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The Carlyle Group Inc. (CG)

Q3 2024 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Thank you for standing by and welcome to The Carlyle Group's Third Quarter 2024 Earnings Conference Call. At this time, all participants are in listen-only mode. After the speakers' presentation, there will be a question-and-answer session. We ask that you please limit yourself to one question each. You may get back in the queue as time allows. [Operator Instructions] As a reminder, today's program is being recorded.

And now, I'd like to introduce your host for today's program, Daniel Harris, Head of Investor Relations. Please go ahead, sir.

Daniel Harris

Head-Public Investor Relations, The Carlyle Group Inc.

Thank you, Jonathan. Good morning and welcome to Carlyle's third quarter 2024 earnings call. With me on the call this morning is our Chief Executive Officer, Harvey Schwartz; and our Chief Financial Officer and Head of Corporate Strategy, John Redett.

Earlier this morning, we issued a press release and a detailed earnings presentation, which is available on our Investor Relations website. This call is being webcast and a replay will be available. We will refer to certain non-GAAP financial measures during today's call. These measures should not be considered in isolation from, or as a substitute for, measures prepared in accordance with Generally Accepted Accounting Principles.

We've provided reconciliation of these measures to GAAP in our earnings release to the extent reasonably available. Any forward-looking statements made today do not guarantee future performance and undue reliance should not be placed on them. These statements are based on current management expectations and involve inherent risks and uncertainties, including those identified in the Risk Factors section of our Annual Report on Form 10-K that could cause actual results to differ materially from those indicated. Carlyle assumes no obligation to update any forward-looking statements at any time.

In order to ensure participation by all those on the line today, please limit yourself to one question and return to the queue for any additional follow-ups.

With that, let me turn the call over to our Chief Executive Officer, Harvey Schwartz.

Harvey Mitchell Schwartz

Chief Executive Officer & Director, The Carlyle Group Inc.

Thanks, Dan. Good morning, everyone, and thank you for joining us. Over the past year-and-a-half, we undertook several strategic actions to drive better performance, including realigning our compensation model, appointing new leadership, and prioritizing margin expansion, among other initiatives. As we stand here today, you're beginning to see the early impacts of those steps.

These actions, combined with a pickup in activity across the platform, generated one of the best quarterly performances in the firm's history. We delivered record quarterly fee-related earnings, up 36% versus the third quarter of 2023 and our best-ever FRE margins at 47%, up more than 10 percentage points since last year. Overall, we're on track to hit our FRE target of \$1.1 billion for the year.

Our underlying investment portfolio is performing very well. This drove strong corporate private equity fund appreciation that fueled the nearly 30% increase in our net accrued performance revenues compared to the prior quarter. This accrual represents nearly \$8 per share of future earnings for our shareholders.

As we talked about previously, capital markets was a significantly underleveraged part of our platform that is gaining substantial momentum. This is the direct result of proactive steps we've taken to increase alignment around transaction fee generation. Including closed Q4 activity, we've already generated our highest level of annual transaction fees, this despite a still subdued M&A and IPO environment. Obviously, we expect further growth in capital markets fees.

On fundraising, we raised \$9 billion of new capital in the quarter and have raised \$43 billion over the past 12 months. We anticipate a very strong fourth quarter of capital raising to close out the year and we continue to target about \$40 billion of inflows for the year.

Now, switching to the macroenvironment, obviously, let's start with the election results. Being past the election has removed market uncertainty, first and foremost. Markets like certainty and you're seeing that broadly across capital markets, particularly in the stock market yesterday. Over the medium to long term, there should be a further catalyst for IPOs, M&A and key sectors we invest in. It should be an environment in which we are well-positioned to capitalize on monetization opportunities and put capital to work.

Prior to election, we had already seen the US Federal Reserve shift in stance on interest rates, and that was a clear sign that we entered a new era of monetary policy, and that inflation has stabilized. The election certainty and the change in monetary policy are a powerful combination, supporting economic growth and our business. We're already seeing a significant uptake in IPO activity this year. There's been a 30% increase in listings and a 50% increase in IPO proceeds in the first nine months of this year.

We've seen this trend benefit our portfolio as well with two significant IPOs in just the last month StandardAero in the US and Rigaku in Japan. StandardAero marked the second largest sponsor-backed US IPO of the year and the best first day performance for a US IPO, raising over \$1 billion this since 2021.

Aerospace, defense and government services is a key power alley for Carlyle. Our roots in DC and more than 30-year history in this space is a core differentiator for us. This was the largest aerospace IPO ever and demonstrates that the market is starved for high-quality businesses and growth outside of the tech sector.

Rigaku is the second biggest Japanese IPO this year and the largest ever sponsor-backed IPO in Japan. Japan remains a very attractive market for us. This year's improved market sentiment has driven stronger investment activity and a more active pipeline across our platform, reflecting our ability to act on opportunities in a dynamic environment.

