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The Carlyle Group, Inc. (CG)

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CORPORATE PARTICIPANTS

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

OTHER PARTICIPANTS

Alexander Blostein
Analyst, Goldman Sachs & Co. LLC

MANAGEMENT DISCUSSION SECTION

Alexander Blostein
Analyst, Goldman Sachs & Co. LLC

Okay. Great. So we're going to get started with our next session here. It is my pleasure to welcome Harvey Schwartz, CEO of Carlyle.

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

Hey, everybody. Great to be here.

Alexander Blostein
Analyst, Goldman Sachs & Co. LLC

With over $380 billion in assets under management, Carlyle is one of the largest global alternative asset managers with presence across private equity, real assets, credit and solutions. Prior to joining Carlyle, Harvey spent over 20 years at Goldman Sachs in a number of leadership positions, including being President and Co-Chief Operating Officer, the firm's CFO prior to that, and of course, many other roles before that. So we're obviously very happy to welcome you back and good to talk to you.

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

Yeah. First of all, it's fantastic to be here. A lot of familiar faces in the room. So it's great to see everybody. I missed all of you. Not all of you, but like say like 99% of you. It's really good to see all of you. Yeah.

Alexander Blostein
Analyst, Goldman Sachs & Co. LLC

There you go. So look, before we begin, Carlyle had a number of pretty big wins recently. You guys sold McDonald's China over six times earnings. That's been six times capital, which has been great. It closed in a Lincoln deal. The stock was added to the S&P 500. So momentum is building, which is great.

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

Yeah.

QUESTION AND ANSWER SECTION

Alexander Blostein
Analyst, Goldman Sachs & Co. LLC

Q

I would love to start off with just kind of your perspective on your first 10 months...

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

A

Sure.

Alexander Blostein
Analyst, Goldman Sachs & Co. LLC

Q

...as the CEO of the company, what you've learned and where are you spending your time.

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

A

Great. Well, I won't spend any time why am I at Carlyle. Most of you have heard that. It was really just too good an opportunity to pass up in terms of the brand. Sure, we'll talk a little bit about the industry, the industry trajectory, the people, the team, the founders and obviously, I'd have some degree of confidence that I could have an impact and help mobilize the team.

In terms of the first 10 months, it's very kindness in the fact that I was a new CEO in a new company and the overly simplified playbook had three parts to it. One, spend a lot of time with my teams internally and that was about me getting to know them, but really as much them getting to know me, right, new to the company. Two, a lot of time with LPs, I've – we stopped counting. I think I've met with close to 300 LPs around the world. I've been to the Middle East twice, Asia twice, Europe twice. So a lot of road time, obviously, all over the US and North America.

And the third part of the playbook was really identifying. I've referred to them externally as work stream and then internally. Really a couple of areas of strategic focus where it would basically bring us all together as an organization where we can identify areas of growth and opportunity. And that's the oversimplified three part playbook.

Alexander Blostein
Analyst, Goldman Sachs & Co. LLC

Q

Yeah. Let's build on that a little bit. In one of the earlier calls earlier this year, you talked about some of the key strategic priorities. I think you narrowed it down to five insurance capital markets, private wealth, tech AI and expense management. That's a lot to cover. So probably not going to get through all of that today but I would...

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

No, let's do all of it.

Alexander Blostein
Analyst, Goldman Sachs & Co. LLC
Q

There you go. Well, we only have 31 minutes, so I'm not...

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

Okay. Fine.

Alexander Blostein
Analyst, Goldman Sachs & Co. LLC
Q

...exactly sure if we'll be able to. But look, I would love to hear a little bit more about where you see the most significant opportunity, where you're spending most of your time related to these issues.

