



Blackstone Group Inc. (BX)

Updated October 23rd, 2019 by Eli Inkrot

Key Metrics

| | | | | | |
|-----------------------------|------|--|-------|---------------------------------|-------|
| Current Price: | \$51 | 5 Year CAGR Estimate: | 2.7% | Volatility Percentile: | 54.6% |
| Fair Value Price: | \$35 | 5 Year Growth Estimate: | 6.0% | Momentum Percentile: | 96.4% |
| % Fair Value: | 145% | 5 Year Valuation Multiple Estimate: | -7.1% | Growth Percentile: | 57.4% |
| Dividend Yield: | 3.8% | 5 Year Price Target | \$47 | Valuation Percentile: | 12.9% |
| Dividend Risk Score: | F | Retirement Suitability Score: | D | Total Return Percentile: | 22.3% |

Overview & Current Events

Blackstone, founded in 1985 by Peter Peterson and Stephen Schwarzman (still CEO), is one of the world's leading investment firms. At the end of 2018 the company held \$472 billion in assets under management (AUM), operating in Private Equity (29% of AUM), Real Estate (28%), Credit (27%) and Hedge Fund Solutions (16%). Today the \$34 billion market cap company employs about 2,500 people in 23 offices worldwide.

Note that the BX ticker previously represented an underlying unitholder interest in Blackstone, with the company acting as a general partner. However, on July 1st, 2019 Blackstone completed its transformation from a publicly traded partnership to corporation. This move eliminated the Schedule K-1, replacing it with a Form 1099-DIV, and is intended to improve the market for the company's shares. This report marks the company's first quarter as a corporation.

On October 23rd, 2019 Blackstone reported Q3 2019 results for the period ending September 30th, 2019. Total revenue came to \$1.74 billion, representing a -9.9% decline, which was mostly related to performance allocations. For the quarter Fee Related Earnings (FRE) equaled \$440 million (\$0.37 / share), which was up 27% year-over-year. For the last 12 months' Fee Related Earnings have totaled \$1.7 billion or \$1.39 per share. Distributable Earnings (DE) totaled \$710 million (\$0.58 / share), representing a -7.7% year-over-year decline. In the last 12 months, Distributable Earnings have totaled \$2.7 billion or \$2.16 / share. Total assets under management came in at \$554 billion, a 21% increase, driven by \$20.4 billion of inflows. Blackstone also declared a dividend of \$0.49 per share.

Growth on a Per-Share Basis

| Year | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2024 |
|--------------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|---------------|---------------|
| EPU | \$0.63 | \$1.26 | \$1.23 | \$1.72 | \$3.08 | \$3.76 | \$1.82 | \$2.00 | \$2.81 | \$2.26 | \$2.70 | \$3.61 |
| DPU | \$0.90 | \$0.60 | \$0.62 | \$0.52 | \$1.18 | \$1.92 | \$2.90 | \$1.66 | \$2.32 | \$2.42 | \$1.92 | \$2.45 |
| Units¹ | 320 | 416 | 489 | 556 | 573 | 596 | 624 | 643 | 659 | 670 | 675 | 725 |

Note that the historical table above showcases earnings-per-unit, distributions-per-unit and units outstanding, reflecting the previous partnership format. In addition, Blackstone had previously reported economic net income (similar to a FFO number for REITs) but is no longer doing so. With the transition to a corporation now complete, the company's reporting will change once again. For now, we view earnings-per-unit as the best historical judge of the company's profitability.

Blackstone's performance fees tend to be lumpy, which in turn leads to irregular results. From 2010 through 2018, earnings-per-unit grew by a compound average rate of 7.6% per annum, however this varied widely from \$1.26 all the way up to \$3.76 and back down to \$2.26. Over the intermediate-term our assumption is based on the possibility of earning 40 basis points (0.40%) on \$650 billion in assets under management, representing the potential for mid-single-digit growth. However, it should be underscored that while the firm has growth opportunities in the way of general economic expansion and new funds / capital, the company's earnings power is greatly influenced by market conditions.

Alongside a lumpy earnings pattern, you can see that the distribution has been up and down as well. Considering this wide uncertainty, our estimate uses the trailing twelve-month distribution payout (\$1.92) as a starting point. Over the intermediate-term we would anticipate this payout growing, but not necessarily each and every year.

