

# Alternative Asset Managers

## 2Q23E ARES/OWL – Credit quality resilient and deployment backdrop improving

Price Objective Change

### Increasing OWL & ARES EPS estimates

Following the quarterly results, we are increasing our earnings estimates for both Blue Owl (OWL) and Ares Management (ARES). Our 2023/24/25 OWL distributable earnings estimates increase from \$0.65/\$0.86/\$0.99 to \$0.67/\$0.79/\$1.07, which moves our PO from \$15 to \$17. Our revisions reflect lighter than expected expenses with OWL's FRE margin increasing 210 bps sequentially and the effective tax rate remaining below 2% YTD. For ARES, our 2023/24/25 earnings estimates increase from \$3.68/\$4.97/\$6.30 to \$3.70/\$5.29/\$6.77 in light of better than expected fundraising, which boosts our PO to \$106 from \$100. Commitments to Senior Direct Lending (SDL) III and European Direct Lending (EDL) VI beat our estimates by over \$2B in 2Q23, and we anticipate further strength going forward. EDL VI will likely hit its \$6.5B hard cap in 2H23, and SDL III has already held its first close in 3Q23. Additionally, ACOF VII and the first Credit Secondaries fund will come to market in 2H23, and management guided to particularly strong growth in opportunistic and alternative credit.

### No uptick in amendment requests

Both OWL and ARES noted no material uptick in amendment request and strength in operating company fundamentals. To the extent that loans are defaulting, the equity cushions are large, and shareholders generally remain committed to the asset. This has created opportunities for direct lenders to renegotiate more favorable loan terms, such as swapping cash interest for a larger amount of payment-in-kind (PIK) interest.

### Deployment backdrop improving as capital markets reopen

The lack of transaction activity has been a headwind to deployment YTD, but we expect improvement in 2H23 into 2024. The decline in valuations, shuttering of the syndicated loan market, and higher interest rates have made it harder to execute on M&A, which has in turn reduced opportunities for sponsor-backed lending. However, deal activity has appeared to turn the corner. ARES's deployment pipeline improved sequentially while OWL noted that sponsor activity has been accelerating over the past couple months.

### Forecast trough OWL fundraising in 2Q23

While OWL fundraising came in \$1.3B below our estimates in 2Q23, we expect commitments to accelerate. In addition to Real Estate Fund VI now remaining open through 2H23, we expect several funds to come back to market in the back half of the year. This includes the inaugural strategic equity fund, Opportunistic Lending Fund II, and potentially Dyal VI. We also expect a pick-up in CLO issuance as capital markets reopen, and Oak Trust fundraising should also be robust given the onboarding of new wirehouses. They are launching on two large wirehouses within weeks, and there are more opportunities in the pipeline.

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Equity  
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Asset Managers

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## Price objective basis & risk

### Ares Management Corp (ARES, \$100.13, B-1-7)

Our \$106 price objective for Ares Management is derived from 20x 2025E cash earnings. Our definition of cash earnings uses the company's distributable earnings metric and adds back stock-based comp. Our multiple is in-line with the stock's current valuation and at the higher end of the range of Alt peers (7-25x). However, it is higher than ARES's historical range (5Y average = 18x) as the stock was undervalued before 2020, partly due to its partnership structure (pre C-Corp conversion) and lack of long-only/passive ownership. Risks to our PO: investing backdrop more challenging, adverse macroeconomic scenarios, US and international tax reform and succession planning.

### Blue Owl Capital (OWL, \$12.10, B-1-7)

Our \$17 price objective for Blue Owl is derived from 17.5x 2025E cash earnings. Our definition of cash earnings uses the company's distributable earnings metric and adds back stock-based comp. Our multiple is in line with the mid-point of the industry range (7-25x). We view OWL's earnings quality as higher than peers given its very high mix of fee-related earnings, permanent capital AuM composition and higher growth trajectory.

