

## The Carlyle Group

## 4Q23E: Making two modeling adjustments following earnings call; PO unchanged

Reiterate Rating: UNDERPERFORM | PO: 37.00 USD | Price: 40.72 USD

## Unchanged \$37 PO implies -16% total return potential

We revise our 2024/2025/2026 DE (distributable earnings) estimates to \$3.79/\$4.05/\$4.10 from \$3.76/\$3.88/\$3.82 due to a lower share count assumption offset by a slower FRE margin improvement trajectory. There is no change to our \$37 PO, which implies -16% total return potential and applies a 12x multiple on our cash EPS definition (distributable EPS less stock-based comp). We raised this multiple from 10x following improvement in CG's FRE mix. Note: We revised earnings estimates earlier today but we make two adjustments to these revisions with this research note.

## 1. Share count &amp; RSUs; Speeding up share count decline

We make several revisions to our share count forecast: (1) we speed up our buyback assumption and now assume CG will complete its \$1.4B buyback authorization over the next three years (2024-26) and note that CG could complete it even sooner; and (2) CG granted performance awards (RSUs) that equate to \$300M over 3Ys or \$25M per quarter. These awards are performance based and if granted, CG has the option to repurchase them to prevent any dilution. However, we raise our stock-based comp assumption by \$25/quarter and our CY2023 estimate is now \$370M vs. \$260M in 2022. In total, we now assume CG's share count will decline 5% by 4Q26 from 4Q23 levels after also considering comp-related issuance.

## 2. Compensation realignment – slowing the pace

We initially embedded most of the comp realignment targets in 2024, but we now slow the pace over three years. Essentially, we assume one-third of the FRE comp and one-third of the PRE comp targets are reached each year before reaching the full targets by 2026. Our current 2026 FRE margin target is 47%, which is 10% above the 2023 level and in the upper half of CG's range (40-50%).

## Reiterate Underperform: Organic growth challenges

We reiterate our Underperform rating in light of continued fundraising challenges in CG's flagship buyout strategies. We believe the crowded PE fundraising backdrop is likely to have a more pronounced impact on CG due to its large PE platform (~70% of revenues). Management turnover and mixed prior vintage performance could also deter LPs. We are monitoring fundraising trends in Asia VI and Europe VI, which CG is currently raising following CGP VIII's \$15B raise (~20% from VII). We also look for strength in other segments including Alpinvest and credit.

Estimates (Dec) (US\$)	2021A	2022A	2023E	2024E	2025E
EPS	5.01	4.34	3.25	3.79	4.05
EPS Change (YoY)	144.4%	-13.4%	-25.1%	16.6%	6.9%
DPS	1.00	1.30	1.40	1.61	1.85
Valuation (Dec)					
P/E	8.1x	9.4x	12.5x	10.7x	10.1x
Dividend Yield	2.5%	3.2%	3.4%	4.0%	4.5%

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## Equity

## Key Changes

(US\$)	Previous	Current
2024E Rev (m)	3,964.6	3,970.1
2025E Rev (m)	4,144.3	4,157.8
2024E EPS	3.76	3.79
2025E EPS	3.88	4.05

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## Stock Data

Price	40.72 USD
Price Objective	37.00 USD
Date Established	7-Feb-2024
Investment Opinion	B-3-7
52-Week Range	25.20 USD -42.49 USD
Mrkt Val / Shares Out (mn)	14,692 USD / 360.8
Free Float	67.8%
Average Daily Value	81.41 USD
BofA Ticker / Exchange	CG / NAS
Bloomberg / Reuters	CG US / CG.OQ
ROE (2023E)	23.3%
ESGMeter™	Medium

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## Glossary:

FRE = fee related earnings

W

# iQprofile<sup>SM</sup> The Carlyle Group

Economic Income (Dec)	2021A	2022A	2023E	2024E	2025E
(US\$ Millions)					
Management fees	1,698	1,997	2,064	2,134	2,089
Other fees	0	129	161	177	200
<b>Total fee-related revenue</b>	<b>1,794</b>	<b>2,270</b>	<b>2,378</b>	<b>2,558</b>	<b>2,551</b>
Performance fees	2,939	1,981	938	1,311	1,500
<b>Total revenue</b>	<b>4,942</b>	<b>4,401</b>	<b>3,405</b>	<b>3,970</b>	<b>4,158</b>
Base compensation expense	(930)	(1,033)	(1,070)	(1,045)	(942)
Non-compensation expense	(268)	(370)	(377)	(409)	(428)
<b>Total fee-related expenses</b>	<b>(1,198)</b>	<b>(1,403)</b>	<b>(1,446)</b>	<b>(1,454)</b>	<b>(1,370)</b>
Performance fee compensation	(1,409)	(982)	(407)	(700)	(886)
<b>Total expenses</b>	<b>(2,436)</b>	<b>(2,223)</b>	<b>(1,594)</b>	<b>(1,783)</b>	<b>(1,876)</b>
<b>Total fee-related earnings</b>	<b>426</b>	<b>705</b>	<b>672</b>	<b>733</b>	<b>801</b>
<b>Distributable earnings</b>	<b>2,506</b>	<b>2,178</b>	<b>1,812</b>	<b>2,187</b>	<b>2,282</b>
Taxes	(458)	(333)	(255)	(338)	(356)
<b>After tax distributable earnings</b>	<b>1,780</b>	<b>1,572</b>	<b>1,173</b>	<b>1,378</b>	<b>1,484</b>
Distributable earnings per share	5.01	4.34	3.25	3.79	4.05
Distribution per share	1.00	1.30	1.40	1.61	1.85

