Blackstone Group L.P. (BX)

Off The Call – Well Positioned But Increasingly Recognized

- Company Update
- Target Price Change
- Estimate Change

- **Maintain Buy; Tweak up target $1 to $19** — New target reflects B/S roll-forward + updated 2012-13 FRE/ENI outlook. We continue to favor BX but even with the revised target, upside is beginning to thin, we believe. And, with what appears to be an uneven outlook for realizations into 2012, we are becoming a bit more price sensitive despite superior strategic positioning that should continue to fuel strong asset gathering and market share gains. That said, our revised target is based on a "burn down" analysis for both PE and RE portfolios – as it relates to valuing "carry" – suggesting our new target could be low yet incremental upside seems less robust following ~20% YTD price appreciation. Assuming a 15x target on FRE, BX's implied performance fee P/E is now ~8x versus 5x at 12/31, while P/ENI is ~12.5x versus 10x at YE11.

- **Refine 2012-13 ENI; intro 2014** — New after-tax ENI = $1.35/$2.13 vs. $1.38/$2.20 prior. Adjustments reflect slightly lower AUM compounding offset by higher FRE outlook. Our initial 2014 ENI estimate is $2.33, with the Y/Y slowdown reflecting 2013 PE-related performance fee catch up.

- **Call takeaways** — 1) Strategic positioning strong; 2) allocations into alternatives continuing albeit with modest fee concession; 3) 2012 likely more a year of investing – both RE and PE - than harvesting, with the latter potentially skewed toward RE; U.S. funding backdrop remains solid; Europe remains "shut"; and, 4) RE + credit + BAAM likely key flow drivers albeit "European de-leveraging" play doesn't seem quite at hand.

- **Laterals** — We see plusses & minuses for our coverage universe. Positive for Alternatives around flows and market shares, as LPs continue to consolidate mandates. Negatively, management provided a luke warm view for PE-related IPOs, suggesting realization/distribution cycle may prove somewhat uneven in 2012, delaying material P/E multiple expansion, while deal activity in Europe more difficult given paucity of credit. Also, negative for Traditionals around flow and performance dynamics, in our view.

Buy	**1**
Price (02 Feb 12)	US$16.68
Target price	US$19.00
from US$18.00	
Expected share price return	13.9%
Expected dividend yield	4.0%
Expected total return	**17.9%**
Market Cap	US$18,747M

Price Performance
(RIC: BX.N, BB: BX US)

EPS	Q1	Q2	Q3	Q4	FY	FC Cons
2011A	0.51A	0.64A	-0.30A	0.40A	1.25A	1.25A
2012E	**0.31E**	**0.32E**	**0.35E**	**0.37E**	**1.35E**	**1.71E**
Previous	na	na	na	na	1.38E	na
2013E	**na**	**na**	**na**	**na**	**2.13E**	**2.04E**
Previous	na	na	na	na	2.20E	na
2014E	**na**	**na**	**na**	**na**	**2.33E**	**na**
Previous	na	na	na	na	na	na

Source: Company Reports and dataCentral, CIR. FC Cons: First Call Consensus.

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See Appendix A-1 for Analyst Certification, Important Disclosures and non-US research analyst disclosures.

Fiscal year end 31-Dec	2010	2011	2012E	2013E	2014E
Valuation Ratios					
P/E adjusted (x)	13.3	13.3	12.4	7.8	7.1
P/E reported (x)	13.3	13.3	12.4	7.8	7.1
P/BV (x)	1.6	2.0	1.8	1.7	1.6
P/Adjusted BV diluted (x)	na	na	na	na	na
Dividend yield (%)	3.7	3.1	4.0	6.1	6.9
Per Share Data (US$)					
EPS adjusted	1.26	1.25	1.35	2.13	2.33
EPS reported	1.26	1.25	1.35	2.13	2.33
BVPS	10.37	8.51	9.21	9.94	10.74
Tangible BVPS	4.47	3.70	4.40	5.14	5.93
Adjusted BVPS diluted	na	na	na	na	na
DPS	0.62	0.52	0.67	1.02	1.15
Profit & Loss (US$m)					
Net interest income	0	0	0	0	0
Fees and commissions	2,557	3,052	3,390	4,961	5,332
Other operating Income	584	232	346	405	459
Total operating income	**3,141**	**3,284**	**3,736**	**5,365**	**5,791**
Total operating expenses	-1,561	-1,699	-2,020	-2,662	-2,838
Oper. profit bef. provisions	**1,581**	**1,585**	**1,716**	**2,703**	**2,953**
Bad debt provisions	0	0	0	0	0
Non-operating/exceptionals	0	0	0	0	0
Pre-tax profit	**1,581**	**1,585**	**1,716**	**2,703**	**2,953**
Tax	-163	-188	-206	-311	-325
Extraord./Min. Int./Pref. Div.	0	0	0	0	0
Attributable profit	**1,418**	**1,397**	**1,510**	**2,392**	**2,629**
Adjusted earnings	1,418	1,397	1,510	2,392	2,629
Growth Rates (%)					
EPS adjusted	101.1	-0.3	7.6	57.9	9.5
Oper. profit bef. prov.	118.4	0.3	8.3	57.5	9.3
Balance Sheet (US$m)					
Total assets	**18,845**	**22,510**	**24,366**	**26,315**	**28,420**
Avg interest earning assets	0	0	0	0	0
Customer loans	0	0	0	0	0
Gross NPLs	0	0	0	0	0
Liab. & shar. funds	**18,845**	**22,510**	**24,366**	**26,315**	**28,420**
Total customer deposits	0	0	0	0	0
Reserve for loan losses	0	0	0	0	0
Shareholders' equity	**4,363**	**4,216**	**4,563**	**4,928**	**5,323**
Profitability/Solvency Ratios (%)					
ROE adjusted	36.6	32.6	34.4	50.4	51.3
Net interest margin	na	na	na	na	na
Cost/income ratio	49.7	51.7	54.1	49.6	49.0
Cash cost/average assets	11.0	8.2	8.6	10.5	10.4
NPLs/customer loans	na	na	na	na	na
Reserve for loan losses/NPLs	na	na	na	na	na
Bad debt prov./avg. cust. loans	na	na	na	na	na
Loans/deposit ratio	na	na	na	na	na
Tier 1 capital ratio	na	na	na	na	na
Total capital ratio	na	na	na	na	na