A more liquid realization backdrop and strong underlying portfolio performance have supported higher investment returns. Our two largest US buyout funds were up north of 7% each this quarter, and our two largest Asia buyout funds were up 9% and 13%, respectively. This quarter represented the third largest quarterly increase in net accrued performance revenues in our firm's history. Over \$600 million of net performance revenues were generated.

Switching to Global Wealth, another area of strategic focus. We're seeing strong momentum across the platform, where we benefited from a record \$1.8 billion of wealth inflows. Our wealth inflows this quarter were nearly 3 times the amount in the previous quarter, and our Global Wealth AUM is up 70% year-over-year. Part of the

momentum is our newly launched Secondaries Wealth Solution CAPM, which is seeing very strong early traction with advisors and their clients. We're also making progress in our private equity wealth product and are still on track to launch in 2025.

Another area where we see accelerating growth is an asset-backed finance. We continue to identify differentiated partnerships with specialty finance companies to further bolster our origination capabilities and give us a data edge in the market.

We've also seen record leverage loan and CLO issuance in 2024. Loan spreads have tightened to post-GFC levels and demand for new paper is outpacing supply. Full year 2024 US leverage loan issuance is expected to exceed \$1 trillion for only the third time. At Carlyle, the team has been very busy with our leading CLO business having priced [ph] 1P2 (00:07:17) transactions globally on track to be a record year of resets and transactions priced.

The opportunities on our insurance business remain quite significant. Fortitude has grown its general account assets by almost 70% in the past year. It has increased its excess capital position to more than \$2 billion, allowing us to pursue a robust reinsurance pipeline. We also continue to grow our relationships with insurance clients broadly and further leverage our private investment-grade and asset-backed finance capabilities in this important channel.

To wrap things up, we had a strong third quarter with Carlyle extremely well-positioned to capitalize on an improving macroeconomic environment. Our leadership team remains laser-focused on driving performance and accelerating growth to drive long-term value for you, our shareholders.

With that, let me now turn the call over to John.

John C. Redett

Chief Financial Officer & Head-Corporate Strategy, The Carlyle Group Inc.

Thanks, Harvey. Good morning, everyone. We are very pleased with the progress we've made over the last year. The business is just performing much better than it was 12 months ago, and we are also benefiting from a material step-up in market activity. The actions we've taken over the past year include improving FRE margins, activating the capital markets flywheel, improving investment performance, realigning our compensation strategy, appointing new leadership, and we continue to see benefits of the revised capital allocation strategy we implemented this year.

These actions have generated significant operating leverage and momentum across our business, including record AUM of \$447 billion, up 17% compared to last year. Record fee earning AUM of \$314 billion, which has grown at a 15% CAGR over the last five years. Record quarterly FRE of \$278 million at a 47% FRE margin and strong performance in our corporate private equity funds, which drove a material shift higher in net accrued performance revenues to \$2.8 billion. We produced \$367 million in DE for the quarter, or \$0.95 in DE per share. And year-to-date, DE per share up \$2.74 is 15% higher than last year.

Now let's cover three important areas: fee-related earnings, appreciation in our corporate, private equity business and capital return to shareholders. Starting with fee-related earnings, FRE increased to \$278 million in the quarter, up more than 35% from the third quarter of 2023. We are on track to hit our 2024 FRE target of \$1.1 billion, which would represent nearly 30% year-over-year growth.

Pending fee-earning AUM stands at \$21 billion, our highest level since the third quarter of 2021. In the fourth quarter, we expect to activate fees on our latest Japan buyout fund; and in 2025, we'll activate fees on our new US opportunistic real estate fund.

Year-to-date capital market fees were more than 80% higher than a year ago. We will see a significant increase in Q4 capital market fees as several large transactions have already closed. We expect to see further growth over time as our focus on expanding our capabilities in this area should support a higher level of capital markets activity.

Let's turn to fund appreciation. As Harvey noted, our corporate private equity fund appreciation was up significantly. Driving this performance in the US was strong EBITDA growth, up 15% year-over-year and continued margin expansion across the portfolio. This positive underlying growth is driving significant value creation at the fund level and our portfolio is well-positioned to further benefit from a better exit environment.

Net accrued performance revenues increased more than \$600 million to \$2.8 billion. As we noted, this represents almost \$8 of pre-tax earnings per share for our shareholders.

Finally, let me touch on capital allocation. We continue to balance deployment of capital into our business and returning capital to our shareholders. We repurchased \$150 million of shares in the third quarter, bringing total repurchases to almost \$480 million year-to-date. Total shares outstanding are down for the second consecutive year and we have over \$900 million remaining on our share repurchase authorization. It is our intent to continue repurchasing shares. However, our first priority is investing for growth.

