



# Merchant Banking

## Presentation to analysts and investors

March 2020

# Merchant Banking



A powerful and cohesive multi-strategy platform across the capital structure

€14.0bn

assets under  
management

9%

from the Rothschild & Co Group

155 professionals

24 nationalities



5 offices

Paris, London, Luxembourg, New York, Los Angeles



Private Equity €6.2bn

Corporate private equity, secondaries,  
multi-managers funds, co-investments

Private Debt €7.8bn

Direct lending, credit management

# Private Equity offering



Mid-market focus through directs, secondaries, co-investments and multi-managers

Corporate Private Equity			Multi-Strategies (FAMS)		
€3.6bn			€2.6bn		
<b>FAPI</b> Five Arrows Principal Investments 	<b>FAGC</b> Five Arrows Growth Capital 	<b>FACP</b> Five Arrows Capital Partners 	<b>FASO</b> Five Arrows Secondary Opportunities 	<b>FAMI</b> Five Arrows Minority Investments 	<b>FAPEP</b> Five Arrows Private Equity Programme 
Mid-market buyout	Small-cap buyout	Mid-market buyout	Mid-cap direct Secondaries	Co-investments	Multi-managers & fof platform
FAPI I (2010): €583m FAPI II (2015): €781m FAPI III (2019): €1.3bn	FAGC (2020): <i>fundraising</i>	FACP (2018): \$655m	FASO III (2012): €259m FASO IV (2016): €459m FASO V (2019): €1.0bn	FAMI I (2013): €100m FAMI II (2016): €155m	FAPEP I (2017): €195m FAPEP II (2019): <i>fundraising</i>
33 investments in 10 countries			15+ years track record across more than 50 transactions		
36 investment professionals			21 investment professionals		

# Private Debt offering



Credit solutions across the capital structure for mid-cap and large companies

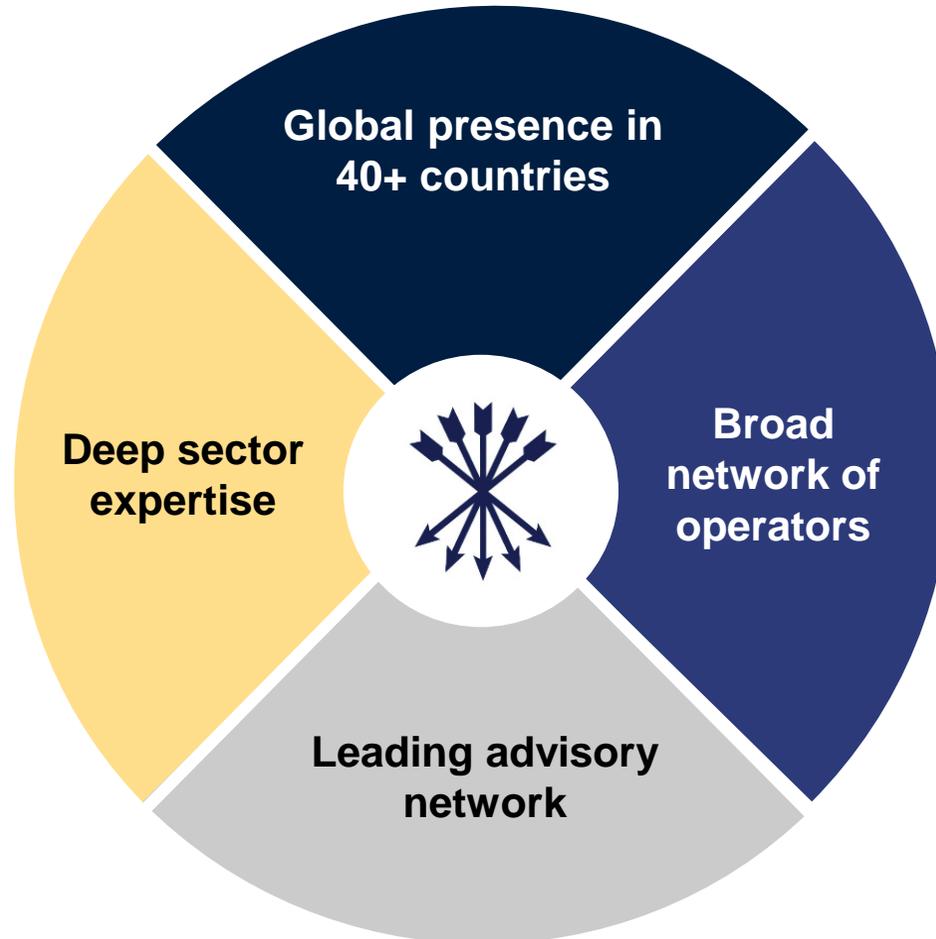
Direct Lending			Credit Management			
€1.2bn			€6.6bn			
<b>FACS</b> Five Arrows Credit Solutions 	<b>FADL</b> Five Arrows Direct Lending 	<b>FADP</b> Five Arrows Debt Partners 	<b>Oberon</b> & managed accounts 	<b>Elsinore</b> & managed accounts 	<b>GLI</b> Five Arrows Global Loan Investments 	<b>CLO</b> management 
Debt financing solutions to privately-owned businesses across the European mid-market			Unlevered senior secured credits	Senior, subordinated and CLO credits	CLO Equity	CLO vehicles
FACS: €415m (2014) FADL: €657m (2018) FADP III: <i>fundraising</i>			Oberon I-III (2013-17): €965m Oberon IV (2018): <i>fundraising</i> Oberon USA (2018): open-ended Managed Accounts: €1.8bn	Elsinore I (2018): <i>fundraising</i> Managed Account: €100m	FA GLI (2019): <i>fundraising</i>	€3.5bn Europe: 6 CLOs (Contego) North America: 4 CLOs (Ocean Trails)
31 investments across Europe			23 investment professionals			
11 investment professionals						

