

## Equities

28 June 2012 | 9 pages

# BlackRock Inc (BLK)

## Alert: Time To Pull The Curtain Back

### Company Update

■ **What is ailing BLK?** — We believe uneven flows, margin discussion, S/D technicals post 26.2M share secondary – see our 5/23 report, [Headwind Cleared As Secondary Completed, But Catalysts Unclear](#). [Lower Estimates/Target; Maintain Neutral](#) – plus seemingly elevated employee turnover are weighing on BLK. While the underperformance is enhancing the risk/reward, we do not yet see enough absolute upside to alter our Neutral view but we do affirm our BLK/EV pair trade, the latter performing well despite continued uneven flow dynamics and higher multiple than key peers despite improving – but less certain – structural growth prospects.

■ **Is turnover a problem at BLK?** — Our recent set of investor conversations seem to center on seemingly elevated shuffling of high profile positions, capped by the pending departure December 2012 of Dan Rice, PM of a well-performing hedge fund, Mr. Bob Doll, widely known Chief Equity Strategist, and most incrementally, the decision of Ms. Susan Wagner to step down as Vice Chairman, and chief architect of BLK's recent inorganic growth including MLIM + BGI – though will join the Board of Directors in a more strategic role. In turn, the personnel changes resurface concerns around whether BLK is ultimately too big not to lag.

■ **What can BLK do to alter perceptions?** — In our view, it is difficult to believe the firm does not have adequate bench strength, yet we believe BLK is lagging most peers around its investor outreach strategy, and thus leaving a void of uncertainty around business continuity. In essence, we believe management needs to help investors better appreciate depth/breadth of the franchise, personnel, and growth prospects – in essence, it is time to pull the information curtain back – particularly as the firm has morphed from an institutionally oriented/high inside ownership platform into a much more liquid global manager.

■ **Four key LT drivers** — While price sensitive in the ST, we continue to like BLK's: 1) global reach; 2) ETF play via iShares – see 6/11 report, [Passive Wave Going Global; Up Next = UK + Australia](#); 3) US retail share potential; and 4) solid FCF repatriation story, on top of more tactical growth in BRS, DC/retirement and multi-asset class businesses. Still, greater granularity around key lines of business, heads, and staff would go a long way, we believe, in tempering building angst around EPS levers.

<b>Neutral</b>	<b>2</b>
Price (27 Jun 12)	US\$166.38
Target price	US\$180.00
Expected share price return	8.2%
Expected dividend yield	3.6%
<b>Expected total return</b>	<b>11.8%</b>
Market Cap	US\$28,789M

### Price Performance (RIC: BLK.N, BB: BLK US)



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## BlackRock Inc

### Valuation

We value the shares of BlackRock using the target P/E method. Our \$180 12-month target price is derived by applying a 13.5x target P/E multiple to our 2013 adjusted EPS estimate discounted six months. The 13.5x target P/E is below the company's historical average but premium to industry average.

### Risks

If the impact from any of the following factors proves to be greater than we expect, the stock price may have difficulty reaching our target price. If market conditions improve faster than anticipated, the stock price may outperform our target. Other risks include:

Financial market risk — Changes in markets have a direct impact on AUM and investment advisory and services fees.

Performance risk — An inability to meet relevant investment benchmarks could result in clients withdrawing assets and in prospective clients choosing to invest with competitors. This could also result in lower investment management fees, which could result in a decline in revenue.

Redemption risk — Investors can redeem their investments without notice. A significant increase in redemption rates could have a material adverse effect on revenues, financial condition, results of operations and business prospects.

Integration risk — That said, management has an impeccable track record, merging in increasingly sizable State Research and Merrill Lynch Investment Managers platforms. BGI integration will run over two years.

## Eaton Vance

(EV.N; US\$25.97; 2)

### Valuation

We value the shares of Eaton Vance using the target P/E method. Our \$25 target price is derived by applying a 12.5x target P/E multiple to our forward 12-month adjusted EPS estimate which adds back the change in redemption value for non-controlling interests. We believe an in-line to below cash P/E multiple relative to peers is justified at present given the company's slowing organic growth trends.

### Risks

If the impact from any of the following factors proves to be greater/less than we expect, the stock may have difficulty reaching our target price or could outperform it. If market conditions improve faster than anticipated, the stock may outperform our target. In addition, should EV sustain organic growth higher than our expectations, possibly driven by traction in absolute return, global macro, tax efficiency, or inflation protection products, our AUM and EPS forecasts could be too conservative, leading the stock to outperform our target.

Financial market risk — Changes in markets have a direct impact on AUM and investment advisory and services fees.

