AlTi (ALTI)

1Q 2024 EARNINGS
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CONFERENCE CALL PARTICIPANTS

Wilma Burdis, *Raymond James*

PRESENTATION

Operator

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

During the call, your lines will remain in a listen-only mode. After the speakers' remarks, there will be a question-and-answer session. 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 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 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, and thank you all for joining us this morning.

The first quarter of 2024 will serve as a catalyst for AlTi in the quarters and years to come. During the quarter, we established groundbreaking strategic partnerships, progressed our growth strategy, and importantly, further streamlined away from noncore assets and strategies to focus on stable recurring revenue businesses.

We have immense traction across both our core operations and our M&A pipeline, as you can see through the two deals we announced since our last call less than 60 days ago. Today, I'm going to share more details on our Q1 results and the progress we are making towards our long-term goals and growth initiatives. Excluding LXi, we have grown our consolidated assets under management and advisement by 10% over the past 12 months to $71 billion.

In the first quarter, AlTi generated revenues of $51 million. Importantly, 96% of the revenues in the quarter were from recurring fees. We reported net income of $22 million, Adjusted EBITDA was $7 million, and the Adjusted EBITDA margin was 13%.

Turning to our segments. In Wealth Management, we reported 17% AUM growth in the last year, largely boosted by strong market performance and acquisitions closed in 2023. This robust growth will be further enhanced throughout 2024 as we integrate our recently announced acquisitions. In April, we announced the acquisition of East End Advisors, which adds nearly $6 billion of AUM to our Wealth Management platform. Headquartered in New York, East End boasts a strong investment record and an experienced team that will densify our operations in key regions across the U.S.

Additionally, East End enhances our Outsourced Chief Investment Officer, or OCIO, capabilities as we seek to capitalize on that growing market. AlTi has long admired the exceptional team at East End, their investment approach and the long-standing and trusted relationships they have with their clients.

Both firms share industry-leading client retention and a deep understanding of the complexities and changing demands of ultra-high net worth families and foundations. We've been pleased with the reception around this transaction so far, and East End clients can now begin benefiting from access to AlTi's global resources and holistic wealth management solutions.

Yesterday, after the close, we announced the acquisition of Envoi, a $3 billion AUM ultra-high net worth wealth manager based in Minneapolis. Envoi expands our operations into the Midwest region of the United States and has a multi-decade track record within the ultra-high net worth segment. From our earliest conversations, we felt immediate cultural alignment with the Envoi team. Additionally, the firm has not only grown its client base but has doubled its average client size since 2016, all while maintaining a client retention rate of 97%. Envoi was an ideal fit as we look to deepen our domestic footprint in key markets. We look forward to supporting Envoi's growth through AlTi's global reach, perspectives and comprehensive service offering.

Following the consolidation of these acquisitions, our net asset growth in wealth management will be nearly 45% since AlTi's listing, reflecting the successful execution of our organic and inorganic growth strategy. Importantly, they significantly reorganized our firm line asset composition towards core strategies and recurring revenues, all while replacing the top line and bottom line contributions of the noncore assets we've divested from in the past year.

On the international front, earlier this week, we closed our acquisition of the remaining 50% stake in Pointwise Partners, an independent ultra-high net worth wealth management firm based in London. We're delighted to bring the entirety of the Pointwise team onto the AlTi platform and to deepen our operations in the UK.

Additionally, I'm pleased to report that the previously announced sale of our European-based trust and private office service businesses received regulatory approval and closed subsequent to quarter end.

These businesses were previously held for sale assets and the proceeds from the sale were approximately $19 million. The transaction is a result of our efforts to streamline, divest and reinvest in our international wealth operations to focus our operations on our robust service and investment offerings and core recurring revenue businesses.

We are also very pleased with the great strides we've made on our organic growth initiatives, and we're excited about the prospects for both our domestic and international businesses. The AUM of the U.S. business has increased 15% on an organic basis over the past 12 months. This robust growth results from strong portfolio performance as well as inflows from new client wins driven by our business development initiatives.

These efforts were fortified at the beginning of this year as we welcomed Richard Joyner, an award-winning adviser with more than 35 years of experience, delivering comprehensive family office services to ultra-high net worth clients.

Based out of our Dallas office, Richard heads our Central U.S. business, and will collaborate closely with the Envoi team in this key region. Internationally, we are also attracting talented and seasoned professionals, and we look forward to updating you on the progress on future calls.

Turning to our Strategic Alternatives segment. We have successfully repositioned certain businesses and have advanced new initiatives to bring our clients innovative investment opportunities. Recurring revenues made up 88% of the segment's top line contribution in the quarter and were essentially flat quarter-over-quarter despite the sale of LXi and the broader repositioning of our private real estate business.

