Half Year Results Presentation

Presentation Transcript
13 November 2024

Christopher Hunt

Good morning and thank you for joining ICG's results presentation for the six months ending 30th of September 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. I'm joined by our CEO and CIO Benoît Durteste and our CFO, David Bicarregui, who will give an overview of our performance during the period and we'll 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. And at this point I'll hand over to Benoît.

Benoît Durteste

Thank you Chris. Good morning everyone. Today we are reporting results that buck the trend of what remains a challenging environment for private markets. Near-record fundraising, total AUM has reached $106 billion, increasing transaction activity, higher client numbers, now close to 750, and growth across almost key financial metrics with of note management fee income up 23% year-on-year.

In the first half, we have reinforced leading positions in our flagship strategies of European direct lending and GP-led secondaries. We have also significantly progressed a number of scaling strategies including North American Credit Partners III, Europe Mid-Market II, and Europe Infrastructure II. Looking ahead Europe IX is receiving strong interest from clients and we are now expecting to have a first close before the end of this financial year.

Three key factors drive, I believe, this performance. One, the breadth of our product offering, diversification does make a difference. Two, our strong deeply ingrained investment culture reflected in our track record. We are clearly recognized in the market as uncompromising on investment discipline and quality and not as a volume player or asset gatherer. And three, bifurcation of the private market. ICG belongs to a relatively small group of managers capturing a disproportionate and increasing share of investor capital allocations.

From a shareholder perspective, this is resulting in a growing business that is yet more diversified, more profitable with lower capital intensity, and is strategically positioned to be one of the few globally relevant scaled private market managers, as the industry continues to evolve and consolidate in the coming years. ICG's favorable competitive position is exemplified in what is perhaps the most high-profile event of H1 for us. The final close for the SDP-5 strategy, direct lending, which at just under $17 billion represents the largest ever European direct lending fundraise.

Today we manage Europe's leading senior direct lending platform. This level of incumbency and scale takes time. We started senior debt partners in 2012 financing companies at the time with an average net debt of less than a 100 million euros. Roll forward 12 years, we have completed more than 180 transactions, deployed 26 billion euros of capital and generated a gross IR of just under 9%. And we are now financing companies with an average net debt close to half a billion euros.

Crucially, from an investment perspective, as the strategy has grown, we have invested at stable pricing and risk metrics while financing bigger and better businesses. Our origination platform, brand and discipline along with the underlying growth of the market opportunity has enabled us to maintain our client returns with an improved risk profile and while increasing AUM. From a shareholder perspective, in the last five years we have increased management fees for the strategy by over two and a quarter times.

Taken in isolation, building in a decade the leading European direct lending business is in itself an accomplishment and certainly a source of significant value creation. In the context of the group, interestingly, as a percentage of our total management fees, SDP has remained basically flat, which is a testament to how we have grown other strategies and diversified our fee streams, at the same time as building from scratch this leading strategy.

That breadth demonstrates its value as we go through cycles. Different strategies appeal to clients at different times and different investment opportunities sets present themselves depending on the economic landscape and competitive environment. Today, sentiment around private markets has materially improved compared to even six months ago. Debt markets are exuberant, interest rates are off their peak and there is building pressure on many managers to realize assets and return capital to investors which should drive a recovery in buyout deal flow. However, we continue to observe a disconnect between this perception and the reality on the ground, which the charts on this page make clear, I think.

Looking at global private equity deployment and realisations over the last 12 months compared to the annual averages of 2020 to '23, you could see the last 12 months are running lower, in particular realisations down over 25%. This is the DPI predicament that mostly the private equity managers are finding themselves in, low levels of distributions to LPs, which in turn is a limiting factor on overall fundraising for the sector. As a matter of fact, total fundraising volumes are down again in 2024. They have been coming down every year since 2021. And more strikingly the number of funds holding a final close is expected to be down 8% to 10% from last year, which would translate into a 70% drop. That's 70, compared to the 2021 peak.

