Jim Zelter on Bloomberg: Meeting Europe's Growing Capital Needs

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Jim Zelter

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Companies in Europe are facing unprecedented levels of demand for capital driven by energy transition, industrial revitalization and other long-term growth prio

Jim Zelter discusses our growing high-grade activity in Europe, from EDF, BP, Air France-KLM, RWE and, most recently, committing €3bn to Bayer in Germany.

Tom MacKenzie: Now, Apollo, as we think about the macroeconomics, a factor, of course, for all investors, arguably, as well, for private capital private activity. And Apollo Global Management is nearing, despite this higher interest rate regime, assume the geopolitics, Apollo Management is nearing a record-breaking year. A record breaking year for acquisitions. It's launched a 5.7 billion pound takeover bid for EasyJet and is buying a £3 billion stake in Bayer's contraceptives unit. The investment firm's massive spending surge puts it at odds with the broader private equity industry, most rivals are actually struggling to close new deals. Very pleased to say, we're joined by Jim Zelter now, President of Apollo Global Management. Jim, thanks for coming into the studio. So on track for a record year for Apollo, when it comes to acquisitions, what's been driving that, does it continue?

Jim Zelter, President of Apollo Global Management: Well, I think it's for sure, always great to be here in London. Great weather. You know, I think this has been a trend the last several years. You know, our business has really continued to evolve beyond our private equity roots of 36 years ago. Today, we're a little bit over a trillion of assets, with credit being 80% of that and most of our deployment the last several years, 80% plus has been in the credit areas and mostly investment grade credit. Certainly, you know, topical in the last couple of days in terms of what we've announced over here in the equity side which I'm sure we'll get to. But certainly, listen, it's a robust economic backdrop, particularly in the US, but also in some areas over here as well. We've talked about this global industrial Renaissance of many industries needing tremendous capex to growth. And we find ourselves in a very unique position to be able to provide that to many companies.

Tom MacKenzie: And you and the team have been pretty constructive on Europe. You're obviously here in London, so no doubt having some pretty consequential meetings. Is it a valuation story in Europe? Is it the AI? Is it that Europe actually does have some role to play in AI? What makes Europe attractive in a moment of flatlining economy?

Jim Zelter: Well, I think the big story globally, it certainly has been an AI technology story, but there really is, we've been very consistent the last 2 or 3 years, this global industrial Renaissance, whether it's energy, whether it's energy transmission, whether it's industrial revitalization, defense, and many other areas. And if you look in Europe in the last 24 months, between transactions, we've helped with financing Air France, Vonovia, RWE, EDF, Bayer, as you mentioned, this past week, you know, these companies need a tremendous amount of capex to compete on the world stage. And, you know, many governments in the past have been the purveyor of lots of capital for capex. Today, government pocketbooks aren't as buoyant to be able to provide that. So we, along with the investment grade market and the non-investment grade market, are really a provider of a lot of that capital.

Anna Edwards: Jim, good morning. Nice to see you.

Anna Edwards: Help me keep up to date with what it is you want out of these businesses in Europe that you're investing in then? Because we see names, you know, somebody like Apollo going after something like EasyJet, and then you think, this is quite a low margin business. This is a low cost business. You know, in the olden days, we'd have thought of maybe businesses such as yours going in and wanting to strip out costs and make them more efficient. I mean, maybe that is part of the story, but surely there aren't many costs to strip. So what kind of thinking goes into making a play for something like EasyJet? Where there might not be the cost base to...

Jim Zelter: Sure. Well, I'm sure you can appreciate, there's very little I can say, frankly, about that transaction. I will say to you, in the private equity area, we have a long history of investing in airlines and aerospace. So, you know, we've had successful investments around the globe, whether it's Atlas Aviation, whether it's, you know, Sun in the US, we've done quite well in that sector. That's an equity investment. The others that I mentioned to you earlier, Vonovia, Air France, Intel. Those were all really debt financings that we've provided. So I think we're extremely active on the debt financing side in Europe because of our role working with the banks, as these companies need capex. But I think there are, you know, a tremendous amount of great businesses over here. It's a very large economic backdrop for us to be able to deploy capital, and, you know, in the last 24 months, I know I've been to Germany a half dozen times. I know my peers have as well. So there's certainly a lot going on here when you have a firm with the breadth and scale of our toolbox, we can provide debt mostly investment grade solutions, as well as some equity solutions. It's a very positive story.

Anna Edwards: Okay, and thinking about all that you just said there. You've been to Germany quite a lot. You were earlier mentioning that government pocketbooks are stretched and you guys have a bit of money to spend to invest. It makes me think of the defense sector, because this is an area we talk a lot about needing capital and needing investment in Europe. Is that somewhere that you're looking to increase exposure?

