Full Year Results Presentation

Presentation Transcript

25 May 2023

Christopher Hunt

Good morning, everyone, and welcome to ICG'S results for the 12 months ending 31st of March 2023. I am joined by our CEO and COO, Benoît Durteste, and our CFO, Vijay Bharadia, along with our CFO Designate, David Bicarregui. The slides for today's presentation along with the accompanying results' announcement are available on our website. For those of you joining online, you can submit questions through the webcast messaging function or by telephone. Details are on the portal. And as a reminder, all information discussed today is based on alternative performance measures, which exclude the consolidation of some of our fund structures required under IFRS. At this point, I'll pass over to Benoît.

Benoît Durteste

Thanks, Chris. Good morning everyone. Thank you for joining us today. You may remember this time last year I said that we were entering full year 23 in a position of strength and we were confident on the outlook. I'm pleased to report today that this confidence was justified and that we are delivering financially and strategically. Ours is a long-term business model and over the last five years we have grown AUM, fee income, and fund management company profits at very significant annualized rates. The results we are reporting for full year 23 continue that trajectory. Fundraising remains on track to achieve our accelerated target. We have had our second-highest levels on record of deployment and realizations. Our management fees, the main driver of shareholder value have increased by 23% year-on-year and we are reporting record levels of fee earning AUM and FMC profitability.

Importantly, we are increasingly well positioned to deliver further future growth. We already have significant embedded growth in our existing strategies and I believe it possible that as markets reopen, we could see a rapid increase in activity levels amongst the larger, more established managers such as ICG. Turning to our performance over the last 12 months, we will cover each of these areas in more detail later, but the key takeaway is that we have grown at impressive rates, our levels of investment activity remain strong by historical standards, and we have made further progress in executing our strategy around sustainability and people.

Indeed, on this last point, we were pleased to receive a number of external plaudits during the year, including a first globally in DNI from Honor Decks, and for the first time becoming included in the Dow Jones Sustainability Index for Europe. This is reflected in our financial performance. I have mentioned management fees of 23%. This has led to third party fee income surpassing half a billion Pounds. We have enjoyed high growth, high margin, and a balance sheet that has demonstrated robust performance.

The scale and breadth of ICG today is evidenced by the amount we had going on during the year. The three final closes we held were all for flagship funds and all at or above their original hard caps. Those three funds alone account for over $13 billion of third party AUM and all charged fees on committed capital resulting in a material step up in profitability. The benefits of our historical investments are increasingly visible with three second vintages in the market. As these strategies grow up and start generating compounding fee streams with second vintages and beyond. That bodes well for future profit growth. And we continue to invest for the future in new strategies and new teams, as well as in our client and operating platform.

From a fundraising perspective, we're pleased to report that we raised $10.2 billion during the financial year and are well on track to achieve our accelerated fundraising target. This is a very strong achievement. Indeed, even stronger than it may appear at first glance. Full year 23, you may remember it was always going to be a low year in our fundraising cycle after the peak of last year, and this happens to coincide with what is probably the most challenging fundraising environment since the GFC.

To have achieved over $10 billion, which we've guided to as our average annual target for this fundraising cycle, is indeed a great achievement. And there are, I think, two main reasons for this.

First, diversification at scale. There were four different strategies that each raised over $1 billion this year and despite it being an off cycle year. And second, we have a marketing and operating platform that is set up to raise for multiple strategies concurrently, and this is very demanding and requires a radically different organization and model to those players that raise strategy sequentially. Supporting this fundraising performance, our client base has continued to grow by some 10%, and today we boast a very diversified range of nearly 650 clients.

Even in this environment, we are continuing to attract new clients, and not only to new strategies but to well-established strategies as well. As an example, some 30% of Europe third party AUM is coming from clients that are entirely new to ICG, and that's for a strategy that is several decades old. As you heard during our client and fundraising strategy seminar back in January, we have historically focused on driving client numbers.

In the years ahead, there's also a significant opportunity for us to increase the AUM per client, the share of wallet, if you will, by getting larger commitments and by cross-selling.

To that end, we are constantly assessing and enhancing our marketings and client relations platform, and in recent months have been making selected hire to focus on specific products and specific client types. Insurance is an example which represents about 20% of our AUM or wealth where we have already had several successes. For wealth specifically, it is admittedly early days for our industry and with some challenges, no doubt, but I believe this could become a significant source of capital in the future and we want to ensure we are well positioned and established while keeping our options open on the roots to market.

Turning to our investment activity. Despite a globally slower M&A environment, we are continuing to deploy and realize capital at pace and scale, reporting, as I've said earlier, our second-highest levels of activity on record, second only to last year's exceptionally high levels of activity. Our main products and recognized areas of expertise happened to be very well suited to the current environment. The CIO of one of the largest pension funds in the world was reported as saying recently that, "Private debt is the new private equity." And it is true that it's a great time to be a debt provider. Private debt driven by senior direct lending is enjoying strong deployment largely because other sources of debt financing are basically shut. And with high interest rates, high margins and fees, low default rates, reasonable leverage and overall favorable legal documentations, what's not to like?

Within our structured and private equity strategies, our flexibility to invest across the capital structure is enabling us to pivot to structure debt solutions and sidestep the difficulties of equity valuations, and that is proving to be a major competitive advantage, and it really resonates with LPs as they look to diversify away from plain vanilla private equity, but still require high returns.

From a realization perspective, we have continued to find opportunities to crystallize gains and further anchor portfolio returns. This is important, as it enhances our already strong DPI numbers and is highly valued by LPs temporarily starved of capital inflows. Our realized portfolio weighted average return for the year was just under 19%, and although this number is the result of a mix between strategies, such a high average level clearly points to very strong exits during the year. Our realization numbers do not only represent high volume but high performance as well. The net effect of this fundraising, deployment, and realization activity is that our total AUM is now $80 billion and our fee earning AUM stands at $62.8 billion, up 10% during the year on a constant currency basis and 20% on an annualized basis over the last five years.

