs are a USD 970 bn asset class within the broader $2 trillion structured credit fixed-income market, including asset-backed securities (ABS) and CDOs (Collateralized Debt Obligations). CLOs derive principal and interest from an actively managed, diversified pool of non-investment grade, senior-secured corporate loans. ICAP's lending criteria are of companies with an EBITDA of 500 million dollars and a track record of more than ten years.

ICAP's CLOs use funds from debt and equity issuance to investors to lend to a diverse pool of companies, which it has selected based on several criteria. A portfolio typically includes more than 100 loans. The debt issued by CLOs consists of various tranches, each with a risk/return profile based on its seniority and claim priority on the cash flows produced by the underlying loan pool. These loans, also known as "bank loans" or "leveraged loans," which typically occupy a first-lien position in the company's capital structure, are secured by the company's shares, which are provided based on discussions with private equity sponsors and rank first in priority of payments ahead of unsecured debt in the event of a bankruptcy.

A portfolio of loans acts as the collateral supporting a CLO. Non-investment grade borrowers typically use the proceeds of these loans to support a range of activities, including M&A, dividend payments, leveraged buyouts, or investments in new projects. Loans are often provided by a group of syndicates who are institutional lenders, and they are arranged by an investment bank. Most CLOs of senior secured loans have a priority claim on all the related company's shares in the event of bankruptcy.

As of YE24, Investcorp Capital Global Credit manages 28 US and 23 European CLOs. Investcorp Group is a top 20 CLO manager by AUM globally with USD 21.75 billion in CLO AUM and is consistently active across executing new issue transactions. Outstanding CLOs have generated average gross equity distributions of 16% based on original cost. Investcorp Capital Global Credit has managed CLOs since 2004 and strongly focuses on capital preservation. The long-term average annual default rate across US CLOs is 1.8%, and in Europe, it is 1.3%, both of which outperform respective market benchmarks. Loans carry several covenants, including compliance with specific credit metrics. If there is an industry-wide issue, the credit team of ICAP is willing to restructure the loan terms to support the management. Loans typically carry SOFR + 400 basis charged to the borrowers.

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Large addressable market opportunity: There is a large one in the ICAP's CLOs and syndicated loan markets. The total size of the leveraged loan market is roughly USD 1.4 trillion to 1.8 trillion. ICAP can pivot between finding investment opportunities within the primary loan issuances or buying loans in the secondary markets. Given macro uncertainty, We believe investment opportunities exist in the secondary loan markets due to part inflation trajectory, Fed policy outlook and underlying economic trends. Most CLO portfolios are actively managed, and the collateral manager seeks to mitigate losses by trading the CLOs in the secondary market if the manager believes that covenants will be violated.

A potential uptick in M&A activity later this year can support primary loan issuance. Investcorp Group's investment team manages ICAP's investments. Investcorp Groups has a rigorous process that analyses portfolio companies' prospects, credit fundamentals, competitive positions, and industry dynamics to evaluate potential new investments. Relationships with PE sponsors, banks, and other financial institutions are critical.

Banks have ceded market share to private lenders: Despite increased competition in direct lending, there are few new entrants into the OTC-traded CLO market in 2022; our analysis suggests that the banks will cede ~$450-550bn in credit to the private markets, suggesting ample whitespace for ICAP and the Invest Corp Group for capital deployment. Furthermore, the eventual recovery in the M&A environment is coupled with a strong commitment of LPs, which, according to Preqin, 63% of LPs intend to increase their allocation to private credit.

Investcorp Group has US$23.7bn of AUM in Global Credit as of March 2023, with investments in more than 750 investee companies. By product, 92% of the AUM is through CLOs, followed by leveraged funds at 3%. Investcorp Group's average annual loss rate for the Global Credit business is 0.1% in Europe (versus the relevant index average of 0.6%) and 0.2% in North America (versus the relevant index average of 0.8%) since 2013/2010, respectively. Investcorp Group management believes that knowledge from existing exposures and market presence can be leveraged to underwrite single-name credits, CLO tranches, and other structured credit products.

European CLO issuances grew (+16% y/y with EUR 35 bn & +8% y/y in Q3 24 with EUR 10 bn) on the back: i) lower default rates (2.5%) due to recovery in technology and health care critical sectors with CLO concentration ii) Increasing investor demand for high-yielding debt vs. low yielding government bonds amid inflationary pressures and low interest rates in key European markets iii) Robust demand of AAA tranches from institutional investors on their superior risk-adjusted returns and attractive yield spread vs. investment grade bonds.

We expect the European CLO market to benefit from lower interest rates, with issuance likely to strengthen as the costs of floating-rate loans fall. Lower rates should also have a positive effect on default rates. All in all, **equity tranche returns should strengthen**.

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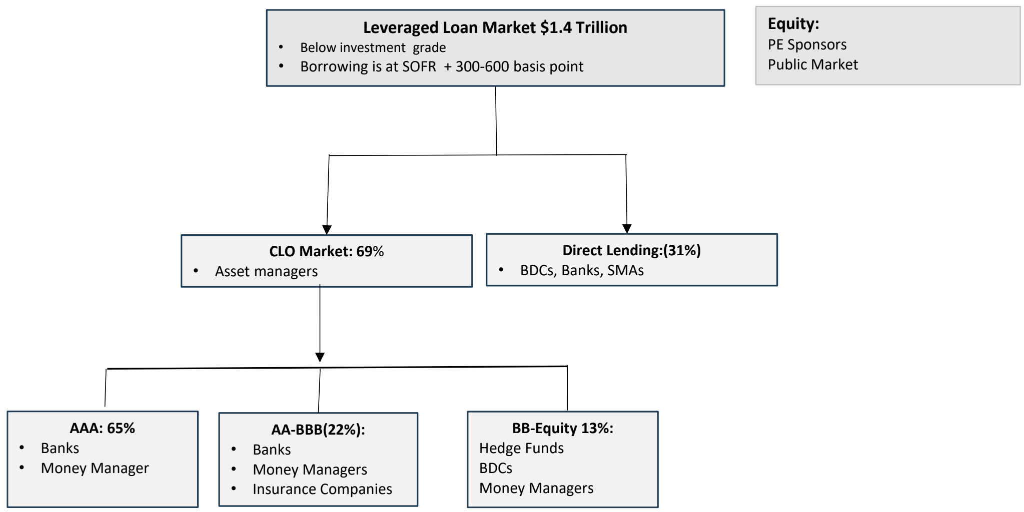
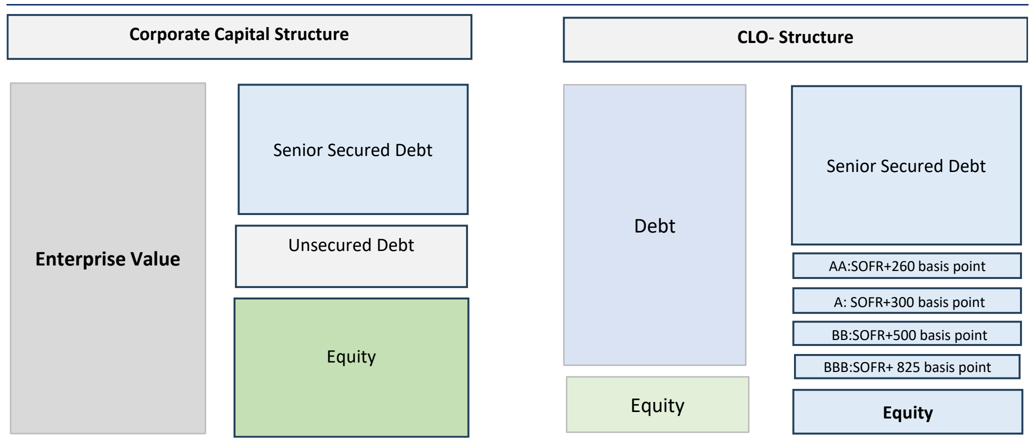
(v) **Regulatory Scrutiny**, which tightened in certain jurisdictions, particularly about risk retention rules and transparency requirements, causing slight delays in new CLO issuance towards the end of Q3 2024.

Exhibit 78: CLO Marketplace



Source: Arqaam Capital Research, Company Data

Exhibit 79: CLO Capital Structure



Source: Arqaam Capital Research, Company Data

The type of investments that ICAP and Investcorp Group invests in through their Global Credit (GC) business strategies:

First Lien Senior Secured Loan: Defined as a loan that is senior to other capital structures on a lien basis to other liabilities within the capital structure and has a priority security interest in the issuer's assets. First-lien loans rank above second-lien loans within the capital structure. The First Lien loan, "Uni-Tranche," loan combines features of first lien, second lien, and mezzanine debt. Usually, it forms most if not all, of the capital structure above equity for a corporate borrower.

