Blue Owl Capital

Blue Owl Capital (OWL) is an American asset management firm specialising in credit, capital, and real estate. We propose an £800 investment into the firm where their shares are currently valuated at $23.70/share. We estimate a stop loss of $18/share.

Company Analysis

Three main pillars to the organisation:

Credit

Direct Lending-lending to upper middle market companies

Alternative Credit-credit-oriented investments in markets underserved by traditional lenders or the broader capital markets.

Investment Grade Private Credit-focus on generating capital-efficient investment income through asset backed finance, private corporate credit, and structured products. Tailored for insurance companies.

Liquid Credit-Focuses on the management of collateralised loan obligations.

Private credit a predicted $40 trillion market according to some Apollo seniors, second highest fundraising behind PE

GP Capital Solutions:

Seeks to achieve superior risk-adjusted returns by building a diversified portfolio of minority equity stakes in institutionalised private capital firms.

Real estate:

Its Real Estate products are focused on acquiring triple net lease real estate occupied by investment grade or creditworthy tenants. Its Real Estate products are offered through Permanent Capital vehicles, including its real estate investment trusts, and long-dated private funds. Focus on industrial and essential retails spaces.

Management Fee Centric Business Model

(1)

Company Analysis

Cost Streams

Compensation and benefits: Salaries and bonuses; Equity-based compensation, capital related compensation, reimbursed expenses

Amortisation of Intangible Assets: May include things like goodwill (resulting from acquisitions), investment management contracts, or other intellectual properties that have a finite useful life. Amortization of intangible assets refers to the process of systematically reducing the book value of intangible assets over time. Intangible assets are non-physical assets, such as patents, trademarks, goodwill, customer relationships, and intellectual property.

General, admin and other expenses:

-Transaction expenses

-Legal, compliance and audit service expense

-Distribution costs

-reimbursed expenses

Other expenses:

-Interest expense

-Debt servicing

-Financial fees

-Change in earnout liability

-Change in warrant liability.

-Marketing and advertising costs.

Revenue

9 months ended 30 September 2024:1.664Bn
Compared to $1.237 Bn for 9 months ending 30 September 2023
28% increase in management fees to $1.436 bn
Of this increase:
$233.7 million from Credit
$42.7 million from GP Strategic Capital
$43.9 million from Real Estate
86.5% increase in Admin, transaction and other fees to $0.224bn.

3 months ended 30 September 2024:
$0.601bn compared to $0.429bn in the 3 months 30 September 2023.
This is a 39.85% increase.

12 months ended 30 September 2024:
$2.165bn a 25% increase
<u>Summary of previous years revenue growth:</u>
2021: $0.824bn|2022: $1.37bn|2023: $1.732bn 26.42% increase from 2022.

Earnings

Quarter ending 30 September 2024

Fee-related earnings $326.9 million,or $0.22 per Adjusted share.

This is compared to $0.17 per adjusted share for 3 Quarter 2023.

Distributable earnings of $301.0 million or $0.20 per adjusted share.

This is compared to $0.16 per adjusted share for 3 Quarter 2023.

Net income attributable to Class A shares $106.9 million compared to $37.9 million in 3Q 2023.

Consolidated net income of $430.6 million for 3Q 2024 compared to $141.3 million in 3Q 2023.

(3), (4), (5)

Company Analysis

Key Ratios

Price/Sales
Current 6.21
30/09/2024=4.66
30/09/2023=7.72

Price/earnings
05/12/2024=138.24
30/09/2024=113.88
30/06/2024=110.94

Price/Book
Current 6.69
30/09/2024=6.22
30/09/2023=3.76

Enterprise value/Revenue
Current=7.51
-30/09/2024=17.10
-30/09/2023=17.64

Enterprise value/EBITDA
Current=19.29
-30/09/2024=17.10
-30/09/2023=17.64

Debts

30/09/2024

Long term debt :$4.87Bn

Shareholders Equity:$5.88 Bn

Debt to Equity ratio=0.83

30/09/2023

Long term debt=$3.45 Bn

Shareholders Equity=$5.32 Bn

Debt to Equity ratio=0.65

30/09/2022

Long term debt=$3.16Bn

Shareholders Equity=$5.64Bn

Debt to Equity ratio=$0.56

EBITDA

EBITDA for quarter ending September 30 2024 $0.215bn 39.28% increase.

