KKR & Co. Inc.
Strategic Update Conference Call
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<u>Presenters</u>
Craig Larson, Partner & Head of Investor Relations
Scott Nuttall, Co-Chief Executive Officer
Allan Levine, Co-Founder, Chairman, CEO, Global Atlantic
Rob Lewin, Chief Financial Officer

<u>Q&A Participants</u>
Craig Siegenthaler – Bank of America
Michael Cyprys – Morgan Stanley
Glenn Schorr – Evercore ISI
Brian McKenna - JMP Securities
Patrick Davitt – Autonomous Research
Ben Budish – Barclays
Alex Blostein / Luke Bianculli – Goldman Sachs
Chris Kotowski – Oppenheimer
Arnaud Giblat – BNP Paribas

Operator
Ladies and gentlemen, thank you for standing by. Welcome to KKR's Strategic Update Conference Call.

During today's presentation, all parties will be in listen-only mode. Following management's prepared remarks, the conference will be open for questions. If you would like to ask a question at that time, please press "*", "1" from your telephone keypad and a confirmation tone will indicate your line is in the question queue. You may press "*", "2" if you would like to remove your question from the queue. For participants using speaker equipment, it may be necessary to pick up your handset, before pressing the star keys.

So that we may address questions for as many participants as possible, we ask that you please limit yourself to one question. If you have any additional questions, you may re-queue and time permitting, those questions will be addressed.

At this time, I'll now hand the call over to Craig Larson, Partner and Head of Investor Relations for KKR. Craig, please go ahead.

Craig Larson
Thank you, Operator. Good morning and thank you for joining our call on short notice. This morning, I'm joined by Scott Nuttall, our Co-Chief Executive Officer, Rob Lewin, our Chief

Financial Officer, and I'm also pleased to welcome Allan Levine, Co-Founder, Chairman and Chief Executive Officer of Global Atlantic to the call.

Before we begin, we would like to remind everyone that this call will contain forward-looking statements which do not guarantee future events or performance. Please refer to our SEC filings and the accompanying presentation on our website for cautionary factors about these statements. And we'll also refer to non-GAAP measures, which are further described in the presentation.

Please note that we posted a presentation on our website at ir.kkr.com this morning, which can be found under the Events and Presentations tab. The presentation provides helpful background, and while we will reference a number of the slides on this call, we would encourage you to review the deck in detail for additional information.

And with that, I'm pleased to turn the call over to Scott.

Scott Nuttall
Thanks, Craig, and thank you, everybody, for joining our call on such short notice. Allan and Rob are going to talk through the details of today's announcements. Before they do, I want to give you the punchline of our messages and then share some context.

The punchline is pretty straightforward; we're buying the 37% of Global Atlantic we don't already own because we believe owning 100% will allow us to create more value for policyholders and shareholders, realize more of the synergies we've uncovered in our first three years together and grow GA and KKR, faster. We're funding the purchase with all cash and do not expect to issue any debt or equity securities. That's announcement one.

With all our recent and expected growth, plus owning all of GA, we have even more line of sight to go-forward management fees. So, are further reducing our compensation ratio on these fees and making an offsetting increase on carry. That's announcement two.

These first two moves create more FRE and more Insurance Operating Earnings, increasing two recurring forms of income.

On top of that, we're taking this opportunity to announce two other changes, as well.

Our biggest strategic investment outside of GA is in Core PE, an increasingly mature portfolio of great companies that are starting to pay us dividends, creating a third form of recurring earnings for us. We are creating a new segment for these results. That's announcement three.

And the final announcement is that we are creating a new metric, Operating Earnings that will include all three of these forms of recurring profitability. We expect Operating Earnings to be 70% of pre-tax earnings, over time.

Today's announcements are accretive to all of our per share metrics and together with the confidence and visibility we have looking forward, allow us to increase our 2026 FRE per share target from $4-plus per share to $4.50-plus per share. That's the main message.

But before I turn it to Allan, let me give you some background and spend a few minutes on how and why we got here and where we think we're headed.

KKR's business model is different from our peers. That's on purpose. And while that is likely clear, what is perhaps less clear is the why. As long-term investors, we study businesses for a living. As part of this, we focus on long-term potential and how earnings can grow and compound.

We look at KKR through the same lens. Over the last decade, our market cap has grown from $14 billion to over $50 billion. That is due in no small part to the growth and diversification of our firm.

There has been a lot of progress over the last decade. AUM has scaled from $90 billion to $528 billion. You've seen real innovation as we've expanded into new strategies. As a result, AUM outside of traditional private equity has grown from about $40 billion to $430 billion, or from 40% of our total AUM to 80% over this period.

Our book value has grown from $7 billion to $26 billion. And our earnings have grown, meaningfully, with more earnings power ahead from capital already raised, and investments already made.

It's been a busy decade. We are now focused on the next 10 years and how we can do it again. Simply put, the job of going from $50 billion of market cap to $200 billion will be different than taking our market cap from $14 billion to $50 billion, and the same is true on a per share basis. Recognizing that task is somewhat easier given we have the ability to buy back our stock.

Few companies in the world have a market cap of $50 billion, let alone $200 billion. And in financial services, the list is even shorter. And in asset management, it hasn't been done. For us, this means growing net income from $3 to $4 to $15-plus per share and having a higher percentage of our earnings more recurring in nature. That may sound like a lot of growth, but our business model gives us confidence that we can do it, and we've been planting the seeds to allow that to happen.

Doubling over the next five years is relatively straightforward; it requires continuing to perform for our clients and scaling what we've already started. But we're also focused on how we will double again, five years out. So think years 6 to 10, and beyond.

In order to double again over the subsequent five years, we will need multiple ways to grow, and we will need to be thoughtful around capital allocation.

