

## Blackstone

## 4Q23 First Impression – Fundraising, investing, realization and EPS beats

Maintain Rating: BUY | PO: 135.00 USD | Price: 120.63 USD

## Overall results were solid with strong fundraising

Blackstone (BX) reported better than expected 4Q23 financial results. Fundraising of \$53B came in well above our forecast (with inflows led by credit/insurance and real estate debt) and realizations of \$16B also exceeding our estimate of \$14B. Investing levels were very strong while investment performance was mixed (swaps impacting core RE). Distributable EPS of \$1.11 compared to \$1.00 BofA and \$0.96 consensus. We maintain our Buy rating as BX is well-positioned for the secular migration to alternatives globally across all 3 channels and industry consolidation theme. BX will host its 4Q23 earnings call at 9am ET this morning.

## Distributable EPS beat driven by performance fees

DE came in above our and consensus forecast driven by stronger realized performance revenues. Realizations were greater than our estimates, led by Guidon Energy, IntraFi, the BREIT partial sale of The Bellagio Las Vegas, and the share sale of Embassy REIT.

## Fundraising above expectations; improving backdrop

Inflows of \$53B surpassed our forecast and total AuM came in above our projections (\$1.04Tn vs. \$1.02Tn). Fundraising was led by the joint venture with the FDIC to acquire Signature Bank's commercial senior mortgage loan portfolio (\$10.5B), global direct lending (\$7.6B), the insurance strategic partnerships (\$14.3B), and BCRED (\$2.7B).

## Deployments robust and commitment pipeline building

Deployments of \$31B were much better than we expected. Overall performance was mixed considering the backdrop: private equity (+3.5%), Infra (+1%), private credit (+2.9%), real assets (opp -3.8%, core+ -4.6%) and hedge funds (+2.1%).

## Exhibit 1: BX 4Q23 actuals vs. our estimates

BX was above fundraising, realizations and distributable earnings estimates.

	4Q22	3Q23	4Q23E	4Q23A	4Q23A vs. 4Q23E	4Q23 Q/Q	YoY
Fundraising (\$B)	43.1	25.3	30.3	52.7	74%	108%	22%
Investing (\$B)	18.7	12.4	13.1	31.1	138%	151%	66%
Realizations (\$B)	13.5	14.8	14.2	15.8	11%	7%	17%
Distributable earnings	\$1.07	\$0.94	\$1.00	\$1.11	11%	18%	4%

Source: Company reports, BofA Global Research estimates

BofA GLOBAL RESEARCH

Estimates (Dec) (US\$)	2021A	2022A	2023E	2024E	2025E
EPS	4.76	5.17	3.83	5.09	6.48
GAAP EPS	9.19	9.98	7.93	9.97	12.18
EPS Change (YoY)	79.6%	8.6%	-25.9%	32.9%	27.3%
Consensus EPS (Bloomberg)			3.83	5.12	6.14
DPS	4.05	4.40	3.26	4.33	5.51

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## Stock Data

Price	120.63 USD
Price Objective	135.00 USD
Date Established	11-Jan-2024
Investment Opinion	B-1-7
52-Week Range	76.19 USD -133.53 USD
Mrkt Val / Shares Out (mn)	91,155 USD / 755.7
Free Float	99.0%
Average Daily Value	470.27 USD
BofA Ticker / Exchange	BX / NYS
Bloomberg / Reuters	BX US / BX.N
ROE (2023E)	0.4%
ESGMeter™	Medium

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FRE = Fee-related earnings  
DE = Distributable earnings  
RE = Real estate  
LSEG = London Stock Exchange Group

PRE: Performance related earnings

BCRED: Blackstone Private Credit Fund

Valuation (Dec)					
P/E	25.3x	23.3x	31.5x	23.7x	18.6x
GAAP P/E	13.1x	12.1x	15.2x	12.1x	9.9x
Dividend Yield	3.4%	3.6%	2.7%	3.6%	4.6%