ICG's performance, however, is bucking the trend. Our deployment and realisation figures are up in the last 12 months compared to the average of previous years. Part of this is our waterfront of products, debt strategies and liquidity solutions such as secondaries have seen higher levels of transaction activity recently. The other part of the explanation is our investment philosophy unchanged for decades, with a focus on risk return, not just return on investment performance of course, and in particular because it is essential for consistency of performance on cash returns, on realisations. Always important but especially valued these days by LPs.

Here we set out five strategies, both flagship and scaling, showing their relative performance versus the industry for IRR on the top row and DPI on the bottom row. Our investors, our LPs, are well aware of these metrics and this is a critical differentiating factor, particularly in the current market and fundraising environment. Our franchise is built on excellent investment performance across the broadening waterfront of products, which makes our business more relevant to clients, more scaled and more diversified. And you see that here. This is important. This is the long-term foundation for ICG's continued success and the fact that we can lead with this track record means we are exceptionally well positioned as we look forward to our next a $100 billion of AUM.

Now turning to our results. AUM of $106 billion, fee earning AUM of $73 billion, AUM not yet earning fees of $19 billion. Our AUM metrics are growing strongly. And this is reflected in our management fees and our fund management company PBT both up over 20% year-on-year. And David will walk you through these numbers in detail in a moment. From a corporate perspective, we published our sustainability and people report over the summer, marking decades since we established our responsible investing policy and became a signatory to the PRI. The report gives some rich insight on our activities last year and our areas of focus for the future. It's well worth a read.

And finally, amongst the hires we have made this half as we continue to strengthen the platform, was a new global head of marketing and client relations, Alan Isenberg, who's based in New York. Alan is replacing Andreas Mondovits, who after 12 years at ICG building our MCR team and being integral to our growth is stepping back and will take a senior advisory position focusing on our Asian expansion. You'll have the opportunity to hear from Alan in the coming quarters. It's an exciting new chapter, not least because I believe we have significant runway to grow our fundraising capability in the Americas. So strong period financially and strategically.

Looking in more detail at the transaction activity over the period which has increased in aggregate, but that increase is not universal across all strategies and in all geographies. For instance, we saw strong deployment in structured capital and private equity largely driven by European corporate, which is focused on nonsponsored transactions and therefore not correlated to the sluggish private equity market. And by strategic equity, which is a clear beneficiary of the current environment as an attractive alternative for GPs to both create liquidity for their investors and deploy their capital.

By contrast, private debt deployment remains lower than recent periods. For one thing because it is partially dependent on buyout market activity levels and also because as I have pointed out in prior presentations, this asset class is somewhat counter cyclical. When debt markets are closed, you have no realisations and any new investment is a net positive. When debt markets reopen as they have, you have to contend with a wave of realisations which is good for your DPI numbers, but in terms of fee earning AUM, you need significant deal flow just to compensate. It's important to note in that context that the strategy, direct lending has returned to positive net deployment in Q2.

And we have announced a number of realisations from infrastructure in recent quarters, which as you saw earlier puts that strategy in the top decile from both a return and DPI perspective. This has added more momentum to the fundraise for European Infrastructure II, which will close in June 2025. So here again we see the tangible strategic benefits in our breadth of products at scale.

And this is also visible in fundraising, which was very strong in the period. Indeed, it was our second highest ever six months period. Direct lending was the largest absolute contributor, which is not a surprise going into a final close. Strategic Equity V and Europe Mid-Market II continue to raise strongly with the commingled fund for SE V now at over $5 billion and Mid-Market II at circa 2 billion euros. Both are already larger than their prior vintages. And both will have a final close by the end of this fiscal year.

I mentioned European Infrastructure II on the previous slide and you can see we have raised over $700 million in the period, twice as much as it raised in the entire full year '24. The strategy is clearly gaining momentum on the back of strong performance metrics. Our US mezzanine strategy closed its third vintage in the period at $1.9 billion. That's 50% larger than the previous vintage.

So in a fundraising environment where it is said that flat is the new up, for ICG thus far up remains the new up. We even grew our number of clients by over 60 in the last six months, it now stands at nearly 750. Worth noting, the Americas were our single largest source of capital in the half, an area of focus for a number of years, and the geography with still the most significant fundraising potential for us.

