

## KKR & Co. L.P.

NYSE: KKR

**Analyst:** Brian Johnke

**Sector:** Financials

**BUY**

Price Target: \$28.30

### Key Statistics as of 2/12/2014

Market Price:	\$23.67
Industry:	Capital Markets
Market Cap:	\$10.175 B
52-Week Range:	\$18.84-25.58
Beta:	0.49

### Thesis Points:

- High Yield Distributions
- Exposure to Energy
- Diversified Portfolio
- Ability to Raise Capital

### Company Description:

KKR & Co., a global investment firm, was founded in 1976 by Jerome Kohlberg, Henry Kravis, and George Roberts. The firm manages its assets by using a variety of investment funds and accounts that cover multiple asset classes. Through monitoring and active oversight, KKR helps deliver capital solutions to the companies in its portfolio. KKR currently has over \$98 billion in assets under management and \$83 billion in fee paying assets under management diversified across private equity, energy, infrastructure, real estate, credit and hedge funds. KKR sponsors and manages private equity funds and has raised capital for multiple investment funds in the United States, Europe, and Asia. The firm specializes in leveraged buyouts and since its inception, when adjusted for inflation, KKR has played a part in five of the ten largest leveraged buyouts in history.



## Recommendation

As a global investment leader specialized in private equity and leveraged buyouts, KKR is a BUY with a one year target price of \$28.30, which combined with its high yield cash distributions (nearly 9% in 2014) KKR provides a great investment opportunity. Look for advance in 2015 as energy prices start to settle. Moving forward, KKR's diverse portfolio and ability to raise capital when necessary will play a key role as the company continues to grow.

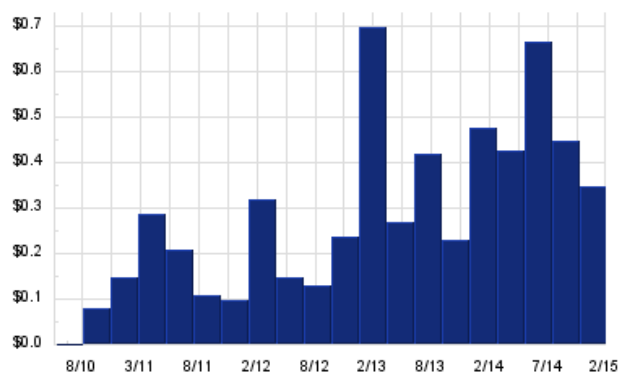
## Management

KKR is led by co-chairman & co-chief executive officers Henry R. Kravis and George R. Roberts. The duo founded KKR in 1976 with former boss Jerome Kohlberg Jr. The three worked together at Bear Sterns in the corporate finance division. They were pioneers in the field of what today are known as leveraged buyouts, they referred to them as boot-strap investments, with the goal being to acquire companies that they felt were operating below their potential and turn them around. When bear sterns denied their request to form a division dedicated solely to these types of investments they left and formed KKR. Kohlberg ultimately left the company in 1987. In 1988, Under Kravis and Roberts, KKR executed a leveraged buyout of RJR Nabisco for nearly \$25 billion which, when adjusted for inflation, is the largest leveraged buyout in history. Kravis and Roberts continue to use their experience and knowledge to identify lucrative investment opportunities.

## High Yield Distributions

The amount of cash distributions paid by KKR to shareholders has continued to grow since the company went public in 2010.

### DIVIDEND HISTORY CHART



KKR paid \$2.03 per share in cash distribution for the fiscal year 2014, representing a yield of close to 9%. The firm has a history of making quarterly cash distributions that consist of nearly all cash earnings on its investment management business and approximately 40% of the net cash proceeds from realized principal investments. KKR recently announced a cash distribution of \$0.35 payable on March 6, 2015. This amount is lower than the cash distributions in each of the previous four quarters; partially due to lower than expected performance in its energy investments.

## Exposure to Energy

KKR released its quarter four and fiscal year 2014 earnings results on February 10<sup>th</sup> and reported a GAAP net income (loss) of (\$.6) million and \$477 for the quarter and year ending December 31, 2014, both down from the comparable periods in 2013 (\$277.9 and \$691.2 million respectively). KKR reported a quarter four earnings per share of \$.05 and revenue of \$212 million, missing analyst estimates by \$ .4 and \$46.87 million respectively. Part of the reason for these misses was the performance of KKR's energy holdings. At the end of quarter three, KKR had approximately 6 percent (currently 7%) of its \$13.5 billion total balance sheet in energy. The sharp decline in crude oil and natural gas resulted in a \$240 million write down of KKR's energy portfolio in private markets. Although the decline in energy negatively affected the performance of KKR in 2014, specifically quarter 4, it presents a great investment opportunity as prices begin to stabilize. The firm has positioned itself to take advantage of this opportunity by focusing on drilling partnerships and private credit opportunities. KKR is specifically looking at companies that have drilling rights but not enough capital to actually drill. The drilling partnerships will serve as a protection

in relation to the price of the underlying commodity. KKR currently has \$1.4 billion invested and \$2.5 billion in cash reserves across its energy focused pools of capital, which leaves them well positioned to take advantage of the opportunity in energy. Although the decline in energy impacted KKR's fourth quarter results, it was their diverse portfolio that helped prevent additional losses.

