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OWL.N - Q2 2023 Blue Owl Capital Inc Earnings Call

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## OVERVIEW:

Company Summary

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## OVERVIEW

Company Summary

## FINANCIAL DATA

- A. Second Quarter 2023 earnings = \$ 0.17 per share
- B. Second Quarter 2023 dividend = \$ 0.14 per share
- C. Second Quarter 2023 margin = 60.0 %
- D. Second Quarter 2023 dividends = \$ 0.53
- E. Second Quarter 2023 earnings = \$ 1.0 billion
- F. Second Quarter 2023 dividend = \$ 1.0 per share

## PRESENTATION

### I. PRESENTATION

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- A. This morning, we issued our financial results for the second quarter of 2023, reporting fee-related earnings, or FRE of \$0.17 per share and distributable earnings or DE of \$0.16 per share.
- B. We had declared a dividend of \$0.14 per share for the second quarter, payable on August 31 to holders of record as of August 21.
- C. Today, we reported another strong quarter of results for Blue Owl, again, demonstrating the steady and resilient growth that we believe sets us apart in the alternative asset management space.
- D. We would generate substantial growth through a variety of market environments, anchored by our base of permanent capital, and we would provide an earnings stream that looked much less volatile than peers with earnings supported almost entirely by management fee streams.
- E. Over the past 2 years, markets have shifted rapidly from a 0 interest rate environment and robust capital markets to over 500 basis point Fed funds rates and meaningful declines in M&A and public issuance.
- F. We provided necessary capital to businesses across nearly every industry in our credit business and have seen minimal credit losses as a result of our disciplined underwriting.
- G. Our credit and real estate returns have been in the double digits on a last 12-month basis, contrasted against very volatile public markets.
- H. We believe the trust that we've built with investors is reflected in the \$32 billion of fee-paying AUM, we've raised so far in 2022 and 2023, which compares to our fee-paying AUM of \$61 billion at the end of 2021 or over 50% growth.
- I. This is substantial growth in any market environment much less than one we faced over the past 1.5 years, and we continue to see strong demand for our strategies.
- J. In addition, the diversification of our business between institutional and wealth channels continues to serve us well, with roughly half of our fundraising over this period coming from each of these areas.
- K. On the institutional side, last year, we completed or made significant progress towards raises for some of our larger funds, such as our GP Stakes 5 and our second vintage of tech lending BDC.
- L. As a result, we expect that our institutional fundraising for 2023 will be more diversified between separate account mandates, new product launches and next vintages of smaller funds.
- M. In wealth, we have returned to seeing steady increases in monthly flows for our wirehouse distributed products.
- N. And we've continued to see very modest redemption requests from the small percentage of our products, which offer a quarterly redemption feature with just over \$160 million requested in the second quarter or 0.5% of AUM in those products.
- O. This compares to over \$1.3 billion raised in those same products another very solid quarter of net inflows.
- P. If you take a step back to look at our flows across Blue Owl, from the first quarter of '22 to the first quarter of '23, we saw nearly 6.5x more inflows than we did outflows.
- Q. In other words, for every dollar that left our system as a result of distributions or redemptions, we raised almost \$6.5.
- R. By comparison, our peers on average raised just \$2 for every dollar that left their platforms.
- S. All of this is captured in the steady yet extraordinary growth that we have achieved over the past 2 years, increasing AUM by 140% and distributable earnings by 10%.
- T. Over the last 12 months, we originated nearly \$15 billion of loans, providing crucial financing to the M&A market.
- U. And during the second quarter, gross originations were \$3.4 billion with \$1.4 billion of repayments, allowing us to redeploy capital into attractive, high-yielding opportunities.

- V. Gross deployment has slowed a bit in keeping with lower market activity with U.S. M&A down nearly 40% on a year-on-year basis.
- W. Despite a more challenging macro backdrop, we continue to see good revenue and EBITDA growth on average at the portfolio companies.
- X. Weighted average loan to values remain in the low 40s across our entire direct funding portfolio and the low 30s across our tech dedicated portfolio.
- Y. Across the \$78 billion of loans we've originated since inception, annualized realized losses have been approximately 6 basis points, and those have been fully offset by realized gains over that same period.
- Z. The direct lending portfolio achieved gross returns of 4.3% for the second quarter and 18.9% for the last 12 months.
- AA. We continue to see high levels of interest in our net lease strategy with corporate borrowing costs elevated and financing markets were challenging.
- AB. Our pipeline of opportunities remains robust with roughly \$3.8 billion of transaction volume under letter of intent or contracts close and a near-term pipeline of about \$30 billion of potential volume.
- AC. Inclusive of announced acquisition activity, we have invested or committed all of the equity in our fifth closed-end fund and have started deploying capital out of our sixth vintage, for which we have already raised \$3.7 billion of capital.
- AD. We expect we'll reach our hard cap of \$5 billion in the second half of this year, which would make this fund twice the size of the prior one.
- AE. And during the second quarter, we added a large wirehouse distribution partner for our perpetually offered real estate product and anticipate adding to this syndicate meaningfully through the rest of this year and into 2024.
- AF. With regards to performance, we achieved gross returns across our real estate portfolio of 2.3% for the second quarter and 14.2% for the last 12 months.
- AG. Despite the substantial increase in interest rates, we continue to buy assets with a significant margin of safety to where they trade on a marketed basis and monetize and meaningful spreads to our entry points, notable during a period when many in the industry are facing challenges in this regard.
- AH. To contextualize this, during the second quarter, we sold or signed letters of intent on over \$150 million of assets at an average cap rate of 5.6%, receiving net IRRs of 30% and net MOICs of 1.7x.
- AI. When we acquired this business, it had about \$8 billion of fee paid AUM and 1.5 years later, we've achieved 60% growth.
- AJ. And as I mentioned earlier, we expect to raise a next vintage fund, double the size of the prior fund.
- AK. In addition, we have launched a well-distributed product in scale raising \$1.7 billion under a year despite asset class headwinds and outflow dynamics for our pure products.
- AL. Most recently, we announced a minority investment in Stone Peak, a leading alternative investment firm specializing in infrastructure and real assets with over \$55 billion in AUM.
- AM. With a robust and expanding pipeline, total investment commitments for our fifth GP stakes fund, including agreements in principle have reached approximately \$11 billion of capital or roughly 85% of the fund.
- AN. And we currently have no sight into approximately \$2 billion of new opportunities, which, if all signs would bring us through the remaining capital available in Fund V. Our focus on larger firms within the alternatives universe has positioned our platform well within the current fundraising environment.
- AO. Of note, one of our [managment's], TBC recently closed its latest flagship fund with EUR 26 billion of commitments, surpassing its fundraising target and its private equity's largest-ever buyout fund.

