

BLUE OWL CAPITAL, INC. (OWL)

Initiating Coverage of OWL with a OP Rating

The Wolfe Byte

In conjunction with our [launch on the Alternative Asset Managers sector](#), we are initiating coverage of OWL shares with an Outperform rating. Our PT \$16 supports +26% upside to shares.

Key Tenets of our Investment Thesis. We are initiating coverage of OWL shares with a OP rating as part of our [launch on the Alternative Asset Manager sector](#). Key tenets of our investment thesis, which we discuss in greater detail on slide 229 of our [initiation report](#), include: 1) Credit: OWL will benefit disproportionately from the expansion of private credit given its heavier gearing vs. peers 2) Net Lease: See a scalable business model in a misunderstood TAM; 3) GP Stakes: Asset Class is mature, but see growth continuing given attractive deployment environment; and 4) Valuation: Looking undemanding for a company that should grow FRE by +20% through '25E.

Key Risks: 1) Poor performance in a credit downturn could impair returns / earnings; 2) Management fees could decline substantially if competition in the BDC space puts pressure on fee rates; 3) Deceleration in retail fundraising drives weaker than expected FRE growth; 4) Net lease strategy falls short of expectations due to the macro environment; and 5) Class A share conversions and limited liquidity weighs on share performance.

ADJ-DIL EPS (\$)						DECEMBER FYE	
	1Q	2Q	3Q	4Q	FY	EPS Growth	P/E
2023E	0.15 A	0.16 A	0.15 E	0.17 E	0.63 E	19.56%	20.0x
2024E	0.17 E	0.18 E	0.19 E	0.22 E	0.77 E	21.11%	16.5x
2025E	0.22 E	0.23 E	0.24 E	0.26 E	0.95 E	22.94%	13.4x

Source: Company Documents, Wolfe Research, FactSet
Numbers may not add up due to rounding

October 4, 2023

Rating:

Outperform

Price:

\$12.67

Price Target:

\$16

% Upside:

26.3%

[View OWL Model](#)

[View Comp Table](#)

Company Information

52-Week Range	\$9 - \$14
Market Cap. (MM)	\$5,759
Avg. Value Traded (MM)	\$139.91
Dividend Yield	4.4%
SI% of Float	4.4%
Tangible BV/sh	\$(10.67)



Priced as of 10/03/23



Steven Chubak, CFA

schubak@wolferesearch.com

(646) 582-9315

[View Steven's Research](#)

Sharon Leung

sleung@wolferesearch.com

(646) 582-9317

Brendan O'Brien

bobrien@wolferesearch.com

646-582-9316

Michael Anagnostakis

managnostakis@wolferesearch.com

Derek Gonda

dgonda@wolferesearch.com

Investment Conclusion

Share Performance: OWL shares are up +19% YTD, outperforming the Wolfe Research Diversified Banks & Brokers Index (-3%), S&P Fins. (-6%), and S&P 500 (+10%). However, shares are underperforming Alternative Asset Management peers (+23%). In 2022, KKR shares were down -38%, underperforming the Wolfe Research Diversified Banks & Brokers Index (-16%), S&P 500 (-19%), and S&P Fins. (-12%).

OWL Investment Case: We are initiating on OWL shares with an OP rating and a PT of \$16 (+26% upside). We see OWL as thematically well positioned for the current environment given outsized exposure to Retail (~43% of AUM) and Private Credit (~50% of AUM). While we acknowledge that a limited public track record in direct lending, a more mature GP stakes business, and trading / liquidity overhang warrant a multiple discount to ARES, the valuation gap vs. peers is too wide. With shares trading at just ~13.5x our reported 2025E DE estimate, that valuation is too heavily discounted for a company we expect to grow FRE by 20%+ through 2025E. Our sense is that OWL is relatively unloved by investors, but with shares up just +19% YTD (vs. peers +23%), we see an attractive entry point for a company with strong fundamental / secular growth tailwinds.

Valuation: On NTM consensus EPS, OWL currently trades at 16.8x, vs. 1Y and 3Y averages of 15.9x, and 22.6x. To derive our PT for OWL we utilize a SOTP framework, where we apply a 19x multiple on our '25E adj. FRE per share (ex-FRPR and SBC) and give credit for MRQ accrued net performance fees, Cash and Equivalents, and Principal Investments, net of debt. Our framework justifies a PT of \$16 (+26% upside).

Exhibit 1 - OWL shares currently trade at 16.8x NTM cons. EPS



Source: FactSet, Company Data, Wolfe Research. Priced as of 10/3/2023

Exhibit 2 - Our PT of \$16 supports +26% upside to shares

Blue Owl Capital	
SOTP Valuation	
2025E adj. FRE per share (ex-FRPR)	\$0.78
Wolfe Valuation Multiple	19.0x
Implied FV	\$14.73
Cash and Equivalents	\$0.03
Wolfe Valuation Multiple	1.0x
Implied FV	\$0.03
BV of Pricipal Investments, net of debt	(\$0.36)
Wolfe Valuation Multiple	0.5x
Implied FV	(\$0.18)
Implied FV	\$14.58
Dividend Per Share	\$1.00
WR YE 2025 Price Target	\$16
Current Share Price	12.67
Upside / (Downside) vs. Current Price	26.3%

Source: FactSet, Company Data, Wolfe Research. Priced as of 10/3/2023

Exhibit 3 - OWL Summary Financials

Blue Owl Summary Financials (\$mn)						1Q23	2Q23	3Q22E	4Q23E	1Q24E	2Q24E	3Q24E	4Q24E
P&L													
Direct Lending	434	640	877	1,070	1,298	208	217	222	231	244	259	275	292
GP Capital Solutions	358	529	545	685	826	134	135	136	139	148	163	178	196
Real Estate	-	80	128	198	313	26	30	34	38	42	47	52	58
FRE Management Fees, Net	792	1,249	1,550	1,953	2,437	369	382	392	408	433	468	505	546
Administrative & Transaction Fees	108	73	66	87	102	9	20	19	18	22	21	20	24
FRE Revenues	900	1,322	1,615	2,039	2,539	377	401	411	426	455	489	525	570
Comp & Benefits	271	361	462	573	713	104	116	119	123	123	138	150	162
G&A	77	168	179	211	250	48	39	45	47	55	44	54	58
Total Adjusted Expenses	348	529	641	784	963	152	155	164	170	177	182	203	221
NCI in FRE	(4)	8	(6)	(9)	(9)	0	(2)	(2)	(2)	(2)	(2)	(2)	(2)
Fee Related Earnings	547	800	968	1,247	1,567	226	245	244	253	276	304	319	347
Realized performance income	6	12	26	33	41	1	-	-	26	-	-	-	33
Realized performance comp	(2)	(4)	(9)	(11)	(14)	(0)	-	-	(9)	-	-	-	(11)
Interest expense	(27)	(56)	(54)	(54)	(54)	(14)	(14)	(14)	(14)	(14)	(14)	(14)	(14)
Taxes and TRA payable	(10)	(10)	(32)	(121)	(192)	(4)	(4)	(12)	(13)	(26)	(29)	(31)	(35)
Distributable Earnings	514	743	899	1,092	1,347	209	227	219	244	236	262	275	319
Weighted average diluted shares	982	1,399	1,416	1,421	1,425	1,413	1,415	1,417	1,418	1,419	1,420	1,421	1,422
FRE per Share	\$ 0.56	\$ 0.57	\$ 0.68	\$ 0.88	\$ 1.10	\$ 0.16	\$ 0.17	\$ 0.17	\$ 0.18	\$ 0.19	\$ 0.21	\$ 0.22	\$ 0.24
DE per Share	\$ 0.52	\$ 0.53	\$ 0.63	\$ 0.77	\$ 0.95	\$ 0.15	\$ 0.16	\$ 0.15	\$ 0.17	\$ 0.17	\$ 0.18	\$ 0.19	\$ 0.22
<i>Dividends per share</i>	<i>\$ 0.17</i>	<i>\$ 0.46</i>	<i>\$ 0.56</i>	<i>\$ 0.72</i>	<i>\$ 1.00</i>	<i>\$ 0.14</i>	<i>\$ 0.14</i>	<i>\$ 0.14</i>	<i>\$ 0.14</i>	<i>\$ 0.18</i>	<i>\$ 0.18</i>	<i>\$ 0.18</i>	<i>\$ 0.18</i>
Operating metrics													
Tax rate	1.8%	1.3%	3.4%	10.0%	12.5%	1.7%	1.7%	5.0%	5.0%	10.0%	10.0%	10.0%	10.0%
FRE Comp Ratio	30.1%	27.3%	28.6%	28.1%	28.1%	27.4%	28.8%	29.0%	29.0%	26.9%	28.3%	28.5%	28.5%
FRE Margin	60.8%	60.5%	59.9%	61.1%	61.7%	59.9%	60.9%	59.5%	59.5%	60.6%	62.3%	60.8%	60.9%
Performance Comp Ratio	35.0%	35.0%	35.0%	35.0%	35.0%	35.0%	n/a	35.0%	35.0%	35.0%	35.0%	35.0%	35.0%
KPIs													
AUM	94,495	138,202	165,576	217,362	268,102	144,374	149,553	157,334	165,576	177,195	189,657	203,023	217,362
FPAUM	61,444	88,810	101,556	137,204	160,365	91,633	93,623	96,976	101,556	109,448	117,983	127,215	137,204
Firmwide Fundraising	8,629	24,789	16,880	36,860	31,129	3,799	2,863	4,964	5,254	8,271	8,870	9,513	10,206
Firmwide Distributions	(1,427)	(4,664)	(5,305)	(5,253)	(6,822)	(1,672)	(1,460)	(1,056)	(1,116)	(1,180)	(1,264)	(1,355)	(1,453)
Firmwide Capital Invested	14,549	23,035	13,674	36,347	24,114	3,091	2,514	3,419	4,651	8,044	8,701	9,414	10,188
Firmwide Dry Powder	36,200	38,000	51,393	58,226	75,499	11,700	12,000	13,545	14,149	14,376	14,545	14,644	14,662