We have spent the last several years creating three primary avenues for long-term sustained growth. The first is our asset management business. We have a lot of upside here, and the path is de-risked relative to even five years ago. As you know, we've started 25 or so investing businesses, over the last decade. Those are now starting to inflect.

And we operate in geographies and asset classes with massive opportunities – private wealth, Asia, infrastructure including climate and credit, are all examples. In fact, we feel it is easier to double from here than it was to double to get here.

To get here, we were starting businesses and earning the right to scale. Now we have talent, track records, client relationships and trust. If we keep executing, we feel very comfortable we will double again.

So that's part one. Keep executing for clients, reach our potential of top three in all of our businesses and scale our AUM, management fees, FRE and carry potential as we do that.

The second opportunity is insurance. Insurance is a powerful contributor to our business. The earnings of Global Atlantic have proven to be highly recurring and fast-growing. And GA helps scale our asset management business as indirect private wealth distribution.

GA has created a lot of value, more than doubling its AUM, since we announced the acquisition in July 2020. And we see a straightforward path to doubling GA again from here as we continue to perform for investors and policyholders. So it's gone even better than expected. But as you'll hear from Allan, we've only just begun to scratch the surface of the true potential of our partnership.

We see an opportunity to do even more together as one company in investing, product development, global expansion, private wealth distribution and capital markets, amongst other areas.

The main takeaway is that today's transaction will allow us to really unlock that potential and grow GA and KKR even faster. Allan is going to spend more time in a few minutes on GA and all the opportunities we see together, so I'll stop here on this topic.

Part three is what we've been building in Core PE on our balance sheet. Before we get into that, some background.

As I mentioned, we're students of value creation. As such, one of the things we've been studying is what we can learn from how companies perform, once they get to $50 billion of market cap. How many of them get to $100 billion and then $200 billion? And how quickly? And what happens to per share earnings growth? And what do those cases tell us?

The analysis shows that except for a handful, the per share returns post $50 billion are anemic. It becomes hard for companies to scale such a large denominator. And in financial services, the record is particularly poor, as scaling typically requires hiring a lot of people, which erodes culture and can lead to excess risk taking, leading to a poor record in value creation beyond a certain level of scale. So, there aren't many models to look to.

The companies that have done it well, like Berkshire Hathaway and Danaher, have several attributes in common. They have the ability to permanently own and compound earnings. They own significant market share, recurring revenue businesses for the long-term and make them better, both organically and inorganically. And they retain most of their earnings and are thoughtful and disciplined with capital allocation, including opportunistic buybacks. The combination of these factors allows them to scale per share earnings with very little or no limitation.

This observation leads us to our third way to win, investing our capital base to create recurring income through long-term strategic investments.

Over the last few quarters, we've talked about Core PE more frequently on our earnings calls. We've highlighted the strength and durability of the portfolio we've built over the last six years, the strong performance to date of these investments and our significant owned share of the profitability of the companies. We've shared with you some of these statistics in the past, and Rob will go through them again, later on this call.

What we haven't shared until today is that this portfolio is now maturing and several of the companies will start to pay cash dividends back to us and our partners. With that, we are creating a new segment, Strategic Holdings, to highlight these investments and the dividends we're generating from this portfolio and will now report in three segments of the firm: Asset Management, Insurance and Strategic Holdings. That's part three.

And if you aggregate our three most stable forms of earnings, FRE, Insurance Earnings and Strategic Holdings dividends, you get a significant and growing amount of recurring profitability.

Critically, we have a high level of confidence we can meaningfully, grow all three of these earnings streams with the people we already have at KKR and GA. So our ability to generate positive operating leverage is not only preserved with this approach, it's enhanced.

This confidence is why we are changing our compensation ratios by further decreasing compensation paid on fee earnings and increasing that paid on carry, which Rob will detail later in the call.

And finally, as an important addition to this, we believe over the new decade, we will generate tens of billions of excess cash flow to continue to, strategically, invest for further per share growth.

The combination of all of these elements creates a model with significant recurring earnings, an ability to double our recurring earnings and then do it again. And the opportunity to do all this with relatively few additional people at KKR, preserving culture and investment alpha and enhancing our ability to perform for clients and further increase our margins.

And perhaps most importantly, for all of us as shareholders, this gives us a path to $15-plus per share of net income over the long term with significant recurring revenues and the opportunity for an above-market multiple.

Today's announcement has been in the works for a long time. We've been building the components, step by step. The goal has been to not just get to this point, but to create a model and multiple ways to win that allow us to scale our profitability and per share price at a very attractive pace from here and, critically, not slow down as we get bigger.

And the best aspect is that this all plays to our strengths, long-term investing, capital allocation and business building.

Thank you for giving us the time to explain how we're thinking about all this and why we remain so optimistic about our path ahead. As your fellow shareholder, we feel it's important you understand our long-term thinking.

With that, Allan and Rob are going to take you through what today's announcements mean in greater detail. Allan?

Allan Levine
Thanks, Scott, and hello, everyone. I'm going to spend a few minutes on our business. I'll touch on what's gone well in the early stages of our KKR partnership, and I'll explain why we, as a Global Atlantic team, are so excited about today's announcement.

Before I do that, I want to reinforce three themes about our partnership. First, there's an enormous opportunity today in the insurance markets we serve. We've roughly doubled Global Atlantic from the time we signed the original KKR transaction to today, and we have a straightforward path to doubling again from here, if we continue to perform for our partners and our policyholders.

Second, we have clearly exceeded the expectations we had from a growth, value and cultural perspective when we entered our partnership three years ago.

And third, we expect today's announcement to make it easier for us to translate the benefits of our KKR partnership into results for our clients, our partners, our investors and you, as shareholders.