- AP. Performance across our GP stakes funds remained strong with a net IRR of 24% for Fund III, 49% for Fund IV and 28% for Fund V all of which compare favorably to the median returns for private equity funds of the same vintages.
- AQ. As a share of alignment for the long term, I have elected to receive 100% of my compensation for 2023, 2024 and 2025 in Blue Owl Equity.
- AR. To start off, we are very pleased with our second quarter and LTM results another quarter of strong industry-leading growth.
- AS. Some key highlights of our results through June 30 include total revenues up 37%, FRE up 34%, DE up 32%, and our dividend is up 33%, all on an LTM versus a year ago basis.
- AT. So to step through our results through June 30 in more detail, management fees are up \$459 million or 46% for the LTM period versus a year ago.
- AU. Broken down by strategy credit management fees are up \$272 million or 53%.
- AV. GP strategic capital management fees are up \$123 million or 28% and real estate management fees are up \$64 million or 175%.
- AW. Keeping in mind, we acquired our real estate business at the end of 2021, so we don't have a full year in our prior year LTM results.
- AX. Compensation expense came in at just under 28% comp to revenue for the LTM period.
- AY. Overall, we are trending in line with our guidance of our comp expense ratio sitting in the 25% to 30% comp to revenue range, likely towards the higher end of that range due to further growth and investment in our business.
- AZ. G&A expense came in at \$192 million for the LTM period and \$39 million for the quarter.
- BA. Overall, we are trending in line with our guidance of G&A expense trending up a little in 2023 from last year with placement costs down and regular way G&A higher, driven by the overall growth of our business.
- BB. FRE is up \$227 million or 34% for the LTM period versus a year ago.
- BC. So with our comp percentage up a little and our overall G&A percentage down a little, we continue to be right on track with our 60% FRE margin target for 2023.
- BD. And we announced the dividend of \$0.14 per share for the second quarter.
- BE. For the LTM period, we have paid \$0.53 in dividends versus \$0.40 for a year ago.
- BF. That results in a 33% increase in our dividend.
- BG. As you can see on Slide 12, we raised \$2.9 billion in the second quarter.
- BH. And over the last 12 months, we raised \$20.4 billion, 19% above the prior year period.
- BI. In credit, we raised over \$1.5 billion.
- BJ. \$1.3 billion raised in our diversified and first lien lending strategies, including almost \$800 million raised in our wealth distributed core income BDC, OCIC.
- BK. And over \$200 million raised in our tech lending strategies, almost all raised in our wealth distributed tech lending BDC OCIC.
- BL. In GP strategic capital, we raised approximately \$200 million.
- BM. And in real estate, we raised approximately \$1.1 billion, approximately \$700 million in our Real Estate Fund VI and approximately \$300 million in our net lease trust product, Orent, our nontraded REIT.

- BN.** Although we had a lower level of institutional closes in the second quarter, we continue to see strong institutional interest in our products.
- BO.** Not only are the gross fundraising levels improving, but we continue to be very encouraged by the net fundraising levels we are seeing from our products that have quarterly redemption features.
- BP.** As Doug pointed out, we are still seeing strong net positive inflows with these products with gross inflows for the second quarter running at about 8x the level of outflows for a small set of products we offer a quarterly redemption feature.
- BQ.** All in all, we've raised approximately \$32 billion of fee-paying AUM since January 1, 2022.
- BR.** And our overall fee rate is significantly higher than our peers at over 150 basis points versus our peer average of below 100 basis points.
- BS.** As we discussed on last quarter's call, overall, as we progress through 2023, we continue to expect fundraising to Tilt Institutional.
- BT.** As it relates to our AUM metrics, on Slide 11, AUM grew \$30.5 billion to \$149.6 billion a 26% increase from the second quarter a year ago.
- BU.** Fee paying AUM grew \$16.1 billion to \$93.6 billion, a 21% increase from the second quarter a year ago.
- BV.** Both metrics are driven primarily by capital raised and deployed in credit, capital raised in GP Stakes Fund V and capital raised in Real Estate Fund VI, ONLP and OREF.
- BW.** Permanent capital grew \$23.1 billion to \$118.6 billion, a 24% increase from the second quarter a year ago.
- BX.** As a reminder, 93% of our management fees are from these permanent capital vehicles.
- BY.** AUM not yet paying fees was \$12 billion, including \$8.1 billion in credit, \$1.1 billion in GP strategic capital and \$2.8 billion in real estate.
- BZ.** This AUM corresponds to an expected increase in annual management fees totaling over \$170 million once deployed, which equates to a fee rate of 1.4%.
- CA.** In credit, we had gross originations of \$3.4 billion for the quarter and net funded deployment of \$1.6 billion.
- CB.** This brings our gross originations for the last 12 months to \$14.6 billion with \$9.2 billion of net funded deployment.
- CC.** So as it relates to the \$8.1 billion of AUM not yet paying fees and credit, it would take us approximately 1 year to fully deploy this capital based on our average net funded deployment pace over the last 12 months, deployment has obviously been running at a much lower pace, so there could be some upside to this.
- CD.** As you can see on Slide 17, we currently have a significant amount of liquidity with an average 13-year maturity and low 3% cost of borrowing.
- CE.** As it relates to our 2023 goal that we talked about at our investor day in May 2022, we continue to track well against our goal of \$1 billion of distributable earnings and \$50 billion of fee paying AUM.
- CF.** We are currently about 1 quarter behind our original target time line in achieving these 2023 goals, which we are very pleased with, considering the market and fundraising environment we've all been in.
- CG.** And standing here today, we continue to see our path in achieving \$1 per share dividend for 2025, driven by continued strong FRE growth anticipated for the next 2.5 years.
- CH.** We delivered exceptional growth in all of our key metrics, AUM, fee paying AUM, management fees, FRE and DE and expect to see continued strong growth for the foreseeable future.

