

The Blackstone Group (BX)

\$53.06 (As of 08/03/20)

Price Target (6-12 Months): **\$56.00**

Long Term: 6-12 Months

Zacks Recommendation:
Neutral

(Since: 05/01/19)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:D

Value: D

Growth: B

Momentum: F

Summary

Shares of Blackstone have outperformed the industry so far this year. Its earnings surpassed the Zacks Consensus Estimate in two, met in one and lagged in one of the trailing four quarters. The company's second-quarter 2020 results reflected lower revenues and rise in costs. The company remains well-positioned to benefit from its fund-raising ability, revenue mix, persistent asset inflows and inorganic growth initiatives. Moreover, its transition from a publicly traded partnership to a corporation is expected to help attract more investors. Nevertheless, continuously increasing expenses (mainly owing to higher general and administrative costs) are expected to hamper the bottom line to some extent in the near term. Additionally, lower chances of sustainability of the company's capital deployment activities remain a major concern.

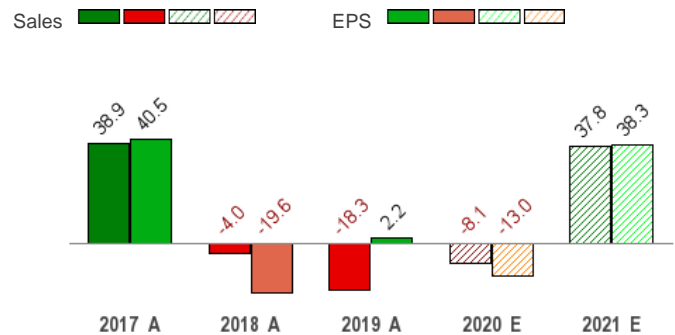
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$64.97 - \$33.00
20 Day Average Volume (sh)	2,758,591
Market Cap	\$35.5 B
YTD Price Change	-5.2%
Beta	1.39
Dividend / Div Yld	\$1.48 / 2.8%
Industry	Financial - Investment Management
Zacks Industry Rank	Top 15% (38 out of 254)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	0.0%
Last Sales Surprise	-1.1%
EPS F1 Est- 4 week change	-1.9%
Expected Report Date	10/28/2020
Earnings ESP	-0.2%
P/E TTM	24.2
P/E F1	26.4
PEG F1	1.4
P/S TTM	4.8

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	1,599 E	1,780 E	1,952 E	2,211 E	7,067 E
2020	1,141 A	1,113 A	1,261 E	1,617 E	5,130 E
2019	1,095 A	1,323 A	1,372 A	1,792 A	5,581 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$0.63 E	\$0.71 E	\$0.79 E	\$0.92 E	\$2.78 E
2020	\$0.46 A	\$0.43 A	\$0.50 E	\$0.65 E	\$2.01 E
2019	\$0.44 A	\$0.57 A	\$0.58 A	\$0.72 A	\$2.31 A

*Quarterly figures may not add up to annual.

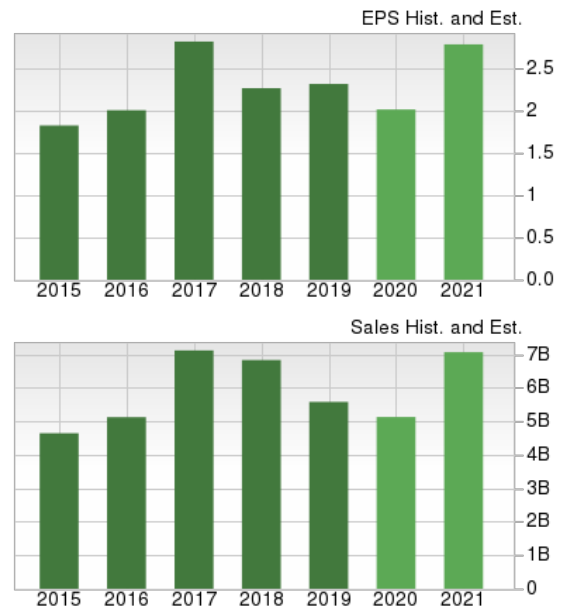
The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 08/03/2020. The reports text is as of 08/04/2020.