Second-lien loan: ranks below first-lien loan in lien position, but typically ranks above unsecured liabilities within the capital structure. Second-lien loans typically have security interest over

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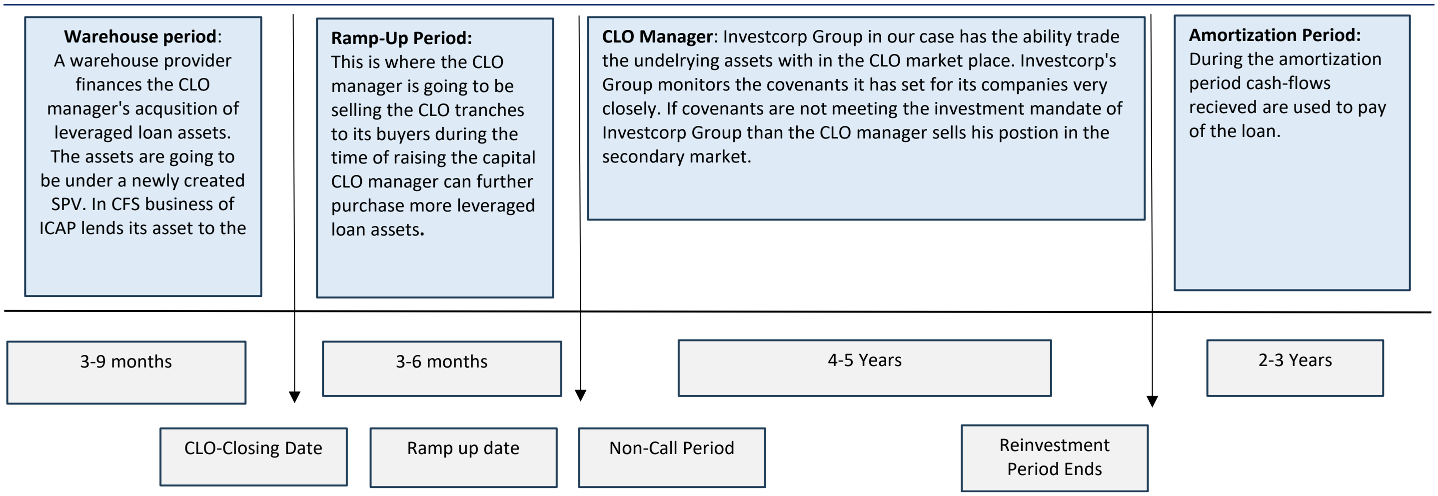
assets of the issuer (though typically is ranked below first-lien debt on such collateral). A second-lien loan typically offers higher returns than first-lien loans because of higher interest rates or equity participation opportunities.

Subordinated debt: Subordinated debt typically ranks below first-lien and second-lien debt within the capital structure and is often unsecured. It also ranks above preferred and common equity. Subordinated debt typically has higher interest rates (typically fixed interest rates) than first-lien or second-lien debt and may provide some capital appreciation through equity-linked instruments such as warrants.

Equity investments: Equity investments typically rank below debt investments and are made in the form of co-investments with those more senior within the capital structure or co-investments with financial sponsors. Equity investments could include direct equity interest or equity-linked interest, such as warrants and profit participation rights.

Exhibit 80: CLO life Cycle



Source: Arqaam Capital Research, Company Data

Global Credit and Management will continue to work geographically in Europe and the USA due to limited opportunities in the Global Credit business in MENA and other regions. The two main criteria for lending EBITDA should be approximately $500mn, and the company should have a successful track record of 10 years. CLOs' most senior and highest-rated AAA tranches carry the lowest coupon but are entitled to the highest claim on the cash flow distributions.

Mezzanine tranches pay higher coupons if collateral pays down senior debt. Most CLOs are subject to various collateral concentration limits that seek to limit the risk. ICAP's CLO portfolios are actively managed. The collateral manager seeks to mitigate losses from loan defaults and minimize the bank loan portfolio's value by actively managing the holdings and positioning of the portfolio over a predefined reinvestment period.

ICAP's CLO is not mark-to-market and only depends on cash flow performance (e.g., timely payment of principal and interest), ratings, maturities, and defaults of the underlying bank loans. Therefore, CLO managers have not forced sellers during periods of market volatility and can buy

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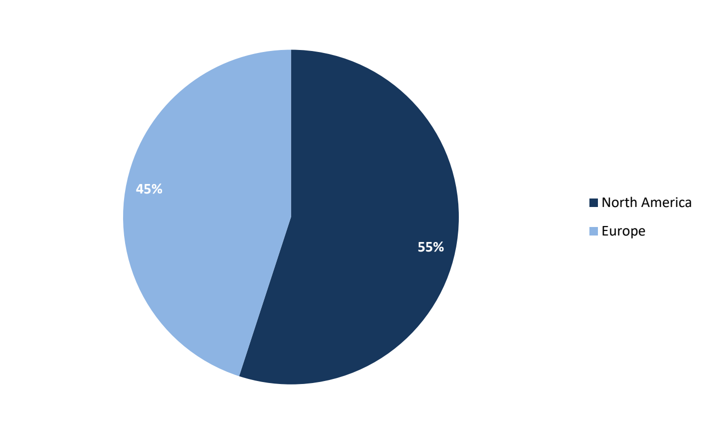
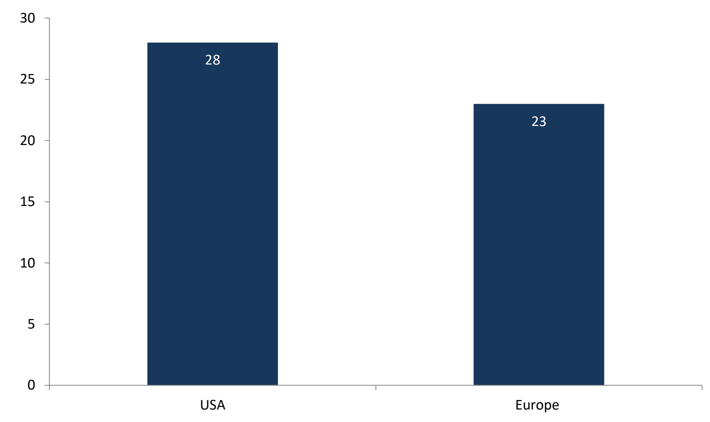
and sell bank loans to take advantage of opportunities in the market to find value or 54inimize losses on deteriorating credits because of the liquidity in the CLO market.

Exhibit 81: CLO exposure is focused in North America & Europe



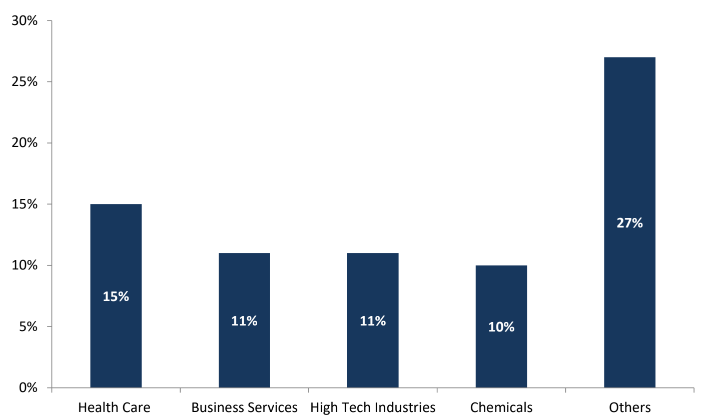
Source: Arqaam Capital Research, Company Data

Exhibit 82: Number of CLOs managed



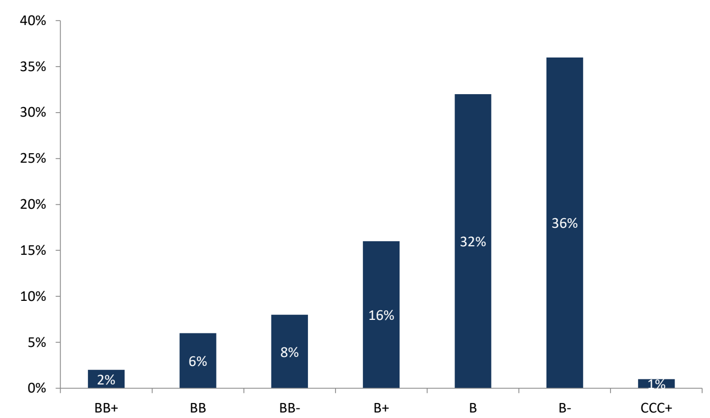
Source: Arqaam Capital Research, Company Data

Exhibit 83: Healthcare sector allocation



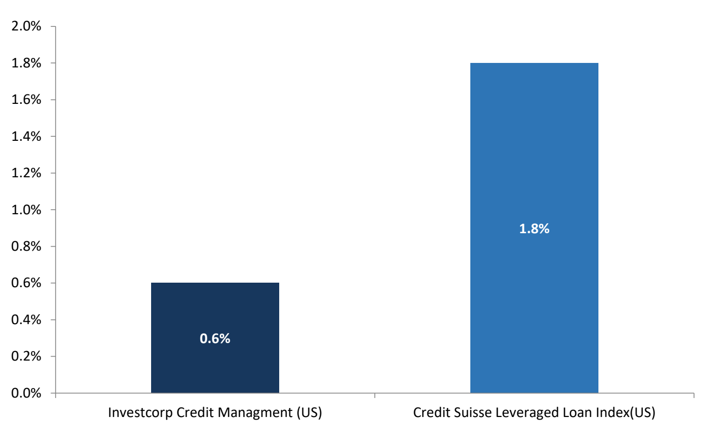
Source: Arqaam Capital Research, Company Data

Exhibit 84: Allocation of capital across quality



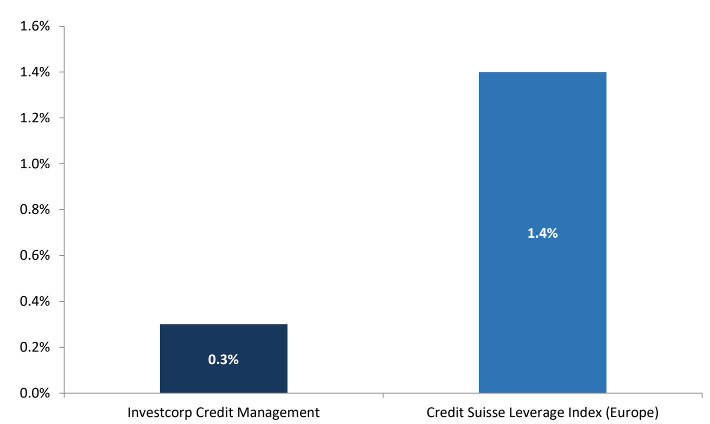
Source: Arqaam Capital Research, Company Data