I appreciate that many of you on the call may be less familiar with Global Atlantic. So let me point you to page 11 of the presentation for a brief overview of our business.

Over the past 20 years, we have quietly and patiently built one of the fastest-growing, highest-returning U.S. insurance businesses and have done so across different ownership structures and market cycles.

Today, we have $158 billion of assets under management and growing. Since we announced our original KKR transaction in July of 2020, we have compounded AUM by more than 25%, per year. AUM growth translates into growth in recurring insurance earnings, and our business currently generates around $1 billion, annually, after tax.

We compete in large and growing markets, which play to our competitive advantages. Given our very focused strategy, we strive to be top three or top five in every business we are in, and we've achieved that in our three largest businesses, retail fixed annuities, block reinsurance and flow reinsurance.

We have a strong financial profile, well-capitalized balance sheet with high solvency ratios at a conservative investment portfolio, all designed to protect our policyholders.

And finally, we believe one of our core competitive advantages has been our risk and investment management framework, capabilities and philosophy, which have become even stronger with KKR as our partner.

Turning to slide 12. Today, Global Atlantic, we serve two types of clients, individuals and institutions. With both types of clients, we operate businesses that benefit from our significant scale.

In our individual business, we offer a suite of simple retirement products designed to meet our customers' savings, protection and income needs. Our primary products are fixed annuities, and the market for fixed annuities has doubled in the last three years.

We have a national salesforce that works with financial advisers with over 200 banks and broker-dealers, including many of the top 20 of those firms in the U.S., including Wells Fargo and Morgan Stanley.

Over the last 12 months, we have generated over $10 billion in sales, and we have consistently ranked as a top five carrier.

In our institutional business, we provide customized solutions to help companies meet their strategic, risk management, and capital goals. To these clients, we offer a range of complementary products, including block, flow and pension risk transfer reinsurance. We are incredibly proud of the client franchise we've built. Since 2004, we've established the longest track record of any of our competitors in the reinsurance space, entering into transactions with over 25 different clients.

Over the past 12 months alone, we've generated more than $25 billion in production, and we consistently rank as a top three provider in our target markets. We have also recently begun to grow this part of our business internationally with a focus on Japan, Singapore and Hong Kong, to date.

Turning to page 13, that brings us to the strong results we've been able to generate through the KKR partnership, highlighted by AUM growing from $72 billion to $158 billion today. More importantly, the way we've delivered that growth has reinforced the strategic rationale for our partnership.

First, we have scaled our asset management capabilities with about $60 billion of assets originated by KKR professionals for the Global Atlantic balance sheet. Second, we've partnered successfully on capital raising, attracting more than $3 billion in third-party investor capital across a range of vehicles, primarily through our Ivy co-invest franchise. And third, we have benefited from KKR's resources and relationships.

In the last few months, we've completed transactions with some of the largest financial institutions in the world, including MetLife and Japan Post Insurance. Each of these were new clients to Global Atlantic.

Since closing our original transaction with KKR, we've created more value for a broader set of clients, we've generated strong, consistent returns over time for our investors, and we've grown Global Atlantic's recurring earnings, despite a volatile market backdrop. And even given the success to date, with increased alignment and long-term focus, we know there's more we can do, together.

Let me expand on that. Up to this point, we have had a great group of co-investors alongside KKR, many of whom have been Global Atlantic investors since our founding. It's a diverse group across individuals, family offices and traditional institutions.

Moving from a diverse group of shareholders with differing priorities and horizons, to KKR as our only Global Atlantic shareholder clarifies our objectives and allows us to think and invest, longer term.

As we look forward, as Scott mentioned in his remarks, there are many ways we can unlock value. Let me highlight four of them.

First, through closer collaboration, we can leverage a broader set of KKR's asset origination and capital markets capabilities for the benefit of our clients and our investors.

In addition to the value we can unlock for Global Atlantic, we expect this to create opportunities for more insurance company partners, many of whom are already KKR investing clients, to co-invest alongside GA and assets that are well-suited for an insurance company balance sheets.

Second, we can expand our client franchise. The recent growth of our reinsurance business in Asia, including our partnership with Japan Post, is a great illustration of what's possible. This transaction will make it easier for Global Atlantic to leverage KKR's global depth and expertise in local markets. As partners, we can identify more opportunities and create more value for a broader set of clients.

Third, we can create more ways for investors to deploy capital alongside us, through our Ivy franchise. In many ways, Ivy looks like other KKR asset classes and products. We provide investors with a way to earn attractive returns by investing their capital in our markets.

This gives us the chance to do more with our clients by bringing in more long-term capital into the industry, earn fees and carry if we perform for our investors. This is an area in which KKR's extraordinary investor relationships have already driven results, and we're still in the early stages.

And fourth, we can expand KKR's capabilities in private wealth with Global Atlantic's fully scaled distribution, our deep relationships and our proven salesforce. Private wealth is a market in which we operate in, every day. And together, we have the tools necessary to be successful in ways that others may not.

In closing, let me leave you with three takeaways on what you could expect from Global Atlantic as a 100% owned subsidiary of KKR, going forward.

First, we have a management team that is completely focused on executing on a market opportunity that has never been stronger. And we at Global Atlantic have never been better positioned than we are right now.

Second, while our results validate the strategic rationale for our partnership, we know there's even more we have the potential to do together. And third, this transaction provides us with clear long-term goals.

If we do all of this well across the areas I've mentioned, broadening asset origination, expanding our client franchise, raising money from and generating returns for investors and capturing distribution synergies from private wealth to capital markets, you can expect KKR and

Global Atlantic will create more value for more clients than we do, today. And we expect that this will generate more growth and more earnings power in our business.