Source: Company Data, Wolfe Research

Blue Owl Capital Inc. (OWL):
Initiating w/ OP Rating; PT \$16 (+26% upside)

Blue Owl Capital Inc. – Investment View / Summary of Key Debates

OWL (OP Rating; PT \$16): A Growing Credit / Retail Franchise That Flies by Night – Initiate OWL at Outperform

Investment View: We are initiating on OWL shares with an OP rating and a PT of \$16 PT (+26% upside). We see OWL as thematically well positioned for the current environment given outsized exposure to Retail (~43% of AUM) and Private Credit (~49% of AUM). While we acknowledge that a limited public track record in direct lending, a more mature GP stakes business, and trading / liquidity overhang warrant a multiple discount to ARES, the valuation gap vs. peers is too wide. With shares trading at just ~13x our reported 2025E DE estimate, that valuation is too heavily discounted for a company we expect to grow FRE by 20%+ through 2025E. Our sense is that OWL is relatively unloved by investors, but with shares up just +20% YTD (vs. peers +28%), we see an attractive entry point for a company with strong fundamental / secular growth tailwinds.

We summarize five key investor debates which we unpack in the remainder of this section and discuss the key risks to our OP rating on [slide 15](#). See our full initiation report [here](#) for more detail on our calls.

Five Key Debates:

1. **Direct Lending ([slide 6](#)):** How will Increased competition and fee pressures impact OWL's credit business?
2. **Credit Risk ([slide 8](#)):** The direct lending business has limited credit history, how will the company fare in a deteriorating credit backdrop?
3. **Retail ([Slide 9](#)):** With Retail currently accounting for ~43% of AUM, what is the runway for continued Retail penetration?
4. **Net Lease / GP Stakes ([Slide 11](#)):** What is the potential TAM / growth outlook for these businesses?
5. **Valuation ([slide 13](#)):** As a best-in-class organic grower with a 100% FRE derived earnings mix, what is the right valuation multiple? What is the appropriate discount to ARES? What kind of illiquidity premium is warranted?

Blue Owl Capital Inc. – Key Debate #1

Key Debate #1: Will increased competition in direct lending impair OWL's business?

With ~63% of surveyed LPs indicating that they intend to increase allocation to private credit, OWL is poised to benefit disproportionately. Despite increased competition in direct lending, with ~4 new entrants in to the non-traded BDC market in 2022, our analysis suggests that the banks will cede ~\$450-550bn in credit to the private markets, suggesting ample whitespace for OWL to deploy capital, in addition to incremental deployment from an eventual recovery in the M&A environment.

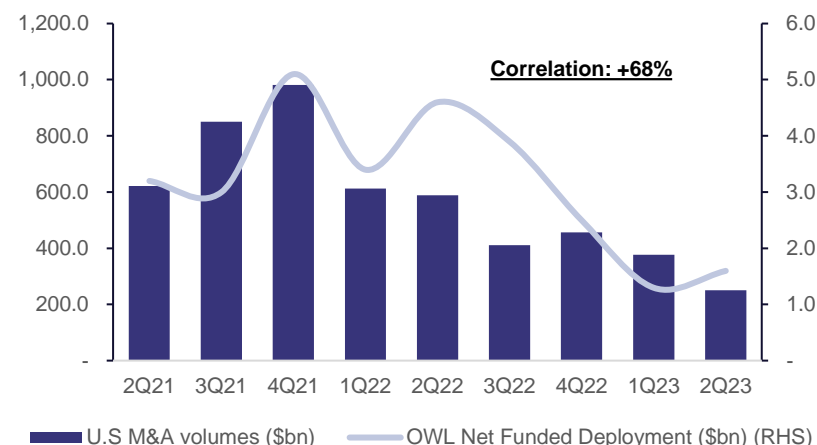
One possible outcome from heightened competition in direct lending would be a reduction in OWL's mgmt. fee rates in both the public and non-traded BDCs (consistent with Golub's management fee cut from 1.375% to 1.00%), where our analysis suggests a ~12% headwind to our '25 FRE/shr estimates under a 37.5bps cut to BDC management fees. However, with OWL's BDC IRRs putting up comparable returns to other non-traded BDCs (where inception-to-date returns are disclosed), and no deadline to list any of the non-traded BDCs (where fees step-up once floated), we see less risk of a fee cut.

Our analysis suggests that ~\$550bn of loans could migrate from the banking system to the private markets, yielding additional deployment opportunities for direct lenders such as OWL

We see a recovery in M&A volumes as a catalyst for DL deployment which would be an overall positive for OWL, even if the firm cedes share to new entrants

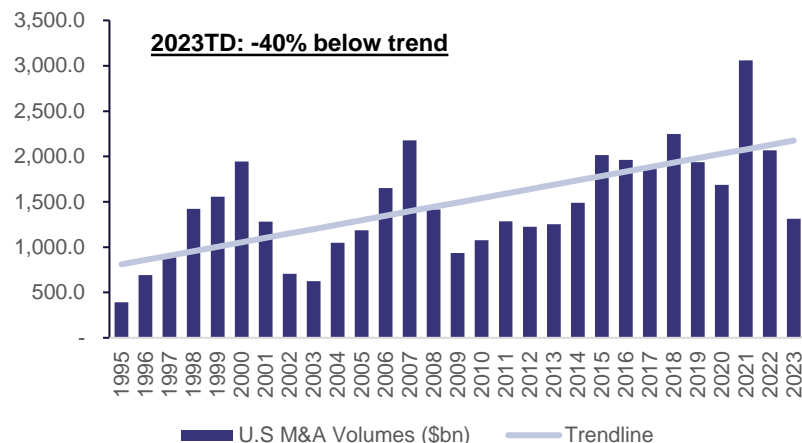
(\$B)	Risk weighting assumption		
	60%	70%	80%
Current Standardized:			
Credit Risk	10,900	10,900	10,900
Market Risk	560	560	560
Total industry current Standardized RWA	11,600	11,600	11,600
Basel 3 Endgame:			
Credit Risk	10,500	10,500	10,500
Market Risk	980	980	980
Operational Risk	1,950	1,950	1,950
CVA Risk	288	288	288
Total pro forma RWA	13,800	13,800	13,800
RWA inflation	2,200	2,200	2,200
<i>% mitigated via lending retrenchment</i>	<i>15%</i>	<i>15%</i>	<i>15%</i>
RWA mitigated via retrenchment	330	330	330
<i>% risk weighting</i>	<i>60%</i>	<i>70%</i>	<i>80%</i>
Loans leaving banking system	550	471	413
Large bank total loans	6,748	6,748	6,748
Loans leaving as % of total	8%	7%	6%

Source: Company Data, Wolfe Research.



Blue Owl Capital Inc. – Key Debate #1

Global M&A revenues are currently running ~40% below trend, but should inflect beginning in 2024

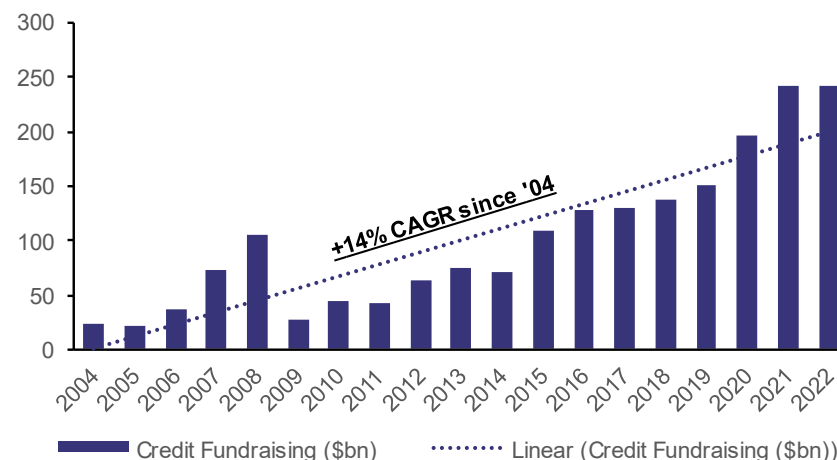


Assuming a 37.5bps cut to OWL's BDC management fee rates implies a ~12% headwind to our '25E FRE / shr estimates

