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Conference Title: **Petershill Partners FY22 Results**

Moderator: **Gurjit Kambo**

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Operator: Good day, everyone, and welcome to Petershill Partners Full Year 2022 Results Call. At this time, all participants are in a listen only mode. After the speaker presentation, there will be a question and answer session. I would like to advise all parties that today's call is being recorded and by remaining on the line, you are representing to the company and Goldman Sachs that you are located outside of the United States and are not a US person as defined under regulation as of the US Securities Act of 1933. Or you are a qualified purchaser as defined under the US Investment Company Act of 1940, and that you are not located in or resident of any jurisdiction where to attend this conference call would constitute a violation of the relevant law of such jurisdiction. Now, I would like to hand the conference over to Gurjit Kambo, Head of Investor relations at Petershill Partners. Please go ahead.

Gurjit Kambo: Good morning, everyone. I'm Gurjit Kambo, Head of Investor Relations of Petershill Partners. A very warm welcome to you all and thank you for joining us today to discuss Petershill Partners full year 2022 results. Before we begin, I'd like to remind you that during this call we may make a number of forward looking statements which could differ from our actual results materially. And Petershill Partners assumes no obligation to update these statements. A replay of today's call will be available on the Investor Relations section of our website, along with a copy of our preliminary results and presentation.

Petershill Partners commenced conditional trading on the London Stock Exchange on September 28th, 2021, on which date the initial acquisition of the portfolio of partner firms by the company was completed. Prior to this date, the company did not trade and therefore does not have reportable results. For completeness and transparency, the full year 2021 comparative results include operating metrics for periods prior to the initial acquisition date, presented as if the company's assets following the initial acquisition of the partner firms had been owned by the company during the historical periods presented. Presenting today to discuss the company's full year 2020 results are Ali Raissi-Dehkordy and Robert Hamilton Kelly, Co-Heads of the Petershill Group at Goldman Sachs. After the speakers presentation, there will be a question and answer session. With that, I'll turn the call over to Ali.

Ali Raissi-Dehkordy: Hello, everyone. I'm Ali Raissi-Dehkordy, Co-Head of the Petershill Group at Goldman Sachs, the operator of Petershill Partners. Thank you for joining as we present our first full year of earnings since the IPO in September 2021. Turning to page three, we have delivered a resilient set of results in a challenging and uncertain market environment and believe these results demonstrate key characteristics of our company in terms of quality of our partner firms, diversity and resilience, strong relative performance, capital returns and successful delivery of our M&A goals. To speak to quality, we are particularly pleased by the strong $60 billion asset raising during 2022 and the 23% year on year growth in fee paying AUM to the end of the year at $194 billion.

You'll note the backdrop of the challenging fundraising environment that this was set against. And importantly, that this represented circa 4% of industry capital raised last year against a stock of 2% of industry AUM, a positive observation to our company's growth during market growth periods and more challenging periods where firms compete for market share. Partner fee related earnings grew to $213 million, up 1%. The modest growth reflected management fee growth despite lower transaction fees, offset by higher expenses reflecting investments in the team and talent at our partner firms, as well as the impact of the broader inflationary environment and fees turning on later in the year in 2022, all of which Rob will elaborate in further in the financials section.

We delivered strong partner realized performance fees of $132 million, up 2% year on year. This is particularly impressive against a strong 2021, which saw record realization activity and performance fees for the industry. So exceeding this in a year marked by lower industry wide activity and generally tougher macro environment illustrates the distinct strength of our diversified business model. In our first year with a full P&L Petershill Partners profitability is clear with an adjusted EBIT margin of 89%. And we delivered a full year adjusted EPS of $23.7.

On the back of these results, the board has proposed a final dividend of $125 million or $0.11 per share, resulting in $165 million of total dividend for 2022. Combined with $50 million of buyback that's completed, the total return to shareholders stands at $215 million in 2022 or $245 million since the IPO. Furthermore, the board intends to launch a $50 million share buyback program for 2023, whilst maintaining sufficient capital for strategic opportunities and preserving a prudent balance sheet. This buyback represents a compelling opportunity to return value to investors while also effectively buying into a stable of high quality partner firms that Petershill Partners represents.

During this presentation, we will start with an update on our strategy before looking in detail at the performance during 2022 and outlook for the year ahead, and then open up to Q&A.

On page six, I want to spend a moment to speak to the nature of our business. One, our company provides investors diversified access across 25 engines of growth. Our 25 partner firms operate predominantly in the private markets across all asset classes. Two, we have partnerships with independent, high quality firms that are profitable and have a proven track record of returns and growth. Three We have a resilient business model with high proportion of recurring revenues, attractive fee related earnings, margins and strong cash generation.

And four, our partner firms are well positioned across multiple market cycles with long term lock up capital with average weighted duration of 8.9 years, but also diversification across multiple sectors strategies, funds that provide an ability for performance across the market cycle, as evidenced by the PRE generated in 2022. On page seven, I wanted to highlight the Petershill Partners business model.

Petershill Partners provides access to partner firms that have delivered AUM growth ahead of the alternatives industry, with PHP delivering 28% AUM CAGR between 2018 and 2022, almost twice the circa 14% delivered by the alternatives industry as a whole. Petershill Partners has a high proportion of recurring revenues, 69% of total revenues in 2022, reflecting the long duration of capital at close to nine years. Our strong cash generation and cash position provides financial flexibility to offer attractive capital return to shareholders and continue to deliver on our targeted inorganic growth strategy, which has seen acquisitions and follow on investments since the IPO of around $640 million invested in targeted growth areas such as healthcare private equity, secondary for venture capital, distressed and value orientated tech investing, private credit, and private real assets.

On page eight, I want to share a few highlights across our partner firms. In a challenging fundraising environment, it was encouraging to see Francisco Partners close on nearly $17 billion of new capital, which we expect to begin generating fees in 2023. And Clearlake raised more than $14 billion for its seventh flagship PE fund.

On page eight, I want to share a few highlights across our partner firms. In a challenging fundraising environment, it was encouraging to see Francisco Partners close on nearly $17 billion of new capital, which we expect to begin to generate fees in 2023. And Clearlake raised more than $14 billion for its seventh flagship PE fund. SLR, one of our new partner firms acquired in 2022 focused on private credit, raised $2.2 billion of equity commitments for its direct lending strategies. Set in the context of a slowdown in overall private market fundraising, this fundraising represents notable differentiation with firms raising above targets and on or ahead of schedule.

