

## BlackRock, Inc. (BLK)

**\$513.73** (As of 05/15/20)

Price Target (6-12 Months): **\$540.00**

Long Term: 6-12 Months

**Zacks Recommendation:**

**Neutral**

(Since: 04/19/20)

Prior Recommendation: Underperform

Short Term: 1-3 Months

**Zacks Rank:** (1-5)

**3-Hold**

Zacks Style Scores:

VGM:F

Value: D

Growth: F

Momentum: A

### Summary

Shares of BlackRock have outperformed the industry over the past year. The company's earnings have surpassed the Zacks Consensus Estimate in two of the trailing four quarters. Its first-quarter 2020 results reflected higher expenses and lower assets under management (AUM) balance. As the company undertakes restructuring initiatives to modify the size and shape of the workforce, overall costs are expected to remain elevated, thus, hurting the bottom line to an extent. BlackRock's high dependence on overseas revenues makes us apprehensive. While the company might witness net outflows in the near term due to the coronavirus-induced slowdown, strategic buyouts and initiatives to restructure the equity business will likely support the top line growth. The company will continue to enhance shareholder value through efficient capital deployments.

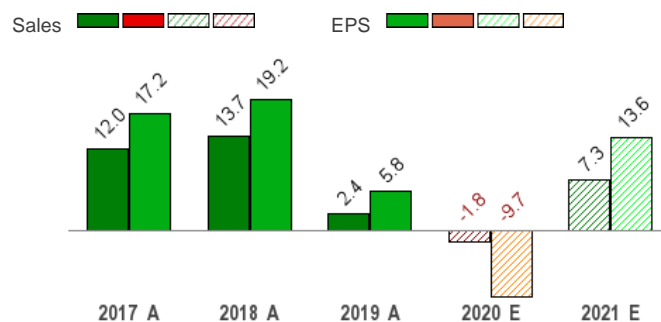
### Price, Consensus & Surprise



### Data Overview

52 Week High-Low	\$576.81 - \$323.98
20 Day Average Volume (sh)	1,799,637
Market Cap	\$79.2 B
YTD Price Change	2.2%
Beta	1.28
Dividend / Div Yld	\$14.52 / 2.8%
Industry	<a href="#">Financial - Investment Management</a>
Zacks Industry Rank	Bottom 20% (203 out of 254)

### Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	-1.4%
Last Sales Surprise	3.6%
EPS F1 Est- 4 week change	1.3%
Expected Report Date	NA
Earnings ESP	-3.7%
P/E TTM	18.0
P/E F1	20.0
PEG F1	2.0
P/S TTM	5.3

### Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021					15,325 E
2020	3,710 A	3,389 E	3,497 E	3,632 E	14,283 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	\$6.95 E	\$7.30 E	\$7.57 E	\$7.96 E	\$29.20 E
2020	\$6.60 A	\$6.06 E	\$6.47 E	\$6.93 E	\$25.71 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 05/15/2020. The reports text is as of 05/18/2020.