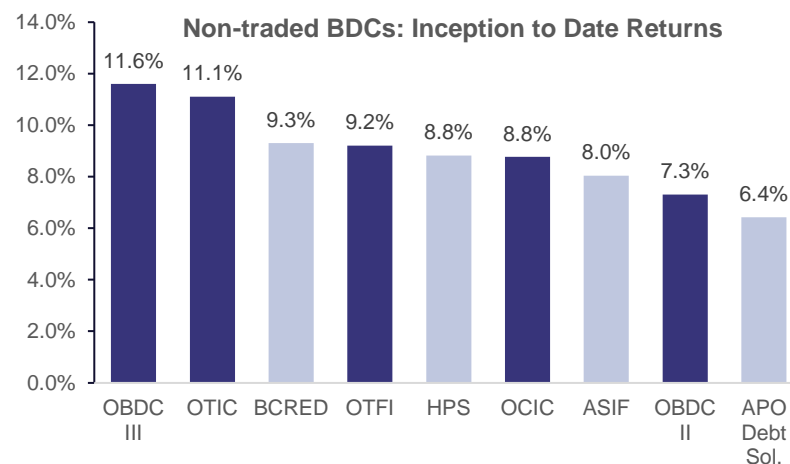
OWL BDC Management Fee Rate Cut Analysis		Golub	100bps
OWL Weighted Avg. BDC Mgmt. Fee Rate (MRQ)		1.18%	1.18%
Assumed Cut		-0.38%	-0.18%
A	Pro-forma weighted avg. mgmt. fee rate	0.81%	1.00%
B	Avg. Est. '25 DL FPAUM	79,721	79,721
C = A * B	Implied Mgmt. Fees	642	797
D	Management Fees assuming 118bps rate	943	943
E = C - D	Incremental Mgmt. Fees	(302)	(146)
F	Modeled '25 FRE Comp ratio	28%	28%
G = F * E	Comp Expense	(85)	(41)
H	Modeled '25 FRE Non-comp ratio	10%	10%
I = H * E	Non-comp expense	(30)	(14)
J = E - G - I	Incremental FRE	(187)	(91)
K	Modeled '25 Avg. Diluted Shares	1,415	1,415
L = J / K	FRE / shr headwind	\$ (0.13)	\$ (0.06)
M	'25 WR Modeled FRE / share	\$ 1.10	\$ 1.10
N = L / M	% FRE / shr headwind	-12%	-6%

Note: Fee rate analysis assumes weighted avg. of OBDC, OCIC, OTIC, OTFI, OTFII, OBDCII, and OBDCIII management fee rate. Source: Dealogic, Pitchbook, Company Data, Wolfe Research.

Credit fundraising has been remarkably strong post-GFC, and the current environment remains conducive to further strength



OWL's BDCs have put up comparable performance to other non-traded BDCs, which we believe partially mitigates risk of fee cuts



Blue Owl Capital Inc. – Key Debate #2

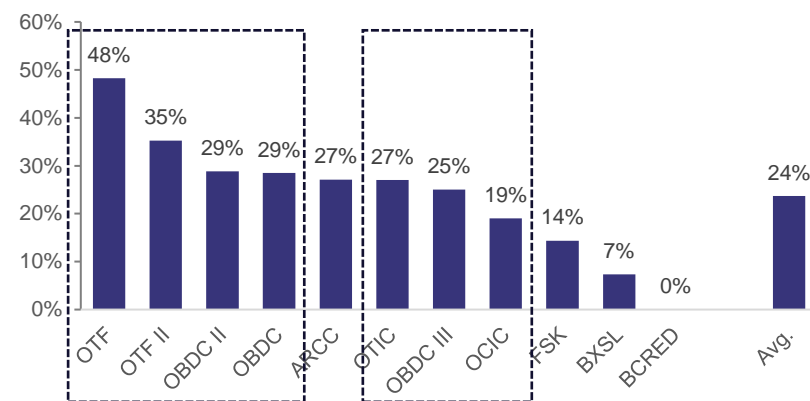
Key Debate #2: How will the company fare in a more challenging credit backdrop?

Relative to peers such as ARES, OWL has a limited history of 1) credit performance under stressed conditions (as a public company); and 2) demonstrated track record of recognizing gains in restructurings. While non-accruals in the BDCs have been low / credit relatively benign, we've seen some emerging signs of credit deterioration. Furthermore, outsized exposure to asset light tech companies (with limited collateral to cover loans) and significant PIK interest accruing in tech BDCs suggest that investor concerns on credit quality are not without merit. That said, our credit scenario analysis suggests that a mild credit event could result in a ~3% decline to our '25 FRE estimate, which we see as relatively manageable. To account for these risks, we have opted to assign a more conservative target multiple on FRE relative to ARES.

Our credit scenario analysis suggest that elevated default rates / lower recovery rates in OWL's BDCs would be a ~2% headwind to '25 FRE

PIK interest makes up a considerable portion of net investment income in OWL's BDCs

Credit Fund Exposure Analysis	BX	KKR	CG	ARES	OWL	Avg.
Direct Lending AUM - \$bn	100	34	24	166	74	
BDC Health Care / Software Exposure	37%	29%	17%	33%	40%	
Implied Health Care / Software AUM	36.7	10.0	4.1	54.9	29.2	
Assumed Default Rate	10%	10%	10%	10%	10%	
Implied Defaults - \$bn	3.7	1.0	0.4	5.5	2.9	
Assumed Leverage	1.5x	1.5x	1.5x	1.5x	1.5x	
Leverage Adjusted Losses - \$bn	5.5	1.5	0.6	8.2	4.4	
Assumed Recovery Rate	40%	40%	40%	40%	40%	
Implied Losses - \$bn	3.3	0.9	0.4	4.9	2.6	
'25 Credit Mgmt. Fee Rates	1.00%	1.00%	0.39%	1.08%	1.65%	
Implied Loss in Mgmt. Fees - \$mn	(33.1)	(9.0)	(1.4)	(53.3)	(43.3)	
WR Modeled '25 Mgmt. Fees - \$mn	1,642	1,201	858	2,593	1,298	
% of '25 Mgmt. Fees	-2.0%	-0.7%	-0.2%	-2.1%	-3.3%	-1.7%
WR '25 Comp Ratio	29.7%	0.0%	44.6%	41.9%	28.1%	
Impact to FRE - \$mn	(23.2)	(9.0)	(0.8)	(30.9)	(31.1)	
Annualized 2Q23 FRE - \$mn	4,575	2,409	829	1,065	978	
FRE Headwind	-0.5%	-0.4%	-0.1%	-2.9%	-3.2%	-1.4%



■ PIK as % of Net Investment Income - LTM

Blue Owl Capital Inc. – Key Debate #3

Key Debate #3: OWL has a commanding presence in Retail, but what does growth look like from here?

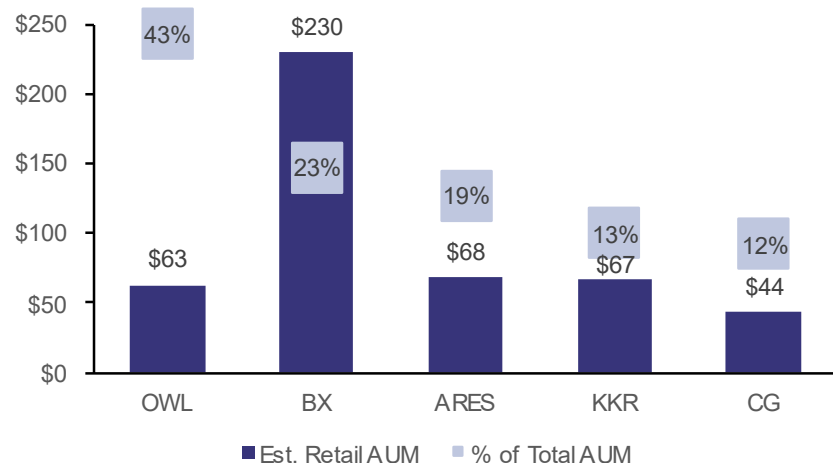
Retail composes ~43% of firmwide AUM at OWL, well ahead of the next closest peer (~23% at BX). As we noted in our Private Wealth section ([see full initiation report here](#)), we expect growth in democratized Alts. products to provide a ~\$2.4T tailwind to industry AUM over the next several years, and OWL is uniquely positioned to capture significant share of that growth as the firm has a strong retail distribution platform already in place. Moreover, with Retail AUM per employee metrics lagging that of BX, we see an opportunity for OWL to narrow the gap with the addition of new BDCs and further penetration of the firm's ORENT non-traded REIT. With Retail fundraising beginning to inflect in 2Q23, we see the firm as well positioned to continue growing in the UHNW / HNW space.

While we see the Retail opportunity unfolding over multiple years, OWL is poised to benefit most; we est. as much as ~\$800mn management fee uplift assuming OWL can maintain share of a growing Retail pie

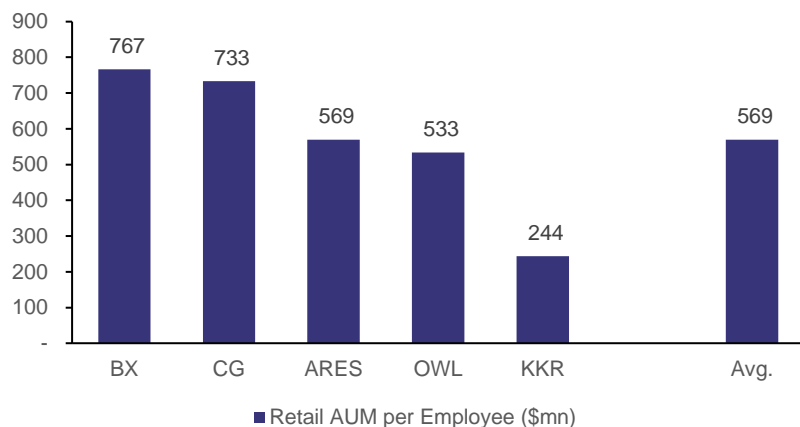
	BX	KKR	ARES	OWL	CG
Analysis Implied Growth in Retail AUM - \$bn	2,384	2,384	2,384	2,384	2,384
Share of Retail AUM	9.8%	2.8%	2.9%	2.7%	1.9%
Market share implied Retail AUM growth - \$bn	233	67	69	65	45
MRQ AUM	991	510	360	144	381
Implied Growth from Retail Assets	24%	13%	19%	45%	12%
<i>Assumed Mgmt. Fee Rate</i>	<i>1.25%</i>	<i>1.25%</i>	<i>1.25%</i>	<i>1.25%</i>	<i>1.25%</i>
Implied Incremental Mgmt. Fees - \$mn	2,916	843	866	811	558
2022 Mgmt. Fees - \$mn	6,045	2,656	2,153	1,249	2,656
Implied Mgmt. Fee Uplift	48%	32%	40%	65%	21%