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

So there're no favorite kids in that list. Yeah. I love all my kids. I would say that's the thing that which was sort of the thing we updated on the most detail would have been on the expense initiatives. I would say that's the lowest priority in terms of how we're thinking about Carlyle. When I travel around the world, the opportunities, that's pretty significant. And so if you think about what I fortunately had the privilege to participate in, when I showed up the platform itself across the $380 billion of assets, you have basically roughly $150 billion, what we call private equity. But of course, that includes real estate. We have one of the best real estate investors in the world. It's an enormous – it's an extraordinary team.

Just to give some people some insights into that, that team basically decided they wouldn't invest in office space or retail in 2013. It's a pretty bold call, by the way, back in 2013. And it speaks to sort of the quality of the investing culture, which we'll talk a little bit about, I think, is I'll touch on some of the things, some of the recent wins.

So the investing platform itself is quite diversified across, what I'd call traditional private equity, real estate, real assets, infrastructure, renewables, energy, and then, of course, you have the credit business, $150 million. And then the solutions business, our secondaries business, which I think may be one of the greatest acquisitions of all time that the firm made long before I showed up. And then, of course, you have the insurance business.

Alexander Blostein
Analyst, Goldman Sachs & Co. LLC
Q

Right.

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

And so, all of these things have opportunities for growth. And again, the reason I detail about the work streams because I was bringing the teams together to make sure we maximize that. So I'd use capital markets as kind of a simplest. To be effective in the capital markets business, you can either be best in the world as a Goldman Sachs or you can position the way we position, which is less about committing capital and more about the raw material on the pieces.

And to be successful, you need a really world-class private equity franchise. You need a great capital markets team, and you need basically the cross-section of the Venn diagram of insurance clients, people you can distribute and share risk with, partners that we can share risk with, that basically are peers of ours.

Alexander Blostein
Analyst, Goldman Sachs & Co. LLC

Q

Right.

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

A

And so, bringing all these pieces together, in some cases, was really just about prioritizing, a bit of re-organizational design and incentives. It's hard to go to any of those areas and not feel optimistic about the long-term growth trajectory. I think that's a lot about Carlyle, the brand, the people and what I've been fortunate to join. But I think a lot of it is about the industry trajectory.

Alexander Blostein
Analyst, Goldman Sachs & Co. LLC

Q

Right, right.

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

A

I mean, if you take wealth for just an example, one of the work streams and I guess I am going to manage to go through each of them quickly. If you take wealth, for example, we raised $45 billion through that channel. And when you think about wealth, you think about it as sort of basically feeder funds. And then the evolving interval product where some of our peers have had great success. It is my opinion, maybe pick your sports analogy. I'm not a pretty good athlete. Pick your sports analogy like top of the first inning in wealth. This is a 10-year, 20-year trajectory.

Alexander Blostein
Analyst, Goldman Sachs & Co. LLC

Q

Yes.

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

A

And what you need is excellent investors, an understanding of the client and a brand. And I've spent a lot of time now in the wealth space. I think this is a enormous opportunity, three years, five years and sooner, obviously. But we've made some resource additions in the space. I feel really, really good about the momentum across all the work streams.

Alexander Blostein
Analyst, Goldman Sachs & Co. LLC

Q

Great. Well, we're going to unpack a lot of this, but before we go in, I would love to get your macro perspective as well. You've been through multiple market cycles, also been in finance for a long time. You have the benefit of having a pretty diverse set of portfolio companies and private equity. What do you hear on the ground? What's your outlook for the economy for 2024?

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

Okay. That's definitely not a 27-minute, 15-second answer, but I'll simplify it. So I would talk just macro. I'll give you my perspective. I think in my career, so I'm 59. I was born in 1964, good time to be born by the way. I think this is one of the most complex market environments we've seen in 30, 40 years. And I say that because a lot of the megatrends of deflation, globalization, geopolitics, monetary policy, regulatory trends, a lot of that is in the process of reversing to some degree, or at a minimum, slowing for sure. And I think it's very hard to unpack the tailwinds associated with that.

