

August 01, 2023

### Blue Owl Capital, Inc

OWL | \$12.28

**Outperform | Target Price/Base Case: \$14.00**

#### Earnings Report

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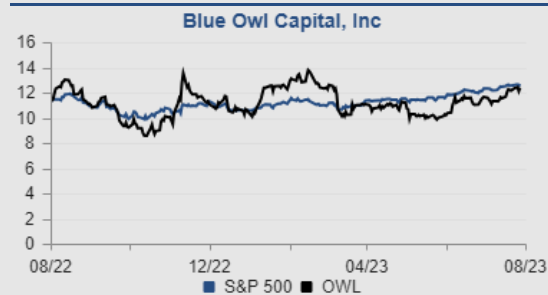
#### Company Statistics

Market Capitalization (M)	\$4,852
52-Week Range	\$8.05 - \$14.70
Forward P/E	10.5
Shares Outstanding (M)	446
Dividend/Share	0.16
Dividend Yield	1.5%

#### Earnings Summary

		2022	2023E	2024E
EPS	Q1	\$0.11	\$0.15A	\$0.18
	Q2	\$0.13	\$0.16	\$0.20
	Q3	\$0.14	\$0.16	\$0.21
	Q4	\$0.16	\$0.17	\$0.23
	FY	\$0.54	\$0.64	\$0.81

#### 1 Year Price History



## Some Temporary Slowing, But Everything's Gonna Be Owlright

### Blue Owl 2Q23 Earnings Review

Amid a slower fundraising & deployment backdrop for everybody, OWL is now tracking about a quarter behind the pace for its '23 goals of \$1bn in DE & \$50bn of added FPAUM. That being said, these were already in consensus numbers (\$920mn & \$42bn, respectively); there was confidence around getting to a \$1/per share dividend for '25 (Street at \$0.93); & there were some forward-looking indicators (like added wealth platforms) that should lead to a better growth profile.

More shorter-term: (1) July appears to be off to a better fundraising start than 2Q; (2) in credit, M&A activity is headed in the right direction with a pent-up demand for PE deployment; (3) the private wealth channel is seeing increases in monthly flows with very modest redemption requests of only 0.5% of AUM with quarterly redemptions (e.g. \$160mn vs \$1.3bn raised in 2Q); (4) in real estate, OWL got added to a wire-house with two more coming soon; (5) GP stakes is deploying the rest of V & launching VI early in '24; (6) there's \$12bn in dry powder (\$8bn of credit should be deployed over the next year or maybe sooner); & (7) there are more BDCs planned, but also more separate acct mandates (int'l mkts, industry verticals other than software, newer vintages of smaller funds).

Looking further out are tailwinds like: (1) the secular trends of LPs growing alt allocations & consolidating manager relationships; (2) direct lending getting more market share; (3) the initiation of a PE secondaries effort; (4) OWL likely adds some new capabilities under its umbrella; & (5) the three legs of the businesses are now all under the one brand.

Estimates & PT: '23E & '24E EPS are \$0.64 & \$0.81 (from \$0.66 & \$0.83). Our PT is \$14.

**Thesis-wise**, we expect growth & quality of earnings/stability of results to continue. In terms of the story, recall OWL is one of the top players in the fast-growing direct lending space, the top player in the high growth/high margin GP stakes biz, it has a triple net lease platform for real estate. We think their growth, plus OWL being all FRE & permanent capital driven will increasingly resonate with investors.

#### Forward looking information:

- **'23 deployment** is still expected to be a bit under '22, so the two-year combo is under the target \$50bn (Street at \$42bn).

The split should lean to the inst'l side but with the retail channel improving. In real estate, capital deployment has started in its 6<sup>th</sup> closed-end fund vintage (\$3.7bn already raised, going to \$5bn in 2H or 2x Fund V). In 2Q, OWL added a large wire-house for its perpetual product, with meaningful additions through '23 & into '24 (e.g. two more wire-houses in the near-term).

In GP stakes, mgmt has line-of-sight on deploying the \$2bn left in Fund VI; and is looking to launch Fund VI with a first close early next year.

- In terms of incremental fees, the \$12bn of AUM not-yet-paying-fees represents \$170mn.
- The yearly target for FRE margin is 60% ('22 was 60%).
- The range for adj comp expense is 25%-30% (towards the higher end for '23; 29% in 2Q & 27% the prior 4 quarters).
- G&A in '23 should trend up a little vs '22's \$170mn with placement costs lower but regular G&A higher (e.g. headcount, office space).
- '23 tax rate mid-single digits, while '24 & '25 are in the low-teens.
- Now tracking one quarter behind the DE target of \$1bn in '23 (36% CAGR) or \$0.70 (vs Street currently at \$0.66).
- A \$1 dividend in '25, up from \$0.56 in '23 & which at present prices would translate into an 8% yield today. OWL has moved to a fixed quarterly dividend of \$0.14 for '23 & share buybacks are for offsetting stock comp dilution.

## 2Q23 Quarterly Rundown

**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).

## VALUATION METHODOLOGY

Our target price for Blue Owl is calculated based on ~21x 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.

## COMPANIES UNDER COVERAGE BY AUTHOR

Symbol	Company	Rating	Price (2023-01-08)	Evercore ISI Target
APO	Apollo Global Management, Inc.	Outperform	\$81.71	\$78.00
BAC	Bank of America Corporation	Outperform	\$32.00	\$35.00
BEN	Franklin Resources, Inc.	Underperform	\$29.24	\$28.00
BK	Bank of New York Mellon Corp.	In Line	\$45.36	\$47.00
BLK	BlackRock, Inc.	Outperform	\$738.85	\$780.00
BSIG	BrightSphere Investment	In Line	\$21.28	\$22.00
BX	Blackstone, Inc.	Outperform	\$104.79	\$118.00
C	Citigroup, Inc.	In Line	\$47.66	\$51.00
CG	The Carlyle Group Inc.	Outperform	\$35.65	\$35.00
GS	Goldman Sachs Group Inc.	Outperform	\$355.87	\$370.00
IVZ	Invesco Ltd.	In Line	\$16.80	\$18.00
JPM	JPMorgan Chase & Co.	Outperform	\$157.96	\$158.00
KKR	KKR & Co. Inc.	Outperform	\$59.38	\$66.00
MS	Morgan Stanley	Outperform	\$91.56	\$104.00
NTRS	Northern Trust Corp.	In Line	\$80.12	\$79.00
OWL	Blue Owl Capital, Inc.	Outperform	\$12.32	\$14.00
STT	State Street Corp.	Outperform	\$72.44	\$75.00
TPG	TPG Inc	In Line	\$29.43	\$33.00
TROW	T. Rowe Price Group, Inc.	In Line	\$123.26	\$114.00

## TIMESTAMP

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

Time of dissemination: August 01 2023 6:02 PM ET

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Strong Buy- Return > 20%

Buy- Return 10% to 20%

Neutral - Return 0% to 10%

Cautious- Return -10% to 0%

Sell- Return< -10%

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Underweight -the stock is expected to underperform the average total return of the analyst's coverage universe over the next 12 months.

Suspended- the company rating, target price and earnings estimates have been temporarily suspended.

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Coverage Universe			Investment Banking Services I Past 12 Months		
Ratings	Count	Pct.	Ratings	Count	Pct.
Buy	448	58	Buy	55	12
Hold	288	37	Hold	23	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 (as of August 01, 2023)



## Price Charts



## 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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