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# EDITED TRANSCRIPT

AllianceBernstein Holding LP to Acquire CarVal Investors LP -  
M&A Call

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## PRESENTATION

### Operator

Thank you for standing by, and welcome to the AllianceBernstein conference call. (Operator Instructions) As a reminder, this conference is being recorded and will be available for replay for 2 weeks. I would now like to turn the conference over to the host for this call, Head of Investor Relations for AB, Mr. Mark Griffin. Please go ahead.

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### Mark C. Griffin *AllianceBernstein Holding L.P. - Head of IR*

Thank you, Phyllis. Good morning, everyone, and thank you for joining our conference call to discuss AllianceBernstein's acquisition of CarVal Investors, announced earlier this morning. This conference call is being webcast and accompanied by a slide presentation that's posted in the Investor Relations section of our website, [www.alliancebernstein.com](http://www.alliancebernstein.com).

With us today to discuss the transaction are Seth Bernstein, our President and CEO; and Ali Dibadj, CFO and Head of Strategy; and Matt Bass, Head of Private Alternatives. Additionally, Steven Joenk, Chief Investment Officer of Equitable Holdings, will join us for questions after our prepared remarks.

Some of the information we'll present today is forward-looking and subject to certain SEC rules and regulations regarding disclosure. So I'd like to point out the safe harbor language on Slide 2 of our presentation. You can also find our safe harbor language in the MD&A of our 10-K filed last quarter. Under Regulation FD, management may only address questions of material nature from the investment community in a public forum. So please ask all such questions during this call.

Now I'll turn it over to Seth.

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### Seth Perry Bernstein *AllianceBernstein Holding L.P. - CEO, President & Director*

On behalf of our team at AB, I'm excited to welcome CarVal Investors to AB. This acquisition marks an important step toward AB's goals of building a world-class Private Alternatives platform. We welcome an outstanding team with a 35-year track record of strong performance and broad capabilities in private and opportunistic credit across a global platform, which is highly complementary to AB's existing Private Alternatives offering.

As shown on Slide 3, this acquisition represents significant progress toward realizing several of our key objectives. First, we're responding to increasing client demand for private credit solutions from our Institutional, Private Wealth Management and Retail clients. CarVal's products build upon the success of AB's existing Private Alternatives platform, expanding the range of our investment opportunities for a wide array of both current and potential clients.

Second, CarVal is an excellent cultural strategic product and financial fit for both clients and unitholders. AB's acquisition of CarVal is consistent with AB's stated growth strategy of expanding our Private Alternatives capabilities making an important step toward AB's goal of building a world-class Private Alternatives platform with pro forma private markets AUM of \$49 billion.

Third, importantly, the acquisition is enabled and enhanced by our mutually beneficial partnership with Equitable, reflecting the virtuous cycle associated with their \$10 billion of permanent capital commitment. Equitable will commit \$750 million in permanent capital of

CarVal's growth, enhancing the risk-return profile for their general account.

Now I'll turn it over to Ali Dibadj.

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**Ali Dibadj AllianceBernstein Holding L.P. - CFO & Head of Strategy**

Thanks, Seth. Turning to Slide 4. Last year, we highlighted AB's Private Alternatives growth strategy, which included a \$10 million permanent capital commitment for our strategic partner, Equitable, to support our growth in private markets. This is consistent with their desire to seek attractive yields and risk-adjusted returns while building a high margin, higher multiple, capital-light business with AB. The acquisition of CarVal is a direct outcome of that strategy.

To supplement our strong organic growth, you've heard Seth and I speak about using targeted inorganic growth to complement our business and serve our clients' needs. Diversifying and expanding alternatives has been a focus for us, as you know. We recognize that we have gaps to fill in private alternatives. CarVal provides specific capabilities that are additive to our existing private strategies. Together with Equitable, we will enable CarVal to grow more quickly than they might have on their own, all while helping our growing client base fulfill their needs.

Matt Bass, who AB's Private Alternatives business will now discuss the specifics. Matt?

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**Matthew Bass AllianceBernstein Holding L.P. - Head of Private Alternatives Platform**

Thanks, Ali. On behalf of AB's Head of Private Alternatives business, I'm delighted to welcome the CarVal team to AB. The addition of CarVal represents a significant complementary expansion of AB's Private Alternatives capabilities, and will accelerate our growth by enabling us to serve our clients more holistically. Let's start with the transaction summary and rationale on Slide 5.

