Bridgepoint

Bridgepoint FY 2023 Full Year Results | March 14, 2023

CORPORATE PARTICIPANTS

William Jackson *Chairman*
Raoul Hughes *Chief Executive*
Adam Jones *Group CFO & COO*
Adam Key *Head of Shareholder Relations*

CONFERENCE CALL PARTICIPANTS

Angeliki Bairaktari *JPMorgan Chase & Co*
Arnaud Giblat *BNP Paribas Exane*
David McCann *Deutsche Numis*
Nicholas Herman *Citigroup*

PRESENTATION

William Jackson - *Chairman*
Good morning, everybody, and welcome to Bridgepoint 2023 full year results presentation. I'm William Jackson, Bridgepoint's Founder and Chairman, and I'm joined this morning by Raoul Hughes, our CEO; and Adam Jones, our CFO. Now before I hand you over to Raoul, I'd just like to take a minute to talk about where the business stands at the start of 2024.

Our key message today is that Bridgepoint is in great shape.

Looking back in our investor update in 2021, we will probably the first to call publicly and I think very transparently the start of some more difficult times in the alternatives market and especially that's coming slowdown in the fundraise market.

Today, we're making the call that that period is coming to an end. We're seeing an improvement in market conditions right across all our activities. But importantly, right through that period since November 21, Bridgepoint breakpoints being able to continue to raise, deploy, and realise capital while also executing on our business development strategy. And I think that just shows the strength of our model and the depth of our platform.

As a result today on many measures, we're now well ahead of where we expected to be when we IPO'd in 2021. Two specific highlights, I'd just like to mention from our year in 2023.

In September, as you'll recall, we announced the combination with ECP. Once that transaction is closed, Bridgepoint will offer exposure to the three largest and most important strategies in private markets, private equity, infrastructure, and private credit. And that's at a time where the breadth of offering is really of increasing importance, both to fund investors and to shareholders. But very importantly, our ability to have high quality operations on our platform as well as the quality of our group earnings.

Secondly, BE VII. We've talked about BE VII for a long time. We've long been advocates of the robustness and opportunity that's presented by the European middle market. It's actually the premise on which our business is being built. And I'm pleased to say that BE VII is set to close at the end of this month, right on its target of EUR7 billion. It's a great result. I'm now going to hand over to Raoul and Adam, who are going to talk you through the performance and progress in '23. And after that, I'll conclude with our outlook for '24 and beyond. So with that, over to you, Raoul.

Raoul Hughes – *Chief Executive*

Thank you, William, and good morning, everybody.

I'm pleased to report in a compelling set of financial results. Investment performance continued to be strong across private equity and credit. Importantly, deployment and fund returns both remained in line with, expectations, in fundraising, BE VII and ECP V are on track, and we expect a good year of capital raising ahead. The balance sheet is strong and will be further strengthened following the US private placement, which we will cover in more detail a bit later. The platform is well positioned as activity accelerates and the market recalibrates.

Now, as you will have seen on ECP we are waiting on the final regulatory clearance from the US energy regulator, and we expect the transaction to complete in Q2 this year. Had ECP being formerly part of the group closing AUM for the year would have been EUR62 billion split across private equity infrastructure and credit, 2.3 times the IPO 32 months ago. Excluding ECP, our FRE margin grew from 31% to 36% thanks to increased management fees and careful cost control, something which Adam will say more about later. The addition of ECP will result in a higher FRE margin than from Bridgepoint standalone, taking account of the normal margin cycle which peaks when new funds come on stream.

Looking at the performance of our existing PE and credit businesses, management fees grew by 10% to GBP265 million and underlying FRE grew by 28% to EUR95 million. With encouraging signs that the exit market is now recovering, we are pleased to report PRE, which while 15% down year on year as we foreshadowed it would be in September was nonetheless ahead of market expectations at EUR55 million. As a result, underlying EBITDA increased by 7% to EUR149 million.

I thought it be also worth quickly looking at our performance over the slightly longer term.

Since 2020 and the IPO, we will have grown AUM by an annual rate of 32% including ECP and for the existing Bridgepoint perimeter alone, our fee income by a total of 79% and PRE by 31%. Amortising our cost base over a larger AUM and fee income has resulted in the underlying FRE almost quadrupling and our FRE margin more than doubling. All this has been achieved while growing our investment team by just 9% and maintaining a consistent blended fee rate with a minor reduction due to the mix shift between private equity and credit. Importantly, we've been doing this for a long time and over the last 20 years, our strategy of pursuing both organic and inorganic growth has resulted in AUM growth of 15% per annum. This has been achieved over the long-term cycle in, cycle out.

Now having talked about the financial performance, on the next few slides, I wanted to touch on the drivers of that performance in the business, fundraising, deployment and capital returns, and valuation progression.

Despite a challenging market backdrop, we made good progress with fundraising in 2023 with over EUR4.5 billion of capital raised across the firm and ECP. Combined with fund performance, this gives us confidence that we can achieve our capital raising aspirations for 2024 and beyond. Credit had a particularly strong year with over EUR1.5 billion raised for 2023 vintage funds, putting Bridgepoint Direct Lending, Bridgepoint Credit

Opportunities and two more CLOs. This positions the credit business well to continue to take advantage of the more favourable interest rate environment.

As William mentioned in the near term, BE VII is expected to close this quarter at the EUR7 billion target. ECP V is expected to close at the back end of April. We guided in September to a target of EUR4 billion, and we expect that will end up a bit ahead of this number. Both of these are great results in the current market and set up these funds with plenty of capital through their next cycle. I'd particularly like to thank William sitting next to me from Bridgepoint perspective, but also Doug Timmerman at ECP for their continued tireless efforts, in particular, travelling around the world meeting investors.

