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Virtus Investment Partners, Inc. (VRTS)

Q2 2024 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good morning. My name is Deedee. And I will be your conference operator today. I would like to welcome everyone to the Virtus Investment Partners Quarterly Conference Call. The slide presentation for this call is available in the Investor Relations section of the Virtus website, www.virtus.com. This call is being recorded and will be available for replay on the Virtus website. At this time, all participants are in a listen-only mode. After the speakers' remarks, there will be a question-and-answer period and instructions will follow at that time.

I will now turn the conference to your host, Sean Rourke.

Sean P. Rourke

Vice President-Investor Relations, Virtus Investment Partners, Inc.

Thank you. And good morning, everyone. On behalf of Virtus Investment Partners, I would like to welcome you to the discussion of our operating and financial results for the second quarter of 2024. Our speakers today are George Aylward, President and CEO; and Mike Angerthal, Chief Financial Officer. Following their prepared remarks, we'll have a Q&A period. Before we begin, please note the disclosures on page 2 of the slide presentation. Certain matters discussed on this call may contain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, and as such, are subject to known and unknown risks and uncertainties, including but not limited to those factors set forth in today's news release and discussed in our SEC filings.

These risks and uncertainties may cause actual results to differ materially from those discussed in the statements. In addition to results presented on a GAAP basis, we use certain non-GAAP measures to evaluate our financial results. Our non-GAAP financial measures are not substitutes for GAAP financial results and should be read in conjunction with the GAAP results. Reconciliations of these non-GAAP financial measures to the applicable GAAP measures are included in today's news release and financial supplement, which are available on our website.

Now, I'd like to turn the call over to George. George?

George Robert Aylward

President, Chief Executive Officer & Director, Virtus Investment Partners, Inc.

Thank you, Sean. And good morning, everyone. I'll start with an overview of the results we reported this morning, and then I'll turn it over to Mike, who'll provide some more detail. For the second quarter, while we had net outflows, which were largely consistent with broader trends for active US retail funds, we also had growth in strategic areas, including retail separate accounts, ETFs, and global funds. Higher earnings and operating margin, both sequentially and over the prior year period. Attractive investment performance across strategies. Continued return of capital through share repurchases and our dividend. And we ended the quarter with a modest level of leverage and meaningful capital flexibility.

One area of emerging growth to note in the quarter was our ETF platform, which surpassed \$2 billion in assets under management, due in large part to 45% organic growth over the past year and positive net flows each quarter. We currently have 18 ETFs across a variety of strategies and managers which have demonstrated strong performance. And we have a number of new funds and solution-oriented products under development.

While ETFs are still a small part of our business and some are not yet available at all of our intermediaries, we are focused on expanding our offerings. We've had several recent introductions, including an ETF from AlphaSimplex that we launched during the quarter, and we have several other funds under development. Similarly, retail separate accounts and global funds have been meaningful growth areas for us, and we expect them to continue to be drivers of growth as we focus on and invest in their development and bring new strategies to market.

Turning now to a review of the results. Total assets under management decreased 3% to \$174 billion due to market performance and net outflows in US retail funds and institutional, which were partially offset by positive net flows in retail separate accounts, ETFs, and global funds. Sales of \$6.1 billion declined from the strong first quarter, primarily due to open-end funds and institutional, which benefited from a large mandate in the prior quarter. Retail separate account sales of \$2.2 billion were modestly lower than the prior quarter, but they were up more than 60% over the prior year period on continued strong demand.

Net outflows of \$2.6 billion compared with \$1.2 billion in the prior quarter, with the significant majority of the net flows early in the quarter in the month of April. For the quarter, institutional had net outflows of \$1.7 billion as redemptions included a partial client rebalancing of a large cap growth strategy related to strong performance. We continue to see a high level of interest in our institutional offerings from investors across regions and managers as investors seek quality active managers with strong performance.