Exhibit 85: Investcorp US credit management US had a 0.6% default rate vs. 1.8% for the index



Source: Arqaam Capital Research, Company Data

Exhibit 86: Investcorp credit management European default rate was at 0.3% vs. 1.4% for the index



Source: Arqaam Capital Research, Company Data

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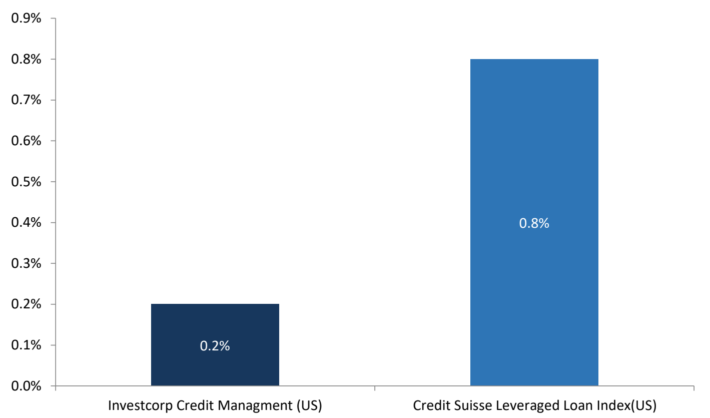
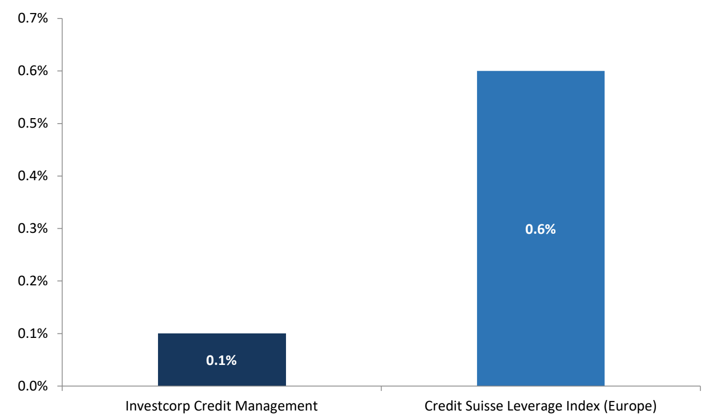
Exhibit 87: ICAP's US CLOs have a 0.2% loss ratio vs. 0.8% for the index



Source: Arqaam Capital Research, Company Data

Exhibit 88: ICAP's European CLOs have a 0.1% loss ratio vs. 0.6% of the index



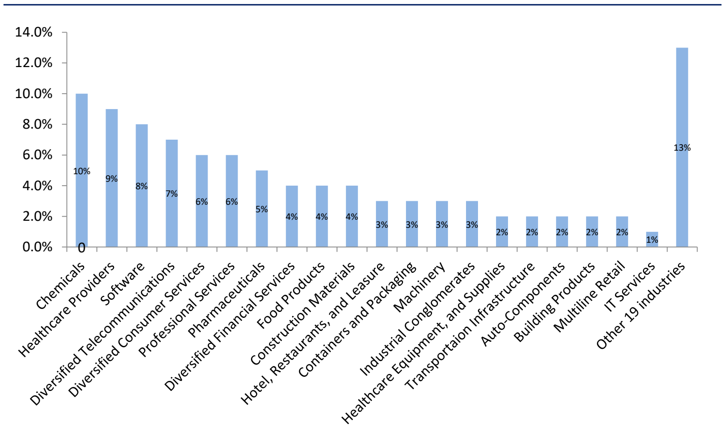
Source: Arqaam Capital Research, Company Data

Exhibit 89: Investcorp Capital Group's top ten exposure in European CLOs in the GC segment

Assets:	Exposure(In USD mn)	Sponsor:	Issuer Rating:	Industry:
Verisure	140.6	Helman & Friedman	B1/B+	Consumer
Stada	134	Cinven, Bain	B3/B	Health Care
United Group	132.1	BC Partners	B2/B	Telco
Numericable Group	125	Altice Group)	B2/B-	Telco
MÁSMÓVIL	107.3	Cinven, KKR, Providence	B2/B	Telco
Clarios	106.7	Brookfield, CDPQ	B2/B+	Industrial
Bmc	102.9	KKR	B3/B-	Software
RUBIX	101.9	Advent	B3/B-	Industrial
INEOS	98.6	Jim Ratcliffe	Ba2/BB	Chemicals
VERITAS	97.6	GIC, Carlyle	B3/B-	Software

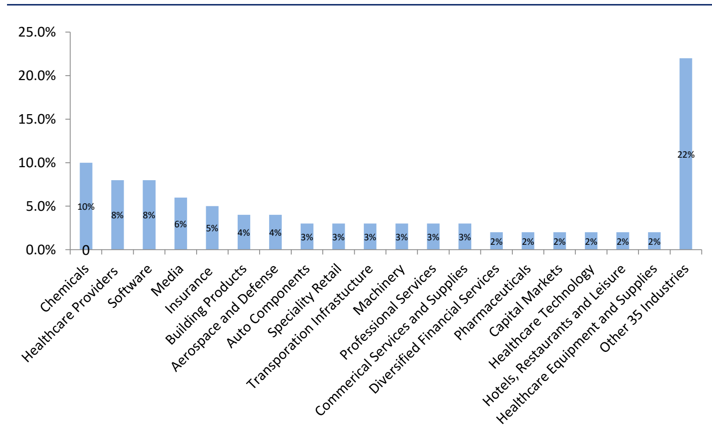
Source: Arqaam Capital Research, Company Data

Exhibit 90: Investcorp European Platform



Source: Arqaam Capital Research, Company Data

Exhibit 91: Investcorp US Platform



Source: Arqaam Capital Research, Company Data

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Exhibit 92: US CLO market vs. European CLO market

Factor	US CLO Market	European CLO Market
Market Size	$1.1 trillion	€200-250 billion
2023 Issuance	$135 billion	€30-35 billion
Maturity	Very mature, largest globally	Growing but smaller and fragmented
Primary Investors	Pension funds, insurance companies	Pension funds, asset managers
Underlying Assets	Corporate leveraged loans	European leveraged loans
Key Risks	Economic downturn, rising rates	Political instability, regulatory changes
Yields	Slightly lower	Slightly higher yields for comparable risk levels

Source: Arqaam Capital Research, Company Data

Strategic Capital (3% of total assets and 5% of CD Segment):

Under the Capital Deployment business, the Strategic Capital asset class is a GP stakes investor, focusing on holding minority investments in middle-market alternative asset managers, with a particular skew towards longer-duration private capital. The total asset exposure is USD 47m FY 24, c.3% of ICAP's B/S, and c.5% of the CD asset exposure. In terms of this business, Investcorp Capital can leverage (1) Investcorp Group's team, which includes eight investment professionals, and (2) Investcorp Group's 4-year track record with c.US$1bn in AUM, and c.25% Gross IRR as of Dec 2022 (estimated by Investcorp Group).

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Financial Outlook: high EPS CAGR expected on capital deployment

- **We expect the balance sheet to expand from USD 1.75bn in FY24 to USD 2.23bn in FY28e. The USD 800m revolving credit facility should boost CFS assets, while the USD 200m IPO proceeds should help fund the CD assets.**
- **60-63% of gross operating income, contributing to 5% RoE points in FY24, stemming from direct investment yield, with the remainder coming from fair value gains. We expect the RoE to progress TTC at 7.2% in FY24 to 10% by FY28e.**
- **Dividend payout is set at 8% of year-end NAV, providing a cash yield of 9.2% and NAV CAGR of 3% FY24-28e, and justifying our assumed TGR of 3.6% (IRR of 11.6%, pay-out of 69% at TTC).**

Exhibit 93: B/S exposure of the CFS and CDS segment

(USDmn)	2021	2022	2023	2024	2025	2026	2027	2028	Max Capacity:
CFS	355	314	418	430	750	900	900	900	1000
CD	554	581	775	971	905	984	1071	1164	1200
Cash	98	171	150	144	251	244	186	120	100
Total Assets	1007	1066	1343	1545	1905.3	2127.7	2156.8	2184.3	
Financing (RCF)	45	40	41	280	440	640	696	700	800
Equity	1058	1107	1235	1462	1458	1477	1498	1528	

Source: Arqaam Capital Research, Company Data

Exhibit 94: B/S Ratios

Asset Exposure Mix & B/S	2021	2022	2023	2024	2025	2026	2027	2028
CFS/ Total Asset Exposure	30%	27%	29%	25%	38%	41%	41%	40%
CD/ Total Asset Exposure	47%	50%	54%	55%	46%	45%	49%	52%
RCF/ Equity	4%	4%	3%	9%	30%	43%	46%	46%
Cash/ Total Assets	8%	15%	11%	8%	13%	11%	8%	5%

Source: Arqaam Capital Research, Company Data

We expect CFS segment B/S to grow to USD 900m at a CAGR FY25-28 of 20% on the back of higher underwriting fees c.8% to B/S. Underwriting fees are a function of the Gross Assets underwritten, which we expect to increase due to the increasing offering of additional asset classes coupled with a flexible RCF facility of USD 800 mn provided by a consortium of international banks at SOFR + 250 basis points. Previously, RCF to ICAP was provided by the Investcorp Group for SOFR + 282 basis points. Having a flexible RCF on favourable terms is critical for CFS business as it provides the opportunity and flexibility to underwrite assets, which the investment team finds favourable. The exposure of CFS business across asset classes is as follows: CI at 55.1%, RE at 38.3%, Strategic Capital at 0.7%, and Global Credit at 5.8%.