Importantly, our streamlining efforts resulted in significant reduction in segment-level costs. Normalized operating expenses in the first quarter decreased by $10 million compared to the same period in 2023. Our uncorrelated strategies, the foundation of our Alternatives platform exhibited positive performance in the quarter. The performance of our Asia credit strategy was particularly robust, up 5.4% in the first quarter.

We remain committed to providing access to innovative and differentiated investment opportunities within our comprehensive range of services and solutions. To that end, we are excited to announce our partnership with leading tech investors Hiro Tamura to collaborate on a private market equity strategy, investing in growth stage technology companies.

We have a long-standing model of successfully partnering with leading fund managers and this latest partnership is set to capitalize on the current compelling valuation environment and dynamic opportunity set of growth stage tech names in the venture ecosystem.

We believe this partnership exemplifies the complementary nature of our platform. We're able to allocate capital actively and passively across the platform, not only to benefit our clients but also to produce uncorrelated returns for AlTi.

As we execute our strategy, we will continue to allocate capital based on identified megatrends, including disruptive technology, which provide a framework for attractive returns with a blended goal of positively impacting the environment and the society.

As I wrap up my comments on our progress, I would like to highlight the significant advancements we've made on our enterprise strategy. We were pleased to announce the strategic relationships with Allianz X and Constellation Wealth Capital or CWC, which are transformative for AlTi.

These investments which totaled up to $450 million, support our strategy to become the leading global independent multi-family office for the ultra-high net worth segment with a targeted expertise in alternatives. The first installment of CWC's investment, totaling $115 million closed in March, and we expect the remaining $35 million to fund later this month. We anticipate closing our agreement with Allianz X in the second half of 2024.

As we've discussed, these partnerships are designed to both enable AlTi to expand and to fortify our global footprint in key markets and to fuel accretive acquisitions through disciplined deployment of growth capital.

The partnership with CWC is already proving to be immensely valuable to AlTi, as they are helping to attract and recruit revenue-generating talent and enhance our relationships in the ultra-high net worth wealth management sector.

With respect to Allianz, we're excited by the opportunity to strengthen and grow client relationships, expand our platform of client solutions and benefit from an experienced team, global scale and broad network when that transaction closes later this year.

On the M&A side, we've been leveraging the expertise and capital from our partners, as demonstrated by our recently announced transactions. As we integrate these acquisitions into our existing platform, they will considerably augment our asset base and accelerate margin expansion through enhancing operating leverage.

This is an extremely exciting time to be leading AlTi. We have clear momentum across our business and believe that we can drive accelerated growth and profitability in the quarters to come.

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 for the quarters to come as we continue to execute on our long-term strategy and to streamline and reposition the portfolio on our core recurring revenue businesses. AlTi generated revenues of $51 million in the first quarter. While this reflects a 12% decrease compared to the first quarter of 2023, recurring management fee revenues were essentially flat during this period. We are pleased with the stability of the management fees given the sale of LXi was completed during the current quarter.

In addition, the prior year period also included approximately $2 million of management fees related to a public real estate fund, which was deconsolidated from our results after the second quarter of 2023. Further, on a quarter-over-quarter basis, recurring management fee revenues were up 1.4%, reflecting the stable, predictable nature of the business.

Revenues in our Wealth Management segment increased 17% to $37 million in the first quarter compared to the first quarter of 2023, consistent with AUM growth during this period. Our robust asset growth is driven by strong market performance as well as by our acquisition of Singapore-based AL Wealth and our increased stake in the Lugano-based multifamily office during 2023. 99% of Wealth Management revenues in Q1 2024 were recurring.

In our Strategic Alternatives segment, revenue totaled $14 million in Q1, a decrease of $13 million compared to the first quarter of 2023, largely driven by reduced distributions from investments and lower assets compared to the same quarter in 2023. As discussed earlier, the comparable quarter in 2023 included management fee revenue from public real estate, which was deconsolidated from our results starting in the third quarter of 2023. Compared to the immediately prior quarter, management fees were only marginally down, despite a sequential 14% decrease in assets, largely related to the sale of LXi, which removed $2.3 billion in AUM.

In addition, the strategic repositioning of the private real estate business resulted in decreased assets as we have exited or restructured certain deals. Notably, recurring revenues in the segment were 88% in the quarter.

GAAP net income for the first quarter was $22 million compared to a net loss of $90 million in the comparable period in 2023, primarily due to higher other income driven by positive mark-to-market in the first quarter and certain items accounted for at fair value, including earn-out liabilities and the tax receivable agreement.

Normalized for one-off items, our adjusted net income for the first quarter was approximately $0.2 million. Normalized operating expenses for the first quarter, which exclude non-cash compensation, expenses related to severance costs, depreciation and amortization and certain transaction and deal-related expenses were $45 million, down $8 million compared to the first quarter of 2023. Excluding incentive compensation, cash compensation costs decreased $6 million or 20% from the prior year period, demonstrating the progress we achieved in executing our cost-saving initiatives.