Performance risk — An inability to meet relevant investment benchmarks could result in clients withdrawing assets and in prospective clients choosing to invest with competitors. This could also result in lower investment management fees, which could result in a decline in revenue.

Redemption risk — Investors can redeem their investments without notice. A significant increase in redemption rates could have a material adverse effect on revenues, financial condition, results of operations and business prospects.

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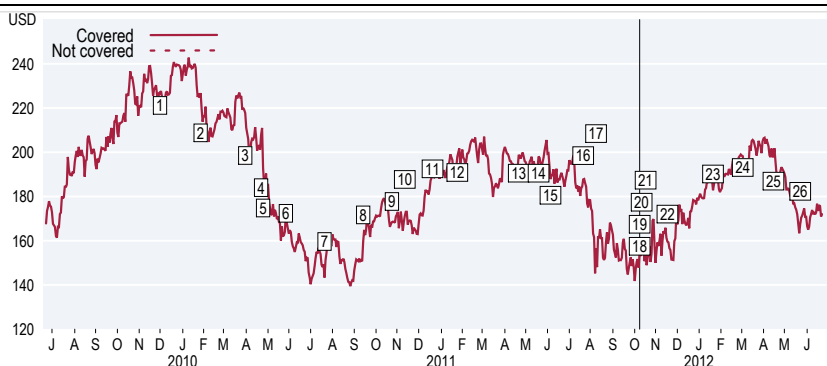
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#### BlackRock Inc (BLK)

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Analyst: William R Katz

Covered since March 31 2010



Date	Rating	Target Price	Closing Price
1-Dec-09	1M	*265.00	226.74
27-Jan-10	1M	*269.00	226.77
31-Mar-10	*3M	*190.00	217.76
22-Apr-10	*2M	*198.00	207.79
26-Apr-10	2M	*200.00	192.95
27-May-10	2M	*175.00	172.39
21-Jul-10	2M	*165.00	143.33
14-Sep-10	2M	*175.00	159.55
25-Oct-10	2M	*180.00	168.39

Date	Rating	Target Price	Closing Price
11-Nov-10	*1M	*210.00	171.20
21-Dec-10	1M	*225.00	192.51
25-Jan-11	1M	*240.00	198.01
21-Apr-11	1M	*250.00	198.88
19-May-11	1M	*265.00	198.10
6-Jun-11	1M	*255.00	187.85
21-Jul-11	1M	*250.00	187.72
9-Aug-11	1M	*225.00	156.54
8-Oct-11	Stock rating system changed		

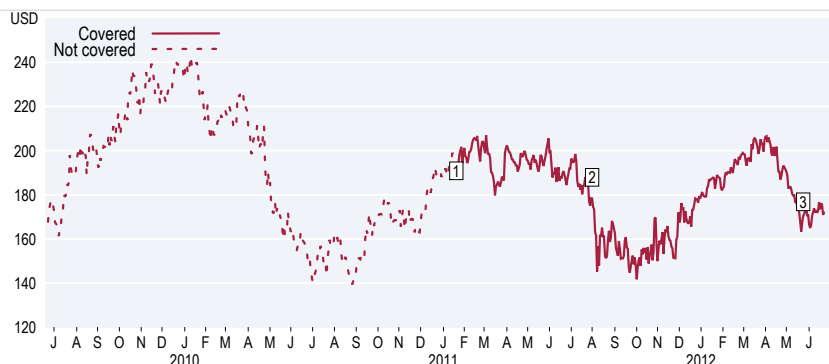
Date	Rating	Target Price	Closing Price
8-Oct-11	*1	225.00	147.78
12-Oct-11	1	*190.00	156.00
18-Oct-11	1	*180.00	156.30
17-Nov-11	1	*190.00	159.60
20-Jan-12	*2	*193.00	182.82
2-Mar-12	2	*197.00	198.25
16-Apr-12	2	*201.00	198.18
23-May-12	2	*180.00	167.50

