AlTi (ALTI)

4Q 2023 EARNINGS

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CORPORATE PARTICIPANTS

Lily Arteaga, *Head of Investor Relations*

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Stephen Yarad, *Chief Financial Officer*

CONFERENCE CALL PARTICIPANTS

Wilma Burdis, *Raymond James*

PRESENTATION

Operator

Good afternoon. My name is Bill and I will be your conference operator for today.

At this time, I would like to welcome everyone to AlTi's Fourth Quarter and Full Year 2023 Earnings conference call.

(Operator Instructions)
I'd 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'll turn things over to Lily Arteaga, Head of Investor Relations for AlTi. Please go ahead.

Lily Arteaga

Good afternoon to everyone on the call today. Joining me this afternoon 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 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 reconciliations can be found in our earnings presentation and our related SEC filings. As I mentioned, we filed an updated investor presentation earlier today.

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

Michael Tiedemann

Thank you, Lily.

Good afternoon, everyone, and thank you for joining us today for our Fourth Quarter and Full Year 2023 Earnings call.

2023 was a pivotal year for the AlTi team. In January of last year, we completed our business combination which brought three companies together and culminated in our listing as a public company. Concurrent with the closing, we secured a $250 million credit facility, and in the second quarter we increased our share liquidity and float through the registration of the PIPE shares as well as the successful completion of a warrant exchange.

We also conducted a comprehensive strategic review of the newly combined operating structure. Through that process, we identified and actioned $16 million in annualized run-rate cost savings initiatives. We expect that these cost savings will be fully realized in our Q3 2024 results.

As a firm, we completed key transactions across both of our business segments, Wealth Management and Strategic Alternatives. This included expanding our footprint in key markets, like Singapore and Northern Italy, and increasing our stake in managers of uncorrelated alternative strategies, which have continuously outperformed their benchmarks.

A few weeks ago, we announced a strategic investment from Allianz X and Constellation Wealth Capital, or CWC. Upon closing, this transaction will provide AlTi with up to $450 million to execute on our strategic priorities. We have a robust, actionable M&A pipeline and believe these relationships will lead to significant momentum. We have a clear path to organic growth through new client wins given the expanded depth of resources, network, and talent, which these partners bring. I'll expand more on this transaction after we review our operational and financial results.

In 2023, we grew our total assets under management and advisement by 10%, mostly driven by portfolio performance and organic client growth in Wealth Management. Total assets in that business segment grew by nearly 20% in the year.

In the fourth quarter, AlTi generated revenues of $92 million, and for the full year, we recorded revenues of $251 million. Notably, 77% of revenues in the year were recurring from management and advisory fees. The fourth quarter reflected incentive fees primarily from the robust performance of the event-driven strategy in our Strategic Alternatives segment.

Despite these strong top-line results, our GAAP results were impacted primarily by decisions taken to restructure or exit unprofitable, transaction-oriented businesses in our Strategic Alternatives segment. Consequently, we reported a loss of $319 million for the full year of 2023. We do not anticipate further significant impairments in 2024 as much of the work to streamline non-core operations is behind us and our focus is to further invest in core operations that demonstrate strong, recurring revenue fundamentals.

Normalized for one-off items, our adjusted net loss was $8 million for the year.

Quarter over quarter, Adjusted EBITDA improved $13 million to $10 million for the fourth quarter. For the full year, Adjusted EBITDA was $29 million.

We believe our performance in the fourth quarter demonstrates the power of our diversified platform across Wealth Management and Strategic Alternatives. In Wealth Management, we had a record year of growth in the U.S., driven by market performance where we had a risk-on bias given our view that the U.S. would achieve an economic soft landing, as well as organic asset growth resulting from a combination of our business development efforts and asset increases from our existing clients. Internationally, the Wealth segment benefitted from the integration of the legacy businesses, as well as the Singapore acquisition and the increased stake in the Lugano-based multifamily office.

As anticipated, our Strategic Alternatives segment generated robust incentive fees in the fourth quarter resulting from the strong performance of the event-driven strategy, which was up 5.4% in the quarter and 10.5% for the year. This marked the 30th consecutive year of positive performance for the strategy, a remarkable achievement.

This healthy performance not only benefits 2023 results, but also creates positive momentum for fundraising in 2024. We are encouraged by indications of investor interest in the event-driven strategy, as well as our Asia Credit strategy. Our credit strategy is gaining traction because of its strong relative performance compared to the Asia High Yield Index, initial expectations of a recovery in that region, and the growing depth of the Asian credit markets.

Additionally, after several quarters of abated activity in real estate, given the rising rate environment, I am very pleased to report that our private real estate team arranged the purchase of the Glaxo SmithKline Corporate headquarters in London by an investor group, which will be an important restoration and repurposing project. For our role in structuring the deal, we earned an origination fee in the quarter and, importantly, we will receive recurring management fees going forward.