Blue Owl Capital Inc. – Key Debate #3

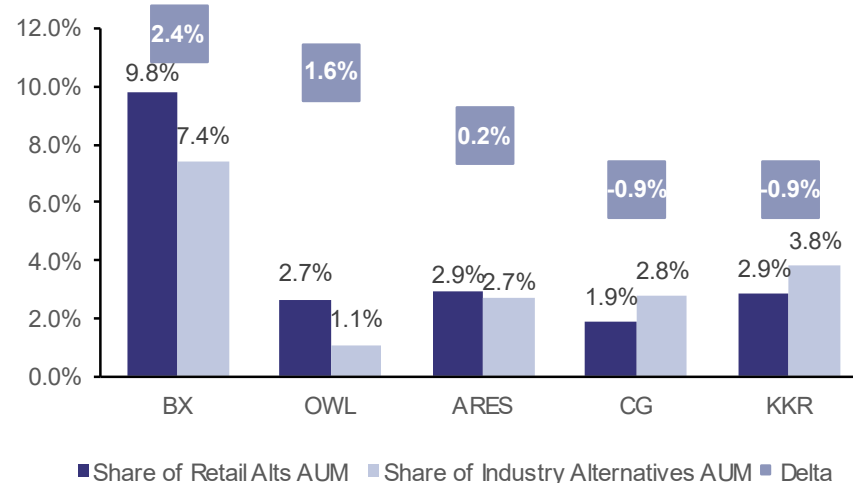
OWL is the most indexed to Retail, which composes >40% of firmwide AUM



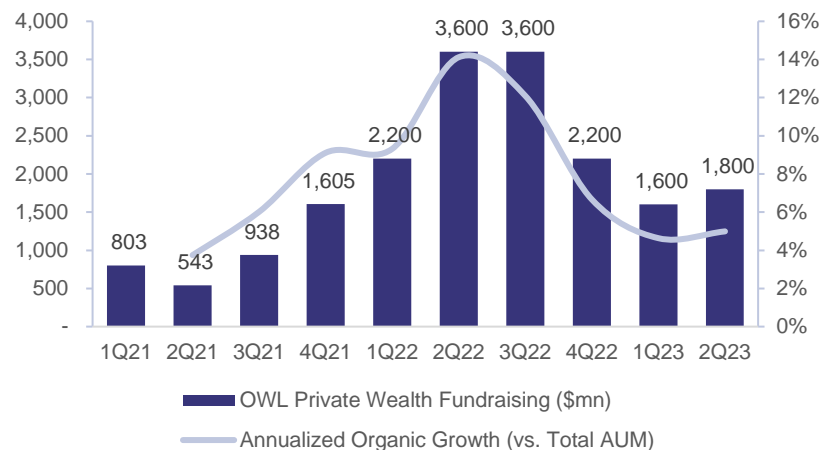
With Retail AUM per employee lagging that of BX, we see an opportunity for OWL to close the gap w/ further product penetration



BX is the dominant player in Retail, but OWL has also achieved significant success in the channel, with much less scale



Organic growth in Retail began to inflect positively in 2Q after decelerating meaningfully in 4Q22 / 1Q23



Source: Company Data, Pitchbook, Wolfe Research.

Blue Owl Capital Inc. – Key Debate #4a

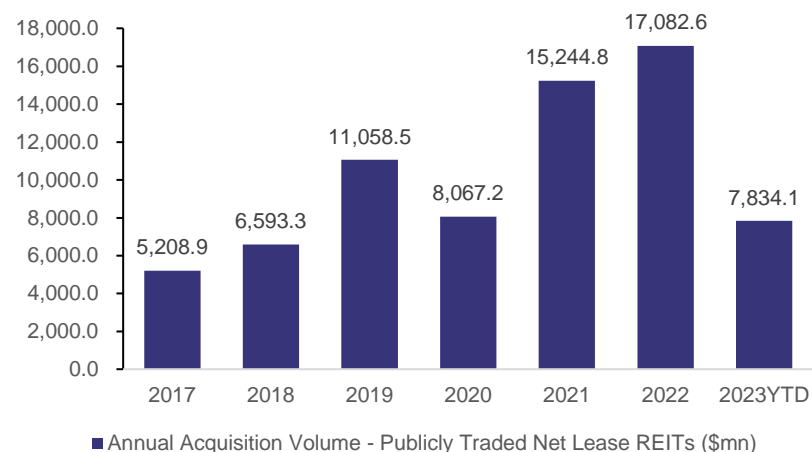
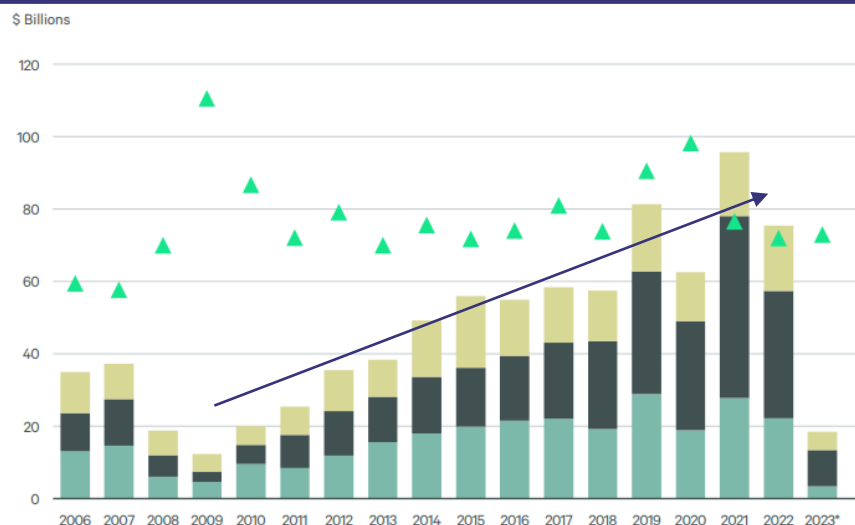
Key Debate #4a: How attractive is the Triple Net Lease Business?

While Real Estate is generally out of favor within institutional LPs, we see a compelling opportunity for OWL to further penetrate the Retail ecosystem via the firm's non-traded REIT. Having already established a retail presence with the firm's non-traded BDCs on several Wirehouse platforms, we see an emerging opportunity as advisors try to diversify away from existing non-traded REIT products.

One key concern about OWL's Real Estate business is that Net Lease transaction volumes have only totaled ~\$12.5bn YTD, which could present a headwind as Oak Street looks to deploy capital in ORENT as well as Fund VI. However, we are slightly more sanguine on the deployment opportunity, as the current high inflation, high interest rate backdrop makes the triple net structure via sale leaseback transactions more attractive. While CBRE data suggests that net lease transaction volumes are tracking down ~54% YoY, volumes have been trending positively, particularly since 2019. With management alluding to ~\$30bn of potential volume in the pipeline, we are less concerned about the potential deployment headwinds in the net lease strategy.

While CBRE data suggests that net lease transaction volumes have slowed in 2023YTD, volumes have been trending upwards, with annual transaction volumes >\$60bn each year since 2019

Data from publicly traded net lease REITs show that transaction volumes have been subdued YTD, but acquisition environment, but growth since from '17 to '22 was quite robust



Note: Publicly traded Net Lease REITs include ADC, BNL EPR, EPRT, FCPT, GTY, LXP NNN, NTST, SRC, STAG, WPC, and O. Source: Company Data, CBRE, Wolfe Research.

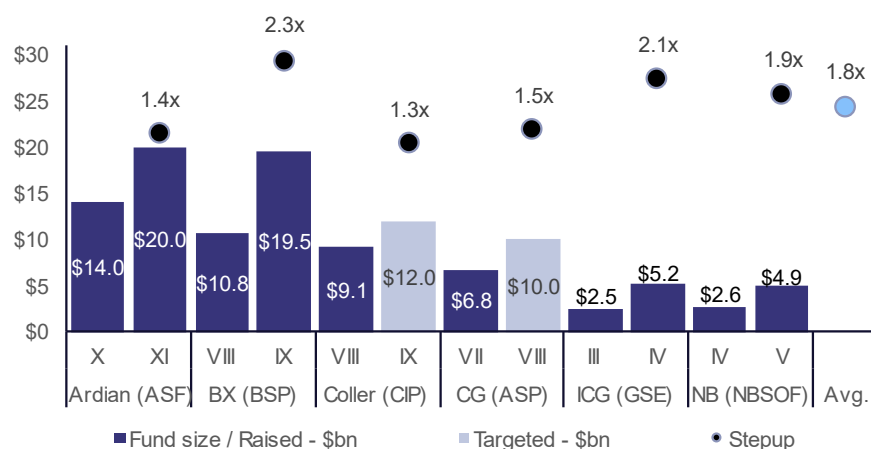
Blue Owl Capital Inc. – Key Debate #4b

Key Debate #4b: How attractive is the GP Stakes Business?

