BlackRock, Inc. (BLK)

$565.94 (As of 02/14/20)

Price Target (6-12 Months): **$595.00**

Long Term: 6-12 Months	**Zacks Recommendation:**	**Neutral**
	(Since: 06/10/19)	
	Prior Recommendation: Outperform	
Short Term: 1-3 Months	**Zacks Rank:** (1-5)	**2-Buy**
	Zacks Style Scores:	VGM:F
	Value: D | Growth: D	Momentum: C

Summary

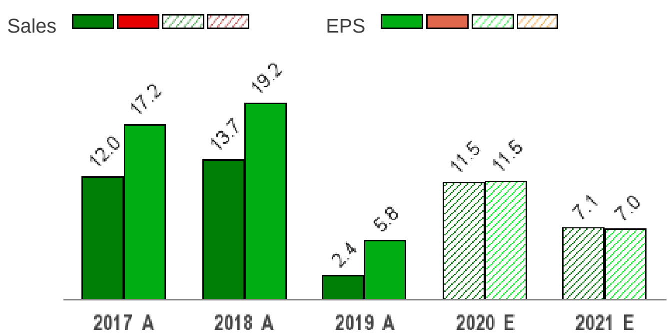
Shares of BlackRock have outperformed the industry over the past year. The company's earnings surpassed the Zacks Consensus Estimate in two of the trailing four quarters. Its fourth-quarter 2019 results benefited from higher revenues, partly offset by rise in costs. Amid a tough operating environment, the company's initiatives to restructure the actively-managed equity business and expand through acquisitions will likely further boost the top line. Impressive growth in assets under management (AUM) is expected to continue supporting profits. The company's capital deployment actions (share buyback and dividend payouts) reflect solid balance sheet. However, higher expenses mainly due to rise in general and administration costs will likely hurt the bottom line to an extent. Further, high dependence on overseas revenues is a concern.

Price, Consensus & Surprise

Data Overview

52 Week High-Low	**$576.81 - $403.54**
20 Day Average Volume (sh)	**623,413**
Market Cap	**$87.4 B**
YTD Price Change	**12.6%**
Beta	**1.53**
Dividend / Div Yld	**$14.52 / 2.3%**
Industry	**Financial - Investment Management**
Zacks Industry Rank	**Top 5% (14 out of 255)**
Last EPS Surprise	**8.7%**
Last Sales Surprise	**2.5%**
EPS F1 Est- 4 week change	**1.1%**
Expected Report Date	**NA**
Earnings ESP	**0.0%**
P/E TTM	**19.9**
P/E F1	**17.8**
PEG F1	**1.8**
P/S TTM	**6.0**

Sales and EPS Growth Rates (Y/Y %)



Sales Estimates (millions of $)

	Q1	Q2	Q3	Q4	Annual*
2021					17,363 E
2020	3,738 E	3,868 E	4,000 E	4,232 E	16,216 E
2019	3,346 A	3,524 A	3,692 A	3,977 A	14,539 A

EPS Estimates

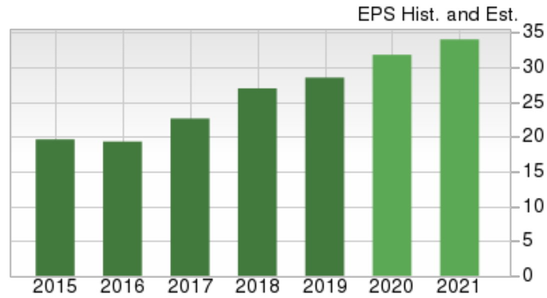
	Q1	Q2	Q3	Q4	Annual*
2021					$33.97 E
2020	$7.29 E	$7.80 E	$8.26 E	$8.36 E	$31.76 E
2019	$6.61 A	$6.41 A	$7.15 A	$8.34 A	$28.48 A

*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 02/14/2020. The reports text is as of 02/17/2020.

Overview

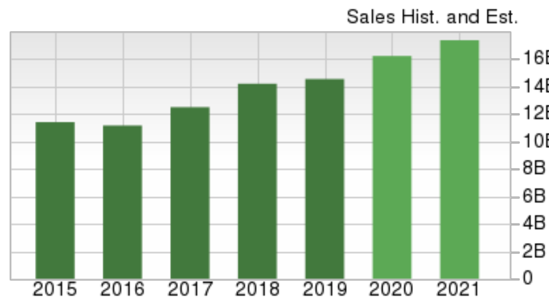
BlackRock Inc., headquartered in New York, offers products that span the risk spectrum, including active, enhanced and index strategies through a variety of structures that include separate accounts, mutual funds, iShares (ETFs) and other pooled investment vehicles.



