

## Bridgepoint half-year update, 15 September 2021

Adam Key:

Good morning, everyone. My name's Adam Key. I've recently joined Bridgepoint to be the first point of contact for investors and analysts in the investor relations role.

This morning, we are going to hear from William Jackson, Executive Chairman, who will give an overview of progress in the first half, and then from Adam Jones, the group's CFO who will run through performance in the half year and guidance for the future.

After they have spoken, we'll be pleased to take any questions you may have. If you'd like to put a question to William or Adam, you can do so using the 'ask a question' button on the webcast page at any time during the presentation. So now I'll hand over to William.

William Jackson:

Good morning, everybody, and thank you very much for joining us for our first brief trading update on our performance. This is for the first half of 2021. As you know, we completed our IPO in July. So actually this update is not really part of our obligations, but we thought it would be very useful just to give you a quick update on how things are going and how we're getting on. Adam Jones, our CFO, who many of you met during the IPO process will cover things in a little bit more detail shortly, but in summary, I'm really pleased to say that we're trading pretty much exactly in line with our expectations and completely consistent with the guidelines we shared with you during the IPO discussions.

2021 will deliver significant revenue and profit growth for our company compared to 2020. As we explained during the IPO, that is principally driven by the successful acquisition of EQT Credit in October 2020 and the start of the investment period of our smaller mid-cap fund, Bridgepoint Development Capital IV, which started its investment period in January this year.

In terms of market conditions, following on from the disruption we all saw in our industry last year caused by the COVID pandemic, capital deployment rates at Bridgepoint and, I think, across the market as a whole have really returned to normal levels. And that is the current case across all our strategies in equity and credit.

We've also capitalized, at Bridgepoint, upon market conditions to deliver some very strong exits this year. One of our highlights was the exit of Calypso in Bridgepoint Europe V. Calypso is the leading developer of capital markets software worldwide. That was acquired by Thoma Bravo earlier in the year. It generated a standout result of six times money multiple after five years of ownership, and growth in revenues and profits, but also in employment as well, which is very important to what we try and do at Bridgepoint.

I'm also pleased to confirm this morning that our next flagship equity fund, Bridgepoint Europe VII, is now in market. Again, in line with what we discussed during the IPO, that has a 7 billion Euro fund size target.

I'm now going to hand over to Adam who's going to take you through the performance in a little bit more detail. So Adam, over to you.

Adam Jones:

Great. Thank you, William. It is a pleasure to see you all this morning. Before I start, I'd just like to thank you for your help and support during the IPO preparations.

If you turn to slide five of the presentation, as William said, we have delivered solid performance to date in 2021 with significant year on year revenue growth, actually 55%, to 122 million pounds, driven by the impact of the acquisition of EQT credit and the launch of BDC IV.

A more significant growth in EBITDA is up 178% to almost 52 million pounds. That reflects the benefits of operating leverage that I had described during the IPO process.

Underlying fee related earnings were up 163% to 26 million pounds with the FRE margin growing to 27% ahead of the all-important BE VII fundraise.

And finally, profit after tax grew 137% to just over 37 million pounds. As William said, all of these numbers are in line with our expectations and they're consistent with the guidance that we gave you during the IPO preparations.

The results for the first half of 2021 are flattered by the good investment returns from Calypso, annual pay rises, which only come into effect from the 1st of April each year, and some travel related savings from COVID.

The only other material P&L change in the next six months is the lease cost associated with our new London headquarters, where we took possession at the end of June. And we'll be moving in next summer once the fit out works have been completed.

But taking those elements in aggregate, the guidance that we gave during the IPO of approximately 100 million pounds of EBITDA for the full year of 2021 remains unchanged.

Now let's turn to slide six, and we are looking at AUM.

Total AUM at June 2021 with 28.5 billion euros. That's up 54% compared to June 2020. 5.9 billion of that 10 billion increase is attributable to the acquired EQT credit business.

Fee paying AUM was 17.7 billion euros, which was up 41% from the prior year.

The fund investments over the first six months of 2021 were ... totalled 2.7 billion. That is a significant increase on the 0.6 billion in the prior year period, although that number, as William said, reflects the cautious deployment during the early stages of the pandemic.

A strong performance on gross exit, 2.1 billion, for the six month compared to 0.2 billion for the prior year period. And again, the pace of fund deployment remains exactly in line with the guidance that we gave you during the IPO process.

