



LSEG

Foresight Group | LSEG | December 1, 2022

Bernard Fairman (Executive Chairman & Co-Founder):

Hello, I'm Bernard Fairman, Co-founder and Executive Chairman of Foresight Group, and I'm delighted to welcome you to Foresight's half year results for the six months ended 30th September, 2022. I'm joined today by Gary Fraser, Chief Financial Officer and Chief Operating Officer of Foresight. Today we'll take you through our financial and operational highlights, our business review and our financial results for the period, before closing with current trading and outlook. We then welcome your questions.

Since our IPO at the beginning of last year, Foresight has successfully built on foundations across the business built over our 38 year history to deliver a consistently strong performance. I'm pleased to report that the last six months have continued this trend, delivering a financial performance well ahead of our expectations as a result of both organic growth and acquisitions.

I wanted to start by reminding you of Foresight's excellent track record of profitable growth. Over the last five years, we've recorded AUM growth of 37% compound, and over the last three years the period in which we've reported under IFRS, Core EBITDA pre share based payment growth was 40% per annum. This has accelerated over the last year where we've delivered AUM growth of 54% and core EBITDA pre share based payment growth of 41%. And this is high quality growth, with our margin having consistently improved and now sitting above 42% for the period.

Turning now to a brief reminder of our business model. Foresight is a sustainability led investment manager with a robust and diversified business model, both geographically and by business activity. We have a diversified investor base split, two-thirds institutional, one-third retail, which has tipped towards institutional in the period due to the success of our M&A strategy, which I will come onto later. In the first half, around 10% of our income was from Euro and Australian denominated funds. Following the consolidation of infrastructure capital, this has increased to over 20% in the month of October. Substantially increasing the contribution from overseas currencies is a key objective and a further diversification target for the business.

We invest through three investment divisions, Infrastructure, Private Equity and Foresight Capital Management. Through these, we aim to leverage long-term structural demand that will create multi-year opportunities in our attractive key markets and generate long-term sustainable investment returns.

The success of our business model and strategy can be seen in our delivery of 37% AUM compound annual growth rate over five years, and in a 40% compound annual growth rate in EBITDA over three years. It's also evident in consistent recurring revenues of 85 to 90% and in a dividend payout ratio of 60% which, based on the current share price, represents a 50% increase on the yield since IPO.

The first half of financial year 2023 has been another highly successful period and demonstrates how our unique business model has enabled us to make significant progress against our strategic growth targets. We delivered strong AUM growth of 41% to £12.5 billion, and this was driven by both significant acquisition activity which added £3.3 billion additional AUM and organic growth. This is well ahead of our target AUM growth range of 20 to 25%. Funds under management, which represents our fee earning assets, increased by 38% to £9.2 billion during the period.

Our high quality recurring revenue of 89%, is comfortably within our target range of 85 to 90% and demonstrates both the quality and predictability of our revenue generation. The core EBITDA margin was 42%, up from 34.6% only 18 months ago as we've increased our investment size and added operational leverage to the business whilst maintaining our cost discipline. We remain on track to meet our target 43% margin over the median term.

In line with our policy to pay a total dividend of 60% profit after tax, we are declaring an interim dividend of 4.6 pence per share, which will be paid in January 2023. We also continue to make significant progress against our sustainability targets, including a new partnership with the Eden Project. I now pass you to Gary to take you through the financials.

Gary Fraser (Chief Financial Officer & Chief Operating Officer):

Thanks, Bernard. I'm pleased to report another standout period with significant growth delivered across our key metrics, and I'm going to start my section by going into a little more detail on AUM growth. Turning to slide 8 where we highlight the significant and consistent progression of Group and divisional AUM growth.

Firstly, if we look at the Group as a whole, we achieved an impressive 4.9x growth in the period between 31 March 2018 and 30 September 2022. Then breaking this down on a divisional basis and looking firstly at Infrastructure, a division which we began to build in the mid-2000s and remains our largest division by AUM today, we grew AUM from £2.2 billion in FY18 through to £9.7 billion. This represents a 4.5x increase. And we believe we are now one of the fastest growing European and Australian real asset investors. This division continues to benefit from very significant long-term structural growth trends, which have been amplified recently by tailwinds created by elevated power prices and a renewed focus on energy security. The potential impacts of the UK electricity generation levy have already been reflected on Group AUM and will have little overall impact on Foresight Group's revenues as we move forward.