BlackRock manages its AUM through the following categories:

- *Equity:* BlackRock's equity AUM reflects the diversity of its business model and includes a wide range of both active and passive strategies. AUM for this class was $3,820.3 billion as of Dec 31, 2019.

- *Fixed Income:* BlackRock's fixed income asset class is evenly divided between passive and active mandates. AUM under this class was $2,315.4 billion as of Dec 31, 2019.



- *Multi-Asset Class:* BlackRock's multi-asset class team manages a range of personalized mandates that leverages its broad investment expertise in global equities, currencies, bonds and commodities and its extensive risk management capabilities. As of Dec 31, 2019, AUM under this class was $568.1 billion.

- *Alternatives:* BlackRock Alternative Investors manage the company's alternative investment efforts, including product management, business development and client service. AUM under this class was $178.1 billion as of Dec 31, 2019.

- *Cash Management:* Cash management products include both taxable and tax-exempted money market funds and customized separate accounts. AUM under this class was $545.9 billion as of Dec 31, 2019.

- *Advisory:* Total AUM from this asset class was $1.8 billion as of Dec 31, 2019.

In 2017, BlackRock acquired the First Reserve Energy Infrastructure Funds and Cachematrix. In 2018, it acquired Tennenbaum Capital Partners and the asset management business of Citibanamex. In 2019, the company acquired Paris-based eFront.

Reasons To Buy:

> BlackRock seems well poised to capitalize on opportunistic acquisitions to enhance financial performance. Also, its efforts to gain market share in the active equity business will aid profitability.

- BlackRock has expanded largely via acquisitions — both domestic and overseas. In 2019, it acquired eFront. Earlier in 2018, it acquired Citibanamex's Asset Management business in Mexico and Tennenbaum Capital. Apart from these, over the years, the company has acquired several firms across the globe, thus expanding its footprint and market share. Nonetheless, the acquisition of Barclays Global Investors in 2009 remains the biggest deal by far. With a strong liquidity position, the company remains well poised to grow through opportunistic acquisitions.

- BlackRock's strong global presence, broad product diversification, revenue mix and steadily improving AUM will enable it to boost revenues. Its inorganic growth strategy has also attributed to AUM growth. AUM witnessed a six-year CAGR of 9.8% (2014-2019). Also, the company's revenues (on a GAAP basis) have witnessed a CAGR of 5.6% over the same time frame. Gradual improvement in market conditions, efforts to strengthen the iShares and ETF operations, solid AUM balance and increased focus on active equity business will likely continue to aid revenue growth.

- BlackRock's capital deployment activities look impressive. The company hikes dividends annually. In January 2020, it announced a 10% hike in quarterly dividend. Further, it has an active share repurchase program in place. The company's earnings power will likely allow it to continue enhancing shareholder value.

- Shares of BlackRock have outperformed the industry over the past year. Moreover, the company's current-year earnings estimates have moved nearly 1% higher over the past 30 days. Given the strength in fundamentals and positive estimate revisions, the stock has upside potential.

Reasons To Sell:

- BlackRock has been witnessing a persistent rise in operating expenses. Total expenses have increased at a CAGR of 6.3% over the last six years (2014-2019) mainly due to rise in general and administration costs. Also, as the company is undertaking restructuring initiatives to modify size and shape of the workforce and improve operating efficiency, expenses are expected to remain elevated in the near term.

Mounting expenses (mainly owing to higher general and administration costs) are likely to hurt BlackRock's bottom line to an extent. High dependence on overseas revenues makes us apprehensive.

- BlackRock is a geographically diversified company with presence in almost all the major markets of the world. Its dependence on overseas revenue has been gradually increasing over the last few years. Despite generating just about one-third of the revenues from overseas markets, a number of risks stemming from the regulatory and political environment, foreign exchange fluctuations and performance of regional economy could negatively affect its top-line growth.

- Further, BlackRock's trailing 12-month return on equity (ROE) undercuts its growth potential. The company's ROE of 14.05% compares unfavorably with ROE of 16.86% for the S&P 500. This reflects that it is less efficient in using shareholders' funds.

- BlackRock seems overvalued when compared with the broader industry. Its current price-to-book and price-earnings (F1) ratios are above the respective industry averages.

