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The Carlyle Group Inc. (CG)

Q1 2024 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good day and thank you for standing by. Welcome to The Carlyle Group's First Quarter 2024 Earnings Conference Call. At this time, all participants are in a listen-only mode. After the speakers' presentation, there will be a question and answer session. [Operator Instructions] Please be advised that today's conference is being recorded.

I would now like to hand the conference over to your first speaker today, Daniel Harris, Head of Investor Relations. Please go ahead, sir.

Daniel Harris

Head, Public Investor Relations, The Carlyle Group Inc.

Thank you, Norma. Good morning and welcome to Carlyle's first 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 also 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 have 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 then return to the queue for any additional follow ups.

And 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. I want to touch on three areas today. First, our financial performance and an update on our 2024 targets. Second, Carlyle's ability to capitalize on improving macroeconomic environment. And third, progress on key strategic areas.

First, our performance. Our first quarter results reflect continued momentum across the firm, and importantly, we are on track to achieve our 2024 financial targets, including targeted FRE of $1.1 billion, targeting FRE margins to increase to a range of 40% to 50%, and targeting inflows of $40 billion in 2024.

We once again set several financial records this quarter, including record quarterly FRE of $266 million, a near 40% increase over first quarter last year, and record FRE margin of 47%, more than 33% higher than last year. These results are the outcome of our efforts to prioritize operational excellence and optimize our business model, while at the same time enabling us to invest for growth. We anticipate a pickup in fundraising, deployment, and realization throughout the year, and we remain confident in our ability to achieve our financial targets for 2024.

With respect to fund raising, we raised $5.3 billion in new capital in the quarter, in line with our expectations after a near record quarter closing out 2023. Looking forward, we expect to see a pickup in fundraising over the next few quarters, again, keeping us in line with our target.

While the macroeconomic environment remains somewhat fragile, we continue to see signs that the investing environment is steadily improving. Capital from the banking system and private credit is more readily available. Private credit and syndicated loan spreads are at historically tight levels. Equity volatility is under long term averages, and interest rates and inflation have generally stabilized. These are clear improvements from this time last year, which is driving increased investor confidence, and if sentiment continues to improve, we expect a higher level of deal activity.

Our deal teams are already starting to see the knock-on effects of improved market sentiment. We had $5.9 billion of realized proceeds this quarter. We have to go back to the fourth quarter of 2022 to see a higher number. We've already announced additional exits in various strategies that will close in the coming quarters. We have $2.2 billion in net accrued carry across our portfolio, and our global pipeline continues to increase.

Carlyle is well-positioned to capitalize on these improving market conditions over the coming months. We have high quality assets in our portfolio ready to be monetized and $76 billion in dry powder ready to be deployed across our global franchise.

Switching gears, I want to provide an update on our strategic areas of focus. In global wealth, we have strong momentum. Since inception, we've raised nearly $50 billion of wealth assets. Our global scale and brand give us a competitive advantage in this rapidly growing distribution channel.

I have witnessed the importance of our brand and quality of our funds firsthand in my personal interactions with wealth advisors. We want to ensure we're providing the most efficient access to alternative markets alongside the best funds for our end clients.

Our Credit Fund, CTAC, had another strong quarter, and our secondary focused Investment Solutions product, CAPM, saw a ramp up in sales. These funds have historically provided strong performance for our investors. We continue to expand our footprint, adding new wealth distribution partners in the near term.

More broadly in Global Credit, we're focused on driving growth and capturing share. We see opportunity to continue to scale our asset-backed finance offering, a trend that may persist for years as market participants increasingly look to partner with firms like Carlyle to address their capital solutions. We have mobilized and scaled our credit strategic solutions team to address this opportunity. The strategy has grown to more than $7 billion in assets with good opportunity for continued growth.

And finally, in Global Investment Solutions, we continue to see strong momentum. This is helping us both in the institutional channel as well as in the wealth channel with our secondary focused CAPM fund. And obviously, this business is somewhat countercyclical to the rest of the franchise.