Retail separate accounts generated positive net flows of \$0.5 billion and have delivered 5% organic growth over the past year due to strong investment performance and growing demand. We are focused on expanding the strategies available in retail separate accounts, particularly in fixed income and non-US equities to complement our current offerings. Open-end fund net outflows of \$1.3 billion compared with \$0.6 billion in the first quarter, with a higher level of net outflows in US retail fund. Global funds and ETFs again generated positive net flows, and we saw improved net flows in alternatives, leveraged finance, and international equity. In terms of the flows we're seeing so far in July, retail separate accounts, ETFs, and global funds continue with their positive trends, and US retail funds are tracking better than the monthly average of the second quarter, with notably stronger fixed income inflows. For institutional, activity remains broad-based across strategies and managers and known wins which we expect to fund over the next few quarters, exceed known redemptions. The sequential improvement in our financial results reflected the impact of the higher average AUM levels as well as the prior quarter's seasonal

expenses. The operating margin was 32.5%, up sequentially from 28.2%, which include the impact of the seasonal expenses.

Earnings per share, as adjusted, of \$6.53 increased from \$5.41 in the first quarter, which included the seasonal expenses. Relative to more comparable prior year period, earnings per share, as adjusted, increased 20% on higher average assets and lower expenses.

Turning now to capital. We maintain a strong balance sheet and generate significant cash flow that provides flexibility to take a balanced approach and to prioritize capital allocation as circumstances warrant, including returning capital to shareholders and thoughtfully investing in the growth of the business. During the quarter, we repurchased approximately 55,000 shares for \$12.5 million and paid quarterly dividends that were 15% above the prior year level. We also made a principal payment on our term loan and ended the quarter in a modest net debt position at 0.2 times EBITDA.

So with that, I'm going to turn the call over to Mike. Mike?

Michael A. Angerthal

Chief Financial Officer, Treasurer & Executive VP, Virtus Investment Partners, Inc.

Thank you, George. Good to be with you all this morning. Starting with our results on slide 7, assets under management. At June 30, assets under management were \$173.6 billion, down 3% from \$179.3 billion at March 31, due to \$2.6 billion of unfavorable market performance and \$2.6 billion of net outflows.

Compared with the prior year period, AUM increased 3%, driven by consistent growth in the strategic growth areas of retail separate accounts, global funds, and ETFs, which have collectively increased 18% over the period. Average assets under management in the quarter increased 1% sequentially to \$175.2 billion, with ending assets 1% below the quarter's average. Our assets under management continue to represent a broad range of asset classes and products.

By product, institutional is our largest category at 36% of AUM, followed by US retail funds at 28%, and retail separate accounts at 26%. On an asset class basis, strong equity markets over the past year led to equities increasing to 57% of AUM from 54% a year earlier. Within equities, we are well diversified across international and domestic strategies, and domestic equities are nearly evenly split amongst small, mid, and large-cap strategies. We also continued to have compelling long-term relative investment performance across products and strategies. As of June 30, 61% of rated retail fund assets and 31 funds had four or five stars, and 90% were in three-, four- or five-star funds. In addition, 60% of fund AUM outperformed the median of their peer groups over the five-year period.

ETFs have also had strong performance, with 90% of ETF assets under management outperforming the median of the peer group over the three-year period. And five of our ETFs rated four or five stars. Across all products, 55% of AUM at June 30 were beating their benchmarks over the five-year period.

Turning to slide 8, asset flows. Total sales of \$6.1 billion decreased 19% from \$7.6 billion, largely due to lower US retail fund and institutional sales. On a year-to-date basis, sales were essentially flat compared with the prior year. Institutional sales of \$1.2 billion declined sequentially from \$1.7 billion due to the prior quarter, including a meaningful new client funding in a mid-cap equity strategy. Retail separate account sales continued to be strong at \$2.2 billion, although they were down modestly from the prior quarter as higher private client sales were offset by lower intermediary sold.

