

Blue Owl

2Q23 Results Largely in Line, Fundraising Softer, Broad Credit Centric Opportunity Remains, Dyal Questions Resolved

Blue Owl reported 2Q23 Adj. EPS of \$0.16, matching both our and Bloomberg consensus estimates. Fee-related Adj. EPS of \$0.17 were also in line with estimates, in what proved to be a relatively uneventful quarter from a summary financials perspective. The story on the call was substantially more interesting, however, with Owl effectively taking the GP Strategic Capital (fka Dyal Capital) overhang off the table by putting forth a strong long-term incentive alignment with business founder (and current overall Blue Owl co-president) Michael Rees. Total fundraising came in softer than expected, but we don't necessarily see a major cause for concern on that front as the private wealth channel saw a step up QoQ (from \$1.6bn to \$1.8bn) and management has consistently messaged that the institutional side of the house tends to be episodic (substantial SMA / bespoke structure activity). Management highlighted the resiliency and differentiation of the overall Blue Owl platform (we agree) across Direct Lending, GP Capital Solutions, and Real Estate, and pointed to double-digit returns of the last 12 months for Credit (18.9%) and Real Estate (14.2%) as a positive contrast to volatile markets over the same period. Further to resolving questions around the reported on internal constituent uncertainty, OWL focused on presenting a united message, which included a re-brand of the various legacy businesses under the Blue Owl name, and an outline towards continuing to build capabilities towards being a broader provider of capital markets solutions.

- Reviewing the print.** Blue owl reported fee-related earnings of \$245mm (+24% YoY), in line with our projections and just a hair above the \$244mm consensus. Total adjusted revenues of \$401mm topped consensus of \$396mm and presented 6% QoQ and 26% YoY growth. The direct lending business continued to be the largest contributor of the top line (58%), followed by GP Capital (35%), and Real Estate (8%). We note that Part I fees were particularly strong this quarter, with the \$91mm actuals topping our estimates by \$5mm and presenting 100% YoY growth – a positive indicator for the continued growth and healthy operating environment of the BDC franchise. Though total expenses moved higher both on a yearly (+26%) and quarterly (+2%) basis, FRE margins stepped up to 61%, following two consecutive quarters of hovering around 60%. The margin expansion was in part driven by a stronger quarter with regard to administrative, transaction and other fees (\$20mm in 2Q23 vs. \$9mm in 1Q23), in what was the best quarter for this line item since 2Q22 (\$25mm). We also note that OWL continued to enjoy industry-leading blended fee rates, with 2Q23's average rate of 1.65% increasing modestly from 1Q23's 1.63%.
- Deployment shows signs of improvement.** We were pleased to see Blue Owl's direct lending gross originations take a step up quarter over quarter (from \$1.6bn in 1Q23 to \$3.4bn in 2Q23), though we note that the figure was still

Neutral

OWL, OWL US

Price (02 Aug 23):\$12.33

Price Target (Dec-23):\$13.00

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Quarterly Forecasts (FYE Dec)

Adj. EPS (\$)	2022A	2023E	2024E
Q1	0.11	0.15A	0.17
Q2	0.13	0.16A	0.18
Q3	0.14	0.16	0.19
Q4	0.15	0.17	0.21
FY	0.53	0.64	0.75

Style Exposure

Quant Factors	Current	Hist %Rank (1=Top)			
	%Rank	6M	1Y	3Y	5Y
Value	93	79	96		
Growth	82				
Momentum	41	77	9		
Quality	82	98	93	85	100
Low Vol	83	87	87		

Sources for: Style Exposure – J.P. Morgan Quantitative and Derivatives Strategy; all other tables are company data and J.P. Morgan estimates.

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Price Performance



	YTD	1m	3m	12m
Abs	16.3%	5.8%	14.9%	9.0%
Rel	-1.3%	4.4%	5.4%	-1.3%

Company Data

Shares O/S (mn)	1,415,459
52-week range (\$)	14.04-8.06
Market cap (\$ mn)	17,452,600.00
Exchange rate	1.00
Free float(%)	99.9%
3M - Avg daily vol (mn)	3.37
3M - Avg daily val (\$ mn)	37.3
Volatility (90 Day)	30
Index	S&P 500
BBG BUY HOLD SELL	10 2 0

Key Metrics (FYE Dec)