# The Group's synergies



Leveraging the Group's unique market edge and sourcing capabilities

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# A disciplined investment philosophy



We base our asset selection on stringent criteria centred on risk-adjusted returns

## Our key investing principles

- Attractive and durable returns on invested capital
- High and sustainable barriers to entry
- Strong free cash flow conversion and yield
- Superior long-term organic growth
- Multiple value creation levers and active portfolio engagement

## Key product & company themes

- “Mission critical” products
- “Installed base” of customers (recurring sales)
- “Asset-lite” businesses with disproportionate profit scaling
- Secular growth prospects driven by sustainable tail winds
- Dominant domestic franchises and/or export champions

## Views on managing risks

- Input price volatility can be a killer
- Understand business performance through several cycles
- Operating leverage and financial leverage is a dangerous combination
- Awareness of the impact of regulatory change

**Our core  
sector focus**

**Healthcare**

**Data &  
Software**

**Technology-  
Enabled  
Business  
Services**

# Our portfolio diversification

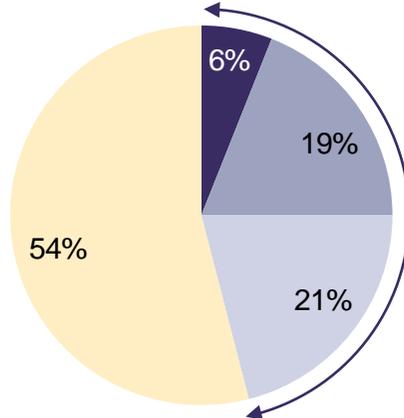


## Bias towards our core sectors

### Portfolio exposure by sectors

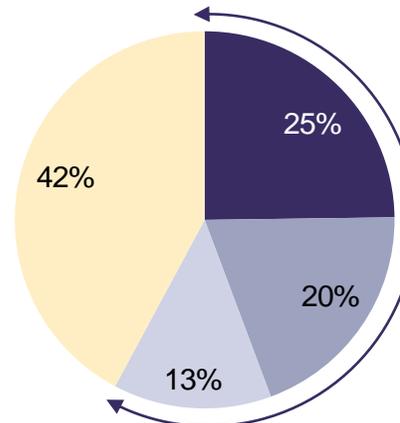
March 2015 (NAV= €426m)

**46% on core sectors focus**



December 2019 (NAV=€527m)