And the other thing I would say is I know we all talk about the significance of a 500-plus basis point rate increase, but if you – if we were all sitting here in June 2021 and we just took what, because we're in Goldman Sachs, market-implied volatilities, if we took market implied volatilities, it's a four or five Sigma event that we'd have a 500 basis point rise.

And I was trying to frame that. So I asked my data scientist the other day, I said, hey, how much is that? And we – he said, well, that's one in a million. I said okay, what's one in a million? He said, well, that's the equivalent of, if we [ph] put the quarter 20 times (00:09:05) in a row, you always get heads, but I thought this was better. Then, he said, 1 of the next 24 babies born in the United States is present in the United States. That's how extraordinary what we've been through. And I think this recalibration of rates, sure, we've seen the issues, the [ph] UKAD (00:09:25), we've seen Silicon Valley Bank, another bank issues. I think this recalibration of rates and what it means for forward rates, I think people can become victims of recency bias. And because the vast majority of the people that are in markets today have experienced basically, easy monetary conditions and extreme monetary conditions.

Alexander Blostein
Analyst, Goldman Sachs & Co. LLC
Q

Sure. Yeah.

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

I think there's a sense that rates will revert back to some very, very low level and my personal view is that's not the case. I think these headwinds combined with a normalization of the rate curve just means the cost of capital will normalize in a way that maybe should have been the case for a while. And I think that when we look at now our proprietary data, so we have close to 900,000 employees, 30 countries, we have a huge proprietary dataset. When we look at that, you can see that inflation peaks very specifically in June of 2022 and you can see it roll off. And when I say inflation, I'm not talking about the headline inflation that we all read about. We're talking about like input prices that went from $1 to like $1.70.

And you can see as portfolio companies start to adjust external prices and they didn't even know they had price elasticity. And now, we're seeing that sort of fade back. And so we're definitely past this inflationary peak. My base case is, yeah, we'll see a rate cut or two, but the notion that we'll see five, I think that's not anything we should be rooting for. I think if we see five, six or seven rate cuts in the near term, it means we've got a market disruption of pretty significant recession of both.

And so when I take the framing of kind of the mega trends, the local data that we have, in sort of my own personal view, I think higher for longer than the market is expecting and I think there's some degrees of uncertainty in there. So I would say short term, cautious. I think long term. Now, putting on my Carlyle hat. I think the opportunities are pretty extraordinary because some of the other data under the hood – I was just talking to Richard Ramsden before and I said, I was looking at this data set which – and nobody is going to have an opinion on this, okay. This data set basically of all the public companies in the United States, last 12 months greater than $100 million, public companies. How many are last 12 months operating cash flow negative, free cash flow negative? And that number is about a third.

There's a lot of reasons for that. The primary reason is not because revenues have stopped growing. And the primary reason is not because they have too much debt. The primary reason is because back in 2021 when they were getting financed, nobody expected rates to be 500 basis points higher.

Alexander Blostein
Analyst, Goldman Sachs & Co. LLC

Q

Right.

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

A

So interest rates are consuming a lot of cash flow and some of these are great companies and they're going to need capital from firms like ours. Whether it's debt, preferred, equity capital, they're going to need to restructure themselves. They're going to need to do carve outs. A lot of this won't happen tomorrow. But when you think about that framing over the next couple of years and what we do at Carlyle as fiduciaries and micro investors, we're providers of that capital.

Alexander Blostein
Analyst, Goldman Sachs & Co. LLC

Q

Yeah.

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

A

And I think that the trend is very powerful, but I think near term, cautiously optimistic. The consumer seems really strong in our portfolio companies and – but I don't think this is debate about soft landing and hard landing. I think it's a little extreme.

Alexander Blostein
Analyst, Goldman Sachs & Co. LLC

Q

I got you, I got you.

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

A

I was trying more than you wanted.

Alexander Blostein
Analyst, Goldman Sachs & Co. LLC

Q

No, that was actually perfect.

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

A

Okay, great. Yeah.

