

## TPG Inc

# 4Q23E: Key fundamentals improved q/q but expect normalization down in 1Q24

Reiterate Rating: BUY | PO: 47.00 USD | Price: 43.18 USD

## Mixed financial results & guidance

On Tuesday, TPG reported mixed 4Q23 financial results. While EPS of \$0.51 exceeded both BofAe of \$0.44 and consensus of \$0.41, the beat was fueled by lower quality drivers including catch-up and transaction fees. Fundraising and deployments both significantly improved q/q but should normalize downward in 1Q24. Key guidance update included its 2024 and LT FRE targets which remained unchanged (>40% & >45%) despite the stronger proforma results in 4Q23.

## Forecast \$19B of fundraising in 2024 vs. \$16B in '23

While we initially expected a fundraising trough following TPG's flagship fundraising cycle, it's actually turning out better than we expected. The key driver is an extra \$10B/year of inflows relating to AG's credit funds. However, we also expect a final close in Asia buyout by 2Q24 in addition to inflows from Rise Climate, Global South, and Climate Infrastructure.

## Lowering EPS on lower FRE margin; Maintain \$47 PO

We are slightly reducing our 2024E/2025E/2026E EPS estimates to \$2.10/\$2.61/\$3.10 from \$2.38/\$2.80/\$3.15 primarily due to a lower FRE margin and a slightly lower blended fee rate post-merger. However, we did increase the growth rate of transaction fees in 2025-26 due to additional upside via AG synergies as the credit flow migrates to TPG's capital markets platform (AG didn't have a broker dealer). Our PO is unchanged at \$47 (implies 13% total return potential). We reiterate our Buy rating given TPG's faster FRE growth trajectory supported by its attractive business mix across secular growth segments.

Estimates (Dec) (US\$)	2022A	2023A	2024E	2025E	2026E
EPS	1.87	1.59	2.10	2.61	3.10
EPS Change (YoY)	7.5%	-15.0%	32.1%	24.3%	18.8%
DPS	1.59	1.34	1.79	2.22	2.64
Valuation (Dec)					
P/E	23.1x	27.2x	20.6x	16.5x	13.9x
Dividend Yield	3.7%	3.1%	4.1%	5.1%	6.1%

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Timestamp: 14 February 2024 12:59AM EST

14 February 2024

## Equity

### Key Changes

(US\$)	Previous	Current
2024E Rev (m)	1,527.3	1,880.5
2025E Rev (m)	1,677.1	2,075.6
2026E Rev (m)	1,841.0	2,352.1
2024E EPS	2.38	2.10
2025E EPS	2.80	2.61
2026E EPS	3.15	3.10
2024E DPS	2.02	1.79

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## Stock Data

Price	43.18 USD
Price Objective	47.00 USD
Date Established	11-Jan-2024
Investment Opinion	C-1-7
52-Week Range	24.74 USD -45.74 USD
Mrkt Val / Shares Out (mn)	3,478 USD / 80.5
Free Float	78.3%
Average Daily Value	30.44 USD
BofA Ticker / Exchange	TPG / NAS
Bloomberg / Reuters	TPG US / TPG.OQ
ROE (2024E)	44.6%
ESGMeter™	NLA

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LP: Limited partners

# iQprofile<sup>SM</sup> TPG Inc

Economic Income (Dec)	2022A	2023A	2024E	2025E	2026E
(US\$ Millions)					
Management fees	930	1,179	1,660	1,773	1,918
Other fees	156	159	112	119	165
<b>Total fee-related revenue</b>	<b>1,086</b>	<b>1,337</b>	<b>1,772</b>	<b>1,892</b>	<b>2,083</b>
Performance fees	282	74	109	183	269
<b>Total revenue</b>	<b>1,368</b>	<b>1,411</b>	<b>1,880</b>	<b>2,076</b>	<b>2,352</b>
Base compensation expense	(393)	(454)	(664)	(691)	(748)
Non-compensation expense	(239)	(277)	(387)	(360)	(388)
<b>Total fee-related expenses</b>	<b>(632)</b>	<b>(731)</b>	<b>(1,051)</b>	<b>(1,051)</b>	<b>(1,136)</b>
Performance fee compensation	NA	NA	NA	NA	NA
<b>Total expenses</b>	<b>(632)</b>	<b>(731)</b>	<b>(1,051)</b>	<b>(1,051)</b>	<b>(1,136)</b>
<b>Total fee-related earnings</b>	<b>454</b>	<b>606</b>	<b>721</b>	<b>841</b>	<b>946</b>
<b>Distributable earnings</b>	<b>760</b>	<b>628</b>	<b>817</b>	<b>1,020</b>	<b>1,219</b>
Taxes	(60)	(43)	(47)	(55)	(64)
<b>After tax distributable earnings</b>	<b>598</b>	<b>513</b>	<b>764</b>	<b>959</b>	<b>1,150</b>
Distributable earnings per share	1.87	1.59	2.10	2.61	3.10
Distribution per share	1.59	1.34	1.79	2.22	2.64