**58% on core sectors focus**



- Healthcare
- Data & Software
- Business Services
- Other

*Result of a more mature, focused and higher quality investment style*

**Note**  
Based on NAV, excluding carried interest shares

# Our business model: long-term and scalable

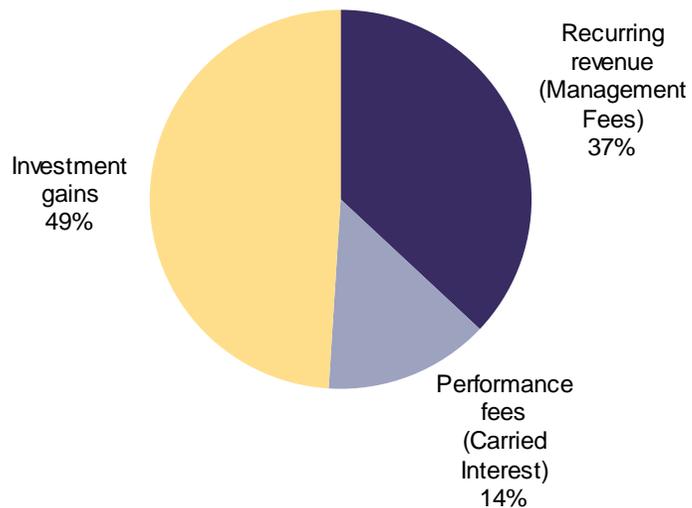


# Our revenue model: a mix of investment and management profit

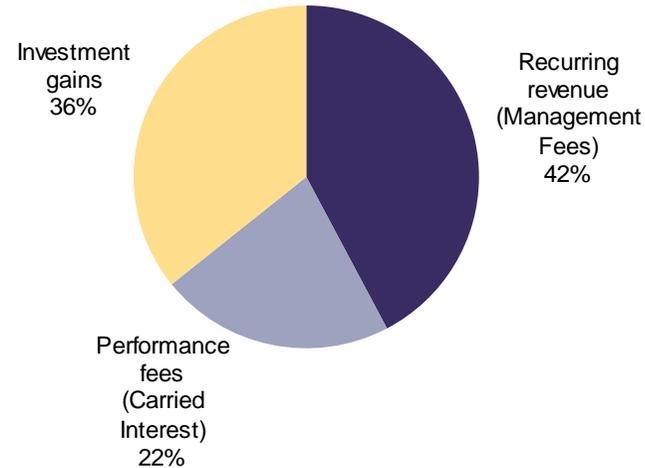


## Our revenue mix

2015-2017 average



2017- 2019 average



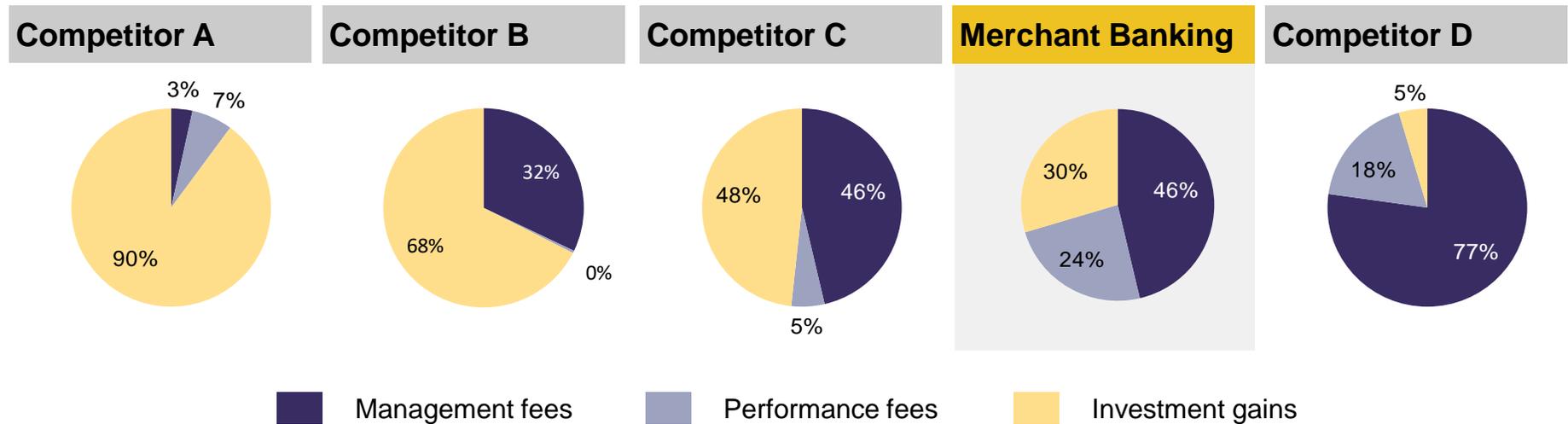
*Balanced mix between fees, carried interest and investment gains*

# Our revenue mix vs. European peers



The quality of our revenue is superior to most of our peers

## 2019 revenue mix



**Note**  
Peers represent multi strategies listed private equity competitors

**Sources** Companies' public annual reports

# Our target performance across strategies



## Private Equity

### Corporate Private Equity

Gross Multiple  
2.25x – 2.75x

Gross IRR  
18% - 20%

### Multi Managers

Gross Multiple  
1.50x – 1.70x

Gross IRR  
14% - 20%

## Private Debt

### Junior

Gross IRR  
12%

### Unitranche

Gross IRR  
8%

### Senior

Gross IRR  
4%

#### Notes

The above contains targets and assumptions and there is no guarantee that these will be achieved  
Please see the Disclaimer slide at the end of this presentation for information regarding the use of target returns

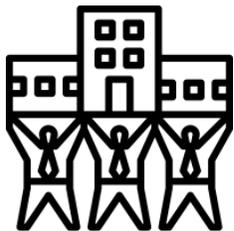
# The future of private markets



## Private vs. public assets: a systemic switch?

### Secular growth drivers

- Superior returns than public equities
- Better resilience of private equity over economic cycles
- Retrenchment of banks driving growth in private debt
- Continued scrutiny on public markets
- Increasing allocations towards alternatives