Thank you for the opportunity to tell you why we at Global Atlantic are so optimistic about today's announcement. And with that, I'll turn it over to Rob.

Rob Lewin
Thanks a lot, Allan. Before moving on from Global Atlantic, I'd like to reiterate the key terms. We have agreed to acquire the remaining interest from GA's co-investors for 1x book value in cash, which we estimate will be approximately $2.7 billion.

We plan to fund the acquisition entirely from our balance sheet, which had $23 billion of cash and investments at the end of last quarter with no plans for any debt or equity security issuance at this time. The GA management team will largely roll their equity interest into KKR equity. And we expect to close the acquisition in Q1 of 2024.

With that, I will turn to introducing our new segment, Strategic Holdings. Strategic Holdings will consist of our balance sheet's direct interest in our Core Private Equity portfolio. As a reminder, Core PE is a long-duration investment strategy with an expected hold period of 10 to 15-plus years.

The portfolio currently consists of 19 businesses, which you can see listed on page 18. These businesses generally have mature financial profiles, strong free cash flow and tend to be less cyclical, together, creating a more stable earnings profile.

We've talked about the opportunity to build a very scaled and differentiated Core PE platform for some time now. We got into this asset class and have really treated it as a strategic growth avenue for us since we started because it is an area where we firmly believe that our model, collaborative culture and ability to drive long-term value in our investments all set us up to be the best global player in the asset class.

Today, we manage $35 billion of Core PE capital. We are clearly the largest player in the space, really affirming our perspective that we could be uniquely strong at building this business.

On page 19, you'll see that the Core PE portfolio has grown both revenue and EBITDA by approximately 16% on a like-for-like basis, annually, since 2018. This strong underlying performance is representative of a portfolio that has been maturing. But to date, this capital has generated negligible After-tax DE, as we have not sold these companies, nor received much in the way of dividend income.

So now, our Core Private Equity business will be split into two parts from a reporting perspective, which you will see on page 21. The intent is to highlight the strategic deployment of our own capital in the new segment.

Third-party AUM will remain in our asset management segment and should continue to be a substantial and growing piece of both management fees and carried interest. We also currently own $6.5 billion of Core Private Equity, directly. These are strategic allocations for us. We expect to own these businesses for a long time.

Given the maturing of the portfolio, as well as the stability of the operating performance, we now anticipate these investments to be more regular dividend payers. It will be these companies and their dividends that generate Strategic Holdings Operating Earnings.

Specifically, while 2024 will likely be a modest ramp upwards, we do expect that will change and in a pretty significant way, with $300-plus million of net dividends expected in 2026, $600-plus million by 2028. And our forward models suggest that over time, this line item should be year in, year out, a contributor of $1-plus billion of annual cash flow. These dividends will be an incremental, more recurring component of our cash earnings profile.

The second topic that I'd like to cover this morning are our revised compensation ratios. On our Q4 2020 earnings call, we introduced a framework with individual compensation levels against our three forms of asset management revenues. Since then, we have grown meaningfully and added significant diversification to our revenue profile.

Our management fees in 2020, so right before we made the original comp shift, were $1.4 billion. Today, management fees are $3 billion, and they now benefit from significant contribution from each of our business lines: Private Equity, Real Assets and Credit and Liquid Strategies, the latter two now representing approximately 60% of our management fees.

So in less than three years and since we last amended our comp framework, our most stable form of revenue has more than doubled and is much more diversified.

As a result of this growth and diversification, together with today's announcement and our outlook from here, we are now able to adjust our ranges such that our compensation becomes even more success-based.

Looking at page 23 of the presentation, our fee related compensation margin will be reduced by 500 basis points to a 15% to 20% range, while compensation on our realized performance revenue will go to a 70% to 80% range. And realized investment income compensation will remain at its current range of 10% to 20%.

Like the last time we adjusted our compensation ranges, this is not about increasing or decreasing our compensation pools. In fact, in most scenarios, overall compensation should not be materially different. It's really about providing our shareholders with more of our recurring fee revenues, while providing our more senior employees with additional carried interest if we perform, which also further aligns employee compensation with the performance of our clients.

We've talked often about running KKR with a low 40% overall compensation ratio. This includes equity-based comp. And in each of the last four years, we have operated beneath that range.

We will continue to be very thoughtful around balancing increased profitability, while also ensuring that we have the tools to recruit, retain and incent the best people at what they do. We expect this will allow us to better serve our objectives and continue to maintain what has largely been a best-in-class compensation margin, across our industry.

To tie this all together, we are introducing a new reporting framework that we believe brings additional clarity to our sources of income.

Turning you to page 25 of the deck. If you look at our three segments, we are now isolating the earnings from each that are more recurring in nature. Fee Related Earnings from our Asset Management segment, Insurance Operating Earnings from our Insurance segment, and the dividends from Core Private Equity from our Strategic Holdings segment. When all taken together, they add up to total operating earnings.

Total operating earnings designated on the page by the letter A, represents the more recurring portion of KKR's earnings streams. We expect total operating earnings, post-closing, to comprise roughly 70% of our pre-tax distributable earnings, which going forward we'll refer to as pre-tax adjusted net income.

As you follow down the page, you will see net performance income and net investment income. These two line items will, together, create total investing earnings, designated by the letter "B" on the page. Total operating earnings plus total investing earnings equal total segment earnings. After interest and taxes are taken into account, you will see our new EPS, or bottom line metric, will be adjusted net income.

And if I could turn your attention back to the front of the deck on pages 5 and 6 for one moment, the financial impact of these announcements is accretive across all of our financial metrics. We think these changes will be 10%+ accretive to our FRE per share in 2024.

