

Blue Owl Capital

4Q23 Earnings – \$1 2025 dividend target achievable but not easy; Raising EPS & PO

Reiterate Rating: BUY | PO: 23.00 USD | Price: 17.57 USD

Expect robust fundraising in 2024

Blue Owl Capital (OWL) reported strong 4Q23 financial results that were roughly in line with our expectations (but ahead of consensus estimates) and this was OWL's 11th straight quarter of consecutive FRE (fee-related earnings) and management fee growth. We forecast strong fundraising in 2024 led by GP Stakes VI closes and increasing momentum in OWL's private wealth products (OCIC, ORENT, OTIC). OWL reiterated its \$1 2025 dividend target which we view as achievable but not exactly an easy target. We estimate OWL will meet this target driven by a combination of robust organic growth, \$120M from future BDC IPOs/mergers and incremental operating leverage.

Increasing LT EPS & PO; Forecast 34% total return

We revise our 2024/2025/2026 EPS estimates to \$0.83/\$1.18/\$1.38 from \$0.84/\$1.12/\$1.28 primarily due to higher deployments and a higher FRE margin. Post this revision, we are more confident in OWL hitting its \$1.00 dividend target in 2025. We raise our PO to \$23 from \$21, which implies 34% total return potential.

Reiterate Buy: High growth and defensive qualities

OWL is a high growth, high margin and capital lite business with pricing stability and the stock offers a >5% yield. Additionally, the majority of OWL's management fees are insulated from redemptions (permanent capital or 10Y drawdown fund) which is why we see no downside risk to EPS across any macroeconomic scenario. OWL also has been generating the fastest organic EPS and AuM growth rates among the public Alt peer group over the last five years. Given OWL's 2021 de-SPAC and the 2022 bear market, we see an opportunity for OWL's shareholder base to improve with more long-term, long-only investors and view the stock as currently under-owned/under-followed.

Estimates (Dec) (US\$)	2022A	2023A	2024E	2025E	2026E
EPS	0.53	0.65	0.83	1.18	1.38
EPS Change (YoY)	65.6%	22.6%	27.7%	42.2%	16.9%
DPS	0.46	0.56	0.72	1.00	1.24
Valuation (Dec)					
P/E	33.0x	26.9x	21.0x	14.8x	12.7x
GAAP P/E	69.9x	36.4x	25.7x	16.5x	14.2x
Dividend Yield	2.6%	3.2%	4.1%	5.7%	7.1%

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Timestamp: 12 February 2024 01:47PM EST

12 February 2024

Equity

Key Changes

(US\$)	Previous	Current
Price Obj.	21.00	23.00
2024E Rev (m)	2,094.4	2,117.9
2025E Rev (m)	2,722.2	2,727.2
2026E Rev (m)	3,276.6	3,339.3
2024E EPS	0.84	0.83
2025E EPS	1.12	1.18
2026E EPS	1.28	1.38
2024E DPS	0.74	0.72

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Stock Data

Price	17.57 USD
Price Objective	23.00 USD
Date Established	12-Feb-2024
Investment Opinion	B-1-7
52-Week Range	9.70 USD -18.33 USD
Mrkt Val / Shares Out (mn)	24,576 USD / 1,398.7
Free Float	98.5%
Average Daily Value	76.28 USD
BofA Ticker / Exchange	OWL / NYS
Bloomberg / Reuters	OWL US / OWLN
ROE (2024E)	0%
ESGMeter™	Low

ESGMeter is not indicative of a company's future stock price performance and is not an investment recommendation or rating. ESGMeter is independent of BofA Global Research's equity investment rating, volatility risk rating, income rating, and price

iQprofileSM Blue Owl Capital

Economic Income (Dec)	2022A	2023A	2024E	2025E	2026E
(US\$ Millions)					
Management fees	1,249	1,568	1,975	2,578	3,160
Other fees	73	92	142	149	179
Total fee-related revenue	1,322	1,660	2,118	2,727	3,339
Performance fees	NA	NA	NA	NA	NA
Total revenue	1,322	1,660	2,118	2,727	3,339
Base compensation expense	(361)	(467)	(563)	(647)	(731)
Non-compensation expense	(168)	(185)	(219)	(243)	(266)
Total fee-related expenses	(529)	(652)	(781)	(890)	(998)
Performance fee compensation	NA	NA	NA	NA	NA
Total expenses	(950)	(965)	(1,116)	(1,174)	(1,318)
Total fee-related earnings	785	1,019	1,360	1,863	2,369
Distributable earnings	372	696	1,002	1,553	2,021
Taxes	(10)	(18)	(62)	(70)	(282)
After tax distributable earnings	741	923	1,181	1,683	1,974
Distributable earnings per share	0.53	0.65	0.83	1.18	1.38
Distribution per share	0.46	0.56	0.72	1.00	1.24