A deep addressable market of private companies



Increase of investors' allocations to private equity and private debt

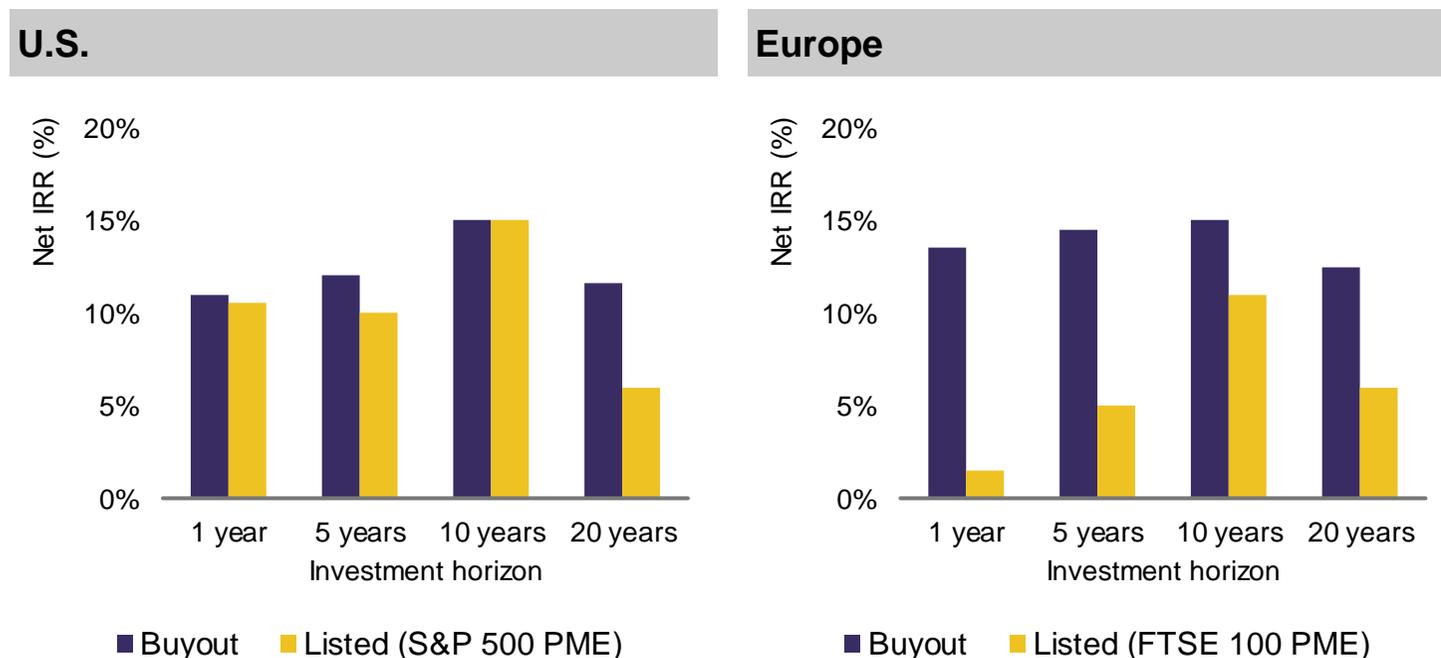


Unprecedented flow of capital into the private markets

# Superior returns of private equity



## Superior returns compared to public equities



**Notes**

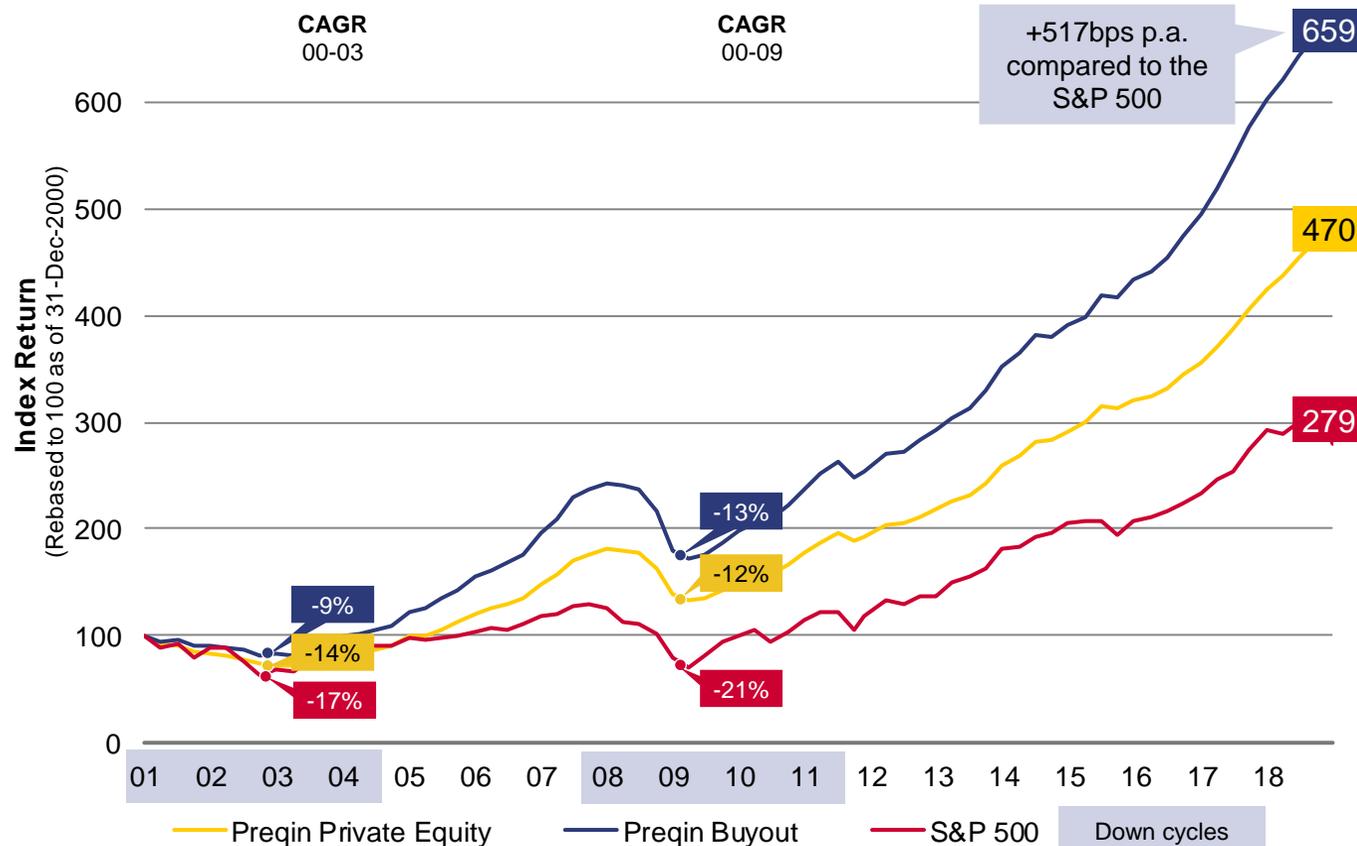
IRR corresponds to end-to-end pooled IRR i.e. performance of the asset class as a whole over the last 5, 10 and 20 years; data for US calculated in US dollars; data for Europe calculated in euros; Europe includes developed economies only; Indexes are based on Cambridge Associates' mPME proprietary private-to-public comparison methodology that evaluates what performance would have been had the dollars invested in private equity been invested in public markets instead; the public index's shares are purchased and sold according to the PE fund cash-flow schedule