Then looking at our PE division, this is a higher margin but smaller division that still grew at 3x during the period to 30 September 2022, with an acceleration evident in the first half of the current year driven by success in fundraising and M&A. We were able to deliver this growth by successfully implementing a focused strategy based on regional investment, which provides us with a real point of differentiation from our peers and a competitive and deal pricing advantage for our investors.

Finally, looking at FCM, our capital markets division. Since 31 March 2019, this division has delivered a very impressive growth of 12x. This division has significant capacity to continue to build scale without materially increasing its cost base and we are very much focused on improving our distribution capabilities to expand internationally.

Now moving on to slide 9, our AUM bridge, which clearly shows a step change in AUM in the period with the acquisition of Infrastructure Capital delivering two thirds of this growth. Combining this strategic activity with the significant organic growth we achieved last year and the continued organic flows and valuation uplift delivered in the period, we have now grown our AUM since IPO in 2021 by 74%. With larger but less frequent M&A and institutional fundraisers being a key contributor to our growth, today we are evolving our existing 20 to 25% per annum AUM target to a more market standard average growth rate over a rolling three year period.

Now moving on to slide 10, which goes into more detail on the breakdown of our £12.5 billion AUM. Looking firstly at the chart on the left hand side, you can see our AUM split across three distinct business divisions with our largest division Infrastructure contributing 78% of AUM. This division provides significant diversification for the Group through its broad geographic footprint which expanded materially in the period with almost 50% of its AUM now held outside of the UK across both Europe and

Australia. Secondly, moving to the central chart, you can see that we also create diversification through our client mix, attracting investment from both institutional and retail clients. We like the split that we have here with retail funds offering very attractive revenue margins and a steady source of fundraising while institutional can deliver significant growth within a short timeframe. Finally, the chart on the right hand side shows our AUM by fund type and clearly highlights the high percentage of AUM that we have within our LP and evergreen vehicles at 66%. These are sticky funds and for context, the weighted average investor commitment in our LPs is an impressive and valuable 12 years. These characteristics all combine to deliver a high quality and diversified platform that supports long term and predictable revenue generation.

Turning now to slide 11, revenue growth. We've delivered 28% year on year growth to £50.7 million driven by higher FUM through increased deployment and valuation uplifts, new fund launches and the previously mentioned acquisitions. Our recurring revenue remains within our target range at 89% and is expected to remain in range for FY23, showing the quality and reliability of our revenue generation. Within our recurring revenue c.80% is generated from funds that can continue to raise into the future, including listed infrastructure as well as OEICS and evergreen funds. We are also diversifying our revenue generation geographically. In the period we delivered 10% in non GBP currencies, but with the inclusion of a full six months of the expanded Australian asset base, we anticipate this to expand to over 15% for FY23 and to increase even further in FY24.

So looking briefly at our revenue breakdown on slide 12. As you can see, all three business divisions have continued to deliver revenue growth year on year driven by two key factors, increased FUM and maintenance of fee margins. We continue to experience no significant pressure on the latter. This combined with the balanced divisional contribution we deliver, provides us with revenue resilience and gives us confidence in our continued ability to deliver revenue growth through economic cycles. The contribution from Infrastructure in the second half of the year will increase to reflect a full six months of revenues from Infrastructure Capital.

Turning to slide 13 on costs. We expect underlying FY23 admin expenses to be broadly in line with the 12% guidance we provided at our full year results in July, excluding certain expenses arising from acquisitions that are included here but will only recur for a limited timeframe. The accounting treatment for the acquisition of Infrastructure Capital under IFRS 3, will impact our statutory reporting going forward, which we cover in detail within the appendices and in note 21 of the financial statements in our half year report. There'll be no impact on our key reporting metrics. Run rate admin expenses for Infrastructure Capital and Downing for the second half of the year are anticipated to be an additional c.£1 million per month. We continue to have a laser focus on active cost control while investing in our future growth by continuing to develop and grow our talent pool in key areas. At the period end, almost 50% of our FTE were investment professionals.