On a year-to-date basis, retail separate account sales are up 68% over the prior year period, reflecting strong demand. Open-end fund sales of \$2.8 billion declined sequentially from \$3.5 billion as higher sales of large-cap and global equity were more than offset by lower small and mid-cap equity, fixed income and alternatives. On a year-to-date basis, open-end fund sales increased 12% from the prior year period. Total net outflows were \$2.6 billion as positive net flows in retail separate accounts, ETFs, and global funds were more than offset by net outflows in institutional and US retail funds.

Reviewing by product, institutional net outflows of \$1.7 billion compared with \$1.3 billion sequentially, and included a \$0.7 billion partial rebalancing in April by a meaningful client in a large-cap growth strategy. As always, institutional flows will fluctuate depending on the timing of client actions. Retail separate accounts continue to generate positive net flows in both the intermediary sold and private client channels. Net flows were \$0.5 billion in the quarter, with 5% organic growth over the past year. For open-end funds, net outflows were \$1.3 billion, compared with \$0.6 billion in the first quarter due to lower sales as redemptions were essentially unchanged. Within open-end funds, both ETFs and global funds were again positive, each with strong organic growth rates over the past year.

Turning to slide 9, investment management fees, as adjusted, of \$183.7 million increased \$3.1 million or 2%, reflecting the 1% increase in average assets under management and a modestly higher average fee rate. The average fee rate of 42.2 basis points increased from 41.9 basis points in the prior quarter. Excluding performance fees, the average fee rate in the second quarter was 42 basis points, unchanged from the normalized first quarter fee rate. Looking ahead, we believe the normalized average fee rate for the first and second quarter is reasonable for modeling purposes. As always, the fee rate will be impacted by markets and the mix of assets.

Slide 10 shows the five-quarter trend in employment expenses. Total employment expenses, as adjusted, of \$103.5 million decreased 7% sequentially, reflecting \$10.9 million of seasonal expenses in the prior quarter, partially offset by higher variable incentives, including performance-based stock compensation. As a percentage of revenues, employment expenses were 51%, up from a seasonally adjusted 50.3% in the first quarter, primarily due to higher performance-based stock compensation. Looking ahead, we believe employment expenses as a percentage of revenues in a range of 49% to 51% remains reasonable, though as always, it will be variable based on market performance in particular, as well as profits and sales.

Turning to slide 11, other operating expenses, as adjusted, were \$31.3 million, with the 4% sequential increase primarily due to \$0.7 million of annual grants to the board of directors. Compared with the prior year period, other operating expenses were modestly lower in spite of continued increases in data and service provider costs, as we continue to closely manage expenses. As a percentage of revenues, other operating expenses declined 120 basis points, compared with the second quarter of 2023. Looking ahead, the quarterly range of \$30 million to \$32 million for other operating expenses as adjusted remains reasonable.

Slide 12 illustrates the trend in earnings. Operating income, as adjusted, of \$66 million, increased \$9.6 million or 17% sequentially, primarily due to the prior quarter's seasonal employment expenses and higher average assets. Over the more comparable prior year period, operating income increased 7%. The operating margin, as adjusted, of 32.5% compared with 28.2% in the first quarter. On a year-over-year basis, the operating margin increased by 20 basis points.

With respect to below-the-line items, interest and dividend income increased by \$1.2 million, primarily reflecting interest income on our CLO investment from last year's issuance. Net income, as adjusted, of \$6.53 per diluted share increased from \$5.41 in the first quarter and increased 20% over the prior year period. In terms of GAAP results, net income per share of \$2.43 compared with \$4.10 per share in the first quarter and included \$1.71 of

realized and unrealized losses on investments, \$1.04 of expense related to the increase in fair value of minority interests, and \$0.36 of expenses related to an early lease termination, acquisition and integration, and restructuring.

