Bridgepoint

Executing on strategy: adding a third pillar | 6 September 2023

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PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to the presentation of Bridgepoint adding Energy Capital Partners to the Bridgepoint Group. (Operator Instructions) I would like to remind all participants that this call is being recorded.

I will now hand over to William Jackson, Executive Chairman, Bridgepoint Group plc to open the presentation. Please go ahead.

William Jackson - *Bridgepoint Group plc - Chairman*

Thanks, Danae. Good morning, everyone, and thank you for joining us at short notice for this call. I'm William Jackson, Bridgepoint's Chairman. And I'm joined this morning by Raoul Hughes and Adam Jones. Veterans of these calls will know them well. And I'm delighted to introduce this morning, Doug Kimmelman, Head of ECP.

Today, we're announcing the next step in the strategy that we set out very clearly at the time of our IPO in July 2021, with the addition of ECP to the Bridgepoint platform. We've talked at some length about the criteria for adding what we've described as a third leg to Bridgepoint. And I think if those of you who remember the March results will know we use the ECP as something as a case study, given the well-documented speculation about our firms coming together.

The ECP transaction fully meets the key financial and strategic gatekeeping criteria that we flagged to shareholders since the IPO and actually that we set out at our annual results meeting earlier this year. Crucially, it's accretive to our shareholders from Day 1 of completion, and we're expecting that to be probably early 2024 with regulatory compliance.

As a reminder, Bridgepoint's success to date has been based on building a diversified alternative assets platform with total immersion in the middle market space and scale in that area. Over the last 2 decades, our company has expanded successfully both within private equity and private credit. And it's done this both organically and with important additions, which have successfully been integrated and added to the team driving both long-term shareholder value and investor returns.

Today's announcement is the latest step in that strategy. It significantly broadens Bridgepoint's product offering. It's markets presence and importantly, our bench of talent. And it further develops a great investment platform, which already has resources not typically seen in middle-market firms.

So why am I excited about today's news? Well, as you're going to hear from Doug a little bit in a second, ECP is a great business. It's got really strong growth prospects in a fantastic space. And the transaction structure that we've announced this morning is designed to ensure that there's really deep alignment between both parties. The combination materially enhances Bridgepoint's financial metrics with increased earnings diversity, quality and quantum as well as providing a very significant step-up in AUM.

It also brings us strong commercial benefits. It adds a really first-rate investment team with huge depth of sector experience in the high-growth energy transition field, and it delivers strong and highly complementary client relationships and valuable new geographic presence and perspectives.

Like many of the best transactions we do for our own fund investors, this transaction is also the product of a really long dialogue. Doug and I have known each other for many years. And we've spent over a year talking to the team with Raoul and other colleagues in ECP. So we know each other really well. And as Doug will tell you, that the ECP team is highly committed to this project.

Like Bridgepoint today, ECP has an impressive performance-driven and value-based culture. That's why in my mind, Bridgepoint and ECP are a really great fit at a people level. And most importantly, we believe that this combination creates real value for our shareholders. From completion, it's accretive across FRE, fee-related earnings; EBITDA; and net income per share. It enhances and diversifies the group's earnings, and it improves our margins.

Now Raoul is going to take you through a lot of detail on the transaction metrics. But a key element is the alignment that I mentioned earlier. That is embedded in the transaction terms. A significant element of the GBP 835 million consideration in this transaction is in shares.

Now with our shares trading where they do, you might well ask, is that a good thing economically for Bridgepoint shareholders? Importantly, ECP and Bridgepoint fixed the number of shares involved in this transaction at the beginning of this year. So the notional enterprise value of both companies has moved up and down with the Bridgepoint share price over that period. That means that the transaction terms, net of the cash element have an effect, tracked the broader market during recent volatility. And this also means that based on the current share price of Bridgepoint, both businesses are valued at broadly the same 2024 PE when we expect the transaction to complete.

And when you look out to 2025, with ECP's growth and with the cash element of the transaction, ECP moved to a discount to Bridgepoint share price. Further shareholder alignment also comes with an important earnout running to 2027. That's payable on the delivery of above-plan performance. And importantly, as we had with the Bridgepoint IPO originally, there are staggered lockup provisions for the ECP management team, as you'd expect. The transaction is both accretive and very cash generative. And reflecting this, the Bridgepoint Board has decided that it will be extending the buyback that we announced earlier this year. This is to take advantage of the values that we currently see in Bridgepoint shares.

Adam's going to talk a little bit more detail about this later. The Board's confidence in the value of our shares is based on Bridgepoint's underlying balance sheet value, which we dissected in some detail at the March results.

And our company's trading outlook, which is also materially enhanced by the financial impact of this combination. It's really very significant. It adds EUR 19 billion of AUM to the group. It creates a EUR 57 billion global alternative asset manager with a middle market focus. Fee-related earnings grow significantly. If you just use 2022 as an example, ECP adds over 60% to FRE and would have given a combined figure of GBP 121 million.

FRE margin is materially enhanced, growing from 31% to 36% if you use those combined 2022 numbers. And critically, the transaction delivers accretion on completion of more than 20% on an FRE per share basis and high single-digit accretion on an earnings per share basis.

