



Bridgepoint FY 2022 Results | March 16, 2023

William Jackson: Good morning, and welcome to Bridgepoint's 2022 Results Presentation. I'm William Jackson, Bridgepoint's Chairman, and I'm joined this morning by Adam Jones, our CFO. Many of you will have met Adam. And Raoul Hughes is with us today, our Group Managing Partner. Raoul leads our business development activities; and Andrew Konopelski, who's the managing partner of Bridgepoint Credit is also here today – lots of interesting things going on in the credit world. So Andrew is going to be available to answer questions later on that that may come up on that area. Firstly, it's a real pleasure to welcome everybody to the call. And importantly, an even bigger pleasure to present a strong set of results for Bridgepoint for 2022. It was our first full year as a listed business. And on ... this morning, I'm going to cover 3 main topics. Firstly, a summary of our full year results. Adam is going to dive into those in a bit more detail later on.

I'm going to give you an update on our capital raising activities. Very important, I know, to many people listening in. And thirdly, I thought today, we do a deeper dive than normal into our underlying fund performances because it's our fund performances that are really driving our company's performance. And as I've said many times before to our shareholders, if our fund investors do well, so do our shareholders. I hope that additional performance focus today on our funds will provide some insight into how we're approaching investing in the current market conditions as we acquire and provide credit to high-quality growth companies. These are companies that typically benefit from niche or [sale] sector tailwinds. And in doing so, we build fund portfolios with smart risk profiles.

This, from a performance standpoint, has been very much a winning combination for Bridgepoint in recent times. Adam is then going to talk through the details of our '22 results, and he'll be followed by Raoul, who will provide a short update on our ongoing business development activities. And of course, we'll conclude by opening up for a Q&A and Levi from our BT call group is going to manage that for us. So I'd just like to start with a quick reminder of what Bridgepoint is really all about. In short, we're one of the world's leading middle market alternative asset managers, focusing on supporting profitable growth companies that typically have an enterprise value of up to about GBP 1 billion when we start working with them.

At the end of the last financial year, we had EUR 38 billion -- sorry, GBP 38 billion -- of AUM across 3 fund strategies in each of our 2 business lines, private equity and private credit. Importantly, Bridgepoint has genuine depth and strength in our core European middle market space. In fact, what I sort of think of as total immersion in that space. We've got a team of over

190 investment professionals spread across 10 local offices around the world and some 300,000 people now working in Bridgepoint backed companies.

Turning straight to our company financial performance for 2022. We've delivered robust growth and strong investment returns across our funds over the last year despite what I think we'd all recognise was a much more challenging macro. And that fund performance lies behind our strong and resilient company performance, which has been ahead of expectations on all earnings measures. In summary, revenues have increased by 13.6% to GBP 307.4 million and EBITDA has increased by 23.2% to GBP 140.3 million. We've also seen a 21.3% increase in fee paying assets under management, AUM, to GBP [EUR] 23.4 billion.

That's up from GBP [EUR] 19.3 billion in 2021. FRE, fee-related earnings, which is a key performance metric for us, has also grown by 55.5% to GBP [EUR] 75.4 million. And our FRE margin, also very important, has grown by 7.5 percentage points. That's arisen from both growth in our underlying AUM but also pretty careful cost control in an inflationary environment. Adam's going to cover that in a little bit more detail because some of that cost has been deferred sensibly into '23. Our capital deployment of EUR 4.7 billion in 2022 was in line with our expectation. Interestingly, BE VII, our latest flagship equity fund is now 12% invested and BDC IV, our other main equity fund at the moment is just coming up towards 50% invested whilst in credit, where there are some really interesting benefits from current market conditions, as Andrew might talk about a little bit later, we've now deployed 57% of Bridgepoint Direct Lending III and 54% of Bridgepoint Credit Opportunities IV.

And finally, and very importantly, and I'll cover this in more detail a little later, we've made really good progress on our capital raising since the half year, especially because the second part of the year is always a bit quieter for fundraising. BE VII is now -- now has EUR 5.4 billion of closed commitments after generating strong further interest from LPs as markets recalibrated in the second half of the year. BE VII's target remains EUR 7 billion with closing planned for the summer. I'll come back to that, as I said, a little bit later.

These results were driven by strong and resilient fund performance, very important that. During '22, our funds have continued to perform well with our equity fund values either growing or holding flat year-on-year, but mainly as a result of strong underlying company growth and EBITDA growth in our core investment sectors of health care, advanced industrials and business services, where you find the majority of our equity fund investments. We've also made some fantastic exits through 2022, which influence our results. I'll just cover 4: Element 3.7x the original cost, Miller Homes 4x the original cost, a super result at HKA, I'll come back to that later, 7x and bee2link 3.5x cost. Both those last 2 investments were realised in the second half of the year. So important point to note there.

These are from a range of sectors and geographies. And that's notable in a market that's become very used to having breakout returns mainly coming from the tech sectors. More broadly, our wider credit and business platform today still has multiple routes for delivering

performance. And with strong medium-term tailwinds behind the alternative asset sector we continue to have significant growth potential.

As we look to the future, I'm pleased to report a couple of other developments for our organization. We continue to invest in our platform, further deepening our sector-focused based investment activity. We've also tilted that strategy to make the most of the current time. This has already started to throw up some really interesting opportunities for our new flagship fund BE VII and BDC IV is making the most of those opportunities as well. Fund VII has had a strong start to its investment activity and now has 2 investments in the portfolio, 12% of its capital committed.

Over the last year, we've also strengthened our governance at a PLC level, and we were delighted to welcome Cyrus Taraporevala to our group Board. Cyrus brings huge experience of the fund management world and also -- and very important for us -- has a deep specialist knowledge in ESG. And we've made progress with our business development, and Raoul is going to talk about that a little bit later.