Growth in fee earning AUM came in part from fundraising, $4.2 billion from strategies that charge fees on committed capital, but the largest contributor was from deployment and strategies that charge fees on invested capital, in particular the strong deployment we saw in direct lending.

I would like to highlight here that debt strategies with fees on invested are countercyclical in nature. They generate greater profit in a downturn and that's because in times of credit scarcity, there is hardly any repayment activity for debt strategies, and any new investment translates into higher fees and directly profits. This mix of strategies we've built, some with fees uncommitted, some with fees uninvested, is one of the reasons why our business model does well even at a low point in the economic cycle.

Turning to the performance of our portfolio companies, which are continuing to do well, very well, actually, seeing double-digit growth in LTM EBIDA in many strategies and with modest levels of leverage. The relatively low levels of leverage also result in high interest coverage. Across our European corporate portfolios, for example, the median interest coverage is four times. This combination of our realization profile and the strong operating performance of our portfolio companies brings us to the performance of our key strategies and funds. Unsurprisingly, given what I've just described on portfolio company performance and also given our focus on downside protection and the significant contractual component of return in most of our deals, our funds are showing strong performance, with the majority enjoying continued NAF growth.

That said, and as I've underlined in the past, short term movements of fund valuation is not a particular focus for our clients. We show here two more meaningful metrics for them. First is realize performance of a fund at exit, which is why DPI is so important. And to give you an idea, Europe seven has already returned almost half the capital with just three deals having fully exited, and we have 12 years to realize this fund. Not only is this fund off to a very strong start, but we have a lot of time to ride out any cycle. And if we look at the predecessor fund, Europe six, it has a 171% DPI, so it's already a very successful realized vintage with a further 1 billion Euro of unrealized value. That's what LPs are looking at.

Second, another way to look at our investment performance is a life-to-date IR for the strategy as a whole in which we show here as a weighted average gross IR of vintages in the strategy weighted by cost. And that comes out as 18% for European corporate and 10% on an unlevered basis for direct lending. These are very

attractive long-term results for clients who have invested consistently, vintage after vintage in these strategies. ICG hazard reputation of very strong investment culture and performance, and these numbers should serve to reinforce this.

The headline on today's announcement is that we are delivering through cycles and our results today clearly support that. Strategically, as you know, we have been focused on growing up and growing out. The resulting diversification and increased scale are clear in our performance for full year 23, I think. It's a case of right time, right strategies for us. The current market environment favors strategies in which we have a leading position. Any debt strategy, senior or subordinated, as well as more optimistic structured solution. Looking forward, there's still significant runway for us. As our more recent strategies scale and launch subsequent vintages, they are becoming increasingly meaningful to our group results. And as I will elaborate on at the end of this presentation, I'm convinced that managers like ICG, that have the scale and breadth of products, and importantly, track record, are likely to experience a period of markedly accelerated growth as the market recovers. And on this note, I'll pass on to Vijay to discuss our financial performance in greater detail.

Vijay Bharadia

Thank you, Benoît, and thank you all for your time today. First, a brief snapshot of our key financial results. We've generated record levels of fee earning AUM, fee income, and fund management company profits. These results underlying the strength of our business, the resilient nature of our fee centric fund management business, with long-term visibility that drives impressive growth through uncertain times, and supported by a strong and resilient balance sheet. These results are also enabling us to deliver our 13th consecutive year of our annual growth in our ordinary dividend per share. We are maintaining our progressive dividend policy, and over the last five years, have delivered an annualized growth of 21% in dividend per share. I will now go through each of our key financial results in detail.

I mentioned the long-term visibility of our business. And to expand on that point, as you can see here, our management fees are generally charged on committed or invested cost, and as such, are largely immune to market volatility and fund navs. To illustrate this, at the year-end, we had $62.8 billion of fee earning AUM. And if all of our business activity stopped, meaning we didn't do any fundraising, we didn't deploy any capital, or we didn't realize any dollar, that AUM alone would generate £460 million in management fees. Furthermore, because we have $14.7 billion of AUM that charges fees on invested capital, we will start earning a further £116 million of management fees when we deploy that capital. All things being equal, our fee model today gives us visibility on nearly £600 million in annualized management fees.

That dynamic of long-term fee visibility and its resilience is very powerful as it enables us to operate through cycles, make long-term investments in our people and our operating platform, and deliver shareholder value. Turning to our fee income, over 95% of our fee income, as you can see on here, is management fees, which grew 23% year-on-year, and total fee income as a whole grew 12% in the year. As Benoît mentioned, both strong fundraising of strategies that charge fees and committed capital and good net deployment of funds that charge fees on invested capital, particularly our flagship strategy, direct lending strategy contributed to the growth of our fee income.

Taking a longer term perspective, our fee income has grown at an annualized rate of 25% for the last five years and are now generating over half a billion pounds in LTM third party fee income. Moving on to our operating margin, this grew roughly 170 basis points year-on-year to 57.5%. This growth was in part due to £31 million of catchup fees, which we do not expect to recur in FY24, as well as a strong focus on cost control, with total operating expenses being flat year-on-year.

Within operating expenses, employee costs were up 8.6% while administrative expenses were down in absolute terms due to lower professional and consulting costs and lower recruitment costs. During FY24, we anticipate a modest acceleration in hiring, including into our marketing and client relations capabilities. We also expect to make investments in our opening platform, especially in smart sourcing processes by leveraging low-cost jurisdictions such as India. And finally, seed strategies. During FY23, we recognized in the investment company about £24 million of expenses relating to seed strategies. Once seed strategies have their first close, cost associated with such strategies are recognized in the fund management company and we would expect to see some of that during FY24 as we launch new strategies.

In respect of our opening margin in FY24 as an outlook, while it may soften from FY23's very strong outcome, we continue to reiterate that we expect it to be above 50%. Turning now to FMC profits. These grew by 9% during the year or 14% on a constant currency basis, excluding the impact of FX hedge derivatives. The growth in income along with flat expenses materially increased our fund management company profit before tax,

which is partially offset by a £27 million reduction in the fair market value of FX derivative hedges. Towards the end of the year, we decided to stop hedging non-sterling net fee income on the basis that commercially, we do not need to do so. Therefore, going forward, the impact of FX movements on the FMC will be more transparent and we'll be disclosing the FMC results on a constant currency basis.