Alongside these announcements, given our strong performance, momentum and our conviction looking forward, we are increasing our 2026 FRE target from more than $4 per share to more than $4.50 per share. We think there will be approximately 20% accretion to our 2024 total operating earnings per share, again, 20% annual accretion in the more recurring portion of our earnings, with annual adjusted net income per share accretion of approximately 10%.

We are obviously operating in a volatile macro environment right now, and the macro can clearly have an impact on our results. But at the same time, what you're hearing from us is real optimism about our business prospects, as well as our long-term business model and the opportunity that provides us to scale our earnings per share, over a very long period of time.

Before wrapping up my remarks this morning, I did want to tie today's announcements back to the evolution of our balance sheet. We have continued to, methodically, shift the allocation of our excess free cash flow from fund and co-investments to a more strategic capital deployment that can, simultaneously, drive business building for KKR, high ROEs and much more recurring P&L outcomes.

Ten years ago, the allocation of our balance sheet was mostly contributing seed capital and large co-investments, alongside our funds. A number of these commitments were important to maximize the likelihood of success in scaling for funds that were earlier in their lifecycle. That went really well and has contributed to our success in areas like real estate, infrastructure and growth equity.

We are now using our excess cash flow in a different way. Over the last five years, we have redirected our focus to invest behind four key areas: M&A, insurance, Core Private Equity, as well as share buybacks. These are strategic allocations and each capitalize on our differentiated model.

A good example of this is over the last three years, we've announced or completed almost $8 billion of M&A with only $1.2 billion worth of share issuance. Today's announcement is consistent with this theme. We are funding the transaction with all cash.

And our M&A activity has also allowed us to scale and diversify the firm, including growing our FRE, total operating earnings and adjusted net income.

Through these same transactions, we have also purposely diversified our capital sources, adding approximately $170 billion of perpetual capital. And we've done this all with truly modest headcount growth, inside of KKR.

You should expect us to continue to lean into these areas of strategic deployment. We are confident that each one will deliver high levels of return and visibility into future avenues of growth for the firm and per share growth of all of our key financial metrics.

In summary, the outcomes we are expecting from these announcements are straightforward: We expect more growth, more recurring earnings, more visibility and diversification across our earnings with meaningful accretion across all of our financial metrics. And we expect our earnings power to really increase, alongside.

Importantly, the initiatives we've announced this morning really complement the existing growth engines inside our asset management business. They are consistent with creating an increasingly diversified business model that has multiple levers for long-term growth and where we could do so without adding meaningful headcount costs, allowing us to retain what makes us truly distinct, our culture of collaboration and excellence and creating more operating leverage for our shareholders as we scale.

With that, let me turn it back to Scott for some final remarks.

Scott Nuttall
Thank you, Rob, and thank you again, everybody, for joining today. As we look ahead, I want to reemphasize the three avenues we have to drive sustained growth. The first is asset management and our opportunities to continue to scale AUM, management fees, FRE and carry, as we execute and reach our potential of top three in all of our businesses.

The second is insurance, as we expect GA to double again as we unlock value across the combined enterprise. And the third is what we've been building in Core PE. The dividends from the portfolio will be an incremental more recurring component of our earnings. As we manage the portfolio and make new investments, we believe the long-term upside here is significant.

And finally, the changes discussed this morning further increase our confidence in both the near term, allowing us to raise our target for 2026, and the long term, increasing our optimism in compounding large dollar earnings and market value, for years to come.

With that, we're happy to take your questions.

Operator
Thank you. We'll now be conducting a question-and-answer session. If you would like to ask a question today, please press "*", "1" from your telephone keypad and a confirmation tone will indicate your line is in the question queue. You may press "*", "2" if you would like to remove your question from the queue. For participants using speaker equipment, it may be necessary to pick up your handset, before pressing the star keys.

So we may address question for as many participants as possible, we ask you please limit yourself to one question. If you have additional questions and time permitting, those questions will be addressed. Thank you.

Our first question comes from the line of Craig Siegenthaler with Bank of America. Please proceed with your question.

Craig Siegenthaler
Good morning, everyone, and congrats on the deal. My question is on the earnings transformation with the new operating earnings and adjusted net income metrics. My question is, what is the free cash flow content or composition of the new definition of total earnings or adjusted net income relative to distributable earnings going forward? Or said a different way, how much of the annual earnings under the new metric can you return to shareholders via dividends or buybacks, if you choose?

Rob Lewin
Hey, Craig, it's Rob. Thanks a lot for the question. So to be clear, the framework for which we're calculating our bottom line earnings is really unchanged in every respect. But our feeling was that the alternative asset management industry here has matured After-tax DE tends to be a term that you hear from just a few companies. And so as we continue to evolve as an industry in a space, we thought that our key non-GAAP measure for net earnings should be more comparable to other public issuers. And it's as simple as that, no real change as it relates to the definition.

Craig Larson
And then, Craig, just one other thought on that. We've had a couple of inbounds from people asking about the Core segment and Strategic Holdings Operating Earnings. We do own a significant percentage of those investments. But to be clear, what is going to flow through our financial statements is cash-oriented in the dividends that we receive. It's not our portion of income or anything along those lines. Again, very cash-driven framework for the piece that is additive and new through the disclosures, today.

Operator
Thank you. Our next question comes from the line of Michael Cyprys with Morgan Stanley. Please proceed with your question.

Michael Cyprys
Good morning. Thanks for taking the question. So, I see that you are raising the FRE guide for '26, but just curious how the impact of today's announcements impact the prior $7.00 share DE guide that you had for 2026? Does that now go to, call it, like $7.70, just given the 10% accretion that you referenced on DE?

And then just a question more broadly on the multi-year ROE outlook, how did this transaction impact your outlook for ROE, over the next couple of years?