As Seth and Ali mentioned, the CarVal acquisition is consistent with our stated strategy to expand our alternatives business, specifically the firm's private markets capabilities in conjunction with our partner, Equitable. CarVal augments the firm's position, during a time, when clients are increasingly looking to private markets for yield enhancement and diversification.

CarVal's capabilities fill key gaps in the following important areas. Opportunistic and distressed credit, renewable energy, specialty finance and transportation. Combined with CarVal, AB will now have a \$49 billion private markets platform.

CarVal brings \$14 billion in aggregate capital commitments, including \$10 billion of current fee-based AUM with a team of 190 employees across 5 global offices. With a 35-year track record focused on opportunistic and credit-intensive investing, CarVal has delivered strong returns across market cycles. CarVal has demonstrated an ability to raise substantial capital from a high-quality, diversified global investor base of over 300 institutional clients. These organizations include pensions, insurance, sovereign wealth, E&Fs and high net worth platforms and family offices.

CarVal's consistent fundraising success is demonstrated by their 3 most recent flagship credit value funds, all of which have been oversubscribed. Most recently, Credit Value Fund V, a [2021] (corrected by company after the call) Vintage, reached its hard cap and raised \$3.6 billion in investor commitments. CarVal has also received strong long-term support from global consultants.

Importantly, we believe that AB's strategic capital sources are poised to complement CarVal's existing capital base and accelerate growth by extending into lower cost of capital strategies, including insurance. A lower cost of capital will enable us to provide more solutions to our clients and help create a powerful flywheel effect, allowing us to scale more quickly and thoughtfully.

CarVal's products are relevant to many of AB's clients, including Global Institutional, Retail and our Private Wealth business. And our partner, Equitable, is aligned with the commitment to invest \$750 million in CarVal's strategies. CarVal's multiple origination engines, combined with AB's global distribution platform, will enable us to provide diversified return opportunities across our broader client base, including Equitable's general account. At the same time, expanding CarVal's market presence into lower cost of capital strategies creates further competitive advantage for CarVal in the market.

Importantly, the transaction structure creates alignment while preserving investment autonomy with no changes to the CarVal team, day-to-day operations or business locations. All employees, including the 3 managing principles are joining AB, with the transaction, including new long-term management incentive programs and employment commitments.

Finally, the acquisition is financially attractive, with long-term locked-up capital providing recurring management fee visibility. As Ali will discuss momentarily, we expect the transaction to be slightly accretive to earnings immediately and improving over the long term.

Let's turn to Slide 6, which shows a snapshot of CarVal Investors. As mentioned, CarVal has \$14 billion assets under management, inclusive of a \$4 billion of committed uncalled capital. Over the course of its 35-year global track record in opportunistic and distressed credit, CarVal has invested over \$130 billion in more than 5,600 transactions across 82 countries.

The team is global and deep with 30 senior investment professionals averaging 23 years of experience in 13 years of CarVal. The firm's strong leadership team and collaborative entrepreneurial culture is a natural and strong fit with AB. CarVal's flexible investment strategy specializes in credit-intensive assets, employing a fundamental investing approach across asset segments.

CarVal has a proven ability to invest opportunistically and thematically across an array of public and private asset classes across the credit spectrum, from performing through distress.

Let's turn to Slide 7. I'm very excited about the potential that CarVal's complementary private markets capabilities bring to AB's existing platform. CarVal fulfills multiple key capability and geographic gaps, adding origination platforms that are highly relevant to a diverse set of clients.

Furthermore, CarVal enhances AB's ESG capabilities via its global clean energy business. Geographically, in addition to its U.S. and European business, CarVal brings substantial capabilities in both Asia and Latin America, both additive to AB's current private market footprint.

Complementary to AB's plans in China, CarVal secured the first onshore management license granted to an offshore manager to invest in Chinese nonperforming loans. As AB looks to grow in China, CarVal adds another unique investment capability in a large addressable market.

From a distribution perspective, we expect synergies as CarVal's growth will be enhanced through AB's established institutional client relationships, including those with third-party insurers, which we plan to expand over time. Additionally, CarVal's substantial client base of over 300 institutions may benefit from AB's expanded public and private offerings.

Now let's take a look at AB's pro forma Private Markets platform on Slide 8. As mentioned, the addition of CarVal creates a nearly \$50 billion private markets platform. AB now has a full suite of product offerings, starting with our existing corporate direct lending business, AB Private credit investors, commercial real estate debt, both in the U.S. and Europe, private placements, energy and our CLO business. CarVal adds opportunistic and distressed credit, renewable energy, specialty finance, and transportation.