But just before going deeper into our performance, a quick reminder why we're excited by Bridgepoint's future? Because, of course, the team here at Bridgepoint are major shareholders ourselves. We think our company has great positioning, supported by those long -- by long-duration capital with organic growth tailwinds and fund capital, which is, on average, locked in for 7 to 10 years. We've significant organic growth potential both for our existing strategies as well as the opportunity to develop complementary products over time as we've done successfully over the last decade.

And we have a deep and resilient investment track record, developed over 30 years with over 400 PE and credit transactions, which certainly resonates with fund investors in these times and people doing due diligence on our new funds. This is accompanied by a deep and highly experienced leadership team weathered by cycles. You can probably tell that looking at the three of us this morning, all of which has helped us build a resilient investment performance using a really special platform that has significant operational leverage, which drives our financial performance, as you'll hear from Adam.

Of course, if that drives our financial performance, in the medium term, [it] drives shareholder value as well. We've got a strong balance sheet that remains asset-light and with high and stable margins with strong cash generation. We have over GBP 650 million of cash and investments on our balance sheet out of our current market cap. And of course, we have a pretty good dividend yield at the moment as well. So all of that comes together very nicely. And to illustrate this, you can see on this next slide, our progress since the IPO.

Assets under management are up 43%, operating income now is now over GBP 300 million. Underlying FRE has grown by over 3x and underlying PBT is up 126%.

Just turning to fundraising in more detail. I think anybody looking at the market at the moment in alternatives will know in this sector ... is well acquainted by the fact that fundraising in 2022 was well impacted by some market challenges. However, during the year, overall, the overall fundraising market, I think, has recalibrated quite a lot with many investors focusing now more than ever on realised returns as the best performance benchmark. This has resulted in a shift towards proven private equity and proven credit strategies. Bridgepoint's strong investment platform, its disciplined investment strategy and highly experienced teams are really relevant in this point in the cycle, and I think are proving increasingly attractive to fund investors currently in due diligence as markets go through all the ups and downs that we're seeing at the moment.

We've got a number of funds in the market, and we continue to make good progress with our original fundraising targets. Despite those market issues with good support from both existing investors and, actually, strong commitments from new investors from around the world. As I noted earlier, that's reflected in the progress of BE VII in particular, which over the last 6 months has made good progress. We've now closed on some EUR 5.4 billion of commitments to BE VII, up from EUR 4 billion closed at our half year point June '22. I'd also note that we've made -- we're also actively in the market with Bridgepoint Credit Opportunities IV and Bridgepoint Direct Lending III and also Bridgepoint Growth II, and we've just recently launched our fourth CLO.

Looking ahead, we've got a strong pipeline of investors in diligence, which gives us real confidence that macro shots notwithstanding, we should close our flagship private equity fund raise of BE VII as well as BCO IV, BDL III and BG II during the course of 2023. And by the end of the year, perhaps maybe just into quarter one '22, we'll be back in the market with three further funds, Bridgepoint Development Capital V, Bridgepoint Direct Lending IV and Bridgepoint Credit Opportunities V. The credit funds seem to just roll on 1 after another. So lots going on in that space.

The last 2 topics I'd like to just cover before handing over to Adam are to share with you just some detailed thoughts on our investment approach and review our most recent fund performance, both of which are key to our overall business performance. I'll say again that if our funds performed well for our investors, which is always the absolute focus and priority of our business, then our shareholders will do well. Investment focus and discipline is key to that. So let me summarize what that means at Bridgepoint. Across both private equity and credit, discipline means creating well-structured portfolios backing consistently high-quality businesses. That's obviously what we try to do. Importantly, we're focused on delivering absolute returns. That's why people invest in alternative assets. But doing so with a smart risk profile. The two, I don't think, are at all inconsistent.

The way we think about this is by using the depth and strength of our middle market platform, we create portfolios that have breakout potential in our equity funds to deliver absolute returns, but also have measured diversity by sector, by geography and very, very importantly, by vintage year. This provides significant advantages in volatile markets. We build portfolios

well suited to the current times, as you see on this slide. Investing in growth companies with strong sector tailwinds. Most of those companies are actually in specific niches which have tremendous market growth potential. And those are companies where operating growth, not leverage, is really driving our returns in our equity portfolios. And it's this company resilience with growth that has helped us deliver exits through cycles because acquirers will always pay for well-positioned growth companies.

And in Credit, well-constructed funds are delivering target returns with both smart risk profiles and currently boosted by higher interest rates that we're seeing across the markets. And I can illustrate this with reference to the slide that we're now looking at. If you take private equity first, companies and our funds typically have high levels of contracted revenues. They have high margins and are price makers, very, very important in an inflationary environment, and strong cash conversion post important maintenance Capex. That's driven a low loss ratio for those funds since the GFC, less than 2%.

In Credit, our exposures are mostly senior first lien positions, right up there in the lending stack, again, in high-margin companies with strong equity cover and generally lending to highly cash-generative businesses. To date, that's resulted in 0 losses for our Direct Lending business since inception.

And these metrics help us to address some of the obvious concerns that people would have about the market today, macro volatility, company performance, interest rates and, of course, fund valuations. So how does that then manifest itself in fund construction? Well, I often talk about the value of our investment platform. I've done that several times already this morning. Professionals on the ground in local offices with strong insights and a thematic approach to investment led by our sector teams. And we use that to develop real conviction about the types of assets that we want to bring into our funds and make sure that we're acquiring them at fair prices. The evidence of this can be seen when you compare our entry multiples in our equity business, to those of relevant transactions done over the previous decade.