In 2024 credit will see Bridgepoint lending IV, Bridgepoint credit opportunities V to further CLOs and ECP ForeStar, which is the new ECP credit vehicle, all raising money. While in private equity BDC V and Bridgepoint growth II will both be in the market. The prospects for BDC V are particularly strong given the outstanding performance of BDC III, which is among the top performing European low and mid-market funds in its vintage.

All of this activity is underpinned by continuing investment in our capital raising capabilities. The investor services team has more than doubled since 2021. We now have a global presence with new IRR colleagues on the ground in China, Singapore, South Korea, and Japan, as well as to specifically cover the back region, along with a strengthened team in the US as well as our first individual dedicated to the private wealth, channel, one positive consequence of the congestion in the fundraising market over the past two years has been the addition of new LPs into BE VII which has significantly diversified our geographic mix and brought in a number of new sovereign wealth funds to the platform.

Where historically Bridgepoint had over-indexed in the US, the most mature LP market and which represented some 56% of BE IV's capital, we now have a much broader exposure globally with a material increase in the proportion of capital raised for BE VII coming from Asia and the Middle East, are almost a quarter of the fund. This diversification and expansion of our investor base positions us well for future fundraising in 2024 and beyond.

Now, deployment pace.

Deployment pace is always lumpy. There is a certain seasonality to our business in the way processes start and finish. And after a strong half two in fund deployment, particularly in BE, we finished 2023 with all funds broadly on track against the deployment targets, perhaps even a deal ahead in BDC IV at 79% invested. Importantly, our guidance for the timing of subsequent funds remains unchanged.

This is a strong endorsement of our team's approach to origination. For example, the European private equity team typically tracks opportunities for on average three years pre-investment getting to know founders, families, and management teams very well. This means that in our middle market, often transactions are happening outside of typical follow auction processes and therefore, potentially less subject to wider trends in M&A activity.

While M&A markets were subdued in 2023, we nonetheless returned $1.8 billion of capital to investors having exited six private equity investments at an average multiple of 6.8 times money invested.

I'm particularly pleased that we have a healthy pipeline of potential access to 2024. As ever, these things are binary and the timing uncertain. But I'm confident sitting here in mid-March that we can continue to deliver in the year ahead.

And finally, fund performance.

This continued to be strong across private equity and credit and progress in fund valuations underpin the PRE we have reported today. Bridgepoint Europe VI remained ahead of plan with a MOIC of 1.8 times, while BDC III showed strong momentum to grow from 3 times to 3.8 times during the year. In credit, Bridgepoint Direct Lending III and Bridgepoint Credit Opportunities IV both remained on plan with net IRRs of 10.4% and 13.8% respectively. In infrastructure, ECP III made good progress with its MOIC increasing from 1.9 to 2.

Importantly, we continue to record exit at a premium to fund valuations with the average valuation uplifts on exit across our private equity fund of 34% over the last five years, and actually 48% of those exits in 2023, maintaining our strong track record of top quartile DPI.

This trend in fund performance, which means that we are continuing to record valuation progression is no accident and is at the core of what the business does and what we do very well at Bridgepoint. This slide is something that Xavier Robert, our Chief Investment Officer, covered in detail at the interims last year, but it's worth repeating.

We are very structured and disciplined in our investment approach. Defined asset selection and our value creation toolkit are at the heart of what we do, helping us deliver premium performance and valuation progression without multiple expansion. This is illustrated by the fund metrics you can see on the right of this chart. High growth, high EBITDA margin, strong cash conversion and relatively low leverage. So strong performing sensibly run growth businesses. Indeed, a lot of these are replicated in our credit business, too, where sector isolation away from more volatile sectors and significant equity value cover set that business up to do well despite changing markets.

Next, a couple of thoughts on ECP and the wider strategy before I hand over to Adam to talk through the numbers in more detail.

As I mentioned, we anticipate the ECP transaction will close in quarter two. In the meantime, the businesses are spending a lot of time together. Planning for global LP coverage is advanced. As a reminder, ECP brings over 170 new LPs to the platform with an attractively low overlap of about 20%. We have established mechanisms for sharing transaction opportunities post-closing and we are expecting critical functions to be integrated quickly and product and strategy extensions will come into focus after closing.

In terms of ECP's performance, fund V fundraising is going well and should close a bit ahead of target as I have said. Importantly, deployment is on target at 40% and with a number of interesting opportunities in the pipeline provides comfort that their fund cycle II is on track. As we spend more time working together, I'm increasingly excited about the future of the combined group. There is a real cultural fit between the two teams as we get to know each other more.

Now, we plan to host a Capital Markets Day later in the year, including the opportunity to meet the wide ECP team. And I hope that many of you were able to join us for that.

ECP will be an important step forward for the Bridgepoint Group. But I'm conscious that we need to be prepared for further opportunities as the pace of industry consolidation continues to increase. To this end, we recently took the decision to partially refinance the existing ECP bond following closing of ECP transaction and raise incremental capital through the US private placement market. These facilities are conditional on closing and will replenish the balance sheet capacity to fund the next series of opportunities and investments in funds following capital use for the cash component of the ECP deal.

We are well positioned to continue as a global leader in middle market, added value investing, and build on our strong position and continue to look at both organic and inorganic growth across investment strategies and geographies, through scaling existing strategies, product strategy extension, and expanding into new alternative asset classes, and diversifying our sources of capital.