And turning to my final slide 14, this demonstrates significant EBITDA progression over the last 12 months with a 41% increase in core EBITDA, pre SBP to £21.5 million, which is approximately 8% ahead of consensus. This growth has been delivered with an associated margin improvement of 4.1 percentage points to 42.4%. There are some one-offs in that number, but we expect margin for FY23 to remain at 40% or above, which is positive progression from FY 2022 when we achieved 37%. I'll now hand you back to Bernard for the business review and outlook. Thank you.

Bernard Fairman (Executive Chairman & Co-Founder):

Turning now to a review of each of our three divisions. Following the acquisition of Infrastructure Capital Australia, our infrastructure division is now one of Europe's and Australia's fastest growing real asset investors. The acquisition of Infrastructure Capital was the primary driver of the exceptional 54%

increase in AUM to £9.7 billion whilst FUM increased by 56% to 6.4 billion. We continue to build scale in this division and the rate of capital deployment increased substantially. We completed 24 transactions with a total potential investment of £948 million in the period, with an average deal size twice that of the FY22 average. Investments we made during this time have deepened exposure in our core asset class, but at the same time also expanded into adjacent asset classes such as green hydrogen. An investment we made into HH2E, a green hydrogen developer, is a good example of how we can leverage the investment capabilities across our businesses to create opportunities. The structure of this investment and the presence of a management team has similarities with our private equity investment approach where we back management teams to develop a business.

This isn't the only example of how we're working across the business to capitalise our new opportunities. Our investment in fiber broadband also brings together the expertise of our Infrastructure and Private Equity teams. Going forward, our business model means we are uniquely placed to benefit from opportunities just like these. We also benefit from being active in multiple markets. Our broadening geographic footprint means that we're able to target the most attractive markets at any one time. For example, 70% by value of our transactions in the period were international, with the percentage increasing when looking at future deployment rights. It's always been our approach to be country agnostic, looking for the best opportunities across the world, and our investments in the period provide clear evidence of this approach.

In the future, our strategic priorities are focused on growing the business, which we'll achieve through fundraising for both new and existing funds and marketing these to both new investors and to our now significantly expanded pool of existing investors. The ongoing effort to reach net zero continues with many trillions of dollars needed to drive expansion in our end markets, providing a strong multi-year foundation for significant ongoing growth. Against the current macroeconomic background, we believe that investment in sustainable infrastructure will contribute to global energy security, to economic growth and to job creation. And this will create high quality, short, medium and long term investment opportunities that will continue to drive successful growth for this division.

Our Infrastructure Capital acquisition means that Australia now accounts for around 33% of our infrastructure division AUM. This represents a very significant expansion of our geographic footprint, which creates a further strand of diversification within our business model. In the past few months, we've made excellent progress with the integration of our Australian business, and a significant number of Foresight's existing team have been out to our new Australian office, including myself. Our main Australian renewables fund, ARIF, already stands at 1.7 billion Australian dollars and it's currently fundraising with a target raise of a further 1 billion Australian dollars. We look forward to discussing the success of that with you at our full year results in July.

Turning now to our private equity division, we delivered exceptional performance in the period with AUM up 39% to £1.3 billion through a combination of organic and inorganic growth. Organic growth was driven by reaching first close of three new private equity funds, adding £70 million in AUM and significantly increasing our original footprint. In July, we completed the acquisition of the Technology Ventures Division of Downing, a UK based investment asset manager, which added £275 million to our AUM and will meaningfully expand our retail private client offering to provide enhanced growth opportunities. Our portfolio remains balanced with exposure to both well-established and earlier stage companies across a range of sectors.

The team delivered another period of strong activity deploying £46.3 million of capital across 31 transactions and a further £39.8 million committed to portfolio companies that provide specialist lending to third parties. The team continued to deliver investment out-performance with a completion of a number of successful realisations including the sale of Code Play Software, which resulted in an

impressive return of 16x, turning an investment of around £3 million into £49 million of sales proceeds, a truly exceptional performance.