For further data queries on Citi's full coverage universe please contact CIRA Data Services Americas at CIRADataServicesAmericas@citi.com or +1-212-816-5336

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BX's Dominant Position Increasingly Appreciated

Investment Summary

We affirm our Buy rating, refine our 2012-13 ENI estimates, introduce our initial 2014 forecast, and edge up our sum-of-the-parts 12-month price target $1 to $19 following 4Q earnings (see also our 2/2 report, 4Q11 Initial Look – Solid; Positioning Still Strong) and subsequent intra-day conference call.

We remain quite bullish on both Alternatives and BX within segment, however we are also growing a bit more price sensitive reflecting: a) the sharp rally in the stock YTD (up ~20% through 2/2) that has thinned out residual upside; b) what appears to be incrementally less visibility around realizations for 2012 albeit the pipeline appears to be picking up a bit; and, c) likely a bit slower Y/Y organic growth – the latter owing to a booming 2011 and perhaps some push-out in meaningful inflection in European "de-leveraging" play. Still, our refined price target is based on zero incremental growth in both the PE and RE portfolios, which we view as conservative. Yet with the sharp recovery in the shares in early 2012, much of the uncertainty in the stock has been wrung out, we believe.

Still, there were a number of key positives emerging from the call including: 1) BX continues to be well positioned in sector further taking share; 2) allocations continue to migrate toward the Alternatives managers, albeit there is some fee concessions though seemingly not enough to meaningfully alter underlying economics; 3) we see ample growth in RE, Credit and BAAM in 2012, though perhaps not as robust as 2011 in RE, for instance; and, 4) backdrop remains conducive for dry powder deployment. While management may ultimately prove conservative, the discussion around realization potential for 2012 was somewhat uneven, and likely to be skewed toward RE, where BX has clear competitive advantage but in aggregate would suggest a meaningful recovery in distribution/yield is not fully at hand. Stepping back, the discussion was mixed for Traditional managers and supportive of our increasingly cautious view based on fundamentals – apart from well above trend market gains recently.

Refining ENI Outlook

Following a number of line item adjustments, we tweak down our 2012 economic net income (ENI) estimate $0.03 per unit to $1.35 while trim our 2013 forecast $0.07 to $2.13. While modifying a number of assumptions – and adjusting for several unusual 4Q items – the central change reflects lower AUM entering 2012 given lower than anticipated PE marks in 4Q partially offset by higher FRE outlook.

We introduce 2014 at $2.33, or about 9% Y/Y growth despite ~15% rise in AUM. The deleveraging is not a reflection of deteriorating fee rates or margins of any material note but rather the normalization in PE carry following outsized anticipated catch up in 2013 as certain funds exceed preference returns. After a difficult 2011, we assume ~15% per annum blended returns.

Our revised 2012-14 ENI breaks down into $0.52, $0.61, and $0.67 of after tax fee related earnings, or FRE, which should increasingly provide: a) valuation support; and, b) bolster distributions. We do expect 1Q12 ENI to moderate $0.09 Q/Q to $0.31 to reflect seasonality – and AUM compounding impact, but build ratably into YE. 4Q results included unusually strong advisory revenues and particularly low base compensation in Credit, the latter reflecting some catch up related to BX's decision to purchase the remaining 15% stake in GSO, resulting in some accrual adjustments. We expect base compensation for this unit to return toward 50% of

management fees in 2012 versus 38% in 4Q11, but heavily offset by $25M estimated "catch up" management fees related to the deployment of BREP VII AUM, where the initial ~$6B raised in 2011 enjoyed a "fee holiday" pending further closes. However, with the fund now investing, BX will begin to earn fees on underlying AUM.

