

Brokers, Asset Managers & Exchanges

4Q23 Earnings: Earnings revision summary for APO, ARES, ICE & TROW

Price Objective Change

Asset Management Industry Takeaways

After today's asset manager results, we have four takeaways for the industry:

1. Migration from traditional/active to private markets accelerated in 2023
2. Within private markets, the migration from private equity to private credit and infrastructure also accelerated
3. Private credit has multiple secular drivers including bank retrenchment and very strong near-term performance
4. The Alt-insurance models may face headwinds in 2024 from lower interest rates and rising impairments versus the pure Alt models which are seeing fundamentals broadly accelerate (fundraising, investing, returns, realizations)

Apollo (APO, Neutral)

We decrease our 2024/2025/2026E EPS to \$7.50/\$8.66/\$9.99 from \$8.01/\$9.48/\$11.03 due to a higher tax rate and lower FRE. Following a higher re-rating in APO's Alt (BX, KKR, ARES) and insurance (MET, PRU, LNC) peer groups, we raised our PO multiple to 12.5x from 11x to better reflect current market valuations. We are also impressed with the consistency of APO's EPS growth trajectory through different cyclical backdrops and this was on display in 2022-23. Our PO increases to \$114 from \$112 (12.5x our 2026 cash EPS estimate) which implies 8% total return potential.

Ares Management (ARES, Buy)

We revise our 2024/2025/2026E EPS estimates to \$4.69/\$6.46/\$7.99 from \$4.77/\$6.39/\$7.81. Our updated projections reflect (1) higher realized performance fees (European waterfall), (2) FRE margin expansion and (3) slightly stronger fundraising. We increase our PO to \$146 from \$141 (still apply 22.5x our 2026 cash EPS estimate) which implies 10% total return potential.

Intercontinental Exchange (ICE, Buy)

We are revising our 2024/2025/2026E EPS to \$6.06/\$6.76/\$7.58 from \$6.00/\$6.81/\$7.66. The decline in LT EPS was primarily driven by the softer tone around price increases (versus prior earnings calls), which was partially offset by another quarter of strong Mortgage Technology bookings (tailwind for 2025/26). Our upward revision in ST EPS was primarily driven by a very strong start to the year in the futures business where volumes are up 30% y/y led by rates and energy trading. This was partially offset by soft 2024 mortgage technology recurring revenue guidance of 0% y/y growth (vs our HSD% estimate). We continue to apply a 20x multiple on our 2026E earnings estimate to arrive at our \$152 price objective (from \$153), which implies 10-15% total return potential.

See page 2 for TROW estimates and PO changes.

09 February 2024

Equity
United States
Brokers, Asset Managers and
Exchanges

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Exhibit 1: PO Revision Summary

Raising POs for APO, ARES & TROW;
Reducing ICE

	New PO	Old PO
APO	114	112
ARES	146	141
ICE	152	153
TROW	101	93

Source: BofA Global Research estimates
BofA GLOBAL RESEARCH

FRE: Fee-related earnings

FRPR: Fee related performance
revenues

DE: Distributable earnings

LT: Long-term

ST: Short-term

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Timestamp: 09 February 2024 01:13AM EST

T. Rowe Price (TROW, Underperform)

TROW reported better than expected 4Q23 adj. EPS of \$1.72 vs. \$1.60 for the consensus and \$1.61 BofA estimate mostly due to strong non-op income while its adjusted operating income slightly missed our estimate (higher expenses). Net flows were -\$28.3B (pre-reported) which deteriorated q/q (vs. -\$17.4B in 3Q23). With this update, we increase our 2024/25/26E EPS estimates to \$8.11/\$8.63/\$9.05 from \$7.83/\$7.90/\$8.20 due to a lower expected 2024 tax rate although our adjusted op margin estimate declines slightly on the 2024 adjusted opex guidance (3-5% y/y growth which didn't factor in stronger YTD markets). Separately, we also modestly improve our organic growth forecast which impacts management fees (TROW's blended fee rate trajectory has also improved). Our PO rises to \$101 from \$93 and is derived from a 10.0x multiple on our 2026 EPS plus \$11 for TROW's excess cash. Our PO implies negative 10% total return potential.

Exhibit 2: Stocks mentioned

Prices and ratings for stocks mentioned in this report

BofA Ticker	Bloomberg ticker	Company name	Price	Rating
APO	APO US	Apollo	US\$ 107.41	B-2-8
ARES	ARES US	Ares Management Corp	US\$ 135.55	B-1-7
ICE	ICE US	Intercontinental	US\$ 134.12	B-1-7
TROW	TROW US	T. Rowe Price	US\$ 108.91	B-3-7

Source: BofA Global Research

BofA GLOBAL RESEARCH

Price objective basis & risk

Apollo Global Management (APO)

Our \$114 price objective for Apollo is derived from a 12.5x multiple on APO's adjusted 26E cash earnings. We estimate APO will continue to trade below the industry mean (7-25x) given its high mix of insurance earnings.

Upside risks are S&P 500 index addition (estimate 2023), inorganic growth announcements for Athene, rate sensitivity of Athene's variable rate assets, and defensive organic growth.

