Blackstone Group LP BX (NYSE) | ★★★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Industry Group
40.92 USD	53.00 USD	31.80 USD	82.15 USD	High	Wide	Stable	Exemplary	Asset Management

Dominant Real Estate Performance Leads Blackstone's Quarter; AUM Tops $300 Billion

See Page 2 for the full Analyst Note from 16 Apr 2015

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The primary analyst covering this company does not own its stock.

Research as of 16 Apr 2015
Estimates as of 05 Apr 2015
Pricing data through 01 Jul 2015
Rating updated as of 01 Jul 2015

Currency amounts expressed with "$" are in U.S. dollars (USD) unless otherwise denoted.

Contents

Investment Thesis 30 Jan 2015

We believe Blackstone's aggressiveness and size (over $290 billion in assets under management) leave it one of the best-positioned alternative asset management firms. Blackstone has obtained more than $200 billion in new capital since 2011, more than its next four largest peers combined, in spite of industry pressures on fees and longer-than-expected time frames for raising capital for new funds. Furthermore, the company's success at developing new strategies to drive new inflows is impressive: More than $120 billion of its total AUM is now allocated to strategies that didn't exist at the time of its 2007 IPO. Common portfolio themes today include real estate (particularly U.S. single-family housing), energy, and collateralized loan obligations (CLOs).

Increasingly, the bulk of value created by private equity funds is through operational changes rather than multiple expansion or incremental leverage. Fortunately, Blackstone employs numerous industry captains to quickly and effectively drive operational changes. This ensures that it can take advantage of the very tight windows that the equity and credit markets offer up for realizing investment gains. We believe 2015-16 will be an exceptionally robust period for realizations across Blackstone's major asset classes, given the health of the markets. As that capital is returned to partners, Blackstone's capital raising (to replace realized gains) and operational skill sets (to quickly drive company improvements for an IPO or sale) will become even more important.

Aside from its typical investment activities, we think a promising growth area for Blackstone is individual investor solutions. Pension funds are not attracting new capital, as most U.S workers are now managing their own retirements through 401(k) plans. Given Blackstone's historical focus on institutional investors, we think there's a substantial opportunity to target the $20 trillion in retirement accounts (less than 2% allocated to alternatives overall). The firm launched its first retail mutual fund in in mid-2013, and we see potential for Blackstone-developed REITs, closed-end funds, ETFs, and business development companies to attract new capital.

Vital Statistics

Market Cap (USD Mil)	48,401
52-Week High (USD)	44.43
52-Week Low (USD)	26.56
52-Week Total Return %	29.8
YTD Total Return %	25.9
Last Fiscal Year End	31 Dec 2014
5-Yr Forward Revenue CAGR %	6.0
5-Yr Forward EPS CAGR %	-4.2
Price/Fair Value	0.77

Valuation Summary and Forecasts

Fiscal Year:	2013	2014	*2015(E)*	*2016(E)*
Price/Earnings	10.6	9.3	*11.3*	*10.5*
EV/EBITDA	7.2	5.3	*7.3*	*6.8*
EV/EBIT	7.2	5.3	*7.3*	*6.8*
Free Cash Flow Yield %	5.0	7.7	*4.8*	*5.2*
Dividend Yield %	4.1	6.0	*4.2*	*4.5*

Financial Summary and Forecasts (USD Mil)

Fiscal Year:	2013	2014	*2015(E)*	*2016(E)*
Revenue	6,611	7,537	*8,181*	*8,816*
Revenue YoY %	62.6	14.0	*8.5*	*7.8*
EBIT	3,597	4,544	*4,554*	*4,904*
EBIT YoY %	76.2	26.3	*0.2*	*7.7*
Net Income, Adjusted	3,411	4,212	*4,184*	*4,517*
Net Income YoY %	77.1	23.5	*-0.7*	*8.0*
Diluted EPS	2.98	3.63	*3.61*	*3.89*
Diluted EPS YoY %	74.5	22.0	*-0.7*	*8.0*
Free Cash Flow	3,735	3,159	*2,394*	*2,666*
Free Cash Flow YoY %	NM	-15.4	*-24.2*	*11.3*

Historical/forecast data sources are Morningstar Estimates and may reflect adjustments.

Profile

Blackstone is the world's largest alternative asset manager with more than $290 billion in assets under management. More than just private equity, the firm manages large pools of funds devoted to credit, real estate, and hedge fund solutions.

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Morningstar Analysis

Dominant Real Estate Performance Leads Blackstone's Quarter; AUM Tops $300 Billion 16 Apr 2015

Blackstone's first-quarter results were strong, as $18.3 billion in inflows from its real estate segment contributed to over $30 billion in gross inflows for the quarter, pushing Blackstone's total AUM to $310 billion and over $300 billion for the first time. The broader story here for Blackstone is that the firm continues to be extremely well positioned across all of the major facets we consider for alternative asset managers, including fund raising, fund performance, realizations, and investing activity levels. In a richly priced environment for assets, Blackstone continues to be highly successful at convincing limited partners to invest in new funds, taking advantage of a richly priced environment to unload assets, yet still finding undervalued opportunities to pursue and ultimately drive strong fund performance. We believe several of the qualities that contribute to its wide moat, which are its strong relationships with potential buyers and sellers of assets (for example, its exclusive bid for the recent GE Capital deal) as well as limited partners will continue to lead to differentiated performance going forward.

