TPG, Inc.
Fourth Quarter and Full Year 2022 Earnings Call
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Corporate Speakers:

- Gary Stein; TPG Inc.; Head of Investor Relations
- Jon Winkelried; TPG Inc.; Chief Executive Officer
- Jack Weingart; TPG Inc.; Chief Financial Officer
- James Coulter; TPG Inc.; Executive Chairman & Co-Founder
- Todd Sisitsky; TPG Inc.; President

Participants:

- Glenn Schorr; Evercore ISI; Analyst
- Kenneth Worthington; JPMorgan Chase; Analyst
- Brian Bedell; Deutsche Bank; Analyst
- Gerald O'Hara; Jefferies; Analyst
- Michael Cyprys; Morgan Stanley; Analyst
- Michael Brown; KBW; Analyst
- Alex Blostein; Goldman Sachs; Analyst
- Brian McKenna; JMP Securities; Analyst
- Adam Beatty; UBS; Analyst
- Finian O'Shea; Wells Fargo; Analyst
- Rufus Hone; BMO Capital Markets; Analyst
- Luke Mason; BNP Paribas Exane; Analyst

PRESENTATION

Operator^ Good morning, and welcome to TPG’s Fourth Quarter and Full Year 2022 Earnings Conference Call. (Operator Instructions) Please be advised that today's call is being recorded. Please go to TPG's IR website to obtain the earnings materials.

I will now turn the call over to Gary Stein, Head of Investor Relations at TPG. Thank you. You may begin.

Gary Stein^ Great. Thanks, Shelby. Welcome, everyone. Joining me this morning are Jon Winkelried, Chief Executive Officer; and Jack Weingart, Chief Financial Officer. In addition, our Executive Chairman and Co-Founder, Jim Coulter; and our President, Todd Sisitsky, are also here and will be available for the Q&A portion of this morning's call.

Before we begin, I'd like to remind you this call may include forward-looking statements that do not guarantee future events or performance. Please refer to TPG's earnings release and SEC filings for factors that could cause actual results to differ materially from these

statements. TPG undertakes no obligation to revise or update any forward-looking statements except as required by law.

Within our discussion and earnings release, we're presenting GAAP measures, non-GAAP measures and pro forma GAAP and non-GAAP measures, reflecting the reorganization that was completed during 2021 and immediately prior to TPG's IPO. We believe it's helpful for investors and analysts to understand the historic results through our go-forward structure, and please refer to TPG's earnings release for details on the pro forma financial information.

We'll also be discussing certain non-GAAP measures on this call that we believe are relevant in assessing the financial performance of the business. These non-GAAP measures are reconciled to the nearest GAAP figures in TPG's earnings release, which is available on our website. Please note that nothing on this call constitutes an offer to sell or a solicitation of an offer to purchase an interest in any TPG fund.

Looking briefly at our results for the fourth quarter, we reported GAAP net income attributable to TPG Inc. of $24 million and after-tax distributable earnings of $227 million or $0.59 per share of Class A common stock. We also declared a dividend of $0.50 per share of Class A common stock, which will be paid on March 10 to holders of record as of February 27.

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

Jon Winkelried^ Thanks, Gary. This morning, we're looking forward to discussing our results now that we've completed our first full year as a public company.

Since our IPO early last year, we've navigated markets with more disruption and volatility than we've seen in over a decade. There's been pressure from persistent inflation, rising rates and geopolitical conflicts. This macro environment has led to challenges in our industry, marked by tougher fundraising, a slower deal environment, tighter financing conditions and declining valuations.

Against this backdrop, TPG has demonstrated resilience and growth. We not only delivered but surpassed what we set out to accomplish in our first year as a public company, and we finished 2022 with another strong quarter. We deliberately chose to go public as we were launching several flagship fundraises so TPG's public shareholders could share in our accelerated growth.

Despite difficult industry-wide fundraising dynamics, we raised $30 billion of capital in 2022, a 47% increase over the prior year. Global private equity fundraising declined 19% in 2022, but we believe we gained share as LPs continue to consolidate their GP relationships among their best-performing managers, including TPG.

We held early first closes across all our flagship funds in the market, including TPG Capital, Healthcare Partners, Capital Asia and Rise. Although this is one of the most

challenging fundraising environments we've seen, we are very pleased with the quality of engagement and continued support from both our long-standing and new limited partners.

However, as we look ahead, we are not immune to the fundraising challenges our industry is facing, which will continue to drive uncertainty as campaigns are completed among alternative asset managers.

As a result of our fundraising momentum in 2022, we finished the year with $43 billion of dry powder, which is up 51% from the prior year and represents 55% of our fee earning AUM. Total AUM was $135 billion at year-end, a 19% increase year-over-year, driven by strong fundraising and value creation of 8% across our platforms, partially offset by $16 billion of realizations as we selectively monetized investments at attractive valuations.

Looking to our financial results. We delivered strong performance in 2022. Fee-related revenues for the full year were $1.1 billion and grew 24% from the pro forma prior year. Full year FRE of $454 million grew 39% from pro forma 2021 and represents a 42% FRE margin. We believe our strong results through such a volatile year demonstrate the durability of our franchise.