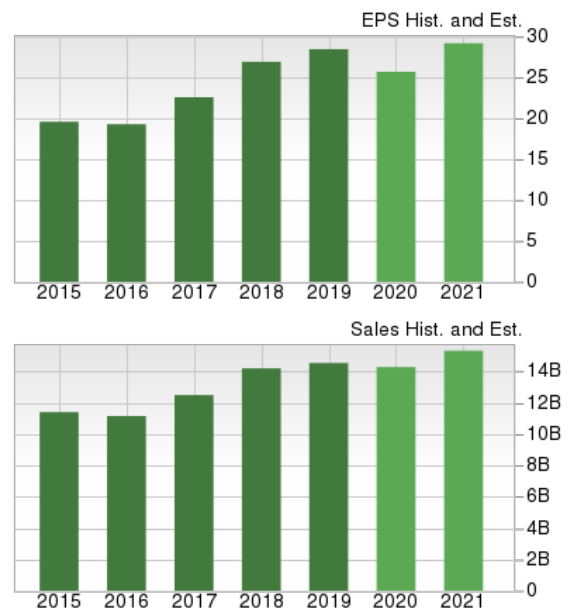
## Overview

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 \$2,959.7 billion as of Mar 31, 2020.
- **Fixed Income:** BlackRock's fixed income asset class is evenly divided between passive and active mandates. AUM under this class was \$2,235.8 billion as of Mar 31, 2020.
- **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 Mar 31, 2020, AUM under this class was \$494.2 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 \$180 billion as of Mar 31, 2020.
- **Cash Management:** Cash management products include both taxable and tax-exempted money market funds and customized separate accounts. AUM under this class was \$594.1 billion as of Mar 31, 2020.
- **Advisory:** Total AUM from this asset class was \$3 billion as of Mar 31, 2020.

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.



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## Reasons To Buy:

- ▲ 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 are expected to enable it boost revenues. Its inorganic growth strategy has also attributed to AUM growth. While AUM declined in the first quarter owing to concerns related to the coronavirus, the same has 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. The uptrend for revenues continued in the first quarter as well. While the current economic crisis, owing to the virus, will likely adversely impact AUM growth to some extent in the near term, the company's efforts to strengthen the iShares and ETF operations, and increased focus on active equity business will likely continue to aid revenue growth.
- ▲ As of Mar 31, 2020, BlackRock had total debt worth \$20.7 billion while its cash and cash equivalents were \$4.4 billion. Though the company's debt is significantly higher than its cash balance, its times-interest-earned ratio of 25.84 in first-quarter 2020 was higher than the industry average of 7.74. This shows that while the company is highly leveraged, it is better positioned than peers in terms of making debt and interest payments. Moreover, the total principal amount of long-term debt maturing in 2021 and 2022 is \$1.5 billion (in aggregate) as of Mar 31, 2020, which can be easily covered with its cash balance even if economic situation worsens further.
- ▲ 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 enable it to sustain capital deployments and enhance shareholder value.
- ▲ Shares of BlackRock have outperformed the industry so far this year. Also, the company's current-year earnings estimates have moved 1% upward over the past 30 days. Thus, given the strong fundamentals and positive estimate revisions, the stock has upside potential.

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.

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## 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. The uptrend continued in the first quarter of 2020. 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.
- ▼ 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 13.62% compares unfavorably with ROE of 16.29% for the S&P 500. This reflects that it is less efficient in using shareholders' funds.
- ▼ Further, 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.

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.

## Last Earnings Report

### BlackRock Q1 Earnings Miss Estimates as AUM Declines, Costs Rise

BlackRock's first-quarter 2020 adjusted earnings of \$6.60 per share lagged the Zacks Consensus Estimate of \$6.69. The figure was marginally lower than the year-ago quarter's number.

Results were primarily hurt because of an increase in expenses. Moreover, long-term net outflows resulted in a decline in AUM. Nevertheless, higher revenues supported results to some extent.

Net income attributable to BlackRock (on a GAAP basis) was \$806 million, down 23.5% from the prior-year quarter.

### Revenues Improve, Expenses Rise

Revenues (on a GAAP basis) were \$3.71 billion, increasing 10.9% year over year. The upside stemmed from an increase in all components of revenues. Moreover, the reported figure surpassed the Zacks Consensus Estimate of \$3.58 billion.

Total expenses amounted to \$3.03 billion, up 43.2% year over year. The increase was due to a rise in all cost components.

Non-operating expenses (on a GAAP basis) were \$71 million against non-operating income of \$125 million recorded in the year-ago quarter.

BlackRock's adjusted operating income was \$1.27 billion, up 3.2% year over year.

### AUM Declines due to Long-term Net Outflows

As of Mar 31, 2020, AUM totaled \$6.47 trillion, reflecting a decline of nearly 1% year over year. In the reported quarter, the company witnessed long-term net outflows of \$18.66 billion.