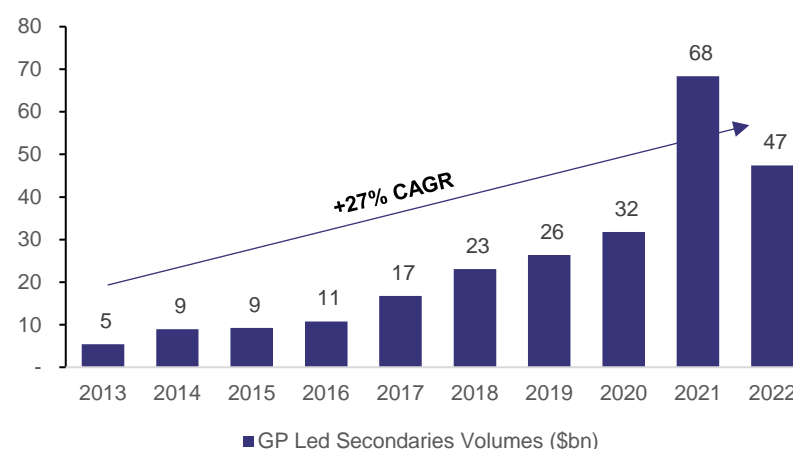
While we don't have a particularly differentiated view on the Dyal business, we see an opportunity for OWL to utilize GP relationships to expand into other growthy TAMs. One of the key issues with the Dyal business is that committed capital is permanent, which is positive insofar as management fees are predictable, but as we discussed in our section on fundraising, it can be difficult to raise successor funds at a step-up without returning capital to LPs. Moreover, the legacy GP Stakes business is a more mature business, so while a modest step-up is likely in order given strong Net IRRs, we don't expect the business to exhibit the same growth characteristics as Real Estate or Direct Lending.

However, OWL is currently building out a GP led secondaries business, which we see as a highly attractive growth avenue. We have already seen several secondaries funds close this year at an average step-up of ~1.8x. Furthermore, GP led secondaries volumes have grown at an annual pace of +27% since 2013, suggesting increased demand for capital within the space. While the first iteration of this fund is unlikely to be needle moving for FPAUM / FRE, we see the business as highly scalable which should help to offset growth pressures that could arise in the legacy GP Stakes business.

Secondaries have seen strong demand YTD, with recently closed / announced funds expected to see an avg. step-up of ~1.8x



GP-led secondaries volumes have grown at a +27% CAGR over the past decade, implying ample whitespace for OWL to deploy capital



Source: Company Data, CalPers, Preqin, Wolfe Research.

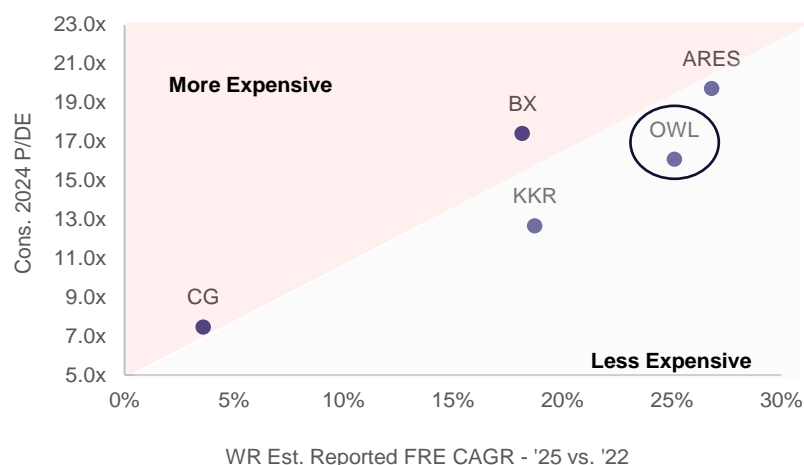
Blue Owl Capital Inc. – Key Debate #5

Key Debate #5: What is the right valuation discount to ARES?

Despite similar mix / FRE growth profiles, OWL currently trades at a healthy valuation discount to ARES (~80% relative NTM P/DE). We attribute the discount to three factors: 1) ARES longer public performance / track record over multiple credit cycles; 2) ARES' growth is more diversified through both European direct lending, and structured credit; and 3) OWL's trading / illiquidity discount. However, based on current cons. '24E P/DE multiples, OWL trades at a steep discount relative to FRE growth ests. for our coverage and stacks up favorably versus several other fast-growing Alternatives.

In determining the correct multiple discount, we looked at PWP shares following the firm's de-SPAC, where shares traded at a ~70% relative multiple to PJT and MC. However, while PWP is more pro-cyclical vs. the latter two (less exposure to RX), OWL and ARES operate in businesses with similar mix / cyclicity. Moreover, with OWL driving further growth in Real Estate and GP stakes, and fees derived from an AUM base with ~93% permanent capital, we view the business model as being more durable vs. PWP where the firm is highly levered to M&A cyclicity. Our '25E P/DE target multiple justifies an ~85% relative valuation to ARES.

OWL screens as inexpensive relative to our FRE estimates on '24E cons. P/DE



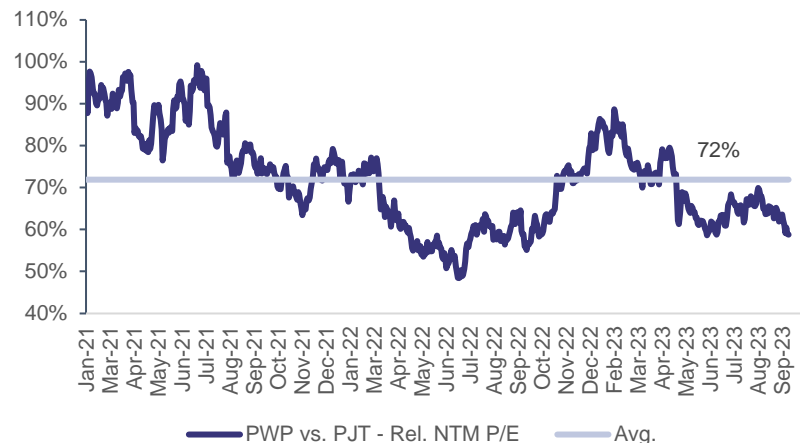
Relative to other fast-growing Alts. stocks, we see a ~2-turn multiple discount as fair despite OWL's superior earnings growth profile

Ticker	Consensus Earnings Growth			
	2024 vs. 2022 EPS CAGR	2025 vs. 2022 EPS CAGR	FY2 P/DE	FY3 P/DE
ARES	23%	25%	19.7x	15.4x
HLNE	18%	19%	18.9x	15.6x
STEP	19%	21%	17.2x	13.6x
EQT-SE	44%	33%	14.0x	12.5x
PGPHF	13%	12%	20.0x	18.2x
Average	23%	22%	18.0x	15.0x
Median	19%	21%	18.9x	15.4x
OWL	22%	24%	16.1x	12.7x
vs. Average	-140bps	171bps	-1.9x	-2.4x

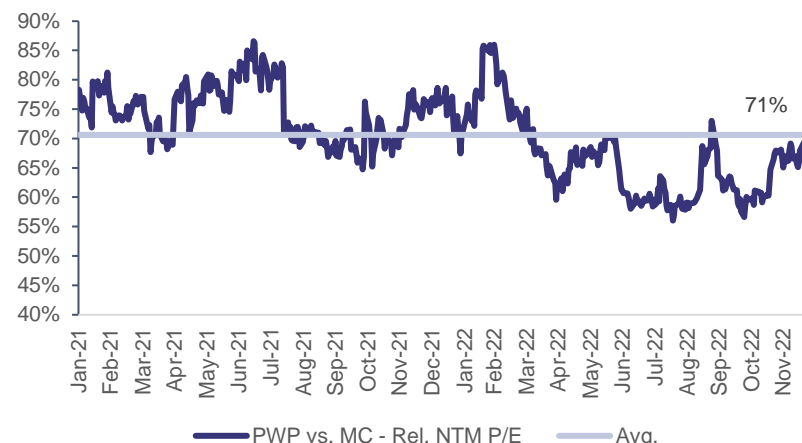
Source: Company Data, FactSet, Wolfe Research. Priced as of 10/3/2023.

Blue Owl Capital Inc. – Key Debate #5

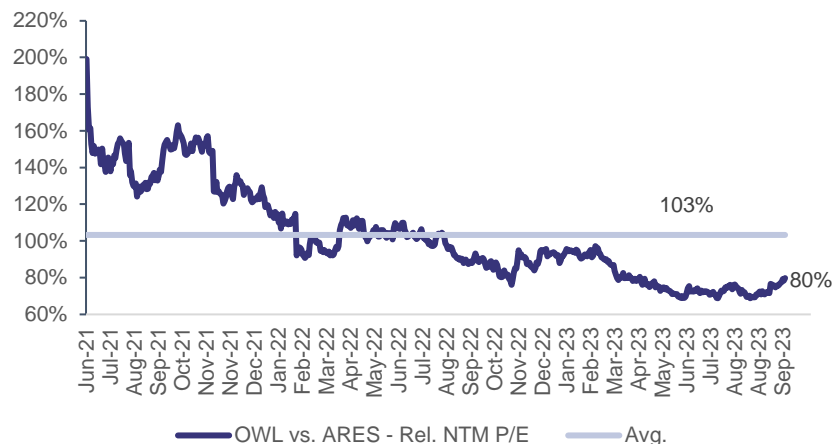
Following the de-SPAC, PWP has traded at an avg. relative P/E of 72% to PJT...