In summary, the acquisition of CarVal marks a significant step forward for our Private Markets business, and we're very excited about the potential of AB CarVal going forward.

Now I'll turn it back to Ali to review the transaction structure and financials. Ali?

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**Ali Dibadj AllianceBernstein Holding L.P. - CFO & Head of Strategy**

Thanks, Matt. Let's turn to Slide 9, which outlines the terms of the transaction. AB has announced a definitive agreement to purchase 100% of CarVal for an upfront purchase price of \$750 million at a low-teens EBITDA multiple and a multiyear contingent earnout ranging from \$0 to \$650 million, if certain targets are reached. The earnout incentivizes and aligns the team with CarVal's investors and AB's unitholders.

Despite the consideration being mostly in units, the transaction is expected to be slightly accretive to AB Holdings adjusted EPU in 2023, and improving thereafter. Additionally, Equitable is expected to make a significant initial commitment of \$750 million to CarVal's strategies, an allocation that could be expanded over time.

The upfront payment will be funded approximately 20% in cash and 80% in AB units, subject to certain adjustments at closing. The CarVal equity owners will receive AB Holdings units and AB will fund the cash portion of the transaction, which will be used to pay down customary items such as CarVal's debt, CarVal's transaction expenses and certain employee amounts through the EQH credit facility. The transaction is expected to close in late Q2 or early Q3 2022, pending regulatory approvals and closing conditions of the transaction.

With respect to the upfront consideration, 25% of the AB Holding units will be issued at close, subject to transfer restrictions that laps annually over 3 years, and the remainder will be issued later this year and will not be subject to trans restrictions other than certainly orderly distribution limits.

Turning to Slide 10. In summary, the CarVal acquisition is an exciting step in AB's journey to become a leading global Private Alternatives firm and is well in line with our strategy to deliver, diversify and expand responsibly in partnership with Equitable. Building upon our existing success with Private Alternatives teams, we are meeting global client demand across our diverse channels for additional private credit offerings.

We believe CarVal is an excellent fit culturally, strategically, product-wise and financially, and importantly, it executes on our partnership with Equitable, meaning their risk return objectives while supporting growth of AB's higher multiple, high-margin, capital-light Private alternatives offerings.

With that, we welcome your questions. Operator?

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## QUESTIONS AND ANSWERS

### Operator

(Operator Instructions) Your first question comes from the line of John Dunn with Evercore.

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### John Joseph Dunn *Evercore ISI Institutional Equities, Research Division - Associate*

Maybe just to kick it off, how does the fundraising cycle for CarVal look over the next few years?

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### Matthew Bass *AllianceBernstein Holding L.P. - Head of Private Alternatives Platform*

Sure. And this is Matt Bass. I'll take that question. So a way to think about it, the firm has various evergreen funds in place, which they're consistently raising capital into, as well as flagship private equity style funds. So the largest being their Credit Value Fund, flagship, last vintage was in [2021] (corrected by company after the call).

There is a dedicated clean energy fund, a dedicated Aviation fund, a dedicated Shipping fund. All private equity style and on various kind of multiyear fundraising patterns. So we would expect that path to continue over time consistent with historical experience out in the market. Their last fundraise and CVF, as I mentioned, was in 2021.

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### John Joseph Dunn *Evercore ISI Institutional Equities, Research Division - Associate*

Got you. And maybe we could talk a little more on how you guys can improve their distribution in the different channels?

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### Matthew Bass *AllianceBernstein Holding L.P. - Head of Private Alternatives Platform*

Sure. So I would start with CarVal has an excellent institutional client base, 300 investors across the spectrum, as I mentioned. And those relationships will continue to be fostered. In addition, we have a highly complementary client base at AB. I think we have about a 10% overlap with their clients. So highly relevant to our clients in Global Institutional, Retail as well as High Net Worth. We talked earlier about the strategy here to expand their business and to lower cost of capital strategies.

Insurance is an example of that. Certainly, the initial commitment, Equitable is making \$750 million, creates definitely about the lower cost of capital business that we would look to expand with other insurance companies, again, consistent with the focus we have on the distribution side. So highly complementary to our Institutional, Retail and High Net Worth base.

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**Ali Dibadj AllianceBernstein Holding L.P. - CFO & Head of Strategy**

I think -- John, it's Ali. Just to add a little bit as well to Matt's point. We also believe very strongly after doing diligence on this, that the ability to have AB CarVal in our quiver, so to speak, will be synergistic across our current Private Alternatives businesses. We become very legitimate in terms of having discussions.

