

The Blackstone Group

NYSE: BX

Analyst: Nicholas Luca

Sector: Financials

BUY

Price Target: \$49.05

Key Statistics as of 3/11/2015

Market Price:	\$38.44
Industry:	Asset Management
Market Cap:	\$23.16B
52-Week Range:	\$26.56 - 39.62
Beta:	1.25

Thesis Points:

- Additional revenue streams from recent acquisitions
- Steadily increasing high yield distributions
- Taking opportunistic moves on real estate prior to soon to raise rates. Generating working capital at a relatively low cost

Company Description:

The Blackstone Group L.P. is a publicly owned investment manager. The firm also provides financial advisory services to its clients. It provides its services to public and corporate pension funds, academic, cultural, and charitable organizations. The firm manages separate client focused portfolios. It launches and manages private equity funds, real estate funds, funds of hedge funds, and credit-focused funds for its clients. It invests in private equity, public equity, fixed income, and alternative investment markets. The firm was founded in 1985 and is based in New York, New York.



Recommendation

The Blackstone Group (BX) is a BUY as of March 12th, 2015 as they are the world's largest independent alternative asset manager and one of the leading global financial advisory groups that continues to increase revenue streams while reducing costs year over year. The one year target price of \$49.05 and also a high dividend yield (in 2014 roughly 6%) create a favorable investment.

Management Team

The Blackstone Group is led by Co-founder, CEO, and Chairman, Stephen Schwarzman, a graduate of Yale University with an MBA from Harvard Business School. Schwarzman founded the company in 1985 with his former boss at Lehman Brothers Investment Bank, Pete Peterson. Schwarzman is noted as one of Time Magazine's 100 most influential people, and currently has made headlines as being projected to be Wall Street's first CEO to be compensated over a billion dollars for 2015. His intelligence and 20 percent stake in Blackstone highly contribute to the interest in holding Blackstone.

Although no longer with the company, the discussion of Blackstone's management would be nothing without the talk of Peter George Peterson. He served as United States Secretary of Commerce from February 29, 1972 to February 1, 1973 and co-founded Blackstone with Schwarzman. He started the company with \$400,000 and within the first two years completed their first big M&A advisory of Hutton and Lehman, and collected \$3.5 million in advisory fees.

Strong Yield Distributions to Shareholders

Their management team tells a lot about the Blackstone's interests, as they all hold a percentage of Blackstone's shares. Their team gets paid when revenues and earnings increase, through dividends. Schwarzman's salary since 2007 has been roughly \$315,000, of which is far less than his annual dividend returns, totaling \$33,000,000 in 2014 alone. With their team's invested interest in the company's success, they act in manners that are best for shareholders and are very hard working individuals.

The dividend is one of the biggest drivers to holding this company. The lowest paid dividend was \$0.40 or 2.9% in 2008, of which was during the financial downturn but still remained above the current rates of its competitors in the industry today in 2015. The average yield per year has increased from roughly 3.5% to the ~6% in 2014.

	Dividend Yield (%)	Market cap (in B)	P/E Ratio		Profit Margin (%)	1yr EPS growth rate (%)	Return on Equity (%)	Price vs. S&P 500 13 Weeks
			Trailing	Forward				
Blackstone Group (BX)	7.08	44.9	15.01	10.28	49.37	30.3	23.71	15.36
Blackrock Inc (BLK)	2.39	60.5	19.2	15.74	29.46	14.13	12.05	1.15
T Rowe Price Group (TROW)	2.53	24.41	18.05	15.27	30.88	16.56	23.8	-2.79
Ameriprise Financial (AMP)	1.74	24.27	16.02	11.94	16.28	28.76	19.87	-1.61
Goldman Sachs (GS)	1.28	84.4	10.95	9.97	21.15	10.38	11.15	-2.38
Franklin Resources (BEN)	1.11	33	14.4	13.43	28.2	12.52	21.14	-8.12

Along with the strong yield, Blackstone's financials have been nothing short of outstanding. Their forward and trailing P/E ratios are trading at a 55% and 56% discount to the S&P 500, showing they are positioned for achievable returns while strong enough to withstand any economic challenges they may be forced to endure.

Increased Revenue Streams

Blackstone invested most heavily during the period 2009-2014. In the years after the global crisis, deal valuations were more reasonable. PE Funds that made substantial investment after the financial crisis are now better placed to generate strong returns. Along with preexisting investments to really start generating revenues, they have been making acquisitions left and right.

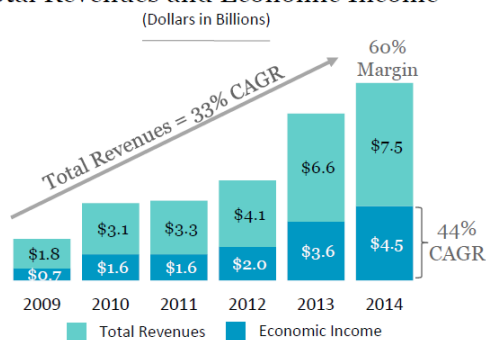
They are in the talks to purchase General Electric's \$30 billion real estate portfolio with a partner more than likely to be Wells Fargo. This is a big target for two reasons; one, General Electric approached Blackstone's Jonathan Gray in an urgent fashion, meaning more than likely they need to liquidate the portfolio quickly, of which ultimately leads to a cheap, underpriced sale. It also indicates Blackstone's position in the real-estate industry as the firm to call when it is time to unload tens of billions of dollars of property in one fell swoop.

