Bridgepoint FY2021 Results | March 24, 2022

Matt:

Good day Ladies and Gentleman, and welcome to Bridgepoint Group's 2021 Preliminary Results hosted by Executive Chairman, William Jackson, and Chief Financial Officer, Adam Jones. At this time, all participants are in listen-only mode. Later, we will conduct a question and answer session through the phone lines, and instructions will follow at that time. Participants can also submit questions through the webcast page using the ask a question button. I would like to remind all that this call is being recorded. I will now hand over to Executive Chairman, William Jackson, to open the presentation. Please go ahead, sir.

William Jackson:

Great. Thank you. Good morning, everybody. And many thanks for joining us today. I'm William Jackson, Bridgepoint's chairman, and I'm joined by Adam Jones, our group CFO, to take you through our results for 2021 and our outlook for the year ahead. These are, of course, our first full year numbers since our IPO in July last year. So I'm very pleased to share a set of numbers we announced this morning that are ahead of the expectations we set at the timing of our list, with revenues up by over 40% and profit up by nearly 75%. Bridgepoint is a growth business in every sense, operating in a growth market. And what's more momentum in 2021, I'm pleased to say has continued into 2022 with some great realisations coming through in quarter one, and strong investment activity, which continues to put us on course to migrate to our next generation flagship fund in the first half of this year as well. I'm going to come back to that a little bit later.

William Jackson:

These preliminary results reflect a period of strong performance driven by better than expected fund performance outcomes during '21. And those arose from strong portfolio realisations – that's exits and associated valuation uplifts. Fund performance has been matched by the financial performance of our company against all our key metrics for the 12 months to December 2021. Now, a lot has happened since we listed last July, both within our own markets and the broader macro. So I just thought it might be helpful, before diving into our performance in '21, to give you a quick reminder of what makes Bridgepoint different and successful as we set out at the time of our IPO.

William Jackson:

So Bridgepoint is a clear leader in middle market growth investing. We've got over 176 investment professionals working in 10 offices in Europe and around the globe. It really is an unusually deep and highly experienced team of people for a mid-market organisation. We operate from a scalable investment platform that exploits the organization's longstanding sector knowledge, which is combined with depth of on the ground presence in the markets where we commit capital. That provides real insight and expertise in those places where we invest. It drives very high quality origination, and actually is essential in the middle market for building productive relationships with the growth companies to whom we provide support across our equity and credit businesses.

William Jackson:

Our investment platform is the foundation of our 30-year track record of delivering strong and consistent performance through multiple economic cycles and delivering compelling returns for our investors, and consequently, our shareholders. Importantly, Bridgepoint constructs all-weather portfolios, which actually are very well suited and I think relevant today to the market conditions today. And of course, we have a super experienced management team weathered by different cycles, as you can probably see when you look at Adam and I. Now, of course, we operate in a market, which is also growing strongly. The amount of capital invested in private markets is currently forecast to grow at a compound rate of over 15% between 2021 and 2026, and that provides us with long-term tailwinds to our growth.

William Jackson:

Our investment success in '21 is probably best illustrated by the performance of current funds. Revenues in the year were up over 25% across our two most recent funds, and EBITDA up by over 34%. BE V, which is our most mature fund, now fully in harvest mode, has a well balanced portfolio of investments assembled with good vintage year diversity, very important in these times, and is on track to deliver gross returns to investors of over two and a half times its original cost, with a diversified portfolio. Diversified by geography, by sector, and timing of investment, it's a strong, absolute return, but also it's a very high quality of return. Bridgepoint's long-term performance has attracted institutional following over many years. And at the end of 2021, we had just coming up to €33 billion of AUM, managed for some 400 investors around the world.

William Jackson:

And last, but, but certainly not least, we always aim to be a responsible investor. As a growth investor, our companies create net new jobs. And they're very focused on building sustainable business model, which contribute to their communities and drives their long-term shareholder value. These are the ingredients that have enabled us to grow Bridgepoint very successfully to where we are today. We've increased our AUM by over 10 times in the last 20 years. And we manage long-term capital for our investors with a contractual life on average of about 9.3 years. All of this gives us continued confidence in our future prospects, in line with the expectations that we set out at our IPO.

William Jackson:

So with that background in mind, we were very pleased this morning to announce our preliminary results for the year to the end of '21. These were ahead of the expectations that we set out at the time of the IPO, and illustrate, again, the potential and strength of Bridgepoint's alternative investment platform.