During our IPO, we highlighted the importance of organic growth and innovation as a cornerstone of TPG's long-term success. Over the past year, we have expanded into new strategies where we believe we have differentiated angles and compelling growth opportunities. Within our market solutions platform, we launched and completed first closes for two GP-led secondaries funds, TPG GP Solutions and TPG NewQuest.

As I alluded to on our last earnings call, in December, we closed a $500 million anchor commitment to the inaugural TPG NEXT fund from CalPERS, one of the world's leading institutional investors. As a reminder, TPG NEXT was created to seed and stake the next generation of diverse-led firms in alternative asset management. We believe there is a significant market opportunity and are committed to backing and supporting underrepresented managers in our industry.

As a result of fundraising and new products, we have continued to grow and diversify our LP base. In 2022, we added approximately 60 new institutional relationships and more than 55 existing LPs have broadened their commitments to TPG by investing in new fund strategies with us. In aggregate, these new and expanded relationships committed more than $6 billion of capital to TPG in 2022. In addition, we have made meaningful progress in strategically expanding our presence in the high-net-worth channel, placing 5 different funds across 8 different channel partners.

Looking ahead to the rest of 2023 and beyond, the markets are at a crossroads. Fed action has pushed yields higher and equity multiples lower, driving investors to exercise caution as they seek equilibrium in valuations. Despite some recent recovery in the equity and leveraged finance markets, investment pace among alternative asset managers, including TPG, has remained muted.

Buyers and sellers seem to be taking another pause as they wait to see how a number of macro drivers play out, such as interest rates, inflation, and a possible recession. With significant dry powder, long-dated capital and a deep sector focus, we believe TPG is well-positioned to capitalize on this market dislocation. While we expect near-term deployment to remain relatively light, we are building a pipeline of interesting opportunities through our long-term theme-driven sourcing approach.

Despite the general slowdown in deal activity for the industry over the last few quarters, we still saw pockets of opportunity for deployment and realizations across our diverse set of platforms and fund strategies. We deployed $5.7 billion and $16.6 billion in the fourth quarter and full year 2022, respectively.

I'll walk through a few highlights. In the fourth quarter, we completed 5 health care deals across our capital platform, reinforcing the strength of our differentiated franchise. This includes the acquisitions of DOC Generici in Europe and iNova Pharmaceuticals in Asia Pacific, the take private of Covetrus, the carve-out of ClaimsXten and a follow-on investment in Monogram Health.

In our growth fund, we completed the carve-out of MedQuest Associates, a leading owner, operator and manager of diagnostic imaging facilities in partnership with Novant Health, a preeminent not-for-profit health system. This deal is a great example of TPG's long history of building unique partnerships with high-quality companies, nonprofits and academic institutions to create proprietary transactions. Given the capital constraints in today's market, we are seeing a growing interest in creative partnership opportunities, and our pipeline is continuing to build.

The market dislocation has also been particularly interesting for our Tech Adjacencies Fund, which we established to provide flexible capital solutions for leading companies in the technology industry. We believe the recent tech slowdown has created the most attractive investing environment for TTAD since its launch in 2018. TTAD recently closed two structured investments: one in a leading vertical SaaS and integrated payments company and a second in a leading provider of cybersecurity solutions. The current challenging backdrop for growth-stage technology companies has made the strategic value of TTAD's differentiated capital mandate even more relevant.

Our Rise platform is at the forefront of the impact space, and our inaugural Rise Climate fund remains ahead on its pace of deployment. The increasing focus on energy security and deglobalization along with the Inflation Reduction Act in the U.S. and the new Net-Zero Industry Act in Europe have fundamentally enhanced the investment opportunity.

We are seeing an increased demand for capital to address energy transition and climate needs around the world. As an example, in December, TPG Rise Climate committed to invest in Enpal, one of the largest and fastest-growing residential decarbonization platforms in Europe. To give you a sense of its momentum, Enpal has grown its customer

base and revenues, on average, threefold each year since its founding in 2017 and is profitable.

And finally, in our secondaries platform, our inaugural TPG GP Solutions fund completed its second investment during the quarter. And in Asia, TPG NewQuest co-led the creation of the unique continuation vehicle for a leading Singapore-based alternative asset manager. We believe our secondaries business is well-positioned for growth. GP led capital is an increasingly valuable source of liquidity and validation given the slowdown of PE exits, particularly for high-quality sponsors, high-quality assets in sponsors' portfolios.

On realizations, we've been intentionally patient and remain focused on driving growth within our portfolios, where we are relatively early in our average hold period following our significant monetization activity over the last few years. We realized $4.2 billion and $15.5 billion in the fourth quarter and full year 2022, respectively. This includes completing our previously announced sale of Wind River to Aptiv in December, which Jack will talk more about.

Several monetizations of our public equity positions in regions outside of the U.S. Looking at our Capital Asia and Growth funds, we successfully IPO-ed and partially monetized four of our Indian portfolio companies in a 12-month period: Landmark Cars, Five Star Business Finance, Campus Activewear and Nykaa. In November, we fully monetized our stake in Nykaa at attractive prices, generating favorable returns despite the volatile equity market backdrop. These IPOs and realizations underscore TPG's leading franchise in India and the broader APAC region as well as our equity capital markets execution capabilities.

