Blue Owl Capital (OWL)

Updated November 24th, 2022 by Samuel Smith

Key Metrics

Current Price:	$11.6	**5 Year CAGR Estimate:**	13.7%	**Market Cap:**	$16.5B
Fair Value Price:	$8.0	**5 Year Growth Estimate:**	17.8%	**Ex-Dividend Date:**	02/19/23[1]
% Fair Value:	146%	**5 Year Valuation Multiple Estimate:**	-7.3%	**Dividend Payment Date:**	02/30/23
Dividend Yield:	4.1%	**5 Year Price Target**	$18	**Years Of Dividend Growth:**	1
Dividend Risk Score:	F	**Retirement Suitability Score:**	D	**Rating:**	Buy

Overview & Current Events

Blue Owl Capital is one of the world's largest alternative asset managers that offers primarily permanent capital solutions to clients. It is headquartered in New York City and went public in 2021. Its largest business segment is direct lending, but it also offers general partner private equity investment solutions and manages a large triple net lease real estate investment portfolio.

OWL reported its Q3 FY2022 results on November 4th. Q3 Non-GAAP EPS of $0.14 beat analyst estimates by $0.01. Revenue of $370.99M (+107.0% Y/Y) beat analyst estimates by $35.22M. AUM of $132.1 billion, was up 11% since June 30, 2022 and up 87% since September 30, 2021. FPAUM of $84.1 billion, was up 9% since June 30, 2022 and up 79% since September 30, 2021. Permanent Capital of $106.0 billion, was up 11% since June 30, 2022 and up 64% since September 30, 2021. AUM not yet paying fees was $10.7 billion, reflecting expected annual FRE management fees of approximately $139 million once deployed.

Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
EPS	---	---	---	---	---	---	---	---	---	$0.32	***$0.53***	***$1.20***
DPS	---	---	---	---	---	---	---	---	---	$0.13	***$0.48***	***$1.10***
Shares	---	---	---	---	---	---	---	---	---	404.9	***438.6***	***490.0***

OWL is currently growing rapidly as it strives to rapidly scale its three asset management platforms and achieve economies of scale. OWL's business model is uniquely structured in the alternative asset management space to avoid generating any carried interest while also consisting primarily of permanent capital. As a result, its earnings stream is expected to be much more stable than those of its peers.

OWL's fundraising outlook appears to be very strong for the foreseeable future, and its permanent capital, carried interest-free earnings stream should be able to be quite resilient in the face of economic turmoil. On top of that, its general partner solutions and triple net lease real estate businesses should be able to generate exceptionally stable earnings through economic cycles while its direct lending platform benefits from rising interest rates. As a result, we estimate that earnings per share will grow at a 17.8% CAGR over the next half decade and expect the dividend per share to grow rapidly over that same period as well.

Management has guided for the dividend per share to reach $1 within the next several years and we believe they will be able to achieve that and continue to grow the dividend in the years following.

Valuation Analysis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Now	2027
Avg. P/E	---	---	---	---	---	---	---	---	---	43.4	***21.9***	***15.0***
Avg. Yld.	---	---	---	---	---	---	---	---	---	0.90%	***4.1%***	***6.1%***

[1] Estimate

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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OWL has a very short operating history as a public company and therefore it is difficult to know exactly what valuation multiple is fair. Given that the company is still growing quickly in its early stages, we think a higher valuation multiple is warranted. That said, as the company matures in the coming half decade, we think it will settle at a valuation around 15 times earnings. As a result, we expect its rapid earnings growth rate to be somewhat offset by a contracting valuation multiple in the coming years.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	---	---	---	---	---	---	---	---	---	41%	***91%***	***92%***