Downside risks are credit risk at Athene and a pick-up in annuity surrenders with higher long-term interest rates.

Ares Management Corp (ARES)

Our \$146 price objective for Ares Management 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. Our multiple is in-line with the stock's current valuation and at the higher end of the range of Alt peers (9-20x on corporate definition). However, it is higher than ARES's historical range (5Y average = 18x) as the stock was undervalued before 2020, partly due to its partnership structure (pre C-Corp conversion) and lack of long-only/passive ownership. Risks to our PO: investing backdrop more challenging, adverse macroeconomic scenarios, US and international tax reform and succession planning.

Intercontinental Exchange (ICE)

Our primary valuation metric for US Exchanges is price to long-term earnings (2026E). We focus on long-term EPS because we prefer to normalize for any near-term factors, and it also provides credit for an additional two years of growth. We apply a 20x multiple on our 2026E EPS to derive our \$152 PO. Our multiple is equal to ICE's historical average and a small premium to peers in light of ICE's superior growth prospects. We look for ICE's valuation to re-rate higher from current levels as mortgage origination volumes bottom. Additionally, ICE's accelerating earnings growth and improve earnings quality support a higher valuation.

Risks are: (1) elevated financial leverage, (2) subdued listings activity, (3) contrarian capital allocation decisions (eBay, BKI).

T. Rowe Price (TROW)

Our price objective (PO) for TROW is \$101 and is derived from a price to earnings method. We apply a 10.0x multiple on our 2026 EPS estimate plus \$11 for TROW's excess capital (and zero debt) to obtain our PO. 10.0x is lower than TROW's 5Y average multiple of 15.0x, which is due to our reduced forward growth estimate for EPS/AuM.

Upside risks to our PO are (1) strong fundraising activity at Oak Hill which would improve TROW's future organic growth, (2) acceleration in international expansion which would help net flows, (3) improving margins following the new partnership with FIS, (4) reversal in the negative net flow trend following the formation of TRPIM.

Downside risks to our PO are (1) pricing pressure, (2) elevated net redemptions in its 401k business, (3) deterioration in investment performance, or (4) disruption to the company's investment culture.



Analyst Certification

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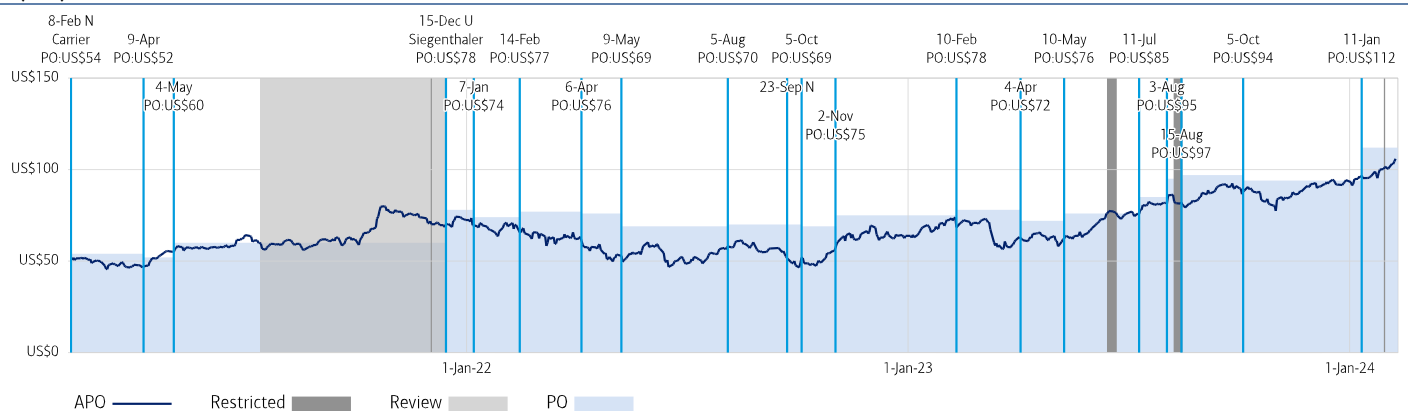
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Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
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	Ameriprise Financial	AMP	AMP US	Craig Siegenthaler, CFA
	Ares Management Corp	ARES	ARES US	Craig Siegenthaler, CFA
	BlackRock, Inc.	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
	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