And importantly, diversification across ten firms raised capital last year, a strong demonstration and a challenging fundraising environment.

More importantly, generally speaking, these firms are amongst the strongest mid-market participants in each of their respective sectors, a core Petershill playbook where we seek high quality, ambitious firms where there is clear path for growth demonstrated either by much larger peers, as might be the case for arsenal or a compelling market opportunity, as we see for private credit or private equity healthcare, or where we see dislocation that may create great opportunities going forward as we see for industry ventures in secondaries. The footprint of our largest five firms covers around $92 billion of fee paying AUM with funds across private credit and equity, macro, private real assets and infrastructure investing, with our five smallest firms totaling around $8 billion of fee paying AUM in comparison.

On page nine, looking at diversification at the underlying partner firm level, our 25 partner firms each run multiple vintages of funds over different time periods, with a total of over 220 funds, implying an average of almost nine funds per firm. This gives us diversification across brands, firms, funds, strategies, and vintages. As you see from the capital raising chart, Petershill Partners has benefited from partner firms who have raised capital in every single vintage and year for the last decade. We think this stands out, particularly as you see how this translates to diversification across vintages for our business. Performance and quality of our underlying partner firms were critical drivers in our asset raising success in 2022, in a period of greater bifurcation in a market where strong and well positioned firms had the opportunity to outperform, and where investor selectivity effectively meant market share was being won with capital raised.

We turn to page ten. We build on our diversification through an active CapEx like M&A process, which allows us to target growth and use capital in areas where we believe we can deliver long-term value and diversification. Looking at the acquisitions in more detail, we've been delivering on our acquisition strategy. In aggregate since the IPO, we have now invested a total of $638 million across eight transactions. Given the market backdrop, we have been more selective and reduced the pace of acquisitions in 2022, with three acquisitions totaling $180 million in commitments. Importantly, tapping our ability to invest in follow on capital and our successful partnerships.

The new investments in 2022 were in sectors that we specifically identified as some of the more attractive sectors for future growth, including healthcare private equity, real assets and private credit. One point to note is that Petershill Partners generally makes these new acquisitions alongside the Petershill private equity funds, which will result in a lower blended ownership for new transactions, but with the same governance rights and non-control protections and importantly, reflecting the same high cost of capital as our private investments.

To turn to page 11. Our acquisition strategy benefits from a differentiated ability to source new partnerships. Our value added work to help our partner firms achieve their strategic goals is a differentiated offering and a critical factor in sourcing new opportunities, particularly when we seek ambitious management who are seeking ways to compound the value of their own interests, given they continue to own the majority of their firms. We leverage our GS footprint in several ways. One, our ability to source and acquire interests in new high quality portfolio firms with approximately 70% of our partnerships being sourced exclusively and bilaterally.

Two, we leverage proprietary data for insights, analysis and evaluation of new potential partnerships and target sectors. And three, adding value to our existing partner firms through our GP services business. GP Services is our operating partner platform within the Petershill business, where we work with management teams of our partner firms on growing and developing their businesses. And importantly, the GP services team also helps to position us as an attractive partner for new acquisitions as our partners become our advocates. During 2022, we delivered on 314 projects in aggregate across a broad categories of capital and product development, portfolio company services and operational improvements.

Turning to page 12, I wanted to elaborate on our robust governance and alignment with shareholders. Starting at the top, we have a fully independent board and a formal operator agreement that manages any potential conflicts of interest. Our operator charge is aligned to partner firm profitability and a profit share linked to the performance of new acquisitions undertaken. Finally, we see strong alignment of the operator and its management with shareholders through the private fund carried interests which are linked to Petershill Partners share price performance, where it is the largest single asset owned. And two, GS and the team's indirect shares held in Petershill Partners through the private funds. And finally, three, the direct shares acquired by management since the IPO.

On page 13, we wanted to share some medium term growth metrics. Our partner firms delivered 28% AUM and 24% fee paying AUM growth on average per annum between 2018 and 2022, which helped drive net management fee growth of 32% and FRE growth of 29% over the same time period. Including realized performance fees and investment income, partner firm distributable income delivered average growth of 36% between 2018 and 2022. Testament to the strong asset raising in 2022, the $60 billion of partner firm fundraising accounted for almost 4% of industry AUM raised, double the partner firm's share of industry stock AUM, and around three times the amount of capital raised by our partner firms in 2021.

Page 14. We compare the delivery on our key metrics in 2022 versus market expectations at the time of our IPO. The key takeaway is that our growth and profitability has exceeded expectations set out at the time of the IPO during more benign market fundraising credit and inflationary environments. Partner firms have comfortably exceeded AUM growth expectations. And whilst FRC is lower, this reflects some of the headcount and cost increases associated with firms expanding their footprint as well as wider inflationary pressures now versus at the time of the IPO.

We have delivered stronger overall adjusted EPS growth, which coupled with our balance sheet strength and outlook for the business, has driven a 51% increase in capital return versus expectations at the IPO. Before I turn over to Rob to run through the financials in more detail, I wanted to highlight how we have progressed versus our targets set for 2022. To begin with, I would highlight the market backdrop has turned out to be more challenging than we would have anticipated at the time of the IPO. And I believe that in the context, we have made particularly strong progress and hopefully illustrated the core elements of diversification, quality, and resilience to our company model that we spoke about at the time of the IPO.

2022 resulted in $60 billion of gross fee paying AUM raised against our initial full year guidance of $40 billion to $45 billion. Petershill Partners is highly profitable and achieved an adjusted EBIT margin of 89% in 2022, the top end of our guidance. We completed three new investments totaling $180 million in 2022 within the middle of our range of $100 million to $300 million per annum for M&A, and strong capital return with $165 million of dividends for 2022, in addition to a $50 million buyback that's completed. With that, I'd like to hand over to Rob to review our full year 2022 results in more detail.