And you can see this on the slide we've got up at the moment of Bridgepoint 6, just as 1 example. What this shows is that we are consistently buying in the third or fourth quartile of the long-term sector valuation ranges, often because we're acquiring companies that have tremendous potential that hasn't yet been fully delivered and where we have the capacity to help them deliver that potential. And we're doing that with relatively low leverage for the alternative asset world. In this fund, Fund VI, the average leverage is less than 5x. So revenue and EBITDA growth is key to our returns.

We're focused, as I said earlier, on absolute returns with smart fund construction. And we're doing that by sector, by geography and very importantly, by vintage year. And that provides some macro protection against having bought assets in only 1 or 2 vintages in -- through the cycle. Not surprisingly, all of this goes to fund performance, which I'd like to just spend a minute on now.

I'll do that by looking to start with at our performance of Bridgepoint's equity funds on a slightly longer-term basis. What you see on this slide is the average money multiple for investments made in each 3-year rolling period. It's a synthetic investment period, if you think of it like that, that mirrors as sort of a fund. The page just covers Bridgepoint to ... Bridgepoint Europe funds, but it's the same across most of our investment strategies. What it illustrates is that we're making good returns on capital deployed pretty much regardless of the year invested. So when you look back at the last 15 years for Bridgepoint, you see strong and consistent returns that I've been talking about this morning.

It's a testament to our investment approach and to that fund construction. Now that's our long-term performance. But I mentioned earlier that in 2022, our company performance has been driven particularly by strong fund performance during the year. For our latest fully deployed PE funds and in our flagship funds, that's Fund VI, [and] in BDC, that's Fund III on this page, you can see what's driven valuation changes during the year. Those returns are driven by performance and not by large valuation increases. In fact, 70% of our valuations have either -- multiples have either stayed flat or gone backwards. So where there has been an uplift [it] is one or two particular assets that have significantly outperformed in their space.

If you take BE VI, our flagship equity fund, which completed its portfolio halfway through last year, it remains immature, but it's grown in value despite the market environment. And that growth has come from the underlying portfolio of businesses which as a whole grew organic EBITDA by 16% and total EBITDA by over 30%, including the bolt-on acquisitions we've done during the year. That, interestingly, compares to an average EBITDA growth of 3.6% in the MSCI Europe Index for quoted companies in 2022. So quite a contrast there.

Similarly, if you just look at BDC performance, BDC III's performance was driven by a fantastic year of exits. And as you can see, the growth from portfolio trading performance in BDC III was also strong. It's a much more mature portfolio. But in addition, significant fund value growth has resulted from 4 exits at prices above the valuations we were holding up in the 2 quarter valuations before that event. Across those 4 exits, the average return on investment was 4.1x the original cost. Now that's just a snapshot of our equity fund.

But this slide shows excellent fund performance across a range of funds that we have with BE VI and BDC III ahead of plan and both BE V and Bridgepoint Growth I on plan. BE V numbers, in particular, are also largely based on realized investment performance, very, very important. A lot of capital has gone back on that fund in the last 12 months. And it's worth mentioning BDC III here. The fund grew valuations from 2.4x to 3x in 2022, well ahead of plan and actually is currently one of the best-performing private equity funds for its vintage in Europe. BDC III is particularly important because when BDC V comes to market, the next fund that we'll raise for BDC, it will be the track record of BDC III as the mature fund that is the real focus of diligence. And that gives us great confidence about that new fund when we launch it most likely next year.

So in summary, we're definitely not immune to macro trends. And I can assure you not at all complacent. But we do think we're well positioned for the current market conditions and our middle market growth positioning where we still have access to leverage where we're seeing interesting opportunities in the market for new investments is a really great place to be in these times. A couple of more points on exits because this is an important driver of what we do. And our ability to return cash to investors to return their investment is the true determinant of performance in our market. And our focus again on PE rather than Private Credit because obviously, Private Credit isn't driven by exits in the same way. If you take '22, we've continued to achieve strong exits with over EUR 4 billion of capital returned to investors during the year.

On this slide, you can see some examples from Bridgepoint Europe and BDC. And I just pick up HKA again. HKA was originally the Construction Claims Group of Hill International. The business has been transformed into a global leader in claims consulting and expert witness services for the construction and infrastructure sector. It's just a great example of the opportunities available in the mid-market and what private equity you can do to help companies grow. And with Bridgepoint's capability, to capitalise on really interesting niches and subsector opportunities. It's a landmark result for the second half of our year which delivered really what we can only think of as an eye-watering 7x return on original capital. The other key thing I'd just draw from this slide is the valuation uplift we've been getting on exit. We try to take a fair but conservative approach to valuing our fund investments. And that's a big topic at the moment for investors when they look at private versus public markets.

When you look at this slide, you can see that we have a very strong track record of exiting businesses for higher valuations than we've held them in the last couple of quarters of reporting to our fund investors. Yes, I think inevitably, those uplifts will be more muted during times of dislocation but it's a prudent characteristic that I think stands us in good stead in more uncertain market conditions.

Looking ahead, we remain optimistic about exit potential despite current markets. We, again, can't be complacent, but the value of growth certainly remains at a premium in the current market. I think safe strategic assets remain highly sought after and embedded and portable leverage is also quite attractive to buyers at the moment. And mid-sized companies are also attractive to large corporates in cautious times. We just don't want to bet the farm on one strategy at this point in the cycle.

And finally, I think it's also worth mentioning that 98% of Bridgepoint's realisations over the last 20 years have been delivered by private transactions rather than IPOs. So we're not dependent on public markets to deliver returns to investors.

So covered a lot there. And with that, I'm going to pass you over to Adam to run through the details of our financial performance for '22. Adam, over to you.