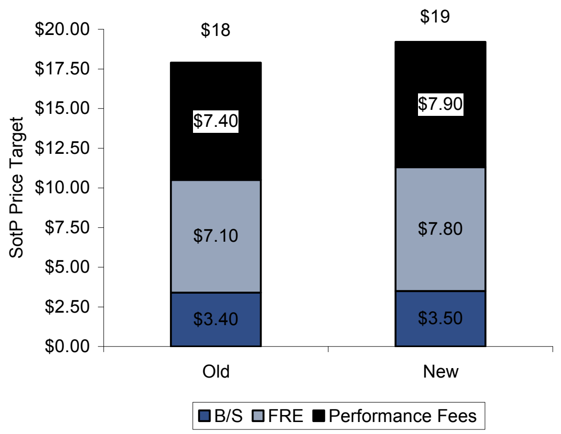
Refining SOTP Target

Our revised target reflects four key factors:

- **First, we have edged up our target multiple on FRE to reflect increasingly superior strategic position, or from 14x to 15x.** The increase also reflects the recent appreciation in P/E multiples for traditional Asset Managers, the latter of which are far less well positioned, in our view;
- **Second, we have raised our FRE estimates moderately**;
- **Third, we roll forward BX's balance sheet from 9/30 to 12/31.** Note here, we: a) use the spot book value (and not projected); and, b) apply a 20% subjective reduction to unrealized carry (net of compensation) for general risk purposes;
- **Fourth, we have also rolled forward AUM levels from 9/30 to 12/31** and more explicitly included BREP VII capital raises, including another anticipated $4B to be raised in 2012 to discount incremental carry value. Beyond the $4B raise, we assume no incremental growth in the franchise, arguably conservative given BX's strong historical track record, in our view.

In Figure 1, we update our target inputs. In Figure 2, we decompose our price target, which now translates into 11x implied P/E multiple on performance fees. Our valuation work compares to 8x as implied by current market price versus 5x at 12/31 (Figure 3), and believe ongoing superior absolute/relative returns will drive up the multiple a bit more. That said, BX's premium valuation, while deserved in our view, may begin to temper upside, particularly should the realization cycle be somewhat choppy (recall, BX will true up distributions in 4Q, with ratable payouts in Q's 1-3).

Figure 1. Edging Higher Our SOTP Price Target…



Note: We apply a 20% discount to accrued performance fees.

Source: Company reports, Citi Investment Research and Analysis

Figure 2. …Which Implies An 11x P/E Multiple On Performance Fees…

	KKR	OZM	BX	APO	Avg
Target Price	$17.00	$11.00	$19.00	$17.00	
less: Net Cash + Inv/share	$8.77	-$0.44	$3.52	$2.83	
less: Value of Fee earnings	$3.78	$5.42	$7.80	$4.17	
2011 / 2012E FRE	*$0.28*	*$0.45*	*$0.52*	*$0.31*	
x Target P/E multiple	*13.5x*	*12.0x*	*15.0x*	*13.5x*	*13.5x*
=Implied Value of Per. Fees	$4.45	$6.01	$7.68	$10.01	
Net Perf Fees/share - 2012E	$0.74	$0.80	$0.68	$1.50	
Implied Residual P/E - 2012	**6.0x**	**7.6x**	**11.3x**	**6.7x**	**7.9x**
ENI - 2012E	$1.74	$1.27	$1.35	$1.84	
P/ENI - 2012E	**9.7x**	**8.7x**	**14.1x**	**9.2x**	**10.4x**

Source: Company reports, Citi Investment Research and Analysis

Figure 3. …Versus 8x Residual P/E At Present And 5x At 12/31

Blackstone	12/31/11	2/2/12
Price	$14.01	$16.68
less: Net Cash + Inv/share	$3.40	$3.50
less: Value of Fee earnings	$7.14	$7.80
2012E FRE	*$0.51*	*$0.52*
x Target P/E multiple	*14.0x*	*15.0x*
Residual Value	$3.47	$5.38
Net Perf Fees/share - 2012E	$0.67	$0.68
Implied Residual P/E	**5.2x**	**7.9x**
ENI - 2012E	$1.43	$1.35
Price/ENI	**9.8x**	**12.4x**

Source: Company reports, Citi Investment Research and Analysis

Favorable Call Takeaways, Mostly

We note the following key takeaways:

1. **Strategic positioning rising, in our view** – Reflecting unparalleled AUM diversification among BX's publicly traded peers; continued strong investment metrics; and, strong LP/GP relations. We found several key factoids particularly noteworthy. First, over 75% of LPs are now investing beyond one segment with BX, a trend that continues to rise, we believe. Second, over 50% of BCP VI investors were from outside the U.S., up from 21% in BCP IV. Third, a vast majority of RE and PE deals are self sourced, paving the way for continued strong IRR and MOIC potential, particularly in RE, where BX remains the major global platform. Indeed, realized/partially realized MOICs at 12/31 approximated 2.3x for both RE and PE, with aggregate MOICs of 1.4x and 1.2x at YE for RE and PE, respectively (Figure 4).

