

Blue Owl Capital Inc. (OWL)

Overweight

2Q23 Earnings Review: Fundraising Momentum Building Despite a Slower Quarter

CONCLUSION

We continue to favor OWL following 2Q23 earnings as well as other fee-related earnings centric names across our coverage given the more stable nature of revenues/earnings during volatile and uncertain economic and market environments. While the firm mentioned it is one quarter behind its pace to reach its \$50B of FPAUM and \$1B of DE target (from investor day last year) by EOP 2023, given the volatility experienced over the last 18mo we would still consider it a positive if the firm missed the timeline by a single quarter. OWL has one of the largest fee related earnings (FRE) growth trajectories, expects continued margin expansion from its already high levels (60%+), continued strong performance, benefit from industry tailwinds in credit and real estate, provides a 5% dividend yield and maintains a capital lite balance sheet strategy, which makes the current price a very attractive entry point in our view.

2Q23 OWL Results		
Reported EPS: \$0.16	Consensus: \$0.16	PSCe: \$0.16

- **2Q23 distributable earnings (DE) per share of \$0.16 was in-line with both ours and consensus' estimate.** FRE missed our estimate by 2% from a higher comp ratio which was offset by a lower tax rate. Please see our variance table on the following page for a comprehensive look at the results vs. our expectations.
- **We are reducing our 2023 & 2024 DE estimates.** We are reducing our estimates by 2% and 5% to \$0.65 and \$0.77, respectively, to reflect modestly higher comp ratios (high end of the 25 - 30% guided range) and lower private wealth fundraising. We are leaving our PT unchanged at \$15 based on 19x (unchanged) our 2024 DE estimate and reiterate our Overweight rating.
- **Continued on page 2 in full note PDF.**

RISKS TO ACHIEVEMENT OF PT & RECOMMENDATION

Credit risk, deployment opportunities, maintaining its high performance, pace of fundraising & FRE growth and pressures all publicly traded alternative asset managers face, which include: clients' relationship consolidation, slower recovery in capital markets activity, regulatory, key-man, geopolitical, tax policy, concentration, competitive and cybersecurity.

COMPANY DESCRIPTION

A market leader in direct lending and capital solutions for the alternatives industry as well as providing a real estate triple net lease strategy to institutional and private wealth clients.

PRICE: US\$12.28

TARGET: US\$15.00

Represents ~19x our 2024 DE estimate.

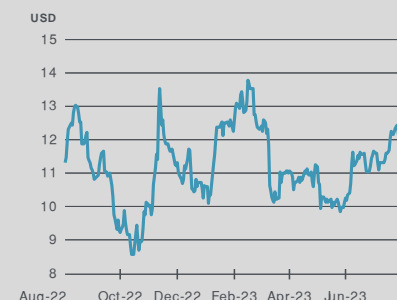
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Changes	Previous	Current
Rating	—	Overweight
Price Tgt	—	US\$15.00
FY23E EPS	US\$0.66	US\$0.65
FY24E EPS	US\$0.81	US\$0.77
Market Cap. (mil)		US\$5,470.7
Book Value/Share		US\$3.57
Price/Book		344%
52-Week High / Low	US\$14.04 / US\$8.05	
Avg Daily Vol (000)		3,336
Div Yield		4.56%
Total Assets (\$mil)		8,763
ROE		13.09%
Shares Out (mil)		445.5
Div (ann)		US\$0.56
Institutional		90.9%
Ownership		
Insider Ownership		4.1%
Fiscal Year End		Dec

Price Performance - 1 Year



Source: Bloomberg

YEAR	EARNINGS PER SHARE (US\$)					
	Mar	Jun	Sep	Dec	FY	FY P/E
2022A	0.11	0.13	0.14	0.15	0.53	23.2x
2023E	0.15A	0.16A	0.16	0.18	0.65	18.9x
2024E	0.17	0.18	0.20	0.22	0.77	15.9x

