

Blackstone

BREIT is back in business with redemption limits over; Raising EPS and PO

Reiterate Rating: BUY | PO: 147.00 USD | Price: 127.82 USD

Redemption limits over after 15 months

BREIT's semi-liquid vehicle worked exactly as intended over the last 15 months. When interest rates rose and investors globally de-risked, it limited redemptions to 5% per quarter to align its asset-liability duration. This morning, BX reported that BREIT filled 100% of repurchase requests (redemptions -82% from Jan '23 peak). Timing of the end of limits was in line with our prior expectations and the next step will be reacceleration in sales levels. Following the news, we modestly raise our 2025/26 EPS estimates to \$6.55/\$7.71 from \$6.53/\$7.61 and increase our 12-month PO to \$147 from \$146 (22.5x DE x-SBC (distributable earnings ex-stock based compensation)), implying 20% total return potential.

Expect large increase in BREIT sales by July...

As redemptions normalized downward, the real power in the net flow acceleration will come from increasing sales levels. Sales peaked at \$9B in 1Q22 but declined to \$500M in 4Q23 (\$800M of total inflows including DRIP of \$300M). We expect sales to stay muted until the summer as gatekeepers/advisors wait to make sure the limits are over, but as conviction builds that the limits are over, we expect sales to improve meaningfully from current levels. Note: Limits could return in March to keep 1Q under the 5.0% cap, although BX may have flexibility with this if redemptions continue to improve.

...with further increases in 2H24 following declining rates

The BofA economic team's assumption of Fed rate cuts starting in June will have a positive impact on cap rates, REIT stock prices, BREIT's returns and reverse negative investor sentiment in the real estate vertical. From BX's 3Q23 10-Q, a 50bps decline in interest rates would trigger 10% portfolio appreciation from lower cap rates offset by a 2% hit from the interest rate swap (currently at \$3B of embedded gain). Sales/flows should be significantly stronger by December but still well below the 1Q22 (\$9B) peak.

Maintain Buy – expect wealth flow acceleration in '24

We are bullish on 2024 given: (1) improving retail net flows (BREIT: end of limits, BXPE ramp) and (2) Fed rate cuts in 2H24 - benefiting BX's real estate and private equity businesses. BofA's economists forecast Fed rate cuts in 2024 and BX has visibility into declining inflation via its portfolio companies. The secular growth trajectory of private assets combined with BX's deep/diverse product and distribution effort (especially in insurance & retail) provide a tailwind from general partner consolidations which supports our long-term Buy thesis.

Estimates (Dec) (US\$)	2022A	2023A	2024E	2025E	2026E
EPS	5.17	3.94	4.82	6.55	7.71
GAAP EPS	9.98	7.97	9.61	12.48	14.32
EPS Change (YoY)	8.6%	-23.8%	22.3%	35.9%	17.7%
Consensus EPS (Bloomberg)			4.96	6.15	6.92
DPS	4.40	3.35	4.10	5.57	6.55
Valuation (Dec)					
P/E	24.7x	32.4x	26.5x	19.5x	16.6x
GAAP P/E	12.8x	16.0x	13.3x	10.2x	8.9x
Dividend Yield	3.4%	2.6%	3.2%	4.4%	5.1%

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Timestamp: 01 March 2024 01:09PM EST

01 March 2024

Equity

Key Changes

(US\$)	Previous	Current
Price Obj.	146.00	147.00
2024E Rev (m)	12,032.7	12,037.0
2025E Rev (m)	16,041.4	16,142.5
2026E Rev (m)	18,566.0	18,826.3
2025E EPS	6.53	6.55
2026E EPS	7.61	7.71

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Stock Data

Price	127.82 USD
Price Objective	147.00 USD
Date Established	1-Mar-2024
Investment Opinion	B-1-7
52-Week Range	76.19 USD - 133.53 USD
Mrkt Val / Shares Out (mn)	96,500 USD / 755.0
Free Float	99.0%
Average Daily Value	444.47 USD
BofA Ticker / Exchange	BX / NYS
Bloomberg / Reuters	BX US / BX.N
ROE (2024E)	0.5%
ESGMeter™	Medium

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 objective for that company. For full details, refer to "BofA ESGMeter Methodology".