Disclosures

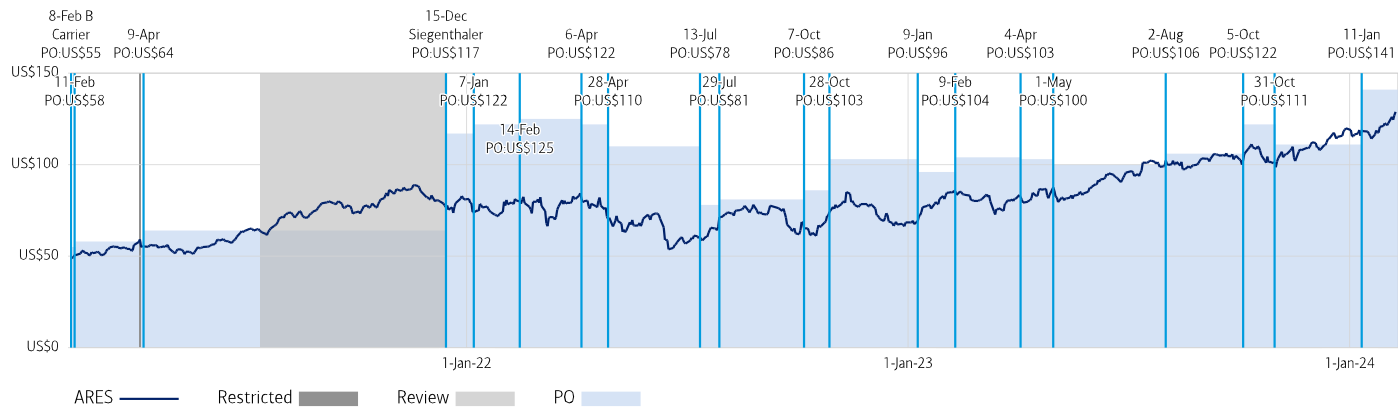
Important Disclosures

Apollo (APO) Price Chart



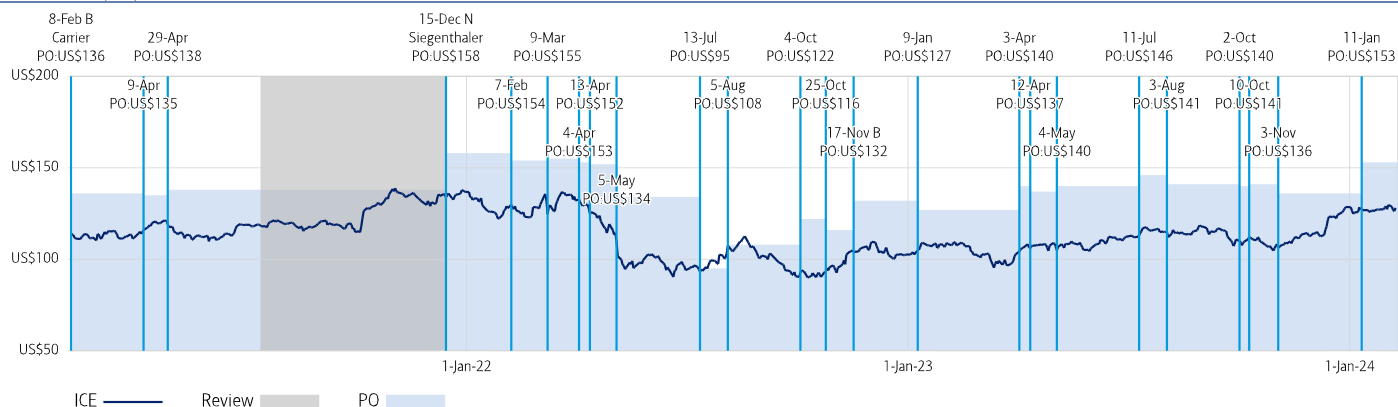
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Ares Management Corp (ARES) Price Chart

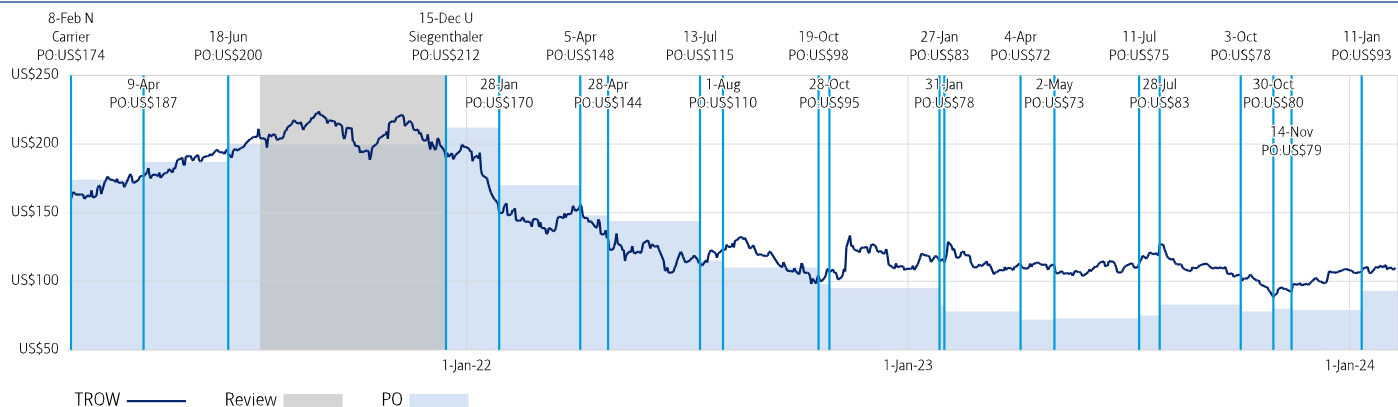
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Intercontinental (ICE) Price Chart

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T. Rowe Price (TROW) 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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Underperform	N/A	≥ 20%

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