Wrapping up, we continue to focus on delivering strong results for our shareholders. We're on track to achieve the financial targets that we laid out for 2024, and we have increasing conviction in the ability of our investment platform to drive higher earnings for shareholders over time.

With that, let me turn the call over to the operator for your questions.

QUESTION AND ANSWER SECTION

Operator: Certainly. [Operator Instructions] Our first question comes from the line of Alex Blostein from Goldman Sachs. Your question, please.

Alexander Blostein

Analyst, Goldman Sachs & Co. LLC

Q

Hey. Good morning, everybody. Hello, Harvey. Hello, John.

Harvey Mitchell Schwartz

Chief Executive Officer & Director, The Carlyle Group Inc.

A

Good morning, Alex.

Alexander Blostein

Analyst, Goldman Sachs & Co. LLC

Q

So maybe, just to kick us off with a little bit of a macro question, obviously, related to the election. And I know you made a couple of comments in your opening remarks. But curious how you think the Trump administration could impact activity in the alt space, both on a macro sort of activity side, but also any regulatory items you're paying particular attention to and how that could impact Carlyle? Thanks.

Harvey Mitchell Schwartz

Chief Executive Officer & Director, The Carlyle Group Inc.

A

Thanks, Alex. Well, maybe take a step back for a minute, because obviously the market had a unexpectedly strong reaction to the outcome. I think that has a lot to do with expectations, obviously, going in.

David was on TV yesterday, David Rubenstein, and he made a comment. He said, something that the effect of the losers in this process were the pollsters. And he said, maybe we need to get AI involved in the polling process. Now taking that quite seriously, coming into this election, there were concerning headlines about the fact that we might not have a result for days, if not weeks, possibly months. That creates a lot of uncertainty in CEO's minds and how they think about strategy, how they think about committing capital, making decisions. And I think the election certainty and having the outcome behind was a – obviously very significant relief factor for the market.

Now, from a policy perspective, whether it's sustained or further cuts in the tax regime, whether it's a lighter regulatory touch, all these things will get translated in CEO's minds, boards, or portfolio companies in really confidence around the operating environment. And that will lead to more decision making. It should lead to more M&A activity.

If you're not quite certain whether or not [ph] you're seeing the (00:15:34) transaction done from a strategic perspective, obviously, that gives you a lot of pause as a board. And so I think this is what the market is reacting to.

Now in terms of our business, we're already seeing lots of tailwinds in the business. You see it in the numbers today. A big part of that is the strategic actions the management team has taken. A big part of that is the market environment. And when we saw the stability of interest rates flattening out, I just think election certainty, future

policies plus Fed policy normalizing – I think Fed policy normalizing and being past the election, that's a pretty powerful one-two punch for markets and for our business specifically at Carlyle.

John C. Redett

Chief Financial Officer & Head-Corporate Strategy, The Carlyle Group Inc.

A

And Alex, the only thing I would add is, it's a little bit echoing of what Harvey said. I spoke to a couple of our portfolio company CEOs yesterday. And I would just echo the common theme was they feel like the election certainty – the removal of the election uncertainty will elevate confidence levels, And that obviously is – that's good for capital markets and that's good for M&A. And all those things being better, stronger, we think it's good for our business.

Operator: Thank you. And our next question comes from the line of Ken Worthington from JPMorgan. Your question, please.

Kenneth B. Worthington

Analyst, JPMorgan Securities LLC

Q

Hi. Good morning. Thanks for taking the question. I wanted to dig into performance. You called out and are having some nice exits. StandardAero, Rigaku, and it seems like there's more to come. At the same time, the net IRR in CP VII sort of remained at 8% despite the jump in accrued carry. And if you look at CEP V, the IRR fell to 4%.

How should we think about the performance metrics developing in buyout if and as you get the exits you expect in this improving environment? And I think we, the investment community, see performance in buyout as a headwind. Do you see that changing or have a different view, again, given the environment? And if so, is it big enough to change the fundraising trajectory?

John C. Redett

Chief Financial Officer & Head-Corporate Strategy, The Carlyle Group Inc.

A

Hey, Ken, it's John. So, look, we saw a very strong improvement in performance within our corporate private equity business, and as Harvey alluded to, there was particularly in the US and Asia, the net performance fee accrual was up nearly \$600 million, \$700 million in total. Corporate private equity drove the vast majority of that. It's one of the best quarters we've ever had.

Look, the appreciation we're seeing in our US and Asia funds is very healthy. What I like about it is a big driver of that is just operational improvements. We're seeing good EBITDA growth, good revenue growth, good margin expansion. And I think it reflects, we're in a strong economy and better exit markets only add to that improved performance.

And look, we've been very, very open on this topic in previous calls. We've been very focused as a leadership team on improving our performance in the private equity business. And I think when you look at the results this quarter, it's really – the numbers are starting to reflect the focus we have on this business.

