



Blue Owl Capital (OWL)

Updated May 13th, 2023 by Samuel Smith

Key Metrics

Current Price:	\$10.1	5 Year CAGR Estimate:	14.9%	Market Cap:	\$14.2 B
Fair Value Price:	\$10.5	5 Year Growth Estimate:	9.1%	Ex-Dividend Date:	05/18/23
% Fair Value:	96%	5 Year Valuation Multiple Estimate:	0.8%	Dividend Payment Date:	05/31/23
Dividend Yield:	5.5%	5 Year Price Target	\$16	Years Of Dividend Growth:	2
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 financial results for the first quarter on May 6th. The company experienced robust growth in Assets Under Management (AUM), with a 42% year-over-year increase to \$144.4 billion, of which \$114.3 billion is permanent capital. Fundraising also saw significant growth, increasing by 119% year-over-year to \$24.7 billion on a trailing twelve-month basis. The company maintained a strong balance sheet, with \$800 million in available liquidity and an average term to maturity on its debt of around 13 years. One potential concern is a slowdown in sequential growth, with AUM increasing by only 4.5% sequentially, implying a substantial deceleration compared to the 42% year-over-year growth rate. This could impact the company's ability to meet its growth targets by 2025.

Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
EPS	---	---	---	---	---	---	---	---	\$0.32	\$0.53	\$0.70	\$1.08
DPS	---	---	---	---	---	---	---	---	\$0.13	\$0.48	\$0.56	\$1.00
Shares	---	---	---	---	---	---	---	---	404.9	445.6	445.9	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 strong for the foreseeable future despite the deceleration in the growth rate, 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 9.1% CAGR over the next half decade and expect the dividend per share to grow rapidly over that same period as well.

Valuation Analysis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2021	2022	Now	2028
Avg. P/E	---	---	---	---	---	---	---	---	43.4	21.9	14.4	15.0
Avg. Yld.	---	---	---	---	---	---	---	---	0.90%	4.10%	5.5%	6.2%

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

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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	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	---	---	---	---	---	---	---	---	41%	91%	80%	93%

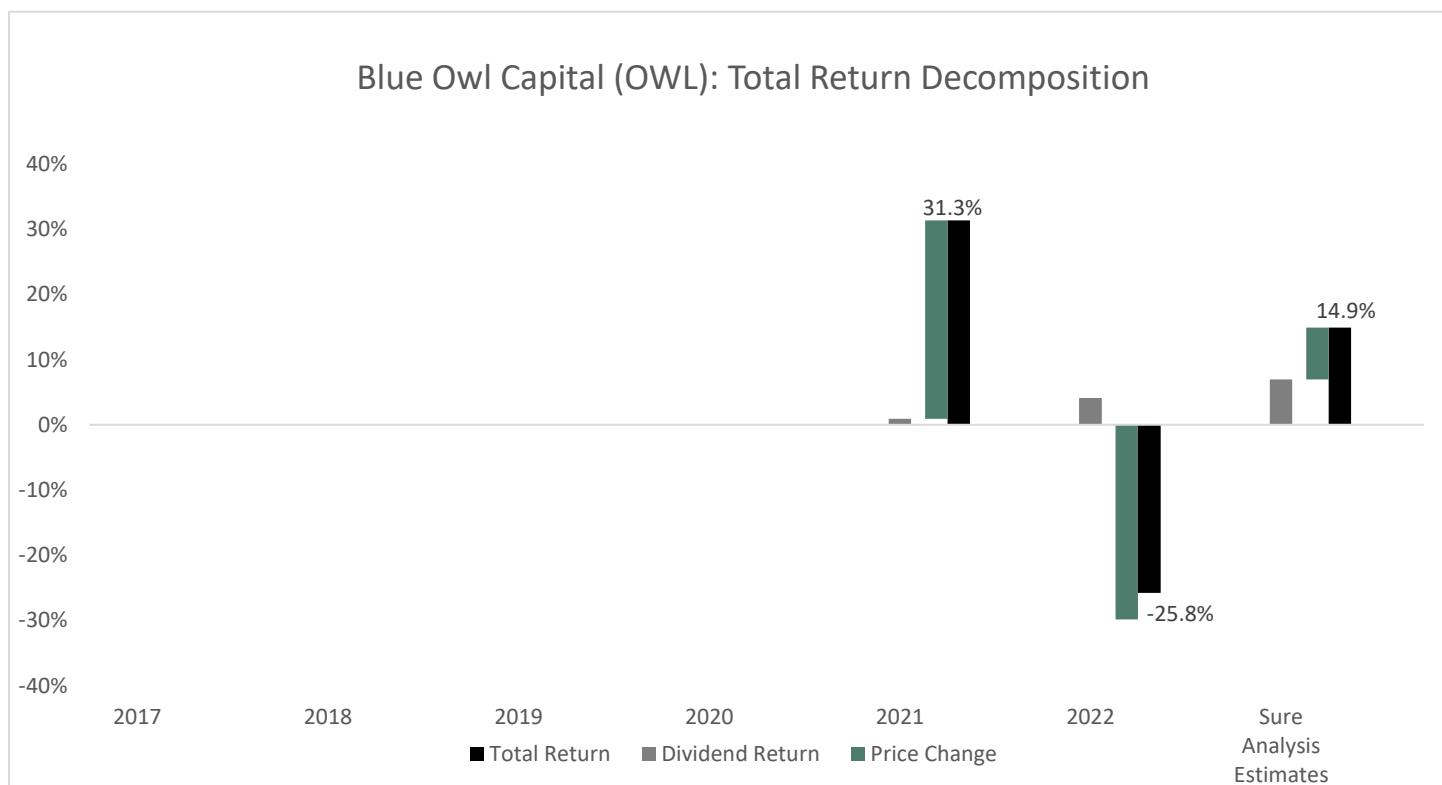
OWL's competitive advantage stems from its large and dominant market positioning in both direct lending and general partner private equity solutions. As a result, it should be able to continue raising funds at a strong pace in the coming years to further scale those businesses.

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 pretty 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 14.9% projected annualized total return over the next half decade, and we rate it a Buy for dividend growth investors.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Revenue							191	250	824	1,370
Gross Profit							79	9	(673)	475
Gross Margin							41.4%	3.6%	-81.7%	34.7%
SG&A Exp.							52	68	140	221
D&A Exp.							1	1	115	259
Operating Profit							27	(59)	(927)	(2)
Operating Margin							14.3%	-23.5%	-113%	-0.2%
Net Profit							23	(78)	(376)	(9)
Net Margin							12.0%	-31.2%	-45.7%	-0.7%
Free Cash Flow							43	5	276	663
Income Tax							0	(0)	(65)	(9)

Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Total Assets								122	8,266	8,893
Cash & Equivalents								12	43	68
Accounts Receivable										12
Inventories										
Goodwill & Int. Ass.								-	6,744	6,611
Total Liabilities								623	2,419	3,344
Accounts Payable										
Long-Term Debt							-	356	1,174	1,625
Shareholder's Equity								(508)	1,664	1,605
LTD/E Ratio								(0.70)	0.71	1.01

Profitability & Per Share Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Return on Assets									-9.0%	-0.1%
Return on Equity									-65.1%	-0.6%
ROIC									-10.9%	-0.1%
Shares Out.								405	421	446
Revenue/Share							0.60	0.78	0.63	3.16
FCF/Share							0.13	0.01	0.21	1.53

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

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