

The Blackstone Group (BX)

\$58.23 (As of 01/15/20)

Price Target (6-12 Months): **\$62.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 05/01/19)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

4-Sell

Zacks Style Scores:

VGM:F

Value: D

Growth: D

Momentum: D

Summary

Shares of Blackstone have outperformed the industry over the past year. The company's have earnings surpassed the Zacks Consensus Estimate in two of the trailing four quarters. Earnings estimates have moved lower ahead of its fourth quarter 2019 results. The company remains well-poised to capitalize from its fund-raising ability. It is expected to benefit from revenue mix, persistent asset inflows and inorganic growth initiatives. Also, the company's conversion from a publicly traded partnership to a corporation is expected to help in attracting more investors for its stock. However, continuously increasing expenses (mainly due to higher general and administrative costs) are expected to hamper the bottom line to an extent. Moreover, lower chances of sustainability of the company's capital deployment activities remain a major concern.

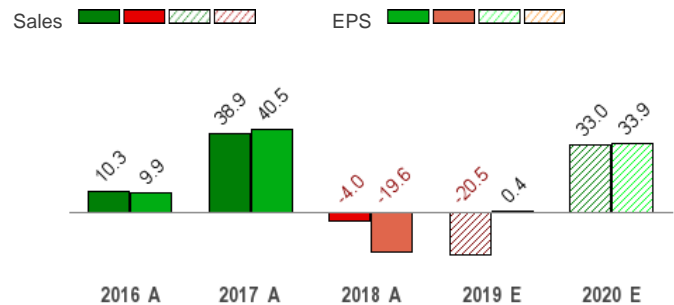
Price, Consensus & Surprise



Data Overview

| | |
|----------------------------|---|
| 52 Week High-Low | \$59.58 - \$32.17 |
| 20 Day Average Volume (sh) | 2,586,429 |
| Market Cap | \$38.4 B |
| YTD Price Change | 4.1% |
| Beta | 1.44 |
| Dividend / Div Yld | \$1.96 / 3.4% |
| Industry | Financial - Investment Management |
| Zacks Industry Rank | Top 13% (32 out of 254) |

Sales and EPS Growth Rates (Y/Y %)



| | |
|---------------------------|------------|
| Last EPS Surprise | 7.4% |
| Last Sales Surprise | 1.4% |
| EPS F1 Est- 4 week change | -0.3% |
| Expected Report Date | 01/30/2020 |
| Earnings ESP | -3.6% |
| P/E TTM | 37.1 |
| P/E F1 | 19.2 |
| PEG F1 | 1.0 |
| P/S TTM | 6.7 |

Sales Estimates (millions of \$)

| | Q1 | Q2 | Q3 | Q4 | Annual* |
|------|---------|---------|---------|---------|---------|
| 2020 | 1,722 E | 1,815 E | 1,902 E | 2,000 E | 7,225 E |
| 2019 | 1,095 A | 1,323 A | 1,372 A | 1,632 E | 5,434 E |
| 2018 | 1,665 A | 1,969 A | 1,834 A | 505 A | 6,833 A |

EPS Estimates

| | Q1 | Q2 | Q3 | Q4 | Annual* |
|------|----------|----------|----------|-----------|----------|
| 2020 | \$0.70 E | \$0.73 E | \$0.81 E | \$0.83 E | \$3.04 E |
| 2019 | \$0.44 A | \$0.57 A | \$0.58 A | \$0.69 E | \$2.27 E |
| 2018 | \$0.65 A | \$0.90 A | \$0.76 A | -\$0.02 A | \$2.26 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 01/15/2020. The reports text is as of 01/16/2020.