And also fundraising also remains in line with expectations. We have three products currently in the market, BE VII, and the two credit funds Credit Opportunities IV and Direct Lending III.

Turning to slide seven.

For the benefit of those present today who have not heard me outline either our financial profile or the financial guidance, here are the key headlines.

Bridgepoint has a simple and, as said, light financial model with stable and highly visible revenue from management fees.

We expect a significant near-term growth in both AUM and revenues from the wave of fundraising between 2020 and 2022, some of which is already evident in these latest results.

We will drive material margin improvement from operating leverage, which again is already evident in the year on year profile of these results.

Management fee rates are stable and are expected to remain so and at current levels in the future.

Revenue contributions from carried interest and co-investment will be 20-25% over the medium term.

Our co-investment commitment to future funds will be between 2 and 3%.

Headcount and personnel costs are expected to grow more modestly relative to fee income over the next two to three years, but we will continue to invest to support our growth journey.

The impact of significant investment into the maturity of our investing platform ahead of the IPO will lead to an expansion of our profit margins. Specifically, FRE margins are expected to be in the 30 to 35% range by 2023, and growing to 45 to 50% in the medium term.

With regard to tax, the group's Effective Tax Rate is expected to be 7.5% for the medium term, subject to, of course, any potential changes in the UK tax code.

We have high cash conversion of profits, which will support both our investment funding commitments and our capacity to pay regular dividends. And our dividends to shareholders should grow as the business scales, although we will balance shareholder distributions against redeployment and driving long term growth through further investment.

Our first dividend is expected to be 30 million pounds, reflecting the fact that we will only have been listed for the second half of this year.

And just to clarify, that full year FY 2021 EBITDA guidance of around 100 million pounds excludes up to, roughly, 40 million pounds of exceptional costs related to the IPO.

And obviously, as William said, the update on BE VII in the market with a target fund size of 7 billion euros. With that, I'll hand back to William.

William Jackson:

Thanks very much, Adam. I would echo Adam's thanks for the support you showed us through the IPO process.

As we look forward to the second half of the year, we still expect to see continued volatility of economic conditions as markets recover from the COVID shock, in terms of trading activity, and we see that across different countries in which we operate. As you all read, COVID affects different countries at different stages as the evolution of [the] virus continues.

All that said, we remain very confident in the growth prospects for our business, and our ability to continue to source attractive opportunities for our funds. And that's been reflected in our investment activity in the first half of the year.

Obviously, as I mentioned right at the beginning, this is a shorter update because it's for the period prior to the IPO, but we hope that this information is useful to you, reflects the fact that we're back on track with what we said we do. And now we'd be pleased to take any questions that you may have. I think Adam Key is going to act as the coordinator of those questions. So Adam, over to you.

Adam Key:

Thank you, William.

Operator :

[crosstalk] Sorry. I'm just going to take the questions on the phones at the moment, but if you would like to ask a question on the phones, you just need to dial star in one. And so you need on a phone star in one. And just a reminder, participants, can submit questions using the ask a question button on the webcast page... And we do have a question on the phones. This first one comes from Philip Middleton, Bank of America. Please go ahead.

Philip Middleton:

Yeah, good morning. And thank you for the update. It's very helpful. When I look at Fund Six [BE VI], which is now 78% invested, that to me implies that you could get on with investing Fund seven [BE VII] very, very soon indeed. So what are you saying about when that's likely to close, and have you thought about maybe doing a first close and bringing forward the investment period for Fund seven? Thank you.

William Jackson:

Thanks, Philip. It's a good question. We're bang in line with what we said with the IPO. It's difficult to predict when you finish investing a fund, because we will only finish investing it when we find the right assets to put into the fund. And if it takes a bit longer, we'll wait, make sure we've got the right asset. Because as we've said right along through the IPO, the number one thing for this company is to make sure we continue to produce high quality returns for our LPs. But that said the deployment rate has continued in line with our expectations.

I think the guidance we gave in the IPO process was that the transition between funds would take place between the 1st of January and the 1st of July, with the mid case being April 1. And that's in line with our long term 3 and a half year, four year deployment rates, depending on market conditions. And that's exactly the same. That's where we'd expect to be. And then that mid case remains valid. And you know, as we go on and we have updates, we'll let you know where we're getting to, but we're bang on track of what we said we were going to do.