This last week, Nextracker, which is in our Rise portfolio, completed its $734 million IPO, the largest and one of the first U.S. IPOs this year. Nextracker is a leading provider of solar tracking solution and highlights the benefit of our theme-based investing. The IPO execution and offering was highly successful with the order book well oversubscribed and the stock trading up 27% on its first day.

In real estate, during the quarter, we sold a portfolio of student housing properties. And last month, we made a sizable realization in one of our U.S. life sciences and innovation-focused platforms, a sector that continues to experience strong tailwinds. Given our purposeful portfolio construction within durable sectors and themes, we've been able to selectively monetize investments despite a material slowdown in many parts of the real estate market.

Looking forward to 2023, we remain focused on the same growth and diversification objectives we discussed with you previously. Our priorities continue to be: one, completing our flagship and other fundraising campaigns; two, continuing our strong track record of organic growth. We've always been innovators, and we intend to expand into adjacent strategies where we believe we have unique competitive advantages such as building climate infrastructure and real estate credit and continuing to scale our GP-led

secondaries effort. Three, inorganic growth remains an important priority for TPG. We are at attractive scale today, but we see significant white space in areas that are natural extensions for us to drive growth and diversification. For example, we remain actively focused on expanding into corporate credit and continue to evaluate a range of opportunities in this space.

Before I conclude my remarks, I want to mention our global partner meeting, which we hosted earlier this week in San Francisco. We covered a range of important topics, including investment strategy, fundraising, culture and growth drivers for the firm. Our partners are laser-focused on continuing to deliver excellent performance for our investors while also building and growing a market-leading, innovative franchise.

I'll now turn the call over to Jack to take you through our financial results.

Jack Weingart^ Thanks, Jon. Good morning, everyone, and thank you for joining the call. Our fourth quarter results once again reflect the resiliency of our FRE-centric business model.

We finished 2022 with total assets under management of $135 billion, up 19% from the prior year. The key drivers of this increase include $30 billion of new capital raised and almost $7 billion of value creation across our portfolios, partially offset by $16 billion of realizations. Fee earning AUM increased over the year from $60 billion to $78 billion at the end of 2022, up 30%. At the end of the year, we had $13 billion of AUM subject to fee earning growth, of which 78% was not yet earning fees.

We continue to reach record levels in our financial performance. Total fee-related revenue was $307 million for the fourth quarter, up 29% year-over-year. Fourth quarter management fees were essentially flat compared to the third quarter due to a onetime step-down in fee earning AUM following the activation of the newest vintage funds for capital and health care partners. Similarly, the recent step down of our Capital Asia fund will impact our fee-related revenues in the first quarter of this year.

Transaction fees were particularly strong in the fourth quarter due to our capital markets business, which continues to be an important differentiator for our investment business. During the quarter, our in-house debt capital markets team had a leader range of role in raising a total of $5 billion of total debt financing in connection with several of the recent investments that Jon discussed. For the full year 2022, we reported fee-related revenues of $1.1 billion, a 24% increase from pro forma 2021.

FRE grew 39% from pro forma 2021 to $454 million for full year 2022 driven by a combination of strong management fee growth of 29% and disciplined cost control, which resulted in an FRE margin for the year of 42%. Our margin expansion of more than 400 basis points from pro forma 2021 demonstrates the scalability of our platform and the ongoing benefits of operating leverage.

For the fourth quarter, we reported FRE of $139 million, up 53% from the pro forma year ago quarter and an FRE margin of 45%. We believe this margin was somewhat elevated in the fourth quarter, and our full year 2022 FRE margin of 42% better reflects our progress toward our near-term target of 45%.

After-tax distributable earnings for the fourth quarter of 2022 were $227 million, a 65% increase year-over-year. This includes a $95 million contribution from net realized performance allocations in the quarter, primarily attributable to the closing of the Wind River transaction. This was an outstanding investment generating substantial profits for the firm and our fund investors. Through TPG's ownership and operational expertise, we helped accelerate Wind River's revenue and EBITDA growth, which was flat at the time of our acquisition in 2018 to double-digit levels at the time of our exit. We're very pleased with the outcome of this deal, which furthers TPG's successful history of corporate carve-outs and highlights our thematic focus on digital transformation enablers.

Following the closing of the Wind River sale, our accrued performance allocation balance decreased from $725 million at the end of the third quarter to $643 million at year-end as $95 million in realized gains were partially offset by $12 million of value creation.

On the topic of value creation, against a difficult operating environment, we continue to see the benefits of our thematic portfolio construction. We invest in companies that have strong secular growth characteristics in sectors where we have deep expertise and our portfolio delivered value creation of 1% in the quarter and 8% in 2022. In our private equity businesses within each platform, average portfolio company revenue growth ranged from 25% to 40% in 2022 compared to 2021 and performance continues to be robust with particular strength in health care, climate and high-end consumer sectors.

In connection with our fourth quarter results, as Gary mentioned, we announced a quarterly cash dividend of $0.50 per share of Class A common stock representing 85% of TPG's after-tax distributable earnings. This is the highest quarterly dividend we've declared since our IPO. In our first full year as a public company, we will have distributed dividends totaling $1.59 per share of Class A common stock.