Taking a longer term view, the growth of our FMC profits is closely linked to the growth of our fee-earning AUM, and over the last five years, have grown our FMC profits at an annualized rate of 27%, which is quite remarkable. Now turning to our balance sheet, this remains robust, well-capitalized, and valuable. We have total liquidity of £1.1 billion, including an undrawn revolver of £550 million. At the year-end, our net gearing was 0.5x. During the year, we repaid two debt facilities totaling £194 million from our cash resources. Our drawn debt is all at fixed rates with an average rated cost of 3% and a weighted average maturity of just over four years. We were upgraded by S&P to BBB during the year, and as a result, are now rated BBB with a stable outlook by both S&P and Fitch.

Our NAV per share was 694p of 5% from September 22 and broadly flat year-on-year. In short, the balance sheet performed in line with our expectations during a period of macroeconomic uncertainty. The largest component of value in our balance sheet is our investment portfolio and I will now turn to how that performed during the year. Our balance sheet invests alongside our clients and seeds new strategies. During the year, we invested £660 million of which 214 million was in respect of seeding new strategies. Realizations totaled £794 million. This activity in total resulted in net realizations through the balance sheet of £128 million. There was also a valuation gain of £100 million, which I will discuss in the next slide, and an FX tailwind of £108 million. As a result of our balance sheet, investment portfolio modestly increased by 3% during the year and closed at £2.9 billion at the year-end.

Aligning interests with clients is expected in our industry and to our long-term success. In aggregate, our balance sheet investment portfolio now represents only 4% of total AUM of $80 billion. This scale of proprietary capital is a huge strategic and competitive advantage for us as it allows us to seed and launch new strategies. We are seeing the benefits of that economically today with, for example, our infrastructure fund. We launched that strategy in 2018 and seeded the first strategy in 2019, and successfully closed the first fund at €1.5 billion in FY22. This is the economic outcome of our growing out strategy that we have discussed previously. We also remain focused on allocating capital appropriately. During the year, we reduced in absolute terms the firm's commitments to Europe Fund VIII, Europe Mid-Market Fund II, and Strategic Equity V, and also sold down positions in two of our credit funds, which generated approximately a hundred million pounds of cash.

These steps we are taking today will take a number of years to have a visible impact on the absolute size of the balance sheet, but the longer term direction of travel is very clear. Our balance sheet is therefore generating attractive standalone returns and more importantly, is efficiently supporting the future growth of our business. Turning next to our net investment returns. This has averaged 11% over the last five years and generated a positive return of 4% during the year. Of the 102 million net investment returns, 113 million was from investments that are charging interest, and there was a small loss of £13 million from valuation movements. This interest-bearing component is very important. Given the range of our strategies and our ability to invest across the capital structure, our NIR is not purely based on valuation changes. There is also a meaningful underlying income component derived from the structured and debt-like nature of many of our investments.

Structured and private equity, which accounts for roughly 60% of the balance sheet portfolio, private debt, and real assets all generated positive returns. Whilst the negative NIR in credit was in part due to the £40 million of amortization of CLO dividends, which is included in the 13 million valuation loss that I referred earlier, as well as an increase in the assumed default rates for our CLOs that we implemented in the first half of the financial year. For real assets, you will remember that the focus of this asset class is shifting dramatically away from lower return real estate debt strategies and towards higher return strategies such as infrastructure, selling leaseback, and in the coming years, real estate opportunistic equity. As these strategies grow and become bigger, they become major proportion of real assets and we would expect the NIR therefore to reflect the higher returns those strategies are expecting to generate.

So in summary, a very resilient performance of the balance sheet portfolio, which should be no surprise given our approach to structuring investments, our focus on downside protection from a risk management perspective, and the income component of our NIR. Our confidence in the business model and our prospects is underlined by the fact that our guidance remains unchanged from what we set out at our FY22 results. Notably, the fundraising is on track with $33 billion of the accelerated 40 billion target raised in the last 24 months. Through a testing period, our portfolios are performing in line with expectations supporting our medium term guidance on NIR. And finally on a personal note, I'd like to thank you all for your challenge and

support over the last four years. I've thoroughly enjoyed our discussions and look forward to seeing many of you in the coming couple of weeks before I leave in July. And with that, I'll pass back on to Benoît. Thank you.

Benoît Durteste

Thank you, Vijay. Looking ahead, I expect the market environment to remain challenging for some time. In that context, we are fortunate in that the investment landscape and client appetite has shifted towards our areas of strengths, namely debt products and structural transactions. It's the private debt is the new private equity comment. Looking further ahead, I believe the structural drivers supporting the industry remain very much intact and could even lead to accelerate growth coming out of this downturn. The investments we have made in recent years are having a material impact on our business now and the visibility of those benefits is likely to increase in the coming years. We have ample runway for many years of profitable growth from our current waterfront of products alone. Let me expand on this. The growth we've achieved in recent years has been very strong, and the benefits of our increasing scale and breadth are visible in our results today, but the benefits coming through today are only part of the story.

The real work we've been doing is laying the ground for further growth to come from a broader range of strategies as they scale. The compounding nature of fee streams as we raise subsequent vintages alongside more diversified fee income profile is likely to create substantial value in the years ahead. All the ingredients are here. We now have the investment teams, the balance sheet, the marketing and operating platform, and importantly, the brand. We are, I believe, on a clear trajectory towards lower capital intensity, a more FRE-centric profit stream and higher margins and cash generations over the long term. I also believe that there will be substantial rewards for the winners emerging from this more challenging period, and that is because there's a very possible scenario in which when the market turns, there is a sudden wave of M&A activity of deal flow, which would trigger a wave of realizations across the industry.