The majority of the $30 billion in inflows came from fundraising for Blackstone's $14.5 billion global real estate fund, and as we do not expect another $10 billion-plus real estate fund to be raised this year, quarterly inflows for the remainder of the year are likely to drop off to the $2 billion-$4 billion range in line with recent historical performance. That said, we expect large funds to be raised for credit and private equity to take up the slack. Overall, our full-year 2015 estimate of about $54 billion in inflows for 2015 is likely to be boosted to about $65 billion to reflect incremental real estate inflows, but this change is not enough to result in a material change to our recently raised $53 fair value estimate or wide moat rating.

Blackstone's performance outside of inflows was also equally strong, in our view. While overall management fees only ticked up 4% from last year's levels to $615 million, performance fees more than doubled to $1.7 billion, which led to economic net income nearly doubling to $1.6 billion and distributable earnings increasing more than 150% to $1.2 billion. The bulk of the performance gains were from $3.3 billion in private equity realizations, which in turn led to incentive fees of $950 million, up more than 200% from 2014 levels and 26% sequentially. Real estate realizations and incentive fees of $9.1 billion and $637 million were up significantly from last year's levels, though incentive fees increased about 5% sequentially. Net accrued performance fees, which are a general indicator for performance fee realizations in the short term now stand at $4.9 billion, a 40% increase from 2014 levels and a 10% increase sequentially, suggesting continued strong performance for the remainder of the year. We'd note, though, that over the past eight quarters performance fees have ranged between $550 million and $1.7 billion, indicating even in a relatively strong environment there are substantial quarterly fluctuations, depending on Blackstone's activity levels.

From an investing and fund perspective, we continue to think Blackstone is well positioned. Private equity and real estate funds appreciated 6.4% and 8.2% for the quarter, well ahead of the essentially flat S&P 500 performance over the same time frame. Blackstone also invested $5.1 billion during the quarter, up 5% from last year's levels, and implying roughly a three-year run rate to invest the $65 billion in dry powder it currently holds, which we consider reasonable. We're pleased to see both the geographic and product diversity across Blackstone, with 50% of the capital over the past year being invested outside of North America, and 51% in new products that did not exist at the time of its 2007 initial public offering.

Valuation, Growth and Profitability 06 Apr 2015

After lowering our cost of equity to 11% from 12%, we are increasing our fair value estimate to $53 from $48 per unit. Our fair value estimate implies a 2016 price/economic net income multiple (the industry's preferred metric) of 13 times

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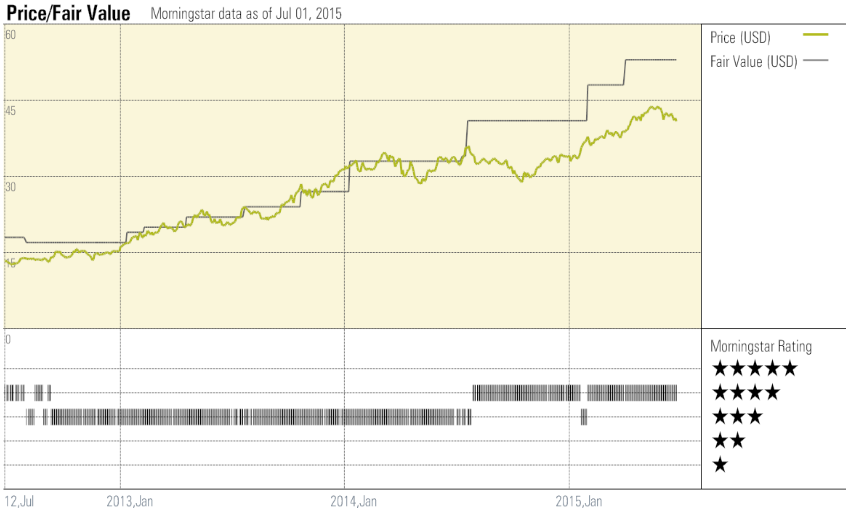
Price/Fair Value Morningstar data as of Jul 01, 2015



and a 2016 dividend yield of approximately 3.5%. On a distributable earnings basis, which is our preferred metric as it is closer to cash earnings (because it removes the effects of unrealized incentive income), Blackstone is valued at 24 times 2016 earnings, the highest multiple in the sector.

We're fans of the attractive nature of the alternative asset manager business model versus traditional asset managers. The model includes higher profitability levels and secular tailwinds (such as increased allocations from institutions). We also see the potential for multiple expansion over time as investors obtain greater levels of comfort with the lumpier, but recurring, nature of performance fees over long time horizons. That said, we expect the industry's use of the partnership model rather than the traditional corporate structure to keep them trading at a discount to their traditional peers. Much of this is due to the industry's use of K-1s, which creates tax complexity and the carried interest tax issue for unit holders. While we also assume that carried interest tax reform eventually passes in some fashion, which supports our long-term tax rate for the industry at 35%, we do not see any near-term threats to the group at this stage.