Overview

Headquartered in New York, The Blackstone Group Inc. is an asset manager of alternative investments and a provider of financial advisory services. As of Jun 30, 2020, total assets under management (AUM) were \$564.3 billion.

The company operates its businesses through four segments:

- **The Private Equity** segment comprises management of private equity funds, collectively called the Blackstone Capital Partners (BCP) funds, along with energy and communications-related investments. Also, the segment includes Tactical Opportunities business, Strategic Partners Fund Solutions and Blackstone Total Alternatives Solution. As of Jun 30, 2020, segmental AUM was \$184.1 billion.
- **The Real Estate** segment primarily comprises management of real estate funds called the Blackstone Real Estate Partners (BREP) funds. In addition, the segment has two other funds – Blackstone Real Estate Debt Strategies (BREDS) funds and Blackstone Property Partners (BPP) funds. As of Jun 30, 2020, segmental AUM was \$166.7 billion.
- **The Hedge Fund Solutions** segment consists of Blackstone Alternative Asset Management (BAAM), an institutional solutions provider utilizing hedge funds across a variety of strategies. The segment's AUM was \$75.7 billion as of Jun 30, 2020.
- **The Credit & Insurance** segment includes senior credit-focused funds, distressed debt funds, mezzanine funds and general credit-focused funds concentrated in the leveraged finance marketplace. All these are managed by Blackstone's subsidiary. As of Jun 30, 2020, segmental AUM was \$137.8 billion.



In 2017, Blackstone acquired Aon's Technology-enabled HR Business and Harvest Fund Advisors LLC. In 2018, Blackstone, along with Canada Pension Plan Investment Board and GIC, acquired a majority stake in Thomson Reuters' Financial & Risk business, and Clarus.



Reasons To Buy:

- ▲ Blackstone has a strong presence across the globe, along with broad diversification and organic growth prospects. Revenues (GAAP basis) have witnessed a five-year (2015-2019) CAGR of 12.1%, mainly driven by improving management and advisory fees, and total investment income. Though the company recorded negative revenues in the first half of 2020, growth in revenues is expected in the upcoming quarters on the back of promising performance of its funds amid the coronavirus outbreak-induced global economic crisis.
- ▲ Blackstone's fee-earning AUM and total AUM consistently demonstrate strong growth, aided by increasing net inflows. Over the last four years (2016-2019), fee-earning AUM witnessed a CAGR of 13.8% and total AUM recorded a CAGR of 15.9%. The uptrend for both continued in the first half of 2020. The company's diversified products, revenue mix and superior position in the alternative investments space will likely aid continued AUM growth despite expectations of outflows due to the current crisis.
- ▲ Despite a challenging fund-raising environment for asset managers, Blackstone has been successfully raising money. Fund raising for the global private equity and real estate funds resulted in the company's 'dry powder' or the available capital of \$155.9 billion as of Jun 30, 2020.

Blackstone is likely to continue benefiting from its diversified products, acquisitions and revenue mix. The company's robust fund-raising ability is expected to further support profitability.

Reasons To Sell:

- ▼ Blackstone's operations largely depend on commitment from investors of its alternative investment funds. During the 2008 crisis, the company's financial performance deteriorated due to the low level of new commitments as investors were shying away from market-linked investments. Though the situation had changed, the current crisis might adversely affect revenue growth and the company's ability to generate cash flow.
- ▼ Blackstone has been witnessing a rise in expenses over the past several years. Total expenses have seen a five-year (2015-2019) CAGR of 6.4%. The rise was mainly due to higher general, administrative and other expenses as well as total compensation and benefits costs. In the first six months of 2020, the company recorded negative unrealized performance allocation compensation, as a result of which total expenses declined year over year. Nevertheless, expenses are expected to continue rising as the company's well performing funds require more headcount. Its consistent investment in franchise is also leading to higher costs.
- ▼ Unlike other companies in the same space, Blackstone's capital deployment activities are a direct function of the earnings generated. Given a volatile trend in its quarterly earnings over the last several quarters, the dividend might not be dependable. Although it has an efficient share repurchase plan in place, chances of Blackstone sustaining its current capital deployment activities are dim, given the significantly high level of debt compared with its peers.
- ▼ Shares of Blackstone have outperformed the industry so far this year. However, the company's 2020 earnings estimates have been revised 2% lower over the past 30 days. Also, the stock seems overvalued compared with the broader industry. Its current price-to-earnings (P/E) (F1) and price-to-book (P/B) ratios are above the respective industry averages. Thus, given the concerns and downward estimate revisions, the stock has limited upside potential.