In turn, this means significant capital being returned to LPs who will find themselves with significant liquidity. And in that scenario, it's highly likely that public markets would be rebounding and many LPs would experience a reverse denominator effect and end up being severely under allocated to alternatives. So we could very well experience a rush by LPs to redeploy into alternative, and obviously, with a focus on those managers that will have done well through the cycle. To be amongst that relatively small group, private markets managers will need to have a broad product offering, a differentiated origination capability, a track record through cycles of course, and a sophisticated client strategy and operating platform, and ICG possesses all of those qualities. Today, we are larger, broader, more financially resilient, and the FMC more profitable than at any point in our history.

We benefit from significant and better growth from our existing product suite and could enjoy an accelerated growth phase on the other side of the current economic period. This concludes our results presentation for today. They'd want to point out, as Vijay said, this is Vijay's last full year presentation and so I would like to take this opportunity to thank Vijay personally and on behalf of the board and the whole of ICG for his commitment and dedication over the past four years. It's been a period of incredible growth. Fund management company profit has more than doubled. The net gearing has practically halved. We've launched many funds including a number of first-time funds. We've issued two bonds, both with impeccable timing, I might add, and all of this would not have been possible without the tremendous effort and progress made specifically in finance and operations. So Vijay, thank you very much.

I'm also delighted that we have appointed David Bicarregui to succeed Vijay as CFO. Many of you will meet David in the coming weeks and months, but before we open up to Q&A, I'd like to invite David to maybe say a few words.

David Bicarregui

Thanks very much, Benoît. Let me add my thanks to Vijay as well. We're in the middle of a transition period and it's going incredibly smoothly, thanks to Vijay's dedication. It's great to see many familiar faces in the room today. I'll look forward to meeting more of you in due course. I have been here eight weeks. It's been invigorating, exciting, a little bit intense, which is what you'd expect, but I've been really impressed by the energy, the enthusiasm, and the entrepreneurial spirit of everybody at ICG. My summary is we're large enough to be relevant to our clients on multiple levels across multiple strategies, but we're also nimble enough to take advantage of market opportunities, extremely well-placed, as you heard earlier, to benefit from long-term structural growth in our industry.

We've experienced a lot of that growth obviously in the last few years, but there's a lot more to come. So my focus is going to be on helping the company and clients reach their full potential. We're going to grow and scale the platforms that we have. I'm really looking forward to doing that here at ICG. As you heard earlier, we've got a clear strategy and we're going to execute on it. So over the next few weeks, I look forward to meeting more of you. And with that, maybe Chris, we can turn some questions.

Christopher Hunt

Perfect. Thank you all very much for your time today. As a reminder to those online, you can submit written questions through the portal, but we will start with any questions in the room. David.

David McCann

Good morning. David McCann from Numis. I actually just wanted to touch on something you were talking about at the end there, Benoît, but also, it won't have escaped your attention that a number of your peers in the industry have been consolidated or have been talking about consolidating recently, two main reasons being for diversification and for scale. I would argue you've got the diversification box ticked, but yeah, scale, a bit more questionable. You did obviously make some references at the end. I guess that scale is becoming important as the asset owners, people who buy this kind of funds are looking to do of a smaller list. You've alluded to it and then your comment. I guess that your current 80 billion scale, is that enough to really compete at that level? And if not, do you need to do something organically, sorry, inorganically, to enhance what you're doing organically?

Benoît Durteste

Yes. Well, is it enough? You always want to get bigger and we will get bigger, but we've turned that corner. I think I mentioned that a couple of years ago. We really felt it in our discussions with clients when we started getting to a scale where we were really becoming meaningful. In order to do that, really, you have to be able to absorb at least a billion dollars from these investors per cycle, whether it's on a single strategy or across several strategies. To me, that's the minimum level where you start to really be, you're on their radar. We've crossed that threshold a couple of years ago, so we're there. Having said that, being bigger is always helpful, but it's a trade off. These are people businesses and so making acquisitions can be a good idea, but it can also be quite risky. We've been very successful at growing organically and it's obviously less risky, also incredibly profitable.

So yes, it takes an enormous amount of effort, but if you look at, just to pick one, look what we've done in infrastructure. Yes, we could have gone out and tried to buy an infrastructure player probably at a massive valuation. We've built it organically. We're now raising our second fund. We're on track to basically create our own infrastructure fund internally. I quite like that model. I'm not excluding it by the way. We're not excluding. We're optimistic looking at things, but we have to be mindful that there are cultural issues. We have to be mindful about valuations as well, particularly at this point of the cycle.

So yes, you're right, this industry, which is not a surprise by the way. That's why we've been growing all this time and expanding the platform. Any industry that matures, at some point, goes through a consolidation phase.

I think we have the size. We're one of the biggest players in Europe. We're going to keep on growing. We'll keep our options open, but we're not in a position today. To answer your question a bit differently, do we have to do something? No. Now, if we find something that makes sense for us and may help accelerate in one area or another, maybe we'll look at it.

David McCann

Thank you.

Christopher Hunt

Nick, I think you had a question.

Nick

Yes. Actually, I have loads of questions, but I'll stick with three for now. First of all, Vijay, just the best wishes on your next move.

Vijay Bharadia

Thank you.

Nick

Thank you for the help in the recent years. In terms of my questions, the first one's on fundraising. Can we just dig into the outlook and pace of fundraising for this year? I think you referenced some first close or some first time funds, so interesting to dig into that. Presumably you do have confidence there. I guess also from a flash flagship strategy perspective, I guess strategic equity fiber is pretty critical now given that Fund IV is now 95% deployed. So yeah, that's the first one, please.

Benoît Durteste

Yes. On the broader-

Nick

First one please.

Benoît Durteste

So on the broader fundraising topic, we have two funds that perhaps you could qualify as flagship that are in market, SDP, which was in market last year and continues to be in the market. And I think as we've pointed out during this presentation, direct lending is clearly an area of interest from investors. And so we're reasonably confident that there is going to be continued appetite for this strategy.

The strategic equity, it's a different situation. That's very much of a niche strategy where ICG is the global leader, which has advantages and complexities. That part of the market it's the only part of the market that I know where there's such an imbalance between supply and demand. There's a huge need of capital, there's huge demand for deals, particularly in the current environment.