Now the combination of ECP and Bridgepoint's business moves the group forward significantly. And together with our AUM growth since the IPO, it means that we're continuing to evolve the way we manage our business. And as background to this, if you look at our successful track record of adding new teams to our platform, it's important to remember that central to Bridgepoint's progress has been making sure that each of our investment strategies have stand-alone investment teams that contribute to, rather than draw from, other parts of the investing organization.

And importantly, this also applies to the depth of our leadership team. So as Bridgepoint continues to grow organically and by adding teams, I will be splitting my own role as Chairman and Chief Executive of the group. I'm going to continue to focus on my role as Chair of the plc and of course, on Bridgepoint's core PE business.

Raoul will be taking on the role of CEO from the 1st of October '23 and becomes an Executive Director on the Group Board. Those of you who know Raoul well will know that he's deeply experienced and has a long Bridgepoint leadership track record. In the past, he's run our operations and our business strategy, and he's been a key architect both of the success of Bridgepoint’s credit strategy and the addition and discussions with Doug and the team in ECP. He will, of course, be joining the ECP Board alongside our CIO at Bridgepoint, Xavier Robert.

But ECP's team will also strengthen Bridgepoint, and that's very important. Doug will join Bridgepoint's executive leadership team, along with Managing Partner, Tyler Reeder. Pete Labatt, also a Managing Partner at ECP is going to be joining the Bridgepoint Talent and Rewards Committee. And together, this provides the group with a committed and deeply experienced management team from both -- joined from both ECP and Bridgepoint to drive growth and to drive shareholder value.

Now just a brief word on "Why Infrastructure?". We outlined at the IPO that strategically, we would look to diversify Bridgepoint within the alternative asset space into either infrastructure or real estate investing. Infrastructure is the fastest growing asset class within private markets with something like $1.3 trillion of AUM, having grown at 15% a year since 2010. It's a really fast growth area, and Doug's going to talk to that.

And as you can see from the right-hand part of this slide here, there are huge structural tailwinds underpinning that growth. So it's a natural space for Bridgepoint to enter as we previewed in 2021. So I'm going to stop there without stealing more of Doug’s thunder.

The ECP team is always keen to stress their New Jersey roots. For those of you who don't know about New Jersey, it means that they're straightforward and they do what they say they're going to do. And they aren’t shy with coming forward with their own opinions, I'll tell you that.

So I'll hand over to Doug to give you a more detailed view of what ECP is all about.

Doug?

Doug Kimmelman *Founder and Senior Partner, Energy Capital Partners*

Thank you, William. Thank you very much. I'm very excited to be here today to meet with all of you. I'm certainly excited about the opportunity to join forces with Bridgepoint and accelerate the growth of both of our firms as well as to broaden the equity ownership throughout all of ECP. It is very clear that our firms share a culture of collaboration, ethical integrity and investment excellence.

Let me give you a few words about who we are at ECP and what we do. We have a team of 86. We're a leading North American infrastructure investor with a near 20-year record of investing in the fast-growing energy transition and environmental sectors. We have a market-leading position in power generation, renewables, battery storage, and environmental infrastructure. Sectors that are really critical drivers in the global decarbonization effort with forecast annual investment expected to reach $1.9 trillion. Our motivation is high to combine forces with Bridgepoint. Our complementary and non-overlapping platforms uniquely provide multiple new avenues of growth for both of our firms, especially as we operate in distinct geographies. Obviously, we largely in North America and Bridgepoint in Europe.

We both have outstanding lists of global investors with limited overlap. So there's a huge cross-selling opportunity. We are so proud of our team that we believe has the deepest and longest investing track record in the energy transition sector with now the opportunity to expand that investing expertise globally.

High on my list is our plan to distribute public equity broadly across our team, allowing us to attract and retain the best talent. We're very proud that we plan to distribute approximately 30% of the equity received in this combination to our broader team. And the excitement this has created in our hallways is unmistakable. And upon closing, we will become the group's second largest shareholder. So we certainly have a deep motivation to move the needle and creatively grow the combined firm and the share price. We are not cashing out, we are doubling down on the growth opportunity in front of us, which is quite exciting.

Now within the energy transition within infrastructure, this sector is really arguably the fastest-growing subsegment. And ECP here -- The ECP after several decades, we're really a pioneer in the space with our team having invested in the area since the 1990s. I was a partner at Goldman Sachs, and I was with the firm for 22 years before founding ECP and helped to build Goldman's risk management and investing business in electricity. So for me, a total of 40 years in the electricity and environmental sectors.

ECP's domain network, our deal sourcing capability and our investing expertise is deep, having been built over several decades. The heightened societal demand globally for clean energy and an energy transition is certainly driving so many of these investment opportunities as well as the public sector support with numerous supportive policies such as the $400 billion inflation Reduction Act in the U.S.

So across our AUM of EUR 19 billion, as William mentioned, we are market leaders in power generation, renewables, battery storage and environmental infrastructure. And we are the largest independent owner of U.S. power generating capacity, and we're a top 3 independent owner of renewable capacity in North America. So for example, our multiple portfolio companies provide nearly half of the electricity generation in California and 35% of the renewable capacity, which makes us the largest provider to the largest state in the United States.