William Jackson:

The key highlights for '21, I think are as follows. First and foremost, as I've already mentioned, we delivered strong investment performance for our investors in both our equity and our credit funds. That's important because, as many of you will have heard me say before, I'm very, very clear that if we make sure that Bridgepoint performs for its fund investors, and that is our number one priority, our shareholders will also do very well. Our investment performance was reflected in good progress across both strategies we cover today, credit and equity. Our most mature BE flagship fund, as I mentioned earlier, Bridgepoint year five saw an uplift of 87.5% in its unrealised valuations during the last year.

William Jackson:

More broadly, our equity funds are on track with our deployment of capital, and we delivered stronger than expected exits and returns of capital, all of which positions as well to continue to grow our business in the medium and the long-term. Assets under management reached €32.9 billion at the year-end with an especially strong performance from our credit business, which finished the year with AUM reaching 10 billion for the first time.

William Jackson:

Moving on to realisations, that's the sale of our assets. During 2021, our equity business realised 3 billion of capital from exits, from full exits, with particular highlights being the distribution of 1. 4 billion from the sale of Calypso, the software company, at a six times return. And added to this partial distributions from companies such as Miller Homes and Wiggle, which added a further €1.1 billion as we took advantage of strong market conditions to accelerate our realisations. Our capital distributions were well ahead of the expectations we shared last year at our 2021 funds annual meetings. And in turn, helped drive our fund performance and the associated valuations, which were also ahead of forecasts.

William Jackson:

Now onto Bridgepoint Credit. The strong growth in our credit business is reflected in some €3.2 billion invested during '21, and we realised 1.7 billion across our three strategies of direct lending credit opportunities and syndicated debt. Our fund performance is matched in our company performance, which Adam's going to cover in detail in a minute. Clearly, that's of most interest to shareholders today. And our financial performance was also strong. Group revenue has increased by 41% to £270.6 million.

William Jackson:

We also benefited from economies of scale as we continue to grow our activities, with the result that underlying EBITDA, that's our EBITDA before the provision for IPO costs, grew by 72% to £113.9 million. Our underlying profit before tax also increased by 72% to £90.5 million. And we are proposing today a first dividend of £30 million, or 3.64 pence per share, as we committed to at the IPO. And that will be for approval at our AGM, which is being held on the 12th of May. Together, these numbers mean that we are making good progress towards hitting the medium-term targets we set it out when we listed on the London Stock Exchange.

William Jackson:

Now, turning to fundraising, as we highlighted at the end of last year, the fundraising environment is more congested, and we are alert to that. That said, we're making good progress with our new fund, Bridgepoint VII. We've enjoyed strong interest from both existing and new clients, and we remain on track to hit our target size based on the progress to date. We'll, of course, update you on our fundraising progress through the course of the year. But as you know, for those of you who are interested in the numbers, the important thing here is that the driver of revenue for PE firms is the point at which the first investment or commitment is made, not the actual timing of the fundraise or its final close date.

William Jackson:

With this in mind, I can also report that our current flagship equity fund, Bridgepoint VI, has enjoyed a strong period of investment activity over the last period, driven in part by really accretive and well-placed bolt-on acquisitions for the existing portfolio. For example, some of you may have read about PharmaZell's recent 700 million acquisition of Novasep in Q4 '21. That's just one example of the bolt-ons we've been doing over the last two quarters. This activity has now driven commitments in fund VI to well over 90% of the capital that we commit to platform investments, remembering, of course, that some fund capital is always held back to fund post-investment period activity. Whilst I would definitely note that in the current market we're very, very focused on buying well, and actually we'll only make commitments for our funds where we can do that, our working assumption at the moment is that BE VII will start investing by the 30th of June 2022 as Adam will cover a little bit later in his guidance.