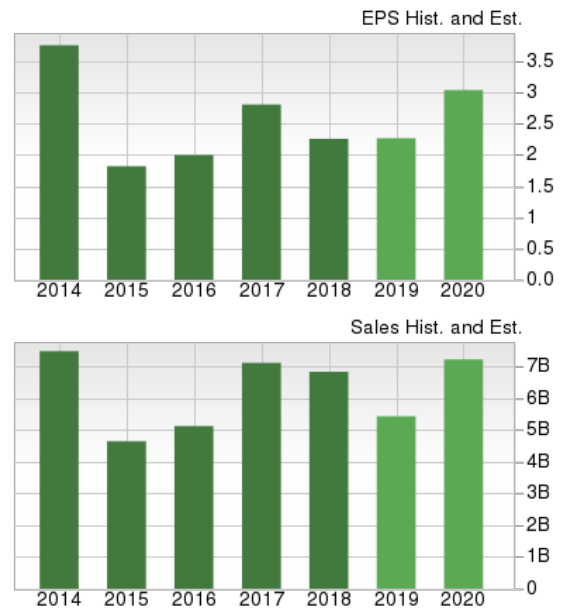
Overview

Headquartered in New York, The Blackstone Group Inc. is an asset manager of alternative investments and a provider of financial advisory services. As of Sep 30, 2019, total assets under management (AUM) was \$554.02 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 Sep 30, 2019, segmental AUM was \$173.9 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 Sep 30, 2019, segmental AUM was \$157.1 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 \$81.2 billion as of Sep 30, 2019.
- **The Credit** 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 Sep 30, 2019, segmental AUM was \$141.9 billion.

In 2017, Blackstone acquired Aon's Technology-enabled HR Business and Harvest Fund Advisors LLC. In October 2018, Blackstone, along with Canada Pension Plan Investment Board and GIC, acquired a majority stake in Thomson Reuters' Financial & Risk business. In November 2018, it acquired 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 four-year (2015-2018) CAGR of 13.7%, mainly driven by improving management and advisory fees, and interest, dividend and other revenues. While revenues declined in the first nine months of 2019, the same is expected to improve in the upcoming quarters on the back of better performance of its funds.
- ▲ Blackstone's fee-earning AUM and total AUM consistently demonstrate strong growth, aided by increasing net inflows. Over the last four years (2015-2018), fee-earning AUM witnessed a CAGR of 11.6% to \$342.5 billion and total AUM recorded a CAGR of 12% to \$472.2 billion. The uptrend for both continued in the first nine months of 2019. The company's diversified products, revenue mix and superior position in the alternative investments space will aid continued AUM growth.
- ▲ 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 \$148 billion as of Sep 30, 2019.

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

Reasons To Sell:

- ▼ Elevated expense levels remain a concern for Blackstone. Though expenses fell in the first nine months of 2019, it has seen a four-year (2015-2018) CAGR of 4.4%. The rise was mainly due to higher general, administrative and other expenses. Further, costs are expected to continue rising as the company's well-performing funds require more headcount and its persistent investment in franchise.
- ▼ 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. Additionally, it increased its share repurchase authorization to \$1 billion. As of Sep 30, 2019, \$864 million worth of shares were left to be repurchased. The chances of Blackstone sustaining its current capital deployment activities are dim, given the significantly high level of debts compared with its peers.
- ▼ Blackstone's asset management operations largely depend on commitment from investors of its alternative investment funds. During the 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 has changed, any future crisis would adversely affect revenue growth and the company's ability to generate cash flow.
- ▼ Shares of Blackstone have outperformed the industry over the past six months. However, the company's 2019 earnings estimates have moved nearly 1% lower over the past seven days. Also, the stock seems overvalued compared with the broader industry. Its current price-to-earnings (F1) and price-to-book ratios are above the respective industry averages. Given the concerns and downward estimate revisions, the stock has limited upside potential.

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

Last Earnings Report

Blackstone Q3 Earnings & Revenues Beat, Expenses Down

Blackstone's third-quarter 2019 distributable earnings of 58 cents surpassed the Zacks Consensus Estimate of 54 cents. However, the figure declined from 63 cents earned in the prior-year quarter.

Results benefited from growth in AUM and lower expenses. However, a decline in revenues acted as a headwind.

Net income attributable to Blackstone was \$779.4 million, up from \$442.7 million in the year-ago quarter.

Revenues & Costs Decline, AUM Improves

Total segment revenues for the reported quarter were \$1.37 billion, down nearly 5.2% year over year. However, the top line surpassed the Zacks Consensus Estimate of \$1.34 billion.