I would note that in connection with our annual compensation process, in January, we granted 3.7 million restricted stock units to our employees. These units will invest over 3 years, and I would refer you to Slide 28 of our earnings presentation for a comprehensive summary of our equity-based compensation.

Looking at our non-GAAP balance sheet for the TPG operating group, as of December 31, we remained well capitalized with $692 million of cash and $450 million of long-term debt. Our $700 million revolver was also undrawn at year end, giving us ample flexibility to pursue strategic growth initiatives.

Now turning to fundraising. We raised $3.6 billion of capital in the fourth quarter, primarily focused on new strategies such as TPG NEXT and certain areas of our growth

platform, notably TPG Digital Media and TTAD. This brought total capital raised to $30 billion in 2022, a 47% increase compared to the prior year. This was a major accomplishment given the fundraising backdrop and reflects TPG increasing market share due to the breadth and depth of our relationships, the strength of our brand, and most importantly, our strong investment performance across our platforms.

As we look forward to 2023, our fundraising objectives are as follows: #1, successfully completes the campaigns for our flagship Capital, Healthcare Partners, Asia and Rise funds, which we expect to extend through the remainder of this year given ongoing challenges in the fundraising market; #2, make further progress on capitalizing our new businesses, including our secondaries platform, TPG NEXT and Life Sciences; #3, begin fundraising for our next flagship Growth fund, which we expect to launch in the middle of this year based on current deployment pace; and 4, continue our organic growth through the launch of new products. Specifically, we're in discussions with potential LPs for inaugural funds for our private real estate credit effort, TRECO, and for Rise Climate Infrastructure.

To close out, we're proud of the results that TPG has achieved in its first year as a public company. TPG's FRE growth engine proved to be resilient in 2022 despite challenging market conditions. We're confident in our firm's ability to navigate through the dislocation while continuing to grow our fee-generating assets. We look forward to continuing to provide differentiated long-term value to our public shareholders, limited partners and portfolio companies.

I'll now turn the call back over to Shelby, so we can take your questions.

QUESTIONS AND ANSWERS

Operator^ (Operator Instructions) We'll take our first question from Glenn Schorr with Evercore.

Glenn Schorr^ Maybe if you could put some numbers around the points that you just brought up. You caught my attention on two things. One was the step down in first quarter for Capital, Healthcare, and Asia, making some numbers around that and the other part was the four buckets of fundraising. Great to hear. I know it's hard given the backdrop, but maybe you could put a range around what we could be expecting on the fundraising side?

Jack Weingart^ In terms of the step down on TPG, so just to remind people, in Q4, because we activated TPG IX and Healthcare Partners II in Q3, the fees charged on TPG VIII and Healthcare Partners I stepped down in Q4. That step-down was about $2 billion in TPG VIII and it was about $500 million in Healthcare Partners.

And then on your other question on -- I think on the general fundraising outlook. Look, obviously, as I mentioned, we feel very good about the progress we made in 2022. We feel like we gained market share, raising $30 billion in the complicated backdrop and also

capitalizing new businesses, as I mentioned. I also talked about on the last call the fact that we expected fundraising conditions to remain challenging throughout 2023, and we continue to believe that will be the case.

And the same liquidity factors are impacting certain segments of the LP base, but not all segments, primarily the more mature parts of the market, whilst other parts of the market are growing nicely. The fundraising market remains quite crowded with GPs. Against this backdrop, we do expect to continue to gain share this year. And it has been helpful that as we entered 2023, LPs can now access the 2023 budgets.

And across all the flagship funds we have in the market, TPG Capital IX, Healthcare Partners II, Asia VIII and Rise III, we have very strong engagement with LPs. Given the time it takes for LPs to complete their diligence, most of that capital is lining up for Q2 and Q3. So I'd expect Q1 to be relatively light with an acceleration in Q2 and Q3. It's too early to tell if we'll hit all of our targets, but we feel very good about the progress we're making across all those funds.

Operator^ And we'll take our next question from Ken Worthington with JPMorgan.

Ken Worthington^ When you look at the information and data that you're getting from your portfolio companies and maybe a little bit on the broader macro environment as well, how is this informing your view on the outlook for harvesting as we look to 2023? I guess first, have signals changed at all so far in '23 from what you may have seen a quarter or two ago? And if so, could this end up being a more constructive environment for harvesting gains than what you might have been thinking about, again, three, six months ago?

Todd Sisitsky^ I think in a nutshell, across the board, and particularly in the areas that we've been focused on, which are areas that are generally experiencing secular growth, we've seen steady and strong results. I think Jack took you through some of the numbers, and there really hasn't been a particular change or inflection this quarter. But we felt good about the companies' performance, both on the revenue side and on the EBITDA side.

On the realization front, we continue to have a number of areas that we're exploring sales and the like, we did sell Neogene to AstraZeneca in January. So there's still activity. I'd say as a general matter, the skew of the neighborhoods that we're investing in and the companies that we're backing and the growth orientation in our investment strategy does lend itself to strategic takeouts probably a little bit more than industry averages. And that market will remain active even in different environments.

Having said that, our realization pace was -- has been quite strong in recent years, we've seen the overall industry slow down a bit on the realization front. So there continue to be opportunities for liquidity, we continue to seek them, it's probably not the pace of the last two years.

