AlTi (ALTI)

3Q 2023 EARNINGS

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CONFERENCE CALL PARTICIPANTS

Wilma Burdis, *Raymond James*

PRESENTATION

Operator

Good afternoon. My name is Rocco, and I will be your conference Operator today. At this time, I would like to welcome everyone to the AlTi Tiedemann Global Third Quarter 2023 Earnings Conference Call.

(Operator Instructions)

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

I will now turn the call over to Lily Arteaga, Head of Investor Relations for AlTi Tiedemann Global. Please go ahead.

Lily Arteaga

Good afternoon to everyone on the call today. Joining me this afternoon are Michael Tiedemann, our CEO, and Steve Yarad, our CFO.

We invite you to visit the Investor Relations section of our website at www.alti-global.com, our earnings materials, including our updated 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 GAAP reconciliations can be found in our earnings presentations and related SEC filings.

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

Michael Tiedemann

Good afternoon, everyone, and thank you for joining us today for our third quarter 2023 earnings call.

In the quarter, we continued to make progress on our strategic initiatives to set ourselves up for a strong 2024 and beyond. Some of these initiatives, particularly the work to restructure and reposition certain businesses, have impacted our GAAP earnings this quarter, but are consistent with our stated 2023 goal of simplifying the business

with a focus on recurring revenues.

We have continued to right-size the organization, simplify our business lines and initiate processes to reduce the number of regulated entities. We've done this while securing important client wins and adding key revenue-generating talent. Since the listing, we have reported healthy AUM/AUA growth amidst a pressured market environment, particularly in the third quarter. We firmly believe that the combination of wealth management and asset management differentiates us from pure-play firms in both sectors and provides a growing base of recurring, diversified revenues.

On a trailing twelve-month basis, total assets under management and advisement increased 13%. Within Wealth Management, these have grown 23% in the last year, validating the attractiveness of our global, holistic wealth proposition in the eyes of our target clients.

In speaking about Wealth Management, I would be remiss not to mention our first AlTi family retreat held in Lisbon at the end of September. The event was attended by nearly 50 clients and prospects from 11 countries. This demonstrates our unique ability to build connections and a global community amongst our families and to provide differentiated cross-border services in the process. What our clients appreciate is that we are a global platform with sophisticated, institutional quality solutions that operates with the attention, care and customization of a specialized boutique family office.

Turning now to our Q3 performance.

AlTi generated revenues of $49 million, 97% of which were recurring revenues, essentially flat to the second quarter when removing revenues from AHRA that were included in Q2, but we exited the business effective June 30. Year to date, we have generated revenues of nearly $160 million. We believe these results, generated largely through organic client wins, are starting to reflect the power of our franchise which will continue to flow to an improved bottom line as we look forward to 2024.

Despite these top-line results, we reported GAAP net loss of $171 million for the quarter, primarily due to a non-cash goodwill impairment charge that is largely related to decisions taken this year to restructure or exit unprofitable transaction-oriented business lines in our Asset Management segment. The results also include several other non-cash items that negatively impacted GAAP earnings.

In addition, Adjusted EBITDA was negative $3 million in the quarter, resulting in a year-to-date EBITDA of $19 million. However, as noted previously, our reported financials for GAAP and Adjusted EBITDA include certain line items that we do not believe reflect the underlying performance, and, importantly, do not impact the cash flows generated by the business. Steve Yarad, who recently joined AlTi as our CFO, will provide more details in his remarks.

Turning now to our enterprise strategy. We have been focused on continuing the execution of two principal initiatives for 2023, which will carry on to the next calendar year: leveraging our competitive advantages to accelerate organic growth and execute disciplined, accretive acquisitions; and, secondly, simplifying the organization which will in turn enhance the cost-saving initiatives mentioned on the previous calls.

Now, I want to offer more detail about the ways we're executing these initiatives across both of our business segments.

The Wealth Management segment results reflect our ability to capitalize on our competitive advantages, and we have achieved strong organic and inorganic growth since the beginning of the year. Our Wealth Management business is well integrated, sharing best practices, leveraging expertise and services across offices and collaborating on global opportunities.