\$ in millions	FY22A	FY23E	FY24E
Financial Estimates			
Investment advisory/ Mgt. Fees	1,249	1,535	1,805
Performance fees	-	-	-
Total revenue	1,322	1,603	1,898
Compensation and benefits	(361)	(450)	(519)
Operating expense	-	-	-
Adj. EBIT	792	975	1,160
Adj. PBT	752	923	1,114
Adj. net income	743	905	1,067
Adj. EPS	0.53	0.64	0.75
BBG EPS	0.53	0.65	0.82
DPS	-	-	-
Total AUM	138	160	-
Net flows	32	15	-
Margins and Growth			
EBIT margin	60.0%	60.8%	61.1%
Adj. EPS growth	66.0%	20.5%	16.7%
AUM growth	-	-	-
Ratios			
Adj. tax rate	1.3%	1.9%	4.2%
Net flows/Opening AUM	-	-	-
Revenues/Avg. AUM (bps)	-	-	-
RoAUM (bps)	63,842.8	60,709.8	-
ROCE	0.0%	0.0%	0.0%
Valuation			
Dividend yield	-	-	-
EV/AUM	13703509.4%	11748190.2%	-
Adj. P/E	23.2	19.3	16.5

Summary Investment Thesis and Valuation

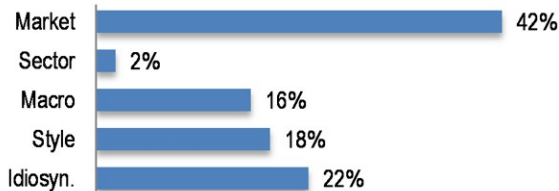
Investment Thesis

Blue Owl is a leading alternative investment manager across its three key business lines: Owl Rock (direct lending), Dyal (general partner/GP solutions), and Oak Street (triple net lease real estate). We believe Blue Owl has ample capacity to organically grow its AUM (and FPAUM) over the medium term, but we acknowledge that Blue Owl's business is tied to the success of broader alternative investment management firms as well. While Blue Owl's attractive investment products and medium-term outlook remain solid, we acknowledge Blue Owl is already trading at a premium valuation to peers, and the current market uncertainty around macro/credit creates a near-term headwind to Blue Owl's stock.

Valuation

We value Blue Owl on a sum-of-the-parts basis attributing a 24x multiple to the fee-related earnings and a 10% discount on cash and investments. Unique to Blue Owl's structure, we do not forecast any performance fees. Our Blue Owl Dec-23 price target is \$13.

Performance Drivers



Factors	6M Corr	1Y Corr
Market: MSCI US	0.70	0.73
Sect: Financials	0.34	0.28
Ind: Diversified Fin	0.58	0.46
Macro:		
Non-Energy Commodity	0.45	0.32
US Dollar	-0.47	-0.32
Credit Spread	-0.22	-0.13
Quant Styles:		
Momentum	-0.56	-0.54
Size	-0.40	-0.42
LowVol	-0.36	-0.40

relatively muted on a YoY basis relative to 2Q22 (\$7.6bn). In discussing the direct lending opportunity, management noted that today's markets are seeing very limited refinancing activity (in contrast to when 20-25% of OWL's loans used to get refinanced when rates were low and M&A deal-making was active), and hence most of the dollars that Blue Owl is putting to work are reflective of new capital moving in (i.e., less capacity being created by refinancing so less capital sitting on the sidelines than the headline numbers would suggest). As we have heard from a number of other management teams, OWL noted that private credit markets do move in tandem with M&A markets, and thus the moderate pickup being experienced on the M&A side currently is helpful, though too early to draw any substantive conclusions about. Management also pointed out that Blue Owl enjoys differentiation in the market place as an "independent" partner to financial sponsors, given many of the other large direct lenders in the market are part of broader private equity franchises that may compete with the same sponsors on deals – we buy this.

