AlTi (ALTI)

2Q 2024 EARNINGS

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Wilma Burdis, *Raymond James*

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PRESENTATION

Operator

Good morning. My name is Ryan, and I will be your conference Operator for today. At this time, I would like to welcome everyone to AlTi's Second Quarter 2024 Earnings Conference Call.

During the call, your lines will remain in a listen-only mode. After the speaker's remarks, there will be a question-and-answer session.

I would like to advise all parties that this conference call is being recorded and a replay of the webcast is available on AlTi's Investor Relations website.

Now, at this time, I will turn things over to Lily Arteaga, Head of Investor Relations for AlTi. Please go ahead.

Lily Arteaga

Good morning to everyone on the call today.

Joining me this morning are Michael Tiedemann, our CEO; and Stephen Yarad, our CFO. We invite you to visit the Investor Relations section of our website at www.alti-global.com to view our earnings materials, including our investor presentation.

I would like to remind everyone that certain statements made during the call may be deemed forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements can be identified by the use of words such as anticipate, believe, continue, estimate, expect, future, intend, may, plan, and will, or similar words. Because these forward-looking statements involve both known and unknown risks and uncertainties, there are important factors that could cause actual results to differ materially from those expressed or implied by these forward-looking statements. AlTi assumes no obligation or responsibility to update any forward-looking statements.

During this call, some comments may include references to non-GAAP financial measures. Full reconciliations can be found in our earnings presentation and our related SEC filings.

With that, I'd like to turn the call over to Mike.

Michael Tiedemann

Thank you, Lily, and thank you all for joining us this morning.

In the second quarter, we made further progress in carrying out our mission to become the leading global independent ultra-high-net-worth Wealth Management firm, with a targeted expertise in alternatives. We continue to execute on our strategic plan with four significant transactions closed in the last four months, two in the U.S., and another two internationally.

We've begun integrating the newly acquired companies, which expand our best-in-class platform, and in parallel, we continue to optimize our cost structure and right-size the organization with a focus on our core recurring revenue businesses.

Last week marked a turning point for AlTi as we closed on Allianz X's $250 million investment to compliment the $150 million received from Constellation Wealth, or CWC, earlier in the year. This high-quality institutional backing is a ringing endorsement from a global blue chip financial services leader.

This capital enables us to expand and fortify our global footprint in key markets and to fuel accretive acquisitions through disciplined deployment of growth capital. The partnerships provide an opportunity to strengthen and grow client relationships, as well as expand our platform of client solutions. We're moving forward with the benefit of experienced partners, further global scale, and a deep network in key geographies.

Today, I'm going to discuss our Q2 results, provide an update on our growth initiatives as we continue to expand the platform, increasing our presence in key domestic and international markets, as well as share our progress in refocusing our business around recurring revenues and appropriate cost structures.

On a consolidated basis, our assets under management and advisement have grown 4% to $72 billion for the trailing 12-month period, reflecting a mixture of asset acquisitions and asset dispositions. It's worth noting we have grown assets in our Wealth Management business by 15% to $56 billion over that same period, reflecting the shift in our asset composition to core businesses that produce consistent recurring revenues.

In the second quarter, AlTi generated revenues of $49 million. Importantly, 99% of the revenues in the quarter were from recurring fees. We reported a net loss of $9 million compared to a net income of $28 million in Q2 ‘23, largely attributable to a decline in other income as the prior-year period included $66 million unrealized gain on earn out liabilities. While this item impacts our GAAP reported results, it is neutral to Adjusted EBITDA, which for the second quarter was $5.5 million. Our Adjusted EBITDA margin for the second quarter was 11%.

While our consolidated results this quarter are impacted by business repositioning we've been conducting over the last year, I'm very pleased by the growth and expanding margins in our core wealth platform, which I will now discuss in more detail as I review the quarterly highlights from each of our segments.

Starting with Wealth Management, as I mentioned, we reported 15% asset growth over the last year. This growth is attributed to both inorganic and organic progress. In addition to our strategic acquisitions, we've powered business development through enhanced capabilities, a growing team, and a unique global offering. Furthermore, our client portfolios are well diversified across a range of asset classes and have benefited from the strong performance of our various risk exposures.

This was an active quarter for us on the M&A front. On April 1, we announced the acquisition of East End Advisors, adding nearly $6 billion of AUM to the AlTi Wealth Management platform. The New York-based independent advisory firm has an established investment track record with an experienced team. This acquisition will enable and enhance our ability to compete in the Outsourced Chief Investment Officer or OCIO market. Our teams have already been collaborating on investment analysis and client portfolio development. Additionally, we're developing a strong collective client pipeline as our business development teams are collaborating closely and meeting with prospective clients.