EBITDA for twelve months ending September 30 2024 $0.844bn 53.22% increase.

31/12/2023=$632,647,000

31/12/2022=$269,666,000

(7), (8), (9)

Path to growth

- New administration
    - Trump has made it clear that his mission for growth is through tax cuts and de-regulation especially of the financial sector. After tax income is expected to rise by 2.2% by 2034 (20)
    - He has also appointed Scott Bessent to lead the treasury, a 62 year old hedge fund executive.
    - This administration does however bring some level of uncertainty especially around there tariff policy, therefore, diversified risk is key.

- Diversification
    - Private credit has been one of the fastest-growing segments of the financial system over the past 15 years. The asset class, as commonly measured, totaled nearly $2 trillion by the end of 2023, roughly ten times larger than it did in 2009.1 While that total remains a small fraction of the broader fixed-income landscape, private financing solutions continue to perform well—and win, in many instances—against bank and public alternatives. In fact, our analysis suggests that the size of the addressable market for private credit could be more than $30 trillion in the United States alone (McKinsey)(21)
    - Blue owl aim to become the buyers choice for selling owners in the NBA. The aim of a diversified portfolio of NBA teams is particularly strong during times of uncertainty. Sport across the US have seen continued growth even during recent economic recession. The valuation of the 30 NBA teams has risen from 66bn dollars in 2020 to 74.4bn dollars in 2022(17), and since 2010 the average valuation of each team has increased by 7.3X to 2022, the fastest of the big 4 in US sport(18).
    - Real estate in the States is forecast to reach $132tn in 2024 and continue growing to $155.6tn by 2029(19). Real estate is also considers a strong diversifying tool as is far less susceptible to market shocks.
    - GP Stakes investors typically have access to three cashflow streams; management fee income, balance sheet return and carried interest proceeds. Management fees are contractually locked in income paid GP by its fund investors, of which management fee income is relatively stable cashflow.

- Strategy partnerships
    - Blue owl has an aggressive acquisition strategy having acquired 5 companies this year: Kuavare Asset Management, Prima Capital Advisors (real estate), Atalaya Capital Management Business, and IPI Partners .
    - Blue owl have also had strategic partnership with ICONIQ to drive future growth

Management team

Doug Ostrover
- CEO and Co-Founder
- Past in alternative asset management
- Founder of of GSO Capital Partners, a credit platform acquired by Blackstone, which he helped grow $75 billion AUM
- Leadership roles at Credit Suisse First Boston (CSFB)

Michael Rees
•Co-President and co-founder of predecessor firm
•Responsible for strategic acquisitions for the Investment Management Division. From 2003 through 2006, he was Head of Asset Management Strategy

Andrew Polland
•Chief Operating Officer
•Chief Operating Officer of Dyal Capital, the predecessor firm to Blue Owl's GP Strategic Capital platform
•Prior to Dyal Capital, Andrew was the Chief Operating Officer, General Counsel, and Chief Compliance Officer of Hoplite Capital Management L.P.

- Marc Lipschultz
- CEO and Co-founder
- Two decades at KKR as the Global Head of Energy and Infrastructure
- Involved in nonprofit organizations American Enterprise Institute for Public Policy Research, Michael J. Fox Foundation, Mount Sinai Health System, Riverdale Country School, Stanford University Board of Trustees

Marc Zahr
•Co-President
•Marc founded Oak Street, the predecessor firm to Blue Owl's Real Estate platform
•Crain's Chicago Business's 40 Under 40 for 2018

Neena Reddy
•General Counsel
•Vice President and Secretary of each of the firm's BDCs
•was associate general counsel at Goldman, Sachs & Co LLC, from 2010 to 2019

Craig W. Packer
- Co-President
- Co-founded Owl Rock Capital Partners, merged to form blue owl capital
- Key role in overseeing the firm's credit platform, which is its largest segment by assets under management (AUM), currently exceeding $165 billion