Our team of 15 partners and more than 40 investment professionals, we've produced a consistent track record, delivering gross multiple of invested capital of roughly 2x since 2010 and our current sector focus, which has been derisked by a very high cash yield to our investors, which has averaged annually about 10%. Our Fund IV is ranked as a first quartile performer on a net IRR basis and is listed by Preqin as one of the top-performing infrastructure funds.

Fundraising for our next flagship fund, our V Fund is going very well. We've already raised roughly $3.8 billion of the $4 billion target size and our final close is expected in early 2024. While we have not been immune to the more challenging fundraising environment experienced generally, the energy transition area is a high priority for investors, leading to confidence that we could exceed Fund V's fundraising target.

Turning now to our investment approach across these target sectors. We mainly focus on the following spaces. First, Renewables & Storage: Wind, solar, geothermal, hydro and energy storage and solutions.

Our second, Environmental Infrastructure. I think environmental cleanup projects, recycling, waste management, beneficial reuse, waste disposal and processing and waste to energy. So many opportunities as we all strive for a circular economy, as high spending is certainly needed to clean up the world as we transition from this all energy to a sustainable future.

Next, Sustainability, Efficiency & Reliability. Across this sector, I think energy efficiency, renewable natural gas, carbon capture, digital infrastructure, hydrogen fuel as well as downstream infrastructure. This is a sector that I could spend an enormous amount of time going through all of the nuanced opportunities that we're seeing in these areas.

And our last sector, importantly, Power Generation. Natural gas-fired power generation as the transition solution as the world develops more storage solutions to improve the intermittency inherent in renewables.

So like Bridgepoint, we are a value-add hands-on investor. We have clear investment parameters, including targeting mid- to high teens returns for our investors, perhaps a touch lower than private equity, but certainly highly attractive on a risk-adjusted basis, hard assets, real assets that are critical to society and have an inflation and downside protection that many investors are looking for in this environment.

A focus on risk management, particularly in relation to commodity price risk. Our roots go back to developing risk systems to manage electricity when it deregulated in the U.S. in the late 1990s. And really a yield distribution that I mentioned. So focusing on sourcing and structuring investments with a high free cash flow component that we distribute annually to investors, thereby reducing the terminal value component of an investment.

The core of our business, ECP's business, which represents about 75% of our fee-paying AUM are our flagship funds. Our latest Fund V, which I mentioned, is about to surpass its $4 billion target and has already deployed 40% of the target fund size. Given this place of -- the pace of deployment, we're certainly well on track to launch Fund VI in 2025.

In recent years, we've also had considerable success with continuation funds. So for example, in 2021, we raised a $1.2 billion continuation fund to acquire Fund III's remaining 50% stake in Terra-Gen, which is a leading U.S. renewables platform. Then in 2022, we raised another $1.6 billion continuation fund for Calpine. Calpine is the leading power generation portfolio in the U.S. across natural gas, renewables and now storage projects. All important electricity projects for reliability in both Funds III and Fund IV are invested in.

Both of these continuation funds have generated IRRs over 20%. Calpine, for example, has grown its annual EBITDA from about $1.8 billion to nearly $3 billion in just over 5 years of our ownership. And that's a really good example of the high cash generation dynamics currently in the power generation sector.

Work is underway to evaluate the launch of a third continuation fund in the not-too-distant future. Perhaps our highest growth sector that I'm happy to speak a little bit about is our credit business. We recently made an important strategic move by more than doubling the size of our credit team and adding 2 industry-leading veterans to our partnership. They previously built a $5 billion infrastructure credit business for GIP, Global Infrastructure Partners, and are already helping to expand our credit business with a fee paying loan sourcing agreement that has the potential to reach up to $2.5 billion with a third-party investor in place. And they're currently launching a senior lending fund.

Private credit has been one of the most attractive growth areas in the alternative space lately, and I'm sure we will find a great ability to expand alongside the existing Bridgepoint credit team.

So in summary, our firm is performing very well in a sector of the market that is experiencing dramatic growth.

Now let me pass it over to Raoul, who is going to tell you more about this combination.

Raoul Hughes *Bridgepoint Group pls - CEO*

Thanks, Doug. Now before we are going into some of the detail on the transaction terms, let me briefly touch on the 5 key points that demonstrate the benefits this partnership delivers for Bridgepoint and our shareholders.

Value-added infrastructure is highly complementary to our established private equity and private debt platforms. And the combination reinforces Bridgepoint's position as a global leader in mid-market private assets investing whilst adding scale and diversification. Within this market, ECP is a leader and that positions them extremely well when we think about the immense tailwinds that stem from global decarbonization and the move towards enhancing energy security.

The 2 firms are a great fit. On the distribution side, we bring together 2 mature platforms with ECP's existing relationships with over 200 of the world's biggest investors. The people, office and industrial networks complement each other perfectly. We also see real strategic upside and top line synergies, which we will cover shortly.

Financially, the transaction immediately enhances the group's quality of earnings. The FRE proportion of EBITDA and margins both step up materially, and we expect the transaction to deliver greater than 20% FRE accretion per share and high single-digit EPS accretion from the completion with both increasing materially thereafter, and those are both calculated on the basis of the existing consensus forecast in the market from Bridgepoint and a conservative guidance case for ECP that Adam will talk through in a minute.