- **Credit quality remains healthy.** Similar to some of the commentary provided by Ares on its earnings call (our note [here](#)), OWL was able to effectively assuage potential concerns about credit quality, noting that portfolio companies in its lending book continued to see healthy Revenue and EBITDA growth, without any substantial changes to non-accruals or step-ups in amendment requests. Weighted average LTVs in the 40s for the whole portfolio and in the 30s for the tech-dedicated portfolio also screen as healthy. Blue Owl also pointed out that annualized realized losses on the \$78bn of loans originated since inception have been just ~6bps.
- **Fundraising comes in light, but not much cause for concern.** OWL's total 2Q23 capital commitments of \$2.9bn came in below our \$4.4bn estimates, and took a step down from 1Q23's \$3.8bn. As we noted above, while the private wealth channel saw a ~\$200mm QoQ increase, the institutional side of the house slowed with actuals of \$1.1bn halving from last quarter. With management reiterating on the earnings call expectations that 2023 fundraising will likely lean institutional (currently \$3.3bn institutional vs. \$3.4bn retail in H1 with private wealth momentum looking strong), we continue to expect a pickup in institutional fundraising in the back half of the year. In terms of where this fundraising may come from, management noted that flagship real estate fund VI is still in market and expressed confidence in hitting the \$5bn marker that would double the size of fund V. With GP stakes fund V more than 75% invested, management noted that a Fund VI fundraise is on the horizon, and there exists some potential that the base case of a first close in early next year could conceivably be brought in earlier. Although OWL has achieved substantial growth since the May 2022 investor day, when 2023 goals were outlined, management did concede that targets to achieve \$1bn of distributable earnings and \$50bn in fee-paying AUM in 2023 were currently tracking about a quarter behind the initial outline.
- **GP Stakes business overhang removed.** As we outlined in our earnings preview note ([here](#)), a number of news periodicals including Bloomberg had been reporting over the past few months that OWL may be experiencing internal strife between the historical Owl Rock and Dyal sides of the house. Those concerns were confidently assuaged on yesterday's earnings call when Dyal founder Michael Rees outlined his long-term commitment to the Blue Owl franchise and noted that he has elected to receive 100% of his compensation for the following 3 years via OWL equity. Given the substantial news flow around this topic, we expect this resolution to be quite helpful for overall sentiment around the GP Capital solutions segment of the business and potential fundraising prospects.
- **Excitement about real estate.** The real estate segment enjoyed the largest QoQ revenue growth (+17%) of the three OWL operating segments, in line with bullish management commentary around the opportunity set. Blue Owl expressed optimism around the net lease product's effective positioning against the backdrop of elevated borrowing costs and more constrained financing markets, noting a robust pipeline with ~\$3.8bn of near-

term transaction volume under letter of intent or contract to close. With OWL already deploying out of the currently \$3.7bn Fund VI (expected to hit the \$5bn hard cap), the strategy appears to be in the midst of a rapid fundraise -> deploy -> realize virtuous cycle. We also note expectations of further upside on the private wealth side as management confirmed the onboarding of a wire-house partner for the perpetual RE product in 2Q23 and expectations of expanding the syndicate further through 2024. At the end of the day, strong returns drive strong fundraising, and with the real estate segment generating 2.3% returns in 2Q23 and 14.2% returns over the past 12 months, OWL's product likely will continue to screen as differentiated to investors.

- **Maintain our Neutral rating and our \$13 Dec 2023 price target.** On the net, the changes we make to our model do not alter our FY 2023 Adj. EPS projection of \$0.64 or our FY 2024 Adj. EPS projection of \$0.75. We continue to apply a 24x multiple to OWL fee-related earnings, and move from a 15% to a 10% discount on cash and investments, more consistent with the discount we apply to peer investment portfolios.

Investment Thesis, Valuation and Risks

Blue Owl *(Neutral; Price Target: \$13.00)*

Investment Thesis

Blue Owl is a leading alternative investment manager across its three key business lines: Owl Rock (direct lending), Dyal (general partner/GP solutions), and Oak Street (triple net lease real estate). We believe Blue Owl has ample capacity to organically grow its AUM (and FPAUM) over the medium term, but we acknowledge that Blue Owl's business is tied to the success of broader alternative investment management firms as well. While Blue Owl's attractive investment products and medium-term outlook remain solid, we acknowledge Blue Owl is already trading at a premium valuation to peers, and the current market uncertainty around macro/credit creates a near-term headwind to Blue Owl's stock.

Valuation

We value Blue Owl on a sum-of-the-parts basis attributing a 24x multiple to the fee-related earnings and a 10% discount on cash and investments. The 24x multiple is a premium to peers and is justified by the large portion of Blue Owl earnings related to permanent capital vehicles. Unique to Blue Owl's structure, we do not forecast any performance fees. We maintain our Dec-23 price target at \$13.