Persistently mounting expenses due to investments in franchise are likely to hurt Blackstone's bottom-line growth. Further, sustainability of the company's capital deployment actions is less.

Last Earnings Report

Blackstone Q2 Earnings In Line, Assets Balance Rise

Blackstone's second-quarter 2020 distributable earnings of 43 cents per share were in line with the Zacks Consensus Estimate. However, the figure declined 25% from the prior-year quarter.

The results reflected improving assets balance, mainly driven by inflows. However, a decline in segment revenues and higher operating expenses were the undermining factors.

Net loss attributable to Blackstone was \$568.3 million, up 86% year over year.

Quarter Ending 06/2020

Report Date	Jul 23, 2020
Sales Surprise	-1.12%
EPS Surprise	0.00%
Quarterly EPS	0.43
Annual EPS (TTM)	2.19

Segment Revenues Down, Expenses Rise

Total segment revenues were \$1.11 billion, down 16% year over year. Also, the top line lagged the Zacks Consensus Estimate of \$1.13 billion. On a GAAP basis, revenues of \$2.52 billion were up 69% from the prior-year quarter.

Total expenses (GAAP basis) increased 36% year over year to \$1.17 billion. The rise in total compensation and benefits costs were partly offset by lower general, administrative and other costs, interest expenses, as well as fund expenses.

As of Jun 30, 2020, Blackstone had \$4.5 billion in total cash, cash equivalents and corporate treasury investments, as well as \$9 billion in cash and net investments. Further, the company has \$1.6 billion undrawn credit revolver.

Assets Balance Improves

Fee-earning AUM grew 12% year over year to \$435.8 billion. Total AUM amounted to \$564.3 billion as of Jun 30, 2020, up 3% year over year. The rise in total AUM was largely driven by \$20.3 billion of inflows.

As of Jun 30, 2020, undrawn capital available for investment was \$155.9 billion, which was driven by fundraising activity for the latest flagship funds.

Share Repurchase Update

The company repurchased 2 million shares in the quarter.

Recent News

Dividend Update

On Jul 23, Blackstone announced a quarterly dividend of 37 cents per share. The dividend will be paid out on Aug 10 to stockholders of record as of Aug 3.

Valuation

Blackstone's shares are down 5.1% in the year-to-date period but up 19.1% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Finance sector are down 3% and 18.4% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry is up 9.4% while the sector is down 9.1%.

The S&P 500 index is up 1.7% in the year-to-date period and 15.4% in the past year.

The stock is currently trading at 21.54X forward 12 months earnings, which compares to 12.74X for the Zacks sub-industry, 16.27X for the Zacks sector and 22.62X for the S&P 500 index.

Over the past five years, the stock has traded as high as 25.15X and as low as 7.89X, with a 5-year median of 11.16X. Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$56 price target reflects 22.76X forward earnings.

The table below shows summary valuation data for BX

Valuation Multiples - BX					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	21.54	12.74	16.27	22.62
	5-Year High	25.15	14.39	16.27	22.62
	5-Year Low	7.89	9.77	11.59	15.25
	5-Year Median	11.16	12.4	14.21	17.55
P/TB TTM	Current	4.02	3.55	3.33	14.77
	5-Year High	4.4	3.75	4	14.81
	5-Year Low	1.41	1.65	2.01	5.96
	5-Year Median	1.97	3.09	3.48	9.54
P/S F12M	Current	5.66	3.81	6.05	3.59
	5-Year High	6.82	3.81	6.66	3.59
	5-Year Low	1.94	2.33	4.97	2.53
	5-Year Median	2.95	2.99	6.06	3.04

As of 08/03/2020

Industry Analysis Zacks Industry Rank: Top 15% (38 out of 254)