¹ In millions.

Disclosure: This analyst has no position in the security discussed in this research report, and no plans to initiate one in the next 72 hours.



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Valuation Analysis

| Year | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | Now | 2024 |
|-----------|------|------|------|------|------|------|------|------|------|------|-------------|-------------|
| Avg. P/E | 17.0 | 9.9 | 12.7 | 8.3 | 7.4 | 8.6 | 20.2 | 13.2 | 11.3 | 14.9 | 18.8 | 13.0 |
| Avg. Yld. | 8.4% | 4.8% | 4.0% | 3.6% | 5.2% | 5.9% | 7.9% | 6.3% | 7.3% | 7.2% | 3.8% | 5.2% |

Over the past decade shares of Blackstone have traded with an average P/E ratio of about 12 times earnings, with a wide range from 7 to 20 times earnings-per-unit. We are using a multiple slightly above this historical mark, taking into consideration the transformation from a partnership to a corporation, along with the security's uneven history and moderate growth prospects. The 3.8% dividend yield will aid returns, but we do note that while this payment appears solid, it can fluctuate significantly in the years to come.

Safety, Quality, Competitive Advantage, & Recession Resiliency

| Year | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2024 |
|--------|------|------|------|------|------|------|------|------|------|------|------------|------------|
| Payout | 143% | 48% | 50% | 30% | 38% | 51% | 159% | 83% | 83% | 107% | 71% | 68% |

Blackstone did not fair particularly well during the last recession, posting a loss of \$1.03 per unit in 2008. Moreover, the distribution went from \$1.20 in 2008 down to \$0.90 in 2009 and \$0.60 in 2010. However, the company recovered well, generating solid growth from 2009 through 2014. More recently results have been mixed.

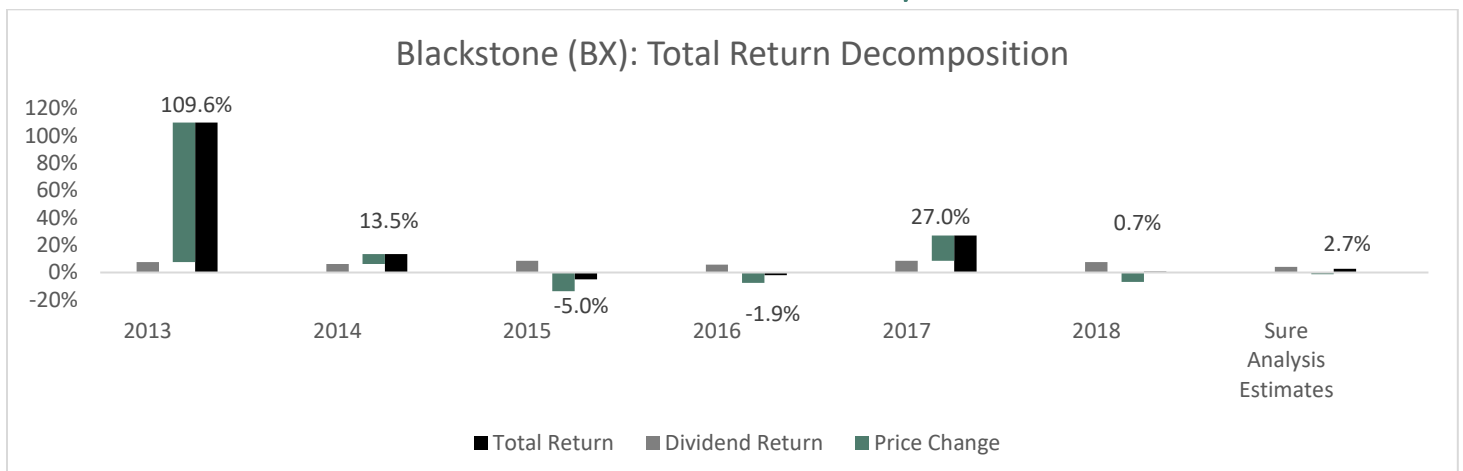
The company does possess a competitive advantage in that it is the largest alternative investment firm in the world. If you're looking to invest outside of the conventional equity space, which is a trend that has been going on for some time, Blackstone has a leading seat at the table; especially for large institutional firms looking for stability.