And with that, I'll now hand you over to Adam to take you through the numbers in more detail.

Adam.

Adam Jones - *Group CFO, COO*

Thanks, Raoul. Good morning, everyone.

I'm now going to take you through some more details on our financial performance in 2023 and update you on guidance for 2024.

Overall financial performance was very strong in 2023, underpinned by the strength and resilience of Bridgepoint's business as you've just heard from Raoul.

Careful cost control and strong investment terms, both played their part in today's results, and I'll say a little bit more about those each shortly.

As you have heard, we've recently taken steps to further strengthen the balance sheet to support our strategic growth plans with an incremental USD430 million private placement of debt.

We are today announcing a final dividend of 4.4p per share, subject to approval at our next AGM. This means that our total capital distribution to shareholders in 2023 between dividends and share buyback will be 16.4p per share. That's more than twice the 8p per share from 2022.

We are today setting out our guidance for FY 2024. And in summary, we are well placed to meet current market expectations.

Let's start with assets under management.

We raised a total of EUR2.7 billion in Bridgepoint's in 2023 across BE VII, Direct Lending III, and Credit Opportunities IV, and also delivered EUR1.9 billion of realisations. Valuation gains linked to the strength and resilience of our aggregate fund performance added a further EUR1.7 billion.

These valuation uplifts were trading driven with weighted average EBITDA growth of 19% across our private equity funds versus minus 5% for the MSCI European index.

Importantly, 81% of our unrealised valuation multiples were flat or reduced in the year, which really does underscore the strength of earnings performance within our portfolio.

Consequently, AUM finished 7% ahead of the prior year at EUR40.5 billion.

If we were to adjust those figures for the addition of ECP, assuming the transaction had closed in 2023, total group AUM would have grown by 62% to EUR61.6 billion.

Now turning to fee-paying AUM, we raised a further EUR1.4 billion of capital commitments and deployed EUR2 billion of new fee-paying capital. Set against this fee-paying asset realisations from the both the sale of equity investments and the return of capital and credit strategies totalled EUR0.8 billion. So in total, our fee-paying AUM grew by 11% year on year.

Again, with the addition of ECP, fee-paying AUM would have grown by 57% to EUR36.7 billion. This growth in fee-paying AUM obviously delivered strong growth in management fees and other income, which grew by 10% to just over GBP266 million in the year, including catch-up fees of GBP6.7 million for BE VII.

In aggregate, revenues grew 5% year on year to just under GBP322 million. Fee margins across all of our strategies were stable in 2023 with a slight year-on-year decrease driven by the increased proportion of private credit in our fee-paying AUM.

As we'd previously guided at the interim results in 2023, PRE was materially skewed to the second half of the year and represented 17% of total revenues with the assets that we chose to sell, delivering an average 6.8 times money multiple. This result was slightly ahead of our previous guidance of 15% due to the strength of trading performance in our funds over the last six months.

As you know, PRE is not linear across the year and it is dependant upon both the progression in fund performance and the timing of exits. We do expect PRE for 2024 to be similarly weighted to the second half of this year.

Before we move on, I would like to just highlight the significant potential future value of our fund coinvestments in carried interest, which will collectively drive PRE over the coming years.

Since 2018, we've recognised nearly GBP300 million of PRE, but the embedded potential value of future PRE remains very material, with over GBP1 billion expected from current funds, including those materially raised to date.

Let's just break that down into its constituent parts to illustrate that point in more detail.

In the second bar of the graph, the right-hand side of the page, you can see that GBP67 million of carry is still to be recognised from current funds if they are to be fully realised at that Q4 2023 valuations.

Next is a roughly GBP400 million of PRE to be earned from fully invested funds if they deliver on their target returns.

And finally, there is illustratively a further nearly GBP700 million of PRE from funds that are not yet fully invested if those to ultimately deliver their targeted returns.

If you compare the split between the carrying and co-invest on the graph, you can see that as you move from the left to the right of the graph, there is a material growth in carry within PRE, which obviously reflects the fact there was a higher corporate share of carried interest in newer funds.

Now let's move on to operating expenses.

Those totalled GBP171 million for the year, an increase of just 1.6% from 2022. Careful cost control was an important contributor to overall performance in the year with prudent management of cost growth and headcount investment during what was an uncertain macro environment.

Total personnel expenses were essentially flat year on year, with headcount investments largely phased over the last six months, offset by a lower bonus expense, which reflects the lower number of exits that we realised in the year. FTE growth of 3.7% in '23 was principally driven by continued investment in portfolio support teams, Investor Relations, and our credit team.

Other expenses grew by 7% to just over GBP45 million, mostly relating to increased travel and higher legal and regulatory spend with the completion of our AIFM registration in Luxembourg.

Having looked to revenue and expenses separately, let's now review the impact on group profitability.

Fee-related earnings grew by 28% to GBP95 million in '23, reflecting the first full year of fees on BE VII combined with our cost control efforts that I mentioned.

Our FRE margin continued to expand reaching 36%, which is now more than doubled since the IPO.

The combination of FRE and resilient PRE saw underlying EBITDA reached almost GBP149 million, a 7% improvement on 2022.

If we turn to the reconciliation between underlying and reported, profit before tax, this is driven by obvious exception expenses, which consist principally this year of expenses incurred in the combination with ECP.

Looking briefly at our tax charge, this increased from GBP6.8 million in 22 to just over GBP15 million in 2023. The increase in underlying effective tax rate to 11.4% is caused by the lower level of completed fund exits relative to the prior year.