On July 1, we closed the acquisition of Envoi, a $3 billion AUM wealth manager based in Minneapolis. This acquisition expands our presence in the Midwest, adds depth to our investment team, and complements our existing services for the ultra-high-net-worth segment.

In the past month, we've made strides in integrating the business to our platform and leveraging our combined expertise to deepen and expand our business development efforts in the region.

On the international front, we've been integrating London-based Pointwise Partners into our U.K. operations after increasing our ownership in the wealth management firm to 100% in May. This partnership is reflective of our ability to provide boutique level targeted services with the backing of a global platform. In the second quarter, we also completed our sale of the European based trust and private office services businesses for approximately $20 million. With these transactions under our belt, we are now focusing all of our efforts on amplifying our investment offerings and core recurring revenue businesses globally.

Turning to organic growth, we're pleased with the performance of the domestic business, which has increased 11% on an organic basis over the past year. We're also encouraged by the momentum of our international platform. Our international team has secured significant wins across multiple jurisdictions in recent months and has the strongest pipeline we've seen since our listing. This is driven by a combination of favorable trends, strong collaboration across our scaled global platform, and the addition of key talent.

Most recently, Victoria Psareva, a senior and trusted advisor from many large European families, joined our London team, bringing nearly 15 years of experience gained from her time at several leading global banks.

Now let's discuss some of the trends we're observing. We're seeing European and Middle East based families requesting holistic reviews of their global holdings that are currently managed across a variety of banks with the objective of engaging an experienced advisor that can provide sophisticated OCIO services. We are also seeing European ultra-high-net-worth families moving capital and creating structures in various jurisdictions for tax purposes and other considerations. Additionally, large and complex multi-generational families are engaging, trusted advisors to help them plan the transition of businesses and wealth. This is a trend we see only increasing in the coming years.

AlTi is uniquely positioned to capitalize on the current environment given our global presence and domiciles, paired with our independence and flexibility. Our cross-border teams can report on accounts spread across multiple banks and jurisdictions and manage complex portfolio compositions with a coherent strategy. Prospective and existing clients also cite our cost-effective solutions, holistic offerings, creative ideas, and localized teams as important differentiators. As a global organization with a strong local presence, our teams speak the language of our clients and have a differentiated regional expertise.

Turning to our strategic alternative segment, throughout the last year, we've been reorganizing this segment to prioritize solutions that deliver predictable revenues, compelling returns and diversified investment opportunities for our LPs, as well as to complement our Wealth Management business.

The sale of LXi and the restructuring of our private real estate business has resulted in lower segment level assets in the quarter. However, the segment's revenue mix has improved with 93% of our business in the quarter being recurring in nature. This represents a 6% increase compared to the top line composition in the comparable period in 2023.

Our uncorrelated strategies, the foundation of our alternatives platform, have exhibited positive performance this year. Our European Long-Short and Asian Credit strategies were up 6.9% and 8.3%, respectively, through the end of the second quarter.

Moreover, our streamlining efforts continue to yield a significant reduction in cost, reflected in the 15% decrease of our normalized operating expenses in the second quarter compared to the same period in 2023. We expect this to continue as we move forward and focus on streamlining our business and the infrastructure needed to service. We recognize that the repositioning of the businesses within the segment has negatively impacted our results for the last year.

On that point, I'd like to note that as we deploy the growth capital from our partners, we will evaluate ways to enhance our reporting methods to offer visibility into the progress we're making as a go-forward enterprise. We will seek to provide the Street with necessary visibility as we execute on our long-term objectives.

On the subject of our partners, I want to wrap up my comments by reviewing the strategic and transformational nature of these relationships, following the closing of the Allianz X investment last week. We believe the partnerships we've established result in a pioneering transaction for the insurance, wealth management and asset management sectors, delivering long-term benefits to all three parties.

The investments accelerate AlTi's path to become the leading global platform in the attractive ultra-high-net-worth wealth management vertical and advance Allianz X and CWC's participation in the estimated $609 trillion global wealth market.