Assets Under Management

Assets under Management - EOP	138,202	165,687	197,915	237,754	285,242
Fee Paying AUM	88,810	102,696	124,569	150,086	181,031

Company Sector

Asset Management

Company Description

Blue Owl is a market leader in direct lending and capital solutions to the alternatives industry. Through the combination of Dyal Capital and Owl Rock, Blue Owl was formed to offer attractive financing and capital solutions to investment management firms and their portfolio companies. Blue Owl was listed on the NYSE in 2021 and is headquartered in New York.

Investment Rationale

OWL is a high growth, high yield, high margin (60%+ operating margin) capital lite business with pricing stability and the stock has the potential to be added to multiple passive indexes over the next two years. Additionally, virtually all of OWL's management fees are insulated from redemptions and we see limited downside risk to EPS across macroeconomic scenarios.

Quarterly Earnings Estimates

	2023	2024
Q1	0.15A	0.17E
Q2	0.16A	0.20E
Q3	0.16A	0.22E
Q4	0.18A	0.24E

Additional details

Forecasting strong fundraising in 2024 to drive FRE growth

We are forecasting a strong fundraising year for OWL in 2024 driven by: (1) GP Stakes VI closes (not in 1Q24) throughout the year; (2) increasing momentum in OWL's private wealth products including OCIC, ORENT and OTIC (we estimate they already raised a combined \$700M in 1Q24); (3) continue fundraising in OWL's Strategic Equity Fund, which had its first close in 4Q23; (4) fundraising begins for OWL's new European Net Lease product in 1Q24.

Exhibit 1: OWL Private Wealth Net Flow Tracker (OCIC, ORENT & OTIC)

We estimate OWL has already had over \$700M in flows from OCIC, ORENT and OTIC combined in 1Q24.

OCIC Inflows Calculation

	1Q23	2Q23	3Q23	4Q23	1Q24
Total Quarterly NAV	\$ 6,020,535,430	\$ 6,859,661,886	\$ 7,866,777,091	\$ 9,126,629,371	\$ -
Total Inflows	\$ 574,955,068	\$ 786,654,928	\$ 911,573,328	\$ 1,187,329,134	\$ 388,829,424
Redemptions	\$ (93,120,363)	\$ (76,264,864)	\$ (103,907,703)	\$ (113,987,919)	\$ -
Net Flows	\$ 481,834,705	\$ 710,390,064	\$ 807,665,625	\$ 1,073,341,215	\$ 388,829,424

ORENT Inflows Calculation

	1Q23	2Q23	3Q23	4Q23	1Q24
Total Quarterly NAV	\$ -	\$ 1,673,444,471	\$ 2,006,983,539	\$ 2,336,861,403	\$ -
Total Inflows		\$ 18,235,000	\$ 337,487,815	\$ 398,432,697	\$ 271,423,550
Redemptions		\$ (18,235,000)	\$ (12,477,538)	\$ (20,000,000)	\$ -
Net Flows		\$ -	\$ 325,010,277	\$ 378,432,697	\$ 271,423,550

OTIC Inflows Calculation

	1Q23	2Q23	3Q23	4Q23	1Q24
Total Quarterly NAV	\$ 284,241,918	\$ 399,946,159	\$ 529,588,571	\$ 613,567,727	\$ -
Total Inflows	\$ 173,614,947	\$ 198,782,458	\$ 294,418,891	\$ 255,877,892	\$ 58,121,450
Redemptions	\$ (36,138,090)	\$ (22,277,308)	\$ (39,725,940)	\$ (40,291,455)	\$ -
Net Flows	\$ 137,476,857	\$ 176,505,150	\$ 254,692,951	\$ 215,586,437	\$ 58,121,450

Source: BofA Global Research, Company filings

BofA GLOBAL RESEARCH

\$1 Dividend Target: Not easy but achievable

During the earnings call, management reiterated their \$1 dividend target for 2025, and walked through the steps in achieving it.