## QUESTIONS AND ANSWERS

### Operator

(Operator Instructions) Your first question comes from Glenn Schorr with Evercore ISI.

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**Glenn Paul Schorr** - *Evercore ISI Institutional Equities, Research Division - Senior MD & Senior Research Analyst*

So I appreciate all the commentary. I wonder if you can help us aggregate in terms of your comments on first close for GP, the next net lease fund being twice the size and maybe any guess on private credit. Maybe just lump that into, I don't know, next 12 months, what kind of numbers does that add up to? And then when thinking about the -- part of it is market-related cyclical, part of it is rate related cyclical. But when thinking about the cyclical of your current mix of business, how do you think about broad -- or are you thinking about broadening the platform in an effort to reduce that cyclical?

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**Alan J. Kirshenbaum** - *Blue Owl Capital Inc. - CFO*

When we think about our flagship real estate product, Fund VI, we are still fundraising there. We do expect to hit our goal, our goal of \$4 billion, but we think we can bring that to a \$5 billion close that would double the size of Fund V. So we're super excited about that, especially in the market environment we're in, especially with the real estate sentiment that's out there right now. GP stakes, Fund VI. We've surpassed the 75% invested. We expect to be out with investors in the back half of this year. And we expect that we can do a closing in early next year, and maybe we can accelerate that, but let's see how the next couple of months go. So we're excited to raise a big fund VI there. And we think we certainly have the fund performance to -- that we're excited about to go out to the market with. On the credit side, we're seeing a lot of interest in the credit products as we've talked about previously. And I'm happy to hand that over to Doug to elaborate.

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**Douglas Irving Ostrover** - *Blue Owl Capital Inc. - Co-Founder, Chairman & Co-CEO*

Yes. Thanks for the question. So look, when you mentioned the word cyclical, we don't really view it as cyclical. It's really just more fundraising is episodic. And when we talk about being a quarter behind, it's really I got to get the exact number, but it's just a few billion dollars of fundraising have a big impact on that delta.

But maybe I can just address it in a little more detail. Look, the pipeline looks really strong. And as I said, it's hard to predict timing, but we are seeing a lot of enthusiasm for the strategies. So let me just start maybe with private wealth, and then I'll roll into institutional as well.

Remember, the funds -- they generate a lot of income through downside protected is definitely resonating. If you look on the wealth side for continuously offered credit products, I think we are up 32% quarter-over-quarter. Now one quarter certainly doesn't make a trend, but we're seeing a lot of positive momentum in our wealth credit strategies, and we're expanding the syndicate.

Real estate across the industry, I think, because there have been redemptions in funds, lots of chatter about office, real estate flows have definitely been slower, but we're starting to see some real excitement about our triple net lease strategy, and we're going to have some meaningful growth to our syndicate this quarter.

So I'm really excited, as you know, about what we can do with this product. We're seeing it on the institutional side. And I think now on the wealth side, we're going to be able to grow. Most importantly, we've had minimal redemptions across all of our products. So in wealth, we're very, very excited about this channel.



Again, it's just one quarter, but I'm cautiously optimistic. On the institutional side, we're still seeing a tremendous amount of interest in our credit strategies. But you have to remember, this is a bit of a strange quarter for us. We're not in the market with any flagship funds. And as you know, we just finished raising \$8 billion of fee-paying assets at very high fees for our Tech 2 product.

And so the way I would think about it is we will be in the market with new credit products over the next few quarters. We've already gone out, talked to investors. We're seeing a lot of interest. If I think about this quarter and last quarter, the best way to think about what we've been doing is we're really dealing with more bespoke mandates, really more SMAs. And it's really hard to predict the timing on those.

And by the way, these SMAs are large. But it's not like we have a fund that we can say the timing is we're closing August 31, you have to be in. These are much more negotiated. And I think between now and the end of the year, you'll start to see all those hit. And as Alan mentioned, we'll finish up fundraising and real estate VI.

We're in the market with our continuation fund, and we expect to be in the market with GP Stakes Fund VI as well. Since I have the mic, I can't help myself just one last thing. I know everyone is very fixated on asset growth. But we'd like to start changing the conversation a little bit to the type of assets we're raising and why we're different. Our average fee today is about 1.6% on average management fee. When I look across our peers, many are at 1%, but many are well below 1%. So not every dollar raised is the same. And in addition, our capital doesn't leave, as Alan touched on. So we're really excited. We think the trajectory in the destination are still really strong. And I have more to say on fundraising in the upcoming quarters as we launch some of these new credit funds.