2. **Allocations are going up and LPs continue to consolidate share** – Management affirmed that investors continue to migrate allocations toward alternatives in an effort to help close widening funding gaps, echoing commentary from Traditional managers while verifying our own analyses of industry trends. Moreover, management also reiterated LPs are seeking to consolidate mandates due to relative performance, branding, and cost reasons, favoring our public traded coverage universe broadly. No question, both the favorable strategic positioning plus the dynamics listed above are helping BX (among others). For instance, management reiterated they expect BREP VII to exceed the $10B raised for BREP VI, with $6B+ already raised while the firm just closed on its second mezzanine fund, which was 2x prior size and quickly sold out per management. We see ample platform leverage in Credit as well, providing for both strong FRE and ENI growth as AUM climb, particularly as incremental fund raising tends to be more profitable.

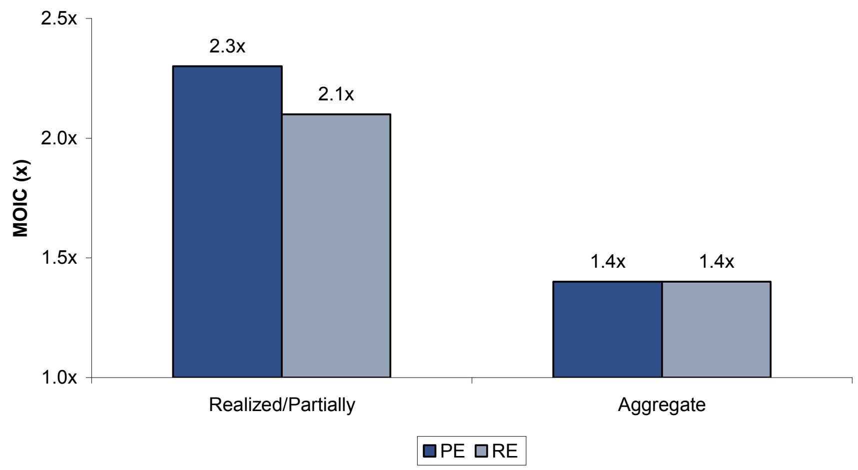
3. **Credit + HF + RE likely key AUM drivers in 2012** – New growth is likely to be centered in FI, aided by the January close of Harbourmaster Capital, a European leverage loan manager and advisor with $9.8B under management as of 12/31. Management continues to see solid opportunities in both U.S. and Europe, with strong underlying performance

trends. In turn, we expect the bulk of the $4B+ in remaining RE to fund, particularly with management highlighting strong backlog of properties. As noted earlier, 4Q HF-related inflows totaled just $270M, but included $1B in attrition related to the sale of low impact Asia platform to Aberdeen. January volumes are about $250M per management, a bit light of monthly run rates, though we believe the pipeline is accelerating into February and March. BAAM's NAV declined ~1% in 2011, inclusive of a 1.6% recovery in 4Q, with superior risk adjusted returns versus key peers and benchmarks – while among the few businesses to actually generate organic growth. Interestingly, over 60% of AUM are customized solutions-based strategies, making the relationships a bit stickier, all else equal, in our minds. (We do expect some stepped up new business expenses to abate into 1H12 as incremental revenue begins to filter in).

4. **2012 likely to be a year of investments, more so than "realizations"**. 12/31 dry powder totaled $33B, including $16.3B in PE and $10B in RE, and $5.1B in Credit. Indeed, 2012 is off to a strong start, including ~$900M in RE investments and ~$300M in yet to be closed PE deals. Management noted that U.S. funding market is open and able to finance $4-5B debt related deals, or those generally in the firm's "sweetspot", albeit deals in Europe remain quite difficult given paucity of credit availability. For realizations, management seems a bit more cautious though indicated: a) market backdrop is getting better; and, b) a few IPOs are in various stages of process without getting specific. Still, it was our sense that we are not yet at the dawn of sustained step up in IPOs.

5. **Full buyout of GSO should not elevate key man risk**. First, management secured longer retention packages. Second, GSO moved into BX's NY corporate headquarters, and we understand morale is quite high. Third, we understand GSO staff recycled stepped up equity into their funds, further locking into BX, we believe.