Looking forward, we believe that the £1 - 5 million investment segment remains the most attractive in the UK market for value creation, and we're one of the two leaders in this space. Rising inflation as a result of supply chain issues and the war in Ukraine will only widen the SME funding gap, increasing the number of attractive opportunities available to us. In the £1 - 5 million market segment, debt is not a key part of the investment process, and so this has not created the challenge for us that many others are facing in the larger PE investment sizes. Our team of 46 professionals has a great depth of experience across multiple economic cycles and is working with our existing portfolio companies to facilitate their continued success under challenging conditions.

Our strategic priorities for private equity are focused on effectively managing our current portfolio and driving growth through an expanded deal flow, giving us access to new opportunities and fundraising for new and existing funds.

Moving to our third business division, FCM, where we leverage our deep knowledge of private markets to provide opportunities in listing markets. During the period there were net inflows of £26 million in contrast to the wider UK open-ended market, which saw substantial net outflows. However, the significant volatility seen in financial markets during the period led to a performance drawdown of £163 million resulting in a decrease in AUM of 8.5% to £1.5 billion. Although by way of contrast, the FTSE 250 was down approximately 20% over the same six month period.

Looking forward in an environment of rising inflation, the ability of FCM's strategies to invest in assets and sectors that provide exposure to companies with inflation link returns and significant income generation will be increasingly beneficial for our investors. We're now focused on broadening our distribution to channels including private banks and family offices globally, as well as establishing a greater presence in direct to consumer sales as the Foresight brand becomes increasingly recognised. And finally, we're also making good progress in the international sub advisory market and hope to have secured a mandate with a US partner before the end of the financial year.

Turning now to the long term outlook for the Group, following our highly successful first six months in FY23. As a prominent investor in both European and Australian sustainable infrastructure as well as regional private equity, the long term structural trends in our markets mean that the opportunities for Foresight in multiple different markets are increasing. The de-carbonization of energy generation and the shift to a more sustainable society is accelerating, but these changes cannot happen instantly and they present a multi-year opportunity for us. We're therefore confident that the outlook for Foresight in the coming year and beyond is very positive. This is supported by our robust and differentiated business model, which offers us ongoing opportunities to deliver and create value for our diverse investor base of more than 200 institutional and over 40,000 private investors. Our stated M&A strategy, including the recent acquisitions, will also contribute to the Group's growth profile and delivery of our targets. The opportunity for international expansion outside of the UK will be one of our strategic priorities next year as we seek to further diversify our revenue generation. It's this combination of factors that enables the ongoing successful execution of our sustainable investment strategy to deliver consistent profitable growth and therefore increase our dividends to our shareholders.

Finally, I'd like to leave you all with a reminder of the excellent track record of profitable growth that Foresight's delivered to our investors, 37% five year AUM compounded annual growth rate, 40% three year EBITDA compounded annual growth rate, and a big improvement to our margin post IPO from 34% to 42%. Thank you all for listening. I'd now like to pass it back to the operator to open the lines for questions.

Operator:

If you would like to ask a question, please signal by pressing star one on your telephone keypad. As a reminder, participants can also submit questions through the webcast page using the ask question button. We will pause for a moment to assemble the queue. And we'll take our first question from Tom Mills from Jeffries. Tom, please go ahead.

Tom Mills (Jefferies):

Good morning guys. Thanks very much for the presentation and taking my questions. I had a couple, please. Firstly, Bernard, you mentioned that ARIF fundraising is targeting a billion Australian dollars. Could you perhaps give us a bit of a steer as to where else you could see fundraising coming through as we move into FY24? And then on the distribution side, could you perhaps talk a bit more about the initiatives to expand on the retail distribution and how do you see infrastructure capital opening up expanded opportunities in the institutional channel void? Thanks very much.