Slide 13 shows the trend of our capital liquidity and select balance sheet items. Working capital was \$143 million at June 30, up sequentially from \$123.4 million as cash generated more than offset return of capital to shareholders and debt repayment. Cash and equivalents increased sequentially to \$183 million, from \$123.9 million at March 31. During the second quarter, we repurchased 55,099 shares of common stock for \$12.5 million. We also made a \$5 million payment on our term loan, our first discretionary payment since mid-2022. As a reminder, we paid off the balance of our revolving credit facility in the fourth quarter of 2023. At June 30, gross-debt-to-EBITDA was 0.8 times, down from 0.9 times at March 31. Net debt at June 30 was \$69 million or 0.2 times EBITDA. We generated \$82 million of EBITDA in the second quarter, up sequentially due to prior quarter's seasonal employment expenses and higher average AUM, and up 11% from the prior year level.

Looking ahead, anticipated capital uses include scheduled minority interest purchases and a potential new CLO, as well as other product introductions to support the future growth of the business.

With that, let me turn the call back over to George. George?

George Robert Aylward

President, Chief Executive Officer & Director, Virtus Investment Partners, Inc.

Thanks, Mike. We'll now take all your questions. Deedee, would you open up the lines, please?

QUESTION AND ANSWER SECTION

Operator: Thank you. [Operator Instructions] And our first question comes from Crispin Love of Piper Sandler. Your line is open.

Crispin Love

Analyst, Piper Sandler & Co.

Q

Thank you. Good morning, everyone. Just first off, that broader markets for several quarters here have been driven by the largest US stocks, especially in the tech space, as shown by just the S&P meaningfully outperforming the equal weight S&P year-to-date in the last year, et cetera. But we've seen some of that shift recently with the equal weight S&P actually outperforming. I know it's a recent shift here, but does this dynamic change anything for you, what flows might look like, or new sales kind of in July relative to prior quarters? Or do you expect it to make any differences over the near term?

George Robert Aylward

President, Chief Executive Officer & Director, Virtus Investment Partners, Inc.

A

It's a really interesting question because those dynamics are not always really fully understood. So as you're kind of pointing out, one of the experiences in the US markets has really been not only the predominance of the S&P 500, so the larger caps, but a certain small number of names within them. So extrapolating your question, as we kind of look at it, our asset base is actually more correlated on the domestic side to the mid-caps and the small caps. So one of our experiences over the last period where that S&P has had such strong performance is that on a relative basis, the smaller caps and the mid-caps have actually underperformed. Right? If you look at the

indices for the six-month period or in the year-to-date period, you'll see the relative – underperformance relative to the large-cap indices.

So in some ways, there's been a little bit of a headwind for us. And we're actually as we see the reversion or hope to see the reversion of that, again, with our strength, particularly in mid-cap, where we have a very strong position. And as you know, we have a diversity of small caps. For us, that really does create a lot of opportunity. And then related to that, the other factor in the markets that's impacting – that would impact us, right, is I would say, quality versus momentum, right? So generally, some of our larger equity managers have more of a quality orientation. So when quality underperformance relative momentum, which has been the recent experience, that also creates a headwind for us.

And as that reverts, then that will create a tailwind, particularly for the two – we have two or three managers that would particularly move in coordination with quality versus momentum. So that's kind of the way we – as we kind of look through that and we always caution people, looking at the S&P 500 is not going to be very indicative of how our AUM or revenue is going to trend given the diversity we have, and the credit side versus the equity side, and then within the equity side between the market caps. Does that answer your question?

Crispin Love

Analyst, Piper Sandler & Co.

Q

It does. It does. I appreciate that, George. And then just one other for me, and I know institutional float can be lumpy, but just I'm curious, anything so far in the third quarter that you expect over the course of the quarter that could drive flow trends specifically in institutional that's worth calling out? I think you mentioned some known wins over the next few quarters, but any way to kind of size that, or time it, how you might expect that? And is it looking more positive rather than negative as well? That's the kind of the sense that I got from your comments. But curious if I'm thinking about that correctly.

George Robert Aylward

President, Chief Executive Officer & Director, Virtus Investment Partners, Inc.