Just as a reminder for everyone, if you're not aware. Strategic equity does GP led continuation transaction. So that's essentially when private equity sponsors decide they like an asset particularly and want to continue owning it through a subsequent vintage. And we come in to help them through that transaction and fund a significant part of the transaction as well.

You can imagine in the current market environment where there's huge uncertainty around valuations, people who do not want to give up on assets that they quite like, there's huge appetite for these types of transaction. Not much capacity because not that many managers have raised money. As I've said, we are the largest globally.

Now because of this, the amount of deal flow is immense. Origination is not an issue. The question is choosing your fights and where are you going to best invest the capital. But as a result, we finished raising fund four last year. We're already done. It's all invested, and so we're looking for more capital to keep on investing.

So this is really a strategy where we're optimizing. We never thought we'd be back in the market so quickly. It's good news because the strategy has done incredibly well. The IRR numbers and you would hardly believe, but at the same time coming back so quickly on the back of the previous fund creates some difficulties because LPs have just given us money. So that's what we're dealing with.

Having said that, there is appetite for that strategy because in the current market, where do you invest, particularly if you're looking for higher returns. If you're looking for low double-digit, direct lending, debt strategies do that very well today. If you're looking for higher returns, that it's much more difficult to know where you're going. Niche strategies can offer that, so there's appetite for that as well. But it'll take time.

And by the way, in the current market environment, as I've said, the overall fundraising environment is more challenging. LPs have limited capacity and so as a result fundraising takes longer typically. So we're quite confident the timing is, there's more question like, but in the end I know we'll raise well. Over what period of time it's impossible to know.

Nick

And so thank you. That's helpful.

And then just second one was on fund valuations. So relative to when you last reported back in November last year, it's interesting to see that LTM portfolio company EBITDA growth has actually improved in strategic equity and in SDP. So just curious where that improvement is coming from, what you are seeing?

And as part of that as well, I mean can we just disaggregate between EBITDA growth and let's say multiples on the valuations because just quite a strong improvement in the valuations that you put through this period. I guess, is that public markets or private markets? And if it's the latter, what are you seeing that can kind of reassure investors that these are

Benoît Durteste

Maybe I'll take what we're seeing at portfolio level and you can take valuation.

Vijay Bharadia

Yes

Benoît Durteste

So yes. I mean at portfolio level, the performance of portfolio company has been remarkably strong. And that's not, by the way just an ICG phenomenon. When we look throughout the market, by and large there are always exceptions and people who do not perform as well, but by and large the performance of companies in the buyout space, which is skewed towards services, towards you don't have that much in cyclicals, but nevertheless that performance has held up very, very well. And this is reflected in numbers we're seeing. And for now, looking at the more recent numbers we've seen, looking at the budgets for this year, I'm not seeing that changing for now.

Now, that's not to say if we have a recession that finally comes in at the back end of this year, early next year, you may see some of that coming in. But what's important to understand, particularly for us where we have very significant debt exposure is that compared to previous crises, in a sense we've seen this one coming.

I've pointed to our numbers of leverage and interest cover. And the thing is with every month that passes where companies deliver higher EBITDA, more cash, you end up in a position, yeah, they're in a much stronger position. So even if you do end up with a recession later this year or sometime next year, companies certainly in our portfolio are in a much, much better position to just, to weather that period.

Maybe on valuations.

Vijay Bharadia

Yes, thank you. So for valuations, we take two-prong approaches. One is looking at portfolios and comparing that to transactions in the market. And we don't typically anchor to public market comps. We tend to look at private transactions in the industry, and separately we then also do DCF valuations as well. And the question was focused on the DCF valuation in terms of multiples.

What we are now doing in terms of DCF valuations, we are actually seeing, to Benoît's point, increased growth in performance of the portfolio companies. However, we are actually reducing the levels of multiples that we are actually applying to that portfolio by a couple of turns actually. So if you want to look at year-on-year, you'll be able to see a reduction in the level of multiples.

A couple of other points on that. For DCF valuations, we are actually having lower exit multiples compared to our entry multiples in many cases. And finally, we do have quite a lot of assets where there are other third party private equity investors in the same asset. We have visibility as to where they are actually valuing their asset compared to us. And in all cases, all cases where we have that, our valuations are actually lower than their valuations. And just since the year-end, we've actually had a close of one transaction as an example, which was actually above our valuation at year-end. So I guess just gives another sort of perspective in terms of how conservative the valuations are for our portfolio.

Nick

Very helpful, thank you. And just the last one, so I'm conscious of time. On costs. I guess there's going to be a lot of moving parts in FY24. I guess you might expect some rebounded admin costs because of higher recruiting and maybe higher placement fees. I don't know, maybe if incentive fees per head might come back a little bit. I guess what I'm trying to get at here is consensus has cost growth of 12% this year. I mean, I guess does that make sense to you, and can we just dig into the moving parts a little bit? I guess also, you've got the cost, some of the costs from the investment company coming into the FMC by the sounds of it, if there's any first time closes, so just kind of desegregating the moving parts here please.

Vijay Bharadia

Sure. Yes. So the way to think about cost is first of all during FY23, and I'd mentioned this at the half year actually in dream results that we had slowed down in our hiring in the second half and we did apply that strategy during the second half. For this financial year, the new financial year, FY24, we expect to accelerate hiring as I mentioned, and particularly in our marketing and our client relations capability.

In marketing, Benoît touched on different client types or different product capabilities from a marketing perspective in addition to different markets by the way. So we are thinking about hiring for example in places like the Nordics, we've just hired somebody, I think somebody in the US from marketing perspective. Benoît touched on insurance and the wealth channel. So that's where we're adding some talent. And we're not talking lots of people here by the way. It might be one or two people here or there. But I think the point is that actually we are now beginning to put the right foundations in place in our marketing capability as we continue to grow the business and if there is an opting in the markets as well.