Bernard Fairman (Executive Chairman & Co-Founder):

Tom, thanks for that. I'll deal with the Infrastructure Capital question and the funds question and Gary will talk about extra retail distribution. In terms of our pipeline of funds, we have a pipeline of institutional funds following ARIF. Foresight Energy Infrastructure Partners FEIP raised 850 million euros last year. It's now pretty close to 70% committed and we will raise a successor and slightly larger fund next year. To remind everybody, Foresight Energy Infrastructure Partners invests in the energy transition and has a worldwide mandate. It is quite western European orientated, but we're doing deals in Australia and the US. So that's the next one, and that's likely to get a flying start from existing investors re-upping. Also, obviously true with ARIF. They're both existing mandates, if you will. We have a couple of new funds and mandates, Foresight Core European Renewables Fund, this is the fund we're raising now and is likely to be between 5 and 750 million euros, and it's investing largely throughout Southern Europe in existing wind and solar. We've got a long track record of buying assets, aggregating, and/or improving performance before selling on.

Now one interesting point, talking to potential investors, we get lots of feedback on our sustainability focus, being our actual sustainability focus as opposed to what others talk about. People can see that we're delivering sustainability across our whole business. People will have heard me speak a little while ago about the Eden Project partnership, for example. That has quite significant implications. So that's that one. And another one, again that we're in the process of beginning to raise now, is a hydrogen fund. We are one of the few investors that I think has actually made any hydrogen investments. I talked about one a little earlier on in Germany. We've got close relationships with Fortescue through our Williams Advanced Engineering joint venture. Fortescue are one of the biggest hydrogen investors in the world based obviously in Australia, who I think will become a hydrogen powerhouse going forward. So I think in terms of new funds and mandates, that gives you some idea on pipeline.

I think in terms of distribution, we will use the Australian hub as a place to distribute products that we wouldn't otherwise have been able to access the Australian supermarket with. Australian supers are notoriously difficult to penetrate. We do have 30 of them as investors in Infrastructure Capital funds, and are offering them the full range of products that we're producing in the UK and elsewhere. Also, I think Southeast Asia and Japan is an opportunity that we will be accessing either by entering into a relationship with a much bigger Group or by entering it through placement agents, but clearly we've got a big footprint now in that part of the world. Gary, do you want to talk about the retail distribution?

Gary Fraser (Chief Financial Officer & Chief Operating Officer):

Sure. So in terms of the retail distribution, in the UK we've obviously got our own team of about 45 people. We're always looking at ways that we can improve that to develop that further and to raise further funds. Internationally. We're looking at it in terms of three geographies, so the US, Europe, and Eastern Asia. To really maximise retail distribution, we're looking at joining with third parties to do that in each of those different areas. The furthest advanced of those is the US where we're going through SEC approval at the moment, and we'd expect to launch that very early in the new year. And that's the lowest cost way for us to do that, and we would look at replicating that type of scenario both in Europe and Eastern Asia in terms of retail distribution. So we expect to be able to announce something, especially with regards to the US, in the not too distant future.

Tom Mills (Jefferies):

Thanks, Gary. Thanks, Bernard. That's very helpful.

Operator:

Thank you. There are no further questions on the conference line. I will now hand over to Elizabeth to read out the written questions. Please go ahead.

Elizabeth Scorer (Head of Corporate Investor Relations):

Thank you. I can also confirm that at this point there are no written questions, so I will simply hand back to Bernard for some closing remarks.

Bernard Fairman (Executive Chairman & Co-Founder):

Good, well thank you for that. In conclusion, clearly these results are well ahead of estimates and demonstrate strong growth. By any count, these are very good results, with organic growth and operational leverage coming into play here. Our EBITDA margin performance is excellent relative to our target which we will continue to target beating. We plan on doing that for the rest of this year, and we'll continue to grow funds at the top line whilst others in today's market aren't. It's a strongly differentiated story. We're now quite a large business and we intend to get materially larger. We are very impactful in the markets in which we operate.

Thank you very much everybody for listening. The share price is beginning to get the story, with the business growing 40 or 50% in the last few years and trading on a PE multiple of around 10 or 11x, and hopefully the message will have become clearer as a result of today's presentation. Thank you very much everybody. Thank you for listening and we look forward to speaking to you next time.