We expect Blackstone's total AUM to increase to over $400 billion in 2018, and about $450 billion in 2019, thanks to the firm's ability to inbound new capital with aplomb. We see base management fees (as a percentage of fee-earning AUM) remaining stable across its major asset classes, with the one exception being private equity. We expect private equity fees to increase to about 1.00% from 0.95%, as the cyclical pressures from the impact of the 2008-09 financial crisis recede, and investors are increasingly willing to pay up for Blackstone's differentiated investment performance. This forecast translates into revenue growth of about 6% annually on average over the next five years, reaching around $10 billion in 2019, with adjusted earnings per unit at $4.65, and a dividend payout of about $2.18 per unit.

Scenario Analysis

Key variables within our scenario analysis include Blackstone's level of fee-earning AUM (including the firm's ability to raise new capital), its pricing power (based on the level of base management fees), and its realized performance fees (which highlight the company's ability to benefit from its engineered operational improvements at acquired assets). Our forecast currently anticipates that 2018 fee-earning AUM will be $323 billion, capital-raising efforts will be around $173 billion over the next three years, and realizations will total over $125 billion for 2015-17, which will lead to around $15 billion in total performance fees.

In our downside scenario, we anticipate weak equity-market returns, lower levels of capital raising, and lower levels of realizations due to unpalatable markets. We think such a scenario could occur if fund investment returns falter, but also if Blackstone struggles for a time to successfully market and develop new fund strategies. We expect that base management fees, fee-earning AUM, and performance fees

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would be reduced by 20% in such a scenario, which would affect our explicit forecast beginning in 2018. In this scenario, our fair value estimate would be $36 per unit, implying a forward 2016 price/economic net income ratio of 12 times using our forecast $3.11 per unit and a forward 2016 dividend yield of 4.5% assuming a $1.62 per unit payout. That said, the downside for Blackstone could be larger in the case of a severe market downturn in the short run; incentive income totaled negative $1.3 billion in 2008 (primarily due to a decline in unrealized incentive income) versus about $3.6 billion in 2013.

Our best-case scenario implies very strong equity-market returns, capital-raising efforts, and realization levels. We would expect to see this scenario amid a period of very strong fund investment returns, but it would also reflect an improved ability for Blackstone to attract qualified industry executives to run its companies and develop new fund strategies, particularly for retail investors. In this case, we forecast that base management fees, fee-earning AUM, and performance fees would be increased 20% each. Our fair value estimate in our high-case scenario would be $77 per unit, which reflects a forward 2016 price/economic net income of 16 times using our forecast $4.74 per unit and a forward 2016 dividend yield of 2.8% assuming a $2.16 per unit payout.

Economic Moat

We believe Blackstone has a wide economic moat. The company is the largest and most diversified alternative asset manager, with the strongest track record of strategy innovation and fund raising. Since 2007, Blackstone has inbounded more than $120 billion in AUM to brand new strategies, and since 2011, more than $200 billion to the firm's total AUM, which is greater than its next four largest peers combined. If separated into a new unit, Blackstone's new strategies would be the third-largest stand-alone alternative asset manager after Carlyle and Apollo, which is a significant achievement. More importantly, once these assets are part of Blackstone, the partnership can earn fees for 10-11 years, the useful life of a private equity fund. Institutional investors (nearly 80% of industry AUM) also prefer to invest in established managers, and an estimated 90% of industry asset flows goes to funds with assets over $1 billion.

Blackstone is unique among publicly traded alternative asset managers in that it has scale across multiple key asset areas (real estate, private equity, credit, and hedge fund allocation). This means that it is nearly always a contender for new assets, as it has access to more than 1,300 limited partners and more than 900 investment professionals. Furthermore, we estimate that about 60%-70% of Blackstone's limited partners invest in more than one fund, and about 20% invest across all four major Blackstone divisions, a sign of a very strong cross-selling platform. Because of the broader scale of Blackstone's operations, the firm is able to better anticipate limited partner desires, and develop or acquire new strategies ahead of peers, as well as put more money behind their best investments due to idea sharing, generating better-than-average fund performance as a result, and increasingly serving as a one-stop shop for limited partners.

While Blackstone's strengths in private equity and credit are key calling cards for new limited partners and deals, we're also impressed with Blackstone Alternative Asset Management (or BAAM) and Blackstone's real estate operations, which are both strong contributors to its moat. BAAM has been one of the larger allocators of capital to hedge funds via a fund of funds model. We view it as a key source of competitive advantage for Blackstone due to its ability to develop innovative and custom strategies (typically through commingled or separately managed accounts), rapidly expand its client base (which currently includes more than 500 clients), and earn extra fees from its intangible

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assets (namely, its reputation and existing relationships). The key part of the attraction for limited partners to BAAM, in our view, is Blackstone's reputation and ability to access up-and-coming managers. Meanwhile, hedge fund managers also want to work with Blackstone in order to earn its seal of approval.