To wrap things up, we entered 2024 with solid momentum. We continue to execute against our financial targets and strategic areas of focus. All of this positions us to deliver significant growth and shareholder value.

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

John C. Redett

Chief Financial Officer and Head of Corporate Strategy, The Carlyle Group Inc.

Thanks, Harvey. Good morning, everyone. As Harvey said, our first quarter results were in line with our expectations, and we remain on track to achieve the 2024 financial targets we outlined on last quarter's call.

For the first quarter, we generated record FRE of $266 million, nearly 40% higher than the first quarter last year. FRE margin of 47% was also a record and up from 35% in Q1 2023. We produced $431 million in DE or $1.01 in DE per share, our best quarterly DE result since 2022.

We finished the first quarter with $425 billion of assets under management, up 12% year-over-year. In the first quarter, we completed the sales of McDonald's China and Neptune Energy, both of which produce attractive returns for LPs and strong performance revenues for our shareholders. Over the past year, we have returned $22 billion in capital to our LPs, highlighting the ability of our investment teams to find liquidity opportunities in difficult and challenging capital markets.

We raised $5.3 billion of capital in the quarter and remain confident in achieving our target of $40 billion of inflows for the year. In solutions, we raised $2.3 billion in the quarter and nearly $14 billion over the last 12 months, as we continue to have success attracting investors to our secondaries and co-investment strategies. And we are starting to see momentum building in our global wealth product, CAPM.

In Global Credit, where our CLO platform is one of the largest in the industry, we had an active quarter in a very active market. We priced seven CLOs, including three new issue CLOs. We also saw strong inflow activity into our global wealth product, CTAC, and continue to see capital raise for our asset-backed finance strategy.

And in Global Private Equity, the fundraising environment remains somewhat challenging, but we do see some pockets of strength, like real estate in Japan. Management fees totaled $516 million in the first quarter, up about 2% compared to the prior year. We have $15 billion of pending fee-earning AUM that has yet to activate fees.

Capital markets activity remains constrained, but it is showing signs of improvement. Transaction and advisory revenues of $27 million increased more than 60% from the first quarter last year. G&A expenses of $80 million were lower compared to the first quarter last year as we benefited from expense discipline and had some one-time items that lowered the quarterly G&A level. We expect G&A expense to shift back towards the recent run rate in the second quarter.

Our net accrued carry balance of $2.2 billion declined relative to last quarter due to fund realizations and a relatively lower level of appreciation in our carry funds. And at $6 per share, it remains a substantial source of future earnings. We repurchased $150 million of stock, decreasing our adjusted shares outstanding by 1%. Our remaining share repurchase authorization is approximately $1.25 billion, and we remain active buyers of our stock.

Wrapping up, we are optimistic about market conditions improving, and we are on track to meet our financial targets for 2024.

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

QUESTION AND ANSWER SECTION

Operator: Thank you. [Operator Instructions] One moment for our first question, please. Our first question will come from the line of Brian Bedell with Deutsche Bank. Your line is now open.

Brian Bedell
Analyst, Deutsche Bank Securities, Inc.

Q

Oh, great. Thanks. Good morning. Thanks for taking my question. Maybe just...

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

A

Good morning.

Brian Bedell
Analyst, Deutsche Bank Securities, Inc.

Q

Hey, good morning. Maybe you could just talk about how you're viewing the FRE trajectory for the balance of 2024, and maybe just the components on that. Given the lower expenses, and maybe if you can classify the help from the lower G&A expense in 1Q. And where you see the expenses moving as we move through the year, and then contrasting that with fee-related revenue. So really the sort of the underlying components of how you see the FRE improving during the year?

John C. Redett
Chief Financial Officer and Head of Corporate Strategy, The Carlyle Group Inc.

A

Thanks, Brian. So look, we're very pleased with the FRE for the quarter $266 million. It was a record. It was up 40% over same period last year. The margin was very strong as well, that compared to 37% last year.