The wealth management sector is characterized by stable recurring revenues and a capital-light model, which is what made it so attractive to us, and it's one of the core reasons our partners made the investment. The investments will advance the scale and reach of AlTi's expansion strategy, accelerating top line growth in existing and new markets across the U.S., Europe, and Asia. Already, we've deployed capital from CWC's investment to fund the acquisitions of Envoi and East End Advisors. Looking ahead, we have an actionable pipeline as we evaluate capital deployment opportunities for the Allianz X investment.

Our organic growth initiatives will be enhanced through expanded lead generation opportunities, and importantly, the potential to service Allianz X clients and families, as well as the ability to leverage our partners' footprints and relationships as we enter new markets. As I mentioned earlier, we bring a localized expertise to our clients, while offering the resources, expertise, and insights of a global platform. Our clients benefit from our scale, access and lower fees, and also lean on us for idea generation to maximize their exposures to the private markets. Importantly, our relationship with Allianz will enable us to offer our clients favorable fees on key investment products. This is just one way our partnerships will result in operational benefits to our clients.

Finally, we are privileged to count on the deep global financial services expertise our partners bring to our Board as we embark on this new phase at AlTi.

With that, I'll turn the call over to Steve to take you through a deeper dive in our financials.

Stephen Yarad

Thank you, Mike.

Progress with our strategic partners has positioned AlTi for growth in the quarters to come, as we continue to execute on our long-term roadmap, streamline operations and focus on our core recurring revenue businesses.

AlTi generated revenues of $49 million in the second quarter, reflecting a 4% decrease compared to the second quarter of 2023. On a like-for-like basis, that is, adjusting for the acquisition of East End Advisors and excluding the European Trust business and the public real estate businesses we've exited, revenues would've been up 4% year-on-year. I'm pleased to report that recurring management fee revenues increased by 4% to 99% in the period.

Importantly, revenues in our Wealth Management segment increased 20% to $41 million in the second quarter compared to the second quarter of 2023, along with 15% AUA/AUM growth during this period. Our robust revenue growth compared to the prior year period is primarily driven by the inclusion of East End Advisors in our results, in addition to market performance and other organic growth. Excluding the impact of acquisitions and divestitures, assets increased 10% and revenues increased 15% compared to 2023. Further, 100% of Wealth Management revenues in Q2 2024 were recurring.

In our strategic alternatives segment, revenue totaled $9 million in Q2 compared to $17 million in the second quarter of 2023, largely driven by lower management fees and reduced transactional fees in the real estate division, reflecting our repositioning of the private and public real estate businesses.

The comparable quarter in 2023 included management fee revenue from a public real estate fund, which was deconsolidated from our results starting in the third quarter of 2023. The prior year quarter also included management fees from LXi, which was sold earlier this year, as well as transactional fees in the private real estate division.

Adjusted for the sale of LXi, which contributed $2 billion in the second quarter of 2023, assets decreased by 13% year-on-year, reflecting the repositioning of the private real estate business as we exited or restructured certain deals. Notably, recurring revenues for the segment increased by 6% to 93% in the quarter.

GAAP net loss for the second quarter was $9 million compared to net income of $28 million in the comparable period in 2023. The decrease was driven by lower other income in the current period and tax benefits recorded in the prior year period. Other income decreased as the prior year period included an unrealized gain on earn out liabilities compared to an unrealized loss in the current period. This decline was partially offset by lower impairment charges in the current year period, as well as gains on investments compared to losses in the prior year period. Our adjusted net loss for the second quarter was $3 million.

Consolidated normalized operating expenses for the second quarter, which exclude non-cash compensation, expenses related to severance costs, depreciation and amortization and certain transaction and deal related expenses, were $46 million, up slightly compared to the first quarter of 2024. Excluding East End, normalized operating expenses would've declined 4% compared to the first quarter.

Second quarter Adjusted EBITDA was $5.5 million, a decrease of $1.3 million compared to the previous quarter. Our Adjusted EBITDA margin was 11% in the second quarter compared to 13% in the first quarter of 2024. Although our consolidated margin decreased in the quarter, our core Wealth Management businesses continue to perform well. The Adjusted EBITDA margin for our Wealth Management division improved to 23% in the second quarter from 18% in the prior quarter.

As we have mentioned, we expect that our recently completed acquisitions, in combination with cost savings and restructuring initiatives being implemented, will be key in reorganizing our firm-wide asset composition towards core businesses and recurring revenues, which will drive operating leverage and result in margin improvement going forward. In addition, we believe that we'll be able to deploy the capital raise from Allianz to make additional accretive transactions that will further strengthen our results.