The enlarged group will have 3 separate complementary pillars: Private equity, credit, and infrastructure, supported by a shared well-invested support platform that is capable of supporting the enlarged group, enhancing our ability to amortize the cost of this platform over a larger AUM and grow FRE margin.

Importantly, this transaction doesn't impact our ECP, will be run day-to-day. ECP's investment processes will remain unchanged, with Doug and the ECP leadership team all committing to the enlarged business for the long term. Both Bridgepoint and ECP stand to benefit from the transaction by accelerating the firm's respective growth ambitions in Europe and North America and capitalising on the new collective strength, synergies and cross-fertilisation opportunities.

For ECP, Bridgepoint's deep European office network and connections will create further investment opportunities to grow its presence in Continental Europe. For Bridgepoint, ECP's North American brand, market presence and domain knowledge brings added critical mass to our existing platform in that region. For example, ECP generates significant deal flow that falls outside their infrastructure mandate, but could well fit with Bridgepoint's private equity products. And of course, there is the opportunity to deepen relationships with combined client bases over time. Now we see significant long-term potential here.

Now turning to the transaction terms. As William has said, the share component was fixed earlier in the negotiations. At today's share price, it results in enterprise value of GBP 835 million, with the Bridgepoint consideration comprising $293 million of cash paid to the existing shareholders and 235 million Bridgepoint shares, of which 185 million will be allocated to existing shareholders. And really importantly, as Doug mentioned, 50 million will be restricted plc stock units issued to equitise ECP's wider employee base. This is a really important component of the transaction for us, now it is for Doug, and it ensures enhanced alignment for the medium term.

In addition, the existing $225 million of ECP debt will either remain in place or be refinanced depending on discussions ahead of completion. Importantly, Bridgepoint has sufficient resources from existing cash and debt facilities to fund the cash element of the transaction and, if appropriate, refinance this debt facility at completion.

In addition, deferred equity consideration of which a larger portion is contingent on performance will also be made available as follows. A further 30 million shares are reserved for future award issues to ECP hires and promotions within the team, with issuances phased no faster than 10 million per annum from 2025 onwards. This structure is consistent with the future enfranchisement we introduced as part of our own IPO with the Burgundy partnership.

In addition, and equally importantly, there is an earn-out component of up to a further 55 million shares issued depending on the growth of ECP's management fees by 2027. Importantly, the business needs to deliver management fee growth somewhat in excess of that set out in the guidance, that Adam will talk you through in a minute, for the earnout to trigger and obviously considerably in excess a bit for the upper end of the threshold to be reached. As such, the earn-out – for the earn-out be achieved, the transaction will need to be incrementally accretive to Bridgepoint shareholders, as you'd expect.

Overall, ECP employees will effectively own 19% of the equity on Day 1, providing significant alignment of interest with a broader team here at Bridgepoint. As we have said previously, there are multiple revenue streams in alternative asset businesses and any transaction will have a unique mixture of historic and future carried interests and fund investments. In this case, the proportion of these increases in the future compared to the past, and these numbers are set out on the slide.

Now let me pass you to Adam to cover the guidance and the impact on earnings.

Adam Jones *Bridgepoint Group pls – Group CFO and COO*

Thanks, Raoul. Good morning, everyone. I'd now like to give some detailed financial guidance for ECP. Just for clarification, there is no change to the Bridgepoint specific guidance we gave as part of our interim results in late July. And for convenience, we've included that guidance in the appendix.

Like Bridgepoint, ECP is in the final stages of fundraising on its flagship fund ECP V, and obviously, consistent with Bridgepoint Europe VII, ECP V is expecting to have its final close in early 2024. And we remain fully confident that both strategies will continue to raise further capital over the remaining period of time.

As Doug indicated, ECP V is now significantly derisked, having raised around 95% or approximately $3.8 billion of its $4 billion fundraising target. On a run rate basis, at the target fund size, it will contribute to around GBP 37 million of management fees each year. ECP V began investing in the mid-2022 and has now invested $1.6 billion or about 40% of that target fund size. The pace of deployment is consistent with Bridgepoint's own equity strategies of 3-plus years. So we do anticipate that the success of fund ECP VI will start to generate fees before the end of 2025, which obviously will then result in a further material step up in management fees.

The newly formed infrastructure credit team has made good progress with -- Doug mentioned the $2.5 billion loan sourcing agreement already in place -- and is obviously currently raising for a senior lending fund with associated SMAs, targeting at least $2 billion of capital.

Management fees on those strategies will be earned on invested capital and the expectation deployment across both strategies is approximately GBP 1 billion in 2024 and GBP 1.25 billion in 2025. With management fees expected to average around 70 basis points across both of those credit strategies, we'd anticipate year 1 management fees of around GBP 3 million.

Additionally, ECP is evaluating opportunity to both monetise existing continuation funds and launch new ones. The current run rate to management fees is approximately GBP 15 million a year from the 2 funds already in place. We'd expect that fee stream to remain stable in the medium term with new funds replacing existing ones. ECP does anticipate launching a third continuation fund in the near future. In aggregate, those funds are expected to deliver around GBP 55 million of management fees in 2024. So a significant change of profile of activity from '22.