We also view Blackstone's real estate segment as a key contributor to its wide moat. The company's scale in this segment is such that it alone among its peers can purchase entire real estate portfolios (or REITs), which gives it access to better investment opportunities than its rivals, which can typically purchase only single buildings. This scale advantage gives Blackstone an edge in situations where distressed sellers are looking to offload a real estate portfolio rather than engage in selling off assets one at a time. Two deals that have demonstrated the company's ability to cut deals that no one else can were its 2007 purchases of Hilton and Equity Office Properties. Both deals--sized at $27 billion and $39 billion, respectively--were far larger than any other peer could pull together for a real estate-based deal. And with Equity Office Properties, the firm had the relationships in place to offload $27 billion in assets within weeks of the deal closing, immediately earning a solid return, and taking advantage of its close contacts with real estate buyers that peers would find nearly impossible to duplicate.

Moat Trend

We consider Blackstone's moat trend to be stable. A key metric for alternative asset managers is their ability to raise external capital for new funds, as not only will the fund flows drive earnings, but they demonstrate the strength of the firm's reputation and pricing power. Blackstone has handily outperformed its peers over the past few years, as it has raised more than $200 billion in new capital since 2011, several times the amount of its major peers. In a difficult industrywide environment where there has been pressure on fees as well as longer-than-expected time frames for raising new funds, Blackstone's success stands out as an illustration of its strong reputation and relationships with clients. In short, its size provides it with an already ample book of limited partners, and it has leveraged those relationships to develop new strategies ahead of peers and attract top-performing managers to bring in capital. Furthermore, institutional investors (particularly pension funds) are generally seeking to cull their list of private equity managers (by two thirds in some cases), and Blackstone is typically one of the few managers left standing. More broadly, a strong track record and availability on investment platforms are raising the barriers to entry for the space. In some ways, we think Blackstone is becoming a close substitute for the IBM of the industry, where no one was fired for allocating capital to the company.

That said, we continue to see pressures from regulators as well as limited partners. Recently, the SEC announced that it has created a new unit to focus on private equity and hedge funds. The unit will be headed by Igor Rozenblit and Marc Wyatt, who both have backgrounds in the industry. The SEC's review began shortly after the 2010 Dodd-Frank Act, which placed the industry under the agency's purview for the first time. According to an internal SEC examination of about 400 private equity funds, more than half of them have charged investors unjustified fees without notifying them. When limited partners commit money to a private equity fund, the partnership agreement typically spells out the fees that the investor pays, which are typically management and incentive fees, but also the fees that portfolio companies pay the private equity firm, which can be transaction, monitoring, and other types of fees. Depending on the agreement, the private equity firm can command a greater proportion of these additional fees versus the standard 80/20 split, which feeds into the firm's management fee income. Due to investor pressure in recent years, these fees are now generally rebated to the limited

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Morningstar Analysis

partners. The SEC appears to be focusing on fees that are not mentioned in the original partnership agreement, which allows the private equity firm to keep the entire fee for itself, as well as on the general misuse of the funds.

Regulators are also seeking to restrain some of the industry's more aggressive actions with their investments. In Europe, regulators have approved a directive for Alternative Investment Fund Managers that includes guidelines regarding asset stripping and dividend recapitalizations for 24 months following an acquisition. It also calls for increased levels of transparency, including requiring managers to set a maximum leverage limit taking into account the given fund's strategy, sources of leverage, and collateral. On top of that, Denmark and Germany have adopted legislation that limits the deductibility of interest expenses, a key source of tax savings and returns for the private-equity industry. Similar guidelines are being looked at in the United States, where regulators have suggested that banks providing loans for acquisitions where debt is greater than six times EBITDA be subject to substantial additional scrutiny.

Limited partners have also increased their pressure on the private-equity industry. In 2009, limited partners concerned about the alignments of interest between limited and general partners started up the Institutional Limited Partners Association (ILPA), which now represents over 250 limited partners that invest over $1 trillion in capital. The group's latest set of recommendations (issued in 2011) lay out principles that general partners such as Blackstone and the rest of the industry's major players have agreed to honor. Key areas of focus include lowering management fees following the investment period, asking general partners to contribute cash to fund at least 3.5% of a fund rather than waive management fees, better disclosure of all fees (transaction, monitoring, advisory, and so on), more timely liquidation of "zombie funds" where the investments are not panning out but the general partner is still collecting management fees. In addition, limited partners prefer the use of the more conservative European waterfall approach versus the deal-by-deal approach for carried interest. In the case of poor fund performance in the latter years of its useful life, limited partners may have to engage in legal action to obtain any clawbacks.

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Bulls Say/Bears Say

Bulls Say

- The spin-off of Blackstone Advisory in 2015 will free the unit from conflicts of interest and put the advisory firm on a stronger growth trajectory. Blackstone will retain 65% ownership, letting it benefit from any improvements.