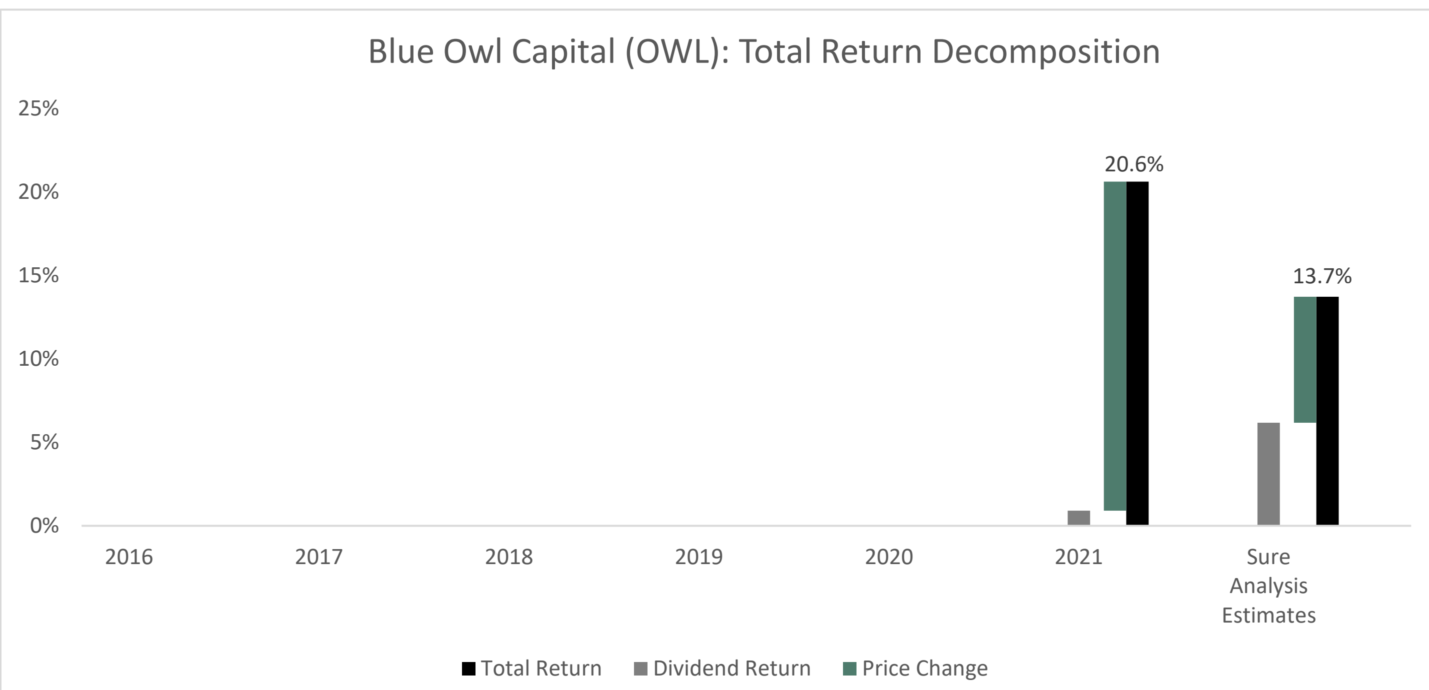
OWL's competitive advantage stems from its large and dominant market positioning in both direct lending and general partner private equity solutions. As a result, it should be able to continue raising funds at a strong pace in the coming years to further scale those businesses.

While OWL has not operated through a recession before, we think it is better positioned than many asset managers to weather an economic storm given that almost all its assets under management is permanent capital and it does not accrue carried interest on its balance sheet either, resulting in a very stable earnings stream. Its balance sheet is also quite strong given its investment grade credit rating.

Final Thoughts & Recommendation

OWL offers investors very attractive risk-reward at the moment thanks to its very strong expected earnings per share and dividend per share growth over the next half decade backed by a solid investment grade balance sheet and a fairly defensively positioned and well-diversified business model. As a result, it offers investors a 13.7% projected total return over the next half decade and we rate it an attractive buy for dividend growth investors.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Revenue								191	250	824
Gross Profit								79	9	(673)
Gross Margin								41.4%	3.6%	-81.7%
SG&A Exp.								52	68	140
D&A Exp.								1	1	115
Operating Profit								27	(59)	(927)
Operating Margin								14.3%	-23.5%	-113%
Net Profit								23	(78)	(376)
Net Margin								12.0%	-31.2%	-45.7%
Free Cash Flow								43	5	276
Income Tax								0	(0)	(65)

Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Total Assets									122	8,266
Cash & Equivalents									12	43
Accounts Receivable										
Inventories										
Goodwill & Int. Ass.									-	6,744
Total Liabilities									623	2,419
Accounts Payable										
Long-Term Debt								-	356	1,174
Shareholder’s Equity									(508)	1,664
LTD/E Ratio									(0.70)	0.71

Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Return on Assets										-9.0%
Return on Equity										-65.1%
ROIC										-10.9%
Shares Out.									405	421
Revenue/Share								0.60	0.78	0.63
FCF/Share								0.13	0.01	0.21

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