Full Year Results Presentation

Presentation Transcript
28 May 2024

Christopher Hunt

Good morning and thank you for joining ICG's results for the 12 months ending 31st of March 2024. As a reminder, unless stated otherwise, all financial information discussed today is based on alternative performance measures, which exclude the consolidation of some of our fund structures required under IFRS. Today, I'm joined by our CEO and CIO, Benoit Durteste and our CFO, David Bicarregui, who will give an overview of our performance during the period and will then take questions. The slides along with the accompanying results announcement are available on our website. You can submit questions through the webcast messaging function or by telephone. Details are on the online portal. At this point, I will hand over to our CEO and CIO, Benoit.

Benoît Durteste

Thank you, Chris. Good morning everyone. I'm delighted that in our 30th year of being listed, we are reporting such a universally strong set of results today, strong, not just because of the performance we have recorded for the year, including our second-highest-ever year of fundraising, management fees of over half a billion pounds, and our 10th consecutive year of fund management company PBT growth, but strong also because of the clear trajectory we have for future success. Our continued leadership in direct lending and GP-led secondaries, the final close at $1 billion for LP secondaries, which opens up a potentially huge market for us, our proven ability to attract new clients and to raise funds through new channels, and most importantly, our extended track record of delivering high quality return to clients across multiple strategies and importantly through cycles. In what remains a challenging environment, we are raising more from more clients across more products than ever before and are demonstrating growth across all key metrics.

This long-term confidence is underlined by the revised guidance we are publishing today, which includes increasing our fundraising ambition to at least $55 billion in the coming four years, a deceptively ambitious target when you factor in the expected longer duration of funds and the associated increased fee generation in today's environment. But let's start with a near-term reality check. The last two years for the alternatives asset management industry as a whole have been the most difficult since the GFC, and in many ways, more challenging than through the GFC. Buyout activity, a key barometer for corporate private market activity, has reduced globally for the second consecutive year. As a result, less capital is coming back to LPs. As a percentage of NAV, distributions are actually close to GFC levels. Many LPs are therefore temporarily capacity constrained and that in turn puts pressure on fundraising.

The fundraising experience of private asset managers, however, varied vastly, and there is a clear bias towards the largest most successful managers attracting the lion's share of client capital. This flight to scale and quality has accelerated in recent years as clients have become more liquidity constrained and have sought to consolidate the number of manager relationships they have. ICG is clearly benefiting from this trend, as you can see from the right-hand side of this slide. And these numbers and the ICG rankings are global. They're not just for Europe. Importantly, as we'll discuss later, scale and relevance in our flagships is helping us to launch new strategies. That's a real proof point of the benefits of the brand equity we have established.

I do not expect this market environment to materially change in the short term. It is likely that the broad industry will continue to face headwinds for the next year or so. So what does that mean? The increasing consolidation of manager relationships by LPs means you need to be a manager of choice, a strategic partner to these clients. To that end, the playbook for success for an alternative asset manager is clear, strong investment track record through cycles, a broad waterfront of products to be relevant, and a balance sheet as a powerful and necessary enabler of growth. From an investment perspective specifically, it also places huge value on DPI, the distributed to paid-in capital ratio or returning capital to investors in a timely fashion.

Fortunately for us, we have been very vocal in the past in making discipline return of capital a key feature of our investment philosophy. Those of you who have been following us for some time will have heard me for years and repeatedly talk about crystallizing gains and anchoring fund performance. As a consequence, many of our vintages have excellent DPI metrics, which is a real competitive advantage in today's market. So ICG is emerging as one of the winners from this environment. We are continuing to grow our client base and absolute terms, and for year '24, raised $13 billion, our second- highest year ever. Looking ahead and against a slower industry-wide background, I see no reason why ICG should not continue to outperform and to deliver growth.

This favorable market position and the results we are reporting today are the result of a deliberate approach to build ICG for the long term. We have developed a strong view of what is required to succeed in private markets across investment performance, product offering, distribution capability, and the platform and financial resources needed to successfully execute on our growth strategy, all supported by the people we hire, retain, develop, and the culture they embody. The fact that over the last decade we have grown FMC PBT in every single year is impressive, but it is an output. Where we focus every day is on ensuring we have the right people managing products that are attractive to clients, and that as a firm, we have the breadth, size, and operational capability to invest that capital and meet our clients' objectives across cycles, or in more familiar terms, scaling up, scaling out and investing in our platform.