Alexander Blostein
Analyst, Goldman Sachs & Co. LLC

Q

So, look, I know you said you don't have sort of favorite kids in your – in the set of your priorities. But I do want to talk about a couple of things you mentioned. So solutions, you're in the middle of several fundraisers in the solution business.

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

A

Yeah.

Alexander Blostein
Analyst, Goldman Sachs & Co. LLC

Q

Let's talk a little bit about how deployment and fundraising feels like in this market. That's number one.

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

A

Okay.

Alexander Blostein
Analyst, Goldman Sachs & Co. LLC

Q

And then number two, you'll talk about adjacencies that you're looking to build around the solutions business. Can you talk a little bit more about that as well?

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

A

Sure. So, by the way, for the solutions business, the easiest way to think about this is the secondary business. The firm bought it several years ago. That's [indiscernible] (00:13:45) Carlyle, we own 100% of it and basically, the fundamental nature of the business [indiscernible] (00:13:49) they invest in primary. So they invest in primary because they have a very large secondary business. They also have an adjacent financing business. And I think this is like the perfect – if you were to design – not design this way, but if you're designing for diversification, this is the perfect diversification balance because if primary is slower, because capital is not cycling back quickly through private equity conventionally, then LPs need liquidity, so you'll see the secondary business is very, very strong.

So it's a very big growth area right now. There's a lot of appetite. I would say – I don't like sort of absolute statements but I'll make one. I would say in general, more opportunity than one can deploy into which you would expect given the nature of the markets right now, and the financing business is a – it's a fantastic team. The financing business I think is a huge opportunity, but this is all in the nature of things like NAV financing, other things that we can do off that part of the platform.

Alexander Blostein
Analyst, Goldman Sachs & Co. LLC

Q

Got it. And in terms of fundraising itself, how are things going there?

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

Pretty good.

Alexander Blostein
Analyst, Goldman Sachs & Co. LLC
Q

Yeah.

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

Yeah.

Alexander Blostein
Analyst, Goldman Sachs & Co. LLC
Q

All right. Let's shift to insurance. It's another one on your priority list, and you guys obviously have an important partnership with Fortitude.

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

Yeah.

Alexander Blostein
Analyst, Goldman Sachs & Co. LLC
Q

You recently closed the Lincoln deal. So that was a nice one as well. Can you walk us through what that partnership with Fortitude means to Carlyle? How do other opportunities through that partnership stack up? What else could come out of it?

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

So for those who don't know, Fortitude again, I walked into this. I had nothing to do with its creation. I'm just the beneficiary of being there. Fortitude is our partnership. It's a reinsurance business. What he's referring to for those who didn't see, it was a transaction actually that took a couple of years to bring together with Lincoln National. That'll add on a longer term run rate basis about $40 million to the FRE of the enterprise. So we just, just for extra disclosure, we just did a six-hour strategy session with senior leadership of the firm in the Fortitude team yesterday. And I think the optionality around this franchise is very powerful.

Within Fortitude, we have 170 actuaries. These are very significantly built out enterprise. I like the capital light model. There's a lot of things strategically we can do with the platform. That's my personal bias. I come from a heavier capital committing world, but I like the capital light model. But there's a lot of flexibility around this in terms of the – what I'll call the core business where the pipeline is quite good in terms of global transactions as a global business, but also the ability to do partnerships, strategic things around it. There's a lot of ways for this franchise to grow. And I think it gives us a really good base to continue to build off of. What I love about it is the optionality.

Alexander Blostein
Analyst, Goldman Sachs & Co. LLC
Q

Yeah. How do you think about opportunities outside of the Fortitude partnership, right? So insurance as a space...

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

A

Yeah.

Alexander Blostein
Analyst, Goldman Sachs & Co. LLC

Q

...how meaningful of an opportunity is that for Carlyle?