### Share Repurchases

In the reported quarter, BlackRock repurchased shares worth \$400 million.

### Outlook

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 \$300 million worth of shares per quarter in 2020.

It anticipates effective tax rate of 23% for 2020.

Quarter Ending 03/2020

Report Date	Apr 16, 2020
Sales Surprise	3.60%
EPS Surprise	-1.35%
Quarterly EPS	6.60
Annual EPS (TTM)	28.50

## Recent News

### PNC Financial Divests 22.4% Ownership in BlackRock - May 15, 2020

PNC Financial has divested its entire 22.4% ownership interest in BlackRock through a secondary offering. Following this, BlackRock repurchased \$1.1 billion worth of its shares.

PNC Financial had made an investment in BlackRock in 1995. The stake was in the form of common stock and convertible participating preferred shares that shall convert to common stock upon selling.

### 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 was paid out on Mar 23 to shareholders of record as of Mar 5.

## Valuation

BlackRock's shares are up 2.2% in the year-to-date period and 17.3% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Finance sector are down 16.8% and 29.5% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and the sector are down 17.4% and 22.7%, respectively.

The S&P 500 index is down 10.9% in the year-to-date period but up 0.7% in the past year.

The stock is currently trading at 19.01X forward 12 months earnings, which compares to 12.58X for the Zacks sub-industry, 14.67X for the Zacks sector and 20.84X for the S&P 500 index.

Over the past five years, the stock has traded as high as 23.30X and as low as 11.11X, with a 5-year median of 16.76X. Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$540 price target reflects 19.99X 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	19.01	12.58	14.67	20.84
	5-Year High	23.3	14.35	16.18	20.87
	5-Year Low	11.11	9.83	11.58	15.19
	5-Year Median	16.76	12.37	13.94	17.45
P/B	Current	2.4	1.69	2.25	3.91
	5-Year High	2.98	2.18	2.9	4.56
	5-Year Low	1.5	0.96	1.71	2.83
	5-Year Median	2.14	1.73	2.53	3.65
P/S F12M	Current	5.38	3.44	5.81	3.23
	5-Year High	6.8	3.67	6.7	3.44
	5-Year Low	3.4	2.29	4.99	2.54
	5-Year Median	4.93	2.97	6.05	3.02

As of 05/15/2020

## Industry Analysis Zacks Industry Rank: Bottom 20% (203 out of 254)



## Top Peers

Company (Ticker)	Rec	Rank
Blackstone Group IncThe (BX)	Neutral	4
Eaton Vance Corporation (EV)	Neutral	4
Legg Mason, Inc. (LM)	Neutral	3
SEI Investments Company (SEIC)	Neutral	4
T. Rowe Price Group, Inc. (TROW)	Neutral	3
Franklin Resources, Inc. (BEN)	Underperform	4
Federated Hermes, Inc. (FHI)	Underperform	4
Invesco Ltd. (IVZ)	Underperform	5