At the same time we are also investing in our client relations capability where we are adding more senior level product specialism in the client relations team to be able to deal with the growth in the clients that we've

experienced. Benoît touched on it, just over 600 clients, 650 clients nearly. And that obviously is becoming quite demanding. So we are basically making that a little bit more structured in terms of how we support the client base. And we'll add some capability in our operating platform as well. So those will be the drivers for the cost base.

In respect of the new strategies, we may have maybe one, maybe two at most new strategies to launch. We'll see how the market evolves of course. We are mindful in terms of where the markets are and it's incredibly hard to raise first time strategies. But if there is an opening, we might raise one strategy, and as you highlighted, yes, the cost of that would come in only once you've had a first close. So not whilst we are raising, but only once you've had a first close.

So yes, in terms of the first part of your question, is the consensus reasonably there? We think so in terms of where is FY24 versus FY23.

Nick

Thank you very much.

Christopher Hunt

Any more questions? There on Luke.

Luke Mason

Thank you. It's Luke Mason from BNP Paribas. Best wishes Vijay.

Just first question on deployment outlook. You talked about a potential re-acceleration as we move through this period. I guess as we think about that, what conditions should we look out for to see that re-acceleration and what are you seeing in the market today in terms of deployment? You talked about strong demand for debt, et cetera.

And secondly on the fundraising outlook, the new strategies. Can you just clarify in FY24, you mentioned a couple there, what new strategies we may be looking out for to come?

And then just thirdly, interested in the conversations you're having with LPs, just around allocations to different areas, different asset classes. Just given the strong demand or high yields in fixed income, is that offsetting some other areas like real estate infrastructure for example? Just how LPs think about that when they can get higher returns from fixed income. Thank you.

Benoît Durteste

So several questions there. On the deployment piece, I think I need to separate the overall market from ICG's experience. Because of our focus on either debt strategies or strategies that are highly structured, we are in a more favorable position than if you're just doing plain vanilla P right now. So the comment I was making about the overall market is that the current environment where there is low M&A activity level and there is a low level of traditional buyouts, that's just creating pent-up demand. I mean those deals are not disappearing. You're just creating a backlog. And so I'm not sure when that is, but there's going to be a point where the market is going to bounce back with a vengeance.

So that's a general market comment and it has a number of implications for our industry and those who will end up doing incredibly well coming on the other side of the cycle.

For ICG it's a bit of a different situation, is we're fortunate because of the strategies that we're focused on and where we are recognized because these are strategies that can actually deploy today because direct lending

there's very significant demand, not because there is huge deal flow, but because there are no alternatives. Just now we have something like in, that's only Europe, about 4 billion euros worth of deals in the pipeline. We're certainly not going to do them all, but they're just there. It's people asking for financing. This is just senior direct lending.

And if you think about what's happening in the overall market with the increase in rates, there are a number of transactions that find themselves with probably too much leverage and we'll need to find some sort of solution in refinance. That works very, very well for us. And we're already starting to have those discussions where people are coming to us because they need to rejig their capital structure. They need someone who can put in a slide of subordinated debt or something helping in the structuring.

There's another aspect as well which is, and we've seen it already in the US and we're starting to see it in Europe, which is a number of private equity firms have invested in transaction on the basis that they're essentially their M&A machines. They're platform deals where you're creating value by making accretive acquisitions, which is a very good model. It's less of a good model when you no longer have the financing to execute on that strategy. And so what we're seeing is a number of private equity sponsors coming to us to look for some sort of financing. They don't want the change or touch the senior piece because that would be very expensive. So they're looking for something to slot it in and they're prepared to pay quite high levels of remuneration because that's what's preserving their evaluation and the hope of preserving a high EBITDA multiple at exit. They need to keep the M&A machine going.

So for all these reasons we find ourselves with most of our strategies actually have quite reasonable, actually very good deal flow as you've seen in the numbers this year. But we're a bit different from if you're looking at the overall market and particularly the more traditional P type market. So that's for deployment.

Your second question on fundraising. We always have a number of ideas that could fit at a given point in the market. So to give you a few example, we have launched a traditional LP secondary strategy. Now admittedly, we're clearly not the first to come into that part of the market, but the reason that we think that there is an interesting opening there is one, we're a natural player in that just because of our knowledge of the industry and all the market participants. So it's a natural move for us.

But the other thing is, and we've learned that by the success we've had on strategic equity, so the GP led part of it is what's happened is most of the large LP secondaries players have started doing a bit of both in the same funds in order if only as the GP led transactions are boosting overall returns. But they're actually very different activities. One is very much of a private equity activity. The other one is a pure secondaries, which is more volume driven. And a number of LPs are not particularly enthused by this. They think you're mixing and matching two very different asset classes.

And so to come to these LPs and say, we can recreate a pure LP secondary product, which is what you want, there's actually appeal for that. So it's early days and as Vijay says quite rightly in the current market environment, it's a bit heroic to launch first time funds, but we still think it's worth going out there in a sense it doesn't really matter how much you raise, but you're putting a stake in the ground, and as the market starts reopening, you've established those relationship, you start having a track record. And so those efforts are not ... they're tough efforts on our marketing teams, but they will not be wasted over the long run.

I wouldn't put a big number on those for the fundraising for this year. But syncing long term in value creation, they're meaningful. You can include in that life sciences, incredibly difficult to raise right now, but still, with the areas interest for some LPs and it's great to be out there with that sort of highly specialized product. So that's another one.

You mentioned real estate, optimistic, that the timing could be incredibly fortunate because obviously the real estate has gone ... is going through a very difficult patch, particularly if you've been doing equity in those past years. We haven't. We were focused on debt. But to be able to launch from a complete clean slate and optimistic real estate strategy now, that could take advantage of some of the tension in that market sounds

like a good idea. That's what our LPs are telling us as well. So that's another one where we're going to put in some efforts, but again, don't put a big number against that for this year in fundraising. But do think about it as we're thinking at value of the business in the coming five years.

And finally your last point, which is on what are LPs saying? So without an exception, all of our LPs have been telling us that medium long term they are at least preserving, but actually most of them increasing their intentions to allocate to alternatives.