William Jackson:

Now, Bridgepoint deploys capital to companies to help them grow. To achieve this, we look to support strong performing businesses where we can use our own resources to drive value by supporting international expansion, by operational improvement, or by helping them make a creative acquisition. Financial and non-financial returns are both equally

William Jackson:

... be important to us. The climate crisis and the COVID-19 pandemic just underscore the need for all of us to act in order to protect our environment and have a positive impact on society and to reflect the community in which we live and work, and, for Bridgepoint specifically, to ensure that our partner businesses are governed according to the highest standards in order to foster resilience and success. To that end, we've set out our commitments and targets. We're committed to supporting the transition to carbon net zero. All our portfolio companies will have a net-zero strategy in place by the end of 2023 or within 12 months of us making an investment in a company, as we support that transition to net zero in order to achieve that by 2040. We're also committed to building diverse and inclusive working environments both within Bridgepoint itself and within our portfolio companies. We've set ourselves the target at Bridgepoint of having 40% of our investment team being made up of women by 2025 up from 25% today, and all our portfolio companies have increasingly diverse boards.

William Jackson:

We also believe that businesses should be a force for good in their own communities, and we expect our portfolio companies to create new jobs, to generate greater tax revenues for the countries in which they operate, and to continue to pay fair wages. Lastly, we are clear that well-governed businesses perform better and are more resilient. We work with our portfolio companies to put appropriate policies and government structures in place as Bridgepoint itself already has. Now across all these issues, inevitably, we don't always get things right, but when we don't, we try again and we try harder. Now I'm going to pass over to Adam for a more detailed look at our numbers. Adam.

Adam Jones:

Thank you, William. Good morning, everyone. Over the next few slides, I'm going to focus on Bridgepoint's underlying performance in 2021, but I'll also run through the reconciliation from underlying to preliminary statutory results to give you the necessary data points to update your models accurately.

Adam Jones:

First let's look at AUM. AUM grew by 24% over the 12 months to December, 2021, to 32.9 billion euros benefiting from good momentum on both our equity and credit fundraising objectives combined with strong valuation gains linked to our fund performance. As William mentioned, we are particularly pleased with our credit business that grew its assets under management by 35% and reached the 10 billion euro milestone. This growth has also net us significant realisations across our portfolio with 3.5 billion euros of capital returned to investors reflecting our established practice of regular distributions to drive fund performance metrics.

Adam Jones:

The 14% increase in fee paying AUM was driven by the first full year of management fees from Bridgepoint Development Capital Fund IV as well as the growth and invested capital across all of our credit strategies. The pace of fund deployment remains in line with the guidance that we gave you during the IPO process. Finally, on that last slide, the step down on the graph represents the impact of Bridgepoint Development Capital III and Bridgepoint Credit Opportunities III transitioning their fee [inaudible] charging basis from total capital commitments to net invested capital at the point of transition to their success of funds, Bridgepoint Development Capital IV and Bridgepoint Credit Opportunities IV.

Adam Jones:

Now let's look at revenue. We delivered strong growth in group of revenues up 41% in aggregate, which includes the impact of a full year of EQT Credit revenues. Management fees, which represented 73% of group revenues, grew by a third reflecting the growth in assets under management. Investment income grew by 68% reflecting the increase in value of the underlying co-investments in our funds with Bridgepoint Europe V, Bridgepoint Europe VI, and Bridgepoint Development Capital III delivering the majority of those gains. Total management fee margin in 2021 was 1.23%. That is consistent with prior years and is expected to remain stable.

Adam Jones:

Now let's turn to costs. Our underlying operating expenses totaled 151 million pounds for the year. People costs are by far our most significant expense at 77% of that total. Those costs increased by 20% to 116 million pounds excluding approximately 6.0 million pounds of non-recurring investment-related bonuses. Full-time employee headcount grew by 34 to 344 reflecting investment in the credit team to support its AUM expansion and, more significantly, continued investment in the strength of the group's operating platform, and, of course, additional hires to support our plc status. Some hiring undertaken in the second half of 2021 will show up in the FTE numbers in 2022 as new colleagues arrive in the business. As a result, we'd expect more modest growth in headcount and personnel costs after 2022.

Adam Jones:

Other expenses increased by 20% to 35 million pounds in 2021. That increase predominantly reflects the annualized impact of the acquisition of EQT Credit. The group did realise some COVID-related savings in 2021 from reduced travel and corporate hospitality, but those were offset by higher legal and regulatory spend to support the growth of our group. Overall operating expenses of 151 million pounds exclude exceptional expense, the vast majority of which relates to cost associated with the group's IPO. Those IPO costs total 45 million pounds, 27 million being expensed to the P&L as an exceptional cost with a further 18 million pounds recognized as issuance costs and written off against equity.