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We expect RCF utilisation to grow to USD 700m in FY26-28, an 87.5% utilisation ratio from 17% in FY 24. We assume a higher RCF utilisation relative to management guidance of USD600 m in the MT. We conservatively expect a slower fund-raising activity, increasing the need to utilise the RCF to underwrite deals. We expect deal flow to normalise globally after establishing the interest rate cuts trajectory. This will present more investment opportunities for underwriting, subsequently accelerating the use of RCF.

Our argument for accelerated utilisation of RCF is further supported by ICAP signing a new USD 800m facility with a consortium of international banks. ICAP's previous RCF facility was provided by the Investcorp Group for SOFR +282 basis points and had a maximum capacity of USD 600mn. It was governed under the "Capital Financing Agreement." In Q3 24, the facility was paid off, and a new RCF facility was signed SOFR + 250 basis points and a maximum capacity of USD 800mn, which is USD 200mn more than the arrangement with the Investcorp Group. Higher underwriting capacity significantly benefits the CFS business in the MT.

Exhibit 95: CD Asset Exposure (CAGR FY24-28e of 5%):

	2021	2022	2023	2024	2025	2026	2027	2028
CD Asset Exposure:	**554**	**581**	**775**	**971**	**902**	**982**	**1068**	**1161**
Corporate Investments	237.0	272.0	335.0	520.0	430.3	483.3	541.6	605.8
Global Credit	258.0	204.0	252.0	242.0	256.2	268.1	279.9	291.7
Real Estate	53.0	86.0	155.0	162.0	167.8	177.2	188.5	200.0
Strategic Capital	6.0	19.0	33.0	47.0	48.0	53.0	58.3	64.0

Source: Arqaam Capital Research, Company Data

We expect CDS asset exposure to increase from USD 795m FY24e to USD 1133m FY28e at a cagr of 5% on the back of additional capital deployment and fair value gains from Corporate Investments and RE portfolio. We note a net US49m fair value gain over the was recorded in Q4 24. Internal cash flow generation from Investcorp Capital would support this medium-term investment. The USD 200m IPO proceeds, of which USD 100m has been deployed in FY24, and another USD 100 will be deployed in FY25. Historically, leverage and higher EBITDA multiple contributed 66% to the value additions in PE investments. In the CDS segment, ICAP owns assets across 4 of the following asset classes, which are Corporate Investments (CI) USD 520m, Real Estate (RE) USD 162 m, GC (Global Credit) USD 242m, Strategic Capital (SC) USD 47m FY24. The assets in the CDS segment are managed by the Investcorp Group just as with other clients.

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Exhibit 96: Recurring Income will remain above 60% of the Gross Operating Income

	2021	2022	2023	2024	2025	2026	2027	2028
Revenue from Capital Financing Services	45	42	45	49	68	72	72	72
Capital Deployment Recurring Cash Income	34	19	25	27	33	35	37	38
Total Recurring Cash Income	**79**	**61**	**70**	**76**	**101**	**107**	**109**	**110**
Gross Operating Income	**139**	**99**	**117**	**125**	**139**	**171**	**181**	**191**
c. Operating Income	**57%**	**62%**	**60%**	**61%**	**72%**	**62%**	**60%**	**58%**
Cash Yielding Assets	672	623	858	881	1224	1401	1429	1458
Recurring Cash Yield	**12%**	**10%**	**8%**	**9%**	**8%**	**8%**	**8%**	**8%**

Source: Arqaam Capital Research, Company Data

We expect recurring cash income to be USD 139m FY25 and grow to USD 191m FY28. Recurring income comprises the CFS revenue stream, rental income from Real Estate assets, and interest income from GC exposure. Recurring income contribution to the overall gross operating income increased to 61% FY24 due to lower fair value gains. FY21-23 recurring income c.57%-62% to the overall gross operating income. We expect the contribution of recurring income, which is predictable, to be in line with its historical levels and continue to remain above 60% FY25-28.

We expect CFS revenue to increase at a CAGR of 10% FY25-28 based on improvement in global fundraising and higher RCF capacity, which allows for higher underwriting capacity. Lower interest rates should increase the net income generated from CFS, particularly as funding costs for the position drop. It generates an 8% underwriting fee (annualised investment return), charging Investcorp Group clients for syndicating investment assets through its balance sheet. Underwriting fees are a function of the gross asset exposure underwritten each year. CFS business targets a gross IRR of 20%-25% and a net IRR of 11%-12% on the asset exposure, supported by the non-syndicated assets. ICAP remains well positioned for lower rates, with lower SOFR reducing its borrowing costs, particularly as we expect leverage ratios to increase as it builds its CFS asset base, earning a positive carry.

Exhibit 97: Recurring Cash Income from the CD segment Income excludes the FV gains

	2021	2022	2023	2024	2025	2026	2027	2028
Yield On Global Credit	27	15	17	19	23	24	25	26
Dividend Income	7	4	8	8	10	11	11	12
Capital Deployment Recurring Cash Income	34	19	25	27	33	35	37	38

Source: Arqaam Capital Research, Company Data

We expect recurring income from the CD segment to increase from USD 27m FY24 to USD 38 m FY28 at a 9% CAGR due to rental growth on RE assets and interest income earned from capital deployment in GC. The cash yield on GC is expected to increase from USD 19m to USD 26m FY24-28 as additional capital is deployed into GC. Furthermore, dividend income, mainly from the rental income of RE assets, is driven by rental growth in the US's industrial and multifamily segments.

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Operating profit CAGR of c.12% is based on topline growth and operating leverage. Total costs are set at cUSD2.5m per annum and c.40 bps of NAV, with total costs at USD 8m FY24. Corporate expenses, e.g., finance, IT costs, operating costs, rents, etc., will remain stable. As a result, the cost-to-income ratio was at 7% in FY24, and we expect it to stay at 7% to 8% in FY25-FY28, which is much lower than the regional and international peers due to the master agreement.

EPS to grow at a CAGR of 9% vs. 11% of operating income due to higher RCF utilisation. We expect net income to grow at a 9% CAGR, behind the operating income growth, due to significant interest expense as we expect an RCF drawdown of up to USD 700 m. Interest expense came to USD 19m in FY24, and we anticipate it will reach USD 39m in FY28 on the back of higher RCF utilisation, even as SOFR rates decrease.

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Exhibit 98: Interest Expense and Balance Sheet

	2021	2022	2023	2024	2025	2026	2027	2028
Cash and Financing Income								
Interest Income	15	3	9	7	7	8	8	9
Cash Balance Related party	98.0	171.0	150.0	144.0	250.5	243.6	186.0	120.4
Interest Income on cash balance %								
Interest Expense	(2)	(1)	(2)	(19)	(20)	(33)	(39)	(44)
Margin(%)(i)	2.75%	2.75%	2.75%	2.75%	2.75%	2.75%	2.75%	2.75%
Credit Spread %(ii)	0.07%	0.07%	0.07%	0.07%	0.07%	0.07%	0.07%	0.07%
SOFR %(iii)				5%	4.0%	3%	3.0%	3.0%
Interest Expense				7.82%	6.82%	6.07%	5.82%	6.32%
Commitment Fee(B)								
RCF Capacity			600	800	800	800	800	800
Utilised				132	440	640	696	700
Undrawn RCF				668	360	160	104	100
RCF Utilization %				17%	55%	80%	87%	88%
Interest Income/Expense	**13**	**2**	**7**	**(3)**	**(12)**	**(25)**	**(31)**	**(36)**
Net Debt				132	440	640	696	700

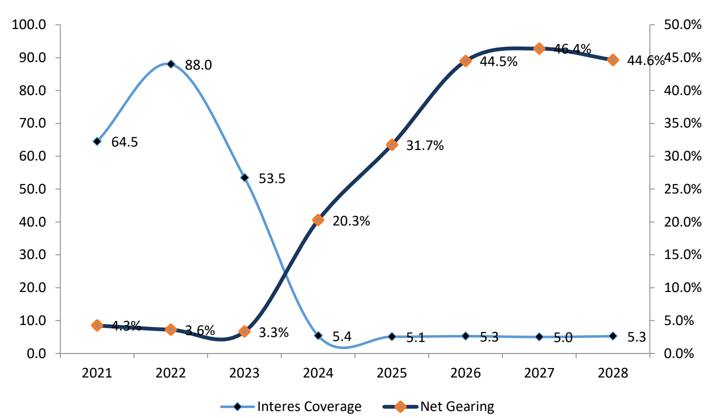
Source: Arqaam Capital Research, Company Data

Exhibit 99: Cash conversion to remain above 85%

	2021	2022	2023	2024	2025	2026	2027	2028
Operating Cash Flow Before Investments	152.0	71.0	96.0	86.6	99.6	118.9	122.1	132.2
Net Profit For The Year	135	87	113	105	115	134	137	147
Cash Conversion	**113%**	**82%**	**85%**	**83%**	**86%**	**89%**	**89%**	**90%**