Jon Winkelried^ Ken, the only thing I would add to that is that we are seeing some improvements in the kind of macro and underlying kind of financial markets as it relates to deal activity that may help from the perspective of realization. So for instance, financing, there's been a reasonably there's been a reasonable recovery, not full recovery by any means, but there's been a reasonable recovery when you look at what credit spreads are looking like and the loan markets feel a little bit better to us in terms of sourcing financing.

And then also, I think you've heard us go through some of our activity on the -- with respect to public markets on the IPO side, leading up to our most recent, which was Nextracker. And it definitely feels like there's some pent-up demand from the public markets as well because it's been void of IPO supply for quite a long time. So there are -- the portfolio is performing well. I think we -- I think there's a broad range of sort of when things are ready to be monetized, and we've reinforced that in the past that we're going to monetize what we feel like it's an optimal time to monetize. But there are some relative to last year, maybe so a few green shoots here or there in terms of the market backdrop. So we'll see.

Operator^ We'll take our next question from Brian Bedell with Deutsche Bank.

Brian Bedell^ Maybe switching over to deployment and in the context of fundraising as well. So first on deployment, it sounds like the better improved market environment is slowing some of the expected or raising some of the expectations of sellers and therefore, slowing the process. So maybe just your thoughts on if we do get a soft landing, is that going to hang up deployment generally.

And then maybe through the different platforms, I know Rise Climate, of course, is still ahead of schedule in deployment. Maybe just some commentary on whether you think that can continue to be the case with -- especially with the new Net-Zero Industry Act in Europe, is that even more potential than you thought even a quarter ago for that fund?

Jon Winkelried^ I mean, we talk about this a lot here, as you might imagine. It's an interesting environment right now because the -- some of the signals in the market, like some moderating inflation, although the CPI print this week, obviously raises questions on that, but some moderating inflation rates may be inching back down a little bit what I was saying before in terms of credit spreads. I mean we saw -- if you go back to '22, right, we saw some dislocation in the market as inflation spiked and the overall geopolitical kind of backdrop.

And this dynamic of buyers and sellers kind of not being in the same place, people trying to get their heads around valuations, slow the market considerably. The fourth quarter -- the part of the end of third and fourth quarter, there was definitely kind of a pickup. And you heard already from the deal activity we talked about that there was a more active environment for deployment as we got toward the end of the year. It feels like because of these other signals now, it feels like people are maybe -- there's like a little -- there's another little pause in the market because I think people's expectations on price are

maybe going back up. I don’t know whether that’s well founded or not, but I think they’re going back up.

So I think it's going to be sort of a dynamic environment in front of us in terms of deal activity. It's also -- it is also creating some interesting opportunities. For instance, when you look at GP solutions capital, continuation vehicles, things like that, it's sort of as sponsors try to think about how they want to monetize or partially monetize. So we've seen an uptick there. We've seen some interest in things like co-controlled deals, where we've looked at a couple because people are looking to take some money out. So I think that's sort of the general backdrop. Jim, maybe you can talk about what's going on in Climate.

James Coulter^ Obviously, momentum on Climate was good going into last year, and I would have to say that last year was a seismic change to the positive. Obviously, the political activities and IRA bill in the U.S. changed the landscape and accelerated the landscape dramatically. But the events in the Ukraine and the resulting questions of energy security around the world also substantially increased activity.

In the comments you heard about our investment in Enpal growing 300% a year, if you can imagine a German consumer rooftop solar in this environment would be a much more interesting energy security question for them given the changes, and we're seeing that type of thing happening across markets. So activity levels have picked up. There will be a time for them to feather in because, for example, in the IRA, it's out there, people know it's coming, but it hasn't been fully enacted yet. We're expecting that to happen over the next few months. But generally, the backdrop in interest in climate investing has moved substantially to a positive.

Todd Sisitsky^ It's Todd. The only thing I was going to add is that if you look more broadly across the portfolio -- the franchise, we have other areas such as TTAD, which I think is really about solutions-based capital. That's actually -- this is a great environment, and that platform has been very busy. It continues to be quite busy. And then Jon mentioned in his comments, the MedQuest Associates carve-out from a not-for-profit and that's, I think, indicative of another thing that we're seeing in our pipeline quite a bit, which is the sort of unusual relationships, structured partnerships, our history of being a partner to everyone from Pfizer to Humana and Intel, AT&T, University of Pittsburgh Medical Center.

I think that serves us very well when it comes to sort of more problem-solving capital. And we spend a lot of time developing those relationships, it takes a little bit longer for the opportunities to play out, but that portion of our pipeline in our core private equity business remains robust.

Operator^ We'll take our next question from Jerry O'Hara with Jefferies.

Jerry O’Hara^ Maybe just kind of touching on FRE margin for a moment. I think during the prepared remarks mentioned, Jack, you mentioned that was somewhat elevated in the

quarter, but also recognizing that you're kind of tracking ahead of prior, I guess, guidance towards that sort of 45% target. So maybe a couple of puts and takes that were in the fourth quarter and then sort of how you might see the trajectory playing out as we look forward into 2023.