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- **Fundraising slowed in 2Q but momentum is building.** OWL saw fundraising slow to its lowest level since 3Q21 in the quarter given its recent larger raises (GP Stakes V & OTF II), leaving the firm without a flagship institutional fund to raise in the quarter. For the remainder of 2023, we expect OWL to see fundraising driven by new product launches, smaller successor funds from existing strategies and customized separate account mandates. The firm has raised \$3.7B in its 6th RE fund and expects to reach its \$5B hard cap in 2H23 which would make it 2x the size of its predecessor. GP Stakes VI should be marketed in 2H23 and could see a first close at some point in 1Q24. OWL is seeing steady monthly increases across its private wealth strategies distributed through the wirehouses, and is experiencing very modest redemption requests from funds which offer a redemption feature with just over \$160M requested in 2Q23 (0.5% of AUM in those products vs. \$1.3B raised). While OWL expects to announce the addition of a couple very large wirehouses in the coming weeks to expand its distribution in the wealth channel. Management expects the fundraising mix to tilt towards institutional strategies by the end of 2023.
- **Credit quality remains solid.** OWL is seeing good revenue and EBITDA growth at its portfolio companies with no change to its internal watch list, amendment requests or non-accruals. Weighted average LTVs are in the low 30s across its tech dedicated portfolio and in the low 40s across the entire direct lending portfolio. Across the \$78B of loans OWL has originated since inception, management cited annualized realized losses of only 6 basis points which has been fully offset by realized gains over the period.
- **Deployment improved but remains slow.** The slower capital markets backdrop has not only impacted realizations at peers but deployment as well in certain sectors. OWL's real estate pipeline remains robust with \$3.8B of transaction volume under letter of intent or contracts closed and a near-term overall pipeline of \$30B across the firm.

OWL Results Versus our Expectations

Adjusted Basis Earnings (\$M unless otherwise noted)

	2Q23A	2Q23E	A-E	A-E%	Seq %	Y/Y %
Income Statement						
Management fees, net (including BDC Part I fees)	381.6	385.3	(3.7)	(1.0%)	3.5%	30.1%
Administrative, transaction and other fees	19.9	11.5	8.4	72.8%	125.6%	(19.1%)
Total Adjusted Fee Revenues	401.5	396.8	4.6	1.2%	6.4%	26.3%
Realized Performance Income	0.0	0.0	0.0	NA	(100.0%)	NA
Total Adjusted Revenues	401.5	396.8	4.6	1.2%	6.2%	26.3%
Compensation and benefits	115.6	109.1	6.5	5.9%	11.6%	34.7%
Realized Performance Compensation	0.0	0.0	0.0	NA	(100.0%)	NA
General, administrative and other expenses	39.1	39.7	(0.6)	(1.4%)	(18.6%)	7.8%
Total Adjusted Expenses	154.7	148.8	5.9	4.0%	1.9%	26.7%
Pretax Income	246.7	248.0	(1.3)	(0.5%)	9.1%	26.1%
Total Adjusted Fee Revenues	401.5	396.8	4.6	1.2%	6.4%	26.3%
Compensation and benefits	115.6	109.1	6.5	5.9%	11.6%	34.7%
General, administrative and other expenses	39.1	39.7	(0.6)	(1.4%)	(18.6%)	7.8%
Noncontrolling interests	2.1	(1.0)	3.1	314.7%	1804.0%	258.0%
Fee Related Earnings	244.6	249.0	(4.4)	(1.8%)	8.3%	24.1%
Fee Related Earnings Per Share	\$0.17	\$0.18	(\$0.00)	(1.7%)	8.1%	22.6%
Realized Performance Income	0.0	0.0	0.0	NA	(100.0%)	NA
Realized Performance Compensation	0.0	0.0	0.0	NA	(100.0%)	NA
Net Interest Expense	13.6	13.7	(0.2)	(1.2%)	(0.0%)	(9.8%)
Taxes and TRA payable (receivable)	4.0	12.4	(8.4)	(67.6%)	10.2%	148.2%
Tax Rate	1.6%	5.0%	(3.4%)	(67.5%)	1.0%	96.8%
Distributable Earnings	227.0	222.9	4.1	1.9%	8.6%	25.8%
After-Tax DE Per Share per common	\$0.16	\$0.16	\$0.00	1.9%	8.4%	24.3%
Consensus Estimate	\$0.16	\$0.16	\$0.00	0.2%		
Total WA Adjusted Shares	1,415.5	1,416.3	(0.9)	(0.1%)	0.2%	1.3%

Profitability Metrics:

Fee Related Comp Ratio	28.8%	27.5%	130bps	4.7%	4.9%	6.7%
G&A to Fee Ratio	9.7%	10.0%	(26bps)	(2.6%)	(23.5%)	(14.7%)
Fee Related Earnings Margin	60.9%	62.8%	(183bps)	(2.9%)	1.8%	(1.7%)
Distributable Earnings Margin	56.5%	56.2%	(104bps)	0.7%	2.2%	(0.4%)

OWL Assets Under Management (\$B)

Ending Total AUM	149.6	151.8	(2.2)	(1.5%)	3.6%	25.5%
Beginning Fee Paying AUM	91.6	91.6	0.0	0.0%	3.2%	39.7%
Acquisitions	0.0	0.0	0.0	NA	NA	(100.0%)
New capital raised/deployed	2.5	5.0	(2.4)	(49.3%)	(18.7%)	(58.4%)
Fee basis change	(0.3)	0.0	(0.3)	NA	NA	NA
Distributions	(0.9)	(0.7)	(0.2)	(22.9%)	16.6%	(84.9%)
Change in Fund Value	0.7	0.9	(0.2)	(18.3%)	(12.6%)	(695.8%)
Ending Fee Paying AUM	93.6	96.7	(3.1)	(3.2%)	2.2%	20.8%

Capital Metrics

Dividend per Share	\$0.14	\$0.14	\$0.00	0.0%	0.0%	27.3%
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Source: Company reports & Piper Sandler estimates

Blue Owl Capital Inc. (OWL)

(\$M, except where otherwise noted)