Adam Jones:

Taking those two components together, looking at profit now, for EBITDA with revenue growth at 41% significantly ahead of cost growth of 20%, the benefits of operating leverage, which William described and really a key feature of our business model, are clearly visible with a 72% increase in underlying EBITDA to 114 million pounds and expansion of our profit margin from 35% to 42%. Underlying fee related earnings of 48.5 million pounds nearly doubled on the prior year with FRE margins increasing to 24%. After the Bridgepoint 7 fundraise we'd expect FRE margin to be 30% to 35% in 2023 before moving to 45% to 50% in the longer term. That again is consistent with the advice that we gave at the time of the IPO.

Adam Jones:

Now let's look at cost below EBITDA. As many of you'll recall from our presentations last summer, we do have limited costs below EBITDA, namely depreciation, amortisation, and finance costs. Amortisation costs relate to the intangible assets acquired with the EQT Credit business, those being fund customer relationships, and those are being expensed over seven years. So we have excluded these to provide a clearer picture of the underlying profitability of the 11.9 million pound expense in 2021, which is effectively depreciation only. The majority of our depreciation expense relates to office leases, and the increase from '20 to 2021 reflects the start of our new London office lease last July. We will be depreciating the leases for both our old and new London offices until we actually complete the move in September of this year. So we expect the double cost to lead to a property depreciation charge of approximately 11.5 million pounds in 2022 before normalizing at roughly 9.0 million pounds in 2023. Finally within finance cost, the movement in "Other" is driven by an increase in amounts payable to Bridgepoint Fund V co-investors.

Adam Jones:

Now let's turn to the balance sheet. This is a high-level summary of the underlying Bridgepoint balance sheet. It's important to remember that we are a capital-light business, and our co-investments represent approximately 1% of AUM at the end of the year. We finished the year with a net cash position of about 323 million pounds plus undrawn facilities of 125 million pounds.

Adam Jones:

Now let's turn to that reconciliation to statutory results. Here are the components of that underlying to preliminary reconciliation. Exceptional costs are obviously outside the normal course of business. In 2020 those were the costs related to the acquisition of EQT Credit and in 2020 on relating to the IPO. The amortization adjustment relates to the acquired intangible assets within the EQT Credit business that I mentioned earlier. An exceptional finance income comprises both the unwind of the time value discount recorded on the Dyal receivable and re-measurement of the deferred consideration liability for EQT Credit.

Adam Jones:

Now let's turn to guidance. As William mentioned, we're recommending a dividend of 30 million pounds for the six-month period since listing, and going forwards dividends are expected to grow progressively as the business scales. So final guidance is our management fee margins are expected to remain stable across the business based upon a BE VII fund transition at the end of 2022, June, 2022. We expect to only recognize BE VII management fees in the second half of this year. That slight adjustment to the BE VII expected start date will have a cash flow impact on the 2022 results, but the run rate management fee forecast for 2023 and beyond remains unchanged. Remember this is a long-term business forecast.

Adam Jones:

Carried interest and co-investment are expected to be approximately 20% to 25% of total revenues in the medium term, and our co-investment commitments for future funds are expected to remain in the 2% to 3% range. There'll be modest growth in head count and personnel costs relative to fee income over the near term after 2022, and the FRE margin in 2023 will be 30% to 35%. Finally, our effective tax rate guidance remains unchanged subject, of course, to any potential changes in the UK tax code. With that, I'll hand back to William.

William Jackson:

Great. Thanks, Adam. Just before we move to questions, I thought I'd just say a few words about the start of 2022 and the outlook for the rest of the year. I'm pleased to report we've had a really strong start to this year. That's illustrated in particular by two major exits we've delivered in '22 in very, very different sectors. Firstly, the 4x multiple return on BE V's investment in Miller Homes, a tremendous result from a UK house builder. Then secondly, the sale of Element Materials. Element's now the world's largest private testing and inspection company, and so a really great example of what we do at Bridgepoint. We've grown that business from 50 million pounds of EBITDA to over 300 million. Done that organically and by bolt- on acquisitions. Element has been acquired by Temasek, the sovereign wealth fund, and it's delivered a return of 3.7 times money multiple on BE V's largest single investment, a really, really super result. These two realisations will return some 1.8 billion of capital.