Philip Middleton:

Okay. Thanks.

Operator :

Okay. [We] do have another question on the phones. This is from Arnaud Giblet, from BNPP. Please go ahead.

Arnaud Giblet:

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

Firstly, could you perhaps give us an update on fund performance of the flagships?

My second question relates to deployment. I mean, obviously IPO happened not a long time ago, but could you perhaps give us an update in terms of deal pipeline flow. What's the rate of the deployment looking at looking for age two and beyond.

And my third question is on M&A. That's part of the investment case you laid out during the IPO process. I'm wondering how the corporate M&A pipeline might look like. I mean, I would assume you might have had some incomings post IPO. Maybe you could give us a bit of a flavour in terms of how conversations might be progressing there. Thank you.

William Jackson:

Yeah. Thanks Arnaud. I mean, fund performance remains in line with the numbers we shared in the IPO. We've continued to have good performance across all the funds, and they have at least maintained the performance numbers that were in the prospectus, so that is encouraging. Our deployment rate is bang on track, as I mentioned earlier, with what we set out in the IPO. We have a decent pipeline. The nature of our industry is that you only do an investment when you sign on the dotted line. So you can have a fantastic pipeline and it can all disappear or it can all convert. But what I'm encouraged by is that we have a strong pipeline, which gives us confidence that we will invest the fund along the normal time scales that we would expect.

So in the IPO, this isn't ... as I mentioned many, many times, our strategy for fund deployment is exactly as it was before the IPO. We're not changing our deployment strategy. We're about finding the best investments and we're on track with that. And I'd be disappointed if we hadn't, with the quality and depth of origination that we've got at Bridgepoint, that we hadn't completed the construction of a really interesting Fund Six within that six month period in the beginning of next year. The base case of April looks very sensible given where we are, so I think that still applies.

On M&A, the IPO has raised our profile, so that is very helpful to us. You're right to expect that we have nice incomings and discussions with people, but what we've again said in the IPO process is that we would expect to add a third strategy in the medium term, and we will remain on track to do that. The encouraging thing, I guess, is the quality of our opportunities has definitely gone up with the listing. So that is a beneficial fact that we were sort of hoping for, but we've seen. But immediately, we're not in the near term going to announce anything, or at least that's not our expectation, but we remain confident that in the medium term, we're on track with the strategy as we described in June.

Arnaud Giblet:

Good to hear. Thank you.

Operator :

Okay. No further questions on the phones at the moment. Now, hand over the presentation to Adam Key for written questions. Please go ahead.

Adam Key:

Thank you very much. So William and Adam, we've got two sets of written questions, which I'll just read out. The first is from Andrew Coombs at Citi. Three questions from him.

Firstly, any updated thoughts on the timing of first close for BE VII? And do you expect final close to be also in 2022?

Secondly, when do you expect BDC III to start contributing to performance fees?

And then lastly, we can see this morning that you've added 10 FTE's in the half. Should we think of this as a standard run rate now?

William Jackson:

So maybe I'll just talk on the first close and then hand the second two points, Andrew, to Adam to cover.

On first close, we're making good progress on the discussions on Fund Seven. The timing of first close is more a process issue than anything else, but we expect to have the fund up and running and ready, not fully raised, but up and running and ready by Q1 next year so that it can dovetail nicely with the

completion of the Fund Six investment period. And that follows what we've done in previous transitions between funds.

As you might remember, Andrew, the key point here is not when you close the fundraising, it's when you actually start the investment period, because as people come into the fund, there's a sort of true up that every investor pays the same rate. They pay their fees as if they've been in at the first draw down of funds.

It's likely that the fund will be fully closed in 2022, but we are being quite strategic about making sure that we use the opportunity of having a fund that's well received in the market to get a broad and balanced investor base. And so, in terms of our own KPIs, the timing of when the final closes is not as important as the mix that we want to get geographically and by institution type, and I think we're on track to achieve our objectives there. But I think it is likely that it will be closed in 2022 fully. But if we had a strategic investor that we wanted to bring in, that for some reason couldn't close until 23, we'd be perfectly happy to hold open to accommodate that, if they were important to us, but normally we would expect to be done that period. Adam, do you want to cover the BDC and FTE point?