Alan Kirshenbaum
•Chief Financial Officer
•CFO at Sixth Street Specialty Lending, a publicly traded business development company (BDC), where he managed financial, treasury, and operational functions, including overseeing its IPO
- CFO of TPG Specialty Lending, handled initial public offering
- Track record key milestones, such as IPOs and large-scale financial integrations

Sean Ward
•Senior Managing Director
•Vice President at Lehman Brothers and held several roles at Neuberger Berman after it became an independent firm

ESG

Scores
- Still developing ESG framework, do not have all the data (3 years as current entity, explains relatively lower rating on Sustainalytics etc.)
- Above median in sustainable finance (0.1) and ethics & compliance (3.0)
- Leading in Data security and customer privacy (9.7)

Governance (5.68) above average
- Board
    - Above median for diversity (6.10)
    - Leading in refreshment (10.0)
- Incentives
    - Leading for performance-based pay (8.53)
- Audit (9.78)

Environment
- YOY carbon footprint down 2.2%
- Above median
- Aims to consider Environmental factors for every investment

Social
- Leading (3.59)
- Culture
    - Strong focus on company culture being friendly
- Significant benefits
    - unlimited vacations or primary and secondary parental leave
    - Clawback allows for bonuses to be taken back due to behaviour

	Score	Trend	Vs Peers
ESG Score	3.21	+1.48	Above Median
Environmental	0.06	+0.06	Above Median
Social	3.59	+2.59	Leading
Governance	5.68	+0.52	Above Median

Risk Analysis

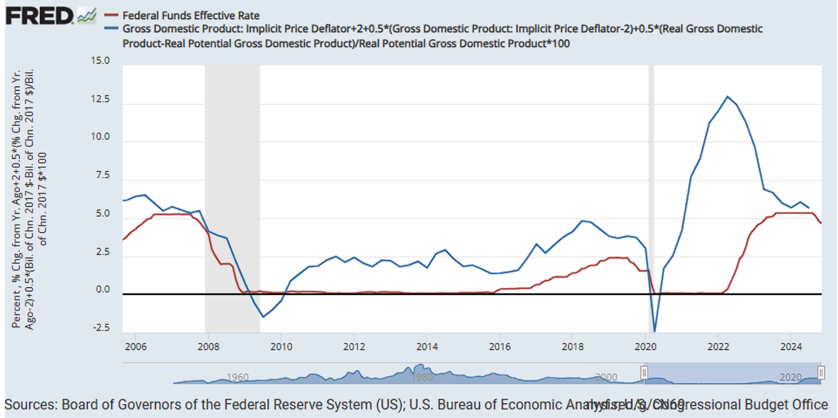
- Recession Risks: If a recession occurs, middle-market companies targeted by Blue Owl may experience financial stress and higher default rates. Historical patterns, like those from the 1970s and the post-pandemic recovery, show that aggressive monetary tightening in response to rapid inflation can slow growth and increase recession risks. Currently, elevated inflation and slowing GDP growth could result in similar conditions, raising the likelihood of a recession in the coming years. Historical data indicate that during recessions, well-managed private equity firms with strong underwriting standards can outperform public markets. Blue Owl’s focus on secured lending will help mitigate loss.

- Potential for increased regulation: Regulators are scrutinizing the alternative investment sector more closely, particularly regarding transparency and fiduciary responsibilities. New regulations could restrict certain practices or require additional reporting. While some regulatory pressures are likely, outright prohibitions on alternative asset management are unlikely due to the acknowledgement of their role in capital markets. Blue Owl’s proactive compliance provides protection against potential regulatory challenges.

- Potential ESG regulations: Tightening sustainability disclosure requirements could increase compliance costs. With ESG investments underperforming, reputational and financial risks are heightened. The firm has a robust compliance framework, ensuring alignment with global ESG and financial regulations, which reduces the likelihood of increased compliance costs.

- Industry competition As a major company in alternative asset management, Blue Owl faces competition from well-established firms such as Blackstone and Apollo. A shift in investor preference could impact fundraising. Blue Owl’s diversified asset classes enhances its competitiveness by expanding its offerings beyond ESG-specific products.