Further, I'd like to note that, concurrent with the closing of the investment from Allianz at the end of July, Management commenced a strategic review of the real estate co-investment and fund management businesses. This review, which is expected to be completed prior to the end of the third quarter of 2024, will consider, among other things, an assessment of the future of these businesses, including whether any changes to our legal entity structure or composition of operating segments may be needed, consistent with any changes in the business that may be determined necessary.

As I conclude my remarks, I'd like to touch on our capital structure. At quarter-end, we had $60 million in cash and $163 million in debt. We deployed $24 million of capital in early July in connection with the acquisition of Envoi, and on July 31, we received an additional $250 million from Allianz. Today, AlTi has a fortified balance sheet, world class partners, a unique global footprint, and is well-positioned to execute its organic and inorganic growth plan.

With that, I'll turn it back to Mike for concluding remarks.

Michael Tiedemann

Thank you, Steve.

This was an important quarter for our organization and we're excited about what AlTi can accomplish in the attractive global wealth market as we participate in the largest generational wealth transfer estimated over $80 trillion over the next 20 years.

As we onboard our strategic partners, deploy capital and expand our global footprint, we're positioning AlTi for long-term success. We look forward to demonstrating how our strategic imperatives will lead to accelerated growth, profitability, and importantly, create sustainable shareholder value.

With that, I'll open up the call for questions.

Operator

Ladies and gentlemen, we will now be conducting a question-and-answer session. If you would like to ask a question, please press star, and one on your telephone keypad. A confirmation tone will indicate your line is in the question queue. You may press star, and two if you'd like to remove your question from the queue. For participants using speaker equipment, it may be necessary to pick up your handset before pressing the star keys. Ladies and gentlemen, we will wait for a moment while we poll for questions.

Our first question is from the line of Wilma Burdis with Raymond James. Please go ahead.

Wilma Burdis

Hey, good morning. Could you guys talk a little bit more about the EBITDA margin improvement in Wealth Management? What are the drivers and what do you expect in the coming quarters? Thanks.

Stephen Yarad

Good morning, Wilma. It’s Steve here. How are you today?

Wilma Burdis

I’m doing well.

Stephen Yarad

That’s great. We expect as we fully integrate East End and with Envoi coming on board that those businesses are accretive and they will contribute to growth in the EBITDA margin going forward. I think also as we—now that we have the Allianz investment on board and looking at our pipeline moving forward, we are looking at businesses that generate margins above that 11% that we recorded in the second quarter. As those transactions occur, we would expect margin improvement to be driven by that M&A activity.

Wilma Burdis

Great. Then alternative AUM is down. Is that largely due to the repositioning in the real estate business? I think you guys just touched on it, but it sounds like you might have more reviews in the real estate portfolio. Could you go in a little more detail there? Thanks.

Stephen Yarad

Sure. On a year-over-year basis, yes, it's been driven by the repositioning that has been done in the real estate business and particularly the sale of LXi. I'll also note that we had in the second quarter of 2023, we were still consolidating the AHRA Home REIT, public REIT as well. That also on a year-on-year basis has an impact.

Sorry, the second part of your question, Wilma, could you repeat that for me?

Wilma Burdis

Yes. I thought in your comments you just touched on possibly reviewing more of that real estate portfolio. I just wonder what that looks like and if there's the possibility for more runoff in AUM. Thanks.

Stephen Yarad

After the Allianz investment closed, we have started a review of the real estate co-investment and the private fund businesses. As we go through that review, which we do expect to be completed by the end of the third quarter, I'd say that all options are on the table in terms of the strategic direction of those businesses. I don't want to get ahead of what we may or may not do then. But it's fair to say that it's possible that there could be runoff in those businesses as a result of that review.

Wilma Burdis

Okay. Thank you. Then could you just talk about—lots of moving pieces here with Allianz investment, but how much capital do you have left to deploy from this point? Just discuss the pipeline, what you're seeing in terms of possible M&A. Thanks.

Michael Tiedemann

Yes. Wilma, this is Mike. First of all, in terms of inorganic growth, we really are firm believers in the importance of our organic growth, and that ultimately, we believe, will drive a lot of value for the franchise as we go forward. The teams are working globally, but certainly across regions together, and that's beginning to yield results as we described in the call.

In terms of the inorganic pipeline, we have not used any of the Allianz capital thus far. We have that entire capital amount to deploy. We think of inorganic growth in three ways: talent, individual talent, adviser or producers to bring into the firm, teams that can be hired, and then obviously firms to be acquired. When we think about all three of them, there needs to be—what is consistent, cuts across all three is the fit within the firm, the underlying clients and profile of clients, the way they operate, invest capital, service them, etc. These are all critically important things to align with the existing firm and the direction of the firm.