Rob Lewin
Right, hey, Mike. So, I'm really glad you asked that question. We've got some inbounds on it this morning. Your math is directionally right and certainly don't take any signal whatsoever that we didn't update our adjusted net income bottom line measure. I'd tell you that if the exit environment is comparable to a more normalized environment than in 2026, we think we're going to do a lot better than $7 per share of adjusted net income.

As it relates to our broader guidance, I think I'd leave you with two main thoughts. One, obviously, we're increasing our FRE guidance from more than $4 to more than $4.50 per share. But more importantly, I think the series of announcements give all of us a lot more confidence and visibility about being able to achieve both our FRE guidance, as well as our adjusted net income guidance.

And as you think about adjusted net income, of course, it's always going to be subject to somewhat the exit environment. And so what you're going to hear from us a lot more going forward is talking about total operating earnings, our new metric, which is much more recurring in nature.

So we just really want to be prudent for how we talk about 2026 adjusted net income given that backdrop. We continue to feel great, honestly, now even better by virtue of these announcements. And we've provided a bunch of building blocks to get you there if you think through it, right.

So we've got $4.50 of FRE, and we've guided to that in 2026. If you look at Global Atlantic, just our pro forma earnings per share without much growth is right around $1.50. And then we've guided roughly $0.35 of Strategic Holdings Operating Earnings through our cash dividends in our Core portfolio. So that's almost $6.50 of total operating earnings that we've already guided to.

So you don't need a big assumption around investing earnings or the monetization activity in 2026, even after adjusting for taxes and interest expense to achieve that $7-plus target. So again, a more normalized environment and if our portfolio continues to perform as it's performing, we should do a lot better than $7 a share in 2026.

And I think further punchline here as it relates to how we think about our business model is that by virtue of today's announcements, our earnings power has gone up, and that's why you're hearing the confidence from us about what the go-forward could look like, both in terms of FRE, total operating earnings and adjusted net income.

Operator
Our next question comes from the line of Glenn Schorr with Evercore ISI. Please proceed with your question.

Glenn Schorr
Thanks very much. Sorry for the noise here. So the question is, I think, correct my math if it's wrong. I think you put in close to $6 billion in total for G&A in total. Today's value deal values it at 7.3. It's nice to have a gain, but that's not anywhere near as much as the more than doubling of the AUM. I'm just curious on how you think about that if that's even a logical correlation on churn as well. Thanks.

Rob Lewin
Hey, Glenn, I think it's a little bit of apples and oranges. Certainly, we've seen assets increase. Assets increase are going to drive profitability, but to a lesser extent than the asset value increases. And so I think the equation is a little bit different, but your main takeaway is the right

one. We put in a little bit pro forma for this deal, more than $6 billion of capital into Global Atlantic. Your valuation of roughly books right around right.

And so as you think about our capital allocation here, our market cap today, I think, a little north of $60 billion, and we spent a little bit more than $6 billion to support the Global Atlantic acquisition.

Scott Nuttall
Just one other way to think about growth here is while book value has increased as noted, what we've really done in growing assets increased earnings power. So you think about our consistent recurring earnings. While assets have doubled, earnings have also doubled approximately during that same period of time. So you should start to see book value growth continue to emerge, over time.

Operator
Our next question is from the line of Brian McKenna with JMP Securities. Please proceed with your question.

Brian McKenna
Thanks. Good morning, everyone, and congrats on the announcement, today. So if we go back to 2020, when you originally announced the GA acquisition, you also highlighted opportunities to leverage GA's distribution partners on the private wealth side. So can you talk about what progress has been made on this front over the past few years? Where was KKR able to make some inroads here?

And then what are some of the specific opportunities on this front moving forward now that you will own 100% of GA? And then how does that fit within the broader growth plans for private wealth, longer term?

Scott Nuttall
Thanks for all the questions, Brian. Why don't I start off, and then Allan can kick in. You're exactly right. Three years ago, we did talk about the potential distribution synergies as one of the things that we were excited about. At that stage, we were just getting going in private wealth at KKR and still very much in the product development phase. But as you know, we've now launched products in all four of our major investment areas, so private equity, infrastructure, credit and real estate. And we've been building a private wealth sales team at KKR.

And so what's happened over the course of the last few years as our business and effort has evolved, this has become more front and center. And so, it's become even more clear as we've spent the last few years together. GA are experts at retail distribution. They have over a 200-person sales organization, work with 200-plus banks and broker-dealers.

We think there's a lot more that we can do together. And after now developing our product set, actually being in the market, it's very clear to us that that opportunity is real and tangible and right in front of us, whereas a few years ago, it was really more theory and we had some work to do to get here. But it's now right in front of us.

Allan Levine
And I would just add, if you think about our sales organization today, as Scott had noted, that over 200 people focused on broadly selling products to mass affluent. The 200 banks and broker deals gives access to over 100,000 financial advisers. The good news on a lot of these financial providers, they sell multiple products, they sell insurance, they sell annuities and they sell alternatives. And we also have a sales force that, over time, has been able to sell multiple products.

And as a result, at this point, we have the ability to actually sell annuities and alternatives through the distribution channels we have. As Scott said, it's early days, but we think there is a long-term opportunity here.

Operator
Our next question is from the line of Patrick Davitt with Autonomous Research. Please proceed with your question.

Patrick Davitt
Hey, good morning, everyone, thanks. So you highlighted in the deck that the combination will accelerate GA growth, and you went through some kind of key potential growth accelerators here on the call. But everything you're saying sounds like things you were probably doing already owning 63%.

So could you dig in a bit more on what you think will really, incrementally, change now owning 100%? And maybe said otherwise, any specific examples you have of friction that might have impeded these growth initiatives that will now go away? Thank you.