Now here's a high-level summary of the underlying bridge point balance sheet, which excludes the presentation impact of consolidating our CLOs, since that accounting requirement does somewhat confuse the underlying position as I previously mentioned.

The recently executed private placement totals USD430 million with a mix of three five seven and 10-year tenors, but in a blended coupon of just over 6.17%. The additional funds raised will be put on deposit at an interest rate of approximately 5% and therefore, they will only have a marginal impact on our interest expense line until they are deployed, obviously, at which point they will start generating incremental profits and cash for the group. This now gives us substantial new capacity to support our business development strategy and they actually fully replenish the liquidity we had following the IPO.

If you combine the GBP239 million of cash and the undrawn GBP250 million revolver, that means we have liquid resources at the year-end of nearly GBP0.5 billion ahead of a cash funding obligation of just over GBP230 million on the completion of ECP.

Co-investments on the balance sheet continues to represent just 1.3% of total AUM, which again underscores our capital-light profile.

As you know, we completed our first GBP50 million share buyback programme in October and then launched a second GBP50 million share buyback, which at the year-end still had GBP40 million remaining to deploy the combination of our proposed dividend and the share buyback means that our total capital distribution shareholders this year will be 16.4p per share.

Now I'd like to finish my presentation by turning to guidance for 2024.

In summary, as I said, we believe that we are well placed to deliver the market's current expectations for this year.

For the sake of simplicity now and going forward, we are going to present and guide the underlying performance of the Group, assuming a full year of the combined group of both Bridgepoint and ECP.

Other than the fact that ECP V is now aiming to close a little ahead of its $4 billion target, we are, today, reiterating the guidance we gave in September relating to ECP.

On fundraising, we expect the group to raise at least EUR20 billion over the next fundraising cycle.

We expect direct lending for to start generating fees in the second half of this year. Bridgepoint development capital V and credit opportunities V in the first half of 2025 and ECP fund VI in the second half of 2025.

As Raoul and William said, BE VII is expected to close this quarter at the EUR7 billion target and with approximately 10% of fund commitments actually completing in 2024. Catch-up fees are expected to be around GBP12 million this year. In credit we expect to deploy approximately EUR1 billion of net fee-paying AUM in each of the next three years.

As it was in 2023, we expect PRE to be materially weighted to the second half of this year. Let's say roughly two-thirds of the full year's total. And we expect PRE this year to be at the upper end of our normal range of between 20% and 25% of total income.

Excluding the impact of ECP, total costs in 2024 are likely to represent high single digit compound growth from 2022 because inflation does still remain. Exit activity will pick up with a corresponding increase in the bonus pool and the phasing of 2023 hires combined with the delayed recruitment does impact the full year cost base in 2024. So as a consequence, our short term guidance for FRE margin remains unchanged in the low to mid 30% range until BE VIII starts to generate fees in 2026. That represents a slight reduction from the 36% margin that we realised in 2023. But that is to be entirely expected and just reflects the usual margin profile of the private equity cycle where the fee-paying AUM will now naturally shrink in 2024 as we start successfully realise investments ahead of the next material fund raise. But importantly, our long-term FRE margin guidance at 45% and above remains unchanged.

Finally, we expect the effective tax rate for the enlarged group to now be around 15%. The Bridgepoint element is unchanged. The increase simply reflects the impact of ECP's profits at US federal tax rates. With that, I'll hand back to William for closing comments.

William Jackson - ***Chairman***

Great. Thanks, Adam.

We've covered a lot of material this morning. But just to conclude, if we look back at 2023, we've continued to make really significant progress against that strategy we set out at the IPO as I noted earlier.

Investment performance continues to be good across both private equity and credit.

Importantly, fund deployment and fund returns both remain strong and on plan.

In fundraising, we and ECP are on track to close our flagship fundraisings on or slightly ahead of target.

The balance sheet is strong. It's been replenished and recapitalised.

These all contribute to strong pipe financial performance in 2023 and that outlook that Adam's just talked about for '24.

Looking ahead, I think our industry outlook is increasingly positive after the hiatus of recent years.

We've started 2024 with a really healthy investment and exit pipeline.

We can continue to invest in our people and platform. That's really important.

We continue to explore growth opportunities, both organic and inorganic. And I think we're really well-positioned to benefit and lead further industry consolidation.

In summary, the platform is well-positioned as activity accelerates and recalibrates in the alternatives market.

So I'd now like to hand back to Pauly, the operator, who is going to manage the Q&A process.

Pauly, back and over to you.

QUESTIONS AND ANSWERS

Operator: (Operator Instructions) The first question comes from Arnaud Giblat at BNP Paribas Exane.

Arnaud Giblat *BNP Paribas Exane*

Yes, good morning. I've got three questions, please.

Can I first ask on fundraising on BDC V? What are the parameters are you looking actually to think about sizing that fund? I mean, with BDC IV now a 3.8 times money multiple fund, I'd assume that there would be quite some good demand there. So I'm just wondering how you're thinking about sizing it? Any constraints?

My second question is actually related to that. With BDC IV at 79% [deployed], how many more deals or do you require there for BDC V to be activated?

My third question is on the headroom you've built for your balance sheet. So you're funding $430 million placing. A lot of M&A, you've done -- the ECP transaction, that was a significant proportion was in equity. I'm just wondering, clearly you've rebuilt a capacity to do M&A. Is that something you could envisage? Could you be opportunistic if anything does present itself? Or are you first going to focus on integrating ECP? Thank you.

William Jackson - *Chairman*

Okay, thank you, Arnaud. Morning to you. Going to pass that on to Raoul.