- Blackstone has about $2.1 billion in AUM under UCITS and '40 Act mutual funds structures, illustrating its early success at penetrating the retail channel.

- The acquisition of Strategic Partners has paid dividends already. Blackstone closed on the $4.4 billion fund in late 2014, which is nearly twice the size of earlier funds.

Bears Say

- A downturn in the equity markets could leave potential Blackstone limited partners with limited liquidity and large commitments to other funds, making it very difficult for Blackstone to raise new capital.

- Blackstone's clawback obligations total almost $1.4 billion, and it reportedly had to refund cash to partners in 2010. If investment returns suffer, Blackstone could see embarrassing and financially painful clawbacks.

- Tougher compliance rules, particularly in Europe and China, could make it harder for Blackstone to market and raise capital for any new funds.

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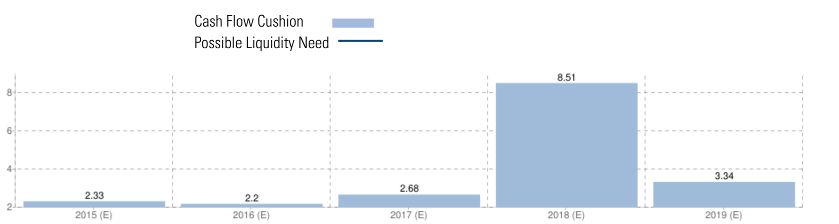
Five Year Adjusted Cash Flow Forecast (USD Mil)

	2015(E)	2016(E)	2017(E)	2018(E)	2019(E)
Cash and Equivalents (beginning of period)	1,412	1,137	1,500	1,872	2,299
Adjusted Available Cash Flow	447	564	575	561	614
Total Cash Available before Debt Service	1,859	1,702	2,075	2,433	2,913
Principal Payments	—	—	—	—	-585
Interest Payments	-150	-150	-150	-150	-150
Other Cash Obligations and Commitments	-647	-624	-624	-136	-136
Total Cash Obligations and Commitments	-797	-774	-774	-286	-871

Cumulative Annual Cash Flow Cushion



Adjusted Cash Flow Summary

	USD Millions	% of Commitments
Beginning Cash Balance	1,412	40.3
Sum of 5-Year Adjusted Free Cash Flow	2,760	78.8
Sum of Cash and 5-Year Cash Generation	4,172	119.2
Revolver Availability	—	—
Asset Adjusted Borrowings (Repayment)	—	—
Sum of Cash, 5-Year Cash Generation, Revolver and Adjustments	4,172	119.2
Sum of 5-Year Cash Commitments	-3,501	—

Financial Health

Blackstone's business model depends heavily on having fully functioning credit and equity markets that will allow its investment funds not only to arrange financing for leveraged buyouts, and the companies it operates, but cash out of them once they've run their course. The company saved itself a lot of headaches during the collapse of the credit and equity markets by having relatively little debt on its own books. During the past several years, though, Blackstone has issued $2.1 billion of long-term debt. The company also has a $1.1 billion revolving credit facility, which expires in May 2019, available for use. Despite the potential headache, we see Blackstone as being prudent from a financial perspective. Debt/capital will be at around 19% at the end of 2015, debt/distributable earnings should be about 0.9 times, and our forecast distributable earnings should easily cover interest expenses by 16 times.

Enterprise Risk

Blackstone's private equity and real estate investments are highly illiquid. Tightened credit conditions could limit the firm's ability to move into new investments, while weak economic conditions and difficult equity and credit markets could affect not only the value of Blackstone's investments, but also its ability to cash out. The firm's investments in real estate also subject it to the risks inherent in the ownership and operation of real estate and related businesses and assets. With incentive and transaction fees accounting for a significant portion of annual revenue, the volatility inherent in these types of fees can have a major impact on the firm. Our fair value estimate currently anticipates steady or rising fees across Blackstone's funds, meaning that it would be too high if fees were to fall. More importantly, poor investment performance can affect revenue, profitability, and cash flows, and potentially obligate the firm to repay carried interest earned in prior periods. It could also have a negative impact on the company's ability to raise new capital for future investment funds, given that limited

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partners typically recycle distributions from earlier funds into new ones. Any financial stress experienced by the firm would be further compounded by the fact that Blackstone has taken on a fair amount of debt during the past few years. There has also been growing support for greater regulatory oversight of private equity and hedge funds, as well as calls for higher taxation of carried interest, which could undermine some aspects of the business model used by Blackstone.

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Management & Ownership

Management Activity

Name	Position	Shares Held	Report Date*	InsiderActivity
J. TOMILSON HILL	CEO, Subsidiary/Director/ President, Subsidiary/Vice Chairman of the Board,Director	968,591	17 Feb 2015	—
THE HONOURABLE BRIAN MULRONEY	Director	115,000	06 Aug 2008	—
KATHLEEN SKERO	Chief Accounting Officer	67,321	10 Jun 2015	—
MR. WILLIAM G. PARRETT	Director	60,859	09 Nov 2014	—
LAURENCE A. TOSI	CFO	49,925	24 Feb 2015	—
RICHARD H. JENRETTE	Director	40,500	14 Jul 2014	—
JAY O. LIGHT	Director	39,588	18 Sep 2014	—
JOAN SOLOTAR	Managing Director, Divisional	29,892	28 Apr 2015	—

*Represents the date on which the owner's name, position, and common shares held were reported by the holder or issuer.