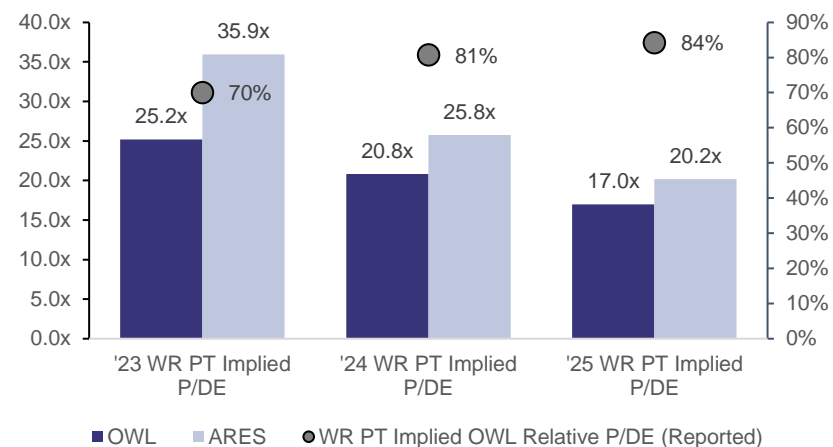
...and a 71% relative P/E to MC prior to MC's comp headwinds / expense burden following the acquisition of SIVB's technology bankers



OWL shares currently trade at a ~80% relative multiple to ARES on consensus NTM EPS estimates



Our valuation framework justifies an ~85% relative P/DE multiple vs. ARES



Source: FactSet, Company Data, Wolfe Research. Priced as of 10/3/2023.

Blue Owl Capital Inc. – Summary of Key Risks

OWL (OP Rating; PT \$16): Downside Risks to our Outperform Rating

Downside Risks:

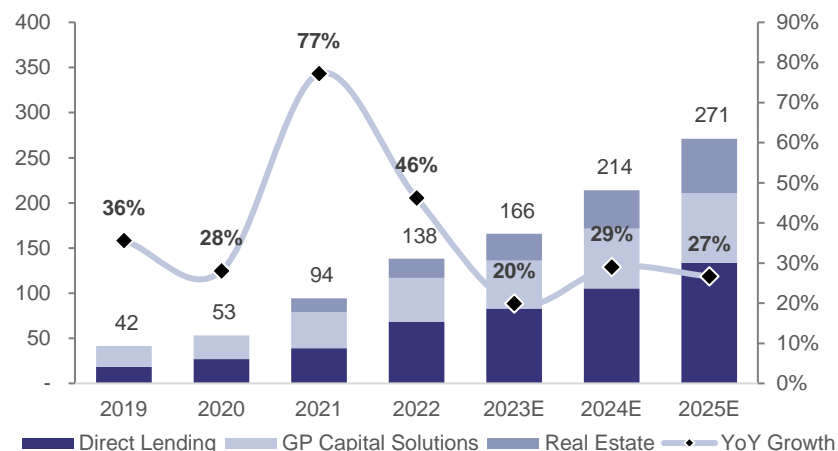
- 1. Poor performance in a credit downturn could impair returns / earnings.** With a limited public history of credit performance / track record in distressed restructurings, OWL's performance could lag in a credit downturn. Furthermore, while we attempt to handicap credit uncertainty via a lower target multiple on FRE, an adverse credit event could result in softer fundraising trends, further weakening our earnings estimates.
- 2. Management fees could decline substantially under a fee rate cut.** As credit fundraising is conducted through OWL's BDCs, the firm is able to maintain a ~160bps management fee rate, well above industry peers. While we see a fee cut in the BDCs as unlikely, if OWL were to lower its management fee rate, this could pose a significant risk to our FRE / DE estimates.
- 3. A deceleration in retail channel fundraising could drive weaker than expected FRE growth.** Our modeled estimates embed continued fundraising across both Retail geared BDCs and Net Lease strategies. A substantial deceleration in retail fundraising, or net outflows in retail products could pose a risk to our FRE estimates.
- 4. Net Lease strategy could fall short of expectations due to the macro environment.** While we think the Net Lease strategy is a compelling growth avenue, we acknowledge that 2% contractual rent escalators may prove too low in an environment where higher rates / persistent inflation pressure valuations. While we see the net lease business as a greenfield opportunity, continued macro headwinds could result in slower fundraising / net outflows, weighing on our FRE estimates.
- 5. Class A share conversions and limited liquidity could hold back share outperformance.** We recognize that illiquidity (ADV of only ~\$40mn) could prevent certain investors from owning the stock, limiting the number of incremental buyers. Furthermore, with common unit conversions still an overhang, we acknowledge that continued selling pressure may negatively impact share performance.

Business Overview & Competitive Landscape

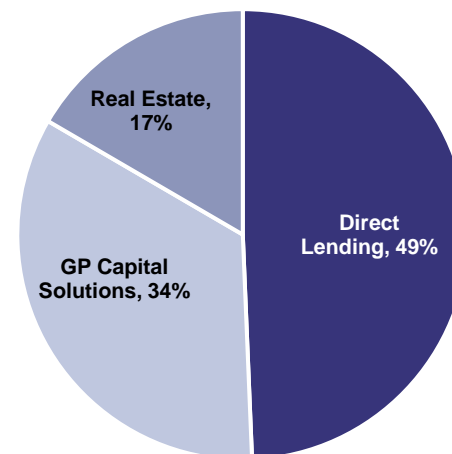
Blue Owl Capital Inc. Business Overview

Blue Owl (OWL) is a financial services company which invests across three multi-strategy platforms: 1) Credit (formerly Owl Rock); 2) GP Strategic Capital (formerly Dyal Capital); and 3) Real Estate (formerly Oak Street), providing private capital services to both institutional and individual investors. Blue Owl was formed in 2020 through a SPAC merger between Owl Rock Capital Group and Dyal Capital Partners, then adding their Real Estate arm via the Oak Street acquisition in 2021. Credit is their largest segment, where they originate and manage investments across loan and equity-related instruments. The GP Strategic Capital segment provides long-term minority equity and financing solutions, while the Real Estate platform operates exclusively in the net lease ecosystem. Most recently, OWL acquired Hong Kong-based business development unit, Ascentium Group, in order to expand their footprint in Asia.

OWL has grown AUM at a healthy clip through both fundraising in direct lending and the addition of the Oak Street net lease strategy

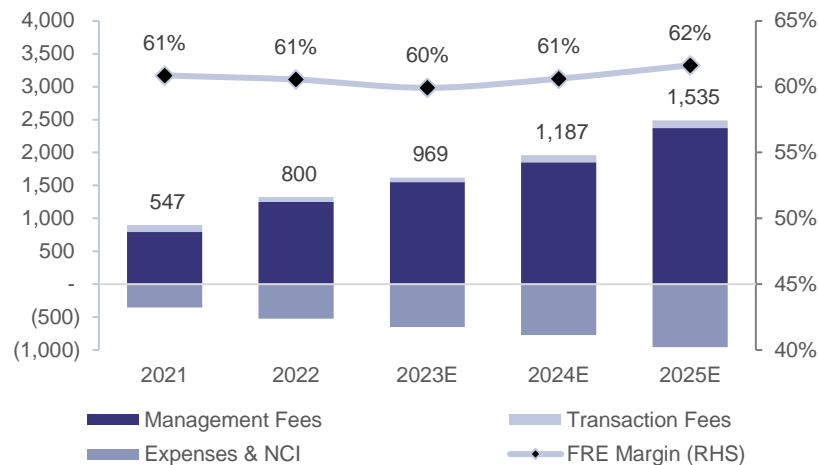


OWL is most heavily geared to direct lending (as a % of 2Q23 AUM), while the GP Stakes business accounts for ~1/3 of AUM

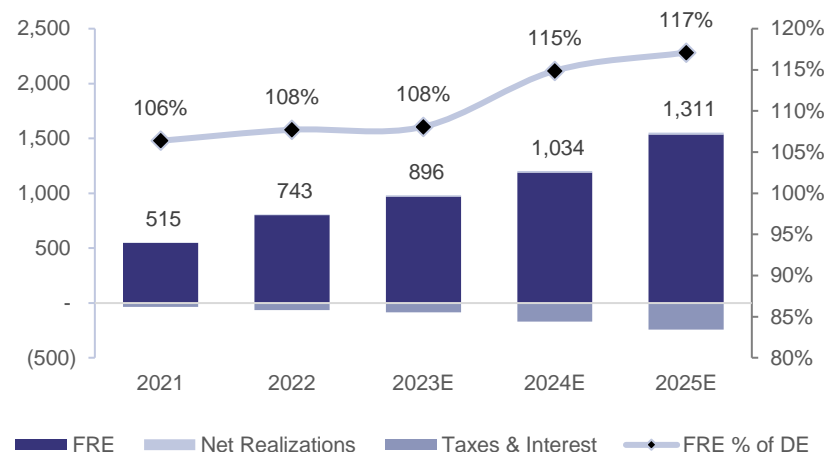


Blue Owl Capital Inc. – Business Overview & Competitive Landscape

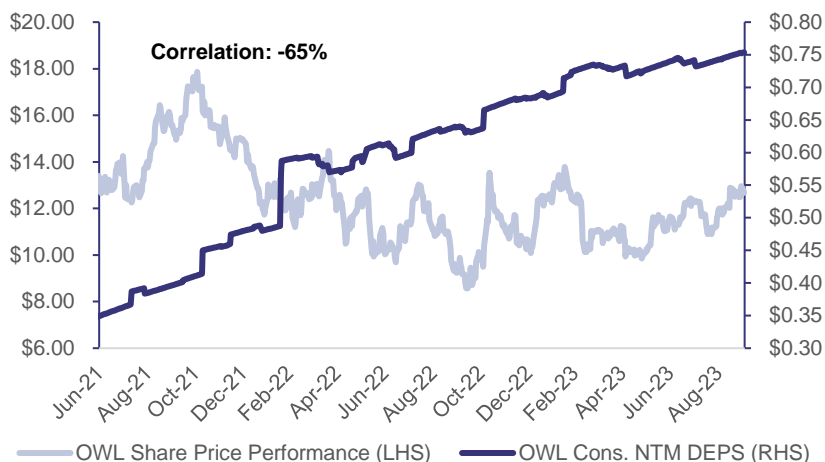
FRE margins have been remarkably stable, driven by continued fundraising / deployment despite significant expense growth