William Jackson:

Now moving on to future business developments, I'm also pleased to say that we continue to make progress with our long- term thinking on our strategy to strengthen our middle market platform by broadening the activity of the group. We'll update the market on our detailed plans in this area in due course. I can also report that our newly constituted board and its various subcommittees have now met multiple times and are working very, very effectively. I'd like to thank our new board colleagues for their fantastic support and insights which have been really helpful to our thinking. We are going to be appointing two further non-executive directors in the year ahead, and these appointments will broaden the board's skill base to support our business strategy and also, importantly, make sure we're compliant with the latest board construction and representation guidelines. So to conclude, the strong performance of our business in 2021 underpins our confidence for the year ahead.

William Jackson:

[inaudible] However, I'm sure that many people listening to this call, or watching, will agree that we're also in a time where many of the usual investment navigation metrics, which we use to decide where to deploy capital has, to say the least, been clouded by events.

William Jackson:

In this context, I can report that Bridgepoint's all-weather funds are very well positioned for volatility, but there's no room for complacency. We've all been shocked and hugely concerned by the conflict in Ukraine. I can confirm this morning we have no direct material exposure to that region. We have no portfolio assets in either country nor do we have any Russian investors in our funds. Our portfolio companies do have some revenue exposure to Russia and Ukraine, and this amounts to less than 0.4% of our total portfolio company revenues. Obviously, we've made sure that each company with historic sales revenue in Russia has acted to address their position.

William Jackson:

We're also increasingly alert to interest rates and inflation, but as growth investors, we back companies which typically have strong pricing power and the ability to pass through inflationary pressures to preserve margins. And we also use modest leverage in our investment structures. In private credit, our lending is normally floating rate, meaning that increased interest rates represent something of a tailwind to performance. It's obviously too early to make really intelligent statements about the macro impact of these events because they're obviously still ongoing, but we are very alert to them, and we've planned for different contingencies.

William Jackson:

There will be impacts, many as yet unknown, but our funds are constructed for volatility. And we have a deeply experienced management team that has been through a number of cycles before, and we know which levers to pull when necessary. That gives us great confidence in our ability to produce financial performance in line with expectations in 2022.

William Jackson:

In conclusion, this is a really exciting time for Bridgepoint, and we certainly remain confident in our ability to build on our achievements to date. So thank you for listening to us this morning. We are now going to move to questions, and our operator, Matt, is going to take questions from you as you've submitted them. So, over to Matt.

Matt:

Thank you very much. So, ladies and gentlemen, we will now begin the question and answer session. We will take questions through the phone lines first, followed by questions received by [inaudible] webcast. To ask a question through the phone lines, please press star, then one. We will now pause a moment as callers join the queue. And the first question is coming from the line of Andrew Coombs of Citi. Please go ahead. Your line is open now.

Andrew Coombs:

Good morning. Thanks for taking my questions. I'll ask three, please, if possible. The first one's just on the close of B7. Correct me if I'm wrong, but I previously thought you talked about a first close in the first quarter of 2022 whereas, now you seem to be suggesting that the revenue contribution from that won't be until the second half. So it does seem to suggest a small delay, a three-month delay. Is that fair?

Andrew Coombs:

My second question would be on your guidance of modest growth in personnel costs in 2022. Within the 2021 cost base, you've got the 5.8 million of bonuses linked to the B5 carried interest, which you describe as non-recurring. So I just want to check if the modest growth and personnel costs on the back of the number including the 5.8 or excluding the 5.8?

Andrew Coombs:

And then my final question is just on Russia. Thank you for the details you provided. I think you said less than 0.4% of revenues in aggregate across your portfolio companies. Within that, is it a case that you have one individual name with a higher exposure to Russia, and then the rest is zero? If you could perhaps give which of your companies has the largest Russian exposure or the magnitude of that. Thank you.

William Jackson:

Thanks, Andrew. I'll cover questions one and three, and let Adam cover the cost question. Just to be clear, the point we were making on Fund VII was not about closings. It was about the transition between the funds, which determines the date at which we start charging fees, which obviously, is very important for the economics of the business. And what we're saying there is that originally we made the point that this is a transition year. And so, in effect, you end up with a run rate when you start charging fees. So, the precise timing has a cash impact, but it doesn't impact the long-term run rate of the business.