As a result of this collaboration and expanded service offering, net new client flows have been $1.6 billion year-to-date. This reflects significant contributions from the U.S. business as well as solid performance internationally. The majority of our client wins in 2023 have invested, on average, over $60 million in billable assets with us. The clients, which range from ultra-high-net-worth individuals, family offices, non-profits and foundations, specifically cited AlTi's ability to offer holistic wealth management as the deciding factor.

Our range of comprehensive services includes investment advisory, trust planning, family office services, cross-border wealth advice and unique access to impact and values-based investment opportunities. Notably, 40% of the assets received in the quarter were related to impact strategies.

As I mentioned on our last call, in the third quarter, we purchased the remaining ownership stake of a Lugano-based multi-family office that had been part of the legacy AlTi wealth management platform since 2019. This firm has approximately $1 billion in assets and offers exposure to the northern Italian market, an important region for our global platform.

This transaction, paired with our acquisition of AL Wealth Partners in Singapore earlier in the year, has resulted in nearly $2 billion of net flows to the platform. We will look to replicate this momentum as we evaluate additional opportunities to broaden and densify our platform in key U.S. and international wealth markets.

We have identified a robust pipeline of strategic opportunities within wealth management that align with our competitive advantages. Our platform continues to be the destination of choice for ultra-high-net-worth firms that are looking for a comprehensive, global solution set to appeal to their current client base. These firms are also seeking the ability to accelerate their growth by leveraging the capability of AlTi's unique platform.

Turning now to Asset Management.

Since our listing in January, we have made great strides in positioning our Asset Management segment for the long term. That said, this progress, and the solid underlying performance of the business in the quarter, were partially offset by the impacts of our efforts to strategically reposition the business.

We have concentrated on growing our core asset management businesses which produce strong, predictable management fees from alternative asset classes, where we have a clear advantage. We have also changed the strategy of the real estate co-investment platform to make the business more scalable and profitable by right-sizing the team, exiting and restructuring certain deals and entities, as well as simplifying the fee structure of the business. Additionally, we scaled down our strategic advisory business and exited our U.K. broker-dealer business given its transactional nature.

Our uncorrelated strategies that make up our Alternatives Platform are performing well. This includes our European long/short equities manager and Asian Credit and Special Situation fund, both of which outperformed their respective benchmarks by more than 5% in the period. Additionally, the event-driven strategy exhibited strong performance, up nearly 5% in the third quarter. These core strategies are the foundation of our Alternatives Platform which is positioned to preserve capital specifically in the face of volatile capital markets.

Despite this strong underlying business performance, revenues were down due to a decrease in AUM/AUA levels reflecting primarily the impact of high interest rates on the global real estate market and strategy-specific pressures in the first half of the year.

We are confident that the continued execution of our diversified strategies, combined with the restructuring of the business and the launch of new strategies, will result in strong fundraising opportunities in asset management going forward. In particular, we have some important new fundraising initiatives underway that will leverage our track record of providing capital and services to asset management firms in exchange for equity stakes in their business.

I'll now highlight a few strategic initiatives.

Subsequent to quarter end, we signed a definitive agreement for the sale of LJ Fiduciary, our Isle of Man and Switzerland-based trust and corporate administration services business, as well as our London-based private office services business.

We are pleased with this transaction as it is an important step in streamlining the operations and focusing on more profitable core, recurring revenue businesses, and I look forward to reporting more about this sale on our fourth quarter call.

We are on track to achieve our stated goal of at least $16 million in total net savings on an annualized basis following the strategic review announced during our first quarter call. As a result of this review, we restructured

certain businesses across both asset and wealth management, consolidating our facility footprint, initiated SG&A cost reductions, rationalized certain vendors and reduced professional fees, including those associated with our public listing. We expect the impact of these cost-saving initiatives to be fully reflected in our second quarter 2024 results.

Further, we kicked off our 2024 budget and capital planning process. We are going to take the opportunity to build on the progress made this summer to further streamline and improve our operating leverage. In addition to driving organic and inorganic growth initiatives, the budgetary process will be laser-focused on further cost rationalization and continued rightsizing, particularly in professional fees. We believe that there is a significant opportunity to further meaningfully reduce professional fee spend as we move past the listing process and reach maturity as a public company.