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**Marc S. Lipschultz** - *Blue Owl Capital Inc. - Co-Founder, Co-CEO & Director*

And also one last thing, which Doug commented on earlier, but just touched on, again, which is the nature of the capital. Again, just as we set out to build this business, we really did set out to build a very different kind of Owl's management firm. And I mean, in this context, as a shareholder in terms of the business model.

So quality of assets, the fee rate on the assets, the value add, if you will, on the assets, really important. As is that duration, and remember, we talked a little bit earlier for every dollar that leaves our system, we are raising \$6.5. That's literally multiples of our peer set, and it relates to the fact that we have permanent capital.

So you don't have the dollars flowing out, but we do have dollars flowing in. So when you think about what those 2 things combined mean for the power and trajectory of this model and the predictability that trajectory set aside any given quarter, quarter-to-quarter, but we predict that the steepness of that slope and the predictability of its destination when you have the 1.6% fee rate and \$6.5 being raised for every dollar that exits the system, it really is a different business model.

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**Operator**

Our next question comes from Alex Blostein with Goldman Sachs.

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**Alexander Blostein** - *Goldman Sachs Group, Inc., Research Division - Lead Capital Markets Analyst*

Doug, I was hoping we could build a little bit more on the discussion around how you're thinking about building out institutional credit business for you guys. So mentioned SMA's new fund launches, and obviously, there are some next vintages, albeit from smaller funds.



So can you help maybe contextualize what that looks like in terms of the pipeline size LPE types kind of how that's evolved? Just a little bit more meat around the bones could be helpful there because it's sort of opaque in the context of the whole firm. And it sounds like it could be a bigger business for you guys, but some incremental color would be helpful there.

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**Douglas Irving Ostrover** - *Blue Owl Capital Inc. - Co-Founder, Chairman & Co-CEO*

Yes. Listen, I -- as I think about the credit business, in particular, remember, in the past, we've done, which has been a good strategy, a lot of BDCs and now we're transitioning into more longer-duration GPLP strategies. And so the most obvious, we will be in the market with a diversified strategy really geared towards the international markets. Not going into too much detail coming up with a structure that really works well. And then I'm happy we're not ready to disclose it, but just like in tech, I think today, we are about \$16 billion, \$17 billion dedicated software capital. I think you're going to see us launch other industry verticals that we think could be quite large. So a combination of moving we're going to do other BDCs, but also introduce more GPLP funds, where we can be in the market on a more regular basis. If you think about our peers, they do fund one, the money leaves, they come back with Fund II. Our BDCs, the capital doesn't leave, but there's not always the opportunity to come back with the subsequent fund. So we'll start to build more of that GPLP sequence and more industry-focused funds.

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**Alexander Blostein** - *Goldman Sachs Group, Inc., Research Division - Lead Capital Markets Analyst*

Got you. All right. My second question maybe is around the real estate business, kind of a 2-part of there, so I apologize. But I guess, one, an update on where you guys are with adding to the syndicate. It sounds like you plan to add more this quarter and just generally in the back half, but overall flows in the retail channel for the real estate products have been a little soft. So maybe comment on your expectations there. And then when we look at the Fund VI, where are you guys in terms of deployed capital in that fund? And how frequently do you ultimately think the LP GP (inaudible) funds there could be coming back to the market seeing how you guys, I think, are one of the largest players in that market and you could deploy that capital pretty quickly?

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**Douglas Irving Ostrover** - *Blue Owl Capital Inc. - Co-Founder, Chairman & Co-CEO*

So let me start with the syndicate. I think we are planning to launch on 2 very large wires. As you know, we've been primarily in one wire where we've had really meaningful market share there, and we are about to launch on 2 new wires. I think we've raised about \$2 billion -- just under \$2 billion to date. Look, I think this is a really exciting product. It's tax advantage. It generates high current income. I think you heard in our comments, we -- even in this rising rate environment, we've been able to sell assets and generate meaningful capital gains. So I'm really optimistic about where we can take this product on the wealth channel.

And over the next couple of weeks, hopefully, we'll announce who the 2 big wires are, but we're basically done there. And then on the institutional side, I'll let Marc comment on where we are in terms of deployment and when we can be back in market.

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**Marc S. Lipschultz** - *Blue Owl Capital Inc. - Co-Founder, Co-CEO & Director*

Look, it's a good environment, Glenn, to your point about -- behind this question, it's a very good environment for what we do in triple net lease. And I say that both from a fundraising point of view because, of course, it's a very predictable, stable, safe product space, but also users of the capital in a world of corporate costs rising uncertainty about capital availability, triple net lease looks like -- looks like a fantastic option for many corporate users. So anyway, with regard to the Fund VI, Alex, we have \$3.8 billion in the pipeline, as we mentioned in our remarks. So if that comes to fruition. Now remember, we do use leverage.

So if I just wrap out the math, a turn of leverage for a turn of equity, then assuming we hit our \$5 billion target, that's \$10 billion of purchasing capacity. But \$3.8 billion of signed agreements is not a small increment toward that goal, and we have \$30 billion in the

broader pipeline. So I'm not -- by (inaudible) getting ahead of ourselves, but we're still raising Fund VI. So we're not here to talk about Fund VII, but we really do have a distinct proposition for the market.