Streamlining our cost structure remains a top priority for us. As these efforts continue, we would expect normalized operating expenses to trend further downward. First quarter Adjusted EBITDA was $7 million, a decrease of $4 million compared to the first quarter of 2023, and $3 million compared to the previous quarter. The year-over-year decline was driven by lower distributions from investments, while the sequential quarter decline is due to the impact of lower incentive fee income largely offset by a 24% decrease in normalized non-compensation expenses.

On a positive note, our Adjusted EBITDA margin improved to 13% in the first quarter from 10% in the fourth quarter of 2023, reflecting lower operating expenses from our ongoing efforts to streamline and simplify the platform. We believe that this momentum will continue throughout 2024, as we complete dispositions of more complex operationally intensive businesses and onboard recurring revenue businesses that have simpler structures and higher operating margins.

Further, I would like to provide some more detail on the East End acquisition. East End reflects the type of transaction we expect to complete as we execute our inorganic growth strategy. As Mike mentioned, the firm is U.S.-based with offices in New York and Palm Beach and focuses exclusively on serving ultra-high net worth clients and foundations. Accordingly, they have an attractive recurring revenue business with $6 billion in AUM. We acquired East End for an initial purchase price of approximately $76 million with additional contingent consideration payable over a five-year period.

Finally, I would like to remind everyone that we are reserving any updates to our financial targets until later this year after the Allianz X transaction has closed. However, as you think about the rest of the year, it should be noted that our go-forward results will no longer include contributions from LXi or the European Trust and Private Office Service business following completion of those dispositions. However, starting in the second quarter, we will consolidate the results of East End, and starting in the third quarter, we expect to consolidate the results of Envoi.

Both East End and Envoi are purchased at low to mid-teens enterprise value to EBITDA multiples in line with our current M&A acquisition criteria, and we anticipate they will be strong contributors to AlTi's results going forward. As Mike mentioned, we expect that these acquisitions, along with Pointwise, will produce similar top and bottom-line contributions to the recently divested businesses. Further, they are important components of our growth initiatives that we expect to strengthen our core operations, densify our presence in key markets, all while being accretive to EBITDA going forward.

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

Michael Tiedemann

Thanks Steve and thanks everyone for joining us this morning.

As you can see, we've hit the ground running in 2024, establishing strategic partnerships, executing accretive acquisitions and expanding our portfolio of products and services to attract and retain an exceptional client base. We're committed to delivering disciplined growth, while managing our expense profile to offer shareholders long-term margin expansion. Our unwavering focus on the Ultra-High-Net-Worth segment differentiates us from other public wealth and alternative platforms. We are positioned to be the global leader with this population and we look forward to updating you on progress in the quarters to come.

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

Operator

Thank you. If you would like to ask a question, please press star, one on your telephone keypad. A confirmation tone will indicate your line is in the question queue. You may press star, two if you would 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. One moment while we poll for questions.

Our first question is from Wilma Burdis with Raymond James. Please proceed.

Wilma Burdis

Hey, good morning, everyone. Could you please give us an update on the investment by Allianz and CWC? Specifically could talk about the timeline for the approvals process and the potential timing for you to bring in the capital? Thank you.

Michael Tiedemann

Yes. Hi, Wilma. How are you? I'll answer that quickly. They're really separate. CWC did not have to apply for regulatory approval, so $115 million of the $150 million in total was drawn, and part of that was used in the East End acquisition. An additional $35 million will be coming this quarter to complete that. Allianz has put forth all of the regulatory approvals. So that is in the works, and that has been in the works now for several months. They move very quickly in all the jurisdictions—in the five jurisdictions. We expect that in the second half of the year, we obviously hope that it occurs earlier in the third quarter than later, but that is our timeframe that we're working with.

Wilma Burdis

Thank you. And could you talk a little bit about the trajectory of expenses which is around $60 million ex-notables in professional fees, a good run rate? And could you discuss the outlook for professional fees given upcoming investments in inorganic growth? Sorry, that was hard to say.

Stephen Yarad

Thanks, Wilma. It's Steve. How are you?

Wilma Burdis

I'm doing well. How are you?

Stephen Yarad

Great. So, yes, I think as you've seen in the results, we're starting to see some results or some good trends, at least in the results from the professional fee line and the non-compensation operating expenses. Compared to the first quarter of 2023, we're down about $8 million in the period, compared to the same period of last year, which is roughly a 15% decline. As we continue to move forward, we are very focused on further reducing professional fee spend. And with that continued focus, we do expect the trends to continue to trend downward.