Robert Hamilton Kelly: Thanks, Ali. This is Rob Hamilton Kelly, Co-Head of the Petershill Group at Goldman Sachs. On page 17, management results are the most important metrics for us and what we focus on in running our business. And they reflect the true operating performance of the company. They strip out non-cash IFRS line items. We start with partner FRE at $213 million, up 1% year on year, reflecting higher management fees despite lower transaction fees net of offsets than in 2021, and an increase in partner expenses, which we will cover in more detail. Partner PRE of $132 million was up 2% year on year, a very strong number given the drop in capital market activity between 2021 and 2022. Total income or partner distributable earnings of $370 million - creator and corporate operating costs.

We had $336 million of adjusted EBIT for 2022 and adjusted EBIT margin of 89%. Adjusted PAT for 2022 was $273 million, with adjusted EPS of $23.7 with total dividends for 2022 of $165 million. Notably, this is the first year where we've had a full year P&L. And so this helps one of our strategic goals of improving the broader understanding of the financials of the business. As you can see from the page, we think of the core business as relatively simple in its P&L and cash flow generation. As a note, we also had $19 million of non-recurring exceptionals, predominantly relating to the prepayment of old debt and legal fees, which we show at the bottom. This was reconstituting the debt structure from pre to post IPO in a more appropriate form. And so we would not expect this magnitude of charges in future.

On page 18, strong AUM growth is reflected in both total AUM, up 21% to $283 billion and fee paying AUM up 23% to $194 billion. Again, this is set in the context of an approximate 10% slowdown in global fundraising in the year. And so we think of this as a strong reflection in the quality of our partner firms. Total AUM is an important metric for performance fee generation and fee paying AUM for FRE growth. $17 billion of capital raised in 2022 came from Francisco Partners, which we expect to become fee paying in 2023, coupled with $20 billion to $25 billion of expected asset raising in 2023, which should support future FRE growth.

On page 19, partner management fees increased 11% year over year in 2021, with a management fee rate of 141 basis points in line with our expectations for the year and above our five year average of 136 basis points. The reduction in net management fee rate year on year reflected first lower transaction fees net of fee offsets, which were $10 million than in 2021 in aggregate. And secondly, business and asset mix, for example, strong growth in private credit at some of our partner firms. Blended FRE ownership was lower at 13.5% versus 14.2% in 2021, as expected, due to lower ownership stakes in new acquisitions undertaken with the private Petershill vehicles, as well as strong growth in a number of PE firms where we have blended free ownership of under 10%.

On page 20 FRE of $213 million saw a modest increase year over year, reflecting management fee growth despite lower transaction fees net of offsets which we discussed, and a higher partner firm costs, which I'll walk you through. Our partner firm costs increased from $95 million to $129 million. We can attribute around $7 million of the increase due to the impact of acquisitions, and we incurred a $4 million partner firm non-recurring tax adjustment for the prior period. Costs excluding acquisitions and the $4 million were up 24% or $23 million.

Our partner firms were not immune to the broader inflationary pressures seen across the market, but our firms also had a 20% increase in headcount during the year. So you can see part of this is investing in resources alongside AUM growth. In addition to the increase in headcount, we also had firms expand and open new offices to accommodate their growth in and expected future deployment. We provide a bridge between the change in our FRE margin during 2022. We highlight approximately 4% points of the decline attributable to the higher compensation costs, 1% point relating to non-compensation costs, and 2% point impact from higher FRE related taxes versus the prior year.

Turning to page 21, against a challenging market backdrop and a tough comparable period for 2021, we're extremely pleased that our high quality, diversified portfolio continued to generate good investment performance. Partner realized performance fee revenues were particularly encouraging at $132 million, up 2% year on year versus a strong comparable 2021. Our largest contributing asset class was private equity, while absolute return performed notably well in Q4. Investment performance remains robust, with a crude PRE of $611 million at the end of the year. This doesn't run through our P&L until realized, but is a good leading indicator. In the bottom right chart, you'll see a steady increase in performance fee eligible AUM to $256 billion, which also supports future potential PRE generation.

On page 22, you can see our balance sheet is dominated by the fair value of partner firm investments, which we fair value under IFRS. This gives a book value of $5 billion or $0.416 or

£0.344 per share. In the appendix, we have more detailed breakdown of the values per the notes to our financial statements. I'd note, most of that value is in private capital firms. We look at these on a mix of multiple and discounted cash flow basis. For fee related earnings, we use a weighted average discount rate of 13.4%, up from 11.3% at the end of 2021. And for performance related earnings, we use a weighted average of 23.9%, up from 18.7% at the end of 2021. The decline in the holding value of the private market assets was driven by this increase in discount rates from 15% to 17%, while operational performance and outlook remained unchanged in the aggregate.

On page 23, turning to our cash position, we had significant cash of $581 million or $341 million proforma for all the remaining deferred acquisition costs. During 2022, we completed the successful private placement of $500 million of senior unsecured debt raised across seven to 20 year tenures, extending the weighted average duration of our debt to approximately 11 years. While we don't look to time these things too perfectly, we're particularly pleased to have locked in a 5.6% fixed cost to this debt given the rate environment, and believe the rating, pricing, and duration reflects the long-term confidence of our creditors who have invested with us before.

On page 24, Petershill Partners is highly cash generative and our capital allocation can support our progressive dividend policy, finance growth and provide optionality for future capital return as overseen by our independent board. Significant capital return of $245 million since the IPO and $215 million in 2022. We continue to see good opportunities for the $100 million to $300 million of annual CapEx like M&A and maintain our leverage target of under 1.5 times last 12 months EBIT for long term planning and capacity to go up to three times last 12 months EBIT for acquisitions. We focus on capital efficiency and so maintain our progressive dividend policy and intend to launch new $50 million share buyback program for 2023. The company is underpinned by this excellent free cash flow generation, and that gives us flexibility and efficiency in our financing. With that, I would like to hand back over to Ali.

Ali Raissi-Dehkordy: Thank you, Rob. Before closing, I will make a few comments on the market environment and on our strategic goals. We have clear strategic goals for 2022. We aim to continue to support partner firm development and growth via a robust and proven framework through our value added GP services. We aim to continue to identify and evaluate attractive acquisitions and access the fastest growing areas of the alts industry, where we can be the most impactful with our capital. And we aim to be highly efficient with a focus on returns for shareholders, which we demonstrated in 2022 through return of $215 million of capital. More broadly, I would note that having reported our first full year of results post the IPO, we continue to have significant focus on broadening and deepening market understanding of the company.