Not dissimilar to Bridgepoint's equity funds, those management fees will obviously be partially offset by the runoff of existing funds, although the runoff profile is longer for ECP given the longer hold nature of those underlying investments.

For AUMs, we have included a fund level summary on fee-paying AUM and fee rates in the appendix, but I would like to emphasise that like Bridgepoint, ECP fee margins are expected to remain stable and unchanged.

Now turning to investment returns. We expect that investment income and carry will represent 20% to 25% of the total revenues in the medium term, although we do anticipate the result of the expected carry distributions from ECP Fund IV, the investment income contribution may exceed that 20% to 25% level in the next 2 years, '24 and '25.

Now let's turn to operating costs. They were GBP 41 million in 2022, and they're expected to grow by approximately 25% in 2023, reflecting the investment in the infrastructure credit team as that strategy ramps up. Beyond 2023, we'd anticipate high single-digit growth in operating expenses for the short term, and that reflects the ongoing investment in the significant growth initiatives that ECP has in front of it.

Now let's look at margins. Medium-term guidance for FRE margin is in the 45% to 50% range, although 2024 is likely to be at the lower end of that range, reflecting the usual margin profile of an infrastructure cycle ahead of the management fee ramping up from 2025 upon the activation of ECP Fund VI.

Medium-term guidance for EBITDA margin is in the 60% to 65% range as the investment returns ramp up. Expenses below EBITDA are to be limited or limited, and they will include interest expense on ECP's existing debt. That's roughly GBP 10 million of interest expense. Charges for occupancy costs, depreciation and amortisation, that's roughly GBP 4 million a year. And as a result of the strategic partnership with Sumitomo Trust Bank, there will also be a minority interest expense, which we have modeled around 5% of FRE. And finally, the effective tax rate for ECP as an onshore U.S. corporate taxpayer is expected to be around 20%.

Now I'd like to clarify the transaction's impact on the group's earning profile. ECP will immediately enhance this increasing group margins, shifting the revenue mix towards recurring management fees and improving the diversification profile of fee income.

To illustrate this very clearly, we have restated Bridgepoint's 2022 results with the impact of ECP. You can see the FRE margin for the enlarged group would have been 36% compared to 31% stand-alone. Fee-related earnings would have contributed 61% of the combined group's EBITDA in '22 compared to 53% stand-alone. And management fees as a proportion of total revenues within the combined group increased slightly, but more importantly, the addition of a third leg to the platform materially diversifies revenues and that reduces the impact of cyclicality, inherent in the PE strategy, which many of you mentioned, and it will help smooth total earnings growth through successive investment cycles.

And finally, I'd like to just provide a brief update on the share buyback programme and clarify future dividends. We're currently 85% of the way through the GBP 50 million share buyback programme that we announced in January this year. And as William advised, once this is complete, we plan to begin a further GBP 50 million buyback programme given the attractive value, prospects with the enlarged company and, of course, our commitment to drive shareholder returns.

We have just announced an interim dividend of 4.4p per share, totaling a GBP 35 million distribution, that will be payable later this month. And to clarify, we expect to announce a further dividend, final 2023 dividend of 4.4p per share to be paid in May 2024 after the announcement of our full year results.

In combination with the share buyback programmes from today, we will be returning total capital of around GBP 140 million to shareholders over the next 9 months, which I think really does underscore the growth and cash generation that is inherent in our business model.

And finally, just to clarify, the accretion metrics that we have disclosed today do not reflect the impact of this new share buyback programme.

With that, I'll hand back to Raoul.

Raoul Hughes - Bridgepoint Advisers Limited - Partner

Thanks, Adam. The transaction also provides multiple near- and medium-term growth upside opportunities within ECP that aren't included in the guidance. We haven't inoncluded these in the guidance given their stage of evolution and that we can't commit to specific time frames. Now they won't all happen as outlined on this slide. But the core message I want to leave you with is that we're really excited by the further growth for ECP within the Bridgepoint platform and indeed the synergistic growth opportunities, the wider firm will have beyond the formal guidance that we can give the market now.

Just to pick up on a couple of examples. An open-ended core infrastructure vehicle is a natural extension from added value investing, not least as ECP has a good track record of building in for platforms and selling them on to core focused investors. The foundations for this are already up and running with the core infrastructure specialty managed account. And secondly, expansion into the Asia Pacific region. In markets such as Japan, where there is a huge opportunity for energy transition investment, ECP already has an agreement in place to launch an investment vehicle in partnership with SMTB.

Finally, we see real potential for the combined business to look to launch crossover funds between added value infrastructure and classic private equity at some point. Of course, this is in addition to the combined platform, growing the origination capabilities within the businesses themselves. Before we talk about the next steps and William concludes, I'd just like leave you with a point on culture.

I said consistently in conversations with investors that as people businesses, cultural compatibility is critical in any alternative industry M&A. We spent well over a year with Doug and the ECP team. So we know each other pretty well. And I'm very confident about the cultural mixture of the businesses. There's a real overlap in mindset. Both firms have long longevity of talent, combined with strong lateral hires, both a collegiate, broadly spread teams and both put investors first.

Personally, I'm hugely excited about the prospect of being able to participate in the writing of the next chapter of the Bridgepoint ECP story together.