Scott Nuttall
No, thanks for the question, Patrick. Look, I think as you heard, I mean, the bottom line is we do believe there's a lot more value to unlock here, together. And the experience together over the last few years has made that very apparent for us. So it was clear that there was opportunities to help each other grow faster. We think there's even more to do.

And we've really learned a lot over the last three years so despite how positive this has all been, there's a lot more to get to. And let me give a little bit of background, and I'll hit some of your friction question in a minute.

I mean, at the highest level, if you think about GA earnings, they've been far more recurring and fast-growing than even we expected. We've seen significant resilience of the management team, the business model. We've now been able to go through COVID, two wars and a record increase in interest rates and see the durability and resilience of the overall franchise. So it's even more stable than we thought.

So, the first piece of this is we like in isolation owning more of those earnings. Also, the impact on KKR, it's been even greater than we expected. The $72 billion going to $158 billion, much faster than we anticipated, big impact on multiple KKR businesses and, obviously, the original deal highly accretive.

But what's just as powerful from our standpoint is the answer to your question. It's kind of the things that we've discovered together over the last few years that we have not yet been able to unlock at 63%. And part of this is how both businesses have evolved. So to give you some specific examples.

When we did the initial transaction, Global Atlantic had just raised their first Ivy sidecar fund. They had raised that from individuals, didn't have institutional investors in that fund. We have now raised Ivy II and are broadening the client franchise for that overall sidecar fund effort. KKR obviously has a lot of institutional investors that that product set is highly relevant to.

We think, over time, that can turn into an asset class, and we'll be talking about our Ivy raises as we think about where the big fundraises at KKR, over time. So GA leveraging the KKR salesforce, real opportunity.

Flip side of that goes the other way, which is what we just talked about a minute ago, which is private wealth. We think there's a big opportunity for us to access GA's retail distribution and have that team sell KKR private wealth product. But beyond that, there's also opportunities across capital markets. So as we discussed, GA's expanded our origination footprint, but we think there's a big opportunity in capital markets around things like asset-based finance.

How do we speak for more? GA holds some, have our capital markets business distribute the rest. And then when we do big deals, like we just did this MetLife block recently. What we did there is we actually put a big chunk of that on the GA balance sheet, some went into the Ivy sidecar funds, and then we can syndicate the excess to co-investment through our capital markets business. So there's real capital markets synergies there, too.

And with two sets of shareholders as you step back and think about it, it's kind of hard to prioritize resources and capital, where do costs go, where do revenues go. So you pointed about frictions, some of those things get a little bit more challenging when you have one very, very long-term shareholder, a forever shareholder, and some that are perhaps only invested in GA and focused on a different time horizon.

So those are the types of examples I would point to that are real and tangible and we think immediate. But there's other things, too. We think we can help GA go global even faster. We can have GA help scale more of KKR's investing businesses beyond real estate and credit where it's had the biggest impact so far.

And overall, this is a lot more value to unlock. And with one long-term fully aligned shareholder, we think we'll be able to do that. It'll drive even more growth and even more accretion. So hopefully, those examples give you a sense.

Operator
Our next question is from the line of Ben Budish with Barclays. Please proceed with your question.

Ben Budish
Hi, good morning, and thanks for taking the question. I was wondering if you could provide some more color on the expected dividends from the Core PE portfolio. I guess what's the sort of trajectory in the next couple of years? And is this simply a matter of the investments are maturing and you're kind of cranking up the payout ratio?

And similarly, what is happening between '26 and '28, such that the dividends will double again? Is that more growth plus the payout ratio increases? Or is that predicated on more sort of investments, more additions to the PE portfolio? Any more color there would be helpful. Thank you.

Rob Lewin
Yeah, it's really inflecting upwards and it can happen really with a maturing portfolio in an exponential way. And so it's less about capital deployment from here. It's more about the maturation of that portfolio, the resilience of the cash flow inside the portfolio and somewhat the growth that we expect in that portfolio from here. But I would say it's the first two that are the real drivers of our visibility, over the next three to five years.

And so, you're going to see, as I mentioned, a pretty modest upward trajectory in 2024. We've got confidence that that number can be $300-plus million in 2026, $600-plus million by 2028. And when you think about that composition of earnings for us, right, we believe it's going to be very stable year in, year out, obviously, highly growth-oriented especially over the next several years.

And as you look at that compared to other sources of income either across our industry or at KKR, I think that stacks up really well, and we're excited about that contribution to our cash earnings profile, over the next several years.

Scott Nuttall
Yeah, Ben, maybe just to add on, if you look at page 19 of the deck, that slide's really interesting from my standpoint. This gives you a sense. This is our share of the revenue and EBITDA of these companies,KKR's balance sheet pro rata share. And you can see how it's grown 16%

annualized like-for-like through COVID, that's through this economic environment that we've been in. So, these are really highly durable businesses.

But if you just look at the earnings power, our piece alone is the better part of $800 million of EBITDA, today. So if you think about the next few years of growth further delevering and additional investments we'd be making getting to $300 million to $600 million out of that $774, which will be a lot higher out then, maybe gives you a sense for it. And as these businesses de-lever, that earnings is already there and just more of it can be paid out.

Operator
Our next question is from the line of Alex Blostein with Goldman Sachs. Please proceed with your question.

Luke Bianculli
Hey, good morning, all. This is Luke on here for Alex. Thanks for taking the question. On increased asset origination opportunities at GA that you guys spoke to, just piggybacking off that, are you expecting to invest in new origination platform, or is that story more about scaling current investments? And can you speak to how much of GA's current balance sheet is invested in platform equity? Thanks.