See pages 4-5 for a Glossary of terms and abbreviations used in the report.

iQprofileSM Blackstone

Economic Income (Dec)	2022A	2023A	2024E	2025E	2026E
(US\$ Millions)					
Management fees	6,283	6,663	7,382	8,760	10,035
Other fees	1,449	859	1,304	1,815	1,685
Total fee-related revenue	7,732	7,522	8,686	10,576	11,719
Performance fees	4,461	2,061	3,197	5,389	6,895
Total revenue	12,590	9,694	12,037	16,142	18,826
Base compensation expense	(2,331)	(2,088)	(2,377)	(2,836)	(3,031)
Non-compensation expense	(989)	(1,084)	(1,241)	(1,371)	(1,461)
Total fee-related expenses	(3,320)	(3,172)	(3,618)	(4,206)	(4,492)
Performance fee compensation	(1,814)	(896)	(1,409)	(2,378)	(3,003)
Total expenses	(4,352)	(3,109)	(3,924)	(5,370)	(6,160)
Total fee-related earnings	4,413	4,349	5,068	6,369	7,228
Distributable earnings	8,207	6,691	8,150	10,834	12,706
Taxes	(792)	(671)	(794)	(1,130)	(1,397)
After tax distributable earnings	3,840	2,975	3,690	5,093	6,087
Distributable earnings per share	5.17	3.94	4.82	6.55	7.71
Distribution per share	4.40	3.35	4.10	5.57	6.55

Assets Under Management

Assets under Management - EOP	974,673	1,040,192	1,154,529	1,290,913	1,433,308
Fee Paying AUM	718,387	762,608	879,794	999,361	1,119,934

Company Sector

Asset Management

Company Description

Blackstone is the largest alternative asset manager globally. Blackstone manages investments and provides services across four operating segments, including Private Equity, Real Estate, Credit, and Hedge Fund Solutions. Blackstone has offices worldwide and is headquartered in New York. Blackstone was founded in 1985 and publicly listed on the NYSE in 2007.

Investment Rationale

We think the BX stock remains undervalued as its three- to five-year earnings growth trajectory and earnings quality transformation is still underappreciated. This is supported by significant growth potential in its retail and insurance businesses.

Quarterly Earnings Estimates

	2023	2024
Q1	0.97A	1.01E
Q2	0.93A	1.09E
Q3	0.94A	1.20E
Q4	1.11A	1.52E

Additional details

11% net return & best-in-class portfolio construction

While real estate is currently out of favor, we view investor sentiment as coming off a bottom in 2023 and view lower interest rates combined with lower incoming supply as two important drivers. BX designed a portfolio that had almost no office exposure while its multi-family housing and life sciences allocations have taken small hits recently after outperforming over many years. However, the majority of the portfolio is deployed into secular growth verticals (industrial, data centers, student housing), which we expect to continue outperforming. This has contributed to BREIT's 11% net IRR, which has outperformed public REIT stocks by 2x and represents a very attractive total return (with 5% yield) for individual investors. While BREIT is already on almost every major US wealth platform and in many Asia and European platforms too, the product has not been pushed by gatekeepers given the limits. We expect this to reverse over the next 12 months as real estate recovers by 2H24.

Exhibit 1: BREIT AuM roll-forward

Redemptions peaked in January '23 and improved by 82% to date; Expect sales to improve by the summer and increase further by December 2024