## Diversified Portfolio

KKR's assets under management consist of private market, public market, capital market and other investments. Their investments are globally diversified across all primary sectors.

KKR's Investments by Sector	
Consumer Discretionary	20.2%
Information Technology	15.0%
Financials	14.7%
Industrials	14.3%
Healthcare	7.8%
Consumer Staples	7.8%
Energy	5.7%
Materials	5.2%
Utilities	4.8%
Telecommunication Services	4.5%

KKR's private equity investments include more than 90 companies that generate over \$200 billion in annual revenues. The firm's approach to private equity investments is to select "high-quality investments that may be made at attractive prices, applying rigorous standards of due diligence when making investment decisions, implementing strategic and operational changes that drive growth and value creation in acquired businesses, carefully monitoring investments, and making informed decisions when developing exit strategies." (10-k) KKR's public market investments have increased substantially over the last ten years from \$800 million assets under management in 2004 to \$37.1 billion in 2014. The two biggest segments in KKR's public market investments are its leveraged credit and hedge fund investments which combined make up nearly 75 percent of KKR's public market assets under management. The diversity of KKR's portfolio will serve to minimize the downside when individual sectors lag behind the market.

## Ability to Raise Capital

KKR's Proven track record has made their funds very

attractive to investors; this has helped them raise capital when necessary. As of December 31, 2014 KKR has 820 investors, which includes the addition of 100 investors in 2014.

Investor Base by Type		Investor Base by Geography	
Public Pension & Agency	51%	Americas	62%
Financial Institutions	18%		
Insurance	10%	Asia Pacific	18%
Corporate	7%		
Family Office/HNW	6%	Europe	16%
FoF	6%		
Endowment/Foundation	2%	Middle East	4%

KKR's Client & Partner Group, comprised of 80 executives and professionals, is responsible for the raising of capital globally for all of KKR's products. The Client & Partner Group is also responsible for the expansion of KKR's client relationships by developing products to meet client needs. KKR also invests in funds through its stakes business and provides fundraising services to these fund managers. The firm's experience in raising capital will prove beneficial as they continue to add new investment pools to their portfolio.