Last Earnings Report

BlackRock Q4 Earnings Beat Estimates as Revenues Rise

Quarter Ending	12/2019
Report Date	Jan 15, 2020
Sales Surprise	2.53%
EPS Surprise	8.74%
Quarterly EPS	8.34
Annual EPS (TTM)	28.51

BlackRock's fourth-quarter 2019 adjusted earnings of $8.34 per share surpassed the Zacks Consensus Estimate of $7.67. Moreover, the figure was 37.2% higher than the year-ago quarter's number.

Results benefitted from an improvement in revenues. Moreover, growth AUM, driven by net inflows, was a positive. However, higher expenses hurt results to some extent.

Net income attributable to BlackRock (on a GAAP basis) was $1.30 billion, up 40.3% from the prior-year quarter.

For 2019, adjusted earnings were $28.48 per share, up from $26.93 recorded a year ago. Moreover, the figure surpassed the Zacks Consensus Estimate of $27.87. Net income attributable to BlackRock (GAAP basis) was $4.48 billion for the year, increasing 4% from the previous year.

Revenues Improve, Expenses Rise

Revenues for the reported quarter (on a GAAP basis) were $3.98 billion, increasing 15.8% year over year. The upside stemmed from an increase in almost all components of revenues, except for distribution fees. Moreover, the reported figure surpassed the Zacks Consensus Estimate of $3.88 billion.

For 2019, revenues (GAAP basis) were $14.54 billion, increasing 2.4% year over year. Moreover, the reported figure beat the Zacks Consensus Estimate of $14.43 billion.

Total expenses for the quarter amounted to $2.44 billion, up 11.5% year over year. The increase was due to rise in all cost components. The company did not incur any restructuring charge in the quarter.

Non-operating income (on a GAAP basis) was $96 million against non-operating expenses of $72 million recorded in the year-ago quarter.

BlackRock's adjusted operating income was $1.54 billion, up 17.4% year over year.

Net Inflows Support AUM Growth

As of Dec 31, 2019, AUM totaled $7.43 trillion, reflecting rise of 24.3% year over year. In the reported quarter, the company witnessed long-term net inflows of $99 billion.

Share Repurchases

In 2019, BlackRock repurchased shares worth $1.7 billion.

Outlook

For 2020, the company expects rise in core G&A expenses of 5% year over year, mainly due to continued investments in technology and market data along with the full-year impact of the eFront acquisition.

Growth in technology services revenues is expected to be in low to mid-teens range over the long term.

The company expects to repurchase at least $1.2 billion of shares in 2020.

It anticipates effective tax rate of 23% for 2020.

Recent News

Dividend Update

On Jan 29, BlackRock announced a quarterly cash dividend of $3.63 per share, representing a hike of 10% from the prior payout. The dividend will be paid out on Mar 23 to shareholders of record as of Mar 5.

Valuation

BlackRock's shares are up 31% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Finance sector are up 7.6% and 9.3%, respectively over the past year.

The S&P 500 index is up 21% in the past year.

The stock is currently trading at 17.66X forward 12 months earnings, which compares to 12.80X for the Zacks sub-industry, 15.02X for the Zacks sector and 19.35X for the S&P 500 index.

Over the past five years, the stock has traded as high as 23.30X and as low as 13.04X, with a 5-year median of 16.89X. Our Neutral recommendation indicates that the stock will perform in line with the market. Our $595 price target reflects 18.56X forward earnings.

The table below shows summary valuation data for BLK

Valuation Multiples - BLK

		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	17.66	12.8	15.02	19.35
	5-Year High	23.3	14.39	16.21	19.35
	5-Year Low	13.04	9.85	12.01	15.18
	5-Year Median	16.89	12.44	14.15	17.47
P/B TTM	Current	2.69	2.2	2.86	4.68
	5-Year High	2.98	2.22	2.89	4.68
	5-Year Low	1.66	0.97	1.83	2.85
	5-Year Median	2.15	1.74	2.51	3.62
P/S F12M	Current	5.34	3.58	6.55	3.58
	5-Year High	6.8	3.66	6.65	3.58
	5-Year Low	3.88	2.32	5.39	2.54
	5-Year Median	4.95	3.01	6.04	3

As of 02/14/2020

Industry Analysis **Zacks Industry Rank:** Top 5% (14 out of 255)

Top Peers

Federated Investors, Inc. **(FHI)**	Outperform
Invesco Ltd. **(IVZ)**	Outperform
T. Rowe Price Group, Inc. **(TROW)**	Outperform
Franklin Resources, Inc. **(BEN)**	Neutral
Blackstone Group Inc/The **(BX)**	Neutral
Eaton Vance Corporation **(EV)**	Neutral
Legg Mason, Inc. **(LM)**	Neutral
SEI Investments Company **(SEIC)**	Neutral