The results we are reporting speak for themselves. Our AUM is approaching $100 billion, and our fee-earning AUM at $70 billion is up 11% year-on-year. Fundraising has been strong, and more on that later, while deployment and realizations are lower, partly due to timing and cut-offs, but also against the backdrop of subdued market activity generally. Financially, we have grown on every key metric with management fees hitting half a billion pounds for the first time, and David will talk about these later. We are maintaining our progressive dividend policy announcing a total dividend of 79 pence per share for full year '24, the 14th year of consecutive increase in the ordinary dividend. We want to gain market share in this cycle, and as such, are continuing to invest in our global platform, opening an office in Toronto that's focused on client marketing, building our presence in Warsaw, which is our Data Analytics Center of Excellence, and in Pune in India, where we are building out our operations capabilities. So promising across the board from a strategic, operational and financial perspective.

I turn now to fundraising. As I mentioned, we raised $13 billion during the year driven by our flagship strategies that combined, raised $8 billion. That's mainly SDP, senior direct lending and strategic equity, that's GP-led secondaries. Our scaling strategies raised a further $5 billion with notable successes for the second vintage of the Europe mid-market and the third vintage of North America Credit Partners or NACP. In a fundraising world where it's said that flat is the new up, the funds we are raising for SDP, strategic equity, Europe mid-market and NACP are all already larger than their previous vintages and are continuing to raise.

Launching first-time funds in this environment was brave, which is why I'm particularly proud that we have secured $1.5 billion of capital for first-time funds. I do not know of any other manager that has had that success this past year. As I said earlier, full year '24 was our second-largest year ever for fundraising. And looking at the data, it is clear we are making progress against our stated objectives. 31% came from the US and 11% came from the wealth channel. Both areas we have flagged previously as areas of focus. Stepping back, in May 2021, we announced a fundraising target of $40 billion over four years. A year later, on the back of an exceptional fundraising year, we accelerated it by one year, and today, we are announcing that we have beaten that revised target by 15%, raising $46 billion over the last three years.

Our breadth of product offering is a clear strength and our products appeal to a wide range of clients globally. Over the last three years, more than half the capital we raised came from America and the Asia-Pacific region. Our number of clients has grown by 43% over the period, and today, stands at over 680. Those new clients contributed a third of our total fundraising. We have spent time over the last couple of years talking to you about how we are balancing increasing our share of wallet of existing clients with winning new clients, and looking at these figures, you can see that we are successfully executing on both fronts. More generally what this means is that over the last three years, we have created incremental value in our platform, both from the fees we have locked in today and in terms of client reach and relevance, and therefore our ability to raise new and larger funds in the coming years. Our brand equity has increased.

I would like to spend a moment on LP secondaries, as I believe this is one of the defining successes of the year. This is a first-time fund in a strategy for which we are admittedly a late comer. Significant changes in the competitive landscape had led us to conclude that there was a window for us to enter what is a very attractive and quite sizable market. We had a final close that was heavily oversubscribed and reached the hard cap of $1 billion. As you could see from the charts on the left, more than a third of the AUM came from the wealth channel from a number of distributors both in Europe and the US. The client base as a whole is geographically diversified and half the clients by number are new to ICG, so this is a powerful example of brand equity. LP secondaries is a well-established asset class with a number of scaled players globally, and yet with our brand client franchise balance sheet, along with obviously the right investment team on both sides of the Atlantic, we have raised a great first-time fund, and in doing so, we have opened up a new level of potentially substantial growth in the coming years. There is no reason why this strategy couldn't reach $ 10 billion or more per vintage at some point, and so this could be or should be another meaningful growth engine for us for at least the next decade. And indeed, we're already looking to capitalize on this success and scale out in this asset class by launching an institutional quality evergreen product targeting the US wealth market, which we're calling ICG Core Private Equity. And we'll give clients differentiated access to private equity through the secondary markets.

As we look at our product line today, CORE, which I've just mentioned, has appeared on the top left, both it and Life Sciences will hopefully move across in the coming quarters, and the teams are continuing to work on Infrastructure Asia and Real Estate Asia.