CENTER FOR GLOBAL FINANCIAL STUDIES																	
KKR & Co. L.P.		KKR		Analyst Brian Johnke		Current Price \$23.83		Intrinsic Value \$29.07									
						Target Value \$28.29		Divident Yield 8%									
								Target Return 26.72%									
								NEUTRAL									
<b>General Info</b>		<b>Peers</b>		<b>Market Cap.</b>		<b>Management</b>											
Sector	Financials	The Blackstone Group L.P.		\$23,257.58		<b>Professional</b>	<b>Title</b>	<b>Comp. FY2012</b>	<b>Comp. FY2013</b>	<b>Comp. FY2014</b>							
Industry	Capital Markets	Franklin Resources, Inc.		\$33,162.03		Roberts, George	Co-Chairman of KKR Mana	\$ 35,002,508.00	\$ 44,108,078.00	\$ 64,375,416.00							
Last Guidance	(Invalid Identifier)	Invesco Ltd.		\$17,314.93		Kravis, Henry	Co-Founder, Co-Chairman	\$ 35,092,805.00	\$ 44,205,435.00	\$ 64,451,272.00							
Next earnings date	NM	BlackRock, Inc.		\$61,617.54		Janetschek, William	Chief Financial Officer of Kk	\$ 4,603,024.00	\$ 5,178,980.00	\$ 6,509,957.00							
<b>Market Data</b>		T. Rowe Price Group, Inc.		\$21,490.41		Fisher, Todd	Global Chief Administrative	\$ 15,326,575.00	\$ 15,564,057.00	\$ 16,530,664.00							
Enterprise value	\$0.00	Apollo Global Management, LLC		\$3,834.81		Sorkin, David	General Counsel of KKR M.	\$ 2,930,335.00	\$ 3,490,993.00	\$ 5,135,077.00							
Market Capitalization	\$10,304.84	The Carlyle Group LP		\$1,839.79		Bookmyer, Scott	Member, Chief Operating Of	-	-	-							
Daily volume	1.81	Legg Mason Inc.		\$6,421.39		<b>Historical Performance</b>											
Shares outstanding	433.52	Affiliated Managers Group Inc.		\$11,615.09		<b>KKR</b>											
Diluted shares outstanding	412.05	Och-Ziff Capital Management Group		\$2,220.82		<b>Peers</b>											
% shares held by institutions	59.84%	<b>Current Capital Structure</b>				<b>Industry</b>											
% shares held by insiders	1.15%	Total debt/market cap		#DIV/0!		<b>All U.S. firms</b>											
Short interest	2.09%	Cost of Borrowing		0.00%		Growth											
Days to cover short interest	3.56	Interest Coverage				Retention Ratio											
52 week high	\$25.58	Altman Z				ROIC											
52-week low	\$18.84	Debt Rating		A		EBITDA Margin											
5y Beta	1.72	Levered Beta		2.50		Revenues/Invested capital											
6-month volatility	22.92%	WACC (based on market value weig		9.61%		Excess Cash/Revenue											
<b>Past Earning Surprises</b>		<b>Revenue</b>		<b>EBITDA</b>		<b>Norm. EPS</b>		<b>Unlevered Beta</b>									
Last Quarter	-7.3%	-88.4%		-88.4%		-88.4%		1.65									
Last Quarter-1	8.0%	0.0%		0.0%		13.6%		TEVREY									
Last Quarter -2	-13.5%	29.2%		-14.9%		45.3%		TEWEBITDA									
Last Quarter -3	12.3%	0.0%		21.3%				TEWEBITA									
Last Quarter -4	10.6%	0.0%		21.3%				TEVUFCF									
<b>Proforma Assumptions</b>		<b>Period</b>		<b>Rev. Growth</b>		<b>Adj. Op. Cost/Rev</b>		<b>Non GAAP Adjustments</b>									
Operating Cash/Cash	0.0%	LTM		-21%		18%		Operating Leases Capitalizati									
Unlevered Beta	1.50	LTM-1Y		10%		18%		R&D Exp. Capitalization									
Rev/Invested Capital	100.0%	LTM-2Y		9%		18%		Expl./Drilling Exp. Capitalizati									
Continuing Period Revenue Gro	3.0%	LTM-3Y		8%		18%		SG&A Capitalization									
Long Term ROIC	11.3%	LTM-4Y		7%		19%		Revenue									
Invested Capital Growth	Equals to Maintenance	LTM-5Y		6%		19%		NOPLAT									
Justified TEV/REV	3.4x	LTM-6Y		5%		19%		Invested capital									
Justified TEWEBITDA	11.6x	LTM-7Y		4%		19%		UFCF									
Justified TEWEBITA	13.3x	LTM-8Y		3%		19%											
Justified TEVUFCF	21.3x	LTM-9Y		3%		20%											
<b>Valuation</b>		<b>ROIC</b>		<b>WACC</b>		<b>EVA</b>		<b>Enterprise Value</b>		<b>Total Debt</b>		<b>Other claims</b>		<b>Equity</b>		<b>Adjusted Price</b>	
LTM	52.7%	9.6%		\$4,636.48		\$68,958.44		\$10,984.89		\$44,857.41		\$13,116.14		\$30.03			
LTM-1Y	47.6%	9.8%		\$4,643.39		\$70,618.76		\$10,063.73		\$46,992.72		\$12,562.31		\$29.04			
LTM-2Y	41.1%	9.8%		\$4,064.29		\$71,716.62		\$12,166.71		\$47,023.94		\$12,525.97		\$29.35			
LTM-3Y	39.4%	9.3%		\$4,031.79		\$73,571.35		\$12,835.85		\$47,051.59		\$13,683.91		\$32.21			
LTM-4Y	38.8%	10.1%		\$4,103.55		\$75,626.57		\$13,236.52		\$47,075.47		\$15,314.58		\$36.17			
LTM-5Y	38.5%	10.3%		\$4,216.04		\$77,779.94		\$13,255.74		\$47,097.57		\$17,426.62		\$41.31			
LTM-6Y	38.5%	10.4%		\$4,360.12		\$80,118.53		\$13,255.74		\$46,919.35		\$19,943.43		\$47.11			
LTM-7Y	38.1%	10.6%		\$4,402.95		\$82,350.40		\$13,255.74		\$46,331.24		\$22,763.42		\$53.77			
LTM-8Y	38.0%	10.8%		\$4,449.15		\$84,698.32		\$13,255.74		\$45,459.02		\$25,983.56		\$61.34			
LTM-9Y	38.2%	10.9%		\$4,554.58		\$87,235.51		\$13,255.74		\$44,405.72		\$29,574.05		\$68.22			
<b>Monte Carlo Simulation Assumptions</b>		<b>Base</b>		<b>Stdev</b>		<b>Min</b>		<b>Max</b>		<b>Distribution</b>		<b>Monte Carlo Simulation Results</b>					
Revenue Variation	0	10%		N/A		N/A		N/A		Normal		Mean est.		\$29.04			
Op. Costs Variation	0	10%		N/A		N/A		N/A		Normal		σ(ε)		\$0.32			
Market Risk Premium	6%	N/A		5%		7%		7%		Triangular		σ(ε) adjusted pric		\$29.07			
Long term Growth	3%	N/A		2%		13%		13%		Triangular		Current Price		\$23.83			
Terminal Value	0	0.1		N/A		N/A		N/A		Normal		analysts' median est.		\$28.92			