A

Yeah. Yeah. So I'll give some thoughts and then Mike will – can expand upon those. So as you pointed out, the lumpiness is always a little frustrating, right? So in Mike's comments, he referred to the fact that in the first quarter, we had a meaningful inflow and that was on the mid-cap side. And then we referenced in April and the early part of this quarter, there was a rebalancing which, again, those generally relate to areas where we have mandates that might have, say, a target allocation and performance can actually pull you above that. So there's always going to be that volatility in the business. And the trends of where clients are ultimately interested can vary a bit. And in terms of the diversity that we have, so again, we can have in one period a mid-cap opportunity, another period, a large cap. And as you know, we've previously spoken to global REIT as well as fixed income mandates. So there always will be that variability. I'll let Mike go into some of the forward-looking comment.

Michael A. Angerthal

Chief Financial Officer, Treasurer & Executive VP, Virtus Investment Partners, Inc.

A

Yes. Thanks, George. And I would just add that the breadth of the pipeline remains very well-positioned for us going forward. The timing is very difficult to forecast as you indicated, whether it's third quarter or fourth quarter. But in addition to the strategies that George alluded to, we've also had some strong interest in AlphaSimplex, which is our most recent manager that's added to our offerings. So we see across affiliates and across geographies in the pipeline, and we're pleased that the known wins continue to exceed redemptions that we're aware of. A little bit more difficult, again, to forecast when you'll see that specifically in the results. But we're pleased with the activity and the breadth of that across our managers.

Crispin Love*Analyst, Piper Sandler & Co.*

Q

Thank you. Thank you for the color, George and Mike. And yeah, that's it from me.

George Robert Aylward*President, Chief Executive Officer & Director, Virtus Investment Partners, Inc.*

A

Thank you.

Operator: Thank you. Our next question comes from Bradley Hays of TD Cowen. Your line is open.

Bradley Hays*Analyst, TD Securities (USA) LLC*

Q

Hi. Good morning. It's Bradley Hays on for Bill Katz. Could you dig in a bit more on the M&A pipeline and perhaps give some color on what you're seeing in the market in terms of bulk deal opportunities and conversations you're having?

George Robert Aylward*President, Chief Executive Officer & Director, Virtus Investment Partners, Inc.*

A

Sure. So in terms of M&A, and again, I think others have said the same that the activity continues to be ongoing. I think the continued evolution of conversations to be really focused more on the strategic nature of the relationship as opposed to generally just the valuation part of that conversation. Though the valuation part is always an interesting thing. So we continue to be very active in terms of considering opportunities. We do look at it from a selective point of view in terms of those things which we believe will be generally of strategic value to shareholders as we continue to build out the business. Kind of areas that we've commented before, and I'll comment again in terms of areas of interest is we have very strong representation across the traditional long-only capabilities. Our recent – two most recent acquisitions have been in the liquid alternative space, and we continue to think that there will be opportunities in more of the private markets and those other capabilities. So we continue to evaluate opportunities and we've been quite active in terms of doing that. But again, we'll only move forward if there are things that we think are really of value to shareholders.

Bradley Hays*Analyst, TD Securities (USA) LLC*

Q

Okay. Great. Thank you. And then just following up on that, are there any particular verticals within liquid alts that you're looking at?

George Robert Aylward*President, Chief Executive Officer & Director, Virtus Investment Partners, Inc.*

A

Well, they each sort of have a different aspect to them. Right? So they're categorized all together in terms of the private nature of it and the illiquid nature of it. So in the broader group, we do think that really for investors to ultimately achieve their long-term financial objectives, they do need to have a portion of their portfolio allocated to those less liquid investments. Within the verticals of that, again, you've seen a lot of strength on the private credit side, and I think that's going to be highly – remain in high interest given people's demand for income and yield. But our view is that really does need to be kind of balanced out with the private equity side and as well as the real asset side, which we think for the diversification of our portfolio really needs to be part of that conversation. And we always get some concerns when people kind of start overweighting one vertical versus another. So we think they all have a place and those are all areas that we'd be interested in.

Bradley Hays*Analyst, TD Securities (USA) LLC*

Q

Okay. Thank you. And then on fee rate inflows, you've pretty consistently maintained your fee rate within provided range. Could you maybe give us some detail on how you're thinking about pricing versus attracting new flows?