To summarize, last year we achieved several operational milestones, as the year was centered on inward strategic initiatives. This included the integration of our legacy businesses, reinforcing our focus on recurring revenues, streamlining entities, improving core operations, and establishing best practices throughout the organization.

With those initiatives taking hold, in 2024 our focus will be on external action. We are confident that our solid foundation will enable us to accelerate momentum through profitable organic and inorganic growth globally, across both of our segments. Another key priority this year will be raising AlTi's profile in the capital markets. This will include evaluating opportunities to increase our float, driving investor community interest, and ultimately attracting long-term institutional investors.

To that end, we were pleased to recently announce a strategic relationship with Allianz X and CWC, a transformative transaction for AlTi.

These investments, which total up to $450 million, will support our strategy to become the leading global, independent multifamily office for the ultra-high-net-worth segment with a targeted expertise in alternatives.

Importantly, the relationships enable AlTi to establish long-term partnerships with experienced and well-respected players in the global financial services sector.

We believe we can expand and fortify AlTi's global footprint in key markets and execute on strategic acquisitions through the disciplined deployment of this growth capital.

We plan to deepen AlTi's reach and expand within our current markets. We also seek to enter new markets in the United States, Europe, and Asia where we can grow our client base, as well as enhance our service offering to existing clients across multiple jurisdictions.

As a global operation with a local presence across 21 financial centers, AlTi is uniquely positioned to serve single family offices. Our platform provides significant benefits to the investment and administrative teams who serve large families by enabling them to leverage our global infrastructure, scale, resources, and deal flow, while significantly reducing overall costs. These benefits will only be enhanced by the partnerships with Allianz and Constellation.

Additionally, we will capitalize on organic growth initiatives. There is a clear opportunity to expand revenue and lead generation opportunities across a larger and more globally diverse client base. AlTi can expand its tailored solution set through co-investment opportunities across alternatives, Impact investment strategies, and, when appropriate, partnering with Allianz to structure bespoke solutions.

Finally, accretive M&A will be fundamental to our go-forward strategy. We anticipate future transactions will be a significant driver of top-line growth and margin expansion as we build off the existing platform. As I mentioned, we've identified a robust M&A pipeline. This infusion of growth capital positions us to continue our track record of attractive, profitable deals across both alternatives and wealth. We always take a disciplined approach to our pipeline and acquisition criteria and consider the target's profile, footprint, and operational fit as it relates to AlTi's positioning in the marketplace.

These partnerships enhance AlTi's current strengths to further differentiate the firm from the competition as client demand continues to evolve.

As we've indicated, of the total investment to be made by CWC, which is $115 million, is projected to close in the coming weeks. As such, we expect to begin executing on our pipeline in the short term. We will update you on our progress in a timely manner.

This was an important year for our organization, and we are excited about what AlTi can accomplish in 2024. As we onboard strategic partners, deploy growth capital, and expand our global footprint, we are positioning the platform for long-term success. We look forward to demonstrating how our strategic priorities will lead to accelerated growth, profitability and, notably, create sustainable shareholder value.

With that, I'll turn the call over to Steve to provide further details of our financial results.

Stephen Yarad

Thank you, Mike.

Last year we achieved many milestones that have already set the stage for continued top-line growth in 2024 and, importantly, increased profitability in the years to come.

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 companies 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 primarily on the quarter-over-quarter comparisons.

AlTi generated revenues of $92 million in the fourth quarter, up 86% from the third quarter, driven primarily by incentive fees generated in our Strategic Alternatives segment. The strong top-line performance in the quarter also reflected increased management fees driven by the growth in AUM and AUA in the quarter, and the realization of incentive fees in our Wealth Management segment, and higher origination fees in our Strategic Alternatives segment.

Given the significant incentive fee recorded in the quarter, recurring revenues were approximately 53% of total revenues in the fourth quarter. Full-year 2023 revenues were $251 million, 77% of which reflect recurring revenues from management and advisory fees. These results highlight the diversification and strength of our platform, which we anticipate will continue to strengthen in 2024.

Revenues in our Wealth Management segment increased 9% sequentially to $38 million in the fourth quarter, reflecting 5% growth in assets resulting from robust market performance and net client wins, as well as incentive fees recorded in the period. For the full year 2023, the Wealth Management segment revenue was $138 million. Importantly, recurring revenues in the segment were 95% and 99% for the quarter and the year, respectively.