**Sources** Cambridge Associates / Bain & Co Global Private Equity Report – figures as of June 2019. US listed equivalent = S&P 500, Europe listed equivalent = MSCI

# Better resilience of private equity



## Performance of the PE asset class across cycles



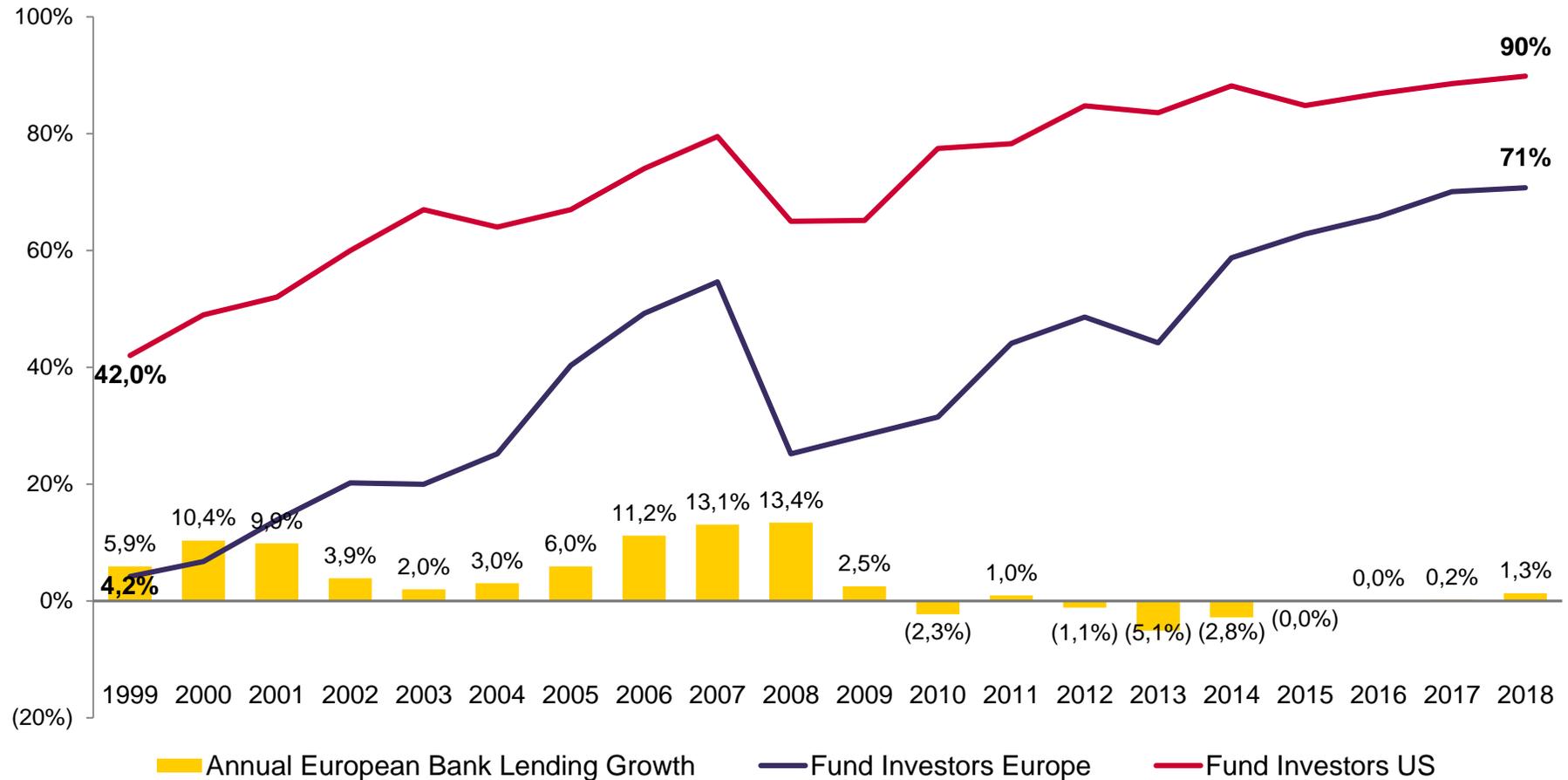
*The S&P 500 has generated an annual return of 6% while buyout funds have returned c.11% annually since 2000*

Source Preqin Index: Private Equity and Buyout vs. S&P 500 (Rebased to 100 as of 31 December 2000)