	2023												2024											
(\$M)	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
BofP NAV	68,524	71,267	70,489	69,742	68,602	67,710	67,759	67,318	66,664	65,964	64,178	62,015	60,742	60,077	59,686	59,818	59,944	60,169	60,489	61,000	61,684	62,572	63,705	65,054
Sales	4701	161	715	175	118	122	130	121	129	119	116	115	143	170	187	206	226	249	373	485	631	820	984	1,083
DRIP	96	93	92	90	90	90	89	88	85	84	84	84	168	100	100	100	100	100	100	100	100	100	100	100
Redemption Requests	5,482	3,900	4,500	4,500	4,400	3,800	3,700	3,000	2,100	2,200	1,800	1,100	1,300	961	865	778	701	631	567	511	460	414	372	335
% of NAV	8.0%	5.5%	6.4%	6.5%	6.4%	5.6%	5.5%	4.5%	3.2%	3.3%	2.8%	1.8%	2.1%	1.6%	1.4%	1.3%	1.2%	1.0%	0.9%	0.8%	0.7%	0.7%	0.6%	0.5%
Redemptions Filled	1,370	1,400	666	1,300	1,300	628	1,300	1,300	625	1,300	1,200	569	1,144	961	752	778	701	631	567	511	460	414	372	335
% of NAV	2.0%	2.0%	0.9%	1.9%	1.9%	0.9%	1.9%	1.9%	0.9%	2.0%	1.9%	0.9%	1.9%	1.6%	1.3%	1.3%	1.2%	1.0%	0.9%	0.8%	0.7%	0.7%	0.6%	0.5%
% of redemptions filled	25%	36%	15%	29%	30%	17%	35%	43%	30%	59%	67%	52%	88%	100%	87%	100%	100%	100%	100%	100%	100%	100%	100%	100%
Net flow	3,426	(1,146)	140	(1,034)	(1,092)	(416)	(1,081)	(1,091)	(411)	(1,097)	(1,000)	(370)	(832)	(691)	(465)	(473)	(374)	(282)	(94)	75	271	507	712	848
Organic Growth	5.0%	-1.6%	0.2%	-1.5%	-1.6%	-0.6%	-1.6%	-1.6%	-0.6%	-1.7%	-1.6%	-0.6%	-1.4%	-1.2%	-0.8%	-0.8%	-0.6%	-0.5%	-0.2%	0.1%	0.4%	0.8%	1.1%	1.3%
Ann. Organic Growth	60.0%	-19.3%	2.4%	-17.8%	-19.1%	-7.4%	-19.2%	-19.4%	-7.4%	-20.0%	-18.7%	-7.2%	-16.4%	-13.8%	-9.4%	-9.5%	-7.5%	-5.6%	-1.9%	1.5%	5.3%	9.7%	13.4%	15.6%
Mark	-0.3%	0.7%	-1.1%	0.1%	0.6%	0.9%	1.2%	0.9%	-0.2%	-1.0%	-1.6%	-1.3%	0.5%	0.5%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%
EofP NAV	71,267	70,489	69,742	68,602	67,710	67,759	67,318	66,664	65,964	64,178	62,015	60,742	60,077	59,686	59,818	59,944	60,169	60,489	61,000	61,684	62,572	63,705	65,054	66,552

Source: Company reports, BofA Global Research estimates

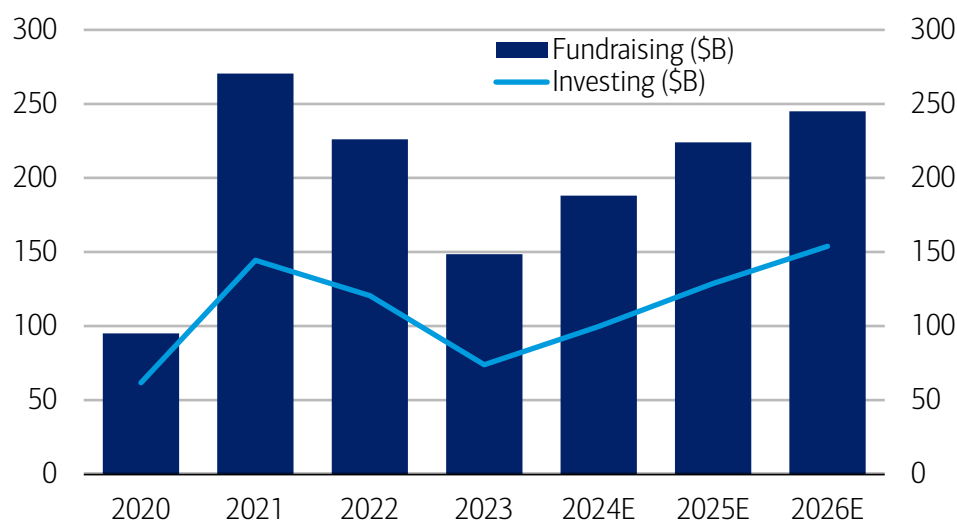
Redemption limits over after 15 months

BREIT's semi-liquid vehicle worked exactly as intended over the last 15 months. When interest rates rose, public equities fell and investors globally de-risked, it limited redemptions to 5% per quarter to prevent forced selling and align asset-liability duration. This morning, BX reported that BREIT filled 100% of repurchase requests (redemption requests -26% m/m, -82% from Jan '23 peak) as the early build in redemption demand dissipated. Timing of the end of limits was in line with our prior expectations and the next step will be reacceleration in BREIT's sales levels. We reiterate our Buy on BX which we consider to be the gold standard of the Alts industry.



Exhibit 2: Fundraising vs. Investing

We believe 2023 was the inflection point in Alt fundamentals; Expect broad increases in 2024 and private wealth flows (BCRED, BXPE, BREIT) are a key driver of FRE-rich inflows



Source: Company reports, BofA Global Research estimates

BofA GLOBAL RESEARCH

FRPR Math

- **BREIT:** We apply a 50% probability that BREIT will generate a normal performance fee in 3Q24 and a 100% for 4Q24. 3Q24 Calc = $50\% \times \$63B \times 2\% \times 12.5\% = \$79M$
- **BPP:** We estimate 3Q25 will be the next big FRPR quarter for BPP given the crystallization of its Mileway vehicle. BPP's net accrued carry balance was \$129M / \$215M gross as of 12/31/23 and we estimate most of this is from Mileway.