Adam Jones: Thank you, William. Good morning, everyone. William has already given you the financial headlines but for the next few slides, I'll run through the 2022 performance in more detail to give you some additional context and a few points to help you update your forecasts for 2023 and 2024.

First of all, let's look at AUM, assets under management. Assets under management grew by 15% to EUR 38 billion over the 12-month period to December '22, really driven by the positive fundraising momentum in Bridgepoint Flagship Fund VII, Direct Lending III and Credit Opportunities, the four fundraises, as well as valuation gains, which have been really linked to the resilient Fund performance during the year that William just referenced. Those valuation uplifts of some EUR 2.5 billion in total were really trading driven, as William said, and the weighted average earnings growth in BE VI was 16% last year and 24% in BDC III, again, significantly outperforming the MSCI European index that William referenced.

Importantly, 70% of the unrealized valuation multiples were either flat or reduced in the year, and that really does underscore the strength of that earnings performance by all our portfolio companies. Both AUM and fee-paying AUM growth is net of that significant capital distribution that William referenced back to investors, principally driven by those six realisations that we just covered in the previous slides.

Fee-paying AUM grew by 21%, reflecting both the switch on of the BE VII fees from May 2022 as obviously well as the deployment progress that's been made across all of the recent credit strategies. Fee-paying AUM also includes an adjustment for the step down in fees associated with BE VI, transitioning its fee charging basis from total capital commitments to net invested capital at the point of transition to BE VII last May.

Now let's look at sort of revenue and fee margins. As we outlined in the IPO we've delivered strong growth of 60% in group revenues since 2020 and 14% over the last 12 months. That obviously reflects the material increase in management fees from both equity and credit strategies. In 2022, this increase was largely driven by obviously the BE VII as well as increased invested capital in our largest credit strategy, Bridgepoint Development -- sorry, BDL III. In 2022, we delivered another strong year of investment returns, driven by really excellent performance, particularly in BDC III and BE VI.

The ratio between management fees and investment returns is in line with our previous guidance and in the short term is expected to be in the 80-20 range.

Fee margins remain stable and consistent with prior year. And please note that whether given the expansion of our CLO strategy, those numbers are now reflect the CLO strategy and the prior year numbers have been restated accordingly.

Now let's look at operating costs. Those totaled GBP 167 million for the year and grew just under 7% year-on-year despite inflationary pressures that are evident in our cost base. People costs obviously remain the most material driver of cost. They represent about 75% of our total

costs, and full-time employee head count grew by 10% to 372 by the end of 2022. Nearly 40% of that total headcount growth since 2020 relates to investment in the central functions to really support life as a public company.

Investment team hiring has been more modest, and we have sort of prudently phased personnel investment and managed cost growth in light, obviously, of the current macro environment. We do expect those inflationary pressures to continue in the near term.

Turning to other expenses. Those grew by 17% to GBP 41 million. That was really driven by the costs associated with the long planned relocation to this building, our new London headquarters at Marble Arch, higher legal spend associated with the expansion of our regulatory footprint in both Europe and the U.S. as well as a more normalised year of travel spend post COVID.

Let's take the combination of those two into EBITDA and fee-related earnings. With obviously revenue growth significantly ahead of copper -- operating cost growth, which obviously does reflect the strength of the operating leverage inherent in our business model. 2022 saw a material increase in our EBITDA to GBP 140 million, with the expansion of our EBITDA margin from 42% to 46%.

Underlying fee-related earnings grew by over 55% to GBP 75 million with FRE margin moving up to 31% in 2022. That's up from just 17% at the time of the IPO. So, really terrific progress towards our longer-term FRE margin target, which is 45% to 50%, which already we can see after the conclusion of the BE VIII fundraise some time in the future.

Medium-term FRE margin guidance, which has been 30% to 35% remains absolutely unchanged. But what I would say in 2024 is that we expect to be slightly below the bottom end of that range, which is really due to the typical profile of the private equity cycle. Obviously, fee income will start to decline as we successfully exit businesses over the next 2 years and return capital to investors -- obviously a very, very important part of success and driving future fundraises.

Now let's turn to the balance sheet. Here's a sort of a high-level summary of the underlying Bridgepoint balance sheet. And you can see the net asset position of GBP 773 million includes over GBP 650 million of just cash and investments. So those investments, which really represent both the co-investment into equity and credit as well as performance fees represent just 1.1% of total AUM. That really does underscore the capital-light nature of our business model, again, that William mentioned.

The company's borrowing facility is currently GBP 125 million and that has been undrawn since the IPO. So we have significant cash resources to support our growth agenda, including M&A that Raoul [will] be touching upon shortly.

And as a final point, accounting rules require us to significantly discount the unrealised value of performance fees. So the balance sheet actually contains potentially significant future value in excess of what's actually been reported here.

One final point on the balance sheet, which relates to our CLO strategy. The previous page showed the underlying balance sheet, but we are required to consolidate 3 of the 4 CLO vehicles that we have invested in to date. This makes the group's net exposure to the CLO strategy rather hard to identify. So I thought it'd be useful just to clarify that number and to explain the accounting treatment. Those three CLOs that have been consolidated, have about GBP 740 million worth of assets. But in accordance with the risk retention regulations, we obviously provide equity in those CLO vehicles and are therefore deemed to control them and, therefore, consolidate them. Bridgepoint's net exposure to the entire CLO portfolio is GBP 60 million, but obviously, our balance sheet has been inflated by the difference, which represents all of the third-party interests in the CLO strategy. I appreciate the accounting rules make this rather confusing, [well] certainly at least to me. So we've put some additional disclosure into our annual report to help provide some more clarity on that.