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

A

So there's a couple of very, I think, powerful long-term trends that are – that you can – in my opinion, I think, you can kind of anchor yourself to. It doesn't mean they're going to play out. There's a lot of discussion, obviously, about bank regulation and what it means for the banking sector and the banking sectors, I believe, they commit [ph] capital-discern (00:17:44) asset classes. There's also a lot happening in the regulatory space and insurance.

Alexander Blostein
Analyst, Goldman Sachs & Co. LLC

Q

Yeah.

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

A

And some of these trends will continue for a long period of time, where if you're an insurer and you're capital constrained, but you want to grow, you obviously can enter into a partnership with us. But I think the dynamic nature of the flywheel effect of deployment of capital between what's happening with the banking system, that's a global event, by the way. But the banking system and capital of banking system will provide going forward to market participants. The growth in insurance companies and the ability to either absorb assets or be partners with us, I think this is a flywheel effect when you fit it in with the capital markets business that has very, very long-term legs. I think these are three, five, 10-year trends.

Alexander Blostein
Analyst, Goldman Sachs & Co. LLC

Q

Yeah. Yeah. That makes sense. Let's talk a little bit about private credit. It's been coming up, obviously, in every conversation over the last couple of days. It's not a new topic. And a lot of folks excited about private credit for many of the right reasons. You talked about that as being a big opportunity for the firm as well. You already have a sizable credit business, a lot of it is CLOs, but you also have a lot of [ph] private credit (00:18:54)...

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

A

I didn't get it download. What did [ph] Mike (00:18:55) say? I just wonder what [ph] Mike (00:18:56) said. So I don't completely contradict [ph] Mike (00:18:58). No, I'm kidding.

Alexander Blostein
Analyst, Goldman Sachs & Co. LLC

Q

Yeah. Yeah. I think he's bullish. Yeah.

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

You thought he was...

Alexander Blostein
Analyst, Goldman Sachs & Co. LLC Q

Yeah. I thought he was a little bullish.

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

I could have assumed that.

Alexander Blostein
Analyst, Goldman Sachs & Co. LLC Q

Yeah. But [ph] Ryan (00:19:04) also...

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

Good guy.

Alexander Blostein
Analyst, Goldman Sachs & Co. LLC Q

...kind of bullish.

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

Yeah. So...

Alexander Blostein
Analyst, Goldman Sachs & Co. LLC Q

But, look, I would love to hear your perspectives on kind of how you're thinking about building up private credit for Carlyle?

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

Yeah. So at this stage, for those, again, who are not familiar, it's $150 billion across the credit platform. We're the largest CLO manager in the world. Again, I think this is – if you unpack it in terms of a fiduciary and a micro investor, the opportunity to continue to commit capital in this space is huge. And I know this – again, I've only been at Carlyle for 10 months, but this notion of private credit and public credit, I actually just think of it as credit. And I don't even really – you didn't go there. But I don't even understand why it's called shadow versus not. There's more light on this sector. Everybody talks about it. And I think that I'll go back to what I said about public companies before. The need for capital for public companies that we and others in our space can provide, I just think that demand will be very, very high over the next couple of years.

Alexander Blostein
Analyst, Goldman Sachs & Co. LLC
Q

Right.

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

And so I feel really good about the problem. So when you say – when I say what do I see in sort of like natural growth, just natural tailwinds? The insurance space, credit space, secondaries, like you're hitting all the good growth stuff.

Alexander Blostein
Analyst, Goldman Sachs & Co. LLC
Q

Yeah. Yeah.

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

Yeah.

Alexander Blostein
Analyst, Goldman Sachs & Co. LLC
Q

Let's talk about the wealth channel for a moment.

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

It's almost like I still pay you. When I used to pay you and I used to ask all the questions, it was great. But now you're asking the good question.

Alexander Blostein
Analyst, Goldman Sachs & Co. LLC
Q

I think I might like this, though. I don't know.

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

Yeah. I'm going to get bad feedback on my team for saying that, yeah.