On page 27, we'll spend a moment to talk about some of the key themes that we see going forward. While macro uncertainties persist, our business is well positioned, both geographically with a focus on North America and our revenues primarily driven in US dollars, and in terms of structure and exposure with our 25 engines of growth through our partner firms. Private market fundraising and investing has continued amid higher uncertainty, with 2022 the second best fundraising year on record. And although this was clearly a nuanced fundraising environment, representing considerable challenges to some market participants with delays and reductions in capital raising goals, we expect this to continue in 2023. We are, however, pleased that our partner firms have exceeded our asset raising guidance and grown faster than the industry. We believe that this is a strong endorsement from increasingly selective LPs.

If you take a medium term view, outlook for industry growth remains encouraging with frequent estimating private market industry AUM to reach over $18 trillion by 2027 from around $11 trillion today. It's important to note that this growth stems from private markets playing an increasing role in the financing of the real economy, where many business owners and management teams prefer to operate privately. And this drives an expanding opportunity set for our firms. Periods of market dislocation can create attractive opportunities for asset managers with dry powder. And history shows deals done during a downturn have generated superior returns over time.

More importantly, on page 28, we believe that Petershill Partners has been built to be well positioned in changing fundraising and operating environments. We first showed this slide in the first half of 2022, and while the challenges remain, some of the focus points have clearly moved in the second half of 2022 and early 2023. We have spoken at length around fundraising. Diversification across strong partner firms means no reliance on a single raise or firm. Our largest underlying fund continues to represent around 5% of AUM. Anecdotally, it also means that one of our partner firms completely missing their largest fund raise in a year would be economically equivalent to a single firm's largest fundraise being delayed by a few weeks. We think that this diversification and resilience is a really important point.

The long-term FRE-centric model provides resilience against challenges to realizations or performance and gives visibility to most of our revenues. Exposure across macro real assets credit speaks to a resilient model, well positioned for inflation and rising rates, and allows performance related earnings generation across the market cycle. I'd also note that our acquisitions since IPO have been targeted in further enhancing our position and exposure to areas where we believe are well positioned for the current market environment.

The potential GDP decline in Western economies has highlighted the importance of recession risks that we face today. Petershill Partners benefits from 91% of its AUM headquartered in North America and risk management through a diversified footprint of exposures with the majority of our revenues and costs being US dollar denominated. On page 29, as we have noted, while there has been a nuanced fundraising environment, we expect it to continue to present challenges. We believe Petershill partners approach diversification. The partner, firm quality and resilience has been a differentiator in 2022.

For 2023, we reiterate our previous guidance of $20 billion to $25 billion of organic gross fee eligible AUM across more than ten partner firms. And while it's tougher to assess potential realizations in fee based AUM, we maintain our previous guidance of $5 billion to $10 billion of realizations.

Moving to page 30 to conclude our outlook and guidance for 2023. We reiterate our company headline guidance. In addition to asset raising guidance, we maintain guidance for acquisitions of $100 million to $300 million per annum, corporate adjusted EBIT margin guidance of 85% to 90% and our progressive dividend policy. But also, reflecting on a full year of results, we're simplifying our FRE guidance by providing an absolute dollar million range of $220 million to $250 million for 2023, which will achieve the same objective versus providing the individual components to derive the FRE range. We expect our net management fee rate partner FRE ownership and partner blended FRE margins to broadly remain stable against 2022.

It's worth spending a moment that on the whole we're not experiencing any decline in like for like partner firm margins, but rather a change in the mix and relative contribution of partner firms, each with different expense margins to the overall mix. Last year, ten of our partner firms raised almost 20% of new fee paying capital. As you can expect, this changes the mix of partner firm businesses between 2021, 2022, and 2023. Finally, we reiterate our medium term guidance on PRE to represent between 20% to 30% of total partner firm revenues.

Moving to page 31 to conclude. 2022 highlights the benefits of our diversified model, and that Petershill Partners was able to demonstrate market growth and market share gains, showing itself as a highly profitable business with high proportion of recurring fees given long duration of capital, but also supported by a diversified stream of realized performance fees. The strong cash position and cash generation of our business continues to support future growth and capital return to shareholders. With that, we thank you for joining the call and we'd like to open it up for questions.

Operator: Thank you. If you would like to ask a question, please signal by pressing star, one on your telephone keypad. If you are using a speakerphone, please make sure your mute function is turned off to allow your signal to reach our equipment. Again, press star, one to ask a question. We'll take our first question. Gilbert [inaudible] from Bank of America. Your line is open. Please go ahead.

Gilbert: Hi, guys. Good morning. Thanks for taking my questions. I've got three questions. Firstly on the FRE margin. I know for 2023, you're assuming it to be similar to 2022 of about 62%. How should we think about FRE margin after 2023? Would it [inaudible] or back to its - I think your previous guidance was 65% to 70% or has it changed now to a lower number because of what you mentioned about the mix of firms today? So that's the first question.

The second question again, is on the FRE margin. I think previously, I thought that there were some contractual guarantees with some of the GPs where the margin would be protected. Is this still the case? I'm just wondering how that works, because the FRE margin probably was worse than what I had expected.

And lastly, can you talk a bit about the M&A environment for doing additional CapEx like M&A? Do you expect to do a similar type number of deals as you did last year or is it a different environment? And what's the bid ask spread like today for some of the companies you're looking at? Thank you.

Robert Hamilton Kelly: Hi, Gilbert. Thanks again for the question, and appreciate you making sometime today. So on the first question on FRE margin, so as you know, we now guide on the overall FRE level. I'd say we expect the approximate partner FRE margin to be stable relative to 2022. And then we'll obviously update guidance over time on the future dollar number. I note in terms of the business mix, we've got a few things happening. One obviously is that our guidance is stable on an organic basis or historically was. As you acquire new firms, those firms can have different margins. And as firms raise capital, those - that capital can also have different margins. So an example would be that the acquisitions done over the last couple of years had a slightly lower FRE margin than the starting business. We then have firms raising in different areas, maybe credit at a lower fee. They typically have lower margins as well.