Looking forward, we have as always quite a lot on. Fundraising is by essence lumpy, driven by which strategies we have in the market. And this fiscal year is likely to be at the higher end, which would naturally be balanced by a lower fundraising year in next financial year. One of course should not annualize the $10 billion we've achieved in the first six months. Still this year is shaping up very well and certainly reinforces our confidence in the medium-term fundraising guidance we set out at four-year.

Looking ahead, I remain convinced that our unwavering focus on and reputation for investment performance is the key to a long-term success in scaling up and scaling out. The benefits of that focus are visible in the results we are reporting today. This cycle is leading to an increased dispersion in the prospects of managers, and ICG is clearly one of the beneficiaries. That is a positive for our clients, our employees, and of course our shareholders.

When activity levels do re-accelerate more broadly, our strategic positioning client franchise and brand equity will have been enhanced and should enable us to outperform the wider market in that growth resurgence. 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. I'm pleased to report that we have published strong results this morning with growth across key financial metrics. Fee earning AUM up 4% in the period. Last 12 months management fees up 10% compared to FY24. Last 12 month fund management company PBT up 9% against FY24. And NAV per share of 788 pence.

So starting with fee earning AUM, which during the period grew 4% to end at $73 billion. And over the last five years has grown at an annualised rate of 15%. Since March we have raised $2.9 billion for strategies that charge fees on committeeD capital and deployed $4.1 billion in strategies that charge fees on invested capital. In addition, we have $19 billion of AUM not yet earning fees, up from $16 billion at March. So fee eligible AUM grew by 19% in the last six months.

Our AUM not yet earning fees give significant visibility on future management fees linked to our pace of deployment, largely in private debt. Our management fees grew 23% year-on-year or 11% excluding catch-up fees, which this period was 27 million pounds. Last 12 months management fees are up 10% compared to FY24 and now stand at 558 million pounds for the 12 months to September. Performance fees of 32 million pounds are in line with our medium-term guidance of being 10% to 15% of total fee income. And this period were driven by Europe VII and the inaugural recognition for Europe Mid-market I. During the period we received 40 million pounds cash proceeds from realised performance fees.

The balance sheet investment portfolio generated NIR of 48 million pounds in the period, representing an annualised return of 3%. This included interest of 67 million pounds and a capital reduction of 20 million pounds. Over the last 12 months NIR has been 9%. And the average over the last five years is 11%. So a strong long-term track record of value creation. During the last six months all asset classes except credit generated positive NIR, although limited write-ups in fund valuations result in lower returns than recent periods.

Within credit we have not made any changes to our modelling assumptions for CLOs, and the default rates we are observing remain below those assumptions. From a cash perspective the balance sheet deployed 266 million pounds alongside our funds, 104 million pounds in seed investments and received 436 million pounds in realisations. So balance sheet investment activity generated net cash of 66 million pounds and the balance sheet investment portfolio closed the period at a value of just under 3 billion pounds.

Shifting to operating expenses, which is a group level, were up 8% year-on-year. Over the long-term group Opex has grown at 13% CAGR over the last five years, materially lower than the management fee growth of 20% CAGR over the same period. The fund management company cost base grew 19% year-on-year and 10% compared to the second half of FY24. As a result, the fund management company reported PBT of 196 million pounds for the period, up 21% year-on-year with a fund management company PBT margin of 55.3%. Over the last 12 months fund management PBT of 408 million pounds, up 9% compared to FY24.

Alongside the strong earnings we are reporting, our balance sheet remains a valuable asset and a strategic asset. It is well capitalised with net gearing of 0.35 times, down from 0.38 times at March 2024, as an attractive term debt profile, alongside substantial available liquidity. During the period, Fitch upgraded our credit outlook from stable to positive and we repaid 223 million pounds of debt that matured. And we recently extended our 550 million pound revolving credit facility, which now matures in October 2027. At the end of September we had shareholder equity of 2.3 billion pounds equivalent to 788 pence per share.

So to wrap up, we are pleased to report continued profitable growth across all key metrics. ICG's positioning within our industry and our investment track record and client franchise come together to translate into very attractive financial performance over the short and long term. Looking ahead, we are confirming our medium term financial guidance and we are excited about what the future holds. With that, I'll turn back to Chris, and we look forward to taking your questions.