(12),(13),(14),(15),(16)



Interest rate fluctuations can affect lending profitability. As the Federal Reserve tightens monetary policy to address inflation, guided by the Taylor rule - a monetary policy rule that explains how central banks should adjust interest rates in response to economic conditions (as shown above), Blue Owl’s cost of capital may rise. This will make it more challenging to deliver attractive returns. Blue Owl’s diversification into real estate, credit, and private equity strategies mitigates overreliance on any asset class. Additionally, its permanent capital structure allows resilience during economic fluctuations. However, as illustrated in the diagram it is evident that the Taylor rule is falling alongside the Fed funds rate indicating potential growth and loosening of monetary policy.

Investment Analysis

Unlevered Free Cash Flow									
Fiscal Year	2021	2022	2023	2024	2025	2026	2027	2028	2029
Revenue	824	1370	1732	2165	2598	2987.7	3286.47	3516.523	3692.349
COGS	117	272	311	389.7	463.743	551.8542	656.7065	781.4807	929.962
Gross Profit	707	1098	1421	1775.3	2134.257	2435.846	2629.764	2735.042	2762.387
Operating Expenses	1610.89	1151.66	1170.98	1299	1299	1195.08	1150.265	1230.783	1292.322
Selling, General, Administrative	140.27	220.61	242.81	303.1	363.72	418.278	460.1058	492.3132	516.9289
Total Operating Expenses	1751.16	1372.27	1413.79	1602.1	1662.72	1613.358	1610.37	1723.096	1809.251
EBITDA	-927.16	-2.27	318.21	562.9	935.28	1374.342	1676.1	1793.427	1883.098
Depreciation and Amortisation	114.43	259.21	310.57	236.14	286.32	328.647	361.5117	386.8175	406.1584
Operating Profit (EBIT)	-825	10	331	326.76	648.96	1045.695	1314.588	1406.609	1476.94
Operating Taxes	-65	-9	26	68.6196	136.2816	219.596	276.0635	295.3879	310.1573
NOPAT (Net Operating Profit After Taxes)	-760	19	305	258.1404	512.6784	826.0991	1038.525	1111.221	1166.782
(+) Depreciation and Amortisation	114.43	259.21	310.57	236.14	286.32	328.647	361.5117	386.8175	406.1584
(-) Capital Expenditures	5.261	65.539	67.905	86.6	103.92	119.508	131.4588	140.6609	147.694
(-) Changes in NWC	0	-78	-64	-86.34	-105.06	-118.115	-121.213	-146.64	-176.966
NWC	0	-78	-142	-228.34	-333.4	-451.515	-572.728	-719.368	-896.334
Current Assets	267	426	471	518.1	569.91	626.901	689.5911	758.5502	834.4052
Current Liabilities	224	436	509	590.44	684.9104	794.4961	921.6154	1069.074	1240.126
Cash	43	68	104	156	218.4	283.92	340.704	408.8448	490.6138
Unlevered Free Cash Flow	-640.309	421.749	747.475	667.2204	1007.979	1392.369	1652.708	1785.34	1897.6

Assumptions									
Fiscal Year	2021	2022	2023	2024	2025	2026	2027	2028	2029
Revenue Growth	-	546	362	433	433	389.7	298.77	230.0529	175.8261
Revenue Growth %	-	66.26214	26.42336	25	20	15	10	7	5
COGS % of Revenue	14.19903	19.85401	17.95612	18	19	19	19	19	19
SG&A % of Revenue	17.02306	16.10292	14.01905	14	14	14	14	14	14
Tax % of EBIT	7.878788	-90	7.854985	21	21	21	21	21	21
Operating Expenses % of Revenue	195.4964	84.06277	67.60855	60	50	40	35	35	35
D&A % of Revenue	13.88714	18.92044	17.93129	10.90716	11.02079	11	11	11	11
CapEx % of Revenue	0.638471	4.783869	3.920612	4	4	4	4	4	4
Cash Growth %	-	58.13953	52.94118	50	40	30	20	20	20
Current Liabilities Growth %	-	94.64286	16.74312	16	16	16	16	16	16
Current Assets Growth %	-	59.55056	10.56338	10	10	10	10	10	10

Free Cash Flow									
Fiscal Year	2021	2022	2023	2024	2025	2026	2027	2028	2029
Free Cash Flow	-640.309	421.749	747.475	667.2204	1007.979	1392.369	1652.708	1785.34	1897.6
Projection Year				1	2	3	4	5	6
Present Value of Free Cash Flow				615.3937	857.4701	1092.46	1196	1191.625	1168.173