Risks to our PO: investing backdrop more challenging (intensifying competition in private debt), lending to technology companies, Part 1 fees included in FRE, variable dividend payout, tax receivable agreement, secondary sale risks from large owners (Neuberger Berman), corporate structure (voting rights), merger integration (Oak Street), adverse macroeconomic scenarios and US and international tax reform.

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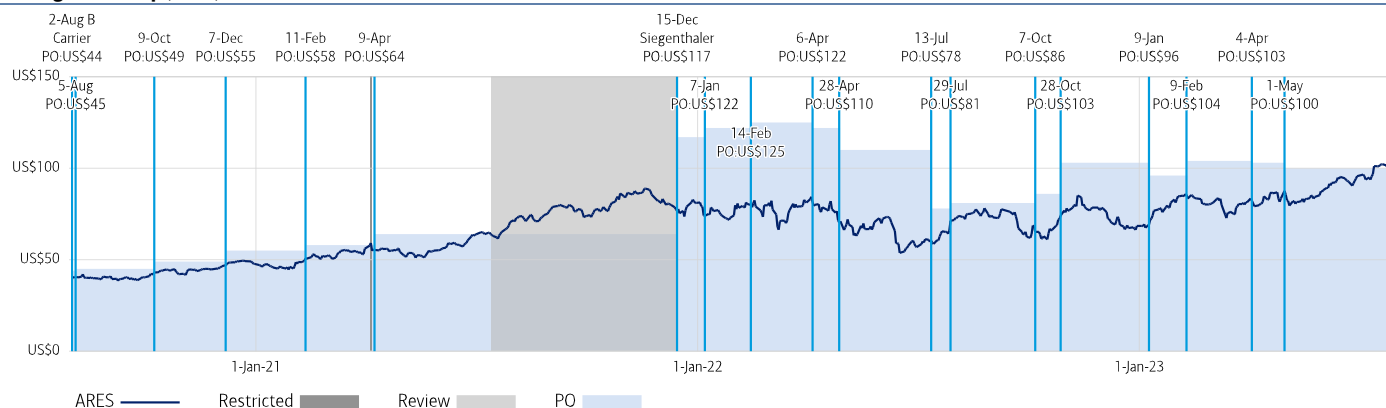
## US - Brokers, Asset Managers, &amp; Exchanges Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
<b>BUY</b>				
	Ameriprise Financial	AMP	AMP US	Craig Siegenthaler, CFA
	Ares Management Corp	ARES	ARES US	Craig Siegenthaler, CFA
	BlackRock, Inc.	BLK	BLK US	Craig Siegenthaler, CFA
	Blackstone	BX	BX US	Craig Siegenthaler, CFA
	Blue Owl Capital	OWL	OWL US	Craig Siegenthaler, CFA
	Interactive Brokers	IBKR	IBKR US	Craig Siegenthaler, CFA
	Intercontinental Exchange	ICE	ICE US	Craig Siegenthaler, CFA
	KKR & Co. Inc.	KKR	KKR US	Craig Siegenthaler, CFA
	TPG Inc	TPG	TPG US	Craig Siegenthaler, CFA
	Tradeweb Markets Inc.	TW	TW US	Craig Siegenthaler, CFA
	Victory Capital Holdings, Inc.	VCTR	VCTR US	Craig Siegenthaler, CFA
<b>NEUTRAL</b>				
	Affiliated Managers Group	AMG	AMG US	Craig Siegenthaler, CFA
	AllianceBernstein	AB	AB US	Craig Siegenthaler, CFA
	Apollo Global Management	APO	APO US	Craig Siegenthaler, CFA
	Invesco	IVZ	IVZ US	Craig Siegenthaler, CFA
	Janus Henderson Group	JHG	JHG US	Craig Siegenthaler, CFA
	Janus Henderson Group	JUHDY	JHG AU	Craig Siegenthaler, CFA
	LPL Financial Holdings	LPLA	LPLA US	Craig Siegenthaler, CFA
	Patria	PAX	PAX US	Craig Siegenthaler, CFA
<b>UNDERPERFORM</b>				
	Charles Schwab Corp.	SCHW	SCHW US	Craig Siegenthaler, CFA
	CME Group Inc	CME	CME US	Craig Siegenthaler, CFA
	Franklin Resources	BEN	BEN US	Craig Siegenthaler, CFA
	Nasdaq	NDAQ	NDAQ US	Craig Siegenthaler, CFA
	Robinhood Markets	HOOD	HOOD US	Craig Siegenthaler, CFA
	T. Rowe Price	TROW	TROW US	Craig Siegenthaler, CFA
	The Carlyle Group	CG	CG US	Craig Siegenthaler, CFA
<b>RSTR</b>				
	Focus Financial Partners	FOCS	FOCS US	Craig Siegenthaler, CFA