William Jackson:

It's always slightly difficult to predict when that transition is going to happen, and I think in the IPO, we said, "Well, let's take 1st of April." In reality, as we said then, it won't happen on the 1st of April; it won't happen on the 30th of June. It happens when we make the last investment for Fund VI. And actually, it happens when we make the commitment for the last investment for Fund VI. Because if you can imagine, we have a work in progress pipeline of a range of different investments that we're considering. And like buses, they can all come at once, or you can have one every now and then, or whatever.

William Jackson:

And so, what we're saying this morning in the context of the environment, where there is repricing going on, that it would be prudent for people to assume that that transition will happen at the end of June. Consequently, the first fees will be in the second half of the year, but we probably won't know until July when it's actually happened because you only know retrospectively when it did happen. I'm sorry that's quite a convoluted answer to your question, but it's the sort of factually right answer of how these unusual transitions take place. So we're just being cautious.

Andrew Coombs:

That makes sense.

William Jackson:

Hopefully, that answers your question, Andrew.

Andrew Coombs:

It did.

William Jackson:

On the last point on Russia, and then I'll hand over to Adam, most of the revenues are indirect, where we're not actually selling, but we have distributors that sell into Russia, which obviously have been closed down. We have one healthcare business called Diaverum, which represents about half of that revenue which is one of the largest private dialysis clinics companies in the world. And it has a number of clinics in Russia, where it provides dialysis three times a week for about 1500 patients. And obviously, we're working to resolve that situation, but clearly, what we're not going to do is just stop providing dialysis to people at one moment because they will die if you do that. So from a humanitarian perspective, we're working through that problem with our partners in Russia. But it's a very, very limited exposure to Russia. Adam, do you want to cover the cost point?

Adam Jones:

Yeah, absolutely. Thanks, Andrew. Yes, the investment-related bonuses are indeed triggered by B5 hitting its carry threshold, so I've excluded those numbers from the underlying presentation. So the 116 million pounds of personnel costs excludes those numbers, and the year-on-year increase they were anticipating also excludes that one time only. Clearly, there might be a BE7 investment bonus once that fund hits carry, or B6, I should say, but that will be several years away, which is why I've said it's non-recurring.

Andrew Coombs:

Thank you both.

Matt:

And the next question is coming from Arnaud Giblat from BNP Paribas Exane. Please go ahead.

Arnaud Giblat:

Yeah, good morning. Thanks. I've got three questions, please. Firstly, on M&A, I think you hinted a bit at it during the slides, but I was wondering how things were progressing there, whether you'd been engaged in potential due activity on the corporate side. I think particularly you were interested in having [inaudible] infrastructure or real estate. How are things progressing, and if not, are you looking perhaps at doing these strategic strategies organically? My second question is more broadly. We've seen a number of players out there going into long-hold and other interesting strategies. Could you update us on your thoughts there?

Arnaud Giblat:

And, finally, I think you mentioned, in terms of the news and guidance, guidance of 35% FRE margin in 2023. Can I just check that's right? And what are the sort of criteria that we should be thinking of in terms of that range? I assume the range pertains to perhaps to the timing of the transition of the seven and the timings of the intermediary calls [inaudible] late [inaudible] 2022, perhaps being across 2023. If I could just check, why the range? Thank you.

William Jackson:

Thanks. Thanks. Good questions. I'll pass the margin one to Adam. On M&A, I mean the first thing to say is when we IPO-ed, we described the strength and depth of the platform we have is really attractive to have discussions with people to bring on a further strategy over time. What we've seen in the last nine months is that the listing has created a lot more interest from potential partners in having discussions with us. But our day job is buying businesses well and buying things well, and this has been a pretty expensive market in that sense. So we don't have any imminent announcements to make on this, but we have some good discussions which may or may not come to pass over time, but we'd be very confident based on what we've seen in the last six months and the types of people who've picked up the phone to us, that the strategy is totally valid. And you can be rest assured that when we do something, we will do it in absolute best interests of the shareholders and deploy the scarce capital that we raised very effectively.

William Jackson:

On long-hold and other funds, you've seen the rate of growth of our business from our existing activities... lots of organic things going on. So yes, we always think about that, but we've got plenty to keep us busy to drive our performance in the near term. And it's nice to be able to consider what other things we might do over time. But the numbers that we presented today and the guidance we presented today is based on our existing business and our existing growth potential. But you are right to mention that there are other opportunities, undoubtedly, to grow. We have to prioritize and deliver what we're doing first and deliver it really well. And that's the short-term focus. Margins, Adam?