Alexander Blostein
Analyst, Goldman Sachs & Co. LLC
Q

Well, let's talk about the wealth channel.

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

Yeah.

Alexander Blostein Q
Analyst, Goldman Sachs & Co. LLC

So again, one of your bigger priorities, and the thing I want to zone into particularly is the democratized products.

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

Yeah.

Alexander Blostein Q
Analyst, Goldman Sachs & Co. LLC

You guys do have a product in the space already.

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

Two.

Alexander Blostein Q
Analyst, Goldman Sachs & Co. LLC

What's the vision there? What's the competitive edge? How are you thinking about going after this opportunity?

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

So, I love this child. I love this child. A lot of this is about brand recognition. And Carlyle can get a lot of brand attention. And the team has done a great job building out. We have one product in credit called CTAC. It's growing very steadily. Just recently, we announced the product in the secondary business.

Alexander Blostein Q
Analyst, Goldman Sachs & Co. LLC

Yeah.

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

And I think – when I think about the wealth channel, I think what you need to have is great investing performance. The right product fit for the client is extraordinarily important, because this is going to be a 10-year or 20-year growth space for the industry. And you have to have brand recognition. And the diversified product that we have in credit or the diversified product that we have in secondaries are the perfect kind of diversified product for the client base. And this is a space where – when I first showed up, I probably didn't think I would spend as much time in, but I spent a very significant amount of time in the space, really trying to unpack it and understand it and how to bring the resources together at the firm. So this is a very powerful long-term growth area for us...

Alexander Blostein Q
Analyst, Goldman Sachs & Co. LLC

Yeah.

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

...and I feel really good about it.

Alexander Blostein
Analyst, Goldman Sachs & Co. LLC
Q

Got it. Okay. Let's talk about one of the kids that is not on the priority list, but it's a big one and it's important one. And I don't want to diminish the importance of private equity, but we should obviously talk about it.

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

Sure.

Alexander Blostein
Analyst, Goldman Sachs & Co. LLC
Q

It is still the largest contributor to management fee for the firm today. We know the cyclical issues in the marketplace with difficulties in fundraising. The LPs are not [ph] taking cashback denominator (00:22:45). In fact, there's a lot of issues. So help us kind of break this down a little bit, what it means for Carlyle. How much of this is simply cyclical in terms of slower fundraising versus anything Carlyle specific that you see in your private equity business that could be a bigger challenge? And how do you see the broader corporate equity opportunity set evolving over the next several years?

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

So I'll only make one. I'm not big on long-term predictions, for those used to work with me here, just because there's a lot of uncertainty in the world. I'll make one long-term prediction. Private equity asset class will be much, much bigger over time. It may hesitate here. It may pause here. It may not grow for a little bit, because of grew so quickly. It will grow, I think, very powerfully over the next three, five, 10 years.

In terms of Carlyle, hard not to love the kid that's kind of the soul of the place. And the footings, I really like to design, because it's geographically focused. I think there'll be a lot of unique opportunities from an idiosyncratic perspective, whether you're in Europe or you're in the US or you're in Asia. We're in the process of – when I first started traveling, one of my early observations, I hadn't been Japan since before the pandemic. And for those of you who've been to Japan, it's pretty extraordinary what's happening there. I'm just talking from a macro perspective. And we have a great Japan fund. They're raising money. I have to be careful what I say about this specific fundraises, obviously, but there's a lot of appetite.

But I think you're right. I think the industry [ph] is going to grow (00:24:18) through this period for a little bit of indigestion. Now, I'll go back to where you started, because you talked about – for those you didn't see, he referenced that we monetize an asset that our team in Asia had invested back in 2017. McDonald's, we went into partnership in China. And that transaction kind of really illustrates as a fiduciary and as a micro investor, why Carlyle is special. And I'll walk you through it for a second, because we just did a global town hall this morning and X.D. who runs our business, been in the firm for over 20 years. When you look at the impact they had on that franchise in McDonald's in China from 2017 to 2023, where we just [ph] sold it to (00:25:10) McDonald's and it increased in value 6.7 times, he went through a staircase build of value creation.