## Assets Under Management

Assets under Management - EOP	300,957	372,691	425,994	446,642	447,383
Fee Paying AUM	193,419	266,577	307,418	322,104	319,129

## Company Sector

Asset Management

## Company Description

Carlyle is one of the largest alternative asset managers in the world and its business spans three segments - global private equity, global credit and global investment solutions. Carlyle has offices worldwide and is headquartered in Washington, D.C. Carlyle was founded in 1987 and publicly listed on the NYSE in May 2012.

## Investment Rationale

We forecast a deceleration in growth and emerging fundraising challenges (Carlyle Partners VIII, denominator effect, crowded backdrop). However, we look for the CEO change to help CG's fundraising effort and ability to attract/retain talent. Given CG's flagship private equity fundraising anticipated in 2024, we believe these emerging challenges could have a more pronounced impact on its growth trajectory.

## Quarterly Earnings Estimates

	2022	2023
Q1	0.74A	0.63A
Q2	1.17A	0.88A
Q3	1.42A	0.87A
Q4	1.01A	0.86E

## Price objective basis & risk

### The Carlyle Group (CG)

Our \$37 price objective for the Carlyle Group is derived from a 10x multiple on our 2026E cash earnings estimate. Our cash earnings definition reduces stock-based comp from the company's distributable earnings definition. Our multiple is lower than peers due to an expected deceleration in growth and emerging fundraising challenges.

Upside risks to our PO include (1) \$80B+ of dry-powder which CG can deploy into a cheaper asset backdrop, (2) earnings quality improvement (FRE was 50% of EPS in 1H22), (3) future acquisitions of FRE rich & scalable platforms, (4) visibility into near-term EPS given announced exits and record accrued carry, and (5) Fortitude's deployment of \$4B in excess capital.

## 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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	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
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	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
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	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 & 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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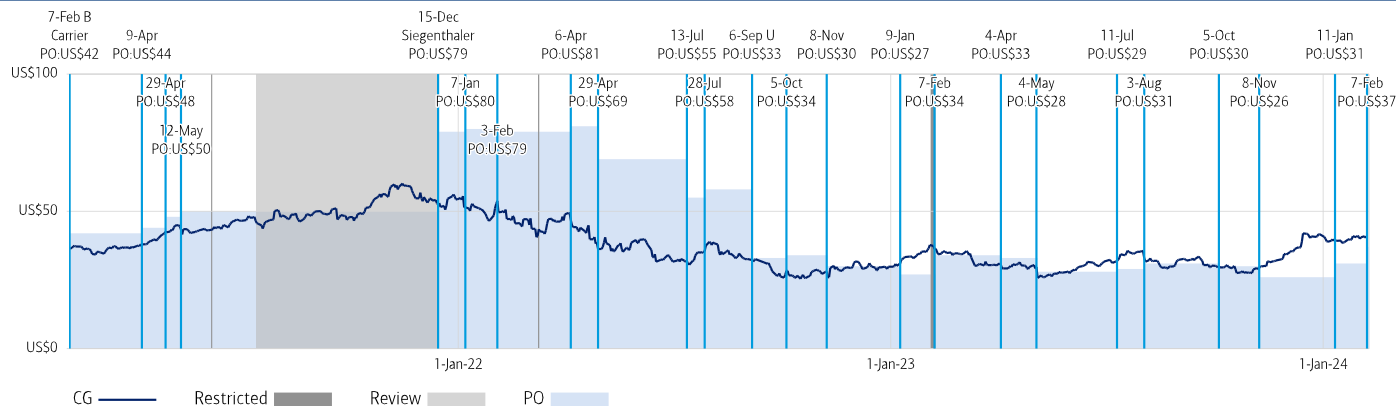
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### Important Disclosures

#### The Carlyle Group (CG) Price Chart



B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

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 <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%

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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster <sup>R2</sup>
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

<sup>R2</sup> 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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