# Bank lending remains subdued with further penetration potential expected in Europe



## Share of leveraged loan market held by fund investors and European Bank Lending Growth



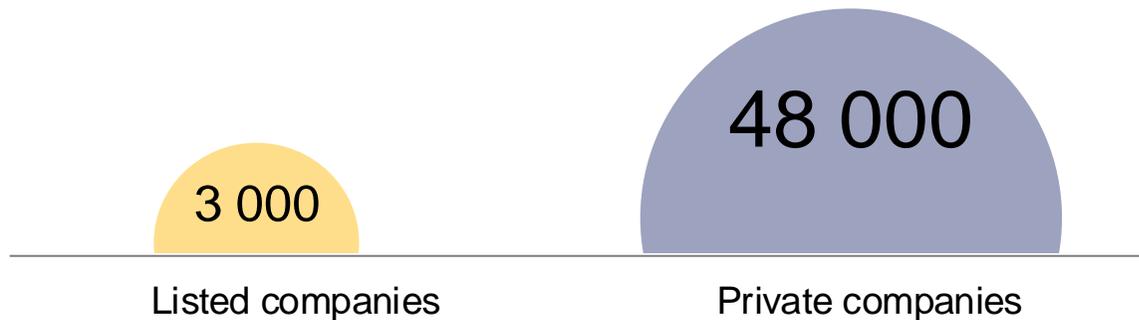
Source S&P LCD News, European Commission

# Unprecedented flow of capital into private markets

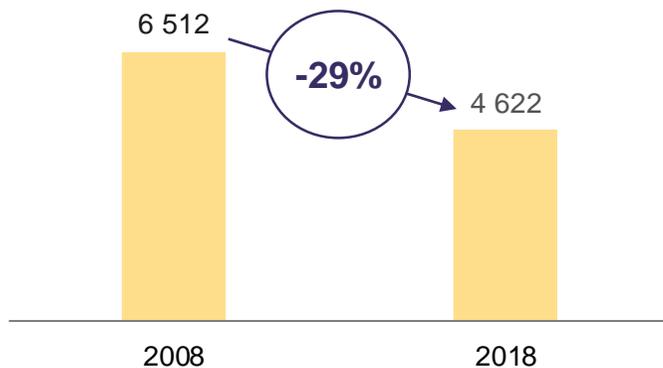


A deep addressable market of private companies

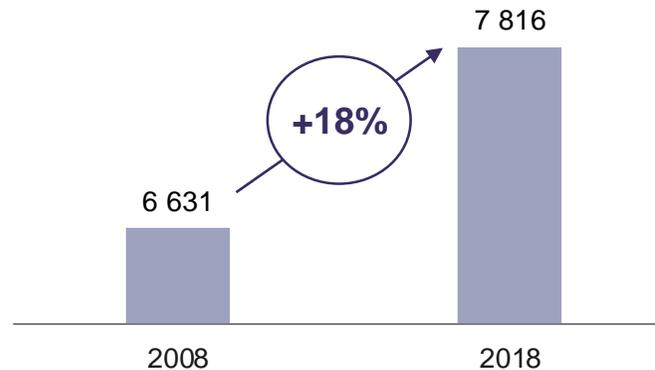
European companies with €100m+ of revenue