We like the trajectory of this business. And we know this is a business that over time we can grow. I think the performance improvement in the US is particularly notable in CP VII. You're not going to see the net IRR materially change as we're just getting through the catch-up phase. But you did see a 100-basis-point pickup in one quarter on the gross IRR. I would say, on CP VIII, our most recent vintage, I would focus on the gross IRR as that fund is not fully deployed. So the net IRR is a lot less relevant.

Kenneth B. Worthington*Analyst, JPMorgan Securities LLC*

Okay. Great. Thank you.

Q

John C. Redett*Chief Financial Officer & Head-Corporate Strategy, The Carlyle Group Inc.*

Thanks, Ken.

A

Harvey Mitchell Schwartz*Chief Executive Officer & Director, The Carlyle Group Inc.*

Thanks, Ken.

A

Operator: Thank you. And our next question comes from the line of Ben Budish from Barclays. Your question, please.

Benjamin Budish*Analyst, Barclays Capital, Inc.*

Hey, good morning and thanks for taking the question. I wanted to ask about your outlook for 2025 a little bit in terms of what you expect on the credit side. I think on the private equity side, you're kind of done with a lot of the major fundraises and it sounds like you're expecting a big pickup in activity. Same with the solutions, as I recall, you should be mostly done kind of fundraising there by the end of this year. So on the credit side, what's sort of your expectation for fundraising activity? What else are you kind of thinking about in terms of how to build, grow, develop that platform? Thank you.

Q

Harvey Mitchell Schwartz*Chief Executive Officer & Director, The Carlyle Group Inc.*

So across credit and insurance, the momentum is quite significant. And when I say that, I'm really talking about across the strategic part, opportunistic credit, but all the way through the capital stack, as I mentioned in my previous remarks around asset-based finance.

A

So the private investment-grade market just continues to grow. And we're very well-positioned with that, in part because of our partnership with Fortitude and all the insurance intelligence we have from that, plus their excess capital position. So I feel very optimistic about the credit markets. And we talked about the CLO activity, spreads at this rate – spreads at these levels, it's quite attractive. And so we expect activity to remain quite high.

Benjamin Budish*Analyst, Barclays Capital, Inc.*

Got it. Thank you.

Q

Harvey Mitchell Schwartz*Chief Executive Officer & Director, The Carlyle Group Inc.*

Sure.

A

Operator: Thank you. And our next question comes from the line of Patrick Davitt from Autonomous Research. Your question, please.

Patrick Davitt

Analyst, Autonomous Research US LP

Hey, good morning, everyone.

Q

Harvey Mitchell Schwartz

Chief Executive Officer & Director, The Carlyle Group Inc.

Hey, Patrick.

A

Patrick Davitt

Analyst, Autonomous Research US LP

I think [indiscernible] (00:21:18) the positives from the Trump win for the alts are fairly obvious and you went through a lot of those. But curious if you guys have done any scenario testing of how the business and/or in-ground portfolio would fare through some of the more aggressive plans we have, like tariffs and/or mass deportations where the outcome is a little bit muddier for us? Thank you.

Q

Harvey Mitchell Schwartz

Chief Executive Officer & Director, The Carlyle Group Inc.

Well, on tariffs, obviously, as a firm, we've worked through tariffs before in the firm's history. And so you can be assured at the portfolio company level. And in the C-suite, we risk-manage around any number of scenarios, not just around things like that. But this is going to have to be a wait-and-see in terms how policy gets implemented. Where we benefit from is the diversity of the franchise, both across industry groups, and also, obviously, geographically. But obviously, this is something that all industries will focus on as we move forward. But there are no unique issues for Carlyle. Thanks, Patrick.

A

Operator: Thank you. Our next question comes from the line of Brian McKenna from Citizens JMP. Your question, please.

Brian McKenna

Analyst, Citizens JMP Securities LLC

Thanks. Good morning, all. So it's great to see the significant step-up in net accrued performance fees in the quarter, which clearly has positive implications on future earnings over time. But with the vast majority of this, ultimately, moving to cash on the balance sheet, once realized, how should we think about deploying this excess capital over time, specifically as it relates to organic growth, strategic M&A, as well as buybacks?

Q

John C. Redett

Chief Financial Officer & Head-Corporate Strategy, The Carlyle Group Inc.

Yeah, Brian. Hey, it's John. Thanks for the question. I mean, look, we think of capital allocation just more broadly of where we can get the best return. And there are a couple levers, I think, we have as a firm. One of them is share buyback, which we've been very active on that front. The other one is investing in the businesses for organic growth. We're very focused on organic growth. That is our first priority. We talk about it all the time.