If we look forward and think about the contractual protections, I think the key thing about contractual protections is that still leaves us with industry leading FRE margins across the different partner firms. The way the FRE margin protections really work is it's about alignment with the underlying principles. So we carve out either excessive costs like private plane travel or art purchases. And it also means that we are alongside management in participating in the profit of the business rather than receiving profit after management get paid as it typically gets in other businesses. And so it's really about an alignment with principles rather than a fixed margin at any particular level. So those remain in place. We put those in place in every acquisition historically and going forward, and those are important part of the overall long term stability of profitability in the business.

Ali Raissi-Dehkordy: And Gilbert, maybe to cover your third question on the M&A side. I think we still maintain guidance of $100 to $300 million of M&A for 2023. You'll note last year, I think we were clearly cautious around the environment. We continue to be cautious both through how we underwrite the firms we select, the sectors we partner with. And I'd say to your question around expectations and the bid ask spread, yeah, absolutely. So, I'd say on the one hand, we can be more impactful in environments that are more nuanced. And so, I think there's more value placed on our partnership. And on the other hand, clearly I'd say some of that bid ask spread has also come in. So we continue to see attractive opportunities with high quality businesses, but being cautious around how we look to add on new partners.

Gilbert: Great. Thank you very much.

Operator: We'll take our next question. Mike Warner from UBS[?]. Your line is open. Please go ahead.

Mike Warner: Thank you. It's Mike from UBS. Just a couple of questions from me, please. In terms of the buyback, $50 million, I calculate that's about 2%, 2.5% of the share base outstanding. But when we think about the float, it's closer to around 8% to 10% of the float. How do you think about that? Is directed buybacks a potential for you guys? Just trying to figure out how you weigh all the different factors when setting that $50 million guidance.

And then second question, in terms of the operating expenses within the listing company, we saw a significant increase in the other operating expenses, but from I think about $5 million in the first half to $15 million for the full year. I was just wondering if you could provide a little bit of color with regards to the increase there. Thank you.

Ali Raissi-Dehkordy: Hey, Mike. Good morning. I'll cover the first question. Robert will get you on the second question. With regards to the buyback, I think first of all, it's a demonstration of the board's focus on returning value to investors. I don't necessarily see it as an annual measure, but more of a reflection of the value opportunity that we see in the shares and the board sees and the shares and the opportunity to return capital to investors. I think the long-term goal of increasing the float continues. But clearly, at the current share prices, this also represents a compelling opportunity for investors who look to continue to hold the shares, but also a means of returning value to some shareholders.

Robert Hamilton Kelly: And then just on the operating costs, I think that's an accurate point. We had, in the second half of the year, a couple of things. Firstly was the debt refinance. So someone off costs around that and also some final costs associated with the IPO. So the increase was principally in legal and professional fees. I think we give our guidance on the company EBIT level of 85% to 90%. And so we'd expect to be operating towards the top end of that range.

Mike Warner: Thanks. And maybe just a quick follow up on that. I mean, I saw the footnotes and I think the total one off costs were in the range of $2.5 million to $3 million. But in terms of just trying to think about kind of the proper run rate for the the list co-operating expenses, should we think about the first half, second half, or kind of the full year run rates as we look forward to 2023?

Robert Hamilton Kelly: I'd say the first half of the year plus a little bit for inflation through this period. It probably takes you to a closer kind of run rate for the business.

Mike Warner: Thank you very much.

Operator: We'll take our next question. Arnold Giblett from BNP Paribas Exane. Your line is open. Please go ahead.

Arnold Giblett: Yeah. Good morning. I've a couple of questions, please. Could you talk about the outlook for deployment at partner firms? I think you've got a slide there on page 27 showing some frequent data. What's the outlook? What are they telling you in terms of the ability to deploy and what they're thinking about in terms of lengthening of the fund cycle as a consequence? And secondly, during your comments, I think you talked about a 17% discount rate for valuing partner firms. What does that imply in terms of valuation multiple? And how do you think about those holding multiples versus the multiples at which you're willing to do new acquisitions?

Robert Hamilton Kelly: Thanks again for that. So when you think about deployment for the partner firms, I highlight a couple of things. So one, obviously, the overall environment firms remain cautious. But overall, we still see some transactions and activity. And I think a key differentiator for Petershill Partners is obviously our footprint in the mid-market where firms are generally able to still get acquisition financing through private lending and other measures other than just bank borrowing. And so we'll still continued to see acquisitions as well as disposals take over from our partner firms. I think you saw that partly in the disposal side through the strong PRE realization for 2022. Now the caveat is clearly we'd be going through a couple of weeks of overall market volatility, and so that can have an influence through the year. But overall, we still see our firms transacting.

On the on the discount rate, I direct you into the depth of the prelim results. We actually give a breakdown both on the discount rates and also the weighted multiples applied to the firms. And we give a summary of that on page 34 of the presentation as well. And so you typically see the private markets firms with a low teens multiple on their management fee side and then carry generally gets valued on a more of a discounted cash flow basis.

Arnold Giblett: And just how you view those - I mean, when judging new acquisitions versus what you're holding, your current portfolio of assets, I mean, how does that come into your thoughts, into your thinking processes?

Ali Raissi-Dehkordy: Sorry, Arnold. Can you just -

Arnold Giblett: Yeah. So you're holding your portfolio companies at low teens for multiple. How do you calibrate the price at which you're willing to pay for new acquisitions in line of those valuations and where your shares are trading at a 50% discount to where NAV is?

Ali Raissi-Dehkordy: So I'd say that cost of capital represents also a long term view when we're buying sort of acquisitions and firms and it reflects how we see their business today and how it would develop over time as well.

Arnold Giblett: Thank you.

Operator: We will take our next question. Luke Mason from BNP Paribas Exane. Your line is open. Please go ahead.

Luke Mason: Yeah. Morning, guys. Sorry we're doubling up, so I'll keep this short. But just firstly on performance fees, very strong in Q4. Can you just give any detail on what the drivers were there? Was it one specific firm or a handful of firms in absolute return? And then just on the pipeline, 20% to 30% range but with the volatile environment. I guess what needs to happen to get within that 20% to 30% range? Does that assume kind of a rebound in the markets from here on for the rest of the year?