So let's move to next steps. The ECP acquisition will be a Class 1 transaction under the listing rules. So Bridgepoint shareholder approval is required, and the Board unanimously recommends that shareholders vote in favor of the transaction. A circular will be released in due course, and it is expected that a general meeting will take place in October to seek the required approvals.

The senior Bridgepoint employees who have been working on the transaction and the 5 non-executive directors have also given irrevocable undertakings to vote their shares in favor of the resolution. In total, these irrevocables cover 26% of the issued share capital. There are some other conditions to the transaction in addition to shareholder approval, including regulatory approvals and consents from investors in some ECP funds. As a result, it is expected that the transaction will close in the first quarter of 2024.

With that, I'll hand you back to William to conclude.

William Jackson - *Bridgepoint Group plc - Chairman*

Great. Thanks, Raoul. We've covered a heck of a lot of material this morning. We wanted to make sure that everybody had a really deep insight into this combination. As I said earlier, Bridgepoint's success to date has been based on being a diversified alternatives platform with total immersion, knowledge and expertise in the middle market. Our company has a strong track record of successfully expanding within private equity and private credit. Organically, we've seen a big growth since the IPO and by adding new teams and businesses. That gives us a lot of confidence that we can successfully come together with Doug and the team on the platform to the benefit of both our shareholders and importantly, our fund investors.

ECP broadens our product offering. It deepens our market presence, and it deepens importantly, the bench of talent. As Doug has said, Bridgepoint brings a lot to ECP as well. So the transaction delivers on the strategy that we laid out at the IPO. And importantly, as you've heard through the presentation, it will be highly accretive and earnings enhancing whilst improving margins. So hopefully, that gives you a sense of why we think the transaction is a compelling proposition for our shareholders.

With that, I'm going to open it up for questions. So Danae, if -- I'll hand you back to manage those questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) The first question that we have is from Arnaud Giblat from BNP Paribas.

Arnaud Giblat - *BNP Paribas Exane, Research Division - MD & Research Analyst*

A couple of questions for me. First of all, can we start with Fund V, I understand the $4 billion target. Have you set a hard cap? And typically, historically, what has been your fundraising versus target or versus a hard cap? And secondly, if I think about the next fund, obviously, that's going to be a function of the pace of deployment. So what does the pipeline look like? What is the typical fund cycle length in the infra category? That would be useful to know.

William Jackson - *Bridgepoint Group plc - Chairman*

Thanks, Arnaud. That's one for Doug – or 2 for Doug.

Doug Kimmelman – *Founder and Senior Partner, Energy Capital Partners*

Two for me, thank you very much. So the current Fund V that we're in the market on, as you've heard, we've raised approximately $3.8 billion of the $4 billion target. The hard cap is $6 billion. Historically, I believe we've hit our hard cap in virtually all of our funds.

Our fundraising will stay open until Q1 of 2024. And so we expect the number to grow from where we are today. We've already invested 40% of this fund. So it's moving along at a very nice pace. We're generally allowed to raise a new fund once we hit 75% invested. Our pipeline of transactions, investments that we're looking at is large. So we're moving in that direction before too long to start thinking about that next fund.

William Jackson - *Bridgepoint Group plc - Chairman*

Raoul, do you want to add something to the modeling that we've done on this front?

Raoul Hughes - *Bridgepoint Group plc - CEO*

Yes. Doug's enthusiasm is obviously fantastic – and [his] confidence. From a guidance perspective and a modeling perspective, we've assumed that the $4 billion target is the number that's raised for the fund. There's certainly avoidance of that. And I think that's important in the context of the overall group numbers.

William Jackson - *Bridgepoint Group plc - Chairman*

Arnaud, does that answer your questions?

Arnaud Giblat - *BNP Paribas Exane, Research Division - MD & Research Analyst*

That's very, very helpful. If I may follow-up as well, you highlighted the opportunity to do credit on the infrastructure side. I think you flagged a number of hirings. Do you see immediate opportunity to leverage existing capabilities at Bridgepoint to accelerate this growth?

Doug Kimmelman *Founder and Senior Partner, Energy Capital Partners*

Yes. Well, we've expanded into the U.K. We've completed 3 transactions in the U.K., which has given us confidence that we can move beyond our North American roots. For example, we recently completed the take private of the company, Biffa, which most of you know very well. So we are very keen to expand our investing opportunities in Continental Europe. We certainly know the assets. We understand the energy transition, just given the deep asset ownership that we have. We certainly are quite aware of the massive energy challenges that are faced throughout Europe.

What we don't have is fulsome country understanding, fulsome networks of connections throughout Continental Europe and the deep roots and teams that Bridgepoint has and, I think, can complement our industry knowledge. And so we very much look to start broadening our examination of Continental Europe, and I'm highly confident that you will see us making that investment, and it's a big part of what this partnership brings.

William Jackson - *Bridgepoint Group plc - Chairman*

And Doug, there are definitely good linkages between your credit business and the Bridgepoint credit business.

Doug Kimmelman *Founder and Senior Partner, Energy Capital Partners*

Yes, absolutely, on the credit side. We've been in the credit for some time, but we've just talked about the very significant expansion. And I'd like to say our teams are already complementing each other very well. And I think it's going to be a catalyst for both of us to grow those credit businesses nicely into the future.