# iQprofile<sup>SM</sup> Blackstone

Economic Income (Dec)	2021A	2022A	2023E	2024E	2025E
(US\$ Millions)					
Management fees	5,167	6,283	6,721	7,491	8,392
Other fees	2,025	1,449	857	1,602	1,960
<b>Total fee-related revenue</b>	<b>7,192</b>	<b>7,732</b>	<b>7,578</b>	<b>9,093</b>	<b>10,353</b>
Performance fees	3,883	4,461	1,941	3,497	5,244
<b>Total revenue</b>	<b>11,663</b>	<b>12,590</b>	<b>9,623</b>	<b>12,746</b>	<b>15,776</b>
Base compensation expense	(2,348)	(2,331)	(2,183)	(2,694)	(2,843)
Non-compensation expense	(794)	(989)	(1,049)	(1,123)	(1,199)
<b>Total fee-related expenses</b>	<b>(3,142)</b>	<b>(3,320)</b>	<b>(3,232)</b>	<b>(3,817)</b>	<b>(4,042)</b>
Performance fee compensation	(1,558)	(1,814)	(860)	(1,527)	(2,301)
<b>Total expenses</b>	<b>(4,140)</b>	<b>(4,352)</b>	<b>(3,069)</b>	<b>(4,285)</b>	<b>(5,220)</b>
<b>Total fee-related earnings</b>	<b>4,051</b>	<b>4,413</b>	<b>4,346</b>	<b>5,276</b>	<b>6,311</b>
<b>Distributable earnings</b>	<b>7,490</b>	<b>8,207</b>	<b>6,674</b>	<b>8,504</b>	<b>10,627</b>
Taxes	(760)	(792)	(681)	(842)	(1,120)
<b>After tax distributable earnings</b>	<b>3,484</b>	<b>3,840</b>	<b>2,894</b>	<b>3,911</b>	<b>5,056</b>
Distributable earnings per share	4.76	5.17	3.83	5.09	6.48
Distribution per share	4.05	4.40	3.26	4.33	5.51

## Assets Under Management

Assets under Management - EOP	880,901	974,673	1,027,045	1,112,343	1,215,520
Fee Paying AUM	649,970	718,387	770,183	839,147	924,222

## 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

	2022	2023
Q1	1.55A	0.97A
Q2	1.49A	0.93A
Q3	1.06A	0.94A
Q4	1.07A	1.00E



## Maintain Buy – expect growth 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 2H24 and BX has visibility into declining inflation via its portfolio companies (and doesn't expect a significant pick-up in credit losses). The secular growth trajectory of private assets and BX's deep/diverse product and distribution effort (especially in insurance & retail) which provides a tailwind from general partner consolidations support our Buy thesis.

## EPS not most important earnings day factor for Alts

We don't view EPS as one of the most important factors on the day of earnings as we continue to evaluate Alt quarters through the lenses of our four Examiner data bases (1. Fundraising, 2. Investing, 3. Returns and 4. Realizations). This has been our consistent process for 12+ years. We place the most importance on fundraising which is the first stage of the Alt cycle of capital and will drive factors 2-4 in future periods in addition to LT earnings revisions. Fundraising also directly translates into FRE (fee-related earnings) which is the highest quality profit source.

## Alt fundamentals bottomed and should improve in ‘24

Following the Fed rate hikes since 2021 and the 2022 bear market, we believe Alt fundamentals have broadly troughed in 2023 and will improve in 2024. This is supported by BX's deployment levels which likely bottomed in 1Q23 and realization levels which we think reached its floor in 2H23. The bull market that emerged in 2023 in addition to the prospects of lower interest rates in 2024 should stimulate financial market liquidity and trigger Alt fundamentals to broadly reaccelerate. This will lead to higher FRE and distributable earnings.

On his TV interview from Davos last week, BX CEO Steve Schwarzman highlighted the rebound in investment activity which included six large investments that were announced or closed since mid-December. Our Investment Tracker (Examiner database) highlights two public-to-privates (Rover, Adevinia) and four other transactions (Sony Payment Services, Power Grid Components, Energy Exemplar, and Civica) and Power Grid Components already closed in late December.