Allan Levine
Hey, Luke, thanks for the question. As far as how we think about leveraging KKR's asset capabilities as rigid capabilities, a lot of what we think we have the opportunity to do and grow is in things we're already doing right now. So, think about our portfolio and insurance company assets that fit really well from a risk and investment management perspective. Those are in areas like asset-based finance, commercial real estate lending, direct lending, things KKR does really well.

We, at this point have, I think, around 45% of our total assets in those categories. KKR is only retaining about 30% of that 45%. So there's more opportunity to scale and grow with KKR as we hit that 30% up to 45% in total. So that's probably the primary growth opportunity for us. As we--in 100% ownership, we think there's more we have the opportunity to do and collaborate together. It could expand the asset classes we're looking at.

But as we think about Global Atlantic more holistically and the way we thought about risk and investment management, ALM, we're most focused on making sure we get the right assets to the insurance company that fit our conservative approach. And we think given the capabilities that KKR has and our opportunity to scale even further, most of those are consistent with what we've done, historically.

Operator
Our next question comes from the line of Chris Kotowski with Oppenheimer. Please proceed with your question.

Chris Kotowski
Yeah, good morning, and thank you. A two-part question. One is, if you're increasing the dividends from the companies, does that change your corporate dividend policy, which I would describe as kind of relatively low payout but steadily rising? And I'm going to assume the answer to that is no. And so the second part of the question is, assuming that you're going to intent on retaining a lot of the earnings that you generate, what I guess, I'm thinking what else are you incubating in the balance sheet?

First, it was used to seed funds and like infra and real estate and then it was used for Core growth PE and then Global Atlantic. And are there other priorities in there that you're incubating that may not be as visible to us, whether it's growth equity or Asia or something else? I don't know what else is on the balance sheet in the future.

Rob Lewin
Yeah, hey, Chris, why don't I start off? You're right. Our business model is one that is highly cash generative, and we think increasingly so. Our expectation is we're not going to change our dividend policy. And so you're correct in that, as well. We like our stable dividend with a growth orientation from here.

And in respect to what we're going to use excess free cash flow, we've highlighted four strategic areas of deployment. All that we think can lead to real business building, high ROEs and recurring earnings per share over a long period of time. So that's Core Private Equity, that's insurance, that's more M&A activity and net share buybacks.

And we're really going to move our capital around to the biggest opportunity to that point in time that can drive the most amount of earnings per share. And it's really an and question across the board. We think we can do all of it, and we have over the last five years.

I mentioned this in the prepared remarks, we've announced close to $8 billion of M&A-related activity, over the past few years. During that same time period, we've bought back roughly $1.2 billion of stock. So, that's half the stock we bought back in aggregate since we initiated our buyback program eight, nine years ago.

And so, limited equity issuance, meaningful share buyback and a lot of M&A over the last number of years. And so as we look forward, we continue to see real opportunity across deployment across each one of those areas that should be able to lead to increased growth on stability of KKR's total operating earnings and, ultimately, our adjusted net income per share.

Scott Nuttall
Hey, Chris, it's Scott. Just one small add-on. I think we view a critical part of our job as capital allocation. So you're right, we're not planning to make any meaningful changes to our stated

dividend policy. But as we think about how to allocate capital, if you really look at what we've been doing over the course of the last several years, there's been some themes.

We've been focusing on adding perpetual capital and doing things that are highly accretive to our Fee Related Earnings per share. Now we'll be talking more about operating earnings per share, as well. You should expect us to continue to act in that manner. We think the more that we can do to create long-term compounding recurring earnings per share, that's a big part of the job around capital allocation.

And that includes buybacks, which we've done quite a bit of over the course of our policy being in existence. We bought back 10% of our shares, 15% of our free float. I think our average repurchase price is somewhere between $27 and $28 per share. And so, we're pretty pleased with that as a body of work, but that's also part of the arsenal that we have.

Operator
Thank you. Our final question is from the line of Arnaud Giblat with BNP Paribas. Please proceed with your question.

Arnaud Giblat
Hey, good morning, thank you for taking my question. So, you stated that the shift of compensation from PRE to--sorry, from FRE to PRE is broadly earnings neutral. I'm just wondering if you could specify over what time periods that applies to. Does that also--is that also valid in a more normalized exit environment? Thank you.

Rob Lewin
The short answer, Arnaud, is yes. As we look out over our forward forecast of a normalized monetization environment, we think compensation will largely be comparable and not materially different. We'll continue to manage the firm in a balanced way, including thinking about compensation holistically with equity-based compensation, alongside.

In years where we have less monetization, there's going to be less comp payout, and we'll be protecting our earnings base with a lower comp margin in those environments. Conversely, in high monetization years, you can see our blended compensation rate tick up. But again, those are going to be higher monetization years, higher earnings years.

I think that's the inverse, honestly, to how financial services firms really have operated, historically. I think we believe we've got the business model to be able to achieve that balance.

So as we think forward, we're going to make sure, and I mentioned this in prepared remarks, we can deliver the most amount of profitability back to our shareholders. We're aligned for that and also make sure we've got the right tools here to have the top people at what they do working at KKR, which has got to be a goal, an equal goal of our shareholders, as well.

Scott Nuttall
Yeah, said simply or not, the statement around it being roughly neutral was presuming a normalized monetization environment.

Operator
Thank you. At this time, we have reached the end of our question-and-answer session. I'll hand the call back to Craig Larson for closing remarks.

Craig Larson
Rob, thank you for your help, and thank you, everybody, for your interest in KKR. Just looking at our screen here, we probably have somewhere between 2x to 3x the normal participants that we have on a normal earnings call, and that's obviously with very limited advanced warning. So thank you, everybody, for your interest in your participation. Please feel free to follow up with us after the call with any additional questions you might have.

Operator
This will conclude today's conference. Thank you for your participation. You may now disconnect your lines at this time.

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