Implied Share Price Calculation	
Sum of PV of FCF	6121.123
Growth Rate	5%
WACC	8.42%
Terminal Value	35847.07
PV of Terminal Value	22067.66
Enterprise Value	28188.78
(+)Cash	104
(-)Debt	2,001
(-)Minority Interest	3,750
Equity Value	16,421
Diluted Shares Outstanding	568.43
Implied Share Price	28.88774
Current Share Price	23.08
Expected Return on Investment	25.16353

Sensitivity table

		Growth Rate				
	28.88774179	4%	4.50%	5%	5.50%	6%
	7.42170700%	33.04039	40.63676	51.3699	67.68825	95.48461
	7.92170700%	25.52901	30.90654	38.12461	48.32326	63.82898
WACC	8.42%	19.82173	23.7768	28.88774	35.74799	45.44104
	8.92%	15.36279	18.35873	22.11861	26.97732	33.499
	9.42%	11.8018	14.12511	16.97385	20.549	25.169

WACC			
Equity	5,278	Interest Expense	76
Debt	2,001		
Cost of Debt	3.7981		
Tax Rate	21		
D/(D+E)	27.49004		
After Tax Cost of Debt	3.0005		
Risk Free Rate (10-Year Treasury Yielc	4.15		
Expected Market Return	9.7		
Market Risk Premium	5.55		
Leveraged Beta	1.14		
E/(D+E)	72.50996		
Cost of Equity	10.477		
WACC	8.421707		

Blue Owl is supported by favourable DCF valuation metrics, with a 5% growth rate against the typical 2-4% of terminal growth rate that is aligned to GDP growth due to the youth of the company and 8.42% WACC, where the use of these figures has been designed to mitigate risks and offer a potential valuation of $28.89, suggests significant undervaluation with expected returns of 25.16%. Blue Owl has illustrated previous strength against the S&P 500 which saw YOY returns of 31.46% to Blue Owls 76.17% YOY returns, this continued strength from Blue Owl hints towards continued strong growth, with other analysts from leading banks, such as Piper Sandler, Deutsche Bank, Evercore, and Wells Fargo to name a few, supporting this statement. Blue Owl presents an attractive investment opportunity where its leadership in alternative asset management and strategic focus on innovation and diversification make it a compelling buy for long-term investors seeking exposure to the high-growth private credit, expected to be worth $40 Trillion by an Apollo senior executive (10), who were recently added to the S&P 500, and alternative investment sectors.

Investment Thesis

Why Blue Owl?

Blue Owl presents a promising investment opportunity in alternative asset management, with impressive growth in Assets Under Management and cash flow. Its cash and equivalents increased from $42.57 billion in 2021 to a predicted $218.4 billion by 2025, showing strong liquidity, while book value per share has risen from $3.70 to $6.20, reflecting a commitment to long-term value.

Blue Owl's commitment to Environmental, Social, and Governance (ESG) principles, makes it a standout in its field. They've successfully reduced their carbon footprint by 2.2% YOY, which is better than the industry average. The company's governance is strong, with an emphasis on diversity and performance-based pay. On the social side, Blue Owl promotes an inclusive workplace culture, offering perks like unlimited vacation and parental leave, plus safeguards to encourage ethical behaviour, such as clawback policies.

Given its market positioning, alignment with growth trends and adherence to ESG principles, Blue Owl is a compelling opportunity for long-term investors. We recommend buying the stock at £800 now to leverage its overweight rating and powerful growth potential.

By diversifying into direct lending, GP capital solutions, and real estate, Blue Owl reduces its reliance on any single revenue stream. Its expansion into Europe and Asia and investments in data analytics and AI enhance its market position. Trusted institutional relationships create barriers for competitors despite competition from firms like Blackstone and Apollo.

Blue Owl will likely see a 25% increase in revenue from $1.732 billion in 2023 to $2.165 billion in 2024 and a significant rise in distributable earnings per share. DCF modeling indicates it is undervalued, with an intrinsic value of $28.89 per share, offering a strong upside potential.

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