Jack Weingart^ Sure. Yes. What I meant by the elevated FRE margin in Q4 was largely related to the strong performance on the capital markets fees that I also mentioned on the call, which obviously have a high flow-through margins associated with them. So if you normalize that for a more typical quarter, you bring it back down to, as I mentioned, something closer to our full year FRE margin in the low 40s, which is what I would call our kind of our launching pad for continued performance toward and we stick with the same target we've been talking about of getting to 45% on a sustainable basis by the end of the year this year.

Operator^ We'll take our next question from Michael Cyprys with Morgan Stanley.

Michael Cyprys^ Maybe just on credit. You guys have expressed interest to jump back in. It sounds like you're continuing to think about that and do some work. So just hoping maybe you can update us on your latest thoughts there. It sounds like you're continuing to evaluate ways to enter, maybe you could just update us on what you're seeing, how the environment is impacting those conversations and what learnings and insights have you gleaned from the work that you've done so far and how that may inform your approach and timing?

Jon Winkelried^ I don't know if we have an hour on this call. That's a big question. It's a big topic. Look, I think we're continuing to be focused on it, particularly in this environment where we see valuations moving around a lot. We see -- when you look at sort of where the return opportunities are in a market like this, particularly with dislocation of capital availability, there are some really interesting capital structure types of opportunities, whether they're top of the capital structure, middle of the capital structure.

So we continue to believe that when you think about credit, you think about sort of the total return part of the spectrum there that is very synergistic with our business. As you can hear us talk about our business, and you -- I'm sure you can glean that we're very sector and company focused investors, where we focus, we’re deep. We have a lot of industry knowledge, a lot of company knowledge. That dovetails very well with that part of the business.

So I think we continue to have a strong interest in that. We have not backed off what we've said earlier, which is we have an objective of reentering that space. And we expect to at some point. Deal making, as you know, as far as inorganic entry, deal making is always complicated, particularly in these types of business. So we're working on finding exactly the right partners and the right opportunity.

There are other parts of the credit landscape that also are really, really interesting. And I think you've heard us talk about one. If you look at what's going on in real estate, there's been a pretty massive dislocation in the financing markets in real estate. And in some respect, real estate valuations versus financing costs are upside down relative to where they've historically been. And so we're out in the market right now.

I think we had announced on another earnings call, we hired a new head of our real estate credit business, Doug Bouquard, who came to us with Goldman Sachs, where it was for many years. We're out in the market right now raising an opportunistic real estate pool of capital. And we feel like -- we feel pretty good about it. There's a lot of receptivity around the market from our LPs that we're talking to, and particularly given the strength of our real estate franchise, we're sort of we're drafting off of that in a lot of respects for this capital raise. And we feel pretty good about it. So we're expecting that we'll get some money raised there. We think that the opportunity on that side of the coin is probably as good as we've seen it in maybe a couple of decades. So we're focused on it. We're working on it, and we'll keep you up to date.

Operator^ We'll take our next question from Michael Brown with KBW.

Michael Brown^ I wanted to maybe get a little bit more color about the management fees and see if there's any additional meat on the bone you could add for the trajectory here. So I guess in the fourth quarter, you had a step down in fees and that'll have a modest impact in the first quarter as well. But you did talk about that this $13 billion of AUM subject to fee earning growth here. So any additional color you can add about how to think about the pace of that potential $70 million of management fees could layer in over the coming quarters? And any other thoughts here on the fee rate going forward?

Jack Weingart^ Yes. Let me -- I appreciate the question. We've gotten a couple of questions since posting our results this morning about the average fee rate. And let me try to clarify that. Because there's a lot of pieces moving around. And so it was calculating an average fee rate based on average FAUM for a quarter is a very imprecise thing to do, particularly in a period like this, we're activating new funds and seeing step downs in other funds because we don't charge on a daily average basis.

I can tell you, first of all, we're not seeing any fee pressure in our business. We're not changing our fee schedules. We're not adding discounts that we didn't have before. That's the most important point. On the average fee rate calculation, there are a couple of things flowing through that as you look at Q3 and Q4 in particular. For example, in Q3, as you know, we activated TPG IX and Healthcare Partners II, in July. So we were actually earning fees for virtually the entire quarter in Q3 on that, call it, $10 billion.

If you run your -- I think the way most people calculated weighted average FAUM for the quarter would be 0 plus 10 divided by 2. So you'd assume our earnings fees on $5 billion, we're actually on $10 billion. In Q4, we saw the opposite, right, because the step downs that I just talked about affected our fees for the full quarter. If you calculate average FAUM for the quarter, you would have picked up a higher number in the beginning, a

lower number in the end, but we actually had the step down affected the fees for the whole quarter. So that's some of the nuances that you see flowing through.

On the shadow FAUM that you asked about, we did add nicely to that during the quarter. If you look at where we raised capital during the quarter, the three biggest areas were our Digital Media fund, which charges fees on invested capital only, that was $800 million, $350 million for TTAD, which is also fees on drawn capital only and $500 million for TPG NEXT, which is a normal fees on committed structure, but we have not yet activated that fund. So all of that would have gone into AUM but not FAUM and it will flow in over time. Predicting when that shadow FAUM will pay fees and over what time period is really impossible. It depends upon the pace at which we invest that capital.