We're the very, very clear market leader in triple net least for strong creditworthy and IG counterparties and demand interest in both the product and the use of the capital is growing. So we're very excited about this -- we're very excited about this channel. And much like direct lending over the last year, I think we're now in the year or the period of time where there's this recognition that not all real estate is created equal. Not all strategies are created equal. And I again, I think this speaks to the distinctive nature of the Blue Owl business. We really take a view of whatever we're doing, we're looking for ways to reduce risk, reduce volatility, increase predictability and basically deliver the same or better returns with lower risk to lower volatility. And triple-net lease is shining through.

Take a look at our returns for the last 12 months in triple-net lease, our triple-net lease business in a world of obvious real estate, maybe habit would overstate the case, but it's a pretty chaotic market out there. And we've delivered a 14% return in our real estate business because of the safety and security and nature of what we do.

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**Alan J. Kirshenbaum** - *Blue Owl Capital Inc. - CFO*

I would just add, Alex, that all 3 of our platforms have very strong growth that we've experienced since our IPO and for the foreseeable future, we expect that to continue. The real estate platform, we continue to expect to have the strongest growth of the 3 platforms.

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**Operator**

Your next question comes from Craig William Siegenthaler with Bank of America.

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**Craig William Siegenthaler** - *BofA Securities, Research Division - MD and Head of the North American Asset Managers, Brokers & Exchanges Team*

Alan. My question is on the international markets. Asian sovereign wealth funds, European pension plans, Asian private banks. It seems like you have a lot of upside potential with these very large pools of capital. So including and excluding the potential for GPLP drawdown funds, which you just commented on. Can you provide your perspective on current penetrations and the total growth potential for Blue Owl with non-U.S. investors.

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**Alan J. Kirshenbaum** - *Blue Owl Capital Inc. - CFO*

And thanks for the question. I think you're right. It is a massive opportunity for us. I actually spoke to the firm last night about this. We are really starting to see some significant penetration throughout Asia and the Middle East. And I'm I don't want to get ahead of ourselves. But as we -- for example, as we round out Fund VI in real estate, I think the bulk of that will come from overseas investors. And certainly, it's a big area of focus for us. We've spent a bunch of money building out the team throughout Asia, specifically in Korea, Japan, Hong Kong, Singapore. And so to answer your question, I think we will -- as I've always said, I think we will get more than our fair share from those markets.

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**Craig William Siegenthaler** - *BofA Securities, Research Division - MD and Head of the North American Asset Managers, Brokers & Exchanges Team*

My follow-up is a quick one. How many large wealth management platforms, should we expect Oak Trust and ORCIC to be on by year-end?

**Alan J. Kirshenbaum** - *Blue Owl Capital Inc. - CFO*

I think the answer to that, Craig, is we continue to -- we're starting from one, right, on the real estate side. So we certainly see that increasing significantly over the next, say, 6 to 12 months. By year-end, it's a little harder to triangulate.

We've got a couple of new ones that we're onboarding over the next several weeks and months. So we're going to see a significant growth on the real estate side. I almost said ORCIC to get the right new acronym is a much more mature product that is on a lot more platforms. So it's got quite a running head start on our real estate REIT. But we continue to add platforms where we can opportunistically there as well. I certainly see a few being added over the next 6 to 12 months.

**Douglas Irving Ostrover** - *Blue Owl Capital Inc. - Co-Founder, Chairman & Co-CEO*

Yes. I think the best way to think about it, and I'm sorry, I can't give you a number because I'm trying to run through it in my head. But I think we're going to be able -- and I don't want to put -- I don't want to say it will definitely happen within 6 months. But I think basically, we will be on virtually every major platform in the market with one of our products, which is really significant.

And so there have been a few firms that have been somewhat elusive and we haven't been able to get on and now they've agreed to put one of our products on. So I -- look, we view ourselves as a clear #2 player in this marketplace. And as I said in my comments and early on, we -- we've always been excited about it and our penetration continues to grow, and we remain very optimistic about what we can there.

**Operator**

Your next question comes from Patrick Davitt with Autonomous Research.

**Patrick Davitt**

First one, I imagine the pace of credit deployment is at least a part of the reason you're running a quarter behind on the DE target. So through that lens, it does seem like we're starting to see a pickup in some bigger announcements. So could you frame how the direct lending pipeline trended through 2Q? And how you feel about second half deployment relative to one half deployment now that it feels like things are unlocking a little bit?

**Marc S. Lipschultz** - *Blue Owl Capital Inc. - Co-Founder, Co-CEO & Director*

Yes, deployment certainly is part of it, and we certainly can't defy the M&A cycle, as I commented, but direct lending share and our share in particular, continues to be really strong. We like where it positions us as the M&A cycle takes the other turn.

And it does seem to be firming. I mean there's a little down our activity and activity in large opportunities has been accelerating. So again, hard to predict that to any given month or quarter, but the movement is the correct direction. I think you saw this morning the buyout of New Relic, (inaudible) is leading that financing. Again, our leadership in the world of software, I think, continues to shine through.

These are great opportunities for us, significant and, again, sort of significant signs of life again, would probably overstate because, frankly, it wasn't that -- it was more on before in these markets, but it's picking up. So yes, I think another one of the reasons to sort of feel good as we turn into the back half.

But again, we state that sells not to get trapped into an excessively quarterly cycle. But as we turn into the sort of next 6 and 12 months, yes, it does seem like activity is picking up nicely. And I think there's an awful lot of pent-up demand for PE deployment. And we're in a great position to garner a very large share of that.

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**Patrick Davitt**

And my follow-up is a little higher level. It looks like Europe could finally be picking up some share in direct lending. So could you update us on your appetite to get much bigger there? Do you think you could do that organically? Or do you think you need to buy something?