Industry Comparison Industry: Financial - Investment Management

Industry Peers

	BLK Neutral	X Industry	S&P 500	BEN Neutral	IVZ Outperform	SEIC Neutral
VGM Score	F	-	-	C	B	C
Market Cap	87.36 B	935.89 M	24.61 B	12.10 B	8.07 B	10.30 B
# of Analysts	6	3	13	5	7	4
Dividend Yield	2.33%	2.21%	1.78%	4.43%	6.97%	1.02%
Value Score	D	-	-	B	A	D
Cash/Price	0.05	0.17	0.04	0.47	0.19	0.08
EV/EBITDA	18.61	9.50	14.06	3.74	13.17	13.71
PEG Ratio	1.78	1.36	2.09	1.36	0.82	1.57
Price/Book (P/B)	2.69	1.65	3.29	1.12	0.81	5.92
Price/Cash Flow (P/CF)	19.07	10.91	13.65	8.40	6.02	17.69
P/E (F1)	17.82	10.78	19.21	9.51	6.45	18.79
Price/Sales (P/S)	6.01	2.68	2.70	2.10	1.32	6.24
Earnings Yield	5.61%	9.05%	5.19%	10.51%	15.52%	5.33%
Debt/Equity	0.76	0.25	0.71	0.07	0.78	0.02
Cash Flow ($/share)	29.67	1.94	6.92	2.90	2.96	3.88
Growth Score	D	-	-	F	D	C
Hist. EPS Growth (3-5 yrs)	9.78%	7.69%	10.85%	-4.47%	0.64%	13.85%
Proj. EPS Growth (F1/F0)	11.51%	12.16%	7.17%	1.67%	8.07%	12.58%
Curr. Cash Flow Growth	0.00%	-0.11%	8.56%	-22.73%	-6.37%	-0.22%
Hist. Cash Flow Growth (3-5 yrs)	4.68%	4.79%	8.36%	-10.94%	1.83%	8.52%
Current Ratio	2.33	2.14	1.23	3.58	1.57	4.44
Debt/Capital	44.43%	22.94%	42.91%	12.77%	36.94%	2.16%
Net Margin	30.79%	11.59%	11.81%	21.99%	10.20%	30.39%
Return on Equity	14.05%	13.96%	16.86%	12.76%	12.17%	29.88%
Sales/Assets	0.09	0.37	0.54	0.40	0.17	0.81
Proj. Sales Growth (F1/F0)	11.54%	5.35%	3.85%	-3.11%	13.09%	6.90%
Momentum Score	C	-	-	B	A	C
Daily Price Chg	-0.46%	0.00%	0.06%	0.62%	-1.28%	-0.46%
1 Week Price Chg	5.38%	1.78%	2.47%	1.19%	5.32%	4.32%
4 Week Price Chg	5.78%	0.00%	0.59%	-5.43%	-2.63%	3.36%
12 Week Price Chg	16.69%	5.18%	6.98%	-10.61%	4.16%	8.98%
52 Week Price Chg	33.67%	2.96%	16.62%	-23.08%	-2.68%	34.10%
20 Day Average Volume	623,413	77,059	2,020,569	4,162,758	4,235,039	617,924
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	1.15%	0.17%	-0.05%	-1.31%	0.73%	-1.02%
(F1) EPS Est 12 week change	3.35%	1.91%	-0.17%	0.33%	3.77%	2.27%
(Q1) EPS Est Mthly Chg	-0.61%	0.00%	-0.24%	-3.81%	1.67%	-0.38%

Zacks Style Scores

The Zacks Style Score is as a complementary indicator to the Zacks rating system, giving investors a way to focus on the highest rated stocks that best fit their own stock picking preferences.

Academic research has proven that stocks with the best Value, Growth and Momentum characteristics outperform the market. The Zacks Style Scores rate stocks on each of these individual styles and assigns a rating of A, B, C, D and F. We also produce the VGM Score (V for Value, G for Growth and M for Momentum), which combines the weighted average of the individual Style Scores into one score. This is perfectly suited for those who want their stocks to have the best scores across the board.

Value Score	D
Growth Score	D
Momentum Score	C
VGM Score	F

As an investor, you want to buy stocks with the highest probability of success. That means buying stocks with a Zacks Recommendation of Outperform, which also has a Style Score of an A or a B.

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