## Assets Under Management

Assets under Management - EOP	135,034	221,623	246,009	270,984	302,197
Fee Paying AUM	77,945	136,795	147,395	158,185	172,473

## Company Sector

Asset Management

## Company Description

TPG is a leading global alternative asset management firm with five multi-product platforms: Capital, Growth, Impact, Real Estate, and Market Solutions. Through TPG's family office roots, entrepreneurial heritage, and West Coast base, they have developed a differentiated approach to alternative investments based on innovation, organic growth, and a culture of openness and collaboration. TPG was founded in 1992 and went public in 2022.

## Investment Rationale

We are attracted to the qualities of TPG's model (high growth, fee-related earnings rich, capital lite) and its opportunity to expand its model horizontally into new white spaces (credit, life sciences, infrastructure, retail vehicles).

## Quarterly Earnings Estimates

	2023	2024
Q1	0.24A	0.46E
Q2	0.26A	0.52E
Q3	0.56A	0.54E
Q4	0.53A	0.59E

## Price objective basis & risk

### TPG Inc (TPG)

Our \$47 price objective for TPG is derived from 15x 2026E cash earnings. Our multiple is in-line with the industry range (7-25x). Despite recent underperformance in the alternative asset manager stocks, we are attracted to the qualities of TPG's model (high growth, fee-related earnings rich, capital lite) and its opportunity to expand its model horizontally into new white spaces (credit, life sciences, infrastructure, retail vehicles).

Risks to our PO: (1) End of the growth, tech & healthcare bull markets, (2) Succession-planning, (3) Fund V and VI performance issues, (4) Valuation of the closest comp = CG, (5) Tax receivable agreement, (6) Lower permanent capital mix, (7) Lack of retail distribution, (8) Macroeconomic backdrop.

## Analyst Certification

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### US - Brokers, Asset Managers, & Exchanges Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
<b>BUY</b>				
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	Ameriprise Financial	AMP	AMP US	Craig Siegenthaler, CFA
	Ares Management Corp	ARES	ARES US	Craig Siegenthaler, CFA
	BlackRock, Inc.	BLK	BLK US	Craig Siegenthaler, CFA
	Blackstone	BX	BX US	Craig Siegenthaler, CFA
	Blue Owl Capital	OWL	OWL US	Craig Siegenthaler, CFA
	Cboe Global Markets	CBOE	CBOE US	Craig Siegenthaler, CFA
	Interactive Brokers	IBKR	IBKR US	Craig Siegenthaler, CFA
	Intercontinental Exchange	ICE	ICE US	Craig Siegenthaler, CFA
	KKR & Co. Inc.	KKR	KKR US	Craig Siegenthaler, CFA
	Raymond James Financial	RJF	RJF US	Mark McLaughlin, CFA
	TPG Inc	TPG	TPG US	Craig Siegenthaler, CFA
	Tradeweb Markets Inc.	TW	TW US	Craig Siegenthaler, CFA
	Victory Capital Holdings, Inc.	VCTR	VCTR US	Craig Siegenthaler, CFA
	Virtu Financial	VIRT	VIRT US	Craig Siegenthaler, CFA
<b>NEUTRAL</b>				
	Affiliated Managers Group	AMG	AMG US	Craig Siegenthaler, CFA
	Apollo Global Management	APO	APO US	Craig Siegenthaler, CFA
	Brookfield Asset Management	BAM	BAM US	Craig Siegenthaler, CFA
	CME Group Inc	CME	CME US	Craig Siegenthaler, CFA
	Invesco	IVZ	IVZ US	Craig Siegenthaler, CFA
	Janus Henderson Group	JHG	JHG US	Craig Siegenthaler, CFA
	LPL Financial Holdings	LPLA	LPLA US	Craig Siegenthaler, CFA
	Patria	PAX	PAX US	Craig Siegenthaler, CFA
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	Franklin Resources	BEN	BEN US	Craig Siegenthaler, CFA
	Nasdaq	NDAQ	NDAQ US	Craig Siegenthaler, CFA
	Robinhood Markets	HOOD	HOOD US	Craig Siegenthaler, CFA
	T. Rowe Price	TROW	TROW US	Craig Siegenthaler, CFA
	The Carlyle Group	CG	CG US	Craig Siegenthaler, CFA