Operator^ And we will take our next question from Alex Blostein with Goldman Sachs.

Alex Blostein^ I was hoping we could unpack some of the fundraising trends you saw over the course of the fourth quarter and really how you're thinking about 2023. So I guess first point is in terms of the ultimate sizes of some of the flagship campaigns you guys are on today. Any change in kind of how you think they'll shake out in terms of the absolute size understanding of the timing might take a little bit longer? And then when you look at the fourth quarter specifically, I guess, not a big surprise that Capital segment didn't see a lot, but I was surprised by still pretty robust pace of fundraising in growth. So maybe just find a minute on kind of LP appetite for the more kind of traditional sort of PE fundraising versus the growth franchise?

Jon Winkelried^ Sure. Let me try to address several of those points, Alex. First of all, the appetite continues to be on your last point, continues to be quite strong. You guys can look at our performance and make your own assessment. We think we're performing quite strongly in generating returns and importantly, delivering liquidity to our LPs. I mean our DPI is quite high relative to our peers at a time when others are not distributing as much capital as we have over the past year or two. So the result of all that is strong appetite across the flagships we have in the market.

I think I mentioned on the last call, we did expect Q4 to be quite light just given how tapped out LPs were as we entered Q4. And we actually were able to raise, as you saw, over $3.5 billion of capital across other businesses, most notably the ones I just mentioned, TTAD, Digital Media. There was also some co-investment in there on growth and capital as we close those deals and brought in our LPs as co-investors. That co-investment capital largely does not pay fees, but it's highly strategic to us as our LPs expect us to deliver that co-investment. So that's how I'd characterize kind of Q4.

And as we look out to this year, as I mentioned a few minutes ago, we do continue to see strong demand. Fundraising always has kind of a natural arc to it. And oftentimes, after a large first close like we've had in all these funds, you tend to see a bit of a back loading to the remainder of the campaign. And I think that's always true. It's even more true in today's kind of fundraising environment. So as I mentioned, we have a lot of people doing work and doing their diligence. I'd expect Q1 to be relatively light, but a good

acceleration into Q2 and Q3. We haven't changed our targets on any of the funds, but it's too early to tell whether we'll hit all those targets or not.

Operator^ We'll take our next question from Brian McKenna with JMP Securities.

Brian McKenna^ Great. So I appreciate the detail on the number of LP data during the year. But can you remind us how many LP relationships do you have an aggregate across your business? And then what's the breakdown between the U.S. and the rest of the world? And then kind of over time, where do you see the most opportunity to add new LPs?

Jack Weingart^ I think the LPs -- I can look at a more precise number for the LPs across all of our businesses are in the kind of, call it, 500 to 600 category. Although I think that may now be a bigger number. Let me come back to you on that. What was the second part of your question?

Brian McKenna^ Yes, just in terms of where do you see kind of the most opportunity to add incremental LPs from here?

Jack Weingart^ Yes. And we have been -- that number has been growing over time, as Jon mentioned in his prepared remarks. We still have a lot of untapped potential in the LP base as we continue to grow new products that are more appealing to different segments of the LP market. And as we continue to build out our distribution platform, both the institutional side and the high-net-worth side. I think the biggest source of potential – we're fairly underweight in Europe. We have a lot of room to grow in insurance. We have a lot of room to grow in the high-net-worth channel, which will -- as we've talked about many times, will accelerate as we build out more broadly applicable products to that channel. And those are probably the biggest areas I'd call out, but we see a lot of potential to continue to expand our LP base.

Todd Sisitsky^ Yes, it's Todd. I would just add. I did several trips to Europe last year for fundraising, most recent in the fourth quarter, and we have a number of really strong dialogue. The majority of the 25 meetings we had was with new folks that we're getting to know, but it feels like there's a lot of untapped potential that we're just starting to make some progress on.

Operator^ We'll take our next question from Adam Beatty with UBS.

Adam Beatty^ I wanted to ask about the Capital Market Solutions business or businesses. There's a couple of different elements in there. You already mentioned some of the secondaries fundraising, which is good. Also, the strength in debt ranging in Q4. But just wondering about ECM and the public markets business. And then just overall, what kind of growth trajectory you're thinking about maybe near term, long term? Are you still adding resources there? And obviously, any guardrails you could put around transaction fee expectations would be great?

Jack Weingart^ Just to kind of go in reverse order. We definitely are continuing to add resources in that area. We view the capital markets business to be -- and I'll take one piece at a time -- to be highly strategic for all the reasons we've talked about. We've added -- we probably doubled the size of that group over the past couple of years. We added someone to lead debt capital markets, actually debt and equity capital markets for us in Asia, for example, where we didn't have anybody on the team over there yet.

On the equity capital markets side, that has not been in the -- not in the fourth quarter, a major generator of fee revenue for us but was highly helpful in helping lead the IPO of Nextracker, for example, where we brought in one of the key anchor investors in that IPO. So both the debt and the equity side are continuing to be very strategic.

The other piece of the business you didn't mention, I think maybe you did within that solution segment, or platform is our TPEP business, our public equity partners business. And the performance there was quite strong in 2022. So we see good engagement for investors and expect to expand that capital base this year.