We have a -- there will be a clear halo effect in being able to offer very broad-based Private Alternatives holistic solutions to our clients, who are demanding them. And that's part of our energy and excitement about this transaction, as it rounds things up, and it really brings us to the fore in terms of clients' needs.

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**Operator**

Your next question comes from the line of Robert Lee with KBW.

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**Robert Andrew Lee Keefe, Bruyette, & Woods, Inc., Research Division - Associate Director Research**

A couple of questions. Could you maybe, and I apologize if you went through it, I got on the call a little bit late. But could you maybe walk through what some of the earnouts are, maybe the triggers, size and timing?

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**Ali Dibadj AllianceBernstein Holding L.P. - CFO & Head of Strategy**

Sure. So the earnout can range between \$0 and \$650 million. They're based on alignments between AB CarVal performance, us growing their business and them growing their business, and of course, the way it's structured as well from a unitholder perspective.

So we're using this earnout as a real kind of locking arms alignment tool across all of the stakeholders. The targets are meaningful in terms of growth, but they're entirely achievable to the previous question in terms of growth as well. And although the scale from \$0 to \$650 million, we would all be unitholders in particular, would be very, very pleased if we're actually able to deliver on that \$650 million earn-out.

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**Robert Andrew Lee Keefe, Bruyette, & Woods, Inc., Research Division - Associate Director Research**

I mean, is it multiple tranches? Is it like 1 big cliff payment in 5 years? I'm just trying to get some sense of...

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**Ali Dibadj AllianceBernstein Holding L.P. - CFO & Head of Strategy**

It's constructed as basically almost linearly with how the business grows over time.

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**Robert Andrew Lee Keefe, Bruyette, & Woods, Inc., Research Division - Associate Director Research**

Okay. And then also, in the presentation, you talked about having a \$12 billion of fee eligible AUM. So was that -- I'm just curious how much of that is from CarVal versus what you maybe already had? And is it possible to kind of -- if that was all to be drawn down, what that would translate into in terms of revenues, \$120 million, \$100 million?

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**Matthew Bass AllianceBernstein Holding L.P. - Head of Private Alternatives Platform**

Sure. This is Matt. On the fee eligible point, approximately \$4 billion of that is attributable to CarVal, the rest of the existing business. In terms of fee rates, I believe their fee rate is broadly consistent with what we've disclosed historically with respect to our existing Private Alternatives business, so around 1% from a management fee perspective.

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**Robert Andrew Lee Keefe, Bruyette, & Woods, Inc., Research Division - Associate Director Research**

Okay. Great. And are you acquiring any performance fees? Are you just buying management fee streams? And how should we think of any potential carrier performance fees going forward? And do you -- does your accretion assume any performance fees as part of it?

**Ali Dibadj AllianceBernstein Holding L.P. - CFO & Head of Strategy**

So thanks for the question. So they have -- now we have many different style funds. Some of them are longer term in nature. And so there is a performance carry element to it. Some of them are shorter term, and in fact, annually crystallized in nature. The way to think about it is performance fees comprise, call it, 20% of 2023 revenues for the firm, but they will be declining over time. We are not purchasing any historical performance fees at all.

And so this is really an opportunity for us to, again, as we mentioned before, lock arms and grow together with them. It's a much more simple structure than perhaps sometimes you're used to, where there's kind of big lumpy performance fee that come in on an annual basis.

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**Robert Andrew Lee Keefe, Bruyette, & Woods, Inc., Research Division - Associate Director Research**

And then would you be participating in performance fees on assets raised post-closing in the future, so it's just the legacy that you are not participating but future you would?

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**Ali Dibadj AllianceBernstein Holding L.P. - CFO & Head of Strategy**

We would, in a proportion, obviously, sharing with the management team.

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**Operator**

(Operator Instructions) Your next question comes from the line of Ryan Bailey with Goldman Sachs.

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**Ryan Peter Bailey Goldman Sachs Group, Inc., Research Division - Associate**

Seth, just maybe a quick question overall. I think as you think about your alternatives platform, are there still pockets or products that you're thinking about adding following CarVal's? Is there anything else that you're looking at?

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**Seth Perry Bernstein AllianceBernstein Holding L.P. - CEO, President & Director**

Thanks for the question. Yes, we continue to look beyond that, and I'll let Matt chime in, but there are still pockets, albeit not significant pockets in private debt. But whether it's an infrastructure or whether it is -- we've talked about other areas like growth equities, but there's nothing out there that we -- that's imminent or on the dock. So -- but we continue to be opportunistic where we think we have an edge and feel that from a value proposition, we can realize that for our unitholders. But Matt, if you have anything you want to add, please do?