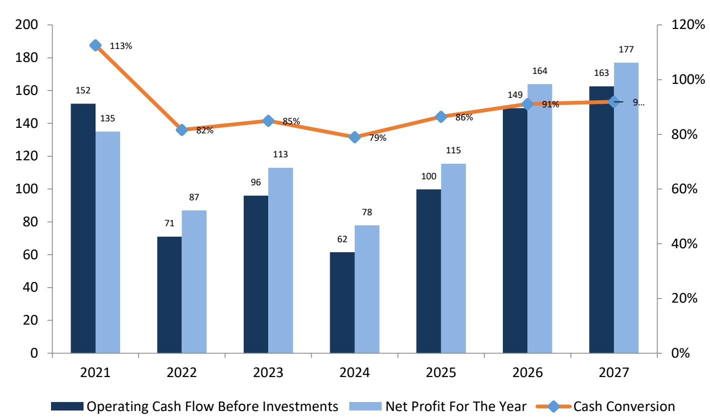
Source: Arqaam Capital Research, Company Data

Exhibit 100: Interest coverage vs. net gearing



Source: Company Data, Arqaam Capital Research

Exhibit 101: Cash Conversion Ratio



Source: Company Data, Arqaam Capital Research

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Exhibit 102: IS Estimates EPS to grow at a CAGR of 9%

Income Statement								
Fiscal Year	2021	2022	2023	2024	2025	2026	2027	2028
Fiscal Year End Date	*6/30/2021*	*6/30/2022*	*6/30/2023*	*6/30/2024*	*6/30/2025*	*6/30/2026*	*6/30/2027*	*6/30/2028*
CFS Revenue	45	42	45	49	68	72	72	72
Gain on financial assets	60	38	47	49	38	64	72	80
The yield on global credit	27	15	17	19	23	24	25	26
Dividend income - real estate	7	4	8	8	10	11	11	12
Gross operating income	**139**	**99**	**117**	**125**	**139**	**171**	**181**	**191**
Operating expenses	(10)	(11)	(10)	(8)	(9)	(9)	(10)	(10)
Operating profit	**129**	**88**	**107**	**117**	**130**	**162**	**171**	**181**
Interest income	15	3	9	7	7	8	8	9
Interest expense	(2)	(1)	(2)	(19)	(20)	(33)	(39)	(39)
Profit before tax	**142**	**90**	**114**	**105**	**118**	**137**	**140**	**150**
Tax	(7)	(3)	(1)	0	(2)	(3)	(3)	(3)
Net profit for the year	**135**	**87**	**113**	**105**	**115**	**134**	**137**	**147**
EPS	0.072	0.047	0.060	0.056	0.062	0.072	0.073	0.079

Source: Arqaam Capital Research, Company Data

Exhibit 103: Dupont Analysis

DuPont Analysis:	2021	2022	2023	2024	2025	2026	2027	2028
Gross Operating Income	12.82%	9.99%	9.17%	5.90%	8.06%	10.09%	10.58%	10.59%
Operating Expenses	-0.92%	-1.11%	-0.78%	-0.53%	-0.51%	-0.45%	-0.45%	-0.45%
Operating Profit	**11.9%**	**8.9%**	**8.4%**	**5.4%**	**7.6%**	**9.6%**	**10.1%**	**10.1%**
Interest Income	1.4%	0.3%	0.7%	0.6%	0.6%	0.5%	0.5%	0.5%
Interest Expense	-0.2%	-0.1%	-0.2%	-1.0%	-1.5%	-1.8%	-2.0%	-1.9%
ROA	**13.1%**	**9.1%**	**8.9%**	**5.0%**	**6.6%**	**8.3%**	**8.6%**	**8.7%**
Leverage	1.12	1.05	1.15	1.24	1.36	1.49	1.47	1.45
ROE	**14.6%**	**9.5%**	**10.3%**	**6.1%**	**9.0%**	**12.4%**	**12.7%**	**12.7%**

Source: Arqaam Capital Research, Company Data

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Exhibit 104: Investcorp Balance Sheet

Balance Sheet								
Fiscal Year	**2021**	**2022**	**2023**	**2024**	**2025**	**2026**	**2027**	**2028**
Fiscal Year End Date	*6/30/2021*	*6/30/2022*	*6/30/2023*	*6/30/2024*	*6/30/2025*	*6/30/2026*	*6/30/2027*	*6/30/2028*
ASSETS								
Financial assets at amortised								
Due to a related party	98	171	150	144	256	250	194	130
Receivables and other assets	175	96	83	206	60	60	50	50
Financial assets at fair value								
Capital financing services	355	314	418	430	750	900	900	900
Corporate investments	237	272	335	520	430	483	542	606
Global credit	258	204	252	242	256	268	280	292
Real estate	53	86	155	162	168	177	188	200
Strategic capital	6	19	33	47	48	53	58	64
TOTAL ASSETS	**1182**	**1162**	**1426**	**1751**	**1969**	**2192**	**2213**	**2242**
LIABILITIES AND EQUITY								
LIABILITIES								
Payables and accrued expenses	79	15	150	157	65	70	75	75
Financing	45	40	41	132	440	640	696	700
net gearing	*4.3%*	*3.6%*	*3.3%*	*9.0%*	*30.1%*	*43.2%*	*46.3%*	*45.7%*
TOTAL LIABILITIES	**124**	**55**	**191**	**289**	**505**	**710**	**710**	**710**
EQUITY								
Invested capital	1058	1107	1235	1462	1464	1482	1503	1532
Retained Earnings				311				
Total Equity	1058	1107	1235	1462	1464	1482	1503	1532
TOTAL LIABILITIES AND EQUITY	**1182**	**1162**	**1426**	**1751**	**1969**	**2192**	**2213**	**2242**

Source: Arqaam Capital Research, Company Data

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Exhibit 105: Q4 Review: ending the year on a strong note

Actual					
USD mn	**Q4 23**	**Q3 24**	**Q4 24**	**q/q**	**y/y**
Revenue From CFS	11	11	16.0	45%	45%
Revenue From CD	20	10	47.0	370%	135%
Gross Operating Income	**31**	**21**	**63**	200%	103%
Operating Expenses	-6	-2	-2.2	11%	-63%
Operating Profit	**33**	**19**	**61**	220%	84%
Interest Income	7	2	2	0%	-71%
Interest Expense	-2	-6	-4.8	-21%	138%
Profit Before Tax	**38**	**15**	**58**	287%	53%
Net Profit	**38**	**15**	**58**	287%	53%

Source: Company Data, Arqaam Capital Research

Revenue rebounded to solid growth across segments in FY24 to USD 132m (+4.8% y/y), with USD 49m from CFS (+9% y/y) and CDS USD 76m (+5.6% y/y):

(i) **CFS B/S grew USD 430m (+2.9% y/y)** across asset classes, delivering a 9% (+1% mgmt. guidance) return on investment**.** The rise in return was driven by increased activity in **RE (+ 15%y/y)** and **GC** (+127%y/y) to support the underwriting activity of its asset classes. ICAP utilised the financing FY24 of USD 132m (+3.2x). We expect further utilisation of the RCF facility to support more deal flows and underwriting activity.

(ii) **CD segment income grew to USD 76m (+5.6% y/y),** with cash-yielding assets generating a 13% return on investment under this segment. CD segment B/S grew to USD 971m (+25%y/y) from deploying funds raised during IPO. This growth was supported by strategic capital and corporate investment expansions, which included a $158m investment in corporate assets. **Capital Deployment**: investments were increased across corporate investments, which increased +55% y/y (+USD**158m** FV gains + additional capital deployment), global credit -4% y/y (**-USD10m**), and real estate +4.5% y/y (+**USD 7m**).

Lower Operating Expenses dropped by 27% y/y to USD 8m FY24 due to improved cost efficiencies across the business based on the "Masters Services Agreement." The costs have two components: i) 40 Basis point year-end NAV and ii) USD 3m fixed costs. The cost to income ratio improved by 200 basis points to 7% FY24.

The performance was **partially offset by higher interest expenses.**, which saw a significant increase to $19m (+$17m y/y), as the company replaced its prior intragroup financing with an $800m revolving credit facility at lower costs but with a floating rate tied to SOFR + 250 basis point.

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We anticipate a dividend payout of USD 100m FY25e based on 8% of the June year end NAV guaranteed by management, implying a payout of 87% based on FY25e earnings of USD 125m. ICAP is currently trading at a forward implied PE of 9.5x of FY 25e

Investcorp Capital made a significant investment in the USD4.2 bn JFK International Airport Terminal 6 redevelopment through Investcorp Corsair Infrastructure Partners, marking its entry into the infrastructure asset class. This expansion offers long-term growth potential, backed by stable cash flows and diversification benefits.

Exhibit 106: FY Y/Y key Comparison

Segment	FY2023	FY2024	y/y Growth	Key Drivers
Total Revenue	$117m	$125m	**5%**	Growth across capital financing and capital deployment services.
Capital Financing Services (CFS)	$45m	$49 million	**9%**	Greater number of deals, delivering 9% ROI, driven by real estate & global credit.
Capital Deployment Services (CDS)	$72 million	$76 million	**6%**	IPO proceeds deployment across corporate investments and real estate.
Capital Deployed (CFS)	$800 million	$883 million	**10%**	Real estate and global credit activity increased returns above management guidance.
Return on Investment (ROI)	8% (CFS), 12% (CDS)	9% (CFS), 7.8% (CDS)	+1% CFS, **+1% CDS**	Higher returns are driven by favorable market conditions and portfolio optimization.
Dividend Yield		9.5%		Stable payout supported by robust earnings.
EPS	6.04 cents	5.07 cents	**-16%**	Lower earnings are impacted by higher interest expenses from $800m in revolving credit.
Interest Expenses	$2 million	$19 million	**850%**	Driven by the new $800m revolving credit facility.