European listed companies



European private equity backed companies<sup>1</sup>



Sources: Capital IQ, World Federation of Exchange / Worldbank, Invest Europe

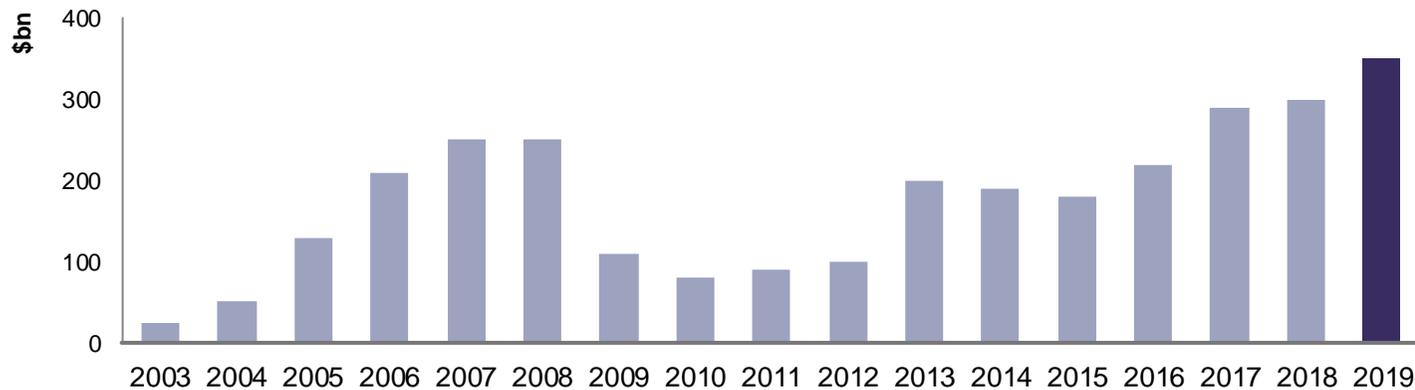
Note

1. Number of companies backed by a PE sponsor during the year

# The amount of buyout capital raised is in line with the growth in new investment activity

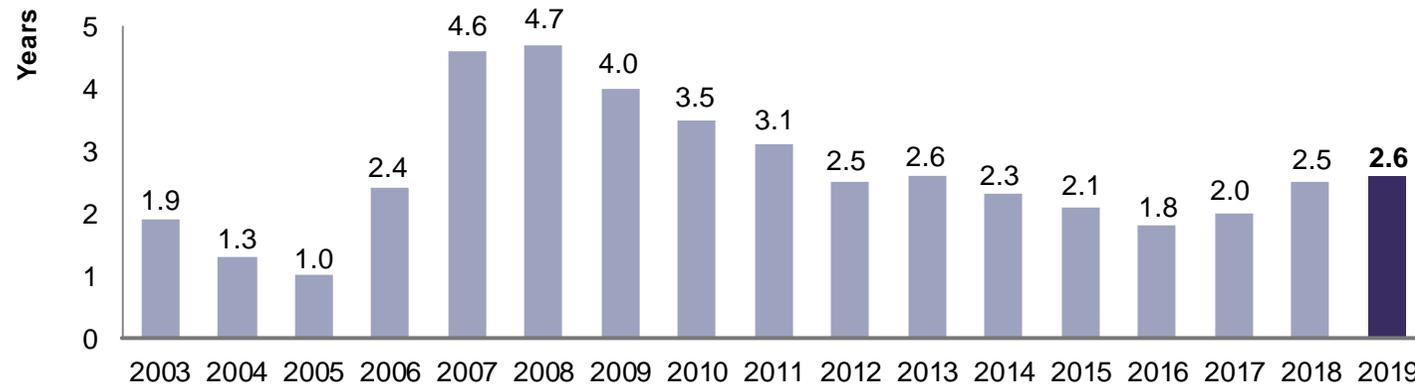


## Global Private Equity buyout capital raised



*Fundraising cycle continues to be strong...*

## Average duration of buyout dry powder



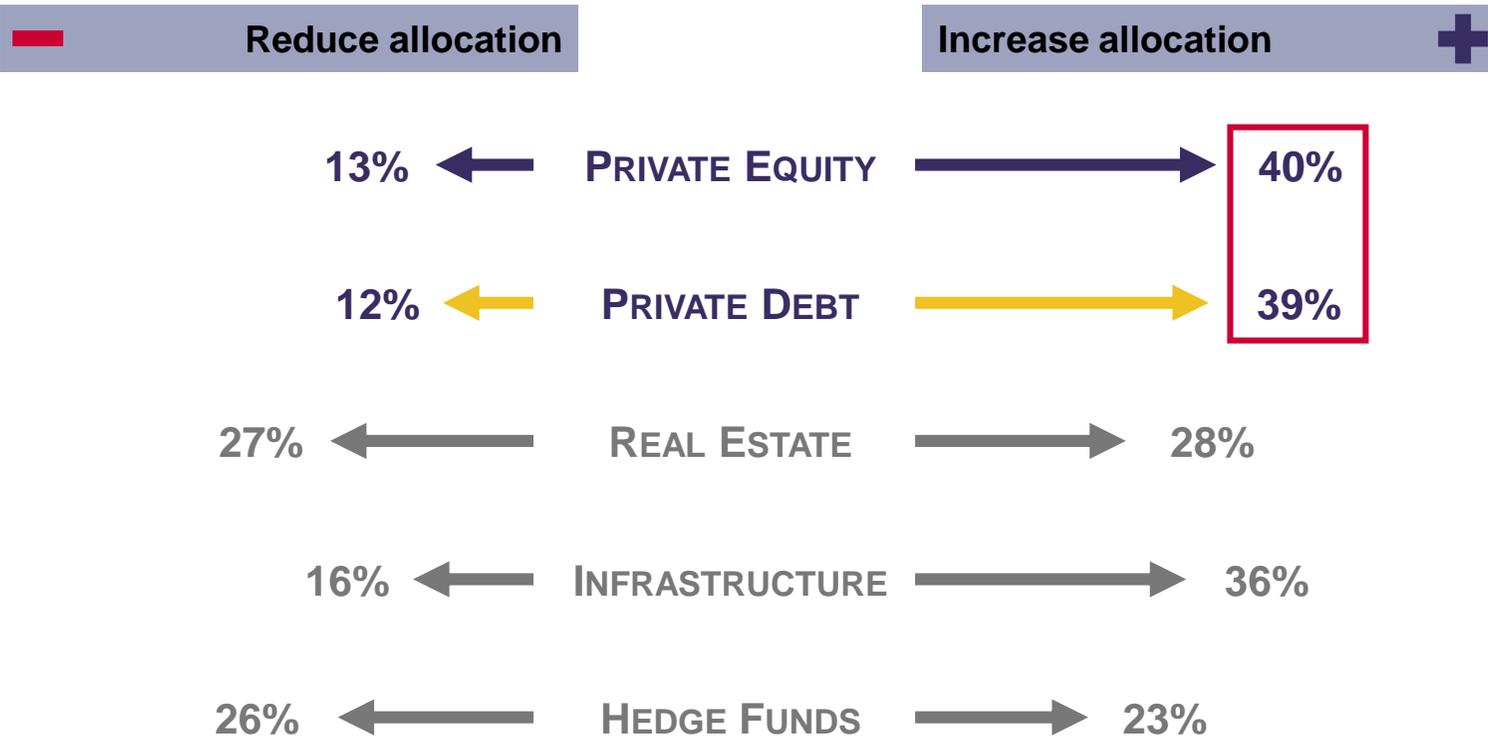
*... however the average time to use dry powder remains less than 3 years*