And then you mentioned the secondaries business where you saw we made progress in capitalizing those businesses in Q4. We expect to make continued progress this year.

Operator^ We'll take our next question from Finian O'Shea with Wells Fargo Securities.

Finian O'Shea^ Question on impacting climate franchise. This is an area with good tailwinds in demand, as you've noted in the past couple of quarters. Can you talk about on the balance, the incoming competition from some of your major peers there? And if that is driving a more challenging fundraising environment than, say, we would have thought a year ago.

James Coulter^ Patience is always a form of flattery that I think tells you that there is substantial interest in the marketplace. Our peers wouldn't be coming in if there weren't a lot of LP demand for this type of activity, which really highlights the value of our leadership position. Over the long arc of private equity people have always underestimated the amount of market growth that any segments might have. And I think what we're seeing today is very substantial market growth, particularly around certain sectors of the impact landscape.

As I said before, there's just a seismic change in what's happening in decarbonization and climate but across other sectors like online ed, health care access post-COVID, financial inclusion. If you thought of a landscape of sectors you might want to be involved in, they overlap the impact investing marketplace very strongly. So we feel good about our position. We feel good about the flow we're seeing. And we expect competition, and we also expect to continue to grow against it.

Operator^ We'll take our next question from Rufus Hone with BMO Capital Markets.

Rufus Hone^ Maybe coming back to the FRE margin and thinking about it from the expense side. Can you help us think about the jumping off point for fee-related expenses heading into 2023? Is the fourth quarter level roughly the right level for the first quarter? And I suppose how are you thinking about your pace of hiring in 2023 relative to 2022? Are you slowing your investment arc? Any detail there would be helpful.

Jack Weingart^ Yes. Our fee-related expenses obviously break down into two primary line items, comp and benefits and OpEx. Comp and benefits in Q4 were $102-and-change million and I think that's a reasonable estimate for launching off pad. So as you know, sometimes what you see in Q4 moves around a bit in this industry because if you haven't been accruing for bonuses, as you end up paying them, it can cause a change in Q4. In our case, we ended up right on our accrual for bonuses. So Q4 is a good reflection of the launching off pad for comp and benefits this year. I would expect that we are going to continue to invest in the business. So that should trend up a bit during the course of the year, but a lot of that growth has occurred.

On the OpEx line, OpEx for the quarter was $66 million, roughly, and that too reflects all the factors we've talked about, full kind of return to office, a full return to a lot of travel, both for deals and for fundraising that's causing that number to come back up. A lot of the public company expenses we had to account for. That's all in that number now. So likewise, I think that is roughly a good run rate number to think about as you think about this year.

Operator^ We'll take our next question from Luke Mason with BNP Paribas.

Luke Mason^ Just a follow-up on the fundamentals of portfolio companies. So you mentioned strong revenue growth and some impressive figures. I just wondering if you give an equivalent for EBITDA growth for portfolio companies. And then just which areas are driving that growth? Is it across technology and healthcare? And just on the other side, are there pockets of weakness within the portfolio that you're seeing?

Todd Sisitsky^ Yes. I mean just to put you through the qualitative start there. In healthcare, we continue to see strong demand tailwinds for procedures, which have really been more of a rebound from the losses of procedures and other healthcare activities, more routine healthcare activity during COVID.

In the software enterprise technology business, I think what we've seen actually is an increase in retention rates and particularly at certain points last year, we saw a longer sales cycle in terms of new customer conversions. Although I think that’s actually improved a little bit, but a little bit of a slowdown in the sort of the second derivative in terms of the rate of growth that the companies are hanging in very well.

In our other technology, which we call Internet Digital Media, there remains a persistent demand for content and streaming and a particular rebound in live events and domestic touring that sort of pre-pandemic levels, and we were exposed to that in a number of our

companies, certainly including CAA among others. There has been a slowdown in ad sales.

On the consumer side, it's really a tale to two different sort of groups. On the high end, we've seen very strong demand from the consumer and you know in Viking Cruises and elsewhere. On the lower end, where we have candidly less portfolio exposure, we've seen more of an issue from inflation and a pullback in demand. So again, it's been a little less exposed for us. I think we've talked a bit about Rise and Climate, so that probably gives you a sense for those sectors. So that's how we think about the world from a sector perspective.

From an EBITDA standpoint, strong growth. There certainly continues to feel -- that has been particularly through the fourth -- through 2022 in the fourth quarter, some pressure from wage inflation. Our companies are important companies that have important relationships with the customers. So most of the raw material price increases we've been able to pass through, but there certainly is a lot of focus around wage inflation, and that's subsided a bit. But that was sort of the primary cost item that flowed through in 2022. But overall, margins are stable.

Operator^ Thank you. This concludes the Q&A portion of today's call. I would now like to turn the call back over to Gary Stein for any additional or closing remarks.

Gary Stein^ Thanks, Shelby. Thanks, everyone, for joining us this morning. If you have any follow-up questions, please circle back to me or Evanny. Otherwise, we'll look forward to speaking to you again next quarter.

Jon Winkelried^ Thank you.

Jack Weingart^ Thank you.

Operator^ This concludes today's TPG's fourth quarter and full year 2022 earnings call and webcast. You may disconnect your line at this time, and have a wonderful day.