Where there might be a shift is some of them are saying we think the next decade is going to be a better decade for debt products than equity products. So we're hearing that. But by the way, that doesn't mean they won't invest in private equity funds. It's just that they might rebalance a little bit because historically in those portfolios they were heavily skewed toward private equity. Private debt was only a nascent asset class for most of them. So you're hearing some of that.

We've seen some evidence of that by the way. You've seen in the US in part because they needed to deal with the denominator effect, but there's more than that. Many pension funds have increased their maximum allocation to alternatives. So many of them have increased it from 20% to 30%. And we're talking about some of the largest public pension funds in the US. That's a massive increase. I mean if they hit 30%, I mean the increase in allocation, I'm not even sure that the alternative asset class today could absorb that sort of increase.

So yes, you're right that the increase in interest rate does mean that for some strategies it may become more difficult, but they're typically not, they're not significant strategies, certainly not strategies that we're involved in. So think infra debt, for instance. Infra debt today, unless it reprices significantly, yes, you're coming head to head with what you might be able to generate in more traditional and typically more liquid fixed income.

But for most other strategies, that's not the case. If you think the premium you're getting, for instance, in direct lending today is just as high, actually, it might actually be higher than it was pre the increase in interest rates. That's why suddenly, you're getting 11%, 12% for a senior debt at lower leverages than two years ago. We're not seeing, except maybe at the margin, but that's not really where we operate, we're not seeing that. Overall, and it's true if you listen to all the consultants, the actually the intention is for a further increase into alternatives. That's before we get into, I touched on that, but I think it is early days and that could be a very long discussion.

But there is huge potential in the whole wealth channel because there's a point where... You can't have, well, you can, but you could see the tension of having institutional investors being 20%, 30%, 40%. We have some investors who are saying they want to go to 50% allocation to alternatives and then have, on the more retail side, no allocation at all to the space. There's something that doesn't work.

Now, there are challenges. How do you make that happen? How do you deal with the absence of liquidity? There are a number of issues or questions that need to be answered. But you could see how that could create a very, very significant potential, maybe with some intermediaries, by the way, emerging out of that. There might be some interesting businesses being created out of that, but you could see that. Long term, I think it's hard not to be optimistic about the potential of growth for the overall asset class and hopefully ICG is part of that.

Luke Mason

Thank you. Just building on that, is it possible to take your performance over the last three years in terms of new client growth versus the fundraising to see average size of allocations or understand what proportion of fundraising has come from those new clients, and therefore, also how that feeds into your thinking about targeting of new clients over the next three to five years, and if there are clients within that target universe that you just simply couldn't have attracted, say, three years ago because of scale?

Benoît Durteste

It's complex because in a sense it's still early days for us. So in a way you're trying to do everything at once. It's been a combination of more clients coming in, some from new strategies. Infra, for instance, enabled us to attract a number of clients that we had never been in touch with before. But it's also, as I pointed out during the presentation, even well-established strategies at some point, create their own momentum and attract new clients as well. That was the case for Europe VIII. As I said, 30% of the AUM in Europe VIII comes from new clients.

So you're getting a combination, you're also getting at the same time, investors putting in more money with you because you're becoming much more significant for them. For some of our clients now, we are, for instance, their main partner in Europe. That wasn't the case three to five years ago. So yes, that creates its own momentum, but we have a bit of everything right now. You can't really at this point, it's too early to say there is a trend of this. It's a bit everywhere. I think looking forward, we've been through a phase where deliberately, we were pushing to diversify the client base. Deliberately. Because where we started from having no client base. But we started early on, essentially with one fund and essentially 50 clients, and that's not a good place to be. So we pushed a lot to diversify. We're now at a level with, call it 650 or so clients. If you compare us to other managers, actually in terms of diversification, we look quite good, better actually than a number of managers that have higher AUM than we do.

So I think it's likely. We're still going to want to grow that base because, for instance, in the US, there's plenty more we could do. I think we've only scratched the surface in the US. But we're also at a stage where you're deepening some of the relationships and you're broadening them not only on a single fund where you hope that they will accompany you as you grow the size of each vintage, but you're also trying to broaden the relationship where they're coming into more strategies. We're just beginning with that. So for me, there is significant potential there.

Luke Mason

Helpful. Thank you.

Christopher Hunt

Robert.

Robert Sage

It's Robert Sage from Peel Hunt. I was just sort of building on some of the earlier questions in terms of what the LPs are sort of talking to you about at the moment and wondering whether you could consider that through say, a geographic lens. I do recall that in a previous one of these sessions you commented on sort of lack of appetite for UK investment, for example, and I wonder whether that still persists and sort of whether there's any sort of strong geographic preferences being expressed at the moment?

Benoît Durteste

Well, they're rarely expressed. They're inferred. People vote with their feet. Listen, historically, there's always been a favorable bias towards the US, particularly in a downturn. Now, part of that is because the most of the AUM comes from the US. But there's kind of almost a default play where if things are harder, people tend to default to the US, which they feel historically looks stronger. So you always have that. We've had that in previous crises, we're seeing it today. Then if you want to break it down by country, that's more difficult to assess. Yes, it's true that the appetite for UK investment is not at a high, but we don't really have, except for in real estate, where we have a couple of products that are purely focused on UK investors. But otherwise we don't really have UK focused strategies.

They're at least pan-European or they're global. So in a sense, it doesn't matter all that much for us. In a sense, LPs are asking us when they're saying they're coming into Europe VIII or they're coming into SDP,

they're saying, "Where do you see the most interesting opportunities?" Rather than, "Could you please not invest here or there?" That's not what they're looking for in their investment. They're looking for us to allocate. But if you want to boil it down purely to UK focus, yes, there's no doubt that if you're a fund that's purely UK focused, it's more difficult right now. But we don't really have that situation.

Angelique

Good morning, it's Angelique from JP Morgan. A couple of questions from me, please. On fundraising, on the growing up theme, in terms of the scale factor, obviously you've been able to scale up quite significantly the flagship, European corporate, but also senior debt partners. How should we think about the scale up factor going forward? And I am thinking some of the larger players in the space, for example, Apollo or Blackstone, who have notably bigger funds in the 20 billion area, they're now saying that flat is the new up. So is that something that we should be expecting for ICG as well, or not really?