- (1) Continuation of flows into the perpetually offered products** (OCIC, ORENT, OTIC), which still have a long runway of growth (new wealth platforms & traditional to private markets theme acceleration).
- (2) Finish fundraising for GP Stakes VI**, which has a \$13B target (\$2B raised to date).
- (3) BDC IPOs & mergers.** In 1Q24, OBDE became OWL's second BDC to go public. Despite this, the company still has 3 other BDCs that will eventually go public (OBDC2, OTF & OTF2). OWL estimates there is \$120M of incremental management fees from the listings of its private BDCs which could turn on before 2025.

At the current price, the \$1 dividend target translates into a ~6% dividend yield. While this is an already attractive yield, we expect the dividend will continue to grow at a high rate in the future given its robust organic growth trajectory.



Glossary

AUM: Assets under management
BDC: Business development company
DE: Distributable earnings
FRE: Fee-related earnings
IPO: Initial public offering
LT: Long-term
OBDC2: Blue Owl Capital Corporation II
OCIC: Blue Owl Credit Income Corp.
ORENT: Blue Owl Real Estate Net Lease Trust
OTF: Blue Owl Technology Finance Corp.
OTF2: Blue Owl Technology Finance Corp. II
OTIC: Blue Owl Technology Income Corp.
PE: Private Equity
RE: Real Estate
ST: Short-term

Price objective basis & risk

Blue Owl Capital (OWL)

Our \$23 price objective for Blue Owl is derived from 20x 2026E cash earnings. Our definition of cash earnings uses the company's distributable earnings metric and adds back stock-based comp. Our multiple is in line with the mid-point of the industry range (7-25x). We view OWL's earnings quality as higher than peers given its very high mix of fee-related earnings, permanent capital AuM composition and higher growth trajectory.

Risks to our PO: investing backdrop more challenging (intensifying competition in private debt), lending to technology companies, Part 1 fees included in FRE, variable dividend payout, tax receivable agreement, secondary sale risks from large owners (Neuberger Berman), corporate structure (voting rights), merger integration (Oak Street), adverse macroeconomic scenarios and US and international tax reform.

Analyst Certification

I, Craig Siegenthaler, CFA, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

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Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
BUY				
	AllianceBernstein	AB	AB US	Craig Siegenthaler, CFA
	Ameriprise Financial	AMP	AMP US	Craig Siegenthaler, CFA
	Ares Management Corp	ARES	ARES US	Craig Siegenthaler, CFA
	BlackRock, Inc.	BLK	BLK US	Craig Siegenthaler, CFA
	Blackstone	BX	BX US	Craig Siegenthaler, CFA
	Blue Owl Capital	OWL	OWL US	Craig Siegenthaler, CFA
	Cboe Global Markets	CBOE	CBOE US	Craig Siegenthaler, CFA
	Interactive Brokers	IBKR	IBKR US	Craig Siegenthaler, CFA
	Intercontinental Exchange	ICE	ICE US	Craig Siegenthaler, CFA
	KKR & Co. Inc.	KKR	KKR US	Craig Siegenthaler, CFA
	Raymond James Financial	RJF	RJF US	Mark McLaughlin, CFA
	TPG Inc	TPG	TPG US	Craig Siegenthaler, CFA
	Tradeweb Markets Inc.	TW	TW US	Craig Siegenthaler, CFA
	Victory Capital Holdings, Inc.	VCTR	VCTR US	Craig Siegenthaler, CFA
	Virtu Financial	VIRT	VIRT US	Craig Siegenthaler, CFA
NEUTRAL				
	Affiliated Managers Group	AMG	AMG US	Craig Siegenthaler, CFA
	Apollo Global Management	APO	APO US	Craig Siegenthaler, CFA
	Brookfield Asset Management	BAM	BAM US	Craig Siegenthaler, CFA
	CME Group Inc	CME	CME US	Craig Siegenthaler, CFA
	Invesco	IVZ	IVZ US	Craig Siegenthaler, CFA
	Janus Henderson Group	JHG	JHG US	Craig Siegenthaler, CFA
	LPL Financial Holdings	LPLA	LPLA US	Craig Siegenthaler, CFA
	Patria	PAX	PAX US	Craig Siegenthaler, CFA