In terms of the margin at 47%, and I alluded to this in my comments on the G&A, we did benefit from a lower G&A. Some of that was expense discipline on our end. Some of it was a little seasonality. Historically, if you look at our first quarter, G&A is typically a little lighter in Q1 and we did have a couple of one-off items. So I expect the G&A number to increase to more normalized run rate levels in the second quarter.

So I would expect the FRE margin in the next couple of quarters to be in the mid-40s versus the 47%. And look, the mid-40s is right in the middle of the range we put out in our 2024 financial targets of 40% to 50%. So we feel pretty good at 45%.

In terms of management fees, I would say the number came in exactly as expected. There were no surprises, positive or negative, on our end. And I do think through the year, given that we had a really strong fourth quarter in terms of fundraising, nearly $17 billion, and we have $15 billion of pending fee-paying AUM. I would expect that number to start to accelerate throughout the year, and I think that growth will accelerate as well.

Brian Bedell
Analyst, Deutsche Bank Securities, Inc.

Q

Okay. Great. Thank you.

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

Thanks, Brian.

Operator: Thank you. One moment for our next question, please. Our next question will come from the line of Kenneth Worthington with JPMorgan Securities. Your line is now open.

Kenneth B. Worthington
Analyst, JPMorgan Securities LLC
Q

Hi, good morning and thank you for taking the question.

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

Hey, Ken.

Kenneth B. Worthington
Analyst, JPMorgan Securities LLC
Q

Fee-paying AUM is so lower in both private equity and credit this quarter and we know things don't move in a straight line. Maybe first, can you talk about the drivers of the decline in private credit fee-paying AUM this quarter? I think you highlighted some elevated outflows in the released. And based on your fundraising fund activations and realizations, how should we think about fee-paying AUM developing from current levels in both private equity and credit as we kind of migrate through the year?

John C. Redett
Chief Financial Officer and Head of Corporate Strategy, The Carlyle Group Inc.
A

Yeah, Ken, we have very good momentum in terms of fundraising. We have some products in the market that have real demand. Our secondaries business, our solutions business, we're seeing real good demand, both in secondaries and co-investment. I would expect that to continue.

As we've said in the past, we've had good momentum in Japan. We'll be wrapping that one up at some point this year. Real estate is another area where we think we'll have really strong demand. We'll start that fundraise this year as well and we do expect that to be a successful fundraise. So I would expect to see an acceleration in growth in the fee-paying AUM as well.

In terms of the kind of slight decline in fee-paying AUM in credit, it was just normal course runoff. And again, the runoff is outside of carry funds. So it was just a small amount of normal course business as usual runoff.

Kenneth B. Worthington
Analyst, JPMorgan Securities LLC
Q

Okay. Great. Thank you.

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

Thanks Ken.

Operator: Thank you. One moment for our next question, please. Our next question will come from the line of Ben Budish with Barclays. Your line is now open.

Benjamin Budish
Analyst, Barclays Capital, Inc.

Q

Hi, good morning and thanks for taking the question. Maybe just following up on the $15 billion of pending fee-paying AUM, and John, your comments and the confidence in achieving the $40 billion plus for the year, can you sort of just unpack the major pieces? We know there's a lot of PE funds in the market, how much is left on the solutions fundraises that you're doing? What are the key pieces of the credit side? Can you give us a little color there? That'd be great. Thank you.

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

A

Yeah. Maybe I'll jump in. And so we're not going to walk through fund by fund, which I'm sure you understand. But as John said, and I've been traveling the world the past six months, you can really feel the momentum in the pockets of strength that John hit on. So in solutions, in the wealth channel across credit, as I mentioned in my comments, we expect to be joining additional wealth platforms, new partners coming on in terms of CAPM and CTAC . And so there's a lot of momentum around wealth, secondaries, credit, and as John mentioned, pockets of the private equity segment and real estate and other areas, I would say, generally in private equity across the industry, in this environment, you should maybe expect some headwinds.

Now, of course, I think over the next several years, the institutional channel might be a little over-allocated, but the wealth channel is clearly under-allocated. And so we look forward to also bringing out our private equity wealth product in the first half of next year. And so it feels like across the franchise momentum is quite good, and that's why we reiterate the targets for this year.