And second question on the wealth space, I was wondering in terms of the opportunities you see there for ICG, is that more of a question of increasing your allocation within the existing fund structures to private wealth customers, or are you also considering doing a semi-liquid fund, which is a very different proposition?

Benoît Durteste

So on your point about scaling up, I don't know about flat at 20 billion, but if that's what it is, I'll take the 20 billion. I think what they're referring to is the current environment where in the current fundraising environment, you have a 20 billion fund in the current fundraising in environment, it's hard to upsize it very much given the lack of capacity of LPs. I think that's probably more what they're referring to. I'm sure they're hoping they can raise more. And by the way, it's a mix and match because some of these funds are global, some of these funds are just US, some of these funds are just Europe. So CVC is just Europe essentially at 20 billion. And some funds are just 20 billion or even 25 just for the US. So in theory, you could put the two together and you could have a 45, 50 billion fund.

So I think they're making more of a temporary... But in any event, given where we are, that means even our biggest strategy still has a lot of runway before we start thinking maybe we're capping out with that strategy. But it's also why very long term it's so important to keep on diversifying it, which is what we've been doing. Because you want to have newer strategies, whether it's infra, some real estate strategies or secondaries that are early on in their phase. You're raising the first fund at a billion and then 2 billion because that means you're creating new potential fee streams. So that's on the scaling up.

Your second question, sorry, remind me.

Christopher Hunt

Wealth Channel.

Benoît Durteste

Wealth Channel, yes. So Wealth channel mean for now we are exploring the we, well, we've raised through the wealth channel. Strategic equity, 10% of the AUM comes from the wealth channel. Right now we're exploring various channels. You have platforms. You may remember we run early investors, so we're a shareholder and a platform in the US. There are banks also that act as intermediaries and set up feeders. So we're exploring all these channels because it's not clear for me which one will emerge as the clear winner and maybe several of them. So we want to be present everywhere. Brand becomes quite important there. So we want to make sure the ICG brand is out there.

What we have not done, so that was the second part of your question, is launch a semi-liquid product. I don't know what that is. Our products are all illiquid, so I don't know what a semi-liquid product is unless you mix

and match it with liquid strategies, in which case maybe. But there are downsides to that as I think some have experience, which is your liquid strategies may not be liquid when you want them to, because when a crisis hits, suddenly everything trades at a discount and you can't exit without realizing losses and it's awkward.

So I haven't yet found something that I'm really convinced truly works, and I'm quite uneasy about, even if the legal documentation works, I'm quite uneasy about making even inferred promises about liquidity on completely liquid products. So what I am hoping is that the market is going to start evolving and get a bit more sophisticated where advisors will explain to their clients that it's great for them to have part of their portfolio and alternatives, they need to understand that it's not liquid. So no, we don't have any product that has a liquidity feature. And we'll see. That's why I was saying early on, I think it's early days, people are still grappling with this and trying to find what's the best way to approach that part of the market.

Angelique

If I may just follow up on the first question, in terms of your strategies, European corporate, senior debt partners, strategic equity, which are sort of the flagships where we are already in the advanced vintages.

Benoît Durteste

Yes

Angelique

At the moment, if I look at consensus, the expectation is that the next vintage is going to be larger than the current vintage. Is that, do you think, a fair assumption?

Benoît Durteste

So setting aside the market cycle, because it's impossible to know, but I set aside the market cycle, look longer term on the intrinsic potential of these strategies. Yes, I think it's a fair assumption because you look at direct lending, we could see that the market generally is moving towards more of direct lending. And so the appetite is increasing and also it's consolidating. The larger players are just taking a larger share. So in the case of direct lending, yes, I can well see that. There's another aspect as well there is that we're mostly European right now. We've only started to invest a little bit in the US. We could do a lot more and we have the teams in place, so we just need to make a bit of a push or maybe use a more favorable fundraising window. But there's clearly a lot more that we can do there.

And we haven't really touched Asia, with the exception, we have actually a pretty good fund that's purely Australian focused. But apart from that, we don't have a Pan-Asian debt strategy. And so that's something that we could think about at some point. For that strategy, for these reasons, there's plenty of growth potential. You take the historical flagship funds, so Europe VIII, it's quite hard to know because essentially we've grown with the market demand. 10 years ago, if you'd asked me, "Do you think you can have an eight billion fund?" I probably would've said, "No, I don't think so. I don't think there's the market opportunity for this." But the market has changed.

If I think about it, there's another way of looking at it. You are mentioning some funds that are managing 20 billion. These are pure private equity funds. So you have pure private equity funds managing 20 billion for Europe. They're just focusing on the equity portion of those transactions. Our European strategy has this merit that it can operate across the whole capital structure. And so in theory, there's no reason why it couldn't grow to be at least as large as these funds because the market opportunity should be larger in theory. So it's easier said than done, and you can't just draw a line that easily. But theoretically, there's no reason why that strategy can continue to grow. Again, I don't want people to get ahead of themselves. It's not going to double every time, but there's growth potential there.

Strategic equity. Strategic equity, the question mark for me is on the fundraising side. It's still very early for that strategy. It's a very new strategy in the market. And so it's more of a question of how quickly there's a take up from LPs. We're seeing that there's growing interest. We have some very large pension funds. So that's helpful because they're sending a message to the market that they think this is an interesting strategy. And that's for ICG, but that's for the market as a whole. That's the bottleneck. It's not the deal opportunity. The deal opportunity is huge. We could easily invest a 15 billion fund, easily, in that strategy, given the level of demand today. But the problem is we cannot easily raise 15 billion. So that's where the bottleneck is. And for me, it's not even a question of cycle, is it'll take time for the market to just integrate that as part of a standard portfolio. And in our industry, things move very slowly, so it could take quite a long time.

Christopher Hunt

Perfect. Well, if there are no more questions, thank you all very much for attending today and we'll speak in the coming days and weeks. Thank you.

Benoît Durteste

Thank you very much.