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	1Q21	2Q21	3Q21	4Q21	1Q22	2Q22	3Q22	4Q22	1Q23	2Q23	3Q23E	4Q23E	1Q24E	2Q24E	3Q24E	4Q24E	2021	2022	2023E	2024E
Consolidated Distributable Income Statement																				
Adjusted Revenues																				
Management fees, net (including BDC Part I fees)	170.2	180.4	204.7	236.3	256.6	293.2	348.1	351.0	368.6	381.6	398.6	420.3	446.2	477.5	514.9	546.4	791.6	1,249.0	1,569.1	1,985.0
Administrative, transaction and other fees	9.1	29.4	31.0	38.6	16.0	24.6	14.8	17.3	8.8	19.9	16.6	21.6	24.8	27.3	30.0	32.5	108.1	72.8	66.9	114.5
Total Adjusted Fee Revenues	179.2	209.8	235.7	274.9	272.6	317.8	363.0	368.4	377.4	401.5	415.2	441.9	471.0	504.7	544.9	578.9	899.6	1,321.7	1,636.0	2,099.5
Realized Performance Income				5.9	0.0	0.0	0.0	12.2	0.5	0.0	0.0	10.0	0.0	0.0	0.0	15.0	5.9	12.2	10.5	15.0
Total Adjusted Revenues	179.2	209.8	235.7	280.8	272.6	317.8	363.0	380.6	377.9	401.5	415.2	451.9	471.0	504.7	544.9	593.9	905.5	1,334.0	1,646.5	2,114.5
Adjusted Expenses																				
Compensation and benefits	53.6	60.7	70.7	84.3	75.0	85.8	98.5	101.7	103.6	115.6	118.3	125.9	134.2	143.9	155.3	165.0	269.3	361.0	463.5	598.4
Realized Performance Compensation				2.1	0.0	0.0	0.0	4.3	0.2	0.0	0.0	3.5	0.0	0.0	0.0	5.3	2.1	4.3	3.7	5.3
General, administrative and other expenses	15.6	17.2	21.7	24.5	26.8	36.3	59.1	46.1	48.0	39.1	41.5	44.2	44.7	45.4	46.3	49.2	79.0	168.3	172.8	185.7
Total Adjusted Expenses	69.2	77.9	92.4	110.9	101.7	122.1	157.6	152.1	151.8	154.7	159.9	173.6	179.0	189.3	201.6	219.4	350.3	533.6	640.0	789.3
Pretax Income	110.1	131.9	143.3	169.9	170.9	195.7	205.4	228.4	226.1	246.7	255.4	278.3	292.0	315.5	343.3	374.4	555.2	800.4	1,006.5	1,325.2
Management fees, net (including BDC Part I fees)	170.2	180.4	204.7	236.3	256.6	293.2	348.1	351.0	368.6	381.6	398.6	420.3	446.2	477.5	514.9	546.4	791.6	1,249.0	1,569.1	1,985.0
Administrative, transaction and other fees	9.1	29.4	31.0	38.6	16.0	24.6	14.8	17.3	8.8	19.9	16.6	21.6	24.8	27.3	30.0	32.5	108.1	72.8	66.9	114.5
Compensation and benefits	53.6	60.7	70.7	84.3	75.0	85.8	98.5	101.7	103.6	115.6	118.3	125.9	134.2	143.9	155.3	165.0	269.3	361.0	463.5	598.4
General, administrative and other expenses	15.6	17.2	21.7	24.5	26.8	36.3	59.1	46.1	48.0	39.1	41.5	44.2	44.7	45.4	46.3	49.2	79.0	168.3	172.8	185.7
Noncontrolling interests	(0.1)	1.9	1.5	0.7	(0.5)	(1.4)	(4.5)	(1.4)	(0.1)	2.1	(1.0)	(1.0)	(1.0)	(1.0)	(1.0)	(1.0)	4.0	(7.7)	0.0	(4.0)
Fee Related Earnings	110.1	130.1	141.9	165.3	171.4	197.1	209.8	221.9	225.9	244.6	256.4	272.8	293.0	316.5	344.3	365.7	547.4	800.1	999.6	1,319.5
Realized Performance Income				5.9	0.0	0.0	0.0	12.2	0.5	0.0	0.0	10.0	0.0	0.0	0.0	15.0	5.9	12.2	10.5	15.0
Realized Performance Compensation				2.1	0.0	0.0	0.0	4.3	0.2	0.0	0.0	3.5	0.0	0.0	0.0	5.3	2.1	4.3	3.7	5.3
Net Interest Expense	5.9	5.8	6.1	9.5	12.8	15.0	15.0	12.8	13.6	13.6	13.7	13.7	13.5	13.5	13.7	13.7	27.3	55.7	54.6	54.4
Noncontrolling interests	(0.1)	1.9	1.5	0.7	(0.5)	(1.4)	(4.5)	(1.4)	(0.1)	2.1	(1.0)	(1.0)	(1.0)	(1.0)	(1.0)	(1.0)	4.0	(7.7)	0.0	(4.0)
Taxes and TRA payable (receivable)	(8.5)	15.9	(7.0)	0.5	2.8	1.6	3.1	2.0	3.6	4.0	12.8	13.9	35.0	41.0	48.1	52.4	0.9	9.6	34.3	176.5
Tax Rate	-7.7%	12.0%	-4.9%	0.3%	1.7%	0.8%	1.5%	0.9%	1.6%	1.6%	5.0%	5.0%	12.0%	13.0%	14.0%	14.0%	0.2%	1.2%	3.4%	13.3%
Distributable Earnings	112.7	108.4	142.8	159.2	155.7	180.4	191.7	215.0	209.0	227.0	229.9	251.6	244.4	261.9	282.6	309.3	523.0	742.8	917.5	1,098.2
After-Tax DE Per Share per common	\$0.09				\$0.11				\$0.15				\$0.17				\$0.40	\$0.53	\$0.65	\$0.77
Fee Related Earnings Per Share	\$0.10				\$0.12				\$0.16				\$0.18				\$0.42	\$0.57	\$0.71	\$0.92
Total WA Adjusted Shares		1,243.0	1,285.7	1,355.7	1,398.7	1,397.8	1,399.8	1,398.2	1,413.3	1,415.5	1,418.5	1,421.5	1,424.5	1,427.5	1,430.5	1,433.5	1,294.8	1,398.6	1,417.2	1,429.0
Profitability Metrics																				
Fee Related Earnings Margin		62.0%	60.2%	60.2%	62.9%	62.0%	57.8%	60.2%	59.9%	60.9%	61.7%	61.7%	62.2%	62.7%	63.2%	63.2%	60.8%	60.5%	61.1%	62.8%
FRE Margin (Peer Comp)		62.9%	60.8%	60.4%	62.7%	61.6%	56.6%	59.9%	59.8%	61.5%	61.5%	61.5%	62.0%	62.5%	63.0%	63.0%	61.3%	60.0%	61.1%	62.7%
Distributable Earnings Margin		51.6%	60.6%	56.7%	57.1%	56.8%	52.8%	56.5%	55.3%	56.5%	55.4%	55.7%	51.9%	51.9%	51.9%	52.1%	57.8%	55.7%	55.7%	51.9%
Fee Related Comp Ratio	29.9%	28.9%	30.0%	30.7%	27.5%	27.0%	27.1%	27.6%	27.5%	28.8%	28.5%	28.5%	28.5%	28.5%	28.5%	28.5%	29.9%	27.3%	28.3%	28.5%
Assets Under Management (\$B)																				
Total EOP AUM																				
Direct Lending	27.8	31.2	34.6	39.2	44.8	56.8	65.7	68.6	71.6	73.8	78.2	83.2	88.4	93.9	99.9	106.2	39.2	68.6	83.2	106.2
GP Solutions	30.2	31.2	35.9	39.9	41.2	45.7	47.8	48.5	49.2	50.9	51.8	54.1	58.5	60.8	63.2	65.6	39.9	48.5	54.1	65.6
Real Estate				15.4	16.1	16.6	18.6	21.1	23.6	24.8	26.7	28.6	30.7	32.9	35.3	37.9	15.4	21.1	28.6	37.9
Total EOP AUM	58.0	62.4	70.5	94.5	102.0	119.1	132.1	138.2	144.4	149.6	156.7	165.9	177.6	187.7	198.4	209.7	94.5	138.2	165.9	209.7
Total EOP FPAUM																				
Direct Lending	21.5	24.2	27.2	32.0	32.7	41.4	45.3	49.0	51.2	52.1	54.8	58.7	62.5	66.7	71.2	75.9	32.0	49.0	58.7	75.9
GP Solutions	18.6	18.7	19.7	21.2	23.7	26.7	28.5	28.8	28.6	28.5	28.9	30.1	32.0	34.6	36.2	37.8	21.2	28.8	30.1	37.8
Real Estate				8.2	9.3	9.4	10.4	11.0	11.9	13.1	14.7	16.2	17.5	18.9	20.5	22.2	8.2	11.0	16.2	22.2
Total EOP FPAUM	40.1	42.8	47.0	61.4	65.6	77.5	84.1	88.8	91.6	93.6	98.4	104.9	112.1	120.3	127.8	135.9	61.4	88.8	104.9	135.9