And also, the other thing I'll say is we understand the focus on the quarter-to-quarter. We focus on it for running a business, just not really how we think about the fundraising. As John said, this was perfectly on plan for us.

Benjamin Budish
Analyst, Barclays Capital, Inc.

Q

Got it. Thank you very much.

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

A

Thanks.

Operator: Thank you. One moment for our next question. Our next question comes from the line of Alexander Blostein with Goldman Sachs. Your line is now open.

Alexander Blostein
Analyst, Goldman Sachs & Co. LLC

Q

Hey, good morning, everybody. Thank you for the question as well. I was hoping we can spend a minute on your outlook for share repurchases for the rest of the year. Harvey, I think on the last call, you talked about obviously $1.4 billion, now it's $1.2 billion in authorization, being a function of kind of quarters, not years. Can we maybe get a little more specific here on the outlook for the rest of the year?

And related to that, how should we be thinking about equity-based compensation on a quarterly basis from here, I guess, given that it's stepped up quite meaningfully as well? Thanks.

John C. Redett
Chief Financial Officer and Head of Corporate Strategy, The Carlyle Group Inc.

A

So, Alex, it's John. We repurchased $150 million of stock, as I said in my remarks. Historically, we've averaged roughly $200 million per annum. So the first quarter was pretty significant relative to what we've done in the past. We still have $1.25 billion left on the share repurchase authorization. And you should just assume we're active purchasers of the stock going forward.

In terms of the equity-based comp, this is really – it got elevated due to the performance stock units we granted to key senior members of our investment teams, our team globally. And these are the people that are driving growth. These are the people that are accountable for growth. And the accounting on these instruments are a bit different. So you're seeing a little bit of elevation from those performance stock unit grants.

Remember, these only vest if we have meaningful stock price appreciation. So I think these are very, very shareholder-friendly instruments, great alignment. I would expect the equity-based comp number to start trending down next year.

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

A

Thanks, Alex.

Operator: Thank you. One moment for our next question, please. Our next question comes from the line of Brian McKenna with Citizens JMP. You line is now open.

Brian McKenna
Analyst, Citizens JMP Securities LLC

Q

Thanks. Good morning, everyone. I appreciate the commentary on the buyback, but it seems like there's some capacity to increase the dividend, given the earnings outlook moving forward, specifically if realizations remain healthy. So how are you thinking about the dividend moving forward? And do you see an opportunity to increase the payout ratio over time?

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

A

So, hey, it's Harvey. So, as John said, let me just take a step back and again, go through how we're thinking about the capital allocation methodology here. And so we're going to remain very flexible, because we see very significant opportunities to invest in the business over the next couple of years. But we also see opportunities to return capital to shareholders, and that was really the strategic decision about going with the buyback, because it gives us that flexibility.

In the immediate term, we expect no changes to the dividend. Of course, again, we're not tying ourselves in the [ph] masks here (00:21:04), depending on how things move forward. But right now, it really is about positioning ourselves for dynamic flexibility around capital allocation, so we can invest in the business when we see the most accretive opportunities, which we're currently doing. And we can also return value to shareholders. And as John said, you should expect to see us be active in the stock.

Brian McKenna
Analyst, Citizens JMP Securities LLC
Q

Helpful. Thanks, Harvey.

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

Sure.

Operator: Thank you. One moment for our next question. Our next question comes from Brennan Hawken with UBS. Your line is now open.

Brennan Hawken
Analyst, UBS Investment Bank
Q

Thanks for taking my questions. Good morning.

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

Hi, Brennan.

Brennan Hawken
Analyst, UBS Investment Bank
Q

Hey, how are you, Harvey?

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

Good.

Brennan Hawken
Analyst, UBS Investment Bank
Q

You guys flagged in the investment performance slide that there's an uptick in US and European CLO default rates. So I'm curious about what your exposure is to Altice in the European or the global CLO business. And how should we be thinking about the risk of deterioration and increased defaults as far as the potential for management fee deferrals in that business? Thank you.