Raoul Hughes *Chief Executive*

Morning, Arnaud.

BDC V. So, it's BDC III that's at 3.8 times is the sort of -- which is the fund before last, which is the one that really drives the performance track record -- long before the current fund is on the drawing board for the fund raise the next time around. BDC V, we have a target fund size of EUR2 billion, and we're in the market at the moment I think is the best thing to say. Does that – we -- we want to be cautious about individual fund raising amounts as we move forward to the next phase of our growth.

So the target funds size for the BDC V EUR2 billion. As I said in my part of the talk, we're pretty confident in that fundraising, given the performance of the business. I think it's also one of the things that we are very disciplined about, is making sure we raise the right amount of capital for any one of our strategies, so that we can continue to invest it well through a sense of what sort of timeframe through the next fundraising cycle. We clearly want to grow the business. We want to raise more capital. We want to do so in a very disciplined way and raise the right amount of capital for each strategy.

William Jackson - *Chairman*

I think the other thing on that one of the nice things about having probably the top-performing fund in its peer group, is it's going to give us a good chance to shape the investor base of that fund for the next decade with the demand that we've got for that programme.

Raoul Hughes *Chief Executive*

So EUR2 billion is on the cover, we will be disciplined about it. In terms of BDC IV's position, I guess ultimately they invest in a reasonably wide range of equity size deals. I would anticipate is probably three or four deals to get them over the line. It depends on very much what they're actually going to -- individual deals. But three or four, that sort of number.

And then talking about M&A, I think the USPP has put us in back in the same liquidity position that we were in at the point of the IPO. So we've effectively replaced the cash element of the ECP transaction, which is a broadly similar number to the amount of primary capital raise IPO, to put us back in the same position to continue to develop the firm through various sources of M&A.

I think you'll see right that when -- the transactions that we do are likely to contain reasonably significant elements of shares in the transaction. That's mainly because I'd expect deals that we do would be with independent firms who are founders are looking to come and join the platform and part and parcel of that. We want them tied in with equity and indeed, they want to be tied in with equity. It's one of the beauties of our position as a listed business that we can offer this. So I think you can, you could think in terms of the capacity of that quantum of cash being a minority of any wider transaction that we do.

So we feel we're well-placed to continue to develop the firm and to grow through M&A. But clearly, it's all about finding the right opportunities at the right time with the right people and the cultural fit as we touched on with ECP. The cultural fit with this business is really, really important. We are a -- very much a people business. We're focused on any deal that we do we need to partner in with like-minded people who we feel can be additive to the wider platform and the culture of the firm.

William Jackson - ***Chairman***

So it's actually just you could see we have the capacity to do an ECP II. But I don't think you should expect to see that come down the line anytime soon. We'll be very cautious and sensible about finding the right thing as ECP as shown. Does that answer your questions, Arnaud?

Arnaud Giblat ***BNP Paribas Exane***

That's great. Thank you very much.

William Jackson - ***Chairman***

Great. Pauly, back to you for the next question.

Operator: Nicholas Herman from Citi.

Nicholas Herman, ***Citi***

Yes, thank you. Good morning.

Thank you for the presentation -- good morning. Three questions from my side.

Just a follow-up on the growth question. So beyond inorganic growth -- I think you also referred to using the incremental capital raised through the private placement to accelerate organic growth as well. So can I just ask you to provide more detail on what you're referring to and -- build out that whole strategy for Bridgepoint and ECP, regional expansion, and so on and so forth? So detail there would be much -- really appreciated.

Secondly, on exits. Can I just ask you to provide a bit more detail please behind that guidance? I guess how many exits you have in process or are expected to commence, and how many exits underpin your guidance? And I guess as part of that, do you typically see the buyers of your assets being more biased to being sponsors or strategic buyers?

And then the final question, please. In terms of – sorry I guess you talked about a healthy pipeline and – (technical difficulty) these updates on deployments. So if you just give a little specifics on all of which funds -- well, I guess how you see the current cycles across the various strategies? So that's my question. Yes.

William Jackson - ***Chairman***

Okay, Raoul. Do you understand the first one?

Raoul Hughes *Chief Executive*

Yes, accelerating on organic growth. So I think that comes with building out the existing strategies with -- in the markets that they're in and expanding the wider geographic market. So we will continue to grow and expand the private equity business across the mid-market verticals that we're in, and we've expanded it more geographically like I suspect.

With ECP, we do think there's a real opportunity to develop ECP's business into Europe. One of the real attractions of the transaction was the network and the contact base that we have in Continental Europe providing them with an opportunity to deploy capital there, which they haven't done before. And if you think about the whole energy transition market, which is really the hot space at the moment and you look at the Inflation Reduction Act in the States, there's a lot of talk of a similar type thing happening in Europe and the new labour government in the UK is making similar sort of noises – or the potential new Labour government, I should say. So I think the real opportunity for energy transition in Europe, and I think the platform that we have -- now have in the US with ECP is going to be additive to our wider equity business in the States.

I think there's a real opportunity -- there's a need and a real opportunity to scale our credit platform, both in Europe and outside Europe. And credit is one -- is a product class, which we should be able to scale organically very quickly. So that's it for me – a slightly waffly answer.

William Jackson - ***Chairman***

Do you want me to do exits?

Raoul Hughes *Chief Executive*

Yes.

William Jackson - ***Chairman***

Well, yes. I mean, listen, on exits, it's all about portfolio management across the different funds. So we've set ourselves up to have vintage discipline, both on new investments on exits. So we're trying not to particularly time the macro. The nature of the assets we have helps us to do that. So we probably have 20%, 25% of the portfolio at any one time as potential exits. And we start the year looking at how much capital do we want to return back to drive fund performance?