A

And the other area is – inorganic opportunities is another area where we can allocate capital. I would just say, we look at a lot of stuff. Obviously, we have shown everything. Where we sit today, we think we can get the best returns for our shareholders, investing into our business for organic growth, and continuing to do a share buyback. That said, if something came along inorganically that strategically made sense, financially made sense, we would be open to – we wouldn't hesitate.

But where we sit today, nothing is imminent. We're very focused on organic growth and continuing to buyback shares. Remember, we've done nearly \$500 million year-to-date. We have \$900 million remaining on the share buyback authorization. And we're just really balancing our objectives of returning capital to shareholder and focusing on organic growth.

Brian McKenna

Analyst, Citizens JMP Securities LLC

Q

Thanks, John.

Operator: Thank you. And our next question comes from the line of Glenn Schorr from Evercore ISI. Your question, please.

Glenn Schorr

Analyst, Evercore ISI

Q

Hello. Thank you.

Harvey Mitchell Schwartz

Chief Executive Officer & Director, The Carlyle Group Inc.

A

Hey. Good morning, Glenn.

Glenn Schorr

Analyst, Evercore ISI

Q

I think we'd all welcome – good morning. I think we'd all love to see the pickup in M&A and IPOs and better capital markets activity. And there's only – the short-term downside maybe is less or no net asset growth if outflows are bigger than fundraising, like you saw a little bit this quarter.

So when I look at the 2% growth in management fees year-on-year, I don't feel like it reflects what the real underlying growth is in what's going on in the momentum that you've highlighted. So curious how we should think about, is there a path to double-digit management fee growth as you start to deploy all that dry powder that you have? Thanks.

John C. Redett

Chief Financial Officer & Head-Corporate Strategy, The Carlyle Group Inc.

A

Yeah, Glenn, hey. It's John. Look, we had fee revenue growth of 7% in the quarter. A lot of this was driven by our capital markets capabilities. Look, this has been a focus area for the management team, and we're very pleased with the progress we've made in terms of capital markets. And I think you need to take a step back and look at our capital markets in the sense it's a balance sheet-light business. We really aren't taking balance sheet risk. And again, we're only focused on Carlyle-related capital markets activity.

So I think it's a little different than others in the industry. This business has grown 80% this year, will generate a record result this year. So we feel very good about our capital markets effort. And again, this has been a very deliberate focus area for the firm.

In terms of management fees, we're seeing really strong management fee growth in solutions. It's up nearly 45%. We're seeing good management fee growth in credit that grew nearly 11%. And look, as expected, we're still

seeing some headwinds in our private equity business in terms of management fee growth more on the corporate private equity side. We're in the market raise in a real estate fund, and we're very optimistic on that outcome.

And we've said in the past that that fund will be larger than the previous fund. But in terms of corporate private equity, we've been very focused on the performance in this business. We really like the trajectory of this business. And we're confident that we can grow this business over time.

Harvey Mitchell Schwartz

Chief Executive Officer & Director, The Carlyle Group Inc.

A

I would just say, Glenn, I agree with your first statement. Sitting here, being in the seat now for a bit over a year-and-a-half, the momentum in the franchise is really just starting to translate into the top line, whether it's in wealth, credit, asset-based finance, the insurance strategy, credit solutions and in private equity. So the momentum feels quite good.

Operator: Thank you. And our next question comes from the line of Mike Brown from Wells Fargo Securities. Your question, please.

Michael C. Brown

Analyst, Wells Fargo Securities LLC

Q

Hi. Good morning. Thank you for taking my question. So it seems like at this point, Harvey a year-and-a-half-plus into the job, the foundation is kind of in place and established at Carlyle, as you think about the next few years, what is the right way to think about the annual fundraising potential? With this kind of \$40 billion level would Carlyle kind of deliver on an annual basis? And then, also, the FRE growth potential from here, I guess, as we think about that, kind of multi-year horizon, can Carlyle get to a point of delivering low-double-digit FRE growth annually? Thank you.

Harvey Mitchell Schwartz

Chief Executive Officer & Director, The Carlyle Group Inc.

A

Yeah. So a year-and-a-half in, I would say, the first principles really was just making sure we had all the right people in the right seats with the right capital strategy, the right expense methodology, and of course, the right leadership. And I made a number of appointments, as you know, over that time period.

Now, in terms of the future strategy, when you think about FRE growth, you really have to look at these areas that are emerging quite powerfully. So capital markets, which John just said this, the quality of those revenues is exceptionally high, because we're basically running a balance sheet-light, risk-less business. And we see runway there.

The wealth channel, as the Carlyle brand resonating around the world, really hard to model that over the next several years. But we're at a point where we've really only launched our second solution, we'll launch our private equity solution next year. But the momentum when I talk to advisors and you see it in the numbers this quarter. So there's momentum across the firm.