\* Indicates change

Rating/target price changes above reflect Eastern Standard Time

**BlackRock Inc (BLK)**  
**Ratings and Target Price History**  
**Best Ideas Research**  
**Relative Call (3 Month)**

Analyst: William R Katz  
Covered since March 31 2010



	Date	Rating	Target Price	Closing Price
1	20-Jan-11	*ADD MP	-	190.87

\* Indicates change

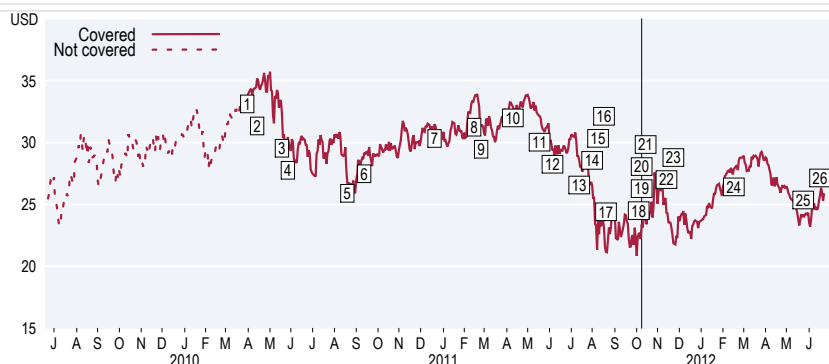
	Date	Rating	Target Price	Closing Price
2	1-Aug-11	*REM MP	-	178.36

	Date	Rating	Target Price	Closing Price
3	24-May-12	*ADD MP	-	170.44

Rating/target price changes above reflect Eastern Standard Time

**Eaton Vance (EV)**  
**Ratings and Target Price History**  
**Fundamental Research**

Analyst: William R Katz  
Covered since March 31 2010



	Date	Rating	Target Price	Closing Price
1	31-Mar-10	*2M	*34.00	33.54
2	14-Apr-10	2M	*36.00	35.17
3	19-May-10	2M	*34.00	32.38
4	27-May-10	2M	*32.00	30.45
5	19-Aug-10	*3M	*23.00	26.71
6	13-Sep-10	3M	*25.00	29.17
7	21-Dec-10	3M	*28.00	31.48
8	15-Feb-11	3M	*30.00	33.58
9	24-Feb-11	3M	*29.00	31.40

\* Indicates change

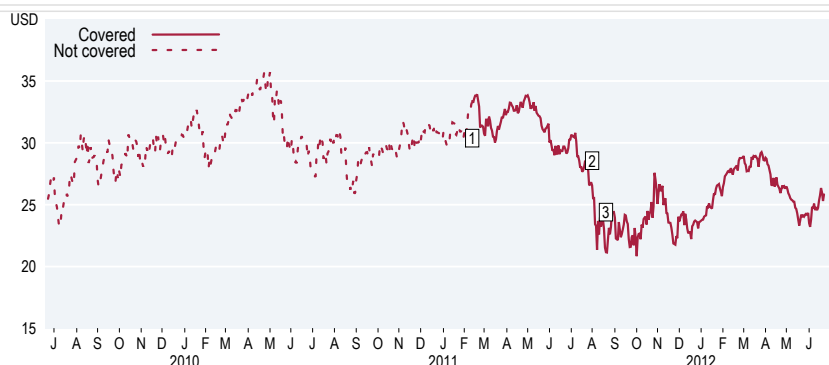
	Date	Rating	Target Price	Closing Price
10	11-Apr-11	3M	*30.00	32.90
11	18-May-11	3M	*29.00	32.15
12	6-Jun-11	3M	*28.00	29.36
13	13-Jul-11	3M	*27.00	28.56
14	1-Aug-11	*2M	27.00	26.57
15	9-Aug-11	2M	*23.50	23.69
16	17-Aug-11	2M	*23.00	23.05
17	19-Aug-11	2M	*21.00	21.16
18	5-Oct-11	2M	*22.00	22.63

	Date	Rating	Target Price	Closing Price
19	8-Oct-11	Stock rating system changed		
20	8-Oct-11	*2	22.00	22.21
21	14-Oct-11	2	*23.00	24.04
22	14-Nov-11	*3	*22.00	24.33
23	23-Nov-11	3	*20.00	21.87
24	16-Feb-12	3	*24.00	27.87
25	24-May-12	*2	*23.50	24.18
26	18-Jun-12	2	*25.00	25.76

Rating/target price changes above reflect Eastern Standard Time

**Eaton Vance (EV)**  
**Ratings and Target Price History**  
**Best Ideas Research**  
**Relative Call (3 Month)**

Analyst: William R Katz  
Covered since March 31 2010



	Date	Rating	Target Price	Closing Price
1	11-Feb-11	*ADD LP	-	33.38

\* Indicates change

	Date	Rating	Target Price	Closing Price
2	1-Aug-11	*REM LP	-	26.57

	Date	Rating	Target Price	Closing Price
3	19-Aug-11	*ADD LP	-	21.16

Rating/target price changes above reflect Eastern Standard Time

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<i>% of companies in each rating category that are investment banking clients</i>	44%	42%	40%	47%	42%	43%

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