We're focused on net IRR, total value, and the amount of capital we've returned – the DPI metric – to investors, and we want to make sure we've got optionality. So ultimately, these are individual events. And as Raoul said many times they kind of either happen or they don't. But we normally have double the number of exits in our sights for the target we're trying to deliver. So we're reasonably confident about that.

Raoul Hughes *Chief Executive*

And that's across the equity businesses. One of the things in the '23 exits it happened – it happened that the more of those were in the were in the growth in the BDC side of the business rather than the BE side of the business. So we will look at – so your comment about the different fund sizes. We look at exiting across all of our private equity businesses.

William Jackson - ***Chairman***

Yes, I think on deployment as a healthy pipeline, deployment doesn't kind of work on a linear basis. They're sort of like buses. You get two or three come -- that are very, very active Q4 and BE and we've got a nicely rebuilt pipeline there. BDC's the same, isn't it, Raoul?

Raoul Hughes ***Chief Executive***

And there's a real seasonality to the private equity business. You tend to find that the transactions get initiated in the -- at the start of the half years and then they -- people aim to try and have targets of completions and signings before major holidays and breaks. So you tend to find that -- you could be working on transactions for quite a while, but they tend to consummate either just before the Easter or summer or just before Christmas or Thanksgiving in the States. And it's a bit of a seasonal process.

William Jackson - ***Chairman***

And when you look at -- on the equity funds, which I guess is where there's a lot of focus, you're sometimes ahead of the game, sometimes a little bit behind the game. If you look at BDC, it's around – it's ahead of the game, which is nice. BE VII is actually bang on the same spot as BE VI was at the same time.

Raoul Hughes ***Chief Executive***

Exactly the same.

William Jackson - ***Chairman***

And it was invested at 3.5, 4 years and we'd expect it to be the same.

Raoul Hughes ***Chief Executive***

And the same applies with ECP. There, if anything, even slightly more lumpier than we are in that if you -- a classic Bridgepoint private equity fund will have 16 to 20 deals in it. ECP is a more concentrated strategy. And so they may have 10 to 12. So by definition, that deployment is also lumpy.

William Jackson - ***Chairman***

Nicolas, hopefully, that answers your question. We'll go back to Pauly for the next one.

Nicholas Herman, ***Citi***

Very helpful. Can I just –

William Jackson - ***Chairman***

Sure.

Nicholas Herman, ***Citi***

I just wanted to follow up again on the potential buyers of your of your assets committed to sponsors and strategic. And I ask because one of your listed peers had previously noted that it sees potential buyers of its assets now becoming less willing to go through with the transactions, as those potential buyers don't want to deploy in the current tough environment and have to go back to their LPs for more capital. So I thought I would just ask if that's something you are seeing as well?

William Jackson - ***Chairman***

Not an issue at all. At the moment, we've just gone through quite a number of things with strategics, which is always pleasing to see strategics back. I think as we've said before, people are more comfortable making EUR1 billion, EUR1.5 billion acquisition of the moment than making a EUR10 billion one. And that plays right to us. When we look at the large buyout market. One of the things that makes Raoul and I smile is when you see the huge amount of capital sitting there waiting to deploy and we've got the store with all the assets in – so come on down!

Nicholas Herman, ***Citi***

Very helpful. Okay. Thanks very much.

William Jackson - ***Chairman***

Pauly, come back -- over to you for the next question.

Operator: David McCann from Numis.

William Jackson - ***Chairman***

Morning, David – good to talk to you.

David McCann - ***Deutsche Numis***

Yes, you too.

Quickly as well, I'm afraid, and so, certainly on the consolidation you've touched on a couple of times here, you have previously spoken about real estate being an obvious private asset that you could have and maybe a gap in the portfolio, and there has been some dislocation in that market in recent years, shall we say. So would that sort of be the obvious -- still the obvious gap for when things that are out there in terms of future M&A plans, expansion in other areas, perhaps building up some existing capabilities in adjacent areas. How do you think that -- that's first question.

Secondly, on timing of BE VIII and the next BCD funds -- appreciate it might be incredibly early to be asking about this. I mean, any colour on timing around that in '26 and '27 -- something else -- get some colour on what your expectation is given current markets certainly would be helpful. And then finally, a slightly more technical one on the carried receivable accruals they did notably increased in the second half which I think was touched on in the presentation as well. Maybe just talk a bit on the mechanics of what's driven that increase is it based on actual exits done in the period, marking to market to market, and how much is based on the expected pipeline, I guess, getting a bit closer to fruition, and indeed, in any other major drivers was driven those numbers up quite notably in the second half. Thank you.

William Jackson - ***Chairman***

Okay. We'll pass the first two to Roaul and the third one to Adam. Raoul.

Raoul Hughes *Chief Executive*

Yes. If you look at the classic verticals in alternatives really, you're right. And exposure to the real estate - - verticals is something that is missing in the portfolio. Whether it's the right thing for us to do will really depend upon our views on the development of that market and our ability to find the right way, at the right time with the right partner. And so I wouldn't rule it out. But no, what I say, it's the most in advance in our thinking. There's plenty to go in the expanding the existing verticals. I mean, another area is the secondary world and how we think about the right way to play in the secondary world -- as that develops and bifurcate that between LP secondaries and GP led secondaries, and how we're getting to that part of the market. So, I wouldn't rule it out but it's a really comes down to can you find to the right partner for both in terms of scale, location, and cultural fit.