In our Strategic Alternatives segment, revenue totaled $54 million in Q4, an increase of $40 million compared to the prior quarter, largely driven by crystallized incentive fees associated with the event-driven strategy. The origination fee related to the London real estate deal also contributed to the segment results in the quarter. For the full year 2023, Strategic Alternatives segment revenue was $113 million. 52% of this topline performance was from recurring management and advisory fees, including distributions from our Alternatives Platform.

Despite pleasing progress in the top-line results, we recorded a net loss of $87 million in the fourth quarter reflecting $51 million of impairment and other charges in our Strategic Alternatives segment, higher incentive compensation accruals, as well as certain other expenses which we expect to be non-recurring. Normalized for one-off items, our adjusted net loss in the fourth quarter was $6 million.

$34 million of the impairment charges related to the termination of our management contract for LXI, the UK-based publicly traded REIT, in connection with LXI's merger with LondonMetric, which was completed earlier this month. In connection with the merger, we agreed to terminate the management contract for an initial payment of $32 million and potential future payments of up to £4 million, depending on LondonMetric's future performance. The impairment charge recorded essentially reflects the difference between the initial consideration received and the carrying value of the intangible asset for the management contract that was recorded prior to the transaction. I would like to note that LXI contributed $2.3 billion to AUM at year end, which, following the sale in early March, will no longer be reflected in our assets at the end of the first quarter.

A further $17 million of impairment and other charges were recorded related to our private real estate business, reflecting restructured arrangements with several partners which resulted in adjustments to amounts recorded for certain equity method investments, carried interest, and other receivables deemed non-collectible.

Normalized operating expenses for the fourth quarter, which exclude non-cash compensation, expenses related to severance costs, depreciation and amortization, and certain transaction and deal-related expenses, were $82 million. This represents an increase of $30 million compared to the prior quarter, primarily driven by the higher incentive compensation accrual recorded in the fourth quarter, largely attributed to the strong performance of the event-driven strategy. Excluding compensation expenses, normalized operating expenses were lower by $2 million.

Fourth quarter Adjusted EBITDA was $10 million, an increase of $13 million compared to the third quarter, driven by higher incentive fees, partly offset by the related incentive compensation accrual. Our Adjusted EBITDA margin improved to 11% in Q4. On a full-year basis, our Adjusted EBITDA was $29 million, and our Adjusted EBITDA margin was 12%.

As growth and cost savings initiatives take hold in 2024, including those resulting from the strategic investments by Allianz X and CWC, we expect to see the impact of operating leverage drive improvements and greater consistency in our GAAP results and Adjusted EBITDA.

Given that the Allianz X transaction is subject to regulatory approvals, which may take several months to obtain, we are reserving any updates to our financial targets until later this year, after that investment has closed.

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

Michael Tiedemann

Thank you, Steve.

We enter 2024 with incredible momentum on the heels of executing several key components of our strategic plan. I am proud of our team and appreciate all of the hard work that they have put in, particularly since our listing, to get us to where we are today.

I am confident that this progress, combined with the valuable partnerships we have established, position AlTi to deliver long-term, profitable growth in the years to come.

Finally, we want to thank our global client base who put their trust in our team day in and day out. We are grateful for your support and look forward to working with you in the year ahead.

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

Operator

Thank you, Mr. Tiedemann. (Operator instructions)

We'll go first this afternoon to Wilma Burdis of Raymond James.

Wilma Burdis

Hey, good afternoon, everyone. Could you discuss the relative attractiveness of the Wealth Management deals versus Asset Management deals, especially as you're going into plenty of potential deployments this year?

Michael Tiedemann

Thank you, Wilma. So, first of all, it's important to highlight that there are both strategic and accretive deals in both business lines and they offer, in some cases expansion geographically, and in some cases a deepening of the product offering, in the case of Strategic alts. So they really do vary in terms of their specific relevance for the business lines.

All of them are in valuation ranges that we believe can be driven from starting to when you look forward three or four years, from the standpoint that we expect these to be growth investments that we're making into businesses that we believe collectively we will be able to grow, whether that be wealth, a new jurisdiction, or a deepening of a market that we're already in.

So all of them bring that component and then the valuations really vary based on everything you would imagine. So prior growth rates, scale of the business, margins of the business, our view on our ability to drive that business and drive margins going forward, and then anything perhaps that is additive strategically as well.

Wilma Burdis

Got it. Thank you. Maybe you could just touch on why you guys decided to change the name of the asset management segment?

Michael Tiedemann

Strategic Alternatives is much more related to the underlying businesses that we are investing in and have been managing. We believe this is also a great time with the Wealth segment from the standpoint that these are long-term trends and ultimately have a lot of tailwinds, but are segments of the marketplace that we feel any long-term pool of capital would be investing in; whether that be a large family, an endowment foundation, multi-generational pools of capital want to be and will be investing in these areas. But it is more targeted and more specifically oriented around alternatives. So we felt the labeling of that was much more in tune with our underlying business.