John C. Redett
Chief Financial Officer and Head of Corporate Strategy, The Carlyle Group Inc.
A

Yeah, Brennan, it's John. So, look, we really like our CLO business. We're one of the largest in the world, at any given time, we're one or two. Look, this business has great margins. They have a long term, highly attractive track record. And when you look at kind of credit in the platform, it still looks very, very good.

Our default rates in our US business are one-half of the industry average. The credit stats in Europe are not quite as good as the US, but they are still better than European industry averages. So from a credit quality perspective, we feel very good about the credit quality in our CLO business.

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

It really is a world-class franchise with a world-class team.

Brennan Hawken
Analyst, UBS Investment Bank
Q

Great. Thanks for taking my questions.

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

Thanks Brennan.

Operator: Our next question will come from the line of Daniel Fannon with Jefferies. Your line is now open.

Daniel T. Fannon
Analyst, Jefferies LLC
Q

Thanks. Good morning. You talked about wealth and increasing partnerships and distribution through that channel. Can you give us what the number of flows were from the wealth channel this quarter, and which products you see are driving those flows? And where you see that kind of the outlook for that going forward?

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

I've personally been spending increasing amounts of my time with our wealth partners, and I can tell you, I'm pretty close to the [ph] cold face (00:23:53) on this, we've been really well received. The brand Carlyle, our history in the business, the long track record, the name recognition, the iconic aspect of the firm really resonates with wealth advisors. Now, of course, we've been in the wealth channel for a very long time. As I mentioned, we raised nearly $50 billion of assets. But this new shift in terms of how the market is really receiving in the early days of whatever you want to call it, democratization, et cetera.

But I personally spending a lot of time with wealth advisors, truly trying to get very close to understanding how we can be the best value partner to them. And with CTAC growing steadily, CAPM picking up momentum, our secondaries product, we will be making some announcements in the near term of some new partnership launches, I feel really good about the momentum here. And again, obviously, first half of next year, we're targeting the private equity product. So I feel really good about how our business is being received. This is going to be a long journey for the industry, but I feel really optimistic about the long term growth trajectory.

Operator: Thank you. One moment for our next question. Our next question will come from the line of Chris Kotowski with Oppenheimer. Your line is now open.

Chris Kotowski
Analyst, Oppenheimer & Co., Inc.
Q

Yeah, good morning, and thank you for taking the question. I realize you didn't want to go fund by fund, but when I look at the fund tables, it looks like your Asia V fund steps down in June and then Europe V in September. So should we be expecting kind of a new fund launch around those dates? Or do you effectively not have a flagship vehicle after those dates in Europe and Asia?

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

A little confused. No, we have flagship vehicles in those regions. I think, again, Chris, the way to think about it is really the way John addressed it, which is, we expect, I think, he's giving you a pretty good color on this, a pickup in management fees across the platform throughout the rest of the year and everything remains on plan.

Chris Kotowski
Analyst, Oppenheimer & Co., Inc.
Q

Okay.

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

We're happy to get into more detail with you offline.

Chris Kotowski
Analyst, Oppenheimer & Co., Inc.
Q

Okay. And then also, can you give us any color on the – it said page, I think 11, that there were some reversals of prior performance allocations. Can you just give us some color on what happened there? Was that related to European-style waterfalls or what happened?

John C. Redett
Chief Financial Officer and Head of Corporate Strategy, The Carlyle Group Inc.
A

I mean, look, the first thing I'd say is, Chris, we don't manage the business quarter-to-quarter in terms of performance. I came from the private equity side of the business, where I spent 16 years, ran several funds there. I honestly never really focused on quarter-to-quarter performance. I always took a kind of a long term view, what is the long term trajectory. So I know you guys focus quarter-to-quarter movement, but we don't really manage the business that way.

So CP VII was barely in – carry the previous quarter. It fell out of carry this quarter. So that's the impact you're seeing. But look, we've been in this business, the private equity business, for 35 years. We've generated very strong returns for our LPs, 26% over that period, 2.4 times our money. So we're very proud of those returns. The only thing I'd tell you is we've always been very, very focused on performance. And not surprisingly, going forward, we will continue to be very focused on performance.