To close, AlTi is executing against the strategies discussed on previous calls. Our core platform is performing well and continues to navigate current market conditions. We are confident that the steps we have taken to date in 2023 and going forward are positioning the firm for long-term growth over the next decade.

With that, I want to turn the call over to Steve Yarad, our CFO, for further details of our financial performance in the quarter. As most of you know, Steve joined our management team in mid-September. He has extensive financial services expertise and has been a public company CFO for over a decade. Steve has already been a major contributor to our financial efforts. Steve, I hand it over to you.

Stephen Yarad

Thank you, Mike.

This is an exciting time at AlTi, and I couldn't be more enthusiastic to hit the ground running as we execute against our strategy.

Before we review the results, I want to note that the results in our regulatory filings are presented as a comparison between predecessor and successor company, as required by the accounting guidelines. In our case, Tiedemann Wealth Management Holdings is the predecessor company and AlTi is the successor. As such, the year-over-year results are not directly comparable, and my comments will be focused on quarterly performance.

As Mike discussed, underlying business fundamentals remain strong as AlTi executes against its strategic priorities to achieve topline growth and organizational efficiencies, both of which will accelerate our path to margin expansion and enduring shareholder value. We are executing various initiatives that we expect will reflect the platform's growth potential going forward.

AlTi generated revenues of $49 million in the third quarter, and we are pleased to report that 97% of our revenue was generated from recurring fees. Revenues in our Wealth Management segment, which consists entirely of management and advisory fees, were $35 million in the third quarter. This represents a 2% increase compared to the second quarter.

In Asset Management, revenue was $15 million; 90% of this topline performance was from recurring management and advisory fees including the distributions from our Alternatives Platform. Sequentially, Asset Management revenues reflected lower asset levels consistent with macro environment pressures impacting the real estate sector generally and redemptions in the Alternatives platform, resulting in lower management fees.

This impact was particularly evident in our REIT business as management fees, which are calculated based on average market capitalization, declined by 7% quarter over quarter. Incentive fees were higher reflecting the crystallization of fees related to redemptions in the event-driven strategy in the quarter. Slightly higher distributions from the Alternatives Platform were offset by lower Other Income, as the prior quarter included fees from two closed transactions, while no transactions closed in the third quarter.

Our GAAP Results for the quarter were significantly impacted by the $154 million goodwill impairment charge related to the Asset Management segment. As mentioned earlier, the charge reflects changes in strategy and repositioning of certain businesses within the segment. These decisions, combined with ongoing conditions impacting markets, including the prevailing interest rate environment, resulted in the need to test goodwill for

impairment.

Normalized operating expenses, which exclude non-recurring compensation expenses related to severance and the previously completed Holbein acquisition, foreign currency translation impacts and certain transaction and deal-related expenses were $48 million.

As mentioned earlier, Adjusted EBITDA was negative $3 million. We do not believe that Adjusted EBITDA reported this quarter accurately depicts the fundamental performance of the business. To put this into context, our results this quarter include several items driven by GAAP accounting, most of which are not expected to be recurring and that do not reflect business fundamentals or significantly impact cash flows.

For example, this quarter includes a $4 million foreign currency translation loss related to intercompany financing arrangements between certain entities in our corporate structure. Based on the way these arrangements were structured as part of this business combination, GAAP requires this loss to be included in earnings. However, we recently restructured these arrangements to eliminate this non-economic currency exposure, and it will not re-occur going forward. In addition, the strong underlying performance of the Asset Management event-driven strategy for the quarter is not captured in Q3 earnings or EBITDA, as GAAP only permits recognition of incentive fees when they are fully crystallized. As Mike noted, we expect to recognize these fees in the fourth quarter, should current market conditions be sustained through year-end.

Further, the core businesses are performing well. Based on the initiatives already undertaken this year and those that we expect to embark on in connection with the 2024 budgeting process that was recently kicked off, we expect operating expenses to continue to trend downward in 2023 and throughout 2024. As these cost savings and other growth initiatives take hold during 2024, we expect to see the impact of operating leverage drive improvements and greater consistency in our GAAP results and Adjusted EBITDA.

With that, we'd like to now open up the call for questions. Operator?