William Jackson - *Bridgepoint Group plc - Chairman*

Arnaud, any other questions from you?

Arnaud Giblat - *BNP Paribas Exane, Research Division - MD & Research Analyst*

No, thanks. Thank you very much.

William Jackson - *Bridgepoint Group plc - Chairman*

Great. Thanks. Donna, next question.

Operator

(Operator Instructions) The next question we have comes from Angeliki Bairaktari from JPMorgan.

Angeliki Bairaktari - *JPMorgan Chase & Co, Research Division - Head of Diversified Financials*

Just a few on my side, please. First of all, with regards to the flagship fund of ECP, I was wondering if you can give us some guidance on what is the potential to scale that up. So for example, what sort of size could we have in mind potentially for the next vintage and sort of what would be sort of the aspirational size that the flagship could reach perhaps over the next 5, 10 years?

Then in terms of the guidance on management fees, just one clarification, please. I heard that you said that there could be GBP 55 million management fees from Fund V and also the continuation fund and the credit fund. So I just wanted to understand whether these are additional to the GBP 89 million management fees that you show that ECP had in 2022 or whether we should take something out given that in 2022, there were already some fees from ECP V there. So I'm just effectively trying to get to a pro forma sort of management fee number, if you are able to clarify that.

And then, with regards to the cash component, to the cash consideration, I was wondering, do you plan to draw on the RCF or you plan to finance this entirely from the existing cash that you have on balance sheet and any retained earnings until the end of the year?

William Jackson - ***Bridgepoint Group plc - Chairman***

Okay. Well, why don't you take the first question, Doug, on potential size of future funds?

Doug Kimmelman *Founder and Senior Partner, Energy Capital Partners*

Yes. I guess what I'll say, if we just look at our history, going back to what our firm was founded wholly back in 2005. Our first fund was about $2.25 billion, and we went to about $4.25 million in Fund II. Fund III was $5 billion. Interestingly, Fund IV, we had a very large co-invest. We were funding a large acquisition of Calpine. We did $3.3 billion in the fund and $3.5 billion of co-invest. So $6.8 billion at that time. And we've launched Fund V at a $4 billion target and a $6 billion hard cap.

And so I think what you should take from that is prudent and measured growth as we go from one fund to the next. We are focused on achieving excellent investment returns for LPs. And if you produce excellent returns, you have the opportunity to raise more funds. And so we are not looking for giant quantum leaps in fund size. So I think that measured approach that we've taken historically is one that we will take into the future. So hopefully, that answers a little bit on the trend.

William Jackson - ***Bridgepoint Group plc - Chairman***

Okay. Adam, do you want to take the guidance question, then Raoul can cover the transaction structure.

Adam Jones – ***Bridgepoint Group plc – Group CFO and COO***

Yes, absolutely. Yes, the point of my comments, Angeliki, was just to clarify. Obviously, the vast majority of the GBP 89 million of management fees that you referenced for 2022 comes from Fund III and IV the flagship funds. So I was trying to just clarify the scale of the activity of the newer funds. The clarification in 2022, as you said that there were some management fees from ECP V. That number is approximately GBP 15 million and at the run rate for the fund that the GBP 4 billion target, as Raoul indicated, that would add a further GBP 22 million incremental management fees in 2023 for that run rate of 37% that I gave you before.

The continuation funds are sort of -- it's broadly stable, a small step up, I think, from into '23 and '24. And clearly, the 2022 numbers didn't have any of the credit infrastructure activities. And as I said, I think the first year target base of GBP 3 million is sensible. So between the incremental funds on ECP V and the credit, you'd expect that probably a sensible estimate of step-up management fees in '22 is about GBP 25 million of that GBP 55 million. There obviously then some modest fee compression from the sell-off of the older funds III and IV. But in the round, I think that's probably not even 10%. So you're aggregating to about GBP 20 million incrementally in '23.

William Jackson - ***Bridgepoint Group plc - Chairman***

Cash transaction structure, Raoul.

Raoul Hughes - *Bridgepoint Group plc - CEO*

Yes. So both businesses are highly cash generative. We have a structure in place that enables us to have a combination of our cash on our balance sheet, together with the RCF facility, is more than adequate to fund the takeout of ECP's existing debt facilities, provide the cash funding for the consideration and also continue the share buyback programme that we've announced this morning.

How that ends up in the mixture at completion rather depends upon where we end up with ECP's existing debt facility. So our expectation is it may well stay in place and transfer across, but that will be subject to discussions with the lenders over the course of the next few months. And so whether or not we do we need to draw on the RCF for a short-term period and completion is a lot of depend on whether we're taking that out and whether that's taking place. But the important point is that within the existing committed group resources, if that debt did need to be taken out, we've got plenty of sort of liquidity to do, to take the debt out to fund the cash consideration and to continue the buyback programme we've announced.

William Jackson - *Bridgepoint Group plc - Chairman*

Okay. Any follow-ups on that, Angeliki?

Angeliki Bairaktari - *JPMorgan Chase & Co, Research Division - Head of Diversified Financials*

That's very clear.

Operator

The next question is from Bruce Hamilton from Morgan Stanley.