Fund Ownership

Top Owners	% of Shares Held	% of Fund Assets	Change (k)	Portfolio Date
Janus Twenty Fund	0.82	4.04	-1,476	31 Mar 2015
Janus Balanced Fund	0.58	2.06	—	31 Mar 2015
Fidelity® Series Equity-Income Fund	0.52	2.09	64	31 May 2015
Fidelity® Equity Income Fund	0.36	1.99	103	31 May 2015
Thornburg Investment Income Builder Fund	0.37	0.88	—	30 Apr 2015
Concentrated Holders				
DNB Private Equity	0.01	9.02	-7	30 Apr 2015
OPM Listed Private Equity	0.02	8.86	-10	31 Mar 2015
Partners Group Invest Private Eq	0.04	8.48	-45	31 May 2015
iShares Listed Private Equity	0.07	8.34	-18	31 May 2015
Pareturn Barwon Listed Private Equity	0.01	7.80	-36	31 Mar 2015

Institutional Transactions

Top 5 Buyers	% of Shares Held	% of Fund Assets	Shares Bought/ Sold (k)	Portfolio Date
Morgan Stanley Smith Barney LLC	1.09	0.34	5,058	31 Mar 2015
Wellington Management Company LLP	0.32	0.04	3,732	31 Mar 2015
Fidelity Management and Research Company	4.71	0.30	2,998	31 Mar 2015
Voya Investments, LLC	0.87	2.01	2,939	31 Mar 2015
BMO Capital Markets Corp.	0.22	0.90	2,553	31 Mar 2015
Top 5 Sellers				
UBS Securities LLC	0.49	0.16	-3,289	31 Mar 2015
Morgan Stanley Investment Management Inc	1.38	1.16	-2,865	31 Mar 2015
HAP Trading, LLC	0.01	0.27	-1,791	31 Mar 2015
BMO Asset Management Inc.	0.02	0.02	-1,734	31 Mar 2015
Calamos Advisors LLC	0.15	0.44	-1,647	31 Mar 2015

Management 06 Apr 2015

Chairman and CEO Stephen Schwarzman co-founded Blackstone in 1985 and has been involved in all phases of the firm's development since that time. We believe that Schwarzman and the other general partners at Blackstone have run the firm about as effectively as they could have in the aftermath of the financial crisis, taking full advantage of the dislocation in the equity and credit markets to expand the company's operations--primarily in real estate and credit. Its success with its hedge fund solutions segment is also worth noting. We expect assets under management to top $70 billion in 2015 from $15 billion in 2006. In addition, the number of clients more than doubled to 589 at the end of 2012 (from 243 in 2006), and we estimate the client base tops 1,000 in 2015, while broadly becoming far more diversified away from North America.

In our view, Blackstone's investments in its global offices, its development of new strategies and capabilities, and the hiring of human capital to staff and run these operations in the aftermath of the financial crisis have been very successful. As a result, the company is far less dependent on its private-equity operations and far more balanced overall than any of the other publicly traded alternative asset managers. Blackstone has raised more than $200 billion in capital since 2011, more than its next four largest peers combined. The firm now has more than $120 billion committed to new strategies that weren't in existence at the time of its 2007 IPO.

We note that there are governance concerns with the limited partnership operating structure for unitholders. In short, Schwarzman and his executives have near-complete control over the firm's operating and investment strategies as well as the makeup of the board, and unitholders have limited say here. That said, Blackstone insiders own about 48% of the firm's units (and retain 53% voting control), as well as additional investments in their funds, which incentivizes them to focus on unitholder interests. Overall, we consider

Blackstone Group LP BX (NYSE) | ★★★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Industry Group
40.92 USD	53.00 USD	31.80 USD	82.15 USD	High	Wide	Stable	Exemplary	Asset Management

Blackstone worthy of our Exemplary stewardship rating.

Blackstone Group LP BX (NYSE) | ★★★★

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Analyst Notes

Blackstone's Agreement to Acquire GE Capital Assets Exemplifies Its Wide Moat 10 Apr 2015

Blackstone and Wells Fargo have agreed to purchase the bulk of GE Capital Real Estate in a $23 billion transaction, as part of GE's overall simplification plan that is designed to emphasize its industrial roots.

We believe the deal exemplifies many of the qualities of Blackstone's wide moat, although we do not anticipate adjusting our $53 fair value estimate. First, Blackstone's scale in the real estate space is unmatched, with $81 billion in AUM, which we estimate is about seven to eight times the size of its next larger public peer. This type of scale provides Blackstone with deep insight into the market, letting it put more capital to work. The firm gathered $14.5 billion for its latest fund within about four months, with plans to add another $1.3 billion in the coming weeks. This fund size alone is greater than many peers' real estate AUM. Notably, with this transaction, Blackstone again stands alone among its peers with some of the largest real estate transactions over the past decade, with the Hilton and Equity Office property purchases in 2007 for $27 billion and $39 billion.