Obviously, as we embark on M&A activity, there will be a series of deal expenses that go with M&A, but you won't see those. You'll see those as part of the sort of gross GAAP expenses, but on a normalized basis, we add those back. And so those won't be the normalized expenses. So you might see a situation where at least for the next few quarters, as we sort of execute on M&A activity, you might see a little bit higher professional fees on a gross basis, but on a normalized basis, they should continue to trend down.

Michael Tiedemann

And Wilma, just to supplement to what Steve said, this is the focus of the Board, Senior Management, obviously, Steve and his team. It is also directly tied to the streamlining and simplification of the business in aggregate, so those two are linked and important to accomplish in a timeline. So that is absolutely one of our top goals for this calendar year to continue to make significant progress on.

Wilma Burdis

Thank you. So the $60 million, I think that was ex-notables and professional fees, that's pretty good for now? I think you guys talked a little bit more about the professional fee part. And then I think you guys have talked about $16 million of run rate cost saves that should come in later this year. So maybe just talk about that piece as well? Thank you.

Stephen Yarad

So, yes, Wilma, I think you're referring to what we previously discussed, roughly $16 million of cost savings that were identified as part of an exercise we did during 2023. So we've talked about the fact that those cost savings would be achieved over a multi period time horizon and would be fully embedded in our results by the end of the second quarter of 2024. So I think we'd still say that that's the case. I think when you look at our go forward professional expenses and—sorry, go forward operating expenses I should say, you'll see the benefit of that cost saving initiative fully embedded in the results by the end of the second quarter. So I think we're still on track for that.

Wilma Burdis

Thank you. And can you discuss the rationale for exiting the LXi REIT advisory business? And it seems like you brought on a couple of very nice deals, and it sounds like you talked about those offsetting each other from an earnings perspective. But maybe talk a little bit about the businesses you've exited and the businesses you've entered and why you like that trade? Thank you.

Michael Tiedemann

The Board of LXi was the driver of the decision. We were the manager of the REIT. They felt that the combination of LondonMetric and LXi was a stronger, more scalable business. So the acquisition was ultimately approved by the Board and we helped. Obviously, we played along with the diligence process and then negotiated what we felt was fair value for the exit of the remaining portion of the contract that we have.

Stephen Yarad

And Wilma, what I'd add to Mike's comments in terms of LXi coming off and that's now out of our numbers starting in the second quarter. But what will be coming on to replace that revenue and EBITDA is the consolidation of East End. And also when we get to the third quarter, there'll be the consolidation of Envoi, which we've just recently announced.

And so the combination of those—when you think about what's coming off versus what's going on, it will largely be replaced. However, when you think about the revenue streams and the complexity of the new businesses versus the old, we feel that it's a better fit. These types of acquisitions are very much in line with the type of business that we really like from an operating perspective. It's recurring revenue-based activity at sort of lower headcount, lower operational risk, complexity type of things, so we really like these businesses.

Wilma Burdis

Okay. And maybe just talk a little bit about the pipeline? It seems like it's been pretty active, but just I realized you've got a lot of capital to invest. So maybe just talk about what you're seeing out there? Thank you.

Michael Tiedemann

We think of it in three ways. And it's important our top priority is and will always be organic growth. And the importance of why we integrate our offices are—our operations globally is because the collaboration and the support for the business development effort that can be driven by that leads to organic growth. So that is a critical focus, will always be and the more we get integration behind us, the more the organic growth begins to accelerate. So that's the primary focus.

The secondary focus is talent acquisition. As we think about our various jurisdictions and where we have offices across these various regions, we want to be able to bring in revenue-producing talent. We have the infrastructure to support them. We have a global infrastructure that is unique, and we are now turning our efforts or recruiting efforts related towards bringing in talent as we highlighted one in Dallas and a team of people that are already paying benefits. And the same is true in Europe, which we'll talk about in later quarters.

In terms of the inorganic pipeline, we are looking at that holistically. There really needs to be a strategic fit. The wealth firms that have joined us fit squarely in not only our strategy, but culturally and they are perfect fits within our organization. So the integration will be seamless. That's of vital importance to us. We're now beginning to look, spend more time looking across other geographies, and obviously are engaged as well in the strategic alternative side.

Wilma Burdis

Okay. Thank you.

Operator

As a reminder, it is star, one your telephone keypad if you would like to ask a question. We will pause for just a brief moment to see if there are any further questions.

With no further questions at this time, I would like to turn the conference back over to Mike Tiedemann for closing remarks.

Michael Tiedemann

Thank you, Operator, and thank you all for joining us this morning. We look forward to meeting with many of you in the months to come. And if you're interested in meeting with me or other members of the Management Team, please don't hesitate to reach out to Lily. As I mentioned earlier, we really do feel we are positioned to generate accelerated growth in 2024 and create long-term value for our shareholders.

Wishing you all a happy and healthy beginning of summer before our next update in August. Thank you again.

Operator

Thank you. This will conclude today's conference. You may disconnect your lines at this time and thank you for your participation.