Adam Jones:

Absolutely. I have to do that. So, Andrew, BDC III completed its primary investment period at the end of 2020, in line with the modelling that we shared, again during the roadshow process. We will only start to recognise performance fees once there's this reasonable certainty that carry will be triggered. And that will typically take five to six years, and obviously when we're very immature in the fund realisation cycle. So we would not expect to see BDC III performance fees before 2025.

With regard to FTE count, I would think, as we've said, we would probably be growing our cost base roughly at 50% of our fee income base on a go forward basis. There probably will be some PLC related hires. Obviously, we're building a corporate IR function. And some of the governance requirements means we'll be adding headcount into some of our teams. So I expect perhaps that the 10 is not the absolute run rate going forward, but actually provide more detailed guidance in our year-end numbers. But I think if you take just the overall cost base, moving at roughly half of the yearly top line growth, that's a reasonable proxy for the progression.

William Jackson:

Just to add to that one comment on BDC III, it's an extremely strongly performing fund, which is encouraging. We said that during the IPO process, and it's continued to perform well, so that's encouraging for the medium-term outlook that Adam just gave.

On the FTEs, one thing that's worth just mentioning there as well, is that some of those FTEs relate to the start of the BDC fundraise, whereas the fund increased in size, Adam, I think we had a couple of extra hires that were in the budget for 2020, but in COVID weren't made, but they were included in the resources necessary to deploy that fund. So, that won't happen again each year, to put that in some context, they're one-off hires related to the BDC III fundraise. And then of course, some additional strengthening around the resource we need to run a PLC.

Adam Key:

Thank you. The next question comes from David McCann at Numis, and it's what fund size for BE VII do you think you could have raised given market demand had you not capped it at 7 billion euros, partly in order to preserve fund performance?

William Jackson:

Thanks, David. It's a good question. We haven't actually set out a cap for the fund and we won't do that until we are further into the process. But as I said earlier, we are focused on having the right amount of capital for market conditions.

We're confident, based on our investment returns and our market position, and actually our current investment rate, that we will certainly maintain or improve performance at a 7 billion fund if we are successful in raising that. And then we'll refine the precise number for the fund when we become mid ... towards the second half of that fundraising process. But we are very focused as an organization on maintaining investment returns, and that's the most important thing.

I did say many times during the IPO process that if our LPs do well, our shareholders will do well. And that's an important point, and we feel confident that at around that number, we're well on track to be able to maintain investment performance.

Adam Key:

Thank you. And then a question from Bruce Hamilton at Morgan Stanley, in a similar vein, can you give a sense of whether client conversations suggest possible upside to 7 billion euros?

William Jackson:

I think people should assume, yes, we've got a good demand for the fund, but I would repeat what I said. I think 7 billion is a good base case. We are an organization that is disciplined and we'll give a further update on this in due course as to where it ends up. But I think the numbers that you've been guided to are sensible, and as Mrs. Thatcher used to say many years ago, I'm cautiously optimistic that we are well on track with that.

Adam Key:

Thank you. Then a question from Gurjit Kambo at JP Morgan. Two, in fact.

Firstly, for Fund Seven, what mix are you targeting in terms of existing LPs reinvesting versus new investors?

And secondly, what sort of returns do you think investors are currently looking for from the private equity asset class?

William Jackson:

I think it's too early to be specific about the mix. As you know, we are broadly based between the US and Europe, Middle East and some Asian-based investors. And we'll continue to make sure that that mix is as balanced as it can be. In terms of existing LPs, we would expect a strong recommitment rate to our funds, that's been the history. But we will also try and make sure there is room for some new partners to come into our funds.

Our medium to long term view about investor returns is that they will be sustained, pretty confident about that. Obviously, interest rates have some impact on rates of return and target rates of return, but I think you are aware that our flagship fund is running at a 19% net [return], and we would expect to maintain that.

Adam Key:

Thank you. That's all the written questions we've got. So I'll hand back now to the operator, to see if there's anything left on the phones.

Operator :

Okay. No further questions on the conference line. So I'll now hand over to the management team for the closing remarks. Thanks.

William Jackson:

Well, listen, thank you very much for joining us this morning. I hope that was useful. Please do give us any feedback, and we will look forward to the next update in due course. Thanks very much and good morning.