Beyond that, we have a pipeline across all three of those. As we sit here today, the integration of three businesses is really largely behind us, and now we are orienting everything around growth. This really is, in many ways, our public offering moment, with a lot of the labor of integration behind us. It's an exciting time for us. There are opportunities to densify in jurisdictions where we already operate, which ultimately helps accelerate and drive margins. We're evaluating new jurisdictions as well, which we think will be strategically important for the firm over the coming years.

Wilma Burdis

Okay. Thank you very much. Then, operating expenses, they came in a little bit better than our model. I understand there's a lot of moving pieces there, but is this a decent run rate or how should we think about the coming quarters? Will there maybe be some additional expenditure on looking at M&A opportunities? Just if you could just give us a little color there. Thanks.

Stephen Yarad

Sure. It's fair to say that there are still some moving pieces in our reported operating expenses. We've seen a significant amount of reduction in reported operating expenses over the past year. In our financials that you'll see posted later today, you'll be able to see the non-compensation expenses in particular have been coming down.

As we move forward and we embark on additional M&A activity, you'll see a mix of reductions in what I call legacy operating expenses. But you'll also see some additional transaction costs and some additions from entities we're acquiring. Still a bit of noise in reported operating expenses. As it relates to normalized operating expenses, you'll see less of the noise in normalized. The current run rate, it's probably fair for the short term, but we continue to work very closely and diligently on reducing longer term amounts of professional fees and advisor spend.

Wilma Burdis

Great. Thank you.

Operator

Thank you. Our next question is from the line of Chris Kotowski with Oppenheimer & Company. Please go ahead.

Chris Kotowski

Yes, good morning. Thanks for taking the question. My first question is just, I wanted to make sure I got the revenue guidance on Wealth Management correct. I'm looking at Page 12 of the presentation. If I heard you right, you said that most of the increase quarter-to-quarter from the $36.8 million to $40.9 million in revenues, that most of that came from the acquisitions. Did I hear that correctly?

Michael Tiedemann

Yes. This is Mike. How are you, Chris? There are few things there. This was a quarter where we were exiting family office services intra quarter. We had one third of the quarter revenues roughly in the quarter. You have that as a reduced revenue amount, and then you have the addition of East End; Envoi begins July 1. Important to note, and this is a seasonal observation, Q2 specifically in the States is a large outflow for taxes, the April 15 date. It is entirely common to see an exaggerated outflow number from the business from clients that are not exiting, but simply paying their tax bills. Any new business wins and offsets really just goes to offset that. That is a seasonal thing just for you all when you think about your modeling in Q2 as you go forward within Wealth.

You do see that additionally on the strategic alts side that there tends to be points of the year where people are rebalancing and reallocating capital. But Q2 in the wealth segment is a pronounced outflow each and every year, specifically in the States, related to taxes.

Chris Kotowski

Okay. That makes sense. Then as you noted, there are a lot of moving parts with the disposition halfway through and one acquisition late in the quarter and then another one July 1. If you can say, is there a way, if everything were equal, no major inflows or outflows, what the run rate revenues we'd be looking at in the third quarter would be, just given the acquisitions that have already closed?

Stephen Yarad

Chris, as we move forward from here, I would expect you would see a marginal increase related to the acquisition of Envoi, which closed on July 1. Obviously, that's on the management fee line; other lines related to the incentive fees, that's more dependent on the underlying performance of the investment.

Chris Kotowski

Okay. Cool. Then just moving on to Page 15 of the presentation. When you said you're conducting a review of the real estate funds, on Page 15 we see in the upper right, there is roughly $9 billion of AUM there. Then there's the real estate bridge lending fund. I assume, is it all under review? Or is it primarily the real estate public and private funds that we see in the upper right?

Michael Tiedemann

It would be the upper right, the real estate public and private funds.

Chris Kotowski

Okay. All right. That's it for me. Thank you.

Michael Tiedemann

You're welcome.

Operator

Thank you. As there are no further questions, I will now hand the conference over to Michael Tiedemann for his closing comments.

Michael Tiedemann

Thank you, Operator, and thank you all for joining us this morning. We look forward to updating you on our third quarter financials in November. Have a great weekend.

Operator

Thank you. The conference of AlTi Tiedemann Global has now concluded. Thank you for your participation. You may now disconnect your lines.