Figure 4. BX Offers Strong IRR/MOIC Potential In PE + RE



Note: Aggregate includes unrealized and cumulative realized

Source: Company reports, Citi Investment Research and Analysis

Laterals & Implications

We note the following:

1. **The 3.3% PE mark in 4Q lagged our 10% forecast, due mostly to portfolio composition, with only limited public marks.** Though idiosyncratic, the shortfall could impact our 4Q ENI forecasts for APO and KKR, albeit we remain a bit above consensus, and we have a bit more visibility into APO and KKR portfolios given greater publicly traded comparisons. That said, with markets off to a strong start in 2012, incremental MOICs, IRRs and marks should be trending favorably, we estimate, even should 4Q disappoint.

2. **Somewhat tepid discussion around: 1) the underlying global macro economic backdrop; and, 2) PE-related IPOs doesn't bode well for the bullish case for traditional managers**, whereby investors argue renewed IPO calendar will bolster alpha relative to passive mandates. And, with allocations going toward Alternatives and what continues to be a dis-engaged retail investor, unit growth assumptions could also be at risk, particularly for U.S. retail centric players such as EV, JNS, WDR and TROW among our coverage universe, we believe.

3. **Should the PE-related IPO calendar not prove overly fulsome in 2012, the sector at large may stall,** particularly APO and KKR, each more reliant on PE for realizations.

4. **Keep an eye on corporate margins**. Careful not to overstep our purview, but management interestingly noted that PE portfolio company revenue increased 10% Y/Y versus 8% rise in EBITDA. In turn, management noted that the deleveraging reflected strategic decision to bolster investment spending, certainly positive for LT EPS but perhaps exerting some downward pressure on margins. Within our coverage universe, elevated spending – notably among the less global centric managers – has hindered EPS growth into 2012 despite booming markets (TROW, WDR and JNS, for instance).

5. **Europe represents LT opportunity but pace of capital deployment uncertain in the ST.** On the one hand, management noted Europe represents an area of LT investment opportunity given a number of distressed assets and the need for bank deleveraging, and senior officials anticipate further fund raising to capitalize on the opportunity set, particularly following the acquisition of Harbourmaster. On the other end, while European banks are beginning to sell down assets, the pace of asset sales are uneven in the ST following low cost lending from the ECB.

Companies mentioned: (APO.N; US$14.63; 1); (JNS.N; US$8.20; 3); (KKR.N; US$14.46; 1); (TROW.O; US$57.85; 3); (WDR.N; US$28.38; 3); (EV.N; US$26.74; 3)

Figure 5. BX Summary Model

Blackstone (BX)
Earnings Results and Forecasts
($ Millions, Except As Noted)