On top of the underpricing of the deal from GE's quick liquidation, Blackstone's ability to analyze undervalued or poorly ran assets also shows significant revenue gains from the acquisition.

If the deal is to take place, Blackstone will acquire GE's U.S. holdings, mainly office buildings in Southern California, Seattle and Chicago, for roughly \$3 billion, along with a \$4-5 billion portfolio of commercial mortgages. The firm also agreed to buy European assets including office, industrial and retail properties, for an estimated \$2 billion and commercial mortgages in Mexico and Australia for \$4billion. The deal is the largest real estate transaction since the financial crisis and among the biggest for Blackstone.

Since 2009, Blackstone's revenues have increased by an annual rate of 33% to \$7.5 billion in 2014, with 2013 and 2014 being particularly successful years for Blackstone.

Total Revenues and Economic Income



High Investment in Real Estate with Low Interest Rates

Blackstone, the largest real estate private equity firm, has \$81 billion of assets under management. Within their unrealized assets, half of them are within their real estate segment. Their real estate business continues to grow significantly, and comparatively grows quicker than any other real estate firm. Blackstone typically buys assets and improves by renovating and raising the property rental and valuation.

Blackstone is taking advantage of low interest rates before the Fed begins to raise rates by the end of the year or into early 2016. Blackstone will be able to

achieve working capital at a relatively low cost. Blackstone will use the capital for investment opportunities. These opportunities may be on the table right now, or they may come into play in the near future. But Blackstone has shown that the company is willing and able to put capital to work, and the \$350 million raised is likely to follow this trend.

In 2014, Blackstone raised \$57 billion from investors, an all-time record for any alternative asset management firm. Blackstone has raised more capital in this past year than the next leading three competitors have earned combined. Their ability to raise capital is second to none, and promotes their attractiveness. CEO, Schwarzman, is one of, if not the best at investing into real estate. His ability to find struggling assets that are either poorly managed or merely undervalued is incredible. With the potential investments that constantly arise, the ability to raise capital in order to fund the investment is very valuable.