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**Matthew Bass AllianceBernstein Holding L.P. - Head of Private Alternatives Platform**

Yes. No, I could say, look, what's so exciting about this transaction for us is it fills 4 significant capability gaps that we have been actively and proactively looking to fill really over the better part of the past 4 years. So I think about that as opportunistic and distressed credit investing, one; two private asset-backed lending is a complement to our existing middle market lending business -- corporate lending business and real estate lending businesses.

It's a significant market. Clean energy as well as geographic extensions, notably further into Europe, Asia and LatAm. So the fit here, the complementary nature, is fantastic with CarVal and really hits on 4 core areas that we've been looking to build from a M&A perspective.

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**Ali Dibadj AllianceBernstein Holding L.P. - CFO & Head of Strategy**

And just to add to that a little bit. I know everyone is asking so what's next. Our focus very clearly is to grow CarVal. That is our #1 focus as a firm for Private Alternatives. And again, the halo effect it brings to the rest of the Private Alternatives that we currently have that are performing very well and growing very well. We think we have enough to Matt's point to really bring an excellent suite to our clients and new -- current clients and new clients as well.

I would just add from an M&A perspective more broadly that there are certainly acquisitions that we could make to fill product gaps across the firm, whether it be distribution or product. But again, just to underline the thesis and underline what we're doing here in today's transaction, complementary is our focus. We don't want to overlap and we want complementary.

**Ryan Peter Bailey Goldman Sachs Group, Inc., Research Division - Associate**

Sure. And maybe to tack on to that last point. You mentioned demand from the retail investors as well. Is there any opportunities for retail dedicated or retail-specific products as part of the deal and sort of the growth outlook?

**Seth Perry Bernstein AllianceBernstein Holding L.P. - CEO, President & Director**

Definitely. I think it's one of the areas we're most excited about. And that will be one of the things that Matt and the CarVal team follow up with our distribution teams.

**Operator**

You have a follow-up question from the line of Robert Lee of KBW.

**Robert Andrew Lee Keefe, Bruyette, & Woods, Inc., Research Division - Associate Director Research**

Maybe just going back, can you give us some sense of understanding the CarVal just went through fundraising cycle to some extent. I mean what their growth has been, say, the last 3, 5 years? And if -- going back to the earnout question is their targets predicated upon having a similar growth rate over the following 3- to 5-year period?

And then I guess, lastly, we haven't so -- it's easy to get some sense of the fee rate, but for us, we were trying to build this into a model. Should we be assuming that its margins are pretty similar to your ongoing margins post deal, higher or lower? Just trying to get some sense of how this will flow through the -- excuse me, the P&L.

**Matthew Bass AllianceBernstein Holding L.P. - Head of Private Alternatives Platform**

Sure. I'll tackle it to start, and Ali certainly chime in. So from a growth perspective, looking forward, where we see significant opportunity for growth, in particular, where AB's distribution combined with CarVal's existing teams and origination engines could really combine, is into lower cost of capital. So the firm historically has raised meaningful capital in higher-return strategies.

So I look at their Credit Value Fund flagship series targeting low to mid-double-digit returns. Their existing presence in the market is showing them opportunities at a lower cost of capital that historically they've not been able to execute on.

So, we believe a lot of the growth is going to come from extending into lower cost of capital, 10% to 12% return strategy, 6% return strategies and lower for the insurance space. That's where we believe a significant synergy between the 2 firms exist.

In terms of the earn-out structure, we do believe the growth targets are meaningful, but achievable, and ones that the management team is obviously comfortable with. And as Ali mentioned, the structure importantly creates strong alignment between the team -- for the CarVal team to continue to generate strong performance, which would enable that growth.

**Ali Dibandj AllianceBernstein Holding L.P. - CFO & Head of Strategy**

And from a margin perspective, the good news is the way we structured the deal in a way CarVal operates is that it should be a meaningful impact to our margins as it stands. And obviously, over time, as this business scales and the rest of our Private Alternatives businesses scale as we grow the whole pie for all of our Private Alternatives strategies, we believe it should be accretive to our margins over time.

**Operator**

And at this time, there are no further questions. I will now turn the call back over to Mr. Griffin.

**Mark C. Griffin AllianceBernstein Holding L.P. - Head of IR**

Okay. Thank you, everyone, for joining our call this morning. If you have any follow-up questions, please feel free to reach out to Investor Relations. Have a great day. Goodbye.

**Operator**

Presenters, please hold.

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