Wilma Burdis

Thank you. Could you talk a little bit about the outlook for operating expenses in 2024? I know you guys mentioned that it's going to be a little bit tough to give guidance for this year, given all the changes you have going on with the Allianz investment, but maybe just talk a little bit about that and the trajectory? Thanks.

Stephen Yarad

Sure. Hi, Wilma. It's Steve Yarad. How are you?

Wilma Burdis

I'm doing well. How are you?

Stephen Yarad

Good. Thank you. So, look, in terms of operating expenses, we're continuing to make progress. As we've talked about before, we're implementing the plans to deliver $16 million of cost savings on an annualized basis and that's working through, and we think that will be fully realized in the third quarter of next year, in the second half of next year. In terms of this quarter—excluding compensation, the normalized operating expenses were down a little bit, which we're really pleased with.

Comp was up, but primarily revenue-driven formulaic—the compensation is formulaic based on revenue in the event-driven business. So away from that, we were sort of down a little bit, quarter-over-quarter, which was pleasing for us. So as we continue to move forward and continue to work on professional fees, and those types of things, we do think that there's opportunities to further reduce operating expenses as we move ahead.

Wilma Burdis

Got it. Thank you. Could you talk a little bit about the net client flows in the Wealth Management segment?

Stephen Yarad

Sure. So I think in the U.S. business, we had some really pleasing flows for the fourth quarter. Market-driven, probably up around 5% to 6% in the quarter. Internationally, it was sort of flattish, but some good flows in certain areas. So overall, still pretty pleasing, but pretty much driven by market performance quarter-over-quarter.

Wilma Burdis

Got you. So mostly market performance, not necessarily a big volume of wins in the quarter?

Stephen Yarad

Yes. More market-driven, that's right.

Michael Tiedemann

And important Wilma, you have the prospect process, and then conversion of clients moving into assets and billing on assets does take time. So you can have a very good quarter from the standpoint of prospecting and verbal wins with clients. For that then to materialize to contractual and then the assets moved in and fully built does take some time. So we're very happy with the pipeline that we have globally and the opportunities that we continue to see as we go into 2024.

Wilma Burdis

Thank you. I think you guys highlighted some impairments in real estate. Could you maybe just go into a little bit more detail on that, what the drivers were?

Stephen Yarad

Sure, Wilma. So as we got into the fourth quarter, we did some further restructuring. We've been repositioning the business to some degree throughout all of 2023, but particularly in the second half. And as we work through and try to simplify the business and restructure some arrangements with some of the partners, it has led to those arrangements as they get restructured, the need to write down some carried interest receivables, which wouldn't be necessarily—wouldn't be recoverable going forward, and also on equity method investment.

So, there was about $17 million of impairments on those two items during the quarter. And we really don't think that that's going to be a feature of the results going forward. We've done a lot of work on that over the past six months or so, and we think that most of that's behind us now. So we wouldn't expect those types of impairments in the results in the first quarter and beyond.

Wilma Burdis

Got you. And then maybe just give a little bit of color on the M&A, the merger arbitrage fund and the outlook, and just the environment for that business?

Michael Tiedemann

Well, the event-driven strategy just completed its 30th year of profitable performance, which is really amazing, and I reference that. It really is an amazing history and the team has worked together for a very long time. The environment is, I would say, a good environment in terms of the fact that deals are being announced. Interest rates leveling off mid-year last year, have at least allowed financial projections and modeling to be done for businesses.

So then people are—CFOs and the management teams are able to make strategic decisions and begin to move deals forward. The event environment is off to a slightly slower start than the team expected. Spreads are, I would say, average from where they've been historically. So we are hopeful that the deal flow will continue to pick up, but you continue to see some regulatory and political interference at times, which create volatility in the space. But beyond that, I would say it sort of will track to a standard year for the strategy.

Wilma Burdis

All right. Thank you. Have a good evening.

Stephen Yarad

Thanks, Wilma.

Michael Tiedemann

Thank you, Wilma.

Operator

Thank you. (Operator instructions)
And gentlemen, it appears we have no further questions this afternoon. Mr. Tiedemann, I'd like to turn things back to you for any closing comments.

Michael Tiedemann

Okay. Thank you, Operator, and thank you, everyone, for dialing in late on a Friday. We invite you to contact us with any questions that you might have or to schedule any follow-up calls. And we're excited for 2024 and look forward to updating you further on our first quarter call. Have a great weekend. Thank you again.

Operator

Again, ladies and gentlemen, that will conclude today's conference call. We'd like to thank you all so much for joining us. And again, wish you all a great evening. Goodbye.