George Robert Aylward*President, Chief Executive Officer & Director, Virtus Investment Partners, Inc.*

A

In terms of pricing – yeah. So again, and I'll let Mike expand. But as we kind of look at the – we look at both the pricing and then the margin impact as we do pricing for different strategies, right? Because sometimes, the higher fee product isn't always necessarily the higher-margin product. So again, we look to be competitive in the market. We generally offer strategies that are either capacity constrained, distinctive, or somehow differentiated. So our fee rate is higher than a generic book of business that would include a lot of more beta like capabilities. But we're very thoughtful about it. We want to create profitability for the company, but we also need to be competitive with other fees that are offered by others. Mike?

Michael A. Angerthal*Chief Financial Officer, Treasurer & Executive VP, Virtus Investment Partners, Inc.*

A

Yeah. And I think I would just add, and I alluded to it in the prepared remarks, I think the markets and the mix of our assets will certainly impact the fee rate. And we've been pleased as the institutional business has grown, as the retail separate account business has grown, that we've been able to maintain our fee rate in that tight range. And we're pleased the incremental margins that we experienced from the different product areas remain in that 50% to 55% level. So it's something we focus on. But we'll again be impacted by the mix of the assets and markets.

Bradley Hays*Analyst, TD Securities (USA) LLC*

Q

Okay. Thank you.

Operator: Thank you. Our next question comes from Michael Cyprys of Morgan Stanley. Your line is open.

Michael J. Cyprys*Analyst, Morgan Stanley & Co. LLC*

Q

Great. Thank you. Good morning. Just wanted to come back to your commentary on capital uses. I was hoping you could elaborate a bit on some of these other product introductions that you were alluding to. How much would you anticipate allocating there, the seed book today? How do you see that expanding, if at all? How are you thinking about recycling? And then more broadly, if you could just talk a little bit about some of these opportunities that you see to introduce new products into the marketplace. Where do you see some whitespace and where might that make the most sense?

George Robert Aylward*President, Chief Executive Officer & Director, Virtus Investment Partners, Inc.*

A

Sure. Yeah. So there's a bit there. So I'll cover a bunch of that. And then Mike will go a little further. So in terms of the capital, so again, as we've always said, as you know, we take a balanced approach which does include consistent share repurchases and dividend increases. It does include the paying down of debt, which Mike has alluded to. And it does include investing in growth, which is two categories, organic and inorganic. And so that ties then into the references to the seed capital.

So in the prepared remarks, we kind of indicated the future uses of capital, could include potential CLOs, as well as new product introductions, because we do believe under the right circumstances, those are really good uses of capital. We do have a balance sheet allocation to seed capital, including CLO capital. We've maintained that as an area of investment and many of the growing products and revenue generation we've had, they've all come from something that has been seeded sometime previously. So we do think that's important, an important part of investing in the future of the business.

We do recycle a lot. So a lot of the capacity that you've seen, we've set aside in the balance sheet for seed capital has been continuously rebalanced as we seed an investment strategy, hopefully it grows to a point, it draws third-party assets. We then reallocate that. So much of the seed we've had periodically. So there hasn't been probably a lot of major changes in terms of that seed capital level.

So we continue to look to recycle that, and then – but then in certain instances, there are periods, like say, we do a CLO that has a good IRR where we may consider utilizing that if it meets the thresholds that we have. And in terms of the new products, we have been active in terms of a number of actively managed fixed income ETFs. Obviously, particularly, if they're fixed income, they require the seed capital. So that's been an area of global funds. It's been another area we've seeded a lot. So we do believe that there's a big opportunity.

And then the third piece being the retail separate accounts, particularly alluding to doing more fixed income ones. So those are generally at the higher end, but we're thoughtful about how we approach that, that it is one of the elements. Mike, anything you'd add?

Michael A. Angerthal

Chief Financial Officer, Treasurer & Executive VP, Virtus Investment Partners, Inc.