And finally, I think I'll close with the dividend and guidance, again, for your modeling. Our proposed final dividend for 2022 will be 4.0p, which is consistent with the interim dividend that was paid back in September. Our dividend is expected to grow progressively over time as our business scales.

Now let's turn specifically to guidance. As I said before, management fee margins are expected to remain stable across the entire business. The pace of fund deployment remains absolutely unchanged despite macro conditions and in line with previous guidance. Importantly, the fundraising target for Bridgepoint VII remains unchanged at EUR 7 billion. Investment income is expected to represent 20% of total income in the – [of] total revenue in the short to medium term before growing perhaps a little bit more as the performance fees start to increase in the business.

Our co-invest commitments for future funds is unchanged also at 2% to 3%. And a word on costs. As I said, the inflationary pressure on costs is expected to continue in the short term. And obviously, in addition to those investment team hires that were delayed from last year. So taking the 2 factors together means that we do anticipate high single-digit cost growth in the short term before more modest growth in the medium term.

The FRE margin short-term guidance remains unchanged at 30% to 35% ahead of a further step-up in fee-related earnings margin at the completion of the BDC V and BE VIII fundraises. The 2024 FRE margin, as I said, we expect to be slightly below the bottom end of that range, which is the completely normal profile of any PE cycle through a period of successful divestment ahead of its -- the next material new fund. That fund will be BDC V, that the deployment is absolutely on track. We'd expect to complete the BDC V fund raise during 2024, but we won't actually switch on fees until January 2025 based on the normal deployment cycle of four years.

And finally, the effective tax rate guidance of 5% to 10% remains unchanged, subject, of course, to any potential changes in the U.K. tax code.

So with that, I will hand over to Raoul.

Raoul Hughes: Thank you very much, Adam. I'm going to take a few minutes to bring you up to date with Bridgepoint's business development strategy and talk a little bit about where we stand today. While we have lots of dialogues ongoing, I thought I'd say upfront, perhaps to dampen expectations, that we're not going to be announcing anything specific today.

How we think about AUM development has not changed. We still see it as a three pillar strategy. The organic expansion of existing fund strategies, the development of new products within existing strategies and the development of new business lines and adjacent asset classes. Now turning to each.

You will know that we have three mid-market investment strategies in each of private equity and credit. And over time, these strategies will continue to grow through controlled growth in core successor funds. And as we've seen more and more, particularly in the credit business, the growing number and scale of separately managed accounts, which are broadly aligned to a particular strategy, but not entirely consistent with it. Continuation funds [have] also been an increasing function of our market. To facilitate this growth, we'll continue to invest in our platform and exploit the opportunity in an evolving middle market.

In addition, over time, it is our intention to introduce new products within our credit and equity businesses. This is about utilizing the strength of our platform, origination capability domain and sector knowledge and strong central functions. In the past, Bridgepoint growth is a good example of this approach as indeed was BDC prior to that. In credit, our CLO business, which had not launched when we acquired the EQT business in 2020, now has in excess of EUR 1 billion of AUM.

The final area is building new investment strategies. We'll have some relatively recent experience with this in the building our Credit business, which now stands at a little over GBP 11 billion AUM. There is significant scope to further enhance Bridgepoint's scale and market positioning and create platform synergies through the entry into other adjacent alternative asset classes or geographies. In relation to this, I want to touch on where we stand today.

Since the IPO, we have reviewed a number of potential opportunities and in the current market, have seen an uptick in the quantum, but we remain very disciplined and will draw on all of our M&A experience in the core investing business to set a high bar for any opportunities that we consider. We are a people business. And anything we do will need to comprise a team that is motivated to continue to deliver quality investment returns and growth in their own franchise, but within the safe harbor of the Bridgepoint platform and culture.

On the page, you can see the seven key criteria we use for assessment of opportunities and I'd like to highlight three of those today. Firstly, and most importantly, shareholder returns. It is absolutely front of our mind, especially in the current markets that anything we do will need to be absolutely accretive.

Secondly, scale and international growth potential. Any deal needs to be or capable of becoming, in a reasonable time frame, meaningful in the context of our existing strategies.

And finally, stand-alone team. We are looking to partner with expert investors in their sector, motivated to deliver incremental growth through leveraging the synergies of the Bridgepoint platform. Geographic coverage or LP relationships are two examples of this.

We are confident that despite these tight criteria, there are firms that meet our expectations and, therefore, significant opportunity to add further verticals to the Bridgepoint platform through M&A exist. As we've mentioned in the past, the obvious asset classes for acquisitive expansion will be infrastructure and real estate.

Finally, on this, in the last 12 months or so, market pricing has come towards us. But as I've said, we will remain disciplined with regards to investor returns.

Now I focused here on our strategy to grow our investing businesses and with that our AUM and FRE income. But before I pass you back to William, I just wanted to briefly touch on the other side of our business model and our thoughts on diversifying our funds' investor base.

Firstly, I should stress how privileged we are at Bridgepoint to continue to enjoy great relationships with the largest and most well-respected LPs in the market. And our existing investors will always be our #1 priority. We do, however, see the opportunity continue to significantly increase the amount of capital we raised from Asia and the Middle East as historically, the majority of our capital is in Europe and the Americas. So as well as investing in our Investor Services team to meet the increasing number of fundraisings that are ongoing, as William outlined earlier, we are growing our global coverage, looking to have dedicated fundraising resource on the ground outside Europe.

In addition to growing LP coverage, we are beginning to look at expanding our capital raising to encompass more retail like investors. We'll be thoughtful in our approach to this and try and learn the lessons of some of the early adopters in our market, but it is clear that there is a significant opportunity in providing private market access to non-institutional investors and we think that the combination of Bridgepoint's strong, consistent investment performance, increasingly diversified product offerings and excellent risk metrics will mean that we're well suited to this market. Naturally, we will keep shareholders up to date on this and business development much more generally as our plans progress.