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The Blackstone Group L.P.		BX	Analyst Nicholas Luca	Current Price \$41.14	Intrinsic Value \$42.85	Target Value \$49.05	Divident Yield 5%	Target Return 1-y Return: 24.3%	NEUTRAL
General Info		Peers		Market Cap.		Management			
Sector	Financials	KKR & Co. L.P.		\$10,131.43	Professional	Title	Comp. FY2012	Comp. FY2013	Comp. FY2014
Industry	Capital Markets	Franklin Resources, Inc.		\$32,011.65	Schwarzman, Stephen	Co-Founder, Chairman, Chief Exe	\$8,414,804	\$21,991,142	\$85,888,640
Last Guidance	(Invalid Identifier)	Invesco Ltd.		\$17,336.40	James, Hamilton	President, Chief Operations Office	\$33,273,924	\$43,054,243	\$78,332,030
Next earnings date	7/16/2015	BlackRock, Inc.		\$61,739.39	Tosi, Laurence	Chief Financial Officer and Senior I	\$8,243,269	\$10,578,377	\$14,971,827
Market Data		Current Capital Structure		Historical Median Performance					
Enterprise value	\$0.00	T. Rowe Price Group, Inc.		\$21,521.70	Finley, John	Chief Legal Officer and Senior Mar	\$0	\$5,341,934	\$7,669,827
Market Capitalization	\$2,032.29	The Carlyle Group LP		\$2,049.95	Gray, Jonathan	Global Head of Real Estate, Direct	\$0	\$0	\$0
Daily volume	0.25	Apollo Global Management, LLC		\$3,651.80	Hill, James	Vice Chairman, Vice President and	\$13,678,453	\$25,872,492	\$25,940,290
Shares outstanding	671.46	Legg Mason Inc.		\$6,135.25	Historical Median Performance				
Diluted shares outstanding	619.57	Affiliated Managers Group Inc.		\$12,092.21	BX	Peers	Industry	All U.S. firms	
% shares held by institutions	99.58%	Och-Ziff Capital Management Group LI		\$2,241.96	Growth	25.6%	22.7%	8.2%	7.4%
% shares held by insiders	0.46%				ROE	24.6%	21.5%	9.2%	9.9%
Short interest	1.91%				Net Profit Margin	40.9%	26.6%	15.7%	6.9%
Days to cover short interest	2.84				Revenue/Common Equity	0.60	0.81	0.59	1.45
52 week high	\$42.75				Excess Cash/Rev.	25.7%	97.4%	13.5%	12.9%
52-week low	\$26.56				Total Cash /Rev.	25.7%	97.4%	12.3%	15.2%
5y Beta	1.97				Unlevered Beta	1.56	1.52	0.83	0.95
6-month volatility	18.12%				TEV/REV		3.9x	3.6x	2.5x
Past Earning Surprises					TEV/EBITA	0.0x	14.5x	14.7x	13.1x
					PE (normalized and diluted EPS)	6.4x	11.0x	23.2x	23.5x
					P/BV	1.1x	2.2x	2.0x	2.2x
					Non-GAAP Adjustments in estimates computations				
Last Quarter	Revenue 21.7%	EBITDA 22.3%	Norm. EPS 31.7%	Operating Leases Capitalization 100% Straightline 10 years					
Last Quarter-1	12.5%	0.0%	37.4%	R&D Exp. Capitalization 100% Straightline 10 years					
Last Quarter -2	7.9%	0.5%	-8.3%	Expl./Drilling Exp. Capitalization 0% N/A N/A					
Last Quarter -3	42.0%	36.0%	53.3%	SG&A Capitalization 0% N/A N/A					
Last Quarter -4	16.9%	0.0%	25.0%						
Proforma Assumptions		Forecast							
		Period	Rev. Growth	Adj. Op. Cost/Rev	Common Equity	Net Margin	ROE	Ke	
Money market rate as of today 0.54%		LTM	13.2%	37.2%	\$476.75	43%	47.7%	11.0%	
Annual increase (decrease) in interest rates 0.1%		NTM	13.0%	38.5%	\$2,509.42	45%	899.5%	11.1%	
Yield Spread acceleration 1.2		NTM+1	12.7%	39.8%	\$4,977.22	46%	192.9%	11.2%	
Marginal Tax Rate 37.5%		NTM+2	12.5%	41.0%	\$8,520.41	48%	116.0%	11.3%	
Risk-Free rate 2.6%		NTM+3	12.2%	42.3%	\$12,683.29	52%	81.8%	11.4%	
Tobin's Q 0.80		NTM+4	12.0%	43.6%	\$18,033.12	56%	65.9%	11.5%	
Op. Cash/Rev. 7%		NTM+5	11.8%	44.9%	\$24,729.49	60%	55.5%	11.6%	
Growth in PPE NPPE Growth follows Revenue Growth		NTM+6	11.5%	46.2%	\$32,907.52	64%	48.4%	11.7%	
Long term Growth 10.8%		NTM+7	11.3%	47.4%	\$42,973.02	69%	43.3%	11.8%	
Base Year Unlevered Beta is equal to 1.52		NTM+8	11.0%	48.7%	\$55,289.20	74%	39.5%	11.9%	
Long term Unlevered Beta 1.52		Continuing Period	10.8%	50.0%	\$61,260.43	30%	10.0%	12.0%	
Valuation				Pricing Model					
Period	Common Equity x (ROE-Ke)	Total Debt	Other non-interest bearing claims	Shares Outstanding	DCF (Weight = 100%)	Relative (Weight = 0%)	Distress (Weight = 0%)	Weighted Average Price Per Share	
LTM	\$0.00	\$0.00	\$476.75	671.46	\$43.81	\$17.13	\$0.00	\$43.81	
NTM	\$19,686.11	\$0.00	\$539.89	671.46	\$49.80	\$23.80	\$0.00	\$49.80	
NTM+1	\$8,027.20	\$0.00	\$608.17	671.46	\$25.67	\$30.43	\$0.00	\$25.67	
NTM+2	\$7,933.18	\$0.00	\$683.63	671.46	\$19.25	\$40.66	\$0.00	\$19.25	
NTM+3	\$7,954.71	\$0.00	\$766.82	671.46	\$12.63	\$53.15	\$0.00	\$12.63	
NTM+4	\$8,761.28	\$0.00	\$858.30	671.46	\$6.29	\$68.55	\$0.00	\$6.29	
NTM+5	\$9,721.19	\$0.00	\$958.64	671.46	\$0.00	\$87.42	\$0.00	\$0.00	
NTM+6	\$10,835.28	\$0.00	\$1,068.43	671.46	\$0.00	\$110.21	\$0.00	\$0.00	
NTM+7	\$12,164.29	\$0.00	\$1,188.23	671.46	\$0.00	\$137.63	\$0.00	\$0.00	
NTM+8	\$13,727.38	\$0.00	\$1,318.63	671.46	\$0.00	\$173.94	\$0.00	\$0.00	
Continuing Value	-\$88,441.71								
Monte Carlo Simulation Assumptions						Monte Carlo Simulation Results			
	Base	Stdev	Min	Max	Distribution	Intrinsic Value	1y-Target		
Revenue Variation	0	10%	N/A	N/A	Normal	Mean est. \$43.81	\$49.80		
Op. Costs Variation	0	10%	N/A	N/A	Normal	σ(e) \$0.32	\$0.25		
Country Risk Premium	6%	N/A	5%	7%	Triangular	3 σ(e) adjusted price \$42.85	\$49.05		
Long term Growth	11%	N/A	3%	26%	Triangular	Current Price \$41.14			
						Analysts' median est.	\$47.23		