Top Peers

Company (Ticker)	Rec	Rank
Invesco Ltd. (IVZ)	Outperform	3
KKRCo. Inc. (KKR)	Outperform	2
SEI Investments Company (SEIC)	Outperform	2
T. Rowe Price Group, Inc. (TROW)	Outperform	1
Apollo Global Management, LLC (APO)	Neutral	3
BlackRock, Inc. (BLK)	Neutral	3
The Carlyle Group L.P. (CG)	Neutral	3
Eaton Vance Corporation (EV)	Neutral	3

Industry Comparison Industry: Financial - Investment Management				Industry Peers		
	BX	X Industry	S&P 500	IVZ	KKR	TROW
Zacks Recommendation (Long Term)	Neutral	-	-	Outperform	Outperform	Outperform
Zacks Rank (Short Term)	3	-	-	3	2	1
VGM Score	D	-	-	D	D	C
Market Cap	35.54 B	920.46 M	22.67 B	4.59 B	20.00 B	31.19 B
# of Analysts	7	3	13.5	7	6	7
Dividend Yield	2.79%	2.14%	1.77%	6.20%	1.51%	2.62%
Value Score	D	-	-	B	C	C
Cash/Price	0.07	0.16	0.07	0.27	0.17	0.07
EV/EBITDA	10.83	5.97	13.08	12.46	7.00	9.40
PEG Ratio	1.34	1.41	2.94	1.09	3.80	2.07
Price/Book (P/B)	3.11	1.57	3.10	0.46	0.77	4.62
Price/Cash Flow (P/CF)	21.42	8.59	12.34	3.18	20.43	14.82
P/E (F1)	26.15	10.17	21.71	6.52	24.72	16.22
Price/Sales (P/S)	4.84	1.87	2.46	0.71	4.74	5.40
Earnings Yield	3.79%	9.70%	4.38%	15.30%	4.05%	6.16%
Debt/Equity	0.97	0.19	0.75	0.87	1.01	0.02
Cash Flow (\$/share)	2.48	1.75	6.94	3.14	1.75	9.27
Growth Score	B	-	-	F	D	C
Hist. EPS Growth (3-5 yrs)	8.46%	8.46%	10.46%	-0.30%	12.48%	16.44%
Proj. EPS Growth (F1/F0)	-13.05%	-3.42%	-7.08%	-39.83%	-13.28%	4.97%
Curr. Cash Flow Growth	2.05%	-4.05%	5.47%	24.49%	-40.84%	10.14%
Hist. Cash Flow Growth (3-5 yrs)	-18.15%	4.10%	8.55%	3.83%	-8.13%	10.60%
Current Ratio	1.36	2.12	1.32	1.76	1.50	3.24
Debt/Capital	49.27%	22.47%	44.21%	38.81%	49.69%	15.69%
Net Margin	27.93%	8.66%	10.25%	8.15%	47.50%	35.05%
Return on Equity	14.05%	12.17%	14.72%	9.93%	4.37%	29.65%
Sales/Assets	0.23	0.35	0.52	0.17	0.07	0.63
Proj. Sales Growth (F1/F0)	-8.07%	0.00%	-1.79%	-5.17%	-0.88%	5.55%
Momentum Score	F	-	-	B	C	C
Daily Price Chg	-0.41%	0.08%	0.27%	-0.40%	1.22%	-0.51%
1 Week Price Chg	-4.34%	0.00%	0.14%	-3.83%	1.96%	3.08%
4 Week Price Chg	-4.15%	0.53%	2.96%	-7.06%	13.36%	9.69%
12 Week Price Chg	-0.19%	11.76%	10.90%	27.88%	35.61%	21.95%
52 Week Price Chg	19.16%	-10.97%	2.35%	-41.76%	46.78%	29.98%
20 Day Average Volume	2,758,591	90,721	2,043,624	5,642,767	2,925,096	1,141,438
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	-3.76%	0.00%	5.09%
(F1) EPS Est 4 week change	-1.88%	0.22%	0.82%	1.23%	6.36%	13.58%
(F1) EPS Est 12 week change	-1.75%	3.56%	0.59%	4.17%	11.24%	28.19%
(Q1) EPS Est Mthly Chg	-4.09%	0.35%	0.25%	4.89%	8.28%	10.92%

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.

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	B
Momentum Score	F
VGM Score	D

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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