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**Alan J. Kirshenbaum** - *Blue Owl Capital Inc. - CFO*

Let me start with, look, we love the markets we're in. The U.S. market has served very well. It's by far the most robust and largest, of course. And very important, I never ever want to not -- want to misstart a conversation about credit without credit quality. And the credit quality for both the opportunities and the way we have particularly built into this market, over \$78 billion of originated credit, our running loss rate is 6 basis points.

And in software, we have never had a loss. So I put that first and foremost in any decision we make. And that said, we do agree that Europe is much like other capital markets sort of starting to follow suit with the U.S., and that presents an opportunity. I think we will look to attack it both ways. We already do a tremendous amount of business with The firm -- I mean these are all global firms and in many cases, even European-based firms.

So in our GP stakes business, for example, we own stakes in firms all over the world, including, for example, CVC just raised the world's largest buyout fund. So our network, our ecosystem certainly spans well into Europe. So organically, we already do episodic opportunities there.

We readily can build organically by putting more origination resources and say credit work, of course, we have well over 100 people doing credit work. So organically, I think we can and will continue to sort of participate or look to accelerate our participation.

But we're open to an acquisition in the world of Lending in Europe. It would be, of course, a jump start and with the right team and the right platform, we can do, as we just talked about, with the former Oaks Street now real estate business, I think we can do some pretty special things when we integrate into the Blue Owl platform. So certainly open-minded about it, but otherwise or in addition, we'll pursue it organically over time.

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**Operator**

Your next question comes from Brian McKenna with JMP Securities.

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**Brian J. McKenna** - *JMP Securities LLC, Research Division - VP & Equity Research Analyst*

It would be great just to get some more color on your new PE secondaries business. You made a senior hire earlier in the year to run this business. So could you talk about this higher? Why now is the right time to start building out this business? And then what the opportunity is longer term in both the retail and institutional channels?

**Marc S. Lipschultz** - Blue Owl Capital Inc. - Co-Founder, Co-CEO & Director

So we've actually made multiple hires now. So indeed, we started with great leadership with Chris Crampton, a multi-decade veteran of the private equity industry. But we've actually since now have 3 more people that have joined that team. We have more coming. We've assigned additional internal resources. We have a fully built capability to address what we think is a very, very large opportunity.

So what are we doing specifically in the secondary era? What we're really supporting are our partner firms. That is to say all the 600 firms that we finance today are the 60 firms we own stakes in and offering them another private capital solution in this Blue Owl ecosystem. People have wonderful assets they bought. I can tell you, I personally have been in private equity since the '90s.

And since that time, people have talked about. Look, the thing about private equity is you buy a great business, you find out it's a great business, some number of years later, but then you have to sell it. Everyone wants to keep them. So GP-led secondaries continuation is the solution to this challenge.

It allows the GP to maintain ownership of an asset they know well, can manage well and now has a lot of value. create liquidity as an option but not an obligation for the LPs, so that's flexibility, crystallized returns for prior funds. So it really is a way of meeting the needs of a lot of different stakeholders in private equity, and there's trillions of dollars of assets. So you ask yourself this any given firm, if you could pick one asset to keep managing and owning, compounding your carrying opportunity on what would it be?

We're here to facilitate people keeping those assets with this strategy. And it's a very distinctive strategy because remember, this is what we do every day for the private equity community. We financed the GPs. We financed their portfolio of companies. We're adding another solution in that trusted set of partnerships we have, we say, bring us your trophy asset or will elicit from you your trophy asset, and you can continue owning it, and we'll provide some liquidity for those who choose not to go forward. We think it's a very, very substantial opportunity and meets the needs of a lot of people in the market today.

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**Alan J. Kirshenbaum** - Blue Owl Capital Inc. - CFO

Yes. And if you think about how our business, our entire model is really set up to be a solutions provider. We have 650 PE firms we cover. On the credit side, we have stakes in over 60 private markets firms. And we're not in the PE business. We're not a competitor. And so we've gone out and they've said to us, our most pressing need, as Mark was saying, is how do we hold on to our best assets longer.

And we think we are -- we can come in and provide that capital. And I have to tell you, when we look at the market, when we look at the demand from these PE firms, to hold on to these assets. The demand for capital is enormous, the supply of capital is de minimis. And whenever you're in an environment where the demand is so much greater than the supply of capital, we think we can generate outsized returns for our investors.

In terms of fundraising, we are dual tracking it. We're in the institutional market. We're also in the wealth channel. Let's just focus on wealth for a minute. Think about the average investor trying to access the PE market, maybe they can find 1 firm, 2 firms. Usually, it'll be one of the big brands. But we're going to give them a way to come in, we'll go out.

We're going to say these are the top 150 firms. And we're going to focus on the deal flow from those 150 firms. You'd never be able to get that kind of access. And so we think we're going to create a better way, especially for the wealthy investor to invest in PE. And it's early days, and it's not going to have a huge impact on '23 numbers.

But as Mark alluded to, the TAM here is very, very large. And I think if we come in and we execute and we think we can generate top quartile results, hopefully better, I think we can create something potentially that's going to be quite large.

**Operator**

Your next question comes from Adam Beatty with UBS.

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**Adam Quincy Beatty** - *UBS Investment Bank, Research Division - Equity Research Analyst of Financials for Brokers and Asset Managers*

I just want to follow up on credit deployment. On the one hand, you've got strong kind of secular tailwinds. And then as Mark mentioned, some choppy deal activity recently. I wanted to ask about 2 other aspects. One is the slower/episodic fundraising and i.e., capacity constraint, how much that might play into the recent deployment trends and whether some of the near-term fundraising that you talked about might loosen that up? And then also just in terms of pricing and the cost of funds, whether you're seeing any hesitancy on the part of borrowers, just as that's so elevated these days.