Jim Zelter: Yes, I think, again, when you think about it, I think when we sit back in the next 24 months, we'll look back and say, well, we talked a lot about AI and the hyperscalers, but really, there was a major capital expenditure need around a lot of companies. What's going on right now in the Middle East with the supply shocks of oil, I think it's making many companies look at their supply chain finance, and just-in-time finance and inventory finance. So, every economic event creates a variety of financing needs in the wake of that. We saw it during COVID with supply chain, we're seeing it right now with the incursions of the challenges of the Middle East conflict. And so many, many companies are thinking about how do they finance themselves appropriately? Are there assets on their balance sheets that they can redeploy in a more effective way? At the end of the day, this is all about companies doing things that optimize the equity return of their business. And if you see a lot of the companies that we’ve provided these debt financings to, their equities have done quite well in the wake of that. Intel's the best example, the stock's basically tripled since we gave that financing out 24 months ago in Ireland. We saw a nice return from Bayer last week. I think the marketplace likes to see a breadth of financing capabilities from these companies. And again, because of our unique structure, not only having a very large third party institutional business, but a very large insurance and regulated balance sheet, we use both of those appropriately in the investment grade world, mostly, but a little bit in the non-investment grade world to put that capital to work.

Tom MacKenzie: Given that you are financing some of this AI infrastructure, whether it's Intel in Ireland, or Anthropic, and Broadcom in the US, what assumptions are you and the team making about hyperscaler spend? How comfortable are you with the trajectory of spend right now and the return on investment? What are you modeling?

Jim Zelter: We really, as a debt investor, you're really trying to make sure that you've got your downside protected. So many of the transactions that we've provided capital to have either an amortizing structure where we get paid off every year, and we're really trying to avoid that residual risk on the back end. So for our transactions, the Broadcom transaction in particular, that was a five-year amortizing piece of paper. For the Intel facility, we were really just basically the capacity of the chips. So when you are a debt investor, especially top of the capital structure investment grade, you're really trying to box your risk. You're not taking the residual equity returns that you might be if you were a VC investor or an equity investor in a lot of these.

Tom MacKenzie: Do you think infrastructure spend continues at pace at that kind of level?

Jim Zelter: You know, I think it's going to be a great question. I think when you see companies like Alphabet do their 85 billion financing between equity and mandatory, I think the real refrain is every precinct is needed. There's a lot of conversations about private credit, about investment grade public credit, about equity. It's gonna need all of these asset classes to really contribute, because the vast size of capital needed is really something we've not seen in the past. And the impact of the whole construct of the IG market, I've talked a lot about to your colleagues in New York, the construct of that, these hyperscalers were negligible players really in the IG space several years ago. They'll be up to 7 to 10% by the end of this year. So the whole construct of how these companies finance is very, very different and unique.

Anna Edwards: Yes, and Jim, can I ask you about something that's sort of fast developing, has been for the last 6 months or so, within the private credit space. And that's, you know, we've seen around BDCs, those companies in the States that do a lot of private credit, they've had a lot of software exposure. They then face a lot of redemptions. Is this something that worries you as part of the private credit landscape at this point?

Jim Zelter: You know we get asked that a lot. I think, clearly, it's not systemic risk. It really is, you know, the non-investment grade private credit area, that's about a $3 trillion asset class. This BDC area is about $400 billion of that. So it's really a very, very small corner. It's the same type of redemption provisions that institutions would have in terms of a drawdown vehicle. So, I think there will be a breadth of dispersion of returns amongst managers because of either software or other areas. But I don't see it as one where it's systemic risk by any means.

Tom MacKenzie: You think there are some BDCs out there, business development companies, that won't make it through this period?

Jim Zelter: You know, like any asset class, like the hedge fund industry, it's really just the structure, and it's really then how you actually invest in it. And certainly there has been very little dispersion of performance between top quartile and bottom quartile the last 5 years. I think the next 2 or 3 years, you will certainly see a wider dispersion of performance amongst those.

Anna Edwards: So you say it's not systemic, which seems to be something that we hear from various people, Jim. Fitch did publish a report yesterday, though, or earlier this week maybe, pointing to hidden leverage in private credit BDCs through their use of joint ventures. Are there other things like that? Are you worried about that? Or are there other things like that that we should be more concerned about?

Jim Zelter: You know, I think as we sit here again, in 24 months from now, wel talk about the disruption from the software industry. I do think other industries will get disrupted as well. For us, I think it's naive to think that the only sector in the world of credit, public and private, that is going to get disrupted is the software space. I think there's a variety of other distribution businesses, or other businesses that may be asset light, that took advantage of great margins, that I think in the world of AI and disruption, there will be more so. So I think you have to have a much broader lens when you think about the challenges going forward in portfolio construction.

Tom MacKenzie: Jim on the here and now, we're getting to the foothills of earnings season. US banks reporting later today. What are you and the team going to be watching for when it comes to earnings broadly? What is top of mind for you when you scrutinize those numbers?

Jim Zelter: Well, I suspect they will be quite strong. I mean, a tremendous amount of interstock volatility in a quarter, tremendous amount of financing activity, but yet indexes are quite higher at the end. So, you know, I am curious about some of the regional success of some of these firms, not only the US, Europe, but also Asia, and certainly certain countries in terms of performance, but I suspect they will be quite strong. The capital markets pipeline has been extraordinary, the investment grade issuance has been extraordinary, equity issuance a record quarter I believe, and also M&A has been quite strong. So, you know, the macroeconomic drivers of the capex cycle, the risk-on mentality, capital investment, pretty strong to be able to get in the way of right now.

Anna Edwards: Jim, thank you very much. Thanks for your time.

Apollo is a solutions provider, delivering flexible capital at scale to leading companies around the world. As a principal investor, we provide long-term, aligned capital that helps businesses grow, invest and operate in the real economy.

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