

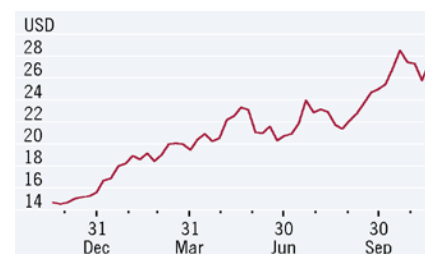
## Blackstone Group L.P. (BX)

### Alert: Structural Growth + Favorable Distribution Yield Dynamics; Citi Global Financial Services Conference Takeaways

- **Maintain Buy & \$33 Target Price** — Following BX's presentation at Citi's 2nd annual Global Financial Services conference held in Hong Kong on 11/19. Presenting from BX was Ms. Joan Solotar, SMD & Head of External Relations & Strategy. We came away from the presentation upbeat around alternative allocations, the market share opportunity for BX, building upcycle in realizations (and more consistent cash flows), and both ST and LT net new business opportunities. All in all, no new "news", but holistic discussion reinforces strong structural growth and building realization momentum.
- **Making Their Case For \$53-\$90+ Fair Value** — Laying out average cash earnings between \$2.30 and \$2.50, all built on below recent trend asset gathering and return dynamics. To be sure, the presentation reinforced a strong performance track record and superior asset gathering to peers, while highlighting incremental growth potential geographically, across asset channels, and distribution segments.
- **Retail Can Be A Meaningful New Business Driver** — Management sees a significant opportunity in U.S. retail reflecting building allocations and broadening distribution penetration. Here, BX has an ongoing exclusive with Fidelity to penetrate the DC segment, but we expect the relationships to broaden once the exclusive seasons. Importantly, the bulk of investment spend is behind.
- **Other Key Areas Of Growth** — Include tactical ops, RE, credit, and BAAM. Regulatory changes remain a favorable catalyst for BX, and the industry at large.
- **Things That Go Bump In The Night** — Management does not see immediate changes in revenue accounting between method 1 and method 2, while there is seemingly no momentum in tax code changes that could affect PTPs.

Buy	1
Price (18 Nov 13)	US\$27.34
Target price	US\$33.00
Expected share price return	20.7%
Expected dividend yield	6.0%
Expected total return	26.7%
Market Cap	US\$31,290M

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



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## Blackstone Group L.P.

### Valuation

We value BX at \$33 using a blended methodology based on: 1) 80% distributable earnings discount model (DEDM); and, 2) 20% sum-of-the-parts (SOTP) approach that combines target P/E, book value, and NPV of performance fees. Our \$32 SOTP factors: 1) 18x target multiple applied to our 2014 FRE estimate of \$0.76, or ~\$14 in value; 2) ~\$14 for the net present value of performances across Private Equity, Real Estate, Credit, and Hedge Fund Solutions segments; and, ~\$5 in net cash and investments and unrealized carry. Our base-case DEDM factors a 9.5% cost of capital; 70% distributable ratio; and 95% payout ratio; and specific growth assumptions (for a \$33.50 target). Blended together our target is \$33.

### 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 result 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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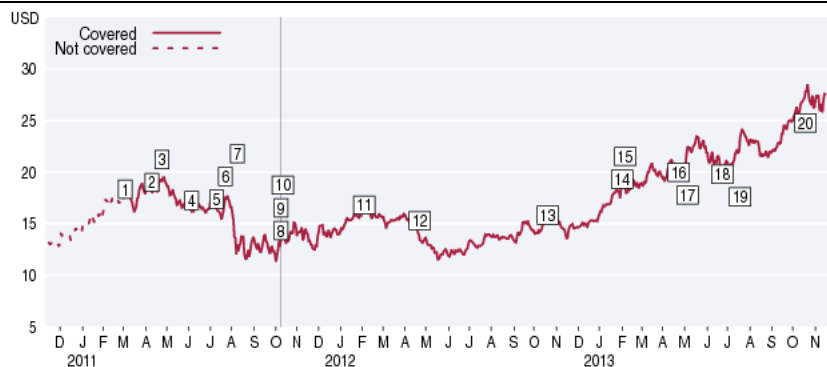
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Analyst: William R Katz

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

\* Indicates change

	Date	Rating	Target Price	Closing Price
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
11	3-Feb-12	1	*19.00	16.81
12	23-Apr-12	1	*18.00	13.43
13	19-Oct-12	1	*20.00	15.67
14	1-Feb-13	1	*23.50	19.10

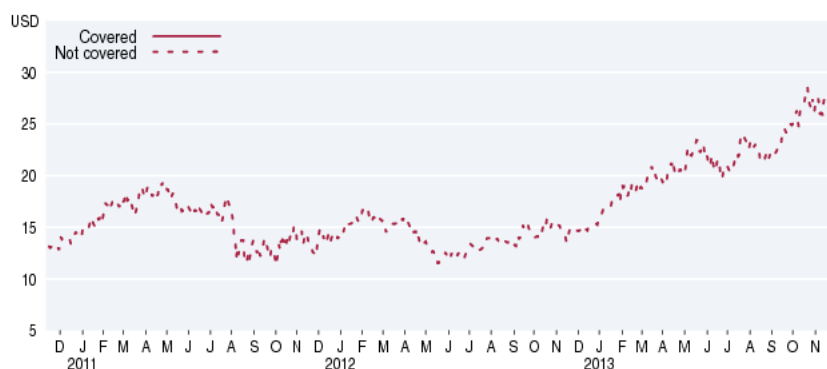
	Date	Rating	Target Price	Closing Price
15	6-Feb-13	1	*24.00	18.64
16	23-Apr-13	1	*24.50	20.27
17	5-May-13	1	*30.00	21.75
18	24-Jun-13	1	*28.00	19.79
19	18-Jul-13	1	*30.00	23.37
20	18-Oct-13	1	*33.00	27.82

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

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