And then just secondly, on the M&A environment, which areas are you specifically focusing on? You mentioned like healthcare, PE, and real assets for 2022. Are there any areas that you're focusing on for 2023 given the change in the market outlook? Thank you.

Robert Hamilton Kelly: Thanks. So on performance fees through the year, a very strong number overall and reflecting good activity and good investment activity from the underlying partner firms. When we think through the year, the strongest single bucket of contribution came from private equity. So buyout firms harvesting some of those accrued performance fees that we show and we show the current balance stands at $611 million. So strong potential for future realizations there as well. The Q4 was driven both by real asset firms, but predominantly or the majority of Q4 was driven by absolute return firms. They typically crystallize the performance fees on December 31st, and that really came from a couple of firms in the macro and fixed income space generating strong performance through the year that's unrealized in Q4.

Ali Raissi-Dehkordy: I think just to sort of speak to performance fee and the pipeline and the guidance for 2023. I think - I'd say that that's very much reflective of how diversified the platform is, how many different sectors and different strategies that we have, and clearly some of them are uncorrelated to the rest. So, while we are also cautious about the performance environment, I think that an element of diversification and that differentiation that that gives our business is probably reflective of how we're maintaining that that guidance.

Maybe just to finally touch on M&A, we identified a series of different sectors that we thought were going to be good growth areas and where our capital will go farther, and where clearly they also deliver additional diversification to the overall footprint of Petershill Partners. On the IPO, those were healthcare, private equity. We expressed continued attraction to the mid-market private equity model. Rob explained a little bit of why because of that ability to continue to transact and finance in different market environments. We identified private credit as well as real assets and infrastructure. And you'll see that over the course of the last year and a half, we've been delivering on those specific areas.

I'd say we haven't really changed. I'm sorry. We haven't changed our focus on those areas going forward. But we continue to have a high underwriting threshold and are targeting firms that we think are going to perform best on a relative basis and particularly perform in a market share environment. So with that, I'll hand back to you.

Luke Mason: Great. Thank you.

Operator: We'll take our next question. David McCann from Numis. Your line is open. Please go ahead.

David McCann: Yeah. Morning. A few from me. So just thinking about the valuation disclosures that you referred to as well, partly in the presentation, it looks like more of the basis in which you're valuing these businesses is shifted again to DCF versus multiples spaces. It looks like now about 64% of the portfolio is valued on a DCF basis. It was 57 at the half year and 42% last year. So can you just give us some color on why you're valuing more on a DCF basis rather than multiples?

And then sort of related to this question the DCF rates, your discount rates you're using haven't really changed that much since the first half. I appreciate in the first half you did increase the discount rates quite a lot. But obviously, we have seen interest rates continue to move up since then. So why is the DCF rates not really moved up very much? I guess that's the first question with a couple of parts.

And secondly, on the dividend. Can you just give us a sense of what you're actually - what metrics you're actually thinking about when you set the dividend? So what payout ratio and payout ratio of what, just so we can get a sense of what the right measures to look at are there. And then finally, just more of a technical one. In terms of this new debt that you have, that you referred, again, that's kind of 5.6%, 5% rate. Within the results it refers to an effective rate of 6.2%. So what's the difference between 6.2% and the 5.65%? Thank you.

Robert Hamilton Kelly: Thanks, David. So on the multiples and DCF, I'd step back a level a little bit, I think, and say that I think overall, both on the multiple basis, we're generally using multiples at or below the level that we see these assets being valued at in the market. And on the discount rate, again, I think we're using rates that typically track higher than you see typically applied to other alternatives firms. The shift between DCF and multiple was largely really just a business shift in the underlying assets, as well as partly applying DCF on some of the revenue share interests as opposed to a multiple. And so I view that as a technical shift. There's no real change in the underlying approach that we're looking at, nor was there a significant shift in the valuation of those assets.

Including the thinking overall, again, on the discount rates, overall rates have moved higher versus the end of last year, and I think you saw a decent amount of that reflected in a shift up in the discount rate supplied in the first half of the year. I think overall, we're therefore at a level of discount rate that is significantly higher than we see applied to other assets, both transacting privately but also other listed alternatives firms. And so as you see in the prelims on page 28, on the private market firms, blended discount rate on the management fees of 13.3% and 25% on the performance fees. And so overall, we and obviously our auditors felt comfortable of those levels.

Ali Raissi-Dehkordy: David to touch on the dividends. I'd say this was our first full year for a dividend. And given the post tax profitability, the cash position of the company and the outlook, we felt that $165 million is an appropriate level. We guided at the time of the IPO and we'll continue to guide to a progressive absolute dividend. We wouldn't necessarily expect the same percentage growth year on year and don't guide to a dividend payout ratio, but more in terms of this being a progressive absolute dividend for the business. I'd say on the last point on the new debt, I believe, and Adam can confirm this, but the 6.2% is the IFRS fully capitalized cost of the raise. The 5.65% is the coupon rate that we're paying.

Operator: We'll take our next question. Angeliki Bairaktari from JP Morgan. Your line is open. Please go ahead.

Angeliki Bairaktari: Good morning. Thanks for taking my questions. First of all, you have reiterated the fund raising guidance of $20 billion to $25 billion for this year. And that's despite the fact that a number of your peers have actually revised down their guidance recently given the current volatility. So I was just wondering if there is any risk that fund raising may be pushed back to 2024 if the current market conditions remain challenging? And if you can perhaps give us an idea of what is the pipeline in terms of fund raising and how many firms out of the 25 you expect to see fund raising this year?

A second question. There have been some concerns recently on CRE exposures in particular in the US. Do you see any risk of equity or credit write-downs in the real estate asset class potentially impacting your real estate managers? And one last follow up, please, on the FRE margin. I heard your response earlier on the sort of contractual protections that you have with your partner firms. So I just wanted to make sure that I understood correctly that there isn't actually a floor or a minimum FRE margin level that you have sort of contractually agreed with each firm below which the FRE cannot fall effectively. It's just a question of assessing sort of which costs you are accepting to share or not. Is that correct? Thank you.