In terms of fundraising, we put out this target this year of \$40 billion, that was really just to give you some comfort with me being new in the seat. We'll think about how we communicate that over time. I think one of the things we did was, again, we unfortunately left you with the feeling that that's going to be like a lockstep mathematical divide by 4, \$10 billion every quarter. But I can tell you that, again, it's early days still at 18 months, but the momentum feels pretty extraordinary.

Operator: Thank you. And our next question comes from the line of Brian Bedell from Deutsche Bank. Your question, please.

Brian Bedell

Analyst, Deutsche Bank Securities, Inc.

Q

Great. Good morning, folks. Thanks for taking my question. Maybe just, Harvey, if I can go back to the tariffs topic, just from a global trade perspective and deployment outside the US, how are you viewing that potential landscape? Do you see any frictions in deployment regionally? And are you thinking – and yeah, I guess, how are you thinking about deployment firm-wide between Europe and Japan, and any impact from the tariffs there?

Harvey Mitchell Schwartz

Chief Executive Officer & Director, The Carlyle Group Inc.

A

So, again, on the tariffs, I think, it's very difficult for any firm, any business, global or local, to try and anticipate government policy. And I actually think it would be my opinion, [ph] a vice (00:31:16) mistake to be changing strategy. Now, you could prepare for any number of scenarios, and world-class management teams do that.

In terms of our franchise, remember, we are global, but in many cases, very local. So if you look at our Asia business, we're one of the few that have a leading Japan franchise. Our Asia business spans Southeast Asia, India, China. And so we have the benefit of being global with a very regional capability. I think that's an advantage. Now I think that's an advantage in any environment.

But again, I think you can have – you can game-theory-out various things, so you're more prepared. But I think expectations around tariffs, that's just something we're going to have to see. I think that where we can feel much more confident is around regulatory touch, tax policy, and all the things that will be really powerful elixirs for the market and for exits and for investing opportunities. But there will always be these elements of uncertainty on the periphery. But we'll see how they resolve over time.

Brian Bedell

Analyst, Deutsche Bank Securities, Inc.

Q

Thank you.

Operator: Thank you. And our next question comes from the line of Brennan Hawken from UBS. Your question, please.

Brennan Hawken

Analyst, UBS Securities LLC

Q

Good morning, Harvey. Good morning, John. Thanks for taking my question.

Harvey Mitchell Schwartz

Chief Executive Officer & Director, The Carlyle Group Inc.

A

Hey, Brennan.

Brennan Hawken

Analyst, UBS Securities LLC

Q

Hey. So interested to talk about the fundraising point. And I might be reading too much into this, but it seems like now you're talking about \$40 billion, and the pace is in the sort of like upper-mid-\$20-billions year-to-date. So a little behind the pace of \$40 billion. Was the about \$40 billion meant as a softener around that number? And how should we think about the fourth quarter? What are the drivers that will come through? And also just to confirm, did you close the [ph] Real Estate 10 Fund (00:33:26) in the third quarter?

John C. Redett

Chief Financial Officer & Head-Corporate Strategy, The Carlyle Group Inc.

A

Brennan, it's John. I'll start that, and Harvey, feel free to add. Look, I'll echo a little bit what Harvey said on fundraising. We feel very good about the momentum we have in fundraising across the franchise. You alluded to it, the number were \$26 billion year-to-date. That's the second best year-to-date period we've ever had in our history. So I think we have a lot of momentum. We have pretty good visibility into the fourth quarter. The fourth quarter looks strong. So we'll get in and around \$40 billion.

It's really hard to manage the business from a fundraising perspective to a specific number stuff. Stuff moves forward, stuff moves back. And I focus much more on it over a longer period of time. I think we'll get close to the \$40 billion, maybe we can exceed it slightly, maybe we underachieve it slightly.

But in terms of how we think about managing the business, it doesn't really matter, because we look at it over a multi-quarter period. And quite frankly, we focus a little bit more on just the momentum we have across the franchise, whether that's in our asset-backed business, whether it's in solutions, whether it's in real estate. And Harvey touched on this. We're seeing great momentum in the wealth channel and we continue to think will be a big component of fundraising going forward. So I guess, I'd answer it more in terms of we feel very good about the momentum we have going into the fourth quarter and next year.

Harvey Mitchell Schwartz

Chief Executive Officer & Director, The Carlyle Group Inc.

A

Yeah. I guess, we really weren't trying to signal anything with the about. I think that there are things we have 100% control over or more control over like how we're driving FRE into the end of the year, where we can give you more certainty. If we have a handful of important clients who say, hey, we wanted to delay some decision making for the election or whatever reason, and we'd like you to extend some things, look, we'll work with our clients. And so we don't manage fundraising for the purposes of hitting a number. We manage fundraising for the purpose of the point of running the business and really for our clients' needs. But that's why, you hear that.