Risks to Rating and Price Target

Blue Owl is an alternative asset manager dependent on the success of the alternative asset management business

Blue Owl is a multifaceted and multilayered play on the success of the alternative asset management ecosystem and the outlook for deal making over the near term and longer term. The alternative asset management industry has been in exuberant market conditions for many years. But continued weakness in growth investing and a slowdown in deal making could slow industry deployment and therefore slow Blue Owl's ability to make loans and deploy BDC capital.

Macroeconomic and credit market risk

To date, Blue Owl has demonstrated the ability to be highly selective in its investments and has delivered solid returns to its investors. That said, the US has been in a bull market for over 10 years and Blue Owl has not experienced a full economic cycle (ex-COVID) as a combined business. If rates rise more than expected, Blue Owl earnings could be better than forecast and the stock could outperform. However, if the credit environment deteriorates, the stock could underperform.

Performance could deteriorate, impacting future fundraising efforts

Blue Owl's performance track record since inception has been solid across its key strategies. That said, any underperformance could impact future fundraising efforts.

Blue Owl: Summary of Financials

Income Statement - Annual	FY22A	FY23E	FY24E	FY25E	Income Statement - Quarterly	1Q23A	2Q23A	3Q23E	4Q23E
Management Fees	1,249	1,535	1,805	-	Management Fees	369A	382A	387	397
Portfolio Advisory Fees, net	-	-	-	-	Portfolio Advisory Fees, net	-	-	-	-
Transaction Fees, net	73	68	93	-	Transaction Fees, net	9A	20A	18	22
Performance Fee Income	-	-	-	-	Performance Fee Income	-	-	-	-
Investment Income	-	-	-	-	Investment Income	-	-	-	-
Interest and Other Income	0	0	0	-	Interest and Other Income	0A	0A	0	0
Total Revenues	1,322	1,603	1,898	-	Total Revenues	377A	401A	405	419
Compensation and Benefits	(361)	(450)	(519)	-	Compensation and Benefits	(104)A	(116)A	(113)	(117)
Performance Fee Compensation	-	-	-	-	Performance Fee Compensation	-	-	-	-
G&A	(168)	(178)	(218)	-	G&A	(48)A	(39)A	(45)	(46)
Interest Expense	-	-	-	-	Interest Expense	(14)A	(14)A	(14)	(14)
Total expenses	(474)	(573)	(685)	-	Total expenses	(138)A	(141)A	(144)	(150)
Distributable Earnings (DE)	743	905	1,067	-	Distributable Earnings (DE)	209A	227A	230	239
DE/Share	0.53	0.64	0.75	-	DE/Share	0.15A	0.16A	0.16	0.17
Balance Sheet and Cash Flow Data	FY22A	FY23E	FY24E	FY25E	Ratio Analysis	FY22A	FY23E	FY24E	FY25E
Cash & Cash Equivalents	68,079	203,186	536,531	-	EPS growth	66.0%	20.5%	16.7%	-
Intangible Assets, net	2,405,422	2,405,422	2,405,422	-	Operating margin	79.6%	23.0%	19.0%	-
Total assets	8,575,844	8,710,951	9,044,296	-	Tax rate	1.3%	1.9%	4.2%	-
Loans Payable	-	-	-	-	Net income margin	56.2%	56.5%	56.2%	-
Account Payable	126,559	126,559	126,559	-	AUM growth	-	-	-	-
Loans Payable of Consolidated Funds	1,624,771	1,624,771	1,624,771	-	AUM growth from market	-	-	-	-
Total liabilities	3,344,189	3,344,189	3,344,189	-	AUM growth from sales	-	-	-	-
Total Equity	5,231,655	5,366,762	5,700,107	-	Average fee rate	-	-	-	-
Total liabilities & equity	8,575,844	8,710,951	9,044,296	-	Return on equity (ROE)	0.0%	0.0%	0.0%	-
					Dividends	-	-	-	-
					Dividend payout ratio	-	-	-	-

Source: Company reports and J.P. Morgan estimates.

Note: \$ in millions (except per-share data). Fiscal year ends Dec

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Blue Owl (OWL, OWL US) Price Chart



Source: Bloomberg Finance L.P. and J.P. Morgan; price data adjusted for stock splits and dividends.
Initiated coverage Jul 07, 2022. All share prices are as of market close on the previous business day.

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