Operator

Thank you. (Operator Instructions) Today's first question comes from Wilma Burdis with Raymond James. Please go ahead,

Wilma Burdis

Hi. Good evening. First question, could you go into just a little bit more detail on the impairment? I know you went into some detail, but maybe just help us understand what it relates to specifically.

Stephen Yarad

Sure. Thanks, Wilma. This is Steve Yarad. Nice to talk to you.

The impairment was the result of a review that we were required to do, as a result of some strategic decisions we made at the end of the second quarter. We went through and did an exercise to review the re-forecasted cash flows for the reportable segment for asset management. As we discussed on the call, we did exit a couple of businesses within that segment, and we scaled down, repositioned and right-sized another one of those businesses.

Specifically within our private real estate business, we made some adjustments to the scaling and sizing of that business, and there were two other businesses that were effectively exited.

As you can imagine, the re-forecasted cash flows were different than what we originally forecasted when we did the combination back at the beginning of the year. As a result, the updated valuation of, effectively, the market value of the segment was lower than it was at the time we did the combination and that's what's driving the goodwill impairment.

Wilma Burdis

Could you talk about how much of it is related to the specific divestitures versus just the ongoing piece? Could you

quantify it a little bit?

Stephen Yarad

Sure. I don't have the specific attribution in front of me, but probably about 70% of it relates to the exited businesses, and maybe the remaining 30% of it relates to the rescaling of the private real estate business. So that, I think it's a $153 million charge. These numbers are just directional, about 70% would relate to exited businesses and the remaining 30% would relate to the private real estate business.

Michael Tiedemann

Wilma, importantly, it's consistent with our strategy to really orient the business towards recurring revenues. The two businesses were more transaction-oriented in nature. In our strategic review, that, plus cost initiatives, were the overwhelming deciding factor in making the decision.

Wilma Burdis

Got it. Is there going to be any cash component of those pieces of business from when they were sold or how should we think about that?

Stephen Yarad

The businesses were exited, and they were effectively wound down. They weren't sold.

Wilma Burdis

Okay. Wound down. Okay. I got you. Great. Thank you. How should we think about the run rate expenses? I think $73 million, which was about $10 million higher than we had modeled. We're kind of expecting the mid-40 range by mid-2024, so is that how we should think about that trajectory?

Stephen Yarad

We want to go through that with you a bit offline. When you're looking at $73 million, are you looking at GAAP or modified or normalized?

Wilma Burdis

Maybe just comment on where expenses came in versus what you expected, and how should we think about it going forward?

Stephen Yarad

Sure. Actually, I'm looking at our income statement, and I could see where you're getting the $73 million number. Look, I think overall the trend line and many of the expenses, was actually pretty good in the second quarter. As far as professional fees go, you saw a decrease there. You can't see this from the face of our income statement, but the actual underlying salary compensation expenses were down relative to the prior quarter.

What you're seeing though, there, quarter-over-quarter in compensation, is the impact of a non-recurring compensation charge that was more of a purchase accounting adjustment related to a prior acquisition. That's increasing that expense in this quarter compared to the run rate.

Across the board, you're also seeing that the other G&A and other fee expenses in that section were inflated by about $4.5 million in the quarter due to this FX charge. When you adjust for some of these items, the more normalized—what we consider normalized expenses, which as we talked about on the call, backs out the FX and the other, what we consider, non-recurring adjustments and some other items. That's about $48 million, and that's closer to what we think our longer term run rate would be.

As we move forward from there, as I mentioned in my remarks, we're really getting into the 2024 budgeting process

right now, and we see some significant opportunity to work on certain expense items, in particular professional fees. As we work through that process over the next few months, we'll be setting the baseline for 2024. But, as we move away from the listing and all the expenses associated with the listing and get to a more normal maturity as a public company, we definitely see opportunities for the professional fee spend in particular to decrease.

Wilma Burdis

I think your prior guidance or what you guys were indicating was implying around, like I said, mid-40s toward the end of 2024, and that also included about $16 million of annual cost savings, I think. I mean, is this kind of wind down of the business have any impact? Does that improve the run rate or how should we think about that?