A

I would just add, I think you alluded to it, the seed portfolio, we introduced it maybe 10 years ago, and we've sort of fluctuated within a relatively narrow range. Sometimes, it takes a little higher when investment opportunities require expanding the seed portfolio, but there's a balance and a discipline around recycling wherever possible, and we actively manage that. So when you see changes in the seed portfolio, they're typically market-based where recycling has been prominent, but we can expand on that as our product needs and requirements call for that as a priority of our capital. And it's part of our balanced approach of investing in the business and returning capital and paying down debt. So I think you'll see that as a continued strategic priority for us.

Michael J. Cyprys

Analyst, Morgan Stanley & Co. LLC

Q

Great. Thank you for that. Maybe just to follow up on the capital return, I think it was about \$12.5 million of buybacks in the quarter. Debt paydown around just under \$6 million or so. Just curious how we should think about the cadence and pace of that over the next couple of quarters. Do you think that this quarter is a good run rate? We do anticipate it accelerating as we look out from here or decelerating. How should we think about the cadence and pace of buybacks and debt paydown? Thank you.

George Robert Aylward

President, Chief Executive Officer & Director, Virtus Investment Partners, Inc.

A

Yeah. And again, we evaluate all of those and that actually connects, obviously, to your previous question in terms of opportunities for seed. So again, we maintain a strong balance sheet and generating a lot of cash flow, which gives us that flexibility to continue to do things that we think are critical. And so our consistency in terms of share buybacks has been pretty consistent in terms of how we look at the number will fluctuate depending upon

the cash utilization for other purposes during that month. We're beginning to start to have the cash after having paid down the outstanding balance on the revolver, on the debt. And we have commented on that. So every quarter, it will vary depending upon the timing of the quarter, the level of cash, the trading level of our stock in terms of that. But we continue to balance all three of those within a reasonable range.

Michael A. Angerthal

Chief Financial Officer, Treasurer & Executive VP, Virtus Investment Partners, Inc.

A

The other piece – and again, I alluded to it in the prepared remarks, but it's worth as a reminder is in – this coming quarter, we have the scheduled affiliate minority purchases that will be a capital use that is a priority. And I think last year, that was above \$20 million and that number will fluctuate a bit. But that'll be a capital use that's forthcoming and potential CLO issuances. We're monitoring the market on the CLO side. So again, we balance investments with the other capital priorities we've discussed.

Michael J. Cyprys

Analyst, Morgan Stanley & Co. LLC

Q

Great. Sorry. Just one other if I could follow up on that \$20 million minority purchase, just if you could help us with the next couple of years, how much do you anticipate in terms of other uses from a strategic angle like that? Any earnouts to be aware of to have on the radar screen?

Michael A. Angerthal

Chief Financial Officer, Treasurer & Executive VP, Virtus Investment Partners, Inc.

A

Yeah. I think the cadence on the minority purchases, I think, again, was part of the original transaction where we acquired a majority interest, and this is part of the stage purchases. So there'll be one more year after 2024 of stage purchases so that you can expect in the middle of 2025. I think the other thing that we talk about frequently is the contingent consideration, and that – the meaningful amount of that balance is paid off each first quarter, and there'll be a forthcoming payment in the first quarter of 2025. And then one more significant payment in the first quarter of 2026. I think those three additional payments are probably the more meaningful capital priorities in addition to the one in the third quarter of this year that I alluded to.

Michael J. Cyprys

Analyst, Morgan Stanley & Co. LLC

Q

Great. Thanks so much.

George Robert Aylward

President, Chief Executive Officer & Director, Virtus Investment Partners, Inc.

A

You're welcome.

Operator: Thank you. This concludes our question-and-answer session. I would like to turn the conference back over to Mr. Aylward.

George Robert Aylward

President, Chief Executive Officer & Director, Virtus Investment Partners, Inc.

I just want to thank everyone for joining us today. And as we always do, we do encourage you to reach out if there's any other further questions. Thank you so much.

Operator: That concludes today's call. Thank you for participating. You may now disconnect.

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