Source: Arqaam Capital Research, Company Data

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SWOT:

Strengths

- Highly experienced leadership team across major investment strategies
- Multi-layered income profile (underwriting income, commitment fees, direct investment yields (interest, rental, dividends), and fair value gains.
- fundraising strength
- time-tested investment screening & execution experience
- low-cost base due to management agreements between ICAP and the parent.
- Long-term relationships with 4,000+ GCC-based ultra-high net worth and c300 global institutional investors with no investor contributing to > 1% of AUM
- syndication process
- ICAP has stable earnings with high visibility and a dividend payout ratio.
- Large diversification with the largest single capital deployment at 6% of total exposure

Weaknesses

- Low fee income (recurring fees recorded at the non-listed parent company).
- High client concentration in the MENA region.
- Recurring revenues depend on deal flow, exit opportunities, and availability of funding
- Significant exposure to level 3 assets, given exposure to private markets.

Opportunities

- Rate cuts should accelerate valuation gains and origination and lower borrowing costs.
- Structural demand for private market alternatives driving attractive and secular growth (expected 9.3% CAGR).
- Structural trend of private wealth expansion in the Middle East
- Room to scale up capital financing and deployment segments given capital raise (through its ADXlisting) and revolving credit facility at tighter credit spreads.
- Leveraging Investcorp Group's track record of delivering attractive returns across business strategies.
- Diversification of client base and geographies for fundraising, with US regulation easing

Threats

- Potential mark-to-market losses every quarter.
  - dependency on its majority shareholder and client.
  - High rates may pose challenges for investment exits and affect IRR
  - Pressure on deal flow because of higher interest rates and difficulty deploying capital.
  - Consolidation of private capital firms.
  - ICAP is a carve-out investment vehicle significantly dependent on its parent entity for investment management, recommendation, and deal placement.
  - Before they can be renewed, the agreements are subject to approval from both parties, the ICAP and Investcorp Group.

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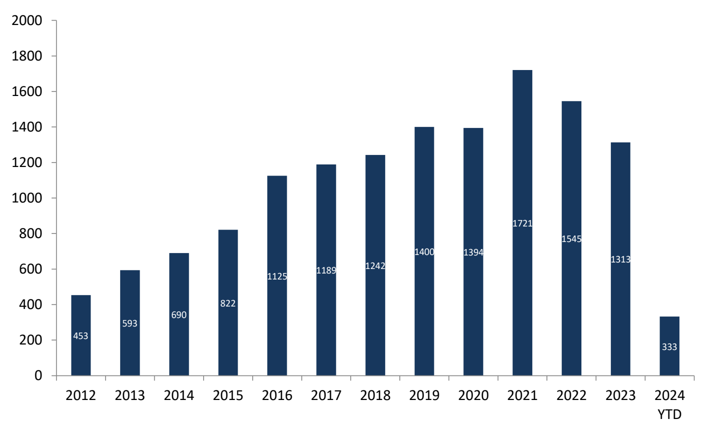
Fund Raising Sector: headwinds from higher rates to abate

- **Global fundraising fell by USD 1.1 trillion in FY23 declining by 22% y/y on the back of macro headwinds- with rising financing costs and uncertain growth outlook lowest since 2017.**
- **Dry powder reserves—the amount of committed capital increased to USD 3.7 trillion but was not deployed, indicating limited opportunities for capital deployment on the backdrop of macro-headwinds.**
- **For RE: Demand uncertainty, slowing rent growth, and elevated financing costs drove up financing costs, increased cap rates, and made price discovery challenging, weighing on deal volumes, fundraising, and investment performance.**

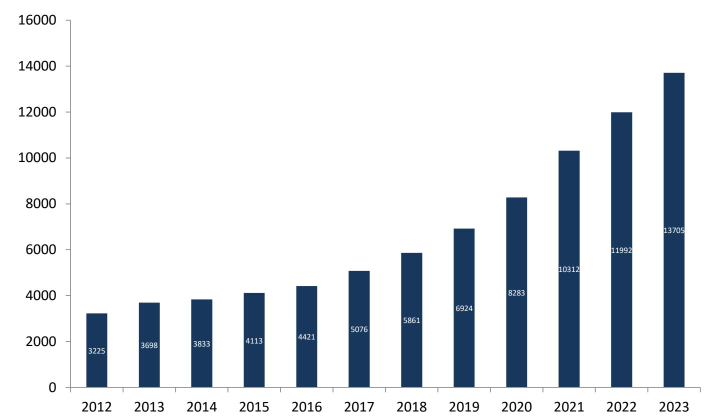
Global fundraising declined by 14% y/y to USD 1.3 trillion. Interest rate uncertainty, rising finance costs, and limited growth outlook as lower multiple environments are expected to persist, leading to an activity-dampening cycle, increasing the life of the PE funds and reducing the deal flows. We expect fundraising to be challenging; meanwhile, GPs focus on identifying potential target acquisitions. Investcorp Group Holding aggregate funds raised USD 7.4bn FY22, increasing by 75% y/y despite a decline in global fundraising by 15% y/y. Credit management raised USD 2.6bn, and the CI segment raised USD 1.68 bn.

Exhibit 107: Aggregate fundraising declined by 15% y/y FY23 due to higher interest rates and slower deal flow.



Source: Arqaam Capital Research, Company Data, Preqin

Global AUM of the private market increases by 14% y/y to approximately USD 13.7 trillion



Source: Arqaam Capital Research, Company Data, Preqin

PE fundraising has been less impacted due to higher institutional allocation underpinned by historical IRRs of 14%-16%. Investcorp Group, both buyout and growth segments of PE, have seen stable fundraising despite macro headwinds due to higher allocation from SWFs such as ADIA and Mubadala. Investcorp raised USD 1.68bnm FY22 for its CI segment.

Challenges in securing favourable exits for existing portfolio companies have led to longer fund cycles or investment horizons than planned. PE multiples have contracted from 11.9X EBITDA to 11X EBITDA FY2023. From 2002 to 2021, managers exited their positions into higher multiple environments vs. their entering multiple. Historically, 66% of the total returns can be attributed to market multiple expansion and effective use of leverage. Both factors are under pressure,

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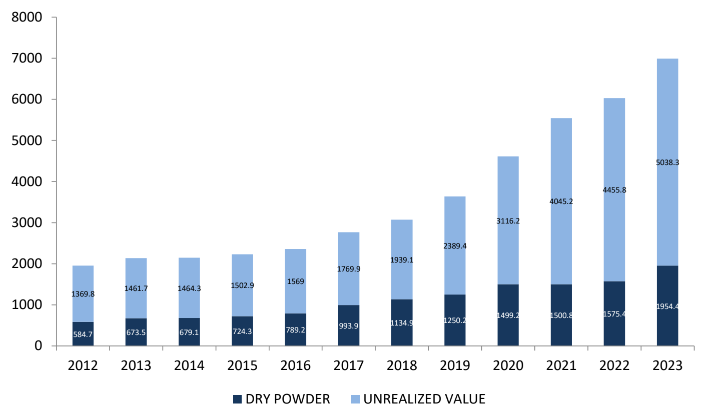
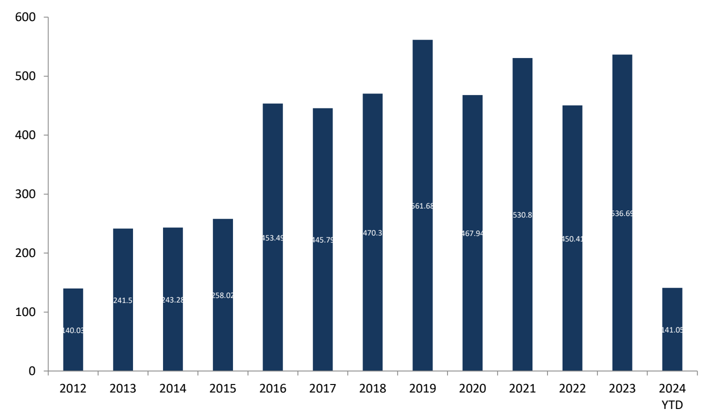
which has increased the duration of investment distribution and the life of the fund cycle, slowing the deal flow.

Exhibit 108: FY23 AUM of PE reached USD 7 trillion, including the uncalled amount referred to as dry powder.



Source: Arqaam Capital Research, Company Data, Preqin

Exhibit 109: Despite the overall decline in fundraising, PE fundraising for buyouts and growth strategies

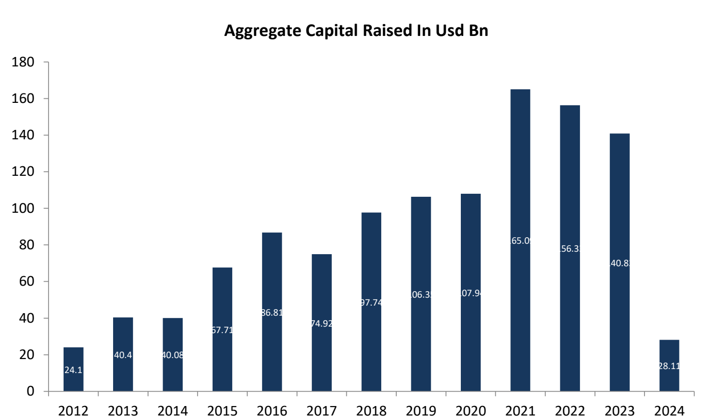


Source: Arqaam Capital Research, Company Data, Preqin

Fundraising for private debt has declined 13% y/y compared to the overall private market, which has declined 10%. According to McKinsey, private debt posted the highest investment returns of any private asset class through the first three quarters of 2023.

