

August 01, 2023

Blue Owl Capital, Inc

OWL | \$12.38

Outperform | Target Price/Base Case: \$14.00

Company Update

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Nocturnal Quarter

OWL 2Q23 First Look

OWL reported after-tax distributable earnings of \$0.16 vs our / consensus \$0.16 / \$0.16: In-line quarter with no real surprises given the backdrop, though we would point to the strong performance in Direct Lending (up 4.3% in 2Q and 18.9% LTM) and growth & performance in Real Estate (AUM rose 49% y/y to \$25bn with gross returns of 2.3% and 14.2%) as the key encouraging signs. Other positives included 26% y/y growth in Aum, 24% in permanent capital, 24% FRE growth, a pick-up in direct originations at \$3.4bn and a strong 61.5% margin. A slow capital raising backdrop and limited dry powder were two issues to note as OWL's fundraising was down 60% y/y at \$2.9bn in 2Q (~8% organic growth) and OWL having \$12bn in dry powder (8% of AUM). Pretty straightforward quarter and OWL remains a good solid fee growth story, but growth is slower right now given the lumpiness of GP Stakes, rate-impacted Real Estate concerns, and temporarily slower Credit backdrop. Performance should lead to better growth as investors get their arms around the rate & economic backdrop and the Wealth channel re-engages.

Positives:

- **AUM up y/y & q/q:** AUM reached \$150bn +14% q/q annualized (+26% y/y), while FP AUM was +9% q/q (+21% y/y);
- **High permanent capital:** Up 15% q/q annualized (+24% y/y), permanent capital of \$119bn generated 93% of mgmt fees;
- **Not-yet fee-paying AUM & mgmt fee up:** The \$12bn of AUM not-yet paying fees (vs +\$12bn last quarter) is worth \$170mn in annual mgmt fees once deployed (from \$155mn);
- **Direct Lending** was a growth driver with AUM up 30% y/y to \$74bn & a gross return of 4.3% in 2Q (18.9% LTM). **Real Estate** AUM rose 49% to \$25bn & had gross returns of 2.3% for 2Q (14.2%). **GP Capital Solutions** AUM rose 12% y/y;
- Direct lending gross originations were up 112% q/q to \$3.4bn, while deployment went to \$1.6bn (+23% q/q);
- **High margin & up y/y:** FRE margin was stable y/y at a strong 61.5% (+165bps q/q). FRE mgmt fees +30% y/y & FRE +26%;
- **Solid capital mgmt:** The div payout was 88%;
- Available cash up 8% q/q to \$41mn on seasonality. Upped the revolver to \$1.55bn now w/ 6/28 maturity;

Issues:

- **Organic growth but slower:** New capital raised totaled \$2.9bn or ~8% organic growth (\$4.3bn expected & \$4.4bn last two quarters avg) with \$1.5bn coming from direct lending & \$1.1bn from real estate, while \$1.8bn came from the private wealth channel & \$1.1bn from inst'l;
- **Fundraising down** 60% y/y, wealth channel in half, institutional 2/3;
- Admin & transaction fees were down 19% y/y;
- Less **dry powder** than peers at 8% of total AUM (less than half of some others).

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VALUATION METHODOLOGY

Our target price for Blue Owl is calculated based on 22.5x our 24e after-tax distributable earnings less non-cash equity-based compensation. Our DE multiple is based on a premium to the private markets solutions peer average current multiple of ~20x pro forma after-tax distributable earnings less equity-based compensation expense mostly driven by higher growth, more permanent capital and higher FRE & FRE margins relative to its peers.

RISKS

In terms of risks, there could be periodic equity stake divestitures by insiders. Also, some investors may be prohibited from owning a company with seven principals having 90% of voting rights. There could be a pick-up in competition in the GP stake space, as there are currently not only a couple of other significant players. As well, an eventual (but no time soon) turn in the credit cycle, a spike in interest rates potential spates of poor investment performance.

TIMESTAMP**(Article 3(1)e and Article 7 of MAR)**

Time of dissemination: August 01 2023 8:06 AM ET

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 Buy- Return 10% to 20%
 Neutral - Return 0% to 10%
 Cautious- Return -10% to 0%
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 Suspended- the company rating, target price and earnings estimates have been temporarily suspended.

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Evercore ISI rating (as of 01 August 2023)

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Ratings	Count	Pct.	Ratings	Count	Pct.
Buy	448	58	Buy	57	13
Hold	288	37	Hold	24	8
Sell	14	2	Sell	0	0
Coverage Suspended	21	3	Coverage Suspended	4	19
Rating Suspended	8	1	Rating Suspended	2	25

Issuer-Specific Disclosures 01 August 2023

Price Charts

Blue Owl Capital, Inc Rating History as of 07/31/2023



Ratings Key

B	Buy	OP	Outperform	L	Long	CS	Coverage Suspended
H	Hold	IL	In Line	NP	No Position	RS	Rating Suspended
S	Sell	UP	Underperform	S	Short		

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