Second, GE's management team specifically stated that only one buyer came to mind for this asset, Jonathan Grey at Blackstone, and Blackstone was granted an exclusive bid because of its reputation for obtaining the needed capital and closing a transaction quickly. Blackstone has a history of working with GE, having purchased $2.7 billion in U.S. apartments from GE in 2013. These types of long-standing relationships with buyers and sellers are critical sources of exclusive deal flow, and Blackstone's relationships are among the most extensive.

Third, the details of the $23 billion transaction illustrate the breadth of Blackstone's product portfolio, which is a significant advantage for closing complex deals. Blackstone is acquiring assets from GE through its global real estate fund (BREP VIII), its European real estate fund (BREP Europe IV), its real estate debt fund (BREDS), and its publicly traded commercial mortgage REIT (BXMT). The depth of Blackstone's product portfolio means that it can acquire multiple types of assets in a single transaction, making it more attractive to a seller compared with buyers that may want to pick and choose certain types of assets. Blackstone's product portfolio means that it has the capital needed to go after large scale transactions, as well as the ability to allocate assets to funds and limited partners with similar returns expectations and risk tolerances, strengthening limited partner relationships. Last, Blackstone is plugging EUR 1.9 billion of European and retail assets into existing European and retail platforms, immediately strengthening these assets by aligning them with experienced management teams, and positioning itself for potential platform sale opportunities in the near future.

The transaction involves both Wells Fargo and Blackstone. Wells Fargo plans to purchase $9 billion in commercial estate loans located in the United States, Canada, and the United Kingdom. Blackstone has agreed to purchase $3.3 billion of U.S. equity assets through its global real estate fund, the BREP VIII. Blackstone's European real estate fund will acquire the European real estate assets for EUR 1.9 billion, and integrate many of the logistics and retail properties into Logicor (Blackstone's European logistics platform), and Multi (Blackstone's European retail platform). Blackstone's real estate debt fund will purchase Mexican and Australian mortgage loans for $4.2 billion, while BXMT, Blackstone's publicly traded commercial mortgage REIT will purchase $4.6 billion in mostly U.S. first-mortgage loans.

SEC's Private Equity Enforcement Loses Some Teeth; Andrew Bowden to Resign 08 Apr 2015

Andrew Bowden, the Securities Exchange Commission's head of compliance, where he oversees the commission's

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Analyst Notes

examinations work, is planning to leave the organization at the end of April to return to the private sector. We believe the departure is embarrassing for the SEC as recent news reports indicate that Bowden made a series of highly favorable comments about the private equity industry at a conference, indicating that it was "the greatest business you could possibly be in," and that he recommended that his son seek employment in the industry. We see these types of comments as indicative that Bowden has been generally captured by industry interests, and not very appropriate for an industry that he is in charge of examining.

Just last year, Bowden criticized the private equity industry heavily in a speech, indicating that the SEC found violations and material weaknesses more than half of the time when reviewing fees and expenses at funds. Since then, the industry has been under considerable regulatory scrutiny, with KKR, for example, being singled out for collecting $170 million in fees from KKR Capstone, and not sharing those fees with limited partners, who may have been under the impression that they were entitled to these fees. Blackstone and KKR also agreed to reimburse certain transaction and monitoring fees (in nominal amounts) after SEC pressure, in our view.

We believe Bowden's departure is likely to indicate a softening of the regulatory pressure from the SEC for the private equity players we cover such as Apollo, Blackstone, Fortress, Carlyle, and KKR going forward, which is a plus. In other words, the private equity industry is likely to have more time and greater control to rework any aggressive fee and expenses practices with limited partners at terms that are more likely to be favorable to them rather than work under SEC mandates that are more likely to favor limited partners' interests.

Blackstone Delivers Strong Q4; Remains Well Positioned for Energy Dislocation 29 Jan 2015

Blackstone reported a strong fourth quarter, and while we may boost our $41 fair value estimate slightly, we plan to maintain our wide moat rating. We believe Blackstone remains one of the best-positioned alternative asset managers in the current environment, as the flexibility and diversity of its business model lets it take advantage of opportunities as they arise, as we're currently seeing within the energy markets. The manager retains about $46 billion in dry powder and has been raising funds for energy-specific investments. Furthermore, we'd note that Blackstone is trading at about a 12% discount to our current fair value estimate.