Today, we have a number of large globally relevant flagships on the right-hand side, and an exciting set of scaling products in the center column that are increasingly relevant to ICG's financial performance and will be a source of meaningful profit growth for many years.

Our waterfront of differentiated strategies enable us to be more relevant, meet the demands of our clients at different points in the cycle, and provide us with multiple levers of growth for years to come.

Looking ahead, we will continue to focus on investment excellence and on our people and our platform. Fundraising for the coming year, we'll see the tail end of fundraising for SDP V, Strategic Equity V, NACP III, and Infrastructure II. We also anticipate launching a number of funds including CORE private equity and Europe IX although the timing of first closes for both are uncertain and could be in the next financial year.

In the short term, I still believe the market will remain challenging in many respects. Industry-wide, I do not anticipate a rapid and sustained recovery in M&A volumes in 2024, and as a consequence, no meaningful change to the fundraising context.

Credit strategies, niche, optimistic strategies, and more broadly, any strategy providing a liquidity solution at either the portfolio company GP or LP level will continue to do well. So, think credit, structured financing, GP-led secondaries, LP secondaries.

Longer term, I remain highly confident in the private market's growth, evolution, and innovation.

ICG is 35, and since we listed 30 years ago, we have been growing and investing successfully for the benefit of our clients and our shareholders. From our IPO in 1994 to the 31st of March 2024, we generated a total shareholder return of 85.8x, substantially more than both the FTSE and the S&P 500. Our total shareholder return has also outperformed both those indices in the last 5 and 10 years.

Today, we have the market opportunity combined with the strategic and financial resources that position us for decades of growth to come. And with that, I will pass to David to talk in more detail about our financial results.

David Bicarregui

Thank you, Benoit, and thank you all for joining us today. We are reporting strong results today, significant growth on all metrics. And before going into the details, I want to highlight a couple of points. Importantly, it's not just in-year growth. Our consistent delivery is demonstrating that we can generate through cycle growth.

Fee earning AUM of $70 billion is up 11% compared to last year, 17% annualized over the last five years. Management fees are continuing to grow, exceeding half a billion pounds for the first time. Our Fund Management Company generated a PBT of £375 million, up 21% compared to last year, and recording the 10th consecutive year of growth. Our NAV per share grew 15% to 801 pence. Our balance sheet has demonstrated long-term earnings power invested alongside our clients. It's also a strategic asset to power future business and growth opportunities. Moving to the top line of our business, fee earning AUM. Over the last 12 months, this has grown by $7 billion or 11%, driven by $6 billion of fundraising for strategies that charge fees on committee capital, predominantly strategic equity, and LP secondaries, almost $8 billion of deployment for strategies that charge fees on invested capital, largely senior debt partners, partially offset by realizations of $6 billion. Over the long term-fee, earning AUM has grown as an annualized rate of 17%. And as we look over these five-year periods also in the subsequent slides, it's worth keeping in mind that this period covers COVID, the war in Ukraine, and the rise in interest rates.

Fee earning AUM is a key driver of management fees, which this year were £505 million, up 5% compared to last year. As you all know, catch-up fees, which are just a timing difference, can cause an element of lumpiness in reported management fees. And excluding these, the year-on-year growth was 11%.

At the end of this financial year, we have $16 billion of AUM not yet earning fees, which have annual management fee potential of £117 million, were they to be deployed, all other things equal.

The fact that we have grown management fees through a slower market, impacting fundraising, deployment, and realization pace, underlines the value of this management fee stream. The pace of growth may slow down, but because investments are being realized less quickly, we are extending the duration of our management fees. This is very visible and not dependent on our ability to raise or deploy capital. One way of thinking about that dynamic is that our earnings quality goes up in a slower environment. The visibility of management fees and the sticky recurring nature is very powerful, both in delivering growth and in helping us manage the business and invest for the long-term.

Now, turning to performance fees, which are notable, but relatively small proportion of our fee income. The notable year-on-year increase is largely due to the inaugural recognition of Europe 7, along with a performance fee in alternative credit that is tested every three years.

Looking ahead, we are reiterating our guidance, that over the long-term, performance fees will be roughly 10 to 15% of our fee income.