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					Forecast:						Forecast:			% Change				
KEY FORECAST VARIABLES:	**1Q11**	**2Q11**	**3Q11**	**4Q11**	**1Q12**	**2Q12**	**3Q12**	**4Q12E**	**2010**	**2011**	**2012E**	**2013E**	**2014E**	**1QE/4Q**	**1QE/1Q**	**12E/11**	**13E/12E**	**14E/13E**
Management Fees																		
Base Management fees	305.6	316.5	322.4	336.8	372.8	368.3	381.5	389.1	1,069.5	1,281.2	1,511.7	1,634.8	1,794.5	10.7	22.0	18.0	8.1	9.8
Advisory fees	70.3	102.2	86.2	123.6	90.0	100.0	110.0	125.0	426.1	382.2	425.0	467.5	504.9	-27.2	28.1	11.2	10.0	8.0
Transaction & Other fees, net	58.4	103.6	41.8	43.8	43.4	43.4	55.9	56.4	137.7	247.5	199.2	276.2	259.3	-0.9	-25.6	-19.5	38.7	-6.1
Management Fee offsets	-8.5	-8.7	-7.7	-8.5	-3.1	-3.1	-3.6	-3.7	-2.3	-33.4	-13.6	-27.0	-21.6	-63.2	-63.4	-59.3	99.0	-20.3
Total Management Fee	425.7	513.6	442.6	495.6	503.1	508.6	543.7	566.8	1,631.0	1,877.5	2,122.2	2,351.5	2,537.1	1.5	18.2	13.0	10.8	7.9
Realized Performance Fees	95.6	60.2	7.9	64.2	41.2	42.1	87.6	95.4	361.7	227.9	266.4	741.4	850.9	-35.9	-56.9	16.9	178.4	14.8
Unrealized Performance Fees	505.2	612.8	-465.2	293.7	246.1	252.4	239.2	264.0	564.6	946.6	1,001.7	1,867.6	7.0	-16.2	-51.3	5.8	86.4	-99.6
Total Performance Fees & Allocations	600.8	673.1	-457.3	358.0	287.3	294.4	326.8	359.5	926.3	1,174.5	1,268.1	2,609.0	2,795.1	-19.7	-52.2	8.0	105.7	7.1
Investment Income (Loss)																		
Realized	23.5	30.7	31.6	16.7	24.6	25.6	26.6	27.6	46.9	102.6	104.4	68.1	77.8	47.4	4.7	1.8	-34.8	14.3
Unrealized	102.6	106.8	-165.8	39.0	50.8	52.8	54.9	57.1	501.6	82.7	215.5	303.0	347.9	30.0	-50.5	160.6	40.6	14.8
Total Investment Income (Loss)	126.1	137.6	-134.1	55.7	75.4	78.4	81.5	84.7	548.5	185.3	319.9	371.1	425.7	35.2	-40.2	72.7	16.0	14.7
Interest Income	9.4	9.3	10.1	10.0	6.8	6.8	6.8	6.8	36.1	38.8	27.1	35.1	35.1	-32.3	-28.3	-30.3	29.5	0.0
Other	2.3	1.1	-1.7	5.7	-0.3	-0.3	-0.3	-0.3	-0.6	7.4	-1.0	-1.5	-1.5	-104.4	-111.1	-113.5	50.0	0.0
Total Segment Revenues	1,164.2	1,334.6	-140.3	925.0	872.3	887.9	958.5	1,017.5	3,141.4	3,283.6	3,736.3	5,365.2	5,791.4	-5.7	-25.1	13.8	43.6	7.9
Expenses:																		
Base Compensation	224.5	272.4	238.2	225.4	255.3	255.4	273.7	287.1	859.1	960.6	1,071.5	1,154.1	1,231.8	13.2	13.7	11.5	7.7	6.7
Performance Fee related	177.1	145.8	-100.9	94.7	114.9	117.8	130.7	143.8	357.0	316.7	507.2	1,043.6	1,118.0	21.3	-35.1	60.2	105.7	7.1
Compensation & Benefits	401.6	418.2	137.3	320.2	370.2	373.2	404.4	430.9	1,216.1	1,277.3	1,578.7	2,197.7	2,349.8	15.6	-7.8	23.6	39.2	6.9
Other Operating Expenses	103.0	99.4	96.9	122.1	109.0	110.0	110.9	111.9	344.5	421.3	441.8	464.3	488.1	-10.7	5.9	4.9	5.1	5.1
Total Segment Expense	504.6	517.6	234.2	442.2	479.2	483.1	515.4	542.8	1,560.6	1,698.6	2,020.5	2,662.0	2,837.9	8.4	-5.0	18.9	31.8	6.6
Economic Net Income (Loss)	659.7	817.1	-374.6	482.8	393.1	404.8	443.2	474.7	1,580.8	1,585.0	1,715.8	2,703.1	2,953.5	-18.6	-40.4	8.3	57.5	9.3
Tax	86.2	107.5	-38.3	32.9	47.2	48.6	53.2	57.0	163.1	188.3	205.9	310.9	324.9	43.5	-45.3	9.3	51.0	4.5
After-Tax ENI	573.5	709.6	-336.3	449.9	345.9	356.2	390.0	417.7	1,417.6	1,396.7	1,509.9	2,392.3	2,628.6	-23.1	-39.7	8.1	58.4	9.9
Weighted-Avg ENI Adjusted Units	1,115.9	1,109.2	1,110.6	1,116.1	1,117.1	1,118.1	1,119.1	1,120.1	1,126.6	1,113.0	1,118.6	1,122.6	1,126.6	0.1	0.1	0.5	0.4	0.4
After-Tax ENI per diluted unit	**0.51**	**0.64**	**-0.30**	**0.40**	**0.31**	**0.32**	**0.35**	**0.37**	**1.26**	**1.25**	**1.35**	**2.13**	**2.33**	**-23.2**	**-39.7**	**7.6**	**57.9**	**9.5**
Fee Related Earnings	98.5	143.6	107.6	152.3	132.8	135.9	150.1	157.7	442.3	493.7	576.5	681.9	756.6	-12.8	34.8	16.8	18.3	11.0
Distributable Earnings	201.9	190.9	125.7	178.2	181.6	186.3	228.7	242.1	701.8	641.0	678.9	1194.6	1344.7	1.9	-10.0	5.9	76.0	12.6
After-tax FRE/unit	0.09	0.13	0.10	0.14	0.12	0.12	0.13	0.14	0.39	0.44	0.52	0.61	0.67	-12.9	34.6	16.2	17.9	10.6
Distributable Earnings/unit	0.18	0.17	0.11	0.16	0.16	0.17	0.21	0.22	0.64	0.58	0.62	1.08	1.22	1.9	-10.0	5.9	76.0	12.6
Performance Fees/unit	0.38	0.48	-0.32	0.24	0.15	0.16	0.18	0.19	0.51	0.77	0.68	1.39	1.49	-34.6	-59.4	-11.8	105.0	6.8
Investment income/unit	0.11	0.12	-0.12	0.05	0.07	0.07	0.07	0.08	0.49	0.17	0.29	0.33	0.38	35.1	-40.3	71.8	15.6	14.3
Other	-0.07	-0.09	0.04	-0.02	-0.03	-0.04	-0.04	-0.04	-0.11	-0.14	-0.15	-0.23	-0.24	74.7	-51.2	9.9	54.0	4.2
Margins																		
Base Comp % Management Fee	53%	53%	54%	45%	51%	50%	50%	51%	53%	51%	50%	49%	49%					
Other Expense % Management Fee	24%	19%	22%	25%	22%	22%	20%	20%	21%	22%	21%	20%	19%					
Perf Fee Comp % Perf Fees	29%	22%	22%	26%	40%	40%	40%	40%	39%	27%	40%	40%	40%					
Expense % Revenue	43%	39%	-167%	48%	55%	54%	54%	53%	50%	52%	54%	50%	49%					
FRE (pre-tax) margin	23%	30%	26%	34%	26%	27%	28%	28%	27%	26%	27%	29%	30%					
FRE (after-tax) margin (% mgmt fee)	23%	28%	24%	31%	26%	27%	28%	28%	27%	26%	27%	29%	30%					
ENI (pre-tax) margin	57%	61%	267%	52%	45%	46%	46%	47%	50%	48%	46%	50%	51%					
ENI (after-tax) margin	49%	53%	240%	49%	40%	40%	41%	41%	45%	43%	40%	45%	45%					
Tax Provision	13%	13%	10%	7%	12%	12%	12%	12%	10%	12%	12%	12%	11%					
AUM ($ millions)																		
Private Equity	43,955	46,728	42,967	45,864	45,962	46,582	47,510	48,515	29,319	45,864	48,515	51,228	54,343	0.2	4.6	5.8	5.6	6.1
Real Estate	34,991	37,606	40,710	42,853	50,317	52,036	53,477	53,886	33,165	42,853	53,886	63,389	73,611	17.4	43.8	25.7	17.6	16.1
CAMA	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	65,640	N/A	N/A	N/A	N/A					
Hedge Fund Solutions	39,542	40,578	40,373	40,535	41,558	43,400	45,270	47,167	N/A	40,535	47,167	54,870	63,036	2.5	5.1	16.4	16.3	14.9
Credit Businesses	31,475	33,791	33,649	36,977	44,371	45,292	46,818	48,348	N/A	36,977	48,348	53,718	59,157	20.0	41.0	30.8	11.1	10.1
Total	149,963	158,703	157,698	166,229	182,208	187,311	193,074	197,916	128,124	166,229	197,916	223,205	250,147	9.6	21.5	19.1	12.8	12.1
Miscellaneous																		
Distributable Earnings Per Unit	0.18	0.17	0.11	0.16	0.16	0.17	0.21	0.22	0.64	0.58	0.62	1.08	1.22					
Distribution per unit	$0.10	$0.10	$0.10	$0.22	$0.10	$0.10	$0.10	$0.37	$0.62	$0.52	$0.67	$1.02	$1.15					
Net Cash + Inv per unit	$3.00	$3.59	$3.40	$3.52	$3.79	$4.07	$4.34	$4.63	$2.28	$3.53	$4.63	$6.11	$7.67					
LP Capital Deployed ($M)																		
Private Equity	653	667	1,415	1,093	1,300	1,300	1,800	1,800	1,654	3,828	6,200	5,100	4,489					
Real Estate	654	2,785	1,706	996	1,241	1,241	1,491	1,541	4,073	6,141	5,515	6,121	4,750					
Credit	154	153	1,314	1,029	700	700	800	800	0	2,650	3,000	2,000	2,000					
Total	1,462	3,605	4,435	3,118	3,241	3,241	4,091	4,141	7,134	12,620	14,715	13,221	11,239					