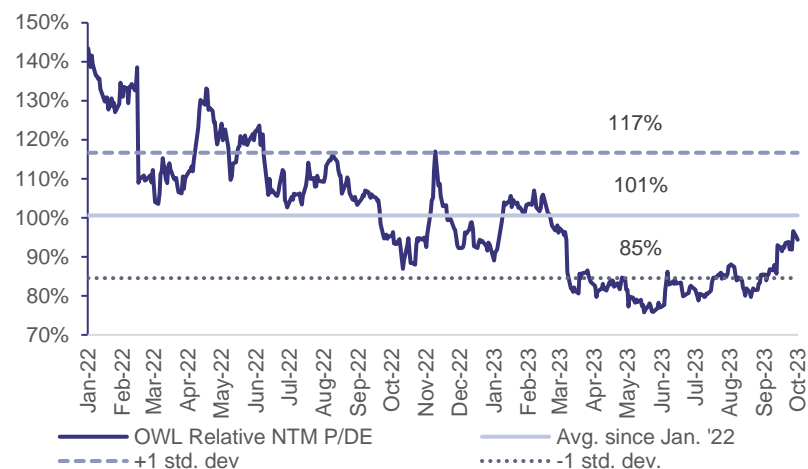
OWL's distributable earnings is derived almost entirely from FRE, resulting in a more stable and predictable earnings profile



Share performance at OWL has been uncorrelated to estimate revisions, which can be partially explained by lack of liquidity



OWL currently trades at a 94% relative P/E (NTM) to the S&P500 after trading at a premium prior to 2023



Source: Company Data, FactSet, Wolfe Research. Priced as of 10/3/2023.

Blue Owl Capital Inc. –Wolfe vs. Consensus

Firmwide	2023E			2024E			2025E		
	WR	Con.	Δ (%)	WR	Con.	Δ (%)	WR	Con.	Δ (%)
Direct Lending	877.2	881.4	0%	1,070.0	1,082.3	-1%	1,297.9	1,280.9	1%
GP Capital Solutions	544.6	542.1	0%	684.7	658.2	4%	825.5	746.8	11%
Real Estate	128.0	126.9	1%	197.9	188.7	5%	313.3	330.3	-5%
FRE Management Fees, Net	1,549.7	1,550.4	0%	1,952.5	1,929.2	1%	2,436.7	2,357.9	3%
FRE Administrative, Transaction and Other	65.5	69.4	-6%	86.8	110.3	-21%	102.3	166.5	-39%
Fee Related Revenues	1,615.3	1,619.8	0%	2,039.3	2,039.5	0%	2,539.0	2,524.4	1%
Adjusted Compensation and Benefits	461.8	466.1	-1%	573.1	571.0	0%	713.0	698.3	2%
Adjusted General, Administrative and Other	179.1	175.3	2%	210.7	208.4	1%	250.1	277.3	-10%
Fee Related Expense	640.9	641.3	0%	783.9	779.4	1%	963.1	975.6	-1%
Net loss (income) allocated to NCI in FRE	(6.3)	(6.3)	0%	(8.6)	(8.6)	0%	(8.6)	(8.6)	0%
Fee Related Earnings	968.1	984.8	-2%	1,246.8	1,268.6	-2%	1,567.3	1,557.4	1%
Pre-tax DE	931.0	940.0	-1%	1,213.8	1,234.6	-2%	1,539.8	1,593.2	-3%
After tax DE	898.9	920.7	-2%	1,092.4	1,121.3	-3%	1,347.3	1,428.4	-6%
Adjusted Diluted Shares Outstanding	1415.8	1416.4	0%	1420.5	1419.3	0%	1425.1	1415.8	1%
FRE per share	\$ 0.68	\$ 0.70	-2%	\$ 0.88	\$ 0.89	-2%	\$ 1.10	\$ 1.10	0%
DE per share	\$ 0.63	\$ 0.65	-2%	\$ 0.77	\$ 0.79	-3%	\$ 0.95	\$ 1.01	-6%
Key Metrics									
FRE Margin	59.9%	60.8%	(86bps)	61.1%	62.2%	(106bps)	61.7%	61.7%	4bps
AUM	165,576	171,560	-3%	217,362	210,440	3%	268,102	288,240	-7%
FPAUM	101,556	102,490	-1%	137,204	130,780	5%	160,365	161,270	-1%

Source: Company Data, FactSet, Wolfe Research. Priced as of 10/3/2023.

Blue Owl Capital Inc. – Model Summary

Blue Owl Summary Financials (\$mn)	2021	2022	2023E	2024E	2025E	1Q23	2Q23	3Q22E	4Q23E	1Q24E	2Q24E	3Q24E	4Q24E
P&L													
Direct Lending	434	640	877	1,070	1,298	208	217	222	231	244	259	275	292
GP Capital Solutions	358	529	545	685	826	134	135	136	139	148	163	178	196
Real Estate	-	80	128	198	313	26	30	34	38	42	47	52	58
FRE Management Fees, Net	792	1,249	1,550	1,953	2,437	369	382	392	408	433	468	505	546
Administrative & Transaction Fees	108	73	66	87	102	9	20	19	18	22	21	20	24
FRE Revenues	900	1,322	1,615	2,039	2,539	377	401	411	426	455	489	525	570
Comp & Benefits	271	361	462	573	713	104	116	119	123	123	138	150	162
G&A	77	168	179	211	250	48	39	45	47	55	44	54	58
Total Adjusted Expenses	348	529	641	784	963	152	155	164	170	177	182	203	221
NCI in FRE	(4)	8	(6)	(9)	(9)	0	(2)	(2)	(2)	(2)	(2)	(2)	(2)
Fee Related Earnings	547	800	968	1,247	1,567	226	245	244	253	276	304	319	347
Realized performance income	6	12	26	33	41	1	-	-	26	-	-	-	33
Realized performance comp	(2)	(4)	(9)	(11)	(14)	(0)	-	-	(9)	-	-	-	(11)
Interest expense	(27)	(56)	(54)	(54)	(54)	(14)	(14)	(14)	(14)	(14)	(14)	(14)	(14)
Taxes and TRA payable	(10)	(10)	(32)	(121)	(192)	(4)	(4)	(12)	(13)	(26)	(29)	(31)	(35)
Distributable Earnings	514	743	899	1,092	1,347	209	227	219	244	236	262	275	319
Weighted average diluted shares	982	1,399	1,416	1,421	1,425	1,413	1,415	1,417	1,418	1,419	1,420	1,421	1,422
FRE per Share	\$ 0.56	\$ 0.57	\$ 0.68	\$ 0.88	\$ 1.10	\$ 0.16	\$ 0.17	\$ 0.17	\$ 0.18	\$ 0.19	\$ 0.21	\$ 0.22	\$ 0.24
DE per Share	\$ 0.52	\$ 0.53	\$ 0.63	\$ 0.77	\$ 0.95	\$ 0.15	\$ 0.16	\$ 0.15	\$ 0.17	\$ 0.17	\$ 0.18	\$ 0.19	\$ 0.22
Dividends per share	\$ 0.17	\$ 0.46	\$ 0.56	\$ 0.72	\$ 1.00	\$ 0.14	\$ 0.14	\$ 0.14	\$ 0.14	\$ 0.18	\$ 0.18	\$ 0.18	\$ 0.18
Operating metrics													
Tax rate	1.8%	1.3%	3.4%	10.0%	12.5%	1.7%	1.7%	5.0%	5.0%	10.0%	10.0%	10.0%	10.0%
FRE Comp Ratio	30.1%	27.3%	28.6%	28.1%	28.1%	27.4%	28.8%	29.0%	29.0%	26.9%	28.3%	28.5%	28.5%
FRE Margin	60.8%	60.5%	59.9%	61.1%	61.7%	59.9%	60.9%	59.5%	59.5%	60.6%	62.3%	60.8%	60.9%
Performance Comp Ratio	35.0%	35.0%	35.0%	35.0%	35.0%	35.0%	n/a	35.0%	35.0%	35.0%	35.0%	35.0%	35.0%
KPIs													
AUM	94,495	138,202	165,576	217,362	268,102	144,374	149,553	157,334	165,576	177,195	189,657	203,023	217,362
FPAUM	61,444	88,810	101,556	137,204	160,365	91,633	93,623	96,976	101,556	109,448	117,983	127,215	137,204
Firmw ide Fundraising	8,629	24,789	16,880	36,860	31,129	3,799	2,863	4,964	5,254	8,271	8,870	9,513	10,206
Firmw ide Distributions	(1,427)	(4,664)	(5,305)	(5,253)	(6,822)	(1,672)	(1,460)	(1,056)	(1,116)	(1,180)	(1,264)	(1,355)	(1,453)
Firmw ide Capital Invested	14,549	23,035	13,674	36,347	24,114	3,091	2,514	3,419	4,651	8,044	8,701	9,414	10,188

Source: Company Data, Wolfe Research.

Blue Owl Capital Inc. Management Bios

Key Personnel

Doug Ostrover, Co-Chief Executive Officer: Mr. Ostrover co-founded Owl Rock Capital Partners in 2016, the predecessor firm to Blue Owl's Credit platform, and co-founded GSO Capital Partners in 2005, Blackstone's alternative credit platform. Before that, Mr. Ostrover was managing director at the Leveraged Finance Group of Credit Suisse First Boston (CSFB) and Donaldson, Lufkin & Jenrette ("DLJ"), which he joined in 1992.