Ali Raissi-Dehkordy: Angeliki, hi. Good morning. Maybe I'll start on fundraising. I think - I'd sort of say that in terms of fundraising guidance, it's - it is one that we're - we've sort of put out now on $20 billion to $25 billion. CRE number does reflect a recognition of the market environment. And I'd say a key difference in terms of how Petershill Partners underlying partner firms are raising capital is we have more than ten partner firms raising that target amount of capital. And so there's, I'd say, less of the individual fund raise risk. So we've just put out this guidance, but it is also cognizant of the current market environment. Maybe with that, I'll sort of hand over to Rob to talk about FRE.

Robert Hamilton Kelly: Thanks. So on the real estate side, look, overall, obviously we're we're cautious on the overall environment and there's certainly a lot of uncertainty across different asset classes. I'd say one benefit that we have on the real asset or real estate side is if you think about the footprint of our core businesses, it's typically in alternative real estate areas. So the likes of medical office and student housing. And we have relatively little US office or commercial real estate exposure, which is really where you're seeing quite a lot of pain being felt. So we remain cautiously optimistic on those firms and they continue to perform well last year and notwithstanding overall pain that's felt across the real estate markets more generally.

The - on the FRE margin, it's right to say that there's no - in the majority of assets, there's no absolute floor put in terms of the margin. We do obviously have some - a number of of partner firms where we have revenue shares where those are effectively 100% FRE margin businesses. We're not exposed to any costs or change in costs in those businesses. I think the key aspect actually is that in a lot of these businesses, the principal cost is the management team or the senior partners. And so being aligned with them and participating alongside them rather than after them is a very major protection to have. And again, explains why we have industry leading FRE margins in those terms - in terms of those participations.

Operator: We will take our next question. Andrew Shepherd [inaudible]. Your line is open. Please go ahead.

Andrew: Thank you, guys. Thank you very much. Yes, a couple from me, if I may. Firstly, on your fundraising guidance, does that mean that you expect to raise funds again faster than the general market? Or how have you sort of positioned yourself against prequel stats or whatever you care to look at? And secondly, just what are you going to do? I mean, your shares are trading at a huge discount to the published NAV, whether that's relevant measure or not. But it does mean that obviously on a PE basis, you're trading at way below the sort of prices you would pay for M&A. And perhaps you answered this earlier, but I missed it. Does it make sense to continue to make M&A at prices higher than your stock is trading at? Thanks.

Ali Raissi-Dehkordy: So maybe I'll touch on the first question. I think there was definitely - at least we saw some market share gain last year, $60 billion raised about 4% of industry flows versus 2% of industry stock. And I'd say that clearly, these are strongly performing businesses that are able to go and tap the market. I would say, however, the ten firms that raised capital last year, they're not all necessarily the same ten plus firms that we have raising capital this year. So that's one benefit of our model, is you have 25 different engines of growth and they can be on one year off the next year deploying capital. So it's not necessarily a statement that we're going to be sort of the same firms are raising every year, which is not what we're expecting in the current market environment.

Robert Hamilton Kelly: And then Andrew, on the acquisition side, we remain cognizant overall of allocation of capital. And so I think you've seen a significant increase in dividend as well as an additional $50 million buyback. We do still think that the right acquisitions executed at the right pricing with the right outlook can still be very accretive for the company. And so when we think of the businesses that are typically growing in the double digits and expanding the footprint of their business, we've typically generated very strong returns, growth, IRR, however you want to look at it on those acquisitions. And over the long term, those can certainly be value accretive for the company as well as taking the company into new areas of growth and long-term profitability.

Andrew: Okay. Great. Thanks.

Operator: Again, press star, one to ask a question. We will take our next question. Belton [inaudible] from DLTV. Your line is open. Please go ahead.

Belton: Hello. Good morning, Ali and Robert and [inaudible] for taking my questions. I have two, if I may. First of all, more strategic one regarding M&A and your strategy. How has your strategy changed since the IPO, since last year and currently? Is it a thing of the current assets you are looking for the firms or it's just the hurdle rate that is not being there, so you are not transacting? And then regarding, let's say, buybacks and your biggest shareholder, the 75% held by the funds of Goldman Sachs, is there a possibility of, let's say, executing the buybacks and buying stakes directly from them in order, let's say, to eliminate the overhang that supposedly is not doing good for the current stock. Thank you very much.

Ali Raissi-Dehkordy: Maybe just to touch on the M&A topic first, I'd say that at the time of the IPO, we identified certain sectors that we thought were going to be additive to the company, both in terms of exposure, diversification, growth potential. And these were areas that we saw really kind of coming out of both the COVID environment, but also in terms of investor and LP demands and the potential for growth. And those areas, interestingly enough, I think we kind of maintained that focus. It's - we still think there's an exciting opportunity for health care, private equity. We've bought interests in a couple of firms that are - have that as one of their strongest suites.

We still see a great opportunity in private credit, probably more so than when we first announced it at the time of the IPO. And so, the acquisition of our stake in SLR clearly demonstrates that - the diversification that real assets gives us and particularly the nuance around some of that real asset exposure that Rob talked about. It does present both a differentiator for us, but also an interesting exposure during an inflationary environment. And I'd say all of that again still maintains. So we haven't necessarily adjusted that - the strategic goals. Tactically, I'd say we're being more cautious in terms of deployment pace.

And the other benefit that we have is with 25 partner firms, we actually have an existing calling card with 25 existing firms who might need additional capital. And so you saw examples of two follow on investments that we did, one in Industry Ventures, which is a venture secondary player, again, an attractive and interesting space, and one in Kayne Anderson Real Estate, again, sort of real assets in a very kind of niche growth area, high quality platform that we know really well. So the ability to do follow ons in existing partner firms actually gives us definitely a bit of a step up in terms of engaging and deploying capital.

But the other I'd say, slight difference since the IPO is we guided towards $100 million to $300 million last year. We were within that range. We don't feel obligated to deploy capital if it's the wrong opportunity or if it's the wrong market environment. And so, we're maintaining guidance at $100 million to $300 million but with the explanation that we'll continue to be quite purposeful and have tight underwriting as we look to add new partner firms. Maybe I'll pass to Rob on the buybacks.