Source: Company reports, Citi Investment Research and Analysis

Blackstone Group L.P.

Company description

Established in 1985, The Blackstone Group is a leading, NY-based global and diversified alternatives manager with $166B in AUM at 12/31/11 including $46B in Private Equity, $43B in Real Estate, $41B in Hedge Fund Solutions, and $37B in Credit Businesses, along with an independent financial advisory practice. The Blackstone Group was founded by Mr. Stephen A. Schwarzman and Mr. Peter G. Peterson and the company launched its first Private Equity fund, Blackstone Capital Partners two years later. Over time, the business model evolved from a leverage buyout firm to a global provider of alternative investments across multiple assets classes. In 1990, Blackstone Alternative Asset Management (BAAM) was established and has become one of the leading managers of funds of hedge funds and other institutional investment vehicles. Over the last 20 years, Blackstone has expanded its capability by adding real estate & credit investment functions, by growing its international presence and by delivering excellent investment results to its investors. Blackstone became a publicly-traded company in 2007 through an IPO, raising $7.6 billion, including a $3 billion investment from the China Investment Company (CIC).

Investment strategy

We rate Blackstone Buy. We believe BX has a diversified and high powered financial model that is well positioned to capitalize on a rebounding economy at a favorable point in the private equity/real estate cycle. We believe the units are undervalued when considering the depth of franchise and performance fee potential, where investors appear to be ascribing a low valuation, despite an impressive LT track record.