Bruce Hamilton - *Morgan Stanley, Research Division - Equity Analyst*

Can you hear me? So first question, just on the sort of size, the typical number of deals and sort of equity ticket size, the ECP transactions. I mean, obviously, you're saying this sort of deep and strengthened your broader sort of mid-market capabilities. So I'm just trying to check if we're thinking about opportunities in Europe, are we talking sort of similar sizes to where Bridgepoint will be right take it on PE side? And then secondly, obviously, you've given us lots of helpful guidance to think around what the business looks like in '24, '25 and clearly, you get a potential upside depending on how the capital implies growth. Investors are also giving you a return on invested capital. So can you give us a sense what that, are you seeing big accretion in '24 or '24, '25, where we would be on sort of return on investment here?

William Jackson - *Bridgepoint Group plc - Chairman*

Doug, do you want to go first?

Doug Kimmelman *Founder and Senior Partner, Energy Capital Partners*

Yes. So generally, you'll see us doing between 10 and 15 investment platforms per fund. We generally like to keep the size, say, no more than 10% to 15% of the total fund size in any one transaction. We've been very successful with many of our LP investors of having them support us with co-invest. And we've done over $7 billion of co-invests. So rather than doing a transaction, one individual transaction that dominates a fund, we'd rather bring in our LPs as co-investors to help us keep a nice broad diversification in the investment portfolios and increasingly, our LP investors certainly have an appetite for co-invest. And I think they view ECP very positively that have thrown off such a high degree of co-invest in our funds.

So I think that, that the general approach will continue. We certainly have the appetite and ability to look in Continental Europe now. We've already done in the current Fund V this take private of Biffa, which was in the neighborhood of a $500 million investment into that platform. But I think we wouldn't change kind of the relative size of transaction that we would be targeting as we look a little bit beyond our existing...

William Jackson - *Bridgepoint Group plc - Chairman*

So it fits very neatly together with Bridgepoint's equity strategy. Bruce, do you want to just clarify when you talk about return on invested capital, do you mean that on the fund level or at corporate level?

Bruce Hamilton - *Morgan Stanley, Research Division - Equity Analyst*

I mean at the corporate level. So if I take what you think the earnings might look like on your -- from ECP on '24, '25 relative to the roughly sort of GBP 835 million or the spend on the transaction, are you getting to double-digit return on the invested capital?

William Jackson - *Bridgepoint Group plc - Chairman*

Raoul, do you want to take that?

Raoul Hughes - *Bridgepoint Group plc - CEO*

I guess we -- if you look at the multiples that we're paying our calculation in the multiple that we're paying based upon the forecast for the Bridgepoint business and the guidance case for ECP results in paying broadly the equivalent multiple in '24 and a lower multiple in '25. The growth of the larger businesses, that drives the multiple. The result of this is EPS per share accretion at the FRE level comfortably in excess of 20% in the medium term. It really raises well above that over the next 2 or 3 years.

And then at a sort of a bottom line EPS level based upon the consensus, it's high single digits initially raising above that. So we feel that is a sort of -- our proxy of how we're looking at the attractiveness of the transaction to drive material incremental shareholder returns. And as a sort of -- but also being -- looking at an efficient balance sheet, we do -- we have looked at alternative uses of capital over and above how we transact and we're confident based upon the outlook for the combined business, and this generates a material -- it should be generating a materially higher shareholder return and options of returning capital through greater buyback.

Bruce Hamilton - *Morgan Stanley, Research Division - Equity Analyst*

Great. Very helpful.

William Jackson - *Bridgepoint Group plc - Chairman*

Any other questions, Bruce?

Bruce Hamilton - *Morgan Stanley, Research Division - Equity Analyst*

No, no, that's great. That's -- it's helpful. Thank you.

William Jackson - *Bridgepoint Group plc - Chairman*

Okay. Well, we'll move to the next question, if there is one.

Operator

There are no further questions on the conference line. We will now address the questions submitted via the webcast page.

I will now hand over to Adam Key to read out the written questions.

Adam Key

And we have one written question from Alexandre Tissieres at Bank of America: Could you provide more details on the energy transition Opportunities Fund and renewable power fund SMA in terms of fee structure, size and time line?

Doug Kimmelman *Founder and Senior Partner, Energy Capital Partners*

Well, if we -- I'll talk about it in general. We focus on our flagship funds, and we supplement that from time to time with separately managed accounts. I think you have in the -- that Adam has given you some sense of what those average management fee levels was just a just a tad below 1.5% is what is averaged in the funds in terms of what the management fee percentage is in that. And I think that points across all the different things that we will do in our equity products. Separately managed accounts, they're all very bespoke. They're all very different, very different, certainly not competing with our flagship funds in terms of looking at maybe a little different risk returns.

And the fee arrangements that we put together, I'll say, are very bespoke as well. But we see a growing opportunity. We have a large SMA in place on the equity side. A lot of our investors are looking us to focus on different niches within the energy transition. And so that's an area of growth for us.

William Jackson - *Bridgepoint Group plc - Chairman*

Okay. Thanks very much, Doug, for that. Any other questions, Adam? No. I think that brings to an end this morning's briefing. Thank you very much for joining us.

Of course, if you have further questions, as you get into the materials, please do feel free to call Adam Key, and he can help answer some of those questions. With that, we'll close for today. Goodbye from London.