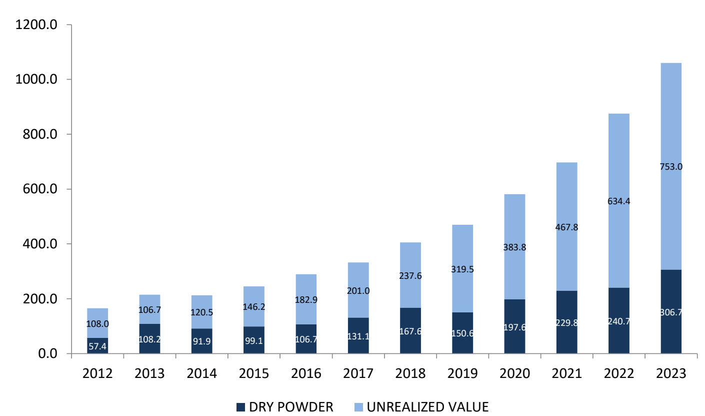
We expect fundraising in the private debt/CLO asset class to decline due to a less active PE deal environment, as private debt is predominantly used to finance PE-backed companies. However, managers are increasingly diversifying their origination capabilities to include various companies and asset types. Private debt is more resilient because of risk and return characteristics, which are well-suited to the current environment, with interest rates the highest in more than a decade. Private debt will continue attracting more capital if higher interest rates are sustained, putting more downward pressure on equity returns. Debt has a privileged position in capital structure, attracting investors during elevated interest levels and when interest rate uncertainty is high.

Exhibit 110: Private Credit Fundraising



Source: Company Data, Arqaam Capital Research

Exhibit 111: AUM under Private credit



Source: Company Data, Arqaam Capital Research

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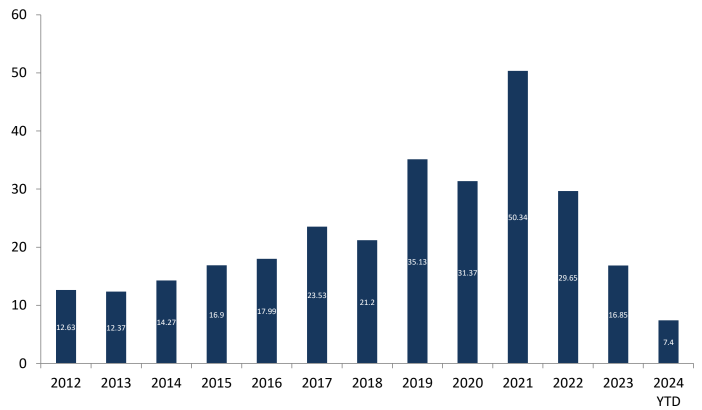
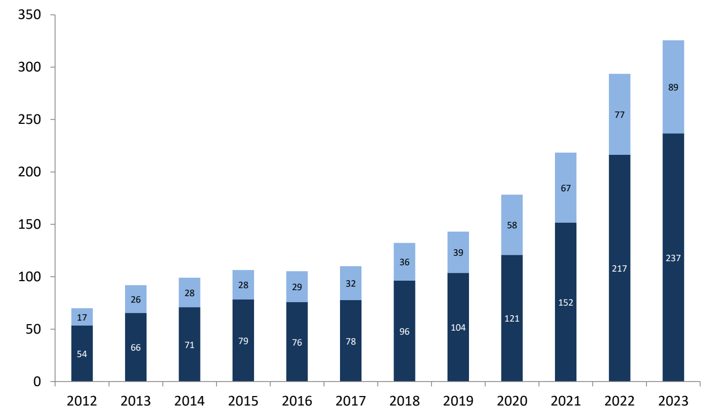
Exhibit 112: Aggregate Fundraising for Core and Coreplus Strategy in USD(bn)



Source: Arqaam Capital Research, Company Data, Preqin

Exhibit 113: AUM for Real Estate in Core and Core Plus strategy, Majority of the investment



Source: Arqaam Capital Research, Company Data, Preqin

US real estate deal volumes declined by 50.2% y/y vs. global deal volumes declining by 46.7%. Uncertain valuations due to higher interest rates (higher for longer) and a challenging year of fundraising declining by 37% y/y for North America and 34% y/y globally for the Real Estate asset class has weighed on realisations and lowered the valuations for investment properties due to significant outflows as investors prioritise capital appreciation over rental yields.

Significant outflows of USD 13bn FY23 from the Core (USD 9bn) and Core plus (USD 4bn) RE strategies shift investor focus from stable income to capital appreciation. In the US, according to the National Council of Real Estate Investment Fiduciaries Fund Index, which records the investment returns of the most significant private real estate funds pursuing low-risk investment strategies utilising low leverage and generally represented by equity ownership positions in stable US properties diversified across regions and property types recorded a USD 13 billion in net outflow FY23, USD 9 billion in **Core** outflows and USD 4bn from **Core-Plus** reversing significant levels of historical inflows.

Exhibit 114: Fundraising FY22-23 in USD millions

	Private Markets	PE	RE	Private Debt	Infra & Nat
North America	681	424	84	117	55
Europe	243	159	23	41	20
Asia	79	54	15	9	2
Rest of World	43	12	4	23	5
Global	**1046**	**649**	**125**	**190**	**82**

Source: Arqaam Capital Research, Company Data,

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Exhibit 115: Top 20 Institutional Investor's AUM Allocation to Private Markets

Institutions			AUM (In USD bn)	PE Allocation
European Investment Bank	Bank	Luxembourg	578	290
CPP Investment Board	Public Pension Fund	Canada	577	137
Mubadala Investment Company	SWFs	UAE	276	99
Abu Dhabi Investment Authority	SWFs	UAE	993	99
Azimut Alternative Capital Partners	PE FOFs	US	92	92
La Banque Postale	Bank	France	792	79
Neuberger Berman	Asset Manager	US	427	79
Pathway Capital Management	PE FOFs	US	91	78
Fort Washington Investment Advisors	PE FOFs	US	69	69
American Beacon Advisors	PE FOFs	US	58	69
California Public Employees' Retirement System	Public Pension Fund	US	486	66
Bpifrance	Investment Bank	France	56	55
California State Teachers' Retirement	Public Pension Fund	US	331	51
Hong Kong Monetary Authority	Sovereign Wealth Fund	Hong Kong	516	50
APG - All Pensions Group	Asset Manager	Netherlands	587	49
Washington State Investment Board	Public Pension Fund	US	162	47
ABP	Public Pension Fund	Netherlands	525	46
CDP Capital – Hedge Fund	Asset Manager	Canada	329	44
CDPQ	Public Pension Fund	Canada	329	44
Ontario Teachers' Pension Plan	Public Pension Fund	Canada	296	44

Source: Arqaam Capital Research, Company Data

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ESG is an integral part of the decision-making process

Investcorp Group is committed to ESG principles, which are integrated into its strategic objectives and have been reported annually since 2019. Investcorp Group's overall approach to responsible investing focuses on identifying and managing ESG issues that it believes have the potential to create, protect, or erode value. Investcorp Group leverages international standards such as the Sustainability Accounting Standards Board ("**SASB**") to identify significant ESG topics for its business operations and investments.

The Investcorp Group Board of Directors provides overall oversight and helps shape the Group's ESG strategy. Investcorp Group has an ESG Committee comprising the Executive Chairman, co-CEOs, Chief Operating Officer, and Heads of ESG and Diversity, Equality, and Inclusion. This Committee oversees all ESG matters across the Group and reports to Investcorp Holdings' Executive Committee and, ultimately, to the Board of Directors.

Investcorp Group has established and published a Group-wide Responsible Investment Policy, articulating its approach to integrating ESG considerations across deal processes and investment decisions. The guidelines are informed by principles set out in the United Nations-supported Principles for Responsible Investment ("**UNPRI**"), the American Investment Council Guidelines for Responsible Investing, the International Finance Corporation's Performance Standards on Environmental and Social Sustainability, and the International Labor Organization's Fundamental Conventions.

Investcorp Group's investment teams consider ESG factors across all stages of the investment process, with specific procedures and guidelines to navigate the evolving nature of ESG issues. Given the differences in the business models of the group's business strategies, Investcorp Group adopts a bespoke approach to the integration of ESG factors within each of its business segments. For instance, Investcorp Group would generally expect to be able to undertake more due diligence and influence future changes in relation to identified ESG matters for control investments compared with when Investcorp Group plans to acquire a minority equity position or where it acts as a minority lender.

While Investcorp Group's focus areas and ability to influence decision-making will vary on a case-by-case basis, its general approach is primarily focused both on managing risk and seeking opportunities for value creation through the effective management of ESG issues. Investcorp Capital's shareholder, Investcorp S.A., is a signatory to several industry initiatives including the UNPRI, the Sustainability Accounting Standards Board, the Abu Dhabi Sustainable Finance Declaration, the Initiative Climat International ("iCI"), and the ESG Data Convergence Initiative.

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Other risks: mainly coming from deal sourcing and exit opportunities

Deal Sourcing risks: If the appropriate deals are not sourced or the appropriate level of due diligence is not conducted, the final selection and acquisition of the asset are critical. Any negligence in the investment process, from sourcing to syndicating, can increase the risk of holding the asset for longer on the balance sheet.

Dependency on Investcorp Group

Investcorp's capital depends on sourcing the deal from the Investcorp holding and selling it to clients. This increases the idiosyncratic risks of Investcorp Capital due to its dependency on the Investcorp Group. Relationship with the parent regarding CFS agreement where it charges 8.25% on the amount of deal syndicated and 1.25% for any additional capital reserved for the deal.