William Jackson - ***Chairman***

But as you were saying early, the organic side -- the combination of organic and M&A with ECP is really interesting.

Raoul Hughes *Chief Executive*

Yes, it is. That's the other way of looking at it. There's plenty of ways of delivering the growth aspirations that we have without having to deliver a real estate transaction -- that's the way to look at it rather than ruling it out.

William Jackson - ***Chairman***

Timing of the new funds -- the next generation of funds?

Raoul Hughes *Chief Executive*

Well that's probably more for you, isn't it?

William Jackson - ***Chairman***

Well we're just finishing the last lot.

Raoul Hughes *Chief Executive*

We look at him and he's aged an awful lot in the last (multiple speakers) I mean gone around investors in the existing fund (multiple speakers).

William Jackson - ***Chairman***

I guess the answer is there's no change to the timing, David, of those funds. I don't think we're expecting fundraise market conditions to massively improve in the next few years. The pigs going through the python of the size of portfolios and getting cash back to investors, that will improve things a lot. But we've got a very diversified LP base now. And as Roaul was saying earlier, the addition of the new LPs from ECP is great to have that breadth, and we're pretty confident that we're well placed for next time and it'll be -- time table as Adam described. Carry, Adam?

Adam Jones - *Group CFO, COO*

Sure. Morning, David. If you look at PRE for '23, its progression was really driven by BE VI, BDC III in particular and our growth from BG I. BDC III and BG I in particular were also the areas where we concentrated exists and significant fund progression. But importantly, they're both made material progress on the fund performance through repaying entirely their preferred return to investors and therefore freezing the carry hurdle. And therefore, the fund is substantially de-risked, which then allows us to obviously recognise more of that carry component. But as I said, going forward, when you look at the quantum of have inherent PRE that's locked up, there is substantial more value to come over the next sort of four to five years.

William Jackson - *Chairman*

And that progress in BDC III is driven things up.

Adam Jones - *Group CFO, COO*

Yes, absolutely, really.

Raoul Hughes *Chief Executive*

BDC III, there's a reasonably high corporate carry relative to other of our historic funds. And the fund is performing so well. When you get to sort of 3.8 times your money current value, and we expect it to the comfortably more than that at the end, the carry opportunity is tremendous and it's sort of really coming through in the valuations. I think PRE is an interesting part of the business in the -- we've talked a lot this morning about the lumpiness of exits and it's not -- it really isn't linear. The way we really look at it internally, I guess, is twofold. From a fund manager perspective, as William says, we're constantly looking at which of our assets -- which is a 25% and average of our assets we want to try and exit. What's the -- constantly working proactively to think about how do we exit businesses and what's the right time to win money back. And then from a sort of a management company impact and fund perspective, we really look at the total embedded value of that investments and in the chart that Adam showed you, there's a significant embedded value on the balance sheet with a current value of our funds. But there's an awful lot of value that will flow through over the course of the next five years as our existing funds maturate and get better -- deliver the returns. And then you add on to that over time, there is a greater proportion of corporate carry sitting in the management company from the newer funds and the older funds. So that will really turbocharge this as we go forward. So although you guys tend not to value PRE as well as FRE, really in this business -- although we are sort of on an asset-light model. The assets that we do have and invested in our funds are set to drive significant profit and cash over the course of the next couple of fund cycles as the carry comes through, the funds perform and the higher proportion of corporate carry is realised.

William Jackson - *Chairman*

David – any follow ups from that?

David McCann - *Deutsche Numis*

No, that's great. Thank you very much for that.

Operator: Angeliki Bairaktari, JPMorgan.

Angeliki Bairaktari - *JPMorgan*

Good morning and thanks for taking my questions. Just a couple of follow-ups, please.

So just to come back just to the question of carry that was asked right now, out of the GBP55 million PRE that you had in 2023, can you tell us how much of that is actually reflecting exits and how much is just fair value to have an idea?

And second question, I can see on slide 8 that Bridgepoint Credit Opportunities IV is actually now 85% deployed. So does that mean that we could expect the next vintage of that strategy to get activated in 2024? And lastly, if you can also talk about the target size that you have on BDL IV, please – sorry, BDL V?

William Jackson - ***Chairman***

Okay, Adam, do you want to do the PRE point?

Adam Jones - ***Group CFO, COO***

Yes, hi, Angeliki. If you break down the PRE for 2023, that total of GBP55 million – it breaks down to GBP30 million of carry and GBP25 million of co-invest. Now remember that co-invest is simply the proportion of value increase for the GP co-investments on our balance sheet. That is a straightforward mark to market based on the fund elements. The carry is, obviously, then driven by the exits and the discount unwind, which, as I said, was concentrated in the BDC III and BG I.

William Jackson - ***Chairman***

Okay. Raoul, the credit funds.

Raoul Hughes *Chief Executive*

Yes, I mean the direct lending fund is the focus for the first half of the year -- when we look at the sort of the quantum and the size of direct lending, you need to look at it in a totality for the vintage in that what we're finding in that market is that there is a mix of -- we've discussed this before – of people investing into the fund itself and people investing in dedicated SMAs that sits alongside, it, so you need to look at that in totality. There's a mix between the two may well shift. The total target is in the order of GBP4 billion across the -- of course, all of those that. I don't think that will be raised during the course of '24 and '25. And don't forget, in credit, the fee base of this is different from equity where the fee basis based upon the deployed capital as you deploy it. So the important metric in credit is to make sure that your fundraising is running ahead of your deployment speed. And then if you have it you -- you've always got a bit more capital to deploy than you are deploying. And that -- that makes sure that you can keep it in the market. And although the total is that sort of number, we expect to raise that during the course of the next sort of -- over the course of '24 and '25 and that -- you don't need (technical difficulty) any of the GBP4 billion to start doing it. You raise it over time. You deploy you go along.