And now with that, I'll hand you back to William to conclude.

William Jackson: Great. Thanks, Raoul, some really interesting points there. Just on this -- on the final slide, that you can see in front of you now. We've enjoyed as a company a really strong 2022. That's been mirrored by a good start to '23. And I think the organisation is in good health with robust and resilient financial performance. Our business continues to have multiple avenues for organic growth. I think not least with good momentum in the funds that we've got in the market at the moment, including BE VII, obviously, but also strong prospects ahead for BDC V and the other funds that will come to market over the next year or 18 months.

We certainly remain committed to deepening and broadening our middle market platform by acquisitive growth just as Raoul has been talking about, but we'll only do that if it's obviously accretive. That's very, very important. We're a balance sheet-light company with just over 1% of our total AUM on our balance sheet. But the assets we do have on the balance sheet are a really valuable part of the current market capitalisation of our company. And growth in value is really at the heart of the Bridgepoint investment case.

So we've covered a lot of ground here this morning. I'm now going to pause and hand back to Levi at BT, who's going to manage the Q&A session that we're going to open. So open Levi to Q&A.

Q&A

Levi: We will take our first question from Arnaud Gibrat of BNPP Exane.

Arnaud Gibrat: I've got two questions, please.

Firstly, could you expand a bit on the credit environment? Is there significant opportunity for private debt to be stepping in where the banks are retrenching here, particularly what's happening in the banking sector right now? And specifically as well, if you could expand a bit as well on CLOs. I understand that the syndicated loan market is a big area of sourcing. So is there any potential for this disruption in terms of new issuance?

My second question is on deployments in private equity, we're seeing [an] increase in the cost of debt. I was wondering how prices may have evolved if you've closed on two transactions -- have the purchase price multiples come down to the extent to compensate for further higher cost of debt and how is the outlook looking there for new deals in 2023? And finally, thank you for the update on your strategies in Private Equity and Credit. What sort of new products specifically could you be envisaging to develop organically in the near term? Is this a core Private Equity or anything else?

William Jackson: Great to have you with us again. Thank you for those questions. I'll -- I'm going to ask Andrew to cover the credit environment and CLOs, and I'll cover PE and Raoul will cover new strategies. Just 1 point of clarification. One of the things that we've done, you'll see in the numbers this time is our CLO business has grown a lot during the last 12, 18 months. So

we brought that AUM into our calculations. That's behind the shift, the restatement in 2021 of the number. And then again, it's in this year's numbers. But credit environment, Andrew.

Andrew Konopelski: Sure. Yes. I think you actually made the point for me, but I'm sorry, I think during times of uncertainty and volatility, Private Credit certainly comes to the fore. And you're right -- as banks retrench, there is an even better opportunity for private credit lenders like ourselves to step in, I'm thinking direct lending, working with the mid-market companies that we traditionally lend to, both to support them in their continued expansion of their business models. So add-on M&A but also then to underwrite new transactions.

I'd say there's a second opportunity, which really comes down to the -- a bit of what you were suggesting on the CLOs, which is the secondary market. We are seeing a wider dispersion in prices. The market is differentiating between the quality and in times of nervousness, you tend to see credit spreads step out a bit, which usually provides a nice opportunity for us to step into the market on some of the high-quality businesses that we tend to invest in, to add to our portfolios, primarily in credit opportunities.

On the CLO side, I think there are probably two factors that I mentioned on CLOs. One is just on CLO creation -- [it] is very closely linked to the syndicated debt market as well. So when new deals are being issued, you tend to find more CLOs being issued. So they kind of work in a balance. What we're doing in our current CLOs, we actually [came] into this. And the good thing about CLOs is the market data where the data on all the CLOs is quite public. But we are well positioned, I think, with one of the highest quality, highest priced portfolios in the market, which I think stands us in very good stead coming into this period. What we're using in this period to do then is to rotate. So where we can take profits on some of the old loans and/or move into ones that we think are more attractive on a relative risk/reward basis just to try to generate attractive returns. But it does provide a good opportunity.

William Jackson: Great. Thanks, Andrew. Just on the deployment point, I think a couple of interesting things there. Firstly, mid-market is open for business because you can certainly get access from the credit -- the fund credit markets for debt that supports those acquisitions. But that debt is typically 200 million, 300 million. It's not 2 billion or 3 billion. Yes, the cost of debt has gone up but actually, [for] most of our acquisitions, leverage is relatively low. And so as I said earlier, it doesn't form a huge part of our return. So, we don't like to be charged higher rates of interest but it's not that material in the overall fund returns.

In terms of market pricing and deployment, what you see in these times, as I mentioned earlier, that if you've got a company that's gone a long way to fulfilling its potential and is more mature and is delivering growth in these times, then it generally attracts a premium price. However, the differential between companies that are less perfectly formed and those that are at the end of our process in the middle market has increased. So the acquisitions we've done to date have been for Fund VII, for example, have probably been, on average, at an entry price 20%, 25% lower than we would have seen 18, 24 months ago. Of course, these are businesses

-- and this comes through in our underlying valuations -- these are businesses that are also growing in late teens percentages. So it does catch up quite quickly.

And I think that's one of the reasons why you haven't seen really material valuation declines in the space because you wait a year and if you're growing at 15%, 16%, you absorb a huge amount of the multiple decline just through EBITDA growth. So that's why Adam was saying we're actually pretty excited about the opportunity at the moment. The better pricing, some of the tourist investors have gone out of the market and people want to deal -- in a time of uncertainty -- very often people want to have one-on-one discussions and that absolutely plays to Bridgepoint's strength. So I hope that answers your question, Arnaud.