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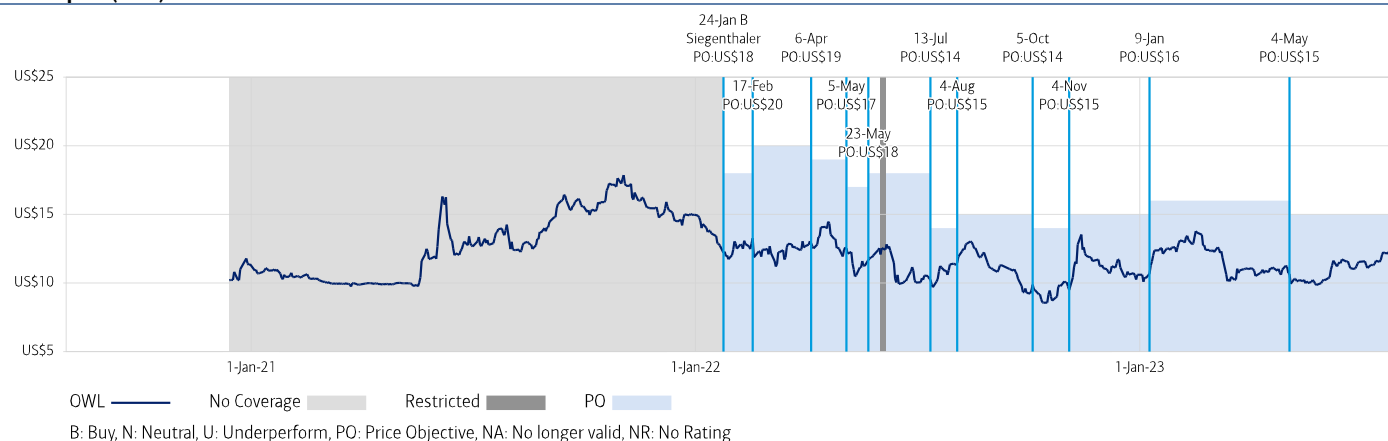
## Ares Management Corp (ARES) Price Chart



B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark grey shading indicates the security is restricted with the opinion suspended. Medium grey shading indicates the security is under review with the opinion withdrawn. Light grey shading indicates the security is not covered. Chart is current as of a date no more than one trading day prior to the date of the report.

## Blue Owl Capital (OWL) Price Chart



The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark grey shading indicates the security is restricted with the opinion suspended. Medium grey shading indicates the security is under review with the opinion withdrawn. Light grey shading indicates the security is not covered. Chart is current as of a date no more than one trading day prior to the date of the report.

## Equity Investment Rating Distribution: Financial Services Group (as of 30 Jun 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	Count	Percent
Buy	145	50.52%	Buy	91	62.76%
Hold	78	27.18%	Hold	47	60.26%
Sell	64	22.30%	Sell	38	59.38%

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Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	Count	Percent
Buy	1877	53.28%	Buy	1040	55.41%
Hold	815	23.13%	Hold	464	56.93%
Sell	831	23.59%	Sell	385	46.33%

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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster <sup>R2</sup>
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

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