Chris Kotowski
Analyst, Oppenheimer & Co., Inc.
Q

All righty. Thank you. That's it for me.

Operator: Thank you. Our next question will come from the line of Patrick Davitt with Autonomous Research. Your line is now open.

Patrick Davitt
Analyst, Autonomous Research US LP
Q

Hey, good morning. Thanks. I want to circle back on the flow commentary. I understand there's some seasonality, but obviously just run-rating to about $20 billion of flow this year versus $40 billion target. So maybe when you budget this, could you maybe help us understand what you see as the biggest incremental contributions to closing that gap between $20 billion and $40 billion? And what you think the cadence through the rest of the year of building to that $40 billion will be? Thanks.

John C. Redett
Chief Financial Officer and Head of Corporate Strategy, The Carlyle Group Inc.

A

Yeah. Again, Patrick, what Harvey said, it's very tough to look at fundraising on a quarter-by-quarter basis, stuff slip, stuff moves forward. Again, the fundraising number for the first quarter came in as expected. So that should tell you something in terms how we think we can get to the $40 billion. We're still confident in the $40 billion.

And I think Harvey gave you some color around where that fundraising is coming from. We continue to see a lot of interest in our solutions business, both secondaries, co-investment. In private equity, we're going to have some – we'll have some strong demand for our real estate product. We have good demand for Japan. In credit, our asset-backed platform has gone from almost nothing to upsize in two years. On the wealth side, we're really starting to see more momentum in CTAC, CAPM, our solutions wealth product, that's just kind of starting, but getting good momentum. So it's really across the platform. I wouldn't say one specific segment is an outlier.

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

A

Yeah, it's pretty diversified, but I wouldn't make – we'd be misguiding you if we, in any way, suggest that you should take the first quarter and multiply it by four, I think that's our point here. You should really hear us when we say we expect a significant momentum in that. This was exactly on plan for us.

John C. Redett
Chief Financial Officer and Head of Corporate Strategy, The Carlyle Group Inc.

A

Thanks, Patrick.

Operator: Thank you. One moment for our next question. Our next question comes from the line of Steven Chubak with Wolfe Research. Your line is now open.

Steven Chubak
Analyst, Wolfe Research LLC

Q

Hi, morning, Harvey. Morning, John.

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

A

Good morning, Steve.

Steven Chubak
Analyst, Wolfe Research LLC

Q

So in the past, you had spoken about the significance of the IPO market reopening. Certainly starting to see some green shoots. But just concerning the PE transaction environment, I was hoping you could speak to whether that recent pickup supports more durable improvement in realization activity or is it still too early to call an inflection?

John C. Redett
Chief Financial Officer and Head of Corporate Strategy, The Carlyle Group Inc.

A

Hey, it's John. I think it's helpful just to kind of level set where we are. We're coming out of a very, very complex environment. And having spent most of my career in private equity, it was one of the more complex environments I've seen. Yet our team has been able to generate $22 billion of realizations through that period in some pretty choppy markets.

And then I said in my comments, we had a strong quarter in terms of realizations. I noted McDonald's China and Neptune Energy. I know these portfolios really well. I spent a lot of time in that business. I feel good about these portfolios. I also like the momentum we have. So, I mean, if the markets continue to improve, I would expect that momentum to accelerate. But it's market dependent, obviously.

In terms of your comments on the IPO markets, I think the IPO markets are kind of open. I know a lot of the bankers and headlines say they're open, but I would say they are opening.

Steven Chubak
Analyst, Wolfe Research LLC Q

Understood. Thanks for taking my question.

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

Thanks.

Operator: Thank you. One moment for our next question. Our next question comes from the line of Glenn Schorr with Evercore ISI. Your line is now open.

Glenn Schorr
Analyst, Evercore ISI Q

Hello, thanks.

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

Good morning, Glenn.