Stephen Yarad

Yes. I'd say once we get through—we talked about that $16 million. The full impact of that won't be fully recognized in our results until the second quarter of 2024. But once we get to that point, and we also are working on the next round of, I guess, rationalization of things like professional fees, I think that's when you're really looking at the mid-40s run rate as a realistic goal.

Wilma Burdis

Got it. And it's not going to have any benefits from the wind down?

Michael Tiedemann

It's included.

Stephen Yarad

Yes, that's included. Some of those things relate to severance costs and the like, and just because of the way severance law or employment law works in certain jurisdictions, it's not like it comes off your books straight away. It takes a little bit of time for some of those things to come through.

In addition, we have benefits coming through from facility changes and changing the footprint of our facilities. That takes a little bit of a time to come through and some trailing expenses associated with that in the third quarter, and there'll be a little bit of that in the fourth quarter as well. But once we get into the beginning of 2024, we'll start to see the benefits of those changes come through as well.

Wilma Burdis

Got it. Could you talk a little bit about the global real estate market? It seems like the AUM was down a little bit on interest rates. Any areas or regions you're concerned about? Or on the other side of that coin, any places where there are opportunities?

Michael Tiedemann

Yes. That's a great question. I'll start with the private real estate and equity side, i.e., equity investments into private real estate. For starters, the market was, for the better part of a year, very challenged or frozen. There was a pricing gap between sellers and buyers. That has begun to unlock.

We, in the fourth quarter, just did really, what we think, an excellent transaction in London by our team, which is the first transaction we've done in quite some time. There is more interest and capital now freeing up and assets are beginning to clear. You're also seeing that reflected in this quarter, not Q3, but in Q4, you're beginning to see inflationary pressures globally abate. You're starting to see the publicly listed REITs, in particular, the one that we own, recover quite quickly.

The underlying fundamentals of these REITs and underlying fundamentals of these yielding assets and the assets themselves, the mark-to-market value has been all over the place. There was obviously immediate pricing in the public markets and a pricing gap in private markets that now has really begun to close. But in general, directionally it

is positive and capital flows are beginning to really pick up in a meaningful way.

Wilma Burdis

Got it. Thank you. Then just maybe give a little bit more color into the wealth management pipeline. Seems like there's been a few really nice wins in the last couple of quarters. Anything in the pipeline or other attractive deals there?

Michael Tiedemann

Yes. I'll answer that organically, which is client pipeline, because the client pipeline is terrific. We have a really robust and collaborative team working across the jurisdictions, across offices, and it is really bearing fruit in terms of how we're presenting ourselves, the ways in which we can engage with families and foundations, what have you. So, on the organic side, we're very optimistic about our future and really feel we have a very competitive model.

On the inorganic side, we are a destination. As we mentioned, we're a firm that has a unique platform, our global footprint, a range of services. In the industry, it is a unique structure with breadth that most do not have. When a firm that deals with the ultra-high net worth client is evaluating and making a strategic decision, we are a very credible counterparty. As they evaluate that, the first thing they're going to think about is, "Will my clients be well served, merging into or being acquired by this firm?" Ultimately, the determination, more often than not, is yes, with our firm. So, we do have a pipeline.

There are less firms, it's not a high-volume opportunity set, but there are some high, high-quality firms that have been competitors of ours for years that are willing to engage and see us as a viable long-term option for them.

Wilma Burdis

Got it. Thank you very much.

Operator

Thank you. Ladies and gentlemen, this concludes our question-and-answer session. I'd like to turn the conference back over to Michael Tiedemann, for any closing remarks.

Michael Tiedemann

Okay. Thank you, Operator.

We invite you to contact us with any questions you have or schedule follow-up calls. As mentioned on the call, we are positioning the AlTi platform for the long term, and we see a lot of exciting opportunities in both wealth and asset management as we close 2023 and enter 2024. I'm immensely proud of our team. We're all fellow shareholders and working diligently to execute our strategic priorities. Our talent is what will make AlTi the leading platform across wealth and asset management in the years to come.

We look forward to connecting with you in the New Year and wish you all a happy healthy holiday season. Thank you.

Operator

Thank you. This concludes today's conference call. We thank you all for attending today's presentation. You may now disconnect your lines and have a wonderful day.