Brennan Hawken

Analyst, UBS Securities LLC

Q

Sure.

Harvey Mitchell Schwartz

Chief Executive Officer & Director, The Carlyle Group Inc.

A

But if I gave you the impression at the beginning of the year that \$40 billion was a hard number, but maybe I should have said either side of \$40 billion. So anyway, but no – there's no big signaling here...

Brennan Hawken

Analyst, UBS Securities LLC

Q

Got it.

Harvey Mitchell Schwartz

Chief Executive Officer & Director, The Carlyle Group Inc.

...other than the momentum feels great. Okay. Thanks.

A

Brennan Hawken

Analyst, UBS Securities LLC

Excellent. Thanks for that clarity.

Q

Harvey Mitchell Schwartz

Chief Executive Officer & Director, The Carlyle Group Inc.

Thanks.

A

Operator: Thank you. And our next question comes from the line of Steven Chubak from Wolfe Research. Your question, please.

Steven Chubak

Analyst, Wolfe Research LLC

Hey, good morning, Harvey and John. And thanks for taking my question.

Q

Harvey Mitchell Schwartz

Chief Executive Officer & Director, The Carlyle Group Inc.

Hey, Steve.

A

Steven Chubak

Analyst, Wolfe Research LLC

So I was hoping you could help frame the revenue opportunity in capital markets. With deal activity poised to accelerate, you noted you're seeing momentum across the franchise. Just trying to gauge how you think about an achievable run rate for this business and whether you're adequately resourced at least in relation to the opportunity that you envisage.

Q

Harvey Mitchell Schwartz

Chief Executive Officer & Director, The Carlyle Group Inc.

So in terms of resourcing, yeah, we feel completely well-resourced. The changes we made last year before I got here were very specific around prioritization, focus, alignment, incentives and that's why you're seeing in the results you're seeing. Again, with Q4 activity, it's already a record for the firm, and this is really against a, I think, a pretty quiet environment given what we may see.

A

I think the strategic tipping point is at what point does this – if it becomes more of a balance sheet-intensive business for us, but we got a lot of runway before we get there. And so I think we have a lot of capacity and deal activity will drive more activity. Giving you a runway is a little difficult because like saying, hey, can you forecast economic activity next year? But I can tell you all the pieces of the engine are in the proper place now.

John C. Redett

Chief Financial Officer & Head-Corporate Strategy, The Carlyle Group Inc.

A

Yes. Steve, and I would just echo what Harvey said, we're going to have a record year across the platform in terms of capital markets revenue. And I would just repeat, this was in a relatively quiet market. And as markets continue to improve, we're very comfortable that we think that number should continue to accelerate.

Steven Chubak*Analyst, Wolfe Research LLC*

Q

Helpful color. Thanks for taking my question.

Operator: Thank you. And our next question comes from the line of Bill Katz from TD Cowen. Your question, please.

Bill Katz*Analyst, TD Cowen*

Q

Okay. Thank you very much. And good morning to everybody. Just maybe, a slightly different tact on FRE. You've done a very good job of enhancing the FRE margin, as you mentioned, year-on-year; and then, if you look at the different segments, it's up very strongly. What's the algorithm for next year as we look ahead? How much more incremental margin can you shoot for?

And then, just sort of a secondary question, just given the interplay between where you're growing assets, where you're realizing assets, how do we think about the interplay between fee-paying AUM growth versus the base management fee rate? Thank you.

Harvey Mitchell Schwartz*Chief Executive Officer & Director, The Carlyle Group Inc.*

A

Well, before – I'm going to have John come into some of those details, but before he does that, I want to just – I want to take a victory lap for John and the whole management team, because in a period of several months last year, they completely restructured the compensation methodology, introduced it, introduced expense saving initiatives. And I think they've accomplished an incredible amount in a very short period of time, and really set the foundation for how to run the firm. Personally, I think there's more upside.

But on some of the details, I'll turn it over to John. But he won't pat himself on the back or his team, but I'll do that for him. John?

John C. Redett*Chief Financial Officer & Head-Corporate Strategy, The Carlyle Group Inc.*

A

Yeah. Bill, look, we feel very good about FRE. We had a record year. As I said in my remarks, we're clearly on path to hit \$1.1 billion for the year. We have good visibility on the fourth quarter. We're very pleased with where the margin is. It's a 47%. Again, let's put this in perspective. This is a 1,000 basis points higher than it was last year, probably 2,000 basis points higher than it was five years ago. So we've made tremendous progress.

But, look, the way the management team thinks about this business is we are much more focused on growth. And I would like to see the FRE margin grow via organic growth versus more efficiencies. I think there's – we'll get a little bit from running the business efficiently, and we'll continue to run the business efficiently. But I think you could expect to see that margin improve as we grow over time.