Glenn Schorr
Analyst, Evercore ISI Q

A question on the insurance side. Good morning. Question on the insurance side, just in terms of what we should expect from your business, we didn't talk about it much yet today. And the reason I'm asking is some of the insurance companies have been talking about lightning up and pulling back on block trades and trying to raise third-party capital themselves. I'm not sure how many of them have the capacity to raise that and manage that themselves, but I've heard it from more than a couple of places. So curious on your thoughts of the deal environment, and what we should expect from your insurance business. Thanks.

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

The pipeline feels pretty good here, Glenn, in terms of – you saw us close and execute the Lincoln National transaction last year, and we talked about the economics and how that flows through FRE over the medium term, but the pipeline feels pretty good.

I think they're going to be times when it's going to ebb and flow in the marketplace. But I think if you look over the long term in terms of insurers need to dynamically manage their capital, I think Fortitude is really, really well positioned to be a great partner and has been a great partner, so I feel pretty good about the pipeline.

In terms of insurance more broadly, I would say the space remains increasingly important to us with a lot of momentum. There's a real cross-section here and a flywheel effect between capital needed, an ability to generate enhanced performance in private credit, banks looking at more optimized – better optimized their capital structures. And so, we're in the thick of a lot of flows here.

And I think this is pretty persistent. It feels like this is going to go on for a while. I never like to break out my crystal ball on these calls, but it feels like there's a lot of momentum here and this is a multiyear trend.

Glenn Schorr
Analyst, Evercore ISI

Q

Okay. Thanks.

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

A

Thanks.

Operator: Thank you. One moment for our next question. Our next question comes from the line of Bill Katz with TD Cowen. Your line is now open.

William Katz
Analyst, TD Cowen

Q

Thank you very much for taking the questions. Good morning. Maybe step back. You mentioned that there's some good demand in real estate. I was wondering, if you could unpack that a little bit. And then maybe the broader question associated with just the asset class or the segment in total, is how you're thinking about the opportunity in infrastructure and how is Carlyle positioned to maybe participate in what seems to be a pretty big opportunity? Thank you.

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

A

So in real estate, as we've discussed before, really is a world class franchise, they're in the market now, the performance has been exceptional. They'll be in their 10th fundraise. And I think in a space which is not drawing a lot of capital, they really are extraordinary team with a lot of momentum.

And we see the opportunity quite optimistically across the rest of the real assets platform, whether it's in renewables, infrastructure, energy. I think the natural demands of what's happening really around the globe, whether you look at geopolitics, energy transitions, demand for energy, energy security, all these things bode well. And I think there are platforms which will continue to grow. And so you should look to see us continue to invest and continue to build on the platforms we have, but we feel pretty good there too.

John C. Redett
Chief Financial Officer and Head of Corporate Strategy, The Carlyle Group Inc.

A

Thanks, Bill.

Operator: Thank you.

William Katz
Analyst, TD Cowen Q

Thanks, John.

Operator: One moment for our next question. Our next question comes from Michael Cyprys with Morgan Stanley. Your line is now open.

Michael J. Cyprys
Analyst, Morgan Stanley & Co. LLC Q

Great. Thank you. Just wanted to circle back to the realization commentary. I was hoping you may be able to help quantify the pipeline of exits that you were alluding to. And when we look at the overall portfolio, it seems about nearly 50% is aged 40 years, which could suggest maybe we could see a meaningful pick up and exit activity market depending. But just curious, what portion of the portfolio do you view as in the exit phase? And just waiting for that rate backdrop?

John C. Redett
Chief Financial Officer and Head of Corporate Strategy, The Carlyle Group Inc. A

Yeah, I mean, I don't know if I can quantify in terms of percentage of portfolio. In that stat you alluded to, that's four years or older, that's really not specific to Carlyle. That's an industry wide stat. So, look, we have a lot of great companies that are ready – we're ready to monetize. We just need markets to continue to improve. We need the IPO markets to really open up. That will be helpful. But as I said, if the markets continue to move on the current trajectory, I do expect realization activity to pick up. It's one of the hardest aspects of this business to project. If you could tell me where markets are in six months, I could probably give you a very specific answer, I just don't know. But the way it looks today, we're pretty optimistic that realizations will accelerate.