Source: Company reports & Piper Sandler Cos. Current disclosure information for this company can be found at: <http://www.pipersandler.com/researchdisclosures>

Last Updated: 08/01/23

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Notes: The boxes on the Rating and Price Target History chart above indicate the date of the fundamental Equity Research Note, the rating and the price target. Each box represents a date on which an analyst made a change to a rating or price target, except for the first box, which may only represent the first Note written during the past three years.

Legend:

I: Initiating Coverage
 R: Resuming Coverage
 T: Transferring Coverage
 D: Discontinuing Coverage
 S: Suspending Coverage
 OW: Overweight
 N: Neutral
 UW: Underweight
 NA: Not Available
 UR: Under Review

Distribution of Ratings/IB Services Piper Sandler				
Rating	Count	Percent	IB Serv./Past 12 Mos.	
			Count	Percent
BUY [OW]	589	57.97	155	26.32
HOLD [N]	383	37.70	53	13.84
SELL [UW]	44	4.33	2	4.55

Note: Distribution of Ratings/IB Services shows the number of companies currently covered by fundamental equity research in each rating category from which Piper Sandler and its affiliates received compensation for investment banking services within the past 12 months. FINRA rules require disclosure of which ratings most closely correspond with "buy," "hold," and "sell" recommendations. Piper Sandler ratings are not the equivalent of buy, hold or sell, but instead represent recommended relative weightings. Nevertheless, Overweight corresponds most closely with buy, Neutral with hold and Underweight with sell. See Stock Rating definitions below.

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Time of dissemination: 1 August 2023 22:17EDT.

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Overweight (OW): Anticipated to outperform relative to the median of the group of stocks covered by the analyst.

Neutral (N): Anticipated to perform in line relative to the median of the group of stocks covered by the analyst.

Underweight (UW): Anticipated to underperform relative to the median of the group of stocks covered by the analyst.

Other Important Information

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