Operator: Thank you. And our next question comes from the line of Michael Cyprys from Morgan Stanley. Your question, please.

Michael J. Cyprys

Analyst, Morgan Stanley & Co. LLC

Q

Hey, good morning. Thanks for taking the question. Just wanted to ask about asset-based finance, a meaningful growth opportunity for Carlyle. So hoping you could just update us on where that stands today just in terms of AUM, how that part of the business has been growing and maybe talk about some of the steps you might take into 2025 to accelerate growth of that platform? And to what extent, might you look to expand platform capabilities here to best capture the opportunity set? Thank you.

John C. Redett

Chief Financial Officer & Head-Corporate Strategy, The Carlyle Group Inc.

A

Yeah. Michael, hey, it's John. Look, I think it's an enormous opportunity for the industry and for Carlyle. And I do think it will be a large driver of credit growth for us going forward. But I'd say, look, it's very early days in the AVF space. Again, I think this market is enormous. It's multiples of direct lending. We obviously announced the Discover transaction a couple of months ago. It was a very high profile transaction for us. That transaction is largely closed post the third quarter. So we're very pleased with that.

Look, this is a business we started from scratch organically a couple of years ago. We already have roughly \$7 billion of AUM. The pipeline continues to be one of the stronger pipelines we see across the platform. And look, it's a mix of one-off portfolio purchases and flow arrangements. We have in place a handful of flow arrangements. I would expect that to continue to increase over time. But I think it'll be a mix of kind of portfolio purchases and flow arrangements.

Couple of the flow arrangements that we have that you've probably heard us talk about in the past are Monogram, Triad, Unison, covering multiple different assets and we have others. And you should expect us going forward to have more flow arrangements or more flow partnerships as the business continues to evolve. But we really like this business. We're really pleased with where the business is, and we think this business has a lot of potential.

Michael J. Cyprys

Analyst, Morgan Stanley & Co. LLC

Q

Great. Thanks so much.

Operator: Thank you. And our next question comes from the line of Craig Siegenthaler from Bank of America. Your question, please.

Craig Siegenthaler

Analyst, BofA Securities, Inc.

Q

Hey, good morning, everyone. Hope you're all doing well.

Harvey Mitchell Schwartz

Chief Executive Officer & Director, The Carlyle Group Inc.

A

Hey, Craig.

Craig Siegenthaler*Analyst, BofA Securities, Inc.*

Good to hear from you.

Q

Harvey Mitchell Schwartz*Chief Executive Officer & Director, The Carlyle Group Inc.*

You, too.

A

Craig Siegenthaler*Analyst, BofA Securities, Inc.*

Stock-based comp is now run-rating between \$120 million and \$130 million after the grants earlier this year. And I believe you commented on prior calls that there should be a step-down next year in 2025. However, I also believe the mechanics of the issuance is related to the price of the stock, which is higher today. So I just wanted your perspective on how we should be forecasting stock-based comp next year relative to where it came in this past quarter.

Q

John C. Redett*Chief Financial Officer & Head-Corporate Strategy, The Carlyle Group Inc.*

Yeah. Hey, Craig, it's John. Good to hear from you. And I've said this on previous calls, a little bit of this is around the specific accounting treatment for the performance stock units. As you recall, from an accounting perspective, we are expensing them heavily upfront versus when they actually vest. And you've seen our stock-based comp at elevated levels the last few quarters. It's elevated today. And then, in the third quarter, it will continue to be at the third quarter level in the fourth quarter. But in 2025, we do expect to see that stock-based comp number trend down to more normalized levels.

A

Harvey Mitchell Schwartz*Chief Executive Officer & Director, The Carlyle Group Inc.*

And again, this is the accounting phenomenon of the grants that we gave. One of the things that we strategically did, obviously, is in announcing the share buyback in advance of those awards, which are much higher stock levels. We've already bought back a significant portion of anything associated with that dilution. So that's why, you're seeing these dilution numbers look so attractive, certainly relative to the – all the years prior to John and I doing this – this is the first two years dilution hasn't been in negative.

A

John C. Redett*Chief Financial Officer & Head-Corporate Strategy, The Carlyle Group Inc.*

Yeah. I mean, Craig, the last two years, the share count is actually down. It's down 1% this year. And look, we're very focused on repurchasing shares.

A

Operator: Thank you. And this does conclude the question-and-answer session of today's program. I'd like to hand the program back to Daniel Harris for any further remarks.

Daniel Harris*Head-Public Investor Relations, The Carlyle Group Inc.*

Thank you all very much for your time and attention today. Should you have any follow-up questions, feel free to reach out to Investor Relations after the call. We look forward to talking with you again next quarter.

Operator: Thank you, ladies and gentlemen, for your participation in today's conference. This does conclude the program. You may now disconnect. Good day.

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