Sources Bain & Co Global Private Equity Report 2020 (Preqin, Dealogic, S&P Capital IQ)

# Increasing investor appetite for private equity and private debt



## Institutional investors' plan

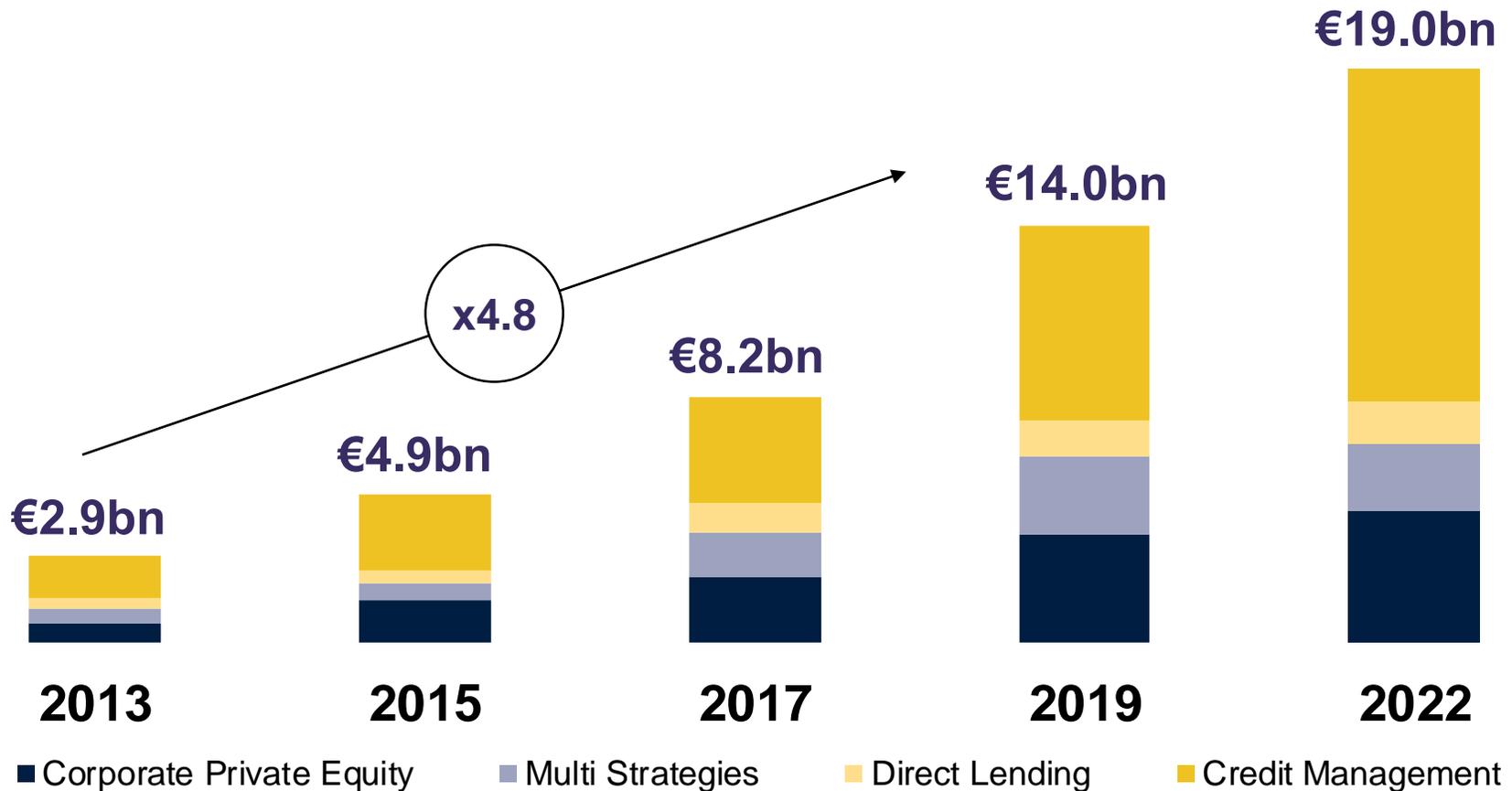


Source: Preqin Investor Outlook: Alternative Assets H2 2019

# Merchant Banking continues to scale across all our strategies



## Merchant Banking Assets Under Management



**Note**  
For illustrative purposes only. The above information is based on a variety of assumptions including that fundraising efforts will reach multi-year targets. Actual results may differ.

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Index descriptions: S&P 500 Index is a free-floating capitalization-weighted index of the prices of 500 large-cap common stocks actively traded in the United States. MSCI EAFE Index is designed to represent the performance of large and mid-cap securities across 21 developed markets, including countries in Europe, Australasia and the Far East, excluding the U.S. and Canada. It covers approximately 85% of the free float-adjusted market capitalization in each country.

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