

The Carlyle Group

4Q23E – CG finally announces compensation realignment; Raising PO

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

CG finally announces compensation realignment plan

Carlyle Group (CG) made several positive announcements with its 4Q23 financial results: (1) \$1.1B 2024 fee related earnings (FRE) target (vs. \$0.9B BofAe), (2) Comp realignment (FRE to PRE, supports 40-50% FRE margin target), (3) \$1.4B share repurchase capacity and (4) \$40B '24 fundraising target. Given that CG's share count has risen from 2020, the buyback news had a positive impact on our estimates. And while we expected news on compensation realignment for some time given the potential benefits to the CG stock's valuation, we did not embed this in our estimates so this drove an increase to our FRE (2024 is now in-line with CG's guide of \$1.1B) but it also reduced our PRE. What's most important to us now is if CG can successfully fundraise and drive organic FRE growth. It's in the process of raising Asia VI and Europe VI so we will monitor how they fair relative to prior vintages.

Increasing PO on higher FRE mix; Implies -12% return

We revised our 2024/2025/2026 DE estimates to \$3.76/\$3.88/\$3.82 from \$3.91/\$3.89/\$3.79 driven by (1) share buyback authorization, (2) better than expected 2024 FRE guide (plus \$40B+ fundraising target) offset by (3) lower net realized carry (post comp realignment). Our PO increases to \$37 from \$31 due to the slightly higher 2026 EPS and we raise our PO multiple to 12x from 10x following an improvement in CG's earnings quality and sum-of-the-parts value from higher FRE mix. This implies negative-12% total return potential.

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).

Estimates (Dec) (US\$)	2021A	2022A	2023E	2024E	2025E
EPS	5.01	4.34	3.25	3.76	3.88
EPS Change (YoY)	144.4%	-13.4%	-25.1%	15.7%	3.2%
DPS	1.00	1.30	1.40	1.61	1.85
Valuation (Dec)					
P/E	8.1x	9.4x	12.5x	10.8x	10.5x
Dividend Yield	2.5%	3.2%	3.4%	4.0%	4.5%

07 February 2024

Equity

Key Changes

(US\$)	Previous	Current
Price Obj.	31.00	37.00
2023E Rev (m)	3,308.3	3,405.1
2024E Rev (m)	3,968.9	3,964.6
2025E Rev (m)	4,050.7	4,144.3
2023E EPS	3.22	3.25
2024E EPS	3.91	3.76
2025E EPS	3.89	3.88

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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

PRE = performance related earnings

PE = private equity

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Timestamp: 07 February 2024 11:52AM EST

iQprofileSM The Carlyle Group

Economic Income (Dec)	2021A	2022A	2023E	2024E	2025E
(US\$ Millions)					
Management fees	1,698	1,997	2,064	2,129	2,075
Other fees	0	129	161	177	200
Total fee-related revenue	1,794	2,270	2,378	2,552	2,537
Performance fees	2,939	1,981	938	1,311	1,500
Total revenue	4,942	4,401	3,405	3,965	4,144
Base compensation expense	(930)	(1,033)	(1,070)	(883)	(881)
Non-compensation expense	(268)	(370)	(377)	(409)	(428)
Total fee-related expenses	(1,198)	(1,403)	(1,446)	(1,292)	(1,309)
Performance fee compensation	(1,409)	(982)	(407)	(852)	(975)
Total expenses	(2,436)	(2,223)	(1,594)	(1,873)	(2,007)
Total fee-related earnings	426	705	672	990	951
Distributable earnings	2,506	2,178	1,812	2,091	2,138
Taxes	(458)	(333)	(255)	(339)	(347)
After tax distributable earnings	1,780	1,572	1,173	1,367	1,421
Distributable earnings per share	5.01	4.34	3.25	3.76	3.88
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	442,701	440,587
Fee Paying AUM	193,419	266,577	307,418	318,906	313,538

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.

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	Blackstone	BX	BX US	Craig Siegenthaler, CFA
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	Cboe Global Markets	CBOE	CBOE US	Craig Siegenthaler, CFA
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	CME Group Inc	CME	CME US	Craig Siegenthaler, CFA
	Invesco	IVZ	IVZ US	Craig Siegenthaler, CFA
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	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

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

$\text{NOPAT} = (\text{EBIT} + \text{Interest Income}) \times (1 - \text{Tax Rate}) + \text{Goodwill Amortization}$

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

$\text{EV} = \text{Current Share Price} \times \text{Current Shares} + \text{Minority Equity} + \text{Net Debt} +$

Other LT Liabilities

Enterprise Value

Denominator

$\text{Total Assets} - \text{Current Liabilities} + \text{ST Debt} + \text{Accumulated Goodwill}$

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

$\text{Market Cap} = \text{Current Share Price} \times \text{Current Basic Shares}$

Sales

Basic EBIT + Depreciation + Amortization

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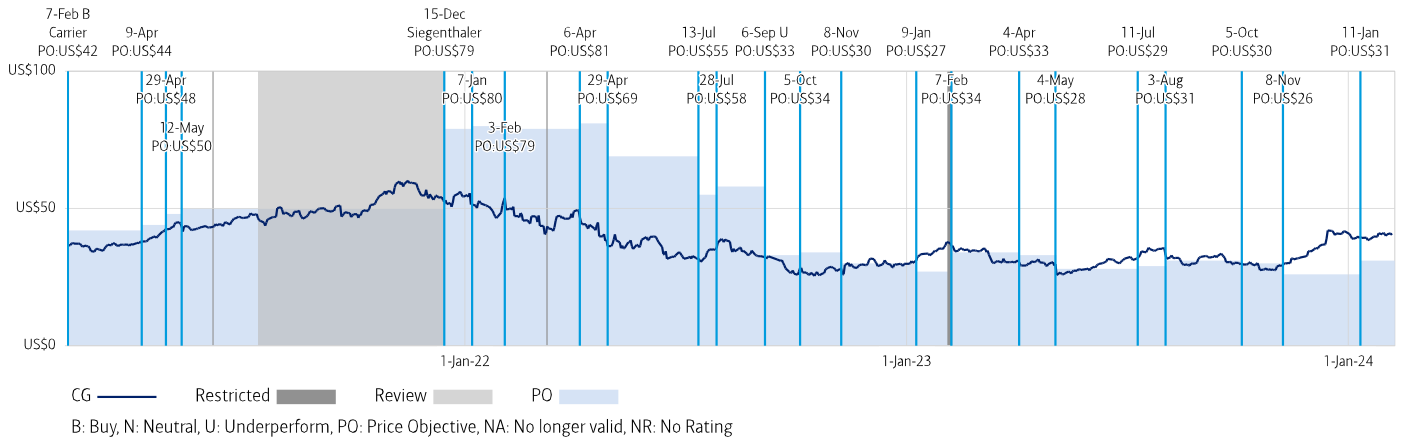
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The Carlyle Group (CG) Price Chart



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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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