Adam Jones:

Yep. Thanks, William. Thank you, Arnaud. The fee-related earnings margin guidance I'm giving for 2023 is assuming the completion of the Bridgepoint VII fundraising. Therefore that will be sort of a run rate revenues coming through, which is 2023. Why have I given you a range? I guess simply because the only aspect of variability in that number is the net invested capital within the credit business. And obviously, at that point, this is an unknown, whereas the B7 is more certain. So I've given you a range, just as we look at how the pace of deployment within our credit strategies, which is obviously our fastest growing asset class.

Adam Jones:

The longer range guidance of 45 to 50% really in five years time, reflects both the transition to Bridgepoint Europe flagship fund eight, and obviously a more mature credit business. And with the combination of those two, we'd expect the FRE margin in the range that I've already described.

Arnaud Giblat:

Great. Thank you.

Arnaud Giblat:

Thanks, Adam.

Matt:

The next question is coming from Bruce Hamilton from Morgan Stanley. Please go ahead.

Bruce Hamilton:

Hi, yes. Morning guys. And thanks very much for the slides and the information. Two questions. One just following up on costs and on FRE margins, to make sure I'm clear. And then second, on carry. So on the personnel costs, I think taking the underlying of 115.6, I think that grew 20% over the prior year on about 10% growth in FTE. I assume when you talk modest growth, you are thinking more kind of single digits? Or should I think a bit more than that in 22, and then it's much lower thereafter? And then just to check, sorry, the FRE guidance, 30 to 35%, was that for 22? I wasn't quite sure.

Bruce Hamilton:

And then the second question, just on carry, obviously your midterm guidance is 20 to 25% from carry and investment income. And you did better than that, obviously, in 21, which was a good year. Do you think that number is achievable in 2022 or is it hard to say, just given the visibility? Does that guidance stand for the current year, basically? Thank you.

Adam Jones:

OK. Thanks Bruce. So let's deal with the cost point first. Yes, I think it's fair to say a high single-digit is the appropriate percentage to apply to the 116 million of personnel cost. FRE margin, that sort of 30 to 35%, is based on the run rate post BE-7 fundraise, therefore that is 2023 guidance rather than 2022. Clearly 2022 is the transitionary year. You will only have a partial year of BE-7 fees and therefore the FRE margin won't have normalized at that higher rate.

Adam Jones:

In terms of carry and co-invest yes, the guidance is 20 to 25%. And based on the progress that we've made through the first quarter of 2022, that number seems entirely sustainable. You are right, there was obviously a strong investment related returns in 2021, as we are now in the harvesting mode for Bridgepoint Europe five and more importantly, Bridgepoint development, capital three, that's where we start to see an increasing amount of carry coming through. But that in the context of the overall picture of 20, 25%, that looks perfectly achievable.

William Jackson:

But Bruce, you were right. I read, I read your note, Bruce the other day, and you noted that there's a more volatility in the market, so that is not within our control. If market conditions deteriorated significantly, then yes, exits will freeze up a bit, I would expect, but as of today, we're in a sensible place, but I'd agree with you in your caveat that you had in your note.

Bruce Hamilton:

Great. That's really helpful. Thank you.

Matt:

And the next question is coming from Gurjit Kambo from J.P. Morgan.

Gurjit Kambo:

Hi, good morning, and thank you for the presentation. Just three questions. Firstly, what are you seeing in the market space for mid-markets? Are you seeing any sort of new competitors coming in? Any competitors leaving? That's just more around the kind of competitive landscape around midmarket.

Gurjit Kambo:

Then one for Adam, just on the tax. Can I just confirm there's no tax impact on the exceptional items, I think are they not tax deductible? So that's the second one.

Gurjit Kambo:

And then just thirdly, on the private credit business, I think you indicated most of the investments you make are floating rate in terms of what you get paid. Do you require the portfolio companies to hedge that risk out? Cause I guess, is there a risk that they get caught out with the higher rate environment? Thank you.

William Jackson:

So, on mid-market, it's a fiercely competitive place and anybody who tells you anything different is not telling it right, and as it has been for the last 20 years. And we see new competitors coming in and out the whole time. We don't have a single competitor at Bridgepoint, we're positioned with the platform, Gurjit, to be able to provide more than just capital to our companies, and the typical company we're investing in, we've been talking to for probably two and a half, three years. So that kind of approach, strong sector thematic, highly invested, local insight and expertise, very, very important to dealing with competition.