Valuation

We value BX using a sum-of-the-parts (SOTP) approach that combines target P/E, book value, and NPV. In turn, our $19 12-month target factors: 1) 15x target multiple applied to our 2012 FRE estimate of $0.52, or ~$7.80 in value; 2) ~$8 for the net present value of performances across Private Equity, Real Estate, Credit, and Hedge Fund Solutions segments; and, ~$3.50 in net cash and investments.

Risks

The three central risks to our price target reflect slowing investment performance, slowing organic growth, and adverse carried interest legislation.

Additionally, if the impact from any of the following factors proves to be greater than we expect, the unit price may have difficulty reaching our target price. If market conditions improve faster than anticipated, the unit price may outperform our target.

Financial market risk — Changes in markets will impact the comps used in the valuation of BX's portfolio companies. Such values will have a direct impact on AUM and IRRs.

Performance risk — An inability to generate an adequate return sought by clients could results in prospective clients choosing to invest with competitors.

Performance fees — The lack of positive IRR's in BX's private equity funds would limit the company's ability to generate carried interest.

Financing — Private equity firms use funding from the capital markets, both large commercial and investment banks. Financing will vary regarding: 1) interest rates; 2) equity commitments; 3) debt covenants. Generally, when more capital is available, private equity portfolio companies have greater access to financing with acceptable terms. When capital markets become more restrictive, it can be more challenging for portfolio companies to refinance debt and/or for sponsors to arrange acquisition funding, thus limiting deal activity.

Appendix A-1

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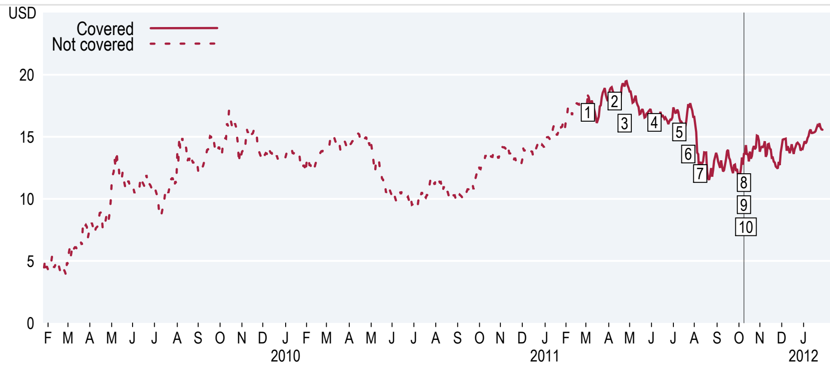
Blackstone Group L.P. (BX)
Ratings and Target Price History
Fundamental Research
Analyst: William R Katz
Covered since March 3 2011

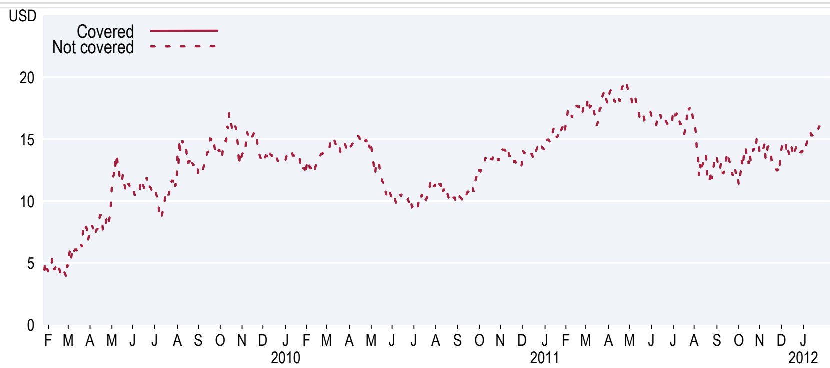


	Date	Rating	Target Price	Closing Price
1	3-Mar-11	*1M	*23.50	18.33
2	11-Apr-11	1M	*24.00	18.00
3	25-Apr-11	1M	*25.50	19.06
4	6-Jun-11	1M	*23.00	16.16
5	11-Jul-11	1M	*22.00	16.53
6	22-Jul-11	1M	*24.00	17.63
7	9-Aug-11	1M	*20.00	13.00
8	8-Oct-11	Stock rating system changed		
9	8-Oct-11	*1	20.00	12.75
10	12-Oct-11	1	*18.00	14.33

* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Blackstone Group L.P. (BX)
Ratings and Target Price History
Best Ideas Research
Relative Call (3 Month)
Analyst: William R Katz
Covered since March 3 2011



* Indicates change

Rating/target price changes above reflect Eastern Standard Time

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	12 Month Rating			*Relative Rating*		
Data current as of 31 Dec 2011	**Buy**	**Hold**	**Sell**	**Buy**	**Hold**	**Sell**
Citi Investment Research & Analysis Global Fundamental Coverage	57%	34%	9%	10%	79%	10%
% of companies in each rating category that are investment banking clients	45%	41%	40%	49%	43%	41%

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