Blue Owl Capital (OWL)

Updated August 20th, 2024 by Samuel Smith

Key Metrics

Current Price:	$17.3	**5 Year CAGR Estimate:**	8.1%	**Market Cap:**	$25.9 B
Fair Value Price:	$14.4	**5 Year Growth Estimate:**	7.9%	**Ex-Dividend Date:**	11/21/24[1]
% Fair Value:	121%	**5 Year Valuation Multiple Estimate:**	-3.7%	**Dividend Payment Date:**	11/30/24[2]
Dividend Yield:	4.2%	**5 Year Price Target**	$21	**Years Of Dividend Growth:**	3
Dividend Risk Score:	F	**Retirement Suitability Score:**	D	**Rating:**	Hold

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.

Blue Owl reported another record quarter for Q2 2024, showcasing 23% growth in fee-related earnings and 19% growth in distributable earnings over the past year. The company has demonstrated consistent management fee and fee-related earnings (FRE) growth for 13 consecutive quarters since becoming public. This stability and strength are attributed to Blue Owl's disciplined investment approach and a diverse portfolio that appeals to investors seeking uncorrelated, income-driven returns. Recently, Blue Owl announced its intention to acquire Atalaya Capital Management, enhancing its alternative credit capabilities. Atalaya's expertise in asset-based finance and its strong 18-year track record complement Blue Owl's leading position in direct lending. This acquisition, alongside previous ones like Oak Street, is expected to significantly boost Blue Owl's assets under management (AUM) and diversify its offerings further. Over the last quarter, Blue Owl raised $5.4 billion in equity, bringing the total to $19.2 billion for the past 12 months. This fundraising success spans across various strategies, including diversified and first-lien lending, GP stakes, and real estate. The acquisitions of Kuvare Asset Management and Prima further expanded Blue Owl's AUM, bringing it to over $220 billion pro forma for the Atalaya acquisition. Blue Owl's credit platform recorded gross originations of $18.7 billion for the quarter, with a net funded deployment of $7.2 billion. In real estate, Blue Owl continued to deploy capital at attractive cap rates, particularly in digital infrastructure, onshoring, healthcare real estate, and essential retail. Fundraising for their net lease products saw significant increases, underscoring strong investor demand. Financially, Blue Owl reported that management fees are up 21% year-over-year, with 92% of these fees coming from permanent capital vehicles. Fee-related earnings increased by 23%, and distributable earnings grew by 19%. Blue Owl's net income for Q2 2024 was $10.5 million, up 6.5% from the same period in 2023. Operating revenues increased by 14.8% to $49.1 million.

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
EPS	---	---	---	---	---	---	---	$0.32	$0.53	$0.65	***$0.82***	***$1.20***
DPS	---	---	---	---	---	---	---	$0.13	$0.48	$0.56	***$0.72***	***$1.05***
Shares	---	---	---	---	---	---	---	404.9	445.6	465.7	***561.1***	***600.0***

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

[1] Estimated

[2] Estimated

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.

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 7.9% CAGR over the next half decade and expect the dividend per share to grow rapidly over that same period as well.

Valuation Analysis

Year	2013	2014	2015	2016	2017	2018	2019	2021	2022	2023	Now	2029
Avg. P/E	---	---	---	---	---	---	---	43.4	21.9	21.3	***21.1***	***17.5***
Avg. Yld.	---	---	---	---	---	---	---	0.90%	4.10%	4.1%	***4.2%***	***5.0%***

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 17.5 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

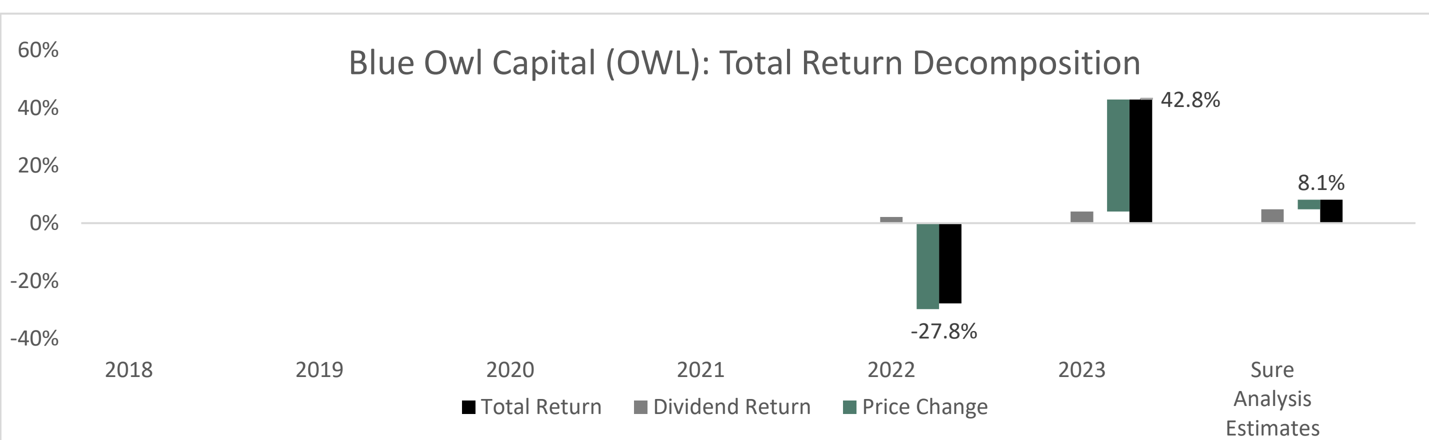
Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	---	---	---	---	---	---	---	41%	91%	86%	***88%***	***88%***

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. That said, the recent run-up in the stock price means that it will likely face considerable valuation multiple contraction headwinds in the coming years. As a result, it offers investors a 8.1% projected annualized total return over the next half-decade, and we rate it a Hold for dividend growth investors.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Revenue						191	250	824	1,370	1,732
Gross Profit						79	9	(673)	475	861
Gross Margin						41.4%	3.6%	-81.7%	34.7%	49.7%
SG&A Exp.						52	68	140	221	243
D&A Exp.						1	1	115	259	311
Operating Profit						27	(59)	(927)	(2)	318
Operating Margin						14.3%	-23.5%	-113%	-0.2%	18.4%
Net Profit						23	(78)	(376)	(9)	54
Net Margin						12.0%	-31.2%	-45.7%	-0.7%	3.1%
Free Cash Flow						43	5	276	663	881
Income Tax						0	(0)	(65)	(9)	26

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets							122	8,266	8,893	8,818
Cash & Equivalents							12	43	68	104
Accounts Receivable								5	12	16
Inventories										
Goodwill & Int. Ass.							-	6,744	6,611	6,334
Total Liabilities							623	2,419	3,344	3,540
Accounts Payable										
Long-Term Debt							356	1,174	1,625	1,681
Shareholder's Equity							(508)	1,664	1,605	1,528
LTD/E Ratio							(0.70)	0.71	1.01	1.10

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets								-9.0%	-0.1%	0.6%
Return on Equity								-14.1%	-0.2%	1.0%
ROIC								-10.9%	-0.1%	0.8%
Shares Out.								404.9	445.6	455.7
Revenue/Share						0.60	0.78	0.63	3.16	3.62
FCF/Share						0.13	0.01	0.21	1.53	1.84

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