Raoul Hughes: New products and development -- I think the first thing to say is that we said in the short term, we've got really good organic growth within the equity funds that we have. And so that will be the focus within equity over the next -- sort of the shorter term. I think there's lots of new credit -- new products -- that we can move into new credit. And I think we will sort of update you as we actually deliver them. I think we can't sort of talk about them in advance of that.

And then the final thing to say is I think the -- as we start delivering on our M&A agenda, that will also help in our ability to expand the existing verticals as we will have a greater -- sort of a greater spread of the expertise that we can help leverage.

Adam Jones: Yes. So 3 areas there, Arnaud.

William Jackson: Okay. Go back to Levi for the next question.

Operator: Our next question is coming from Nicholas Herman of Citi.

Nicholas Herman: Can you hear me, okay?

William Jackson: Yes.

Nicholas Herman: Very good. Okay. Yes, three from me, please. One on fundraising, a follow-up on deal activity and one on, I guess, balance sheet and opportunities to acquire. On fundraising, it sounds like you're no longer expecting BE VII to be completed in the first half of '23. Just want to confirm that's correct. And more broadly, can you just talk about the fundraising, how you see the fundraising outlook evolving into the second half of this year, maybe into 2024? I'd be interested if you had on your views around that, please.

On deal activity, take your point that leverage is not a major part of -- in the area, in the spaces that you're playing in. Have you seen signs of bid-ask spreads for assets now narrowing? And therefore, you're [inaudible] constructive on the ability to kind of substitute deals.

And then finally, on balance sheet opportunities that's a two-part question. Before you talked about an uptick in the quantum of opportunities, I know you are specifically focused on infrastructure and real estate. I guess that's taken opportunity. Is that broad-based? Or is there any specific tilt within that comment? And then in terms of -- you've talked in the past about how you want to use surplus capital to fund organic growth and inorganic growth. When you think about how you're using your cash and essentially adding leverage, how do you quantify or think about the capacity of the balance sheet to lever up? And specifically, how many times of EBITDA would you be willing to move?

William Jackson: Okay. Thanks, Nicholas. Yes, I mean just to confirm, our fundraising target remains to close the fund by the summer. We're alert to what's happening out there. And the events of the last week, certainly just show you how volatile the world is. But we feel -- I'm pretty comfortable that we're on track, but you just have to take it month by month, but that remains our target. When I look at the market as a whole, I think what you're seeing is just investors facing into a couple of issues. One is that under that -- because of -- if you think about fund valuations, and this comes back to the whole issue of why -- how the heck are private equity values higher than the quoted markets?

And I think there are two or three good reasons for that differentiation and why it isn't quite as volatile. But it does come to where the issue that investors face [is]. The first reason is that, typically, private equity companies' portfolio companies are valued on the basis of selling 100% of the company. They're not valued on the last 5,000 shares that have been traded in the company. And of course, we know because we look at public to privates like other funds, that you have to pay 25%, 30%, 40% premium to take a company private. So when you think about the difference in valuation, then there's one answer to it. Second thing is that -- just go back to Adam's comment on the MSCI growth statistics. Typically, equity markets cover a whole range of different sectors most private equity funds are focused on absolute returns. So the sector exposures are in different places.

Now clearly, if you have very high-growth sectors that have become overheated, valuations come off, but in a fund like ours, we have a slightly more -- slightly broader base of niches we're in, but still in high growth. So you've got that factor coming in as well there. And actually then you've got the underlying growth of the EBITDA, which goes a long way to compensating for valuation declines. And of course, coming back to your question, the consequence of that is that while you have seen a rotation in public markets, a lot of private market valuations haven't come off. They've come off quite a lot in the venture sector and a little bit in the large buyout world.

But on the whole, they haven't come off that much. And so that is the so-called denominator effect. And I think that effect probably will run through the rest of this year and into '24. The interesting thing is that a year ago, most LPs were really focused just on tech investing. It was the hot area. And when you go through a cycle, it leads them to rethink where they want to commit capital. So -- and I mentioned earlier that realized returns suddenly become the benchmark rather than net IRRs on unrealized valuations.

So I think for every fund in the market, and it's notable actually, that the funds coming to market at the moment are not setting targets on the whole because it is an uncertain environment. But I feel we've seen a lot of interest in our -- the funds we've got in the market. The middle market positioning, the middle market has become the place of interest at the moment right across the middle market. But we spend our time working with our LPs to make sure we can help them get to the right conclusion. So that's what's going on in fundraising.

In deals -- the other question you asked was on deal activity and leverage and whether the bid-ask spread had changed. I mean I think we are seeing a little bit of that, but it depends on the nature of the business, really. As I said earlier, if you've got a high-performing company that's growing fast, there's a lot of interest in it. If you've got a business that you -- that needs -- that has got a lot of potential, but it hasn't yet realized at all, then the price spread has broadened. So I think that's why on the whole, most of the transactions are done on high-performing businesses, and you don't see multiples coming off that much. But Raoul, do you want to comment?

Raoul Hughes: Yes. Maybe one of the things that has changed over the course over the last year or so, is that the more of the processes are done privately. And we're seeing a lot less of the investment which say it's to a city guy asking the question, sort of investment bank-led auction processes. And so it's perhaps harder to tell whether the bid-ask spread is closing or not because it's much more likely at the moment that if you're thinking of selling a decent business, you want to go and have a couple of private conversations with people rather than an investment banking process in the book. And that's evidenced in the sort of deals that we're doing across both of our equity or [inaudible] products, where I mean the latest deal, as an example, signed by -- in our BDC business -- the team managed to have a 4-month exclusivity period to really dive into the business and understand the and track its trading for a period of time in making the buy decision. And that is definitely sort of a shift in the market.