And if I said to you – I won't do this, but if I said to you, hey, how much of that was about leverage? My guess is most people in the audience would say, well, a lot of it was about leverage, because money was cheap and da-da-da-da. It's like 1.6 times of the 6.7 times. It's all about operational improvement, working with a great partner, picking a fantastic brand like McDonald's, being in a good demographic. I mean, they added thousands of restaurants. And even that, when I say leverage, it's really about leveraging cash flow. So I'm even overstating the leverage factor. So I think, again, when you look out over the next couple of years, and I could be wrong because my crystal ball is no better than anyone else's, and I can give you my view on rates, but I'll just tell you my opinion. Nobody knows where rates are going, and if they tell you they do and they get it right, I think they're lucky and they're more likely to get it wrong. But I always give you my base case.

But I think that when you look out over the future, the demand for capital and the value proposition for our teams, because they've been doing it a long time and they have the expertise. So will one or two funds be smaller? Sure. Will some be larger? Yes. I don't spend a lot of time stressing about it.

Alexander Blostein
Analyst, Goldman Sachs & Co. LLC

Q

Got you. Let's talk about expenses and margins. You mentioned that's a priority. You kind of named it, I think, at one of your earlier earnings calls...

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

A

Yeah.

Alexander Blostein
Analyst, Goldman Sachs & Co. LLC

Q

...that you think the FRE margins of the company have more room to go. You've outlined $40 million, I think, of run rate expense savings already and working on more. But clearly, Carlyle is a growth firm, and you guys have a number of initiatives at play that will require investing. So how do you sort of balance these two dynamics while trying to improve fee-related margins and cutting costs and investing at the same time?

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

A

So I think the data is really important around margins. I think, for me, it's just an output, right? Strategy fee, it's like a first principle's thing. I think if you – any business, by the way, I think, [ph] if it's a (00:27:19) portfolio company, we wouldn't drive the portfolio company to a margin. We would drive the company around plan. And so for me, it's not a question of, well, the margin has to be at certain place. It's a question of what is the most disciplined, thoughtful way to run the company in a way that allows us to invest in the secondaries business or the wealth business or [ph] grow the (00:27:40) insurance business or the credit platform. And if other parts of the firm or our real estate platform, where we need to invest in a moment and if other areas, but I do think it's really about creating absolutely as much operating flexibility as we can and I just think that's good business.

Alexander Blostein
Analyst, Goldman Sachs & Co. LLC

Q

Right.

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

So John and the team, and before John, Curt started a process earlier this year, I'm pretty impressed with everything they did. They actually were able to beat – I didn't give many time lines, but the progress just came together a lot faster than I thought it would.

Alexander Blostein
Analyst, Goldman Sachs & Co. LLC
Q

Right. I got you. Let's spend a couple of minutes on capital management and your priorities there, both with respect to M&A and potential return of capital. I know back when you were CFO at Goldman, share buyback is something you did a lot and you enjoyed doing. And you know...

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

I think I've set a record, by the way. I'm just going to say it. I could be wrong, but I think that's not at Goldman, I just mean across all regulated banks.

Alexander Blostein
Analyst, Goldman Sachs & Co. LLC
Q

Well, the price was right. So if you really think about the amount of balance sheet flexibility you guys have, the amount of accrued carry you have that is eventually going to turn into cash, that gives you a lot of firepower.

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

Yeah.

Alexander Blostein
Analyst, Goldman Sachs & Co. LLC
Q

So how do you think about strategic M&A versus buybacks at this multiple?

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

I think – let's back up. Let's, first of all, discuss how I think about the flexibility of strategic M&A. If I had a hole I had or I felt – not maybe the right language, but if I had a part of the business, like if I didn't have a secondaries business and I was really desirous of the secondaries business and I might say, okay, look, I think there's a lot of value in a secondaries business but I have one. If I didn't have Fortitude and I thought I really needed an insurance platform, I might say, okay, that could be accretive over an extended period of time relative to returning capital. But a lot of the footings are in place.