## iQmethod<sup>SM</sup> Measures Definitions

### Business Performance

Return On Capital Employed

Return On Equity

Operating Margin

Earnings Growth

Free Cash Flow

### Quality of Earnings

Cash Realization Ratio

Asset Replacement Ratio

Tax Rate

Net Debt-To-Equity Ratio

Interest Cover

### Valuation Toolkit

Price / Earnings Ratio

Price / Book Value

Dividend Yield

Free Cash Flow Yield

Enterprise Value / Sales

EV / EBITDA

### Numerator

$\text{NOPAT} = (\text{EBIT} + \text{Interest Income}) \times (1 - \text{Tax Rate}) + \text{Goodwill Amortization}$

Net Income

Operating Profit

Expected 5 Year CAGR From Latest Actual

Cash Flow From Operations – Total Capex

### Numerator

Cash Flow From Operations

Capex

Tax Charge

Net Debt = Total Debt – Cash & Equivalents

EBIT

### Numerator

Current Share Price

Current Share Price

Annualised Declared Cash Dividend

Cash Flow From Operations – Total Capex

$\text{EV} = \text{Current Share Price} \times \text{Current Shares} + \text{Minority Equity} + \text{Net Debt} +$

Other LT Liabilities

Enterprise Value

### Denominator

$\text{Total Assets} - \text{Current Liabilities} + \text{ST Debt} + \text{Accumulated Goodwill}$

Amortization

Shareholders' Equity

Sales

N/A

N/A

### Denominator

Net Income

Depreciation

Pre-Tax Income

Total Equity

Interest Expense

### Denominator

Diluted Earnings Per Share (Basis As Specified)

Shareholders' Equity / Current Basic Shares

Current Share Price

$\text{Market Cap} = \text{Current Share Price} \times \text{Current Basic Shares}$

Sales

Basic EBIT + Depreciation + Amortization

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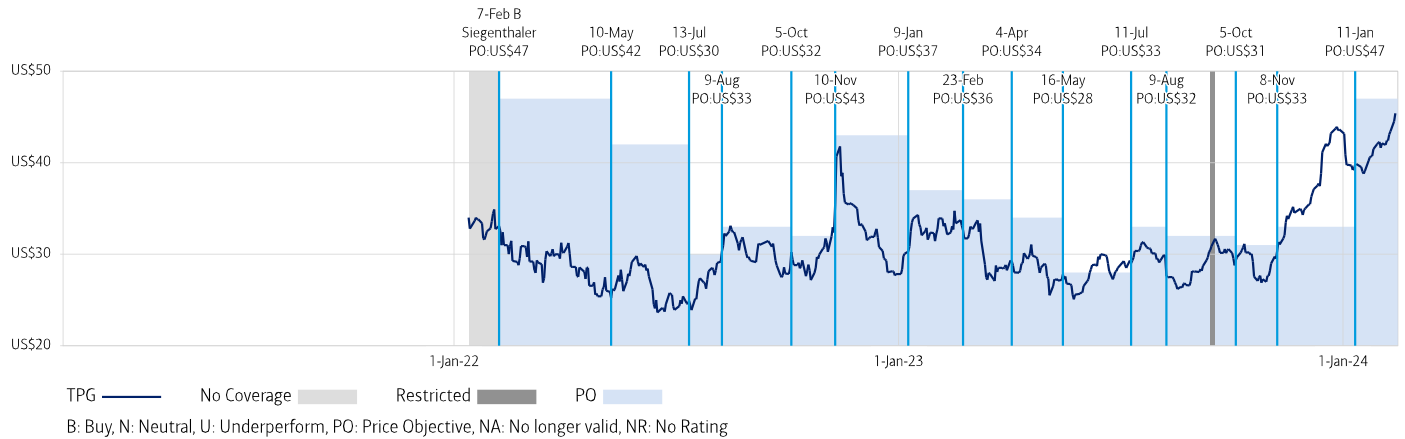
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### Equity Investment Rating Distribution: Financial Services Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	Count	Percent
Buy	156	53.79%	Buy	94	60.26%
Hold	72	24.83%	Hold	48	66.67%
Sell	62	21.38%	Sell	35	56.45%

### Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	Count	Percent
Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

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