William Jackson:

What we do see, which we certainly encourage is people raising larger and larger funds, and that takes them out of the space, and we kind of celebrate that because they become buyers of our business. And it's interesting when you look at something like Element, which I talked about, there were a range of interested parties from the large buyout groups.

William Jackson:

Remember most of our exits at Bridgepoint, 99% are to strategic buyers. So we don't often do IPOs, mainly because of the size of the business. They're not ready for listing, they've got continued growth potential, and they are typically either bought by a large buyout group and go on to perform well, and that's fantastic, that's what we want them to do, or by strategic buyers. So as people move up in fund size, that creates and further deepens our exit potential.

William Jackson:

On credit, most of the companies, underlying portfolio companies run their own hedging strategies as part of their facilities agreements. So there is protection there. Adam, on tax?

Adam Jones:

The effective tax rate guidance 7.5% where we were marginally higher than that in 2021, and that looks to be a sensible proxy for numbers going forward. I don't have the... How much of the IPO expenses are tax deductible off the top of my head, but the 2021 number reflects the whatever deduction we were able to take.

Gurjit Kambo:

Thank you.

Matt:

There are no further questions in the queue, so just to remind everyone, please press star, then one for questions. Thank you.

Matt:

And another one just came in from Arnaud Giblat from BNP Paribas. Please go ahead.

Arnaud Giblat:

Yeah, thanks. I thought I'd have a quick follow up. Just on the investment outlook, could you give us a bit of an update in terms of what you have in the pipeline, how you're thinking about investment opportunities in light of maybe more volatile and uncertain markets? Thank you.

William Jackson:

Yeah. I mean, obviously I can't comment on specific transactions or announce them this morning, I'll get shot by my colleagues for doing that. But, we are very, very fortunate at Bridgepoint that origination and deal flow really isn't our challenge. We've always got a deep flow of opportunities and have a size of team that enables us to review them. The challenge is always standing back and going well, "Right, of what we've got on the table, which are the most interesting? Where do we think we can get outsize growth?"

William Jackson:

I mentioned the portfolio performance numbers for last year, some quite exceptional numbers there, 25% revenue growth when these are not... Obviously our businesses are tech enabled, but we are not a technology fund. And so the biggest challenge right now, as I said a little bit earlier, is that we all use navigation metrics, navigation points to decide on pricing. And in this market with the volatility in the stock markets, some of those navigation points aren't as relevant as they were two months ago. And obviously we don't just plow on with the same strategy in sense of pricing strategy. So we stand back and look and say, "Well, what is the right value today?"

William Jackson:

One of the things that we've been doing is focusing very much on bolt-on acquisitions for fund six. Fund six portfolio is nearly fully assembled. And one of the interesting things about bolt-ons, and we do a lot of them. So I mean, to give you a feel for that, in our fourth fund, which we started 15 years ago, it had something like 350 bolt-ons. These are additional acquisitions for the portfolio.

William Jackson:

What we've done in the last five years is tend to do much larger, more significant ones, which are transformational. In doing that, you've got the ability to get to bigger synergies, better repositioning. And our objective is always to buy a company within the pricing in a sector and reposition it's pricing within the sector. If the sector itself re-rates, then that's added value, that yes, we could claim that we've chosen the right sectors to be in. But the thing that we can control is the quality of the business we're selling versus the quality of the business we're buying. We're selling larger, better, established, more international companies than we are buying.

William Jackson:

When I look at the WIP at the moment, the work in progress at the moment, we definitely have a depth of work in progress that will see us through to that guidance that Adam's given in the transition of funds. But as I said, we're only going to make the next commitment for this fund and the first commitment for the successor fund if we see the right value. History would tell you that we're good at finding value. So I'm pretty confident we'll deliver on what we've said we'd do.

Arnaud Giblat:

Useful. Thank you.

Matt:

Thank you. There are no further questions on the call currently.

William Jackson:

Well, listen, thanks, Matt. Let's wrap up there I think. Thank you very much for everybody participating. I hope that's been a useful session and thank you to our shareholders on the line for your support, which we value greatly. With that, we'll sign off and say goodbye. Thank you.

Matt:

Thank you very much.