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**Marc S. Lipschultz** - *Blue Owl Capital Inc. - Co-Founder, Co-CEO & Director*

So Adam, thank you. In terms of activity, I think the fundamental constraint activity has really been just absolute market levels of activity. Our share is high. Our role is distinctive. Blue Owl really plays a pretty special role in that capital solutions center. But at the end of the day, there's only so much activity the activity has been uptick in as we just talked about.

We have capacity, but I will say we and the industry, it's not excess capacity. That is the same. We've talked about this before, the dry powder and private equity very much out matches the dry powder in private credit. And so while I would certainly not suggest that the slower deployment in Q2 was a lack of capacity to deploy capital, I would equally say it's not as if we have excess capacity.

Fundraising will continue to be very important to having adequate firepower to support the private markets ecosystem. And as we continue to go through these disruptions in the banking system and disruptions in syndicated markets, I think what probably all can take away is to have a healthy economy and to have a healthy capital market system, we need a healthy private lending system.

And it's -- frankly, it's very healthy today, but it can use more capital, and that's what we've been talking about and are pursuing. And by putting together GPLP format funds by accessing the foreign markets. As Doug talked about, places we just have underpenetrated over time, we think that can help us get the capital that not just that we need to pursue our business, but frankly, the market needs to have a healthy flow of capital and a healthy available leverage pool.

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**Douglas Irving Ostrover** - *Blue Owl Capital Inc. - Co-Founder, Chairman & Co-CEO*

Marc talked about the demand from PE versus supply of capital. And I think one thing that is not discussed a lot is the big players like ourselves who are sitting with these large capital bases when rates were lower and M&A was robust, we could have 20%, 25% of our loans get refinanced in a quarter.

So we had so much money to deploy because you take what's refinance plus what's coming in. Today, there's very little being refinanced. There's very little M&A. And so what we have to put to work is really just new capital coming in. So it's a very good time.

And look, the positive for us, our returns are basically on an unlevered basis have gone from 6%, 7% to about 12%. And -- so clearly, PE firms have to use less leverage because the interest burden is that much greater. But look, as Mark said, it's deployment is really driven by M&A volumes right now. And I -- it feels like it's picking up, but it's too early to tell.

**Marc S. Lipschultz** - Blue Owl Capital Inc. - Co-Founder, Co-CEO & Director

And to your latter question about is the absolute cost of capital or the higher cost of capital impacting PE appetite or activity. And I don't want to pretend I know all decision-makers decisions. But I would say at a meta level, no. So at the end of the day, that's math, right? That gets into the clearing price of an asset. If you know what your cost of capital is, and remember, one of the great strengths of direct lending is predictability. We tell you the terms, you know what it will cost, that's positive, then you can price that into your investment decision.

So I think it speaks more to how you have to price equity transactions, and that probably has led to the slowdown when you get these gaps between what buyers want to pay and sellers want to take. But over time, markets function, and it will just price in this cost of capital. It will probably mean less leverage to Doug's point, and that will probably mean lower purchase prices for certain assets but that all can be solved by change in the numbers, so to speak, on the page.

So no, I don't think cost of capital, cost of debt is likely to provide any meaningful drag. You've got \$1 trillion of private equity dry powder, Private equity has shown its ability to thrive in high rate environments, low-rate environments, strong economies, weak economies, it's a good asset class, and it will be a good asset class going forward.

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**Operator**

Your next question comes from Ken Worthington with JPMorgan.

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**Kenneth Brooks Worthington** - JPMorgan Chase & Co, Research Division - MD

Maybe to follow up on Patrick's earlier question, in terms of activity, to what extent was April an outlier and that's a drag on originations for the quarter? And then to what extent is competition from the banks reemerging in the sponsor direct lending market? And would you expect as competition sort of reemerge that this will impact sort of pricing and what you can kind of get on your transactions?

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**Marc S. Lipschultz** - Blue Owl Capital Inc. - Co-Founder, Co-CEO & Director

The value proposition for us in direct lending is about predictability, privacy and partnership. I mean, of course, the syndicated market matters. Of course, around the edges, people are making decisions that include the back that in the syndicated market. You might very well be able to achieve better terms, so to speak, as a borrower.

But what does it better mean if you're a private equity firm making a long-term decision, I would prefer that the incremental cost of capital for private debt and incremental involvement, depth of diligence, stricter agreements, all of those things are well worth it to have the partnership and the predictability of capital.

So yes, I hope the syndicated markets will return. It's still pretty nascent. We don't see it as a meaningful factor in the marketplace today. It's not meaningful to our business today. But I hope this indicated market returns. It's not a win-lose proposition. I'm not sure sometimes why whether alternative asset managers on the one hand or banks on the other kind of turn towards each other and say, "Oh, well, if I'm winning you're losing, I think they're about having multiple solutions in a marketplace.

We need capital depth. Capital depth will unlock M&A. And we'd be glad to have the syndicated markets return and facilitate a more robust M&A environment. And frankly, there's a lot of things that syndicated market will finance. We won't. We don't finance deep cyclicals. We don't finance businesses that have extreme customer concentration.

We don't -- there's a reason that we've been able to deliver 6 basis points of annualized loss because we do very specific kinds of credit selection. So we're not here to solve every capital structure. But for great firms buying great businesses who want a great



capital partner, we're here to solve that. So I think I -- it hasn't meant much yet -- yes, the banks are probably open a little bit for business now.

But we hope they'll come back sooner and fuller force, we're quite happy to compete in that arena. We deliver a solution that is worth it for the people that use our capital.