Total revenues on a GAAP basis declined 9.9% year over year to \$1.74 billion.

Total expenses (GAAP basis) dipped 6.9% year over year to \$947.2 million due to a decline in total compensation and benefits costs.

Fee-earning AUM grew 15.2% year over year to \$394.14 billion. Total AUM amounted to \$554.02 billion as of Sep 30, 2019, up 21.3% year over year. The rise in total AUM was largely driven by \$20.4 billion of inflows.

As of Sep 30, 2019, Blackstone had \$5.6 billion in total cash, cash equivalents and corporate treasury investments, and \$11.6 billion in cash and net investments.

Share Repurchase Update

Blackstone repurchased 2.8 million shares in the reported quarter.

Outlook

The company expects fee-related earnings to be more than \$1.70 per share in 2020 and \$2 per share, going forward.

Quarter Ending **09/2019**

| Report Date | Oct 23, 2019 |
|------------------|--------------|
| Sales Surprise | 1.44% |
| EPS Surprise | 7.41% |
| Quarterly EPS | 0.58 |
| Annual EPS (TTM) | 1.57 |

Recent News

Dividend Update

On Oct 23, 2019, Blackstone announced a quarterly dividend of 49 cents per share. It was paid on Nov 12 to stockholders of record as of Nov 4.

Valuation

Blackstone's shares are up 78.4% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Finance sector are up 7.7% and 12.7% over the past year, respectively.

The S&P 500 index is up 24.5% in the past year.

The stock is currently trading at 19.04X forward 12 months earnings, which compares to 12.40X for the Zacks sub-industry, 14.85X for the Zacks sector and 18.95X for the S&P 500 index.

Over the past five years, the stock has traded as high as 24.52X and as low as 7.89X, with a 5-year median of 10.92X. Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$62 price target reflects 20.26X 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 | 19.04 | 12.4 | 14.85 | 18.95 |
| | 5-Year High | 24.52 | 14.39 | 16.21 | 19.34 |
| | 5-Year Low | 7.89 | 9.85 | 12.01 | 15.17 |
| | 5-Year Median | 10.92 | 12.44 | 13.98 | 17.44 |
| P/B TTM | Current | 2.64 | 2.09 | 2.83 | 4.49 |
| | 5-Year High | 2.65 | 2.22 | 2.89 | 4.49 |
| | 5-Year Low | 1.07 | 0.97 | 1.83 | 2.85 |
| | 5-Year Median | 1.58 | 1.74 | 2.5 | 3.61 |
| P/S F12M | Current | 5.29 | 3.57 | 6.53 | 3.52 |
| | 5-Year High | 6.82 | 3.66 | 6.61 | 3.52 |
| | 5-Year Low | 1.94 | 2.32 | 5.2 | 2.54 |
| | 5-Year Median | 2.86 | 3.01 | 6.04 | 3 |

As of 01/15/2020

Industry Analysis Zacks Industry Rank: Top 13% (32 out of 254)



Top Peers

| | |
|-------------------------------------|------------|
| Invesco Ltd. (IVZ) | Outperform |
| SEI Investments Company (SEIC) | Outperform |
| T. Rowe Price Group, Inc. (TROW) | Outperform |
| Apollo Global Management, LLC (APO) | Neutral |
| BlackRock, Inc. (BLK) | Neutral |
| The Carlyle Group L.P. (CG) | Neutral |
| Eaton Vance Corporation (EV) | Neutral |
| KKR & Co. Inc. (KKR) | Neutral |