Turning now to the earnings of our balance sheet. Net investment returns this year were 13% or £379 million, and PBT was £223 million. The NIR was strong across our asset classes and included 180 million pound benefit from three investments that were originally intended as seed investments, but will now be sold to third parties. This included the life sciences investment in Amolyt that was recently acquired by AstraZeneca.

From a cash perspective, we invested over £320 million alongside clients. We also made seed investments totaling £312 million, in particular, for real assets, which included our infrastructure Asia team's partnership with an Indian renewables platform, AMP India.

In aggregate, the balance sheet investment portfolio generated £139 million of net cash proceeds. We experienced realizations both from our investments alongside funds, as well as from our seed investments. This latter is particularly important, as our ability to recycle balance sheet capacity into new seed opportunities is an important component of our business model.

As a general observation, we are generating attractive earnings and cash flow from our balance sheet, as well as benefiting from the wider strategic relevance of the asset base I'll discuss later.

So, as we scale up and scale out, we are generating substantial operating leverage. Our FMC revenue has grown at 19% on an annualized basis over the last five years, while FMC expenses have grown at 12%. This translates into an annualized growth rate since FY19 for our FMC PBT of 21%. Or put another way, FMC PBT has grown by more than two and a half times over the last five years.

Today, our FMC PBT margin is 57% compared to 52% in FY19. So, another way to think about the growth in FMC PBT is that about 85% of it has come from our top line growth and the remaining 15% has come from margin expansion.

In terms of managing our business, that clearly underlines the importance of investing appropriately to drive revenue. We need to have the right strategies to be able to raise and manage the capital and have the systems in place to effectively serve our clients. We have been making those investments largely in our people over this five-year period, during which our headcount has almost doubled.

In FY24, FMC operating expenses increased by 21%, and our total operating expenses increased by 14%. We will continue to invest thoughtfully and strategically. For FY25, I would expect the rate of growth in our operating expenses to be lower than we've experienced during the last 12 months.

We are in the fortunate position of being able to grow our top line, invest in our platform, and deliver increased profitability. We have delivered on all those things in the last five years and we are also increasing our margin guidance to be in excess of 52%.

Today, we are a global firm, operating from 19 locations around the world. Our global footprint reflects our global client base and our increasingly global product set. It is also reflected in our financial profile, with just over half of our fee income in euros and another third in dollars. As well as our recurring and visible fee income, our growth ambition is supported by a valuable capital base. We have 4.2 billion pound gross balance sheet and an NAV per share of 801 pence. It's diversified with significant liquidity and well capitalized. This is a powerful asset and we think of it as a source of significant future earnings potential. That may come from co-investing alongside our clients to support fundraisers and simultaneously benefiting from fund level returns. It may come through seeding new strategies, which will generate incremental management fees as they scale. And looking to the years ahead, it provides us with significant flexibility to ensure our business composition is nimble and able to capture growth opportunities.

LP secondaries is a good example of how we efficiently use our balance sheet to scale the business and generate fee income. You'll recall we had a similar example for the real estate equity business in our shareholder seminar in February. For LP secondaries, in aggregate, we have deployed £144 million in seed investments, with the team building a track record and also reducing the blind pool risk for clients in a first time fund.

A large amount was syndicated to LPs, building momentum for fundraising and recycling balance sheet capital. And we transferred a substantial portion to the fund, leaving the PLC with a residual exposure to those seed investments of about £5 million of the initial £144 million. Without this, we would not be able to get the LP secondaries business off the ground in this market, and it underlines how the balance sheet drives growth in a capital efficient way.

As I said earlier, we are pleased to report growth across all key metrics, extending our track record of profitable growth. But it also is worth reminding that we're in a long-term business. Looking at the five-year growth, you can clearly see the value created from scaling up, scaling out, and investing in our platform.

That long-term confidence is reflected in our updated guidance today. We now expect to raise at least $55 billion over the next four years, assuming that the fundraising environment normalizes in FY26. As I referenced earlier, in a slower environment, funds are being deployed over a longer period, and therefore, as Benoit says, is an ambitious target. We are confident that our FMC operating margin is now structurally in excess of 52% and our performance fee and NIR guidance remains consistent. We've achieved a lot over the last 30 years and are well positioned to keep being among the winners in the years to come.