Competitive Pressures: Private Equity and Global Credit are highly competitive markets, and subsequently, Investcorp has focused on global expansion rather than regional expansion. Many players compete for deals in worldwide equity and private credit markets. Therefore, maintaining a competitive edge in the market is a risk.

Lack of appetite for new investment from Investcorp Group's clients, affecting the group's ability to syndicate: We also expect the ability of Investcorp Group to syndicate investment opportunities to its clients to be subject to a degree of market-driven cyclicality. In an environment with a lower deal activity deal environment, a slower price realisation could reduce the demand and appetite for future re-ups (new fund commitments from existing LPs in an existing fund lineage), given that LPs may be considered.

Risks for Capital Deployment:

Income from the capital deployment segment has two avenues:

i) Dividend income from corporate investments, cash yield on Real Estate, and interest income from Global Credit.

ii) Dispositions of investment assets and gain/loss of investment assets through P&L.

Interest Rate risks: When interest rates are lower, the income generated from global credit businesses will be lower due to lower interest rates. However, with a low-interest rate environment, opportunities to invest in global credit are going to be higher, like when interest uncertainty is going to be higher.

Real Estate Investment Risk: Real estate investments are primarily focused in North America, with an 81% exposure. Lower cap rates will benefit real estate investment assets. However, higher interest rates and higher defaults on mortgage payments can have an adverse effect on real estate valuations.

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Agreement Risks: Because of its agreement with Investcorp Holding, ICAP can achieve lower costs and better financing terms than the industry. However, disputes with the parent will result in higher costs, and contract renewables can incur higher fees. Even though ICAP is carved out of Investcorp Holding, it has its own legal identity.

Concentrated Clientele: Investcorp Group has about 4000 GCC clients, concentrating its relationships regionally. Any regional instability, such as wars, can impact clientele. In addition, OPEC's reduced dominance in controlling oil prices indicates that lower oil prices can impact regional wealth deployment. Therefore, this will have a direct impact on their CFS business. However, the CD business is insulated from the regional risks and is concentrated in Europe and North America

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Master agreements mitigating governance risks

Exhibit 116: Details of the Masters Services Agreement

Master Services Agreement	
Guideline	The MSA sets out certain arrangements between ICAP and Investcorp Group pursuant to which Investcorp Group will provide services or procure the provision of such services to ICAP by its affiliates, on a non-exclusive basis, in relation to Administration; Finance and Accounting; Risk Management; Payroll Management; Human Resources; IT; Governance; and Legal and Audit.
Counterparty	ICAP and its designated affiliates
Term:	1) The MSA is expected to come into force upon the listing of ICAP and to continue for an initial 36-month period. 2) after that, the MSA will continue for consecutive 12-month periods unless and until all the services to be provided under the MSA have either expired or have been terminated, or the MSA has been terminated in accordance with its terms. 3) Following the expiry of the initial term, either party may terminate on three months' notice.
Fees:	1) The annual charges for the Day 1 Services shall equal 40bps of IVC Capital's NAV, determined at a review date each year. 2) The MSA will include a mechanism to calculate the annual fees using an estimated NAV, with periodic adjustments, to enable monthly or other agreed periodic invoicing and payment. 3) Investcorp Group may, in addition, pass on any significant increases in third party service provider costs charged to Investcorp Group. Annual charges for other services shall be agreed at the time that the parties agree to add them to the MSA.

Source: Arqaam Capital Research, Company Data

Exhibit 117: Details of the Long-Term Referral Agreement

Long-Term Investment Referral Agreement(LTRA)	
Guideline	Under the Long Term Investments Referral Agreement: 1) IVCH shall source and arrange investment opportunities for IVCC provided such investments meet defined investment parameters under the agreement. 2) IVCC shall have a right to invest in any such investment opportunities and subject to its own internal decision-making, may participate in the investment in consideration for the receipt of the Investment Proceeds. 3) Any assets held by Investcorp Capital under the CFSCA shall also be included in the investments under this agreement. 4) IVCH shall manage the investments under the Long Term Investment Referral Agreement during the Term.
Term	The Long-Term Investments Referral Agreement shall have an initial term of 15 years. After the initial term, the agreement is subject to automatic renewals of rolling five-year terms. If the CFSCA terminates or expires, the Long-Term Investments Referral Agreement will also expire.
Rebate	Upon divestment of an investment made in accordance with the terms of this agreement, Investcorp Group shall be entitled to certain performance fees if certain criteria are met, which shall be set out on an investment-by-investment basis. Following receipt of the Investment Proceeds and such performance fees, Investcorp Group shall rebate 10% of such performance fees to ICAP, on a pro-rata basis, to Investcorp Group's total investment within 90 days of receipt of such funds.
Defined Terms	Investment Proceeds: refers to, concerning any investment, the cash and non-cash proceeds received by IVCC in connection with such investment upon exit, less any expenses incurred in connection with such receipt.

Source: Arqaam Capital Research, Company Data

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Exhibit 118: Investcorp Board

Name		Details
Mohammed Alardhi	Chairman	Mohammed Bin Mahfoodh Alardhi is the Executive Chairman of Investcorp, leading Investcorp's activities across its global office network. Prior to his appointment as Executive Chairman of IVCH in 2015, Mr Alardhi was a Board Director on IVCH's Board since 2008. In addition to his role at IVCH, Mr Alardhi is the Chairman of Muscat Stock Exchange and Sohar International Bank. Mr Alardhi holds a Bachelor of Science degree in Military Science from the Royal Air Force UK Staff College in Bracknell, UK and a Master in Public Administration from Harvard University.
Hazem Ben-Gacem	Co-CEO	Hazem Ben-Gacem is Investcorp's Co-CEO with nearly 30 years of experience in successfully leading private equity investments across North America, Europe, the Middle East and Asia. Prior to his current role, Mr Ben-Gacem led Investcorp 's European and global technology private equity teams based out of London. Mr Ben-Gacem holds a bachelor's degree with honors from Harvard University.
Rishi Kapoor	Co-CEO	Rishi Kapoor is Investocorp's Co-CEO. He oversees Investcorps' private equity businesses in North America and India, as well as the real estate, credit management, absolute returns, strategic capital, and insurance solutions businesses globally. Prior to his appointment as Co-CEO, Mr Kapoor held several senior management positions within Investcorp including as CFO between 2003 and 2015. He joined Investcorp from Citigroup in 1992. Mr Kapoor holds a Bachelor's degree in Electrical and Computer Engineering from the Indian Institute of Technology (IIT), and an MBA from Duke University's Fuqua School of Business.
Jan Erik Back	Board Member	Jan Erik Back has more than 30 years of industry experience, the majority of which was in senior finance roles of financial services firms including SEB, Skandia and Handelsbanken. He most recently served as Executive Vice President and Chief Financial Officer of SEB. Mr Back holds a Bachelor degree from Uppsala University
Yusuf Al Yusef	Board Member	Yusef Al Yusef is the Head of IVCH Private Wealth platform in the Gulf. He joined IVCH in October 2005 from Arcapita Bank. Before Arcapita, Mr Al Yusef worked for Ahli United Bank and National Bank of Bahrain. Mr Al Yusef holds a BSc in Accounting from the University of Bahrain.
Dr Nawal Al-Hosany	Board Member	Dr Nawal Al-Hosany is the permanent representative of the UAE to the International Renewable Energy Agency (IRENA). She also holds the position of Deputy Director General of the Emirates Diplomatic Academy (EDA), since October 2017. She graduated from the Faculty of Engineering at the UAE University in 1992 and obtained her PhD from Newcastle University in the UK in 2002.
Peter McKellar	Independent Board Member	Peter McKellar has been the non-executive director of 3i since June 2021. Mr McKellar was formerly Global Head of Private Markets at Standard Life Aberdeen plc and previously led Standard Life Investments' private equity and infrastructure business and was their Chief Investment Officer. Prior to that, he held a variety of finance posts in industry and corporate.
Mohammed AlShroogi	Independent Board Member	Mohammed AlShroogi joined IVCH in 2009 and retired as Co-CEO in 2018. Previously Mr AlShroogi had a 30-year career with Citigroup in Bahrain, London and the UAE. Mr AlShroogi holds a BA in Commerce from Kuwait University and attended the Executive program at Harvard Business School.
Abbas Rizvi	Chief Financial Officer	Abbas Rizvi joined IVCH in 2004. Prior to that, Mr Rizvi worked in Ernst & Young Bahrain as an associate in the business risk services unit for a year. Previously, he spent more than five years at Ernst & Young Pakistan in audit and advisory services divisions. Mr Rizvi is a Fellow member of the Institute of Chartered Accountants of Pakistan.

Source: Arqaam Capital Research, Company Data

Exhibit 119: C-management

Name		Details
Timothy Mattar	Chief Executive Officer	Timothy Mattar joined IVCH in 1995. Mr Mattar previously worked for Arthur Andersen in Bahrain providing auditing and consulting services. He holds a BA (Hons) in History from London University and is a member of the Institute of Chartered Accountants in England and Wales.
Jonathan Dracos	Chief Investment Officer	Jonathan Dracos joined IVCH in 1995, before which he was on the Executive Committee of the George Soros Quantum Realty Fund. He also previously served as a Senior Vice President for Jones Lang Wootton Realty Advisors. He holds a BA in Economics from Duke University, North Carolina and an MBA from The Wharton School of the University of Pennsylvania.
Rohit Nanda	CFO	Rohit was the Head of Operations and Head of Investment Structuring and Business Support in Asia at Investcorp, where he led end-to-end financial business support for the organization and owned processes across the investment cycle. Rohit has a CFA and a CA

Source: Arqaam Capital Research, Company Data

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