William Jackson - ***Chairman***

And date of transition between four and five, when are you expecting that?

Raoul Hughes *Chief Executive*

Well -- I think it's less of the date of transitioning credit than it is -- because it's a -- once you've closed the capital, you just start deploying the capital into different bits. It's not the same

William Jackson - ***Chairman***

So you can invest the two together.

Raoul Hughes *Chief Executive*

You just allocate it differently to different pockets.

William Jackson - *Chairman*

Angeliki, does that answer those questions for you?

Angeliki Bairaktari - *JPMorgan*

Yeah, just on the BCO V then, that is the same interplay I guess.

Raoul Hughes *Chief Executive*

Yes.

Angeliki Bairaktari - *JPMorgan*

Because the fund is currently 85% or low. That doesn't leave much more firepower for you to deploy out of that from -- I presume you have already then raised some capital for BCO V which you can start potentially investing?

Raoul Hughes *Chief Executive*

Yes, but the other thing about the credit opportunities fund is it tends to have a slightly higher velocity in that quite a bit of the capital they deploy comes back quite quickly in the nature of what they do. So it's currently deploying that sort of level.

Angeliki Bairaktari - *JPMorgan*

You're going to reinvest, though?

Raoul Hughes *Chief Executive*

Yes. Yes, you do. Again, it's not quite the same sort of structure you have in the private equity funds. You can deploy -- deploy within the investment period. And it's all about it -- it's the balance between deployment and the rate of repayment. And there is an element -- in the direct lending strategy, at least there is an element of sort of – it comes together in times when you're deploying more, you tend to have more repayment coming back because the exit markets are stronger. And in times when it's deploying a bit less, the assets you've got are a bit stickier. Credit opportunities is a bit more bespoke -- going in and seeing opportunities and buying positions and then trading it a bit more. So the way I would look at it is -- what's maintaining the deployment, and that deployment quantum in total gently ticking up over time.

William Jackson - *Chairman*

It's net deployment.

Raoul Hughes *Chief Executive*

And when you look at the guidance Adam was giving (multiple speakers) we're guiding towards GBP1 billion a year plus of net increase in the credit deployed capital.

William Jackson - *Chairman*

Okay.

Angeliki Bairaktari - *JPMorgan*

That's fair. But – can I -- sorry – just one more thing on the BCO then. Is it fair for modelling purposes to expect that the next vintage will start deploying in 2025 and not in 2024?

Raoul Hughes *Chief Executive*

Yes, yes, but -- yes.

William Jackson - *Chairman*

Okay, Pauly, next question, if there is one.

Operator: There are no further questions on the conference line, and we will now address questions submitted via the webcast page, and I'll hand over to Adam Key to read out the written questions.

Adam Key – *Head of Shareholder Relations*

We have two sets of written questions.

First from Tom Mills of Jefferies.

First question, there are two high-profile IPO processes ongoing from two of your European sponsor peers at present. If those go well, do you envisage having a galvanising effect on the European IPO markets as well as on sponsor exit dealflow? Secondly, those two deals currently in the market are having to deleverage quite materially. Is that something you would also envisage having to do with potential exits whether sponsor to sponsor or via IPO to the extent relevant?

William Jackson - *Chairman*

I mean, I think, Tom, you have to recognise that the IPO market is the arena for the large buyout world. When you look at the size, typically of companies that are floating, it's typically in the several billion. So I think we've done a huge -- 250 exits over the last 15 years, and we've had one IPO. So it's not that significant in a Bridgepoint context. But yes, I mean, I think these are important tests of whether that market will be open this year. It will have implications for the whole market because obviously it's driving return of capital. And yes, deleverage is an issue. Because the quoted markets are intolerant about lots of things -- one of which is leverage. Next question.

Adam Key – *Head of Shareholder Relations*

And then secondly from Nicholas Herman at Citi. A technical follow up for Adam. Can you please remind us of the tax rate differential between fee-related and performance-related earnings at Bridgepoint and ECP? And is tax on net carry negligible while tax incurred is based on FRE and investment income streams?

Adam Jones - *Group CFO, COO*

Well, Nicholas, in short there is no quick answer to that. We could get ourselves completely lost in the science of the relative components of how -- of the tax liabilities that arise. Which is why we've always simply tried to guide you to an effective tax rate of 5% to 10% on the Bridgepoint only elements. And the exits really determine whether you're at the higher or lower end of that range. So in '22, we have large number of exits. The effective tax rate had come down. This is all about the release of deferred tax and then with the -- in the twin -- a slower exit environment, '23, the effective tax rate goes up and we had previously guided 10%. We came marginally higher than 11. The relative increase into '24, as I said, is all driven by the ECP effective tax rate. That is obviously an onshore payer. Although we'll look to whether we can try and to find efficiencies in that going forward. Perhaps from a modelling perspective, we can go into it. But I think it's -- we could get ourselves wrapped up -- we should probably continue to guide that 5% to 10% for Bridgeport is the right way to think about it.

William Jackson - *Chairman*

Okay. I think that ends the questions and ends this -- this set of presentations. I hope it's been useful. Please feel free to talk to Adam Key if you have any questions. But with that, thank you very much for joining us this morning and Pauly, thank you for managing the question process.