US - Brokers, Asset Managers, & Exchanges Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
UNDERPERFORM	Charles Schwab Corp.	SCHW	SCHW US	Craig Siegenthaler, CFA
	Franklin Resources	BEN	BEN US	Craig Siegenthaler, CFA
	Nasdaq	NDAQ	NDAQ US	Craig Siegenthaler, CFA
	Robinhood Markets	HOOD	HOOD US	Craig Siegenthaler, CFA
	T. Rowe Price	TROW	TROW US	Craig Siegenthaler, CFA
	The Carlyle Group	CG	CG US	Craig Siegenthaler, CFA

iQmethodSM Measures Definitions**Business Performance**

Return On Capital Employed

Return On Equity

Operating Margin

Earnings Growth

Free Cash Flow

Numerator

NOPAT = (EBIT + Interest Income) × (1 – Tax Rate) + Goodwill Amortization

Net Income

Operating Profit

Expected 5 Year CAGR From Latest Actual

Cash Flow From Operations – Total Capex

Denominator

Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill

Amortization

Shareholders' Equity

Sales

N/A

N/A

Quality of Earnings

Cash Realization Ratio

Asset Replacement Ratio

Tax Rate

Net Debt-To-Equity Ratio

Interest Cover

Numerator

Cash Flow From Operations

Capex

Tax Charge

Net Debt = Total Debt – Cash & Equivalents

EBIT

Denominator

Net Income

Depreciation

Pre-Tax Income

Total Equity

Interest Expense

Valuation Toolkit

Price / Earnings Ratio

Price / Book Value

Dividend Yield

Free Cash Flow Yield

Enterprise Value / Sales

Numerator

Current Share Price

Current Share Price

Annualised Declared Cash Dividend

Cash Flow From Operations – Total Capex

EV = Current Share Price × Current Shares + Minority Equity + Net Debt +

Other LT Liabilities

Enterprise Value

Denominator

Diluted Earnings Per Share (Basis As Specified)

Shareholders' Equity / Current Basic Shares

Current Share Price

Market Cap = Current Share Price × Current Basic Shares

Sales

EV / EBITDA

Basic EBIT + Depreciation + Amortization

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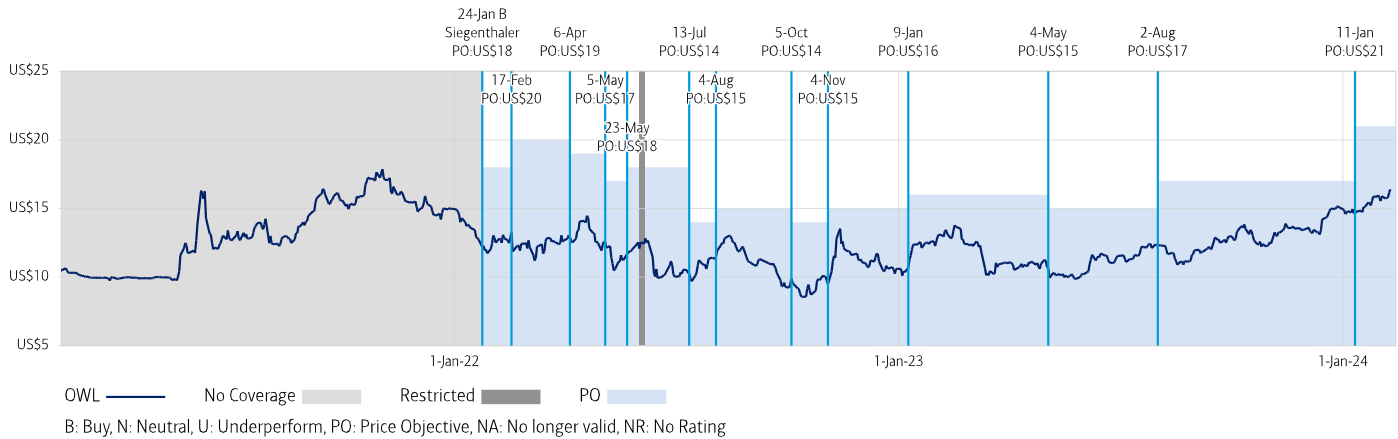
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Blue Owl Capital (OWL) Price Chart



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

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	156	53.79%	Buy	94	60.26%
Hold	72	24.83%	Hold	48	66.67%
Sell	62	21.38%	Sell	35	56.45%

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

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

^{R1} Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

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Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

^{R2} Ratings dispersions may vary from time to time where BofA Global Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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