Industry Comparison Industry: Financial - Investment Management				Industry Peers		
	BLK	X Industry	S&P 500	BEN	IVZ	SEIC
Zacks Recommendation (Long Term)	Neutral	-	-	Underperform	Underperform	Neutral
Zacks Rank (Short Term)	3	-	-	4	5	4
VGM Score	F	-	-	B	D	D
Market Cap	79.25 B	628.17 M	18.98 B	8.80 B	3.07 B	7.51 B
# of Analysts	6	3	14	4	7	4
Dividend Yield	2.83%	3.00%	2.21%	6.08%	9.25%	1.38%
Value Score	D	-	-	A	C	D
Cash/Price	0.06	0.22	0.06	0.63	0.34	0.10
EV/EBITDA	14.88	5.91	11.60	2.20	11.36	9.53
PEG Ratio	2.02	1.28	2.58	NA	0.76	1.53
Price/Book (P/B)	2.40	1.11	2.59	0.82	0.31	4.33
Price/Cash Flow (P/CF)	16.22	7.47	10.28	6.12	2.13	13.10
P/E (F1)	20.21	8.86	19.01	9.85	4.55	18.38
Price/Sales (P/S)	5.32	1.68	1.92	1.55	0.47	4.51
Earnings Yield	5.00%	11.00%	5.06%	10.14%	21.94%	5.44%
Debt/Equity	0.63	0.25	0.75	0.12	0.88	0.02
Cash Flow (\$/share)	31.67	1.75	7.01	2.90	3.14	3.88
Growth Score	F	-	-	F	F	D
Hist. EPS Growth (3-5 yrs)	10.46%	6.99%	10.82%	-3.81%	0.57%	14.45%
Proj. EPS Growth (F1/F0)	-9.73%	-11.68%	-10.48%	-28.47%	-42.24%	-14.74%
Curr. Cash Flow Growth	6.72%	-4.66%	5.68%	-22.73%	24.49%	-0.22%
Hist. Cash Flow Growth (3-5 yrs)	6.05%	3.50%	8.52%	-10.94%	3.83%	8.52%
Current Ratio	4.08	2.25	1.27	3.90	1.71	5.94
Debt/Capital	40.11%	26.59%	44.25%	12.39%	39.06%	2.09%
Net Margin	28.38%	9.83%	10.54%	17.29%	8.12%	29.85%
Return on Equity	13.62%	12.36%	16.29%	12.36%	11.04%	29.17%
Sales/Assets	0.09	0.35	0.54	0.39	0.17	0.81
Proj. Sales Growth (F1/F0)	-1.76%	0.00%	-2.55%	-11.03%	-2.55%	-2.16%
Momentum Score	A	-	-	A	A	B
Daily Price Chg	3.12%	0.00%	0.20%	-1.50%	-4.15%	0.26%
1 Week Price Chg	3.02%	0.75%	3.23%	6.49%	-0.13%	4.26%
4 Week Price Chg	11.93%	4.20%	0.88%	15.18%	-23.08%	5.59%
12 Week Price Chg	-9.38%	-29.02%	-23.26%	-30.81%	-62.84%	-26.68%
52 Week Price Chg	14.87%	-29.58%	-12.56%	-47.11%	-67.60%	-1.86%
20 Day Average Volume	1,799,637	157,542	2,553,422	4,874,695	10,152,143	738,989
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	1.26%	0.00%	-5.57%	19.02%	-24.64%	-10.82%
(F1) EPS Est 12 week change	-19.24%	-20.43%	-16.22%	-10.03%	-46.55%	-24.26%
(Q1) EPS Est Mthly Chg	-1.81%	-2.03%	-11.63%	8.60%	-26.51%	-14.24%

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## Zacks Stock Rating System

We offer two rating systems that take into account investors' holding horizons: Zacks Rank and Zacks Recommendation. Each provides valuable insights into the future profitability of the stock and can be used separately or in combination with each other depending on your investment style.

### Zacks Recommendation

The Zacks Recommendation aims to predict performance over the next 6 to 12 months. The foundation for the quantitatively determined Zacks Recommendation is trends in the company's estimate revisions and earnings outlook. The Zacks Recommendation is broken down into 3 Levels; Outperform, Neutral and Underperform. Unlike many Wall Street firms, we have an excellent balance between the number of Outperform and Neutral recommendations. Our team of 70 analysts are fully versed in the benefits of earnings estimate revisions and how that is harnessed through the Zacks quantitative rating system. But we have given our analysts the ability to override the Zacks Recommendation for the 1200 stocks that they follow. The reason for the analyst over-rides is that there are often factors such as valuation, industry conditions and management effectiveness that a trained investment professional can spot better than a quantitative model.

### Zacks Rank

The Zacks Rank is our short-term rating system that is most effective over the one- to three-month holding horizon. The underlying driver for the quantitatively-determined Zacks Rank is the same as the Zacks Recommendation, and reflects trends in earnings estimate revisions.

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### 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	F
Momentum Score	A
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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