And so, I've never really been in the habit of someone who's saying like, oh, we think this is a better stock or not. But you said it, I think that – I think the valuation is pretty modest by any standards. And so, I would – the short answer, I would say, because I'm giving you a long one. The short answer I would say is open to anything, because I don't think it'd be wise not to. And I think the team and my board feel that way. But narrowly, in terms of how, if you want to know my thinking about this and I know John, after being 16 years a figure investor, it's just math for me and for the team. And so, in some respects, it's really just about relative value and where we think we can get the maximum return for the enterprise, for LPs, for our shareholders. And that's how we'll think about the marginal capital deployment.

Alexander Blostein
Analyst, Goldman Sachs & Co. LLC

Q

Is there anything that's more glaring in – with respect to inorganic initiatives that you feel like you still needed to pursue? I know you said you feel good about insurance. You feel good about solutions. But is there anything else out there on the map there, like, we really need to get bigger here faster and organic is kind of the way to go?

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

A

No, I'm not feeling that. There's no shortage. This is as much as I'm going to give you, okay? Because I know you really want to go here. And I say that with all the greatest fondness and I would – and I'm saying that because we work together a long time ago. There are no shortage of partnerships out there and people wanting to partner with Carlyle. But I'm – but that's – but, no, I'm not thinking that way at all.

Alexander Blostein
Analyst, Goldman Sachs & Co. LLC

Q

Yeah. Great. All right. Well, before we wrap up, I just have a question around the stock itself. And that kind of goes back to the first conversation we had when you took on the CEO role. You talked about a lot of value that you see in the shares. Your compensation structure is actually very much aligned with that and it's very public.

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

A

I think 100%. Yeah.

Alexander Blostein
Analyst, Goldman Sachs & Co. LLC

Q

So, talk to us a little about the catalyst that you see on horizon to unlock the value per shareholders, not next quarter, not maybe next six months, nine months, but over the next several years?

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

A

Well, what I think I spoke about pretty openly when I accepted the responsibility was that, because someone asked me and maybe I – and certainly did in investor meetings, I might have even talked about it on our call was that when I was approached and I looked at the enterprise and I just sort of broke it out on a piece of paper. At the time, it was like $3.5 billion of accrued carry. There was $1 billion of cash, $2 billion of debt, it's kind of an extraordinary debt structure. And I think there's some 50-year piece of paper that they issued at like 5%. And the founders at that time own something like 30% or 27%. So it was very closely held. And when you start to break down all that math, the market cap of the company, I think, was something like $10 billion. And it's very hard not to look at that, the Carlyle brand. And I think there's a huge value opportunity there. That was sort of me as I entered discussions with the board and the founders about joining the company. And so, now that I'm here and I'm inside and I've spent 10 months talking to LPs and working with my team, yeah, I feel good, I feel good.

Alexander Blostein
Analyst, Goldman Sachs & Co. LLC

All right. We'll leave it there.

Harvey Mitchell Schwartz

Chief Executive Officer & Director, The Carlyle Group, Inc.

Yeah. Yeah. I feel good.

Alexander Blostein

Analyst, Goldman Sachs & Co. LLC

Harvey, great to have you back here. Thanks for doing this.

Harvey Mitchell Schwartz

Chief Executive Officer & Director, The Carlyle Group, Inc.

Hey, everyone. It's really nice to see everybody, and Happy New Year. Enjoy the holidays. Alex doesn't treat me any specially, that's for sure. He says, [ph] fortunately (00:33:24), I don't pay him anymore. But anyway, that's who I am. Everybody, thanks so much. Great to see everybody. Thank you so much.

Alexander Blostein

Analyst, Goldman Sachs & Co. LLC

Thank you.