| Industry Comparison Industry: Financial - Investment Management | | | | Industry Peers | | |
|---|------------|------------|-----------|----------------|-------------|-----------------|
| | BX Neutral | X Industry | S&P 500 | IVZ Outperform | KKR Neutral | TROW Outperform |
| VGM Score | F | - | - | B | F | B |
| Market Cap | 38.39 B | 867.32 M | 24.22 B | 8.17 B | 16.26 B | 30.41 B |
| # of Analysts | 7 | 3 | 13 | 7 | 4 | 7 |
| Dividend Yield | 3.37% | 2.27% | 1.75% | 6.89% | 1.69% | 2.34% |
| Value Score | D | - | - | A | F | C |
| Cash/Price | 0.07 | 0.17 | 0.04 | 0.19 | 0.22 | 0.07 |
| EV/EBITDA | 12.73 | 9.05 | 14.11 | 13.24 | 12.25 | 11.14 |
| PEG Ratio | 1.00 | 1.52 | 2.06 | 0.77 | 2.87 | 1.61 |
| Price/Book (P/B) | 2.65 | 1.75 | 3.34 | 0.82 | 0.57 | 4.45 |
| Price/Cash Flow (P/CF) | 24.09 | 10.14 | 13.57 | 6.09 | 9.64 | 15.92 |
| P/E (F1) | 19.54 | 11.00 | 18.90 | 6.58 | 14.21 | 15.41 |
| Price/Sales (P/S) | 6.68 | 2.53 | 2.65 | 1.45 | NA | 5.58 |
| Earnings Yield | 5.22% | 8.91% | 5.29% | 15.22% | 7.04% | 6.48% |
| Debt/Equity | 0.82 | 0.25 | 0.72 | 0.78 | 0.90 | 0.02 |
| Cash Flow (\$/share) | 2.42 | 1.94 | 6.94 | 2.96 | 3.06 | 8.17 |
| Growth Score | D | - | - | D | F | B |
| Hist. EPS Growth (3-5 yrs) | -3.90% | 5.83% | 10.56% | 0.27% | 9.02% | 13.33% |
| Proj. EPS Growth (F1/F0) | 33.98% | 10.72% | 7.59% | 4.59% | 26.10% | 5.54% |
| Curr. Cash Flow Growth | -53.23% | 8.89% | 14.73% | -6.37% | -19.51% | 30.72% |
| Hist. Cash Flow Growth (3-5 yrs) | -15.01% | 6.31% | 9.00% | 1.83% | -5.24% | 11.74% |
| Current Ratio | 1.05 | 2.20 | 1.24 | 1.57 | 1.13 | 3.60 |
| Debt/Capital | 45.40% | 23.45% | 42.99% | 36.94% | 46.93% | 15.44% |
| Net Margin | 27.05% | 11.59% | 11.14% | 8.86% | NA | 35.28% |
| Return on Equity | 7.61% | 12.39% | 17.16% | 10.60% | 5.29% | 28.84% |
| Sales/Assets | 0.19 | 0.38 | 0.55 | 0.16 | NA | 0.63 |
| Proj. Sales Growth (F1/F0) | 32.96% | 6.93% | 4.23% | 13.14% | 20.27% | 7.15% |
| Momentum Score | D | - | - | A | B | A |
| Daily Price Chg | 0.21% | 0.00% | 0.27% | 0.56% | 0.82% | 0.32% |
| 1 Week Price Chg | 3.07% | 0.96% | 0.39% | 0.17% | 3.31% | 2.17% |
| 4 Week Price Chg | 6.61% | 1.39% | 2.17% | -1.96% | 0.65% | 6.33% |
| 12 Week Price Chg | 13.05% | 4.06% | 6.65% | 4.17% | 3.25% | 20.09% |
| 52 Week Price Chg | 78.73% | 6.51% | 22.43% | -1.69% | 32.72% | 36.61% |
| 20 Day Average Volume | 2,586,429 | 96,062 | 1,545,017 | 3,760,350 | 2,464,335 | 808,756 |
| (F1) EPS Est 1 week change | -0.37% | 0.00% | 0.00% | 0.37% | -0.24% | 1.55% |
| (F1) EPS Est 4 week change | -0.33% | 0.56% | 0.00% | 2.52% | 0.85% | 4.16% |
| (F1) EPS Est 12 week change | 0.32% | 0.30% | -0.41% | 4.08% | 1.09% | 4.48% |
| (Q1) EPS Est Mthly Chg | -1.97% | 0.71% | 0.00% | 1.70% | -2.41% | 3.27% |

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 | D |
| Momentum Score | D |
| 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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