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**Kenneth Brooks Worthington** - *JPMorgan Chase & Co, Research Division - MD*

Fair enough. And then just on April, was April bad enough that it impacted the overall quarter? Or was it really not that big an outlier?

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**Marc S. Lipschultz** - *Blue Owl Capital Inc. - Co-Founder, Co-CEO & Director*

Sorry, what specifically about April, do you mean?

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**Kenneth Brooks Worthington** - *JPMorgan Chase & Co, Research Division - MD*

In terms of you're sort of in the hangover period from the sort of mid-cap banking crisis, DLX seemed to be on pause. Like did that -- from your perspective, was -- was that enough of an outlier to I guess maybe was an outlier in the first place? And if so, is there enough outlier to sort of impact the overall sort of origination numbers for the quarter? And if we exclude that, do things look kind of better than they would have if we -- if April was normal is sort of where I was going.

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**Marc S. Lipschultz** - *Blue Owl Capital Inc. - Co-Founder, Co-CEO & Director*

I understand where you're coming from. I can't answer that with any precision. Our business unlike traded markets, the rhythm is not measurable in weeks, maybe not even months, depending on the particular time line of a transaction. So I think it would be right for me to say, "Oh, okay, well, March totally impacted April.

However, there is little doubt that the hangover the malaise, the disruption of the May, bank crisis, mini crisis certainly impacted markets ours included, in that it just kind of froze up, right? The system rows up, people froze up and anything that people were deciding on by and large, probably got deferred.

So no measure could be a scientific or prescriptive as I appreciate the nature of the question. Safe to say Q2 suffered from a lot of economic uncertainty, a lot of interest rate uncertainty. And then, of course, this shock to the system from banking.

So yes, it was a kind of tough quarter for market participants, nothing particular low, of course, but to market participants.

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**Operator**

Your next question comes from Brian Bedell with Deutsche Bank.

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**Brian Bertram Bedell** - *Deutsche Bank AG, Research Division - Director in Equity Research*

Maybe one on the wealth channel and the unified branding, I guess, to what extent do you think the implementation of that unified branding is may help over the next year or so in traction with advisers that you're working with currently on those platforms. And then also, does it make it easier for you to extend in new platforms. So I mean, I guess the overall question is, to what extent do you think the unified branding can enhance fundraising over the next to 2 years?

**Douglas Irving Ostrover** - *Blue Owl Capital Inc. - Co-Founder, Chairman & Co-CEO*

Yes. I -- look, you raised a good and an important point, and that's why we went to a unified brand, especially in the wealth channel, when we were out with different brands. I'm not sure if people even knew it sat under one roof. But where we really saw it was in the international markets.

And look, our goal is to create a brand that's the equivalent of the Blackstone, the Ares, the KKR, Carlyle, TPG, around the world. And having 3 or 4 different brands we just thought was cumbersome. And I think that ability, as you think about wealth for the institutional market, the ability to cross-sell and to understand and say that's a trusted partner, we've done well with them. When we walk in with that new strategy and we instant credibility.

And so to answer your question specifically, when we had hired a consultant about, I don't know, 18 months ago to study this for us, and we did go out to the wealth channel. And all of them, all of the major wirehouses came back and said it would make their lives so much easier to have it all under one brand. So we've implemented it. We've gotten great feedback. And as I said, I think it will be -- help us over time to really cross sell all of our products.

**Kenneth Brooks Worthington** - *JPMorgan Chase & Co, Research Division - MD*

That's great color. And maybe just one last on one ion the direct lending. A lot of my questions have been asked and answered there. But any view on the Basel III and game rules that were proposed for the banking system. Is it pretty much in line with what you expected? And so the strong secular trend there, of course, longer term for direct lending to become a larger source of bank lending? Or do you see things in the proposed rules that make you even more excited longer term about about your role in bank lending.

**Marc S. Lipschultz** - *Blue Owl Capital Inc. - Co-Founder, Co-CEO & Director*

The -- look, the continued stabilization and focus on regulation of the banking sector. And look, we just went through March and we saw again what does happen sometimes when you take very long-term commitments with very short-term capital. And again, I said this before, it's not private lenders versus the banks. It's really not. These are ecosystems that are taken together solve problems.

And I know some people seem not -- don't take it that way, but it's the case. And at the end of the day, look, we have long-dated capital from long-dated investors to provide long-dated solutions. And that just makes sense. We don't -- look, we don't have depositors. We don't present systematic risks. We don't have government explicit or implicit guarantees.

And so we can provide a different kind of risk base, different kind of duration capital. And so look, it does appear that when you look towards Basel III and kind of other recent conversations about increased capitalization of banking. Look, we don't have an opinion on that. That is to say that's a world that's adjacent to ours, wonderful banks this country doing a wonderful job.

As I said, we welcome a healthy banking market alongside the healthy private credit market. So we're not deep, and I don't want to opine on the specifics of the regulations. But I think what we are seeing develop are adjacent systems with different kinds of capital, different kinds of risks, different kinds of providers of capital and it works, and that's healthy.

Private capital has continued its step function climb upward to providing solutions that are durable and therefore, healthy for our economy in total. So I feel good that we can coexist quite healthily in a way that will be good for debt markets in total.

**Operator**

There are no further questions at this time. I will now turn the call back over to Doug Ostrover.

**Douglas Irving Ostrover** - Blue Owl Capital Inc. - Co-Founder, Chairman & Co-CEO

Well, thanks, everyone. I -- we appreciate everybody spending so much time and pretty excellent questions. Hopefully, we gave you a good overview. And hopefully, it comes through just how excited we are about the business and where we can take it. So we look forward to talking to some of you after the call and staying in touch. Thanks.

**Operator**

This concludes today's conference call. You may now disconnect.

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