The LT bull case for BX, BREIT & retail Alts

The TAM of global retail AuM is \$80Tn and the level investing in Alts is 1-2% relative to 20% in the more sophisticated institutional channel. While both channels are reallocating into Alts, the potential upside is much higher in retail. Additionally, the competitive landscape is very different with many large, mid, and small competitors in the institutional channel versus a single category winner (BX) in retail and no close peers. We believe there will be a much smaller group of winners in the retail channel too. Many Alts are now focused on retail, but BX had a 10Y first mover advantage and its distribution size is much larger. Relative to BREIT's \$61B AuM base, the 2nd biggest player is SREIT (Starwood Real Estate Investment Trust) with \$10B AuM (BX is 6x bigger).

Glossary:

- FRE: Fee-related earnings
- FRPR: Fee related performance revenues
- DE: Distributable earnings
- BREIT: Blackstone Real Estate Income Trust
- BCRED: Blackstone Private Credit Fund
- BPP: Blackstone Property Partners
- BXPE: Blackstone Private Equity Strategies Fund
- BXSL: Blackstone Secured Lending Fund
- BXMT: Blackstone Mortgage Trust

- AUM: Asset under management
- RE: Real estate
- CRE: Commercial real estate
- LT/NT: Long-term/near-term
- SMA: Separately managed accounts
- LTV: Loan-to-value

Price objective basis & risk

Blackstone (BX)

Our price objective (PO) for Blackstone is \$147 and is derived from 22.5x 2026E cash earnings. Our definition of cash earnings uses the company's distributable earnings metric and adds back stock-based comp expense. Risks to our PO are a weaker macro and capital markets backdrop, legal and political risk, increased regulation and tax reform, key person risk and a unique corporate structure.

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.

Special Disclosures

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US - Brokers, Asset Managers, & Exchanges Coverage Cluster

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
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

US - Brokers, Asset Managers, & Exchanges Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
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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

Basic EBIT + Depreciation + Amortization

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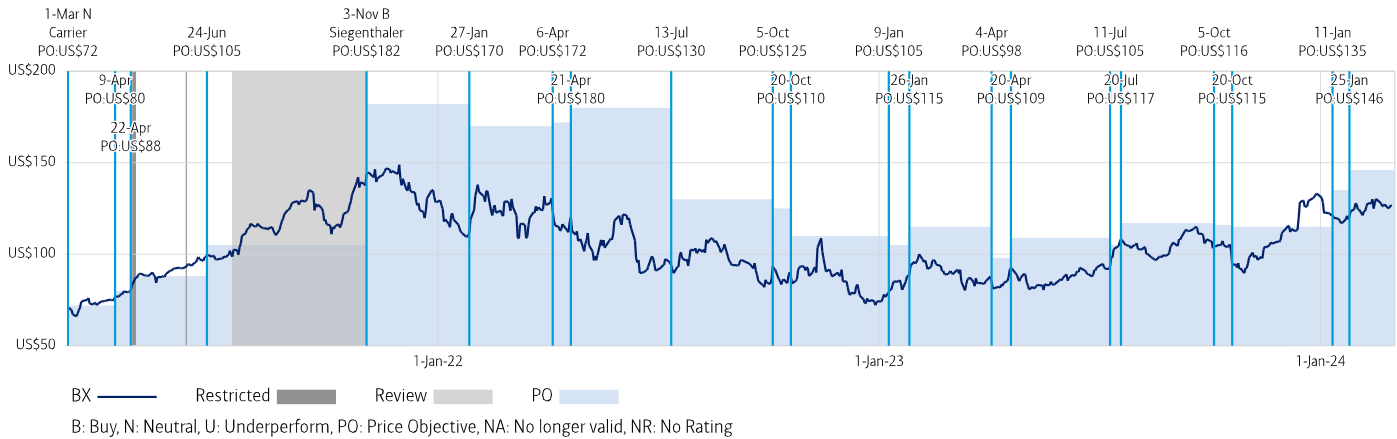
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Disclosures

Important Disclosures

Blackstone (BX) Price Chart



The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark grey shading indicates the security is restricted with the opinion suspended. Medium grey shading indicates the security is under review with the opinion withdrawn. Light grey shading indicates the security is not covered. Chart is current as of a date no more than one trading day prior to the date of the report.

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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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster ^{R2}
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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