Marc Lipschultz, Co-Chief Executive Officer: In addition to his role as OWL's Co-CEO, also serves as a Co-Chief Investment Officer for each of the Blue Owl Credit Advisers. In 2016, he co-founded Owl Rock Capital Partners. Before that, Mr. Lipschultz spent more than two decades at KKR, and started his career at Goldman, Sachs & Co. in the M&A division. Marc has a wide range of experience in alternative investments, including leadership roles in private credit, private equity, and infrastructure.

Alan Kirshenbaum, Chief Financial Officer: Mr. Kirshenbaum is also a member of the Executive Committee, the Executive VP of the Blue Owl BDCs, and serves on the boards of OTIC and OTF II. He first joined the firm via Owl Rock, the predecessor firm to Blue Owl's Credit platform. Prior to that, Mr. Kirshenbaum has held the title of CFO at numerous firms, including Sixth Street Specialty Lending, TPG Special Situations Partners, Natsource, MainStay Investments, and Bear Stearns Asset Management (BSAM). He started his career in public accounting at KPMG and J.H. Cohn.

Craig Packer, Co-President: Mr. Packer's responsibilities also include Head of the Credit platform and Co-Chief Investment Officer for each of the Blue Owl Credit Advisers. He was a co-founder Owl Rock Capital Partners in 2016, and before that was Co-Head of Leveraged Finance in the Americas at Goldman Sachs & Co.. He joined Goldman in 2006 after holding the title of Global Head of High Yield Capital Markets at Credit Suisse First Boston, which he joined in 2000 having started his career at Donaldson, Lufkin & Jenrette.

Michael Rees, Co-President: Mr. Rees is the Head of the GP Strategic Capital platform, having founded the platform's predecessor firm in 2001, Dyal Capital. Prior to founding Dyal, he was a founding employee of Neuberger Berman Group and notably the first COO of Neuberger's alternatives business, after transitioning from Lehman Brothers as part of the buyout in 2009. Mr. Rees held numerous roles at Lehman Brothers, including Head of Asset Management Strategy from 2003 through 2006, and he started his career at Marakon Associates.

Marc Zahr, Co-President: Mr. Zahr is Head of the Real Estate platform, having founded the platform's predecessor firm in 2009, Oak Street. He also serves as the Chairman of the Board of Trustees of Blue Owl Real Estate Net Lease Trust, a private placement REIT, and serves on the Board of Trustees of Store Capital, a private REIT. Before founding Oak Street, Mr. Zahr served as VP at American Realty Capital, Fixed Income Trader at TM Associates, and Associate at Merrill Lynch.

Source: Company Data.

DISCLOSURE SECTION

Analyst Certification:

The various Wolfe Research, LLC analysts who are primarily responsible for this research report certify that (i) the recommendations and opinions expressed in this research report accurately reflect the research analysts' personal views about the subject securities or issuers and (ii) no part of the research analysts' compensation was, is or will be directly or indirectly related to the specific recommendations or views contained in this report.

Important Disclosures:

Price Chart(s) with Ratings and Target Price History



Wolfe Research, LLC Fundamental Valuation Methodology:

Company:

Blue Owl Capital, Inc.

Fundamental Valuation Methodology:

To derive our PT for OWL we utilize a SOTP framework, where we apply a 19x multiple on our '25E adj. FRE per share (ex-FRPR and SBC) and give credit for MRQ accrued net performance fees, Cash and Equivalents, and Principal Investments, net of debt.

Wolfe Research, LLC Fundamental Recommendation, Rating and Target Price Risks:

Company:

Blue Owl Capital, Inc.

Risks That May Impede Achievement of the Recommendation, Rating or Target Price:

Downside risks include: 1) Poor performance in a credit downturn could impair returns / earnings; 2) Management fees could decline substantially if competition in the BDC space puts pressure on fee rates; 3) Deceleration in retail fundraising drives weaker than expected FRE growth; 4) Net lease strategy falls short of expectations due to the macro environment; and 5) Class A share conversions and limited liquidity weighs on share performance.

Wolfe Research, LLC Research Disclosures:

Company:

Blue Owl Capital, Inc.

Research Disclosures:

None

Other Disclosures:**Wolfe Research, LLC Fundamental Stock Ratings Key:**

Outperform (OP):	The security is projected to outperform analyst's industry coverage universe over the next 12 months.
Peer Perform (PP):	The security is projected to perform approximately in line with analyst's industry coverage universe over the next 12 months.
Underperform (UP):	The security is projected to underperform analyst's industry coverage universe over the next 12 months.

Wolfe Research, LLC does not assign target prices for Peer Perform rated companies.

Wolfe Research, LLC uses a relative rating system using the terms Outperform, Peer Perform, and Underperform as per the definitions above. Please carefully read these definitions used in Wolfe Research, LLC research. In addition, since Wolfe Research, LLC research contains more complete information concerning the analyst's views, please carefully read Wolfe Research, LLC research in its entirety and do not infer the contents from the ratings alone. In all cases, ratings (or research) should not be used or relied upon as investment advice and any investment decisions should be based upon individual circumstances and other considerations.

Wolfe Research, LLC Industry Weighting System:

Market Overweight (MO):	Expect the industry to outperform the primary market index for the region (S&P 500 in the U.S.) by at least 10% over the next 12 months.
Market Weight (MW):	Expect the industry to perform approximately in line with the primary market index for the region (S&P 500 in the U.S.) over the next 12 months.
Market Underweight (MU):	Expect the industry to underperform the primary market index for the region (S&P 500 in the U.S.) by at least 10% over the next 12 months.

Wolfe Research, LLC Distribution of Fundamental Stock Ratings (As of October 4, 2023):

Outperform:	45%	4% Investment Banking Clients within the previous 12 months
Peer Perform:	45%	0% Investment Banking Clients within the previous 12 months
Underperform:	10%	1% Investment Banking Clients within the previous 12 months

Wolfe Research, LLC does not assign ratings of Buy, Hold, or Sell to the stocks it covers. Outperform, Peer Perform, and Underperform are not the respective equivalents of Buy, Hold, and Sell but represent relative weightings as defined above. To satisfy regulatory requirements, Outperform has been designated to correspond with Buy, Peer Perform has been designated to correspond with Hold, and Underperform has been designated to correspond with Sell.

Wolfe Research Securities and Wolfe Research, LLC have adopted the use of Wolfe Research and The Wolfe Daily Howl as brand names. Wolfe Research Securities, a member of FINRA (www.finra.org) and the National Futures Association, is the broker-dealer affiliate of Wolfe Research, LLC. Wolfe Research Advisors, LLC is an SEC registered Investment Adviser affiliate of Wolfe Research, LLC. The Research Department of Wolfe Research, LLC produces and distributes research to clients of Wolfe Research, LLC, Wolfe Research Advisors, LLC, and Wolfe Research Securities. Any analysts publishing these reports are associated with Wolfe Research, LLC, Wolfe Research Advisors, LLC, and Wolfe Research Securities.

The Wolfe Daily Howl, Monthly Controversies Report, and The Highlight Note are subscription-based products for Institutional investor subscribers only and are products of Wolfe Research, LLC. The Wolfe Daily Howl may contain previously published research which have been repackaged for Wolfe Daily Howl subscribers. Wolfe Research, LLC, its affiliates, officers, directors, employees, and agents will not be liable for any investment decisions made or actions taken by you or others based on any news, information, opinion, or any other material published through this service.

The content of this report is to be used solely for informational purposes and should not be regarded as an offer, or a solicitation of an offer, to buy or sell a security, financial instrument or service discussed herein or to participate in any particular trading strategy in any jurisdiction. Opinions and information in this communication constitutes the current judgment of the authors as of the date and time of this report and are subject to change without notice. Information herein is believed to be reliable based upon publicly available data but Wolfe Research, LLC, and its affiliates, including but not limited to Wolfe Research Securities and Wolfe Research Advisors, LLC, make no representation that it is complete or accurate. The information provided in this communication is not designed to replace a recipient's own decision-making processes for assessing a proposed transaction or investment involving a financial instrument discussed herein. Recipients are encouraged to seek financial advice from their financial advisor regarding the appropriateness of investing in a security or financial instrument referred to in this report and should understand that statements regarding the future performance of the financial instruments or the securities referenced herein may not be realized. Past performance is not indicative of future results. This report is not intended for distribution to, or use by, any person or entity in any location where such distribution or use would be contrary to applicable law, or which would subject Wolfe Research, LLC, or any of its affiliates to any registration requirement within such location. For additional important disclosures, please see <https://www.WolfeResearch.com/Disclosures>.

The views expressed in Wolfe Research, LLC research reports with regard to sectors and/or specific companies may from time to time be inconsistent with the views implied by inclusion of those sectors and companies in other Wolfe Research, LLC analysts' research reports and modeling screens. Wolfe Research, LLC communicates with clients across a variety of mediums of the clients' choosing including emails, voice blasts, and electronic publication to our proprietary website. Facts and views in Wolfe Research, LLC research reports and notes have not been reviewed by, and may not reflect, information known to, professionals in other Wolfe Research, LLC affiliates or business areas, including investment banking personnel.

Copyright © Wolfe Research, LLC 2023. All rights reserved. All material presented in this document, unless specifically indicated otherwise, is under copyright to Wolfe Research, LLC. None of the material, nor its content, nor any copy of it, may be altered in any way, or transmitted to or distributed to any other party, without the prior express written permission of Wolfe Research, LLC.

This report is limited for the sole use of clients of Wolfe Research, LLC, Wolfe Research Securities and Wolfe Research Advisors, LLC which have been given permission prior to such use. Any distribution of the content produced by Wolfe Research, LLC will violate the understanding of the terms of our relationship.