As of the most recent quarter, Blackstone held \$5.6 billion in cash and equivalents and \$11.6 billion in cash and net investments, or \$9.67 per share (up from \$8.94 last quarter and \$8.67 and \$8.45 in 2017 and 2018). The company has no net debt and maintains A+ ratings from S&P and Fitch.

Final Thoughts & Recommendation

Shares are up 11% since our last update. Blackstone has built itself into a leading alternative asset manager, an area that has grown in recent years and has not yet been subjected to the "race to the bottom" as it relates to fee income. With that said, expect volatile results and serious drawdowns (and dividend cuts) during recessions. Total return potential comes in at 2.7% per annum, stemming from 6% growth and a 3.8% dividend yield offset by the possibility of a significant valuation headwind. We continue to rate Blackstone as a hold.

Total Return Breakdown by Year



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Income Statement Metrics

| Year | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 |
|-------------------------|--------|--------|-------|------|-------|-------|-------|-------|-------|-------|
| Revenue | 1774 | 3119 | 3253 | 4019 | 6613 | 7485 | 4647 | 5051 | 7005 | 6661 |
| SG&A Exp. | 4228 | 4103 | 3330 | 3188 | 3759 | 3734 | 2946 | 594 | 621 | 673 |
| D&A Exp. | 158 | 162 | 208 | 139 | 96 | 102 | 101 | 83 | 47 | 59 |
| Operating Profit | -715 | -370 | -168 | 219 | 1171 | 1585 | 710 | 1039 | 1471 | 1542 |
| Op. Margin | -40.3% | -11.9% | -5.2% | 5.4% | 17.7% | 21.2% | 15.3% | 20.6% | 21.0% | 23.1% |
| Free Cash Flow | 388 | -426 | 1063 | 546 | 3522 | 1625 | 2338 | -110 | -1651 | 27 |
| Income Tax | 99 | 85 | 346 | 185 | 256 | 291 | 190 | 132 | 743 | 249 |

Balance Sheet Metrics

| Year | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 |
|---------------------------------|------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| Total Assets | 9409 | 18845 | 21909 | 28932 | 29679 | 31497 | 22526 | 26403 | 34416 | 28925 |
| Cash & Equivalents | 952 | 589 | 755 | 710 | 832 | 1412 | 1837 | 1837 | 1992 | 2208 |
| Accounts Receivable | 306 | 496 | 406 | 638 | 888 | 559 | 613 | 773 | 875 | 636 |
| Goodwill & Int. Ass. | 2623 | 2483 | 2299 | 2302 | 2348 | 2246 | 2064 | 1981 | 2188 | 2338 |
| Total Liabilities | 2865 | 10591 | 12657 | 17717 | 15301 | 14164 | 10296 | 13888 | 20904 | 15312 |
| Accounts Payable | 309 | 629 | 829 | | 872 | 1195 | 649 | 1082 | 2044 | 876 |
| Long-Term Debt | 658 | 7199 | 8868 | 13051 | 10467 | 8924 | 6117 | 8866 | 14815 | 9952 |
| Shareholder's Equity | 5477 | 6782 | 7131 | 8215 | 9963 | 11476 | 9638 | 9901 | 6634 | 6379 |

Profitability & Per Share Metrics

| Year | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 |
|-------------------------|-------|-------|-------|------|-------|-------|------|-------|-------|-------|
| Return on Assets | -7.6% | -2.6% | -0.8% | 0.9% | 4.0% | 5.2% | 2.6% | 4.2% | 4.8% | 4.9% |
| Return on Equity | 512% | -6.0% | -2.4% | 2.8% | 12.9% | 14.8% | 6.7% | 10.6% | 17.8% | 23.7% |
| Shares Out. | 320 | 416 | 489 | 556 | 573 | 596 | 624 | 643 | 659 | 670 |
| Revenue/Share | 6.22 | 8.57 | 6.84 | 7.46 | 11.20 | 12.21 | 3.91 | 4.23 | 10.51 | 5.52 |
| FCF/Share | 1.36 | -1.17 | 2.24 | 1.01 | 5.96 | 2.65 | 1.97 | -0.09 | -2.48 | 0.02 |

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.

Disclaimer

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