## BX's recent negative revisions driven by low quality items

Recent negative EPS revisions at BX were driven by low-quality revisions. Specifically, to BX's real estate FRPR (fee-related performance revenues). We view this source as lower quality due to two factors: the non-recurring nature of the cut (no big impact on 2H24 and beyond assuming normalization of returns); the lower valuation that we apply to FRPR versus FRE (but higher versus PRE = performance related earnings). Specifically, this revision had almost no impact to 2026 estimates which is how we determine our PO, and it also should have very little impact to investor 2025 SOTPs (sum-of-the-parts) valuation models or even a 10Y DCF given it really only impacted 2-3 quarters. Given the increasing complexity with SOTPs including FRPR, capital intensive insurance earnings at APO & KKR and FRE expense movements we have migrated away from SOTPs after relying heavily on this valuation model from 2010-2021.

## The LT bull case for BX, retail Alts and BREIT

The TAM of global retail AuM is \$80Tn and the level investing in Alts is around 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 killer (BX: BREIT > 6x #2 SREIT) in retail and no close peers. We believe there will be a much smaller group of winners in the retail channel and BX has a 10Y first mover advantage.

## Price objective basis & risk

### Blackstone (BX)

Our price objective (PO) for Blackstone is \$135 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

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Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
<b>BUY</b>				
	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
<b>NEUTRAL</b>				
	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
<b>UNDERPERFORM</b>				
	Charles Schwab Corp.	SCHW	SCHW US	Craig Siegenthaler, CFA



## US - Brokers, Asset Managers, &amp; Exchanges Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
	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

**iQmethod<sup>SM</sup> Measures Definitions****Business Performance**

Return On Capital Employed

Return On Equity

Operating Margin

Earnings Growth

Free Cash Flow

**Quality of Earnings**

Cash Realization Ratio

Asset Replacement Ratio

Tax Rate

Net Debt-To-Equity Ratio

Interest Cover

**Valuation Toolkit**

Price / Earnings Ratio

Price / Book Value

Dividend Yield

Free Cash Flow Yield

Enterprise Value / Sales

EV / EBITDA

**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

**Numerator**

Cash Flow From Operations

Capex

Tax Charge

Net Debt = Total Debt – Cash &amp; Equivalents

EBIT

**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**

Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill

Amortization

Shareholders' Equity

Sales

N/A

N/A

**Denominator**

Net Income

Depreciation

Pre-Tax Income

Total Equity

Interest Expense

**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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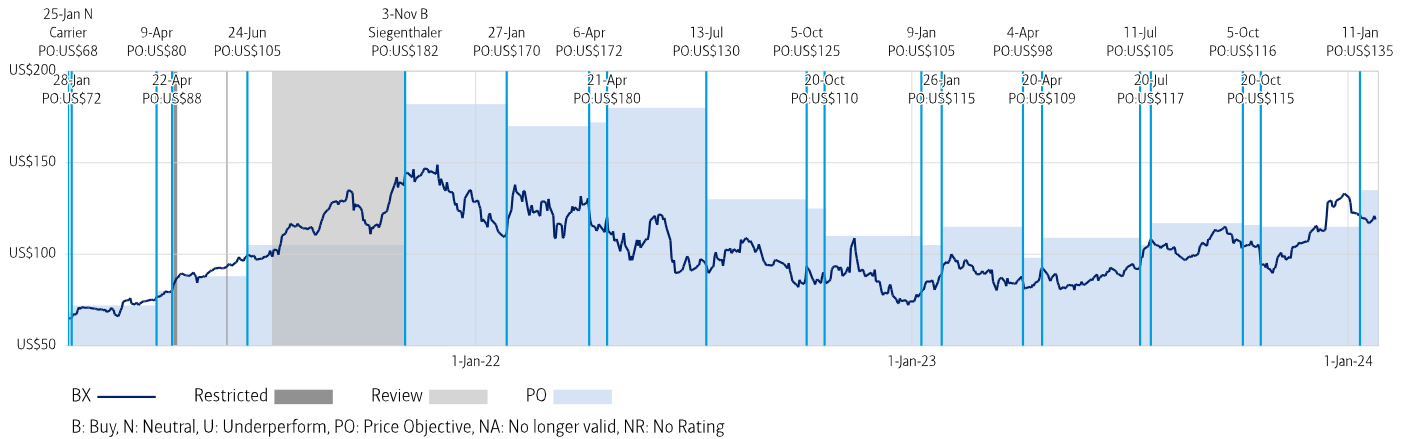
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### Blackstone (BX) Price Chart



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

Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	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 <sup>R1</sup>	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%

<sup>R1</sup> 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%
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