Robert Hamilton Kelly: So just touching on the buybacks, I'd say I think we think the strong cash flow of the business puts us in a position of strength to make capital allocation decisions through the year. So the $50 million buyback proposed take the same form of last year and being open market purchases. But we remain flexible and the board will continue to evaluate other means of returning capital to shareholders at the same time as well.

Belton: Thank you. I had a follow on, if I may.

Ali Raissi-Dehkordy: Sure. Go ahead.

Belton: Just regarding the M&A strategy, I think there's a very interesting slide that you put, 27. It's regarding when you allocate capital depending on what part of the cycle the the returns of your funds. So my question is, you have like more than $1 billion of firepower in the guidelines you gave. So wouldn't it be more intelligent to allocate more capital in your partner firms currently where there's lots of uncertainty and where the risk free rates are very high? So my question is, why are you not having the opportunity to really allocate and execute on your mandate to really invest through the cycle?

And then regarding the buybacks, I don't think you answered my question. My thing is that you have a big shareholder that currently has 75% of the shares, but at some point they will have to divest. My question is, is there a possibility legally and to execute it - to at some point execute that buyback to direct purchasing of stakes of that 75% in order to buy the shares cheaply and to not affect the free float?

Robert Hamilton Kelly: Thanks for the clarifications. So, look, I think it's important to distinguish between allocating money into the funds managed by the partner firms that we generally don't do. We've got about $300 million of exposure there as owners of the businesses. But taking advantage of the opportunity set currently, I think, is about the current positioning of the company where we own stakes in 25 firms. That gives us diversified exposure to the opportunity to generate strong performance and therefore performance fees as well as FRE growth from the current landscape.

But it's not really a case of us allocating more capital into those firms. As Ali noted, we remain opportunistic looking at new potential acquisitions, but being cognizant of the current environment. We have a very high bar to execute upon those. Ali, do you want to touch on the -

Ali Raissi-Dehkordy: Yeah. On the shares held by the GSAM funds. Maybe just to sort of draw a couple of observations, can they participate in a buyback? I believe absolutely they can. It would be the same kind of decision that any shareholder would have to make about whether they think the current price represents a compelling price to sell at. And so I'd say the mechanism is clearly there and I think the goal over time is to - is clearly to increase the free float. But just as I'd say, the board finds the current share price compelling. I don't think you'd be surprised that other investors probably do so too as well. But in the long to medium term, I think there is clearly an intent to increase the free flow.

Belton: Thank you very much for your answers. I really appreciate the hard work.

Operator: We'll take our next question. Alexandra Powell from Bloomberg. Your line is open. Please go ahead.

Alexandra Powell: Morning, everyone. Just one from me. Would you be able to provide some color around how your portfolio firms that are fundraising at the moment find the current environment, and where they are providing any different terms to LP, such as maybe changes to the arrangements or higher levels of co-invest? Thanks.

Robert Hamilton Kelly: Thanks, Alex. So, look, I think when we think about the track of the $60 billion raised last year, I think the two main comforting things about that is, one, those fundraisers were in the main occurring on target. And as you know, fundraising in private equity or private markets is very scheduled. So you have busier periods, you have quite a period of firms raised capital on their target timeline. And then secondly, as you saw through the increase in the year, you also saw them raise above their target races.

I think we're still very early in the year. You may have seen in the last couple of weeks, one of our partner firms, STG, announced they had raised their new flagship fund at $4.2 billion on a target of $3 billion. So again, raising on target and ahead of the target number. So we're still early in the year, but there are certainly encouraging signs, albeit in an overall uncertain and more challenging market.

Alexandra Powell: I guess just in terms of sort of fee arrangements, are there - is the environment causing, I guess, firms to offer different sort of fee arrangements to LPs in order to kind of get them on board or kind of offer higher levels of co-invest or is that not coming through yet?

Robert Hamilton Kelly: Yeah. It's a great question. So I think what you'll see, what you've started to see in the industry data is that firms who do start to struggle do try and incentivize clients through the fee arrangements or fee holidays or things of that nature. We really didn't see any of it in the $60 billion of capital raised last year. Certainly there's the potential that at the margin it can happen, albeit that again, the quality of our partner firms in the upper quartile, I think, puts the risk of that, makes moderates the risk of that versus the industry as a whole.

Alexandra Powell: Thank you.

Operator: We'll take our next question. David McCann from Numis. Your line is open. Please go ahead.

David McCann: Yeah. Thank you for that. Just one follow up, actually, just on this sort of valuation of the investment portfolio point. I mean, given the comments earlier about the FRE margin, it feels like it's sort of now permanently lower in the sort of low 60s rather than the 65 to 70. Just - if that is the case, I mean, I guess, why is that not more reflected in the valuations we're seeing ascribed to the companies if there is a permanent reduction in the operating margin of those businesses? Thank you.

Robert Hamilton Kelly: Thanks, David. So as noted, when you look at the company level, some of that shift in overall partner FRE margin at the company level is about business mix. And so that's not necessarily a degrading of margin in an underlying partner firms. In some cases, it's raising more credit assets that just have lower management fee rates and margins. In some cases, it's acquisitions that we made having lower margins than the beginning of period business. But the overall projections of margins do factor into the valuations, both in terms of on the multiple as well as DCF basis. So that - those forward projections are fully baked into the valuations of the assets.

The other thing you should obviously just balance it across the overall valuations is you've obviously seen a very material increase in assets from our partner firms last year. That obviously generates both current and future potential fee and performance fee growth. And so that can clearly offset some aspect of margins. So I'd note a couple of our firms that where we - the firms raised significant assets last year, significant increase in their fee paying capital. But overall, we still value them at a discount relative to the prior year period because we've increased the holding discount rates applied to those assets. So despite higher AUM, higher profitability, we're holding those assets at a lower valuation.

Operator: This concludes today's question and answer session. Gurjit Kambo, at this time I will turn the conference back to you for any additional or closing remarks.

Gurjit Kambo: Yeah. Look, I just like to thank everybody for taking the time to join our call. If you have any further follow up questions, you can contact me either via email or give me a call and happy to take those questions offline. So once again, thank you, everybody, for joining the call.

Operator: This concludes today's call. Thank you for your participation. You may now disconnect.