Michael J. Cyprys
Analyst, Morgan Stanley & Co. LLC Q

Sorry, just to clarify. On page 17, there was a chart next to the $159 billion of AUM and private equity with a note saying 48% aged four-plus years, that's not for Carlyle, that's for the industry?

John C. Redett
Chief Financial Officer and Head of Corporate Strategy, The Carlyle Group Inc. A

Yeah, that is our stat. But I think the industry stats are somewhat similar. I don't think we're an outlier at all.

Michael J. Cyprys
Analyst, Morgan Stanley & Co. LLC Q

Okay. Thank you.

Operator: Thank you. One moment for our next question. Our next question comes from the line of Craig Siegenthaler with Bank of America. Your line is now open.

Craig Siegenthaler
Analyst, BofA Securities, Inc.
Q

Good morning. Hope everyone's doing well.

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

Hey, Craig, good morning.

Craig Siegenthaler
Analyst, BofA Securities, Inc.
Q

So we had a follow-up on the CLO question. Just given your commentary that defaults are rising Europe, so quick math. I think European CLO AUM is around $11 billion and about half of those are subordinated fees, and they can be deferred if certain test are not met. So about $30 million run rate, near 100% incremental FRE margins. I'm curious, is that math correct? And then also, are those tests still being met or will be met, given the rise in default commentary in the earnings release? Thank you.

John C. Redett
Chief Financial Officer and Head of Corporate Strategy, The Carlyle Group Inc.
A

Yeah. Craig, hey, it's John. Look, we're not concerned with the credit quality stats in the European CLO business, they are elevated relative to the US, although I would tell you, the US are extremely low and the credit stats in the European CLO business are still below industry. I think it's important to recognize we've been in this business for 25 plus years. We have a great long term track record. We have a very deep and talented team leading this investment effort. And over that 25 year period, we have collected 100% of the management fees and the subordinated management fees.

Craig Siegenthaler
Analyst, BofA Securities, Inc.
Q

Thank you, John.

John C. Redett
Chief Financial Officer and Head of Corporate Strategy, The Carlyle Group Inc.
A

Thanks, Craig.

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

Thanks, Craig.

Operator: Thank you. Our next question will come from the line of Brennan Hawken with UBS. Your line is now open.

Brennan Hawken
Analyst, UBS Investment Bank
Q

Good morning. Thanks for taking my follow-up. Totally appreciate that stock-based comp is expected to drop in 2025. But when we think about 2024, is this $111 million quarterly run rate the right way to think about this year? Or could there be movement off of this level?

John C. Redett
Chief Financial Officer and Head of Corporate Strategy, The Carlyle Group Inc.

A

I don't think it's far off. It might creep up a little bit. Again, it's – and we can take this offline. The accounting around the performance stock units is a bit different relative to traditional equity awards, but I don't think it will move up in a material way.

Brennan Hawken
Analyst, UBS Investment Bank

Q

Okay.

John C. Redett
Chief Financial Officer and Head of Corporate Strategy, The Carlyle Group Inc.

A

But I'm happy to take it offline with you and give you details around the accounting.

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

A

Yeah, the important thing again is the alignment that John talked about. You have to have a very meaningful uptick in the share price. And so as we've discussed, this really aligns the senior leadership of the firm with the shareholders.

Brennan Hawken
Analyst, UBS Investment Bank

Q

Sure. Totally appreciate that. Just trying to think about...

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

A

No, we got it. It's a little bit the accounting is the accounting, but we'll take it offline for you.

Brennan Hawken
Analyst, UBS Investment Bank

Q

Sure. Thank you.

Operator: At this time, this concludes our Q&A portion. I'd like to hand the conference back over to Mr. Daniel Harris for closing remarks.

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

Thanks, operator. And thank you, everyone, for your time and attention today. If you have any questions or follow-ups, please contact Investor Relations after this call. And we look forward to talking with you again next quarter.

Operator: This concludes today's conference call. Thank you for your participation. You may now disconnect. Everyone, have a wonderful day.