William Jackson: So do you want to talk about balance sheet?

Raoul Hughes: Yes, and quantum of opportunities I mean I think we -- what I meant by that is, as we've settled into life as a public company and the enhanced profile for Bridgepoint and the store in the messaging and our quoted equity position. We have found an increasing number of sort of founder-owned single vertical alternative asset businesses that have sort of expressed interest in joining a more diversified platform. And the sort of the story at the time of the IPO about this being a really interesting vehicle is manifesting itself in interest across the space. It's a small industry. It's a narrow number because it's not sort of a flood of opportunity, but there's an increasing number of conversations we're having with an increasing number of firms, who the concept of becoming part of as I've described, as the sort of the Bridgepoint family in the safe harbor of our sort of diversified firm is sort of is interesting to them.

I think the critical bit of what I said also in the presentation that for us, it's really important that we find, in an M&A environment, a like-minded culture and a like-minded approach to

doing business, but also that these are very successful funds that are experts in their space. And so the added value of being part of Bridgepoint is additive rather than substitutional, and that's critical for us.

William Jackson: I'd also say that the -- having listed paper as a currency in a transaction is very helpful because ultimately, while it ensures stronger strategic alignment with both parties, there is obviously a pathway to liquidity over time.

Raoul Hughes: But just to be clear, the core strategy is we're well positioned in private equity. We've got dedicated teams that run those funds similarly in credit. What -- if we would execute on M&A, it will be to bring a separate vertical in that will be stand-alone and therefore, not distracting to the success of those two strategies, but leveraging all the resources and actually enhancing the overall resources and knowledge going back to that kind of strategy of total immersion in the space and having good organic growth but keeping completely focused on our area of expertise.

And leverage, we would not have enthusiasm for high leverage on our balance sheet. So don't worry about that. But I think the point I'd make about M&A is that valuations have come down in the companies that we're looking at. And so you -- when Adam talks about use of paper, it would be relative to where the industry is, which is an important point.

William Jackson: So Nicholas, well, thank you for those questions. We'll go back to Levi for the next question.

Levi: There are no further questions on the conference line. I will hand back to the management in the room.

William Jackson: Okay. Well, listen, thank you very much. to everybody. You've got two that have come in. So Adam's got 2 that have come in online.

Adam Key: So the first one is from David McCann at Numis. "You referenced acquisitions needing to be accretive. What metrics are you considering, which would determine this accretion?"

Raoul Hughes: Good question. I pick up three, I think: FRE accretion is an important component of this. As you know, the sort of fee-related earnings are key drivers of long-term value in our businesses. And so the ability to add something into the platform that is immediately accretive at an FRE level is really, really important to us. I think we also would aim it to be accretive at a bottom line level. Although to a degree that's slightly more variable because part of that level of accretion is a function of the proportion of existing carry and co-investment investments that that platform has already made that come across as part of the perimeter of the transaction. So that's slightly more variable. FRE accretion is absolutely critical. And I think we would expect accretion to be from day 1, but also over the long term.

Adam Key: And then the second question is from Greg Simpson at Exane BNP Paribas. "In the funds overview slide, the group share of carried interest in BE VII is shown as TBC. Can you just confirm we should still expect 22.5% share consistent with the messaging on listing? Or could this change?"

Adam Jones: Well, we haven't yet finalized the carry allocations, which is why it's termed as a TBC. But at this point, within the range. No change there.

William Jackson: Okay. Any other questions, Adam?

Adam Key: I think there's one more to come.

William Jackson: From Levi. Levi, have you got another question?

Levi: Yes, yes. We have our next question coming from Tom Mills of Jefferies.

Tom Mills: Apologies if I missed it earlier, but I was just wondering, are you seeing sort of more opportunities or wanting to push through sort of more add-on deals in your existing portfolio companies to sort of drive value accretion, then you would have done in recent years?

William Jackson: It's a good question, Tom. I mean if you were to get into the detail on Fund VI, which is our -- the fund we completed in the summer, our flagship fund we really, in the last 18 months, doubled down on bolt-on acquisitions, where we've seen significant value. And typically, on bolt-on acquisitions, particularly larger ones, we've been able to acquire them at probably 20% below platform investments, but also then get really meaningful synergies through, which drives equity value. So it's been a big part of our thesis. And I guess the tilt that we've done is we've always done 50 or 60 bolt-ons for each fund that we have but in Fund VI, we've done 3 or 4 big acquisitions that are kind of the same size as the platform, the original platform.

And they have the capacity to be transformational. And in our track record, what we're seeing and we're focused on over time is we're seeing in Fund V and Fund VI, flagship Fund V and VI and indeed in the BDC III and IV the potential to get multiple breakout returns. So rather than having the return of the fund driven by 1 or 2 big winners, getting 4, 5, 6 big winners in a fund. By that -- when I talk about breakouts, if you have a target return of 2.5x money and you're getting north of 3x that you're into breakout territory in our space. So really interesting opportunities around at the moment.

Okay. Levi, any other questions before we close?

Levi: There are no further questions from the conference line. I will hand back to the management.

William Jackson: Okay. Thanks very much, Levi, for managing that process. And thank you to everybody for following us today. I'm sure people may have follow-up questions, please don't hesitate to reach out to Adam and either Adam -- Adam Key, who runs our Investor Relations or Adam Jones [CFO] and we'll look forward to giving you a further update later in the year. Thanks very much for being with us this morning. Thank you.

Adam Jones: Thanks all.