On just about every metric, we consider Blackstone's results strong. Total AUM increased 9% to $290 billion from last year's levels, helped by $12.1 billion in inflows in the fourth quarter, led by $5.6 billion in credit inflows. However, as Blackstone is in the process of raising a significant global private equity fund, we'd expect to see quarterly private equity inflows ($1.2 billion in the fourth quarter) increase in 2015. Revenue declined 21% from 2013 levels to $2.1 billion, as increases in fee income were offset by declines in incentive and investment income. That said, economic net income declined only 6% to $1.4 billion, while distributable earnings increased 38% to $1.1 billion, thanks to $12 billion in realizations. We remain particularly pleased to see investment activity at $8.1 billion during the quarter, bringing the full-year total to $26.4 billion, a 73% increase over 2013 levels. The increased investment levels are laying the groundwork for future realizations, and with nearly half being deployed outside of North America and in new strategies launched since Blackstone's IPO, the increased diversity should continue to attract new limited partners.

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Analyst Notes

KKR Refunds Fees While Blackstone and Apollo Raise New Energy Funds 28 Jan 2015

The private equity industry continues to be under substantial regulatory pressure, which highlights the current industry uncertainty. That said, we do not plan to change our fair value estimates or moat ratings for the largest private equity players, which include KKR, Apollo, Blackstone, and Carlyle.

In KKR's case, the Securities and Exchange Commission has determined that from 2009 to 2011, certain expenses (estimated to be under $10 million) should have not been allocated to private equity funds and should be refunded to the limited partners through fee credits. In addition, the SEC noted that KKR did not disclose certain fees (estimated to be under $1 million) collected from a group-purchasing program made up of KKR's portfolio companies, and these fees needed to be refunded through fee credits. The purchasing fees were collected by KKR Capstone.

KKR characterizes Capstone as a variable-interest entity, which in the past has let it exclude sharing those fees with limited partners. We believe the SEC may ask KKR to reimburse additional Capstone-related fees in the future as its industry investigation continues. Furthermore, the SEC has made comments recently that indicate it plans to expands its focus to areas beyond private equity, which indicates to us that a deeper look at real estate, credit, and energy funds is coming.

At the same time, the alternative asset managers are rapidly positioning themselves to take advantage of the recent dislocation in the energy markets, which we consider one of the most attractive investment opportunities today. The ability to identify opportunities and quickly raise capital to take invest in them is an advantage that tends to accrue to the industry's largest players, in our view. We believe Apollo is attempting to raise a $4 billion-$5 billion fund focused on energy debt and close it by April. In addition, Blackstone is days away from closing on a similar-sized fund focused on the energy space.

Blackstone Group LP BX (NYSE) | ★★★★

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Morningstar Analyst Forecasts

Financial Summary and Forecasts

Fiscal Year Ends in December

Growth (% YoY)	3-Year Hist. CAGR	2012	2013	2014	Forecast 2015	Forecast 2016	5-Year Proj. CAGR
Revenue	*31.9*	23.9	62.6	14.0	*8.5*	*7.8*	*6.0*
EBIT	*42.1*	28.8	76.2	26.3	*0.2*	*7.7*	*3.5*
EBITDA	*42.1*	28.8	76.2	26.3	*0.2*	*7.7*	*3.5*
Net Income	*41.5*	29.6	77.1	23.5	*-0.7*	*8.0*	*-4.2*
Diluted EPS	*40.2*	29.4	74.5	22.0	*-0.7*	*8.0*	*-4.2*
Earnings Before Interest, after Tax	*38.9*	53.8	75.7	-0.9	*7.0*	*7.7*	*-2.8*
Free Cash Flow	*34.9*	-75.1	NM	-15.4	*-24.2*	*11.3*	*-0.3*

Profitability	3-Year Hist. Avg	2012	2013	2014	2015	2016	5-Year Proj. Avg
Operating Margin %	*55.0*	50.2	54.4	60.3	*55.7*	*55.6*	*54.8*
EBITDA Margin %	*55.0*	50.2	54.4	60.3	*55.7*	*55.6*	*54.8*
Net Margin %	*51.6*	47.4	51.6	55.9	*51.1*	*51.2*	*44.3*
Free Cash Flow Margin %	*35.4*	7.9	56.5	41.9	*29.3*	*30.2*	*30.3*
ROIC %	—	—	—	—	—	—	—
Adjusted ROIC %	*-255.9*	-250.7	-306.6	-210.4	*-473.0*	*204.5*	*-7.1*
Return on Assets %	*19.9*	15.4	22.5	21.8	*18.0*	*17.7*	*14.8*
Return on Equity %	*56.2*	41.7	62.2	64.8	*51.8*	*43.7*	*35.4*

Leverage	3-Year Hist. Avg	2012	2013	2014	2015	2016	5-Year Proj. Avg
Debt/Capital	*0.23*	0.25	0.22	0.23	*0.19*	*0.16*	*0.15*
Total Debt/EBITDA	*0.58*	0.82	0.46	0.47	*0.47*	*0.44*	*0.43*
EBITDA/Interest Expense	*32.78*	29.58	34.59	34.17	*30.36*	*32.70*	*33.36*

Valuation Summary and Forecasts

	2013	2014	2015(E)	2016(E)
Price/Fair Value	1.17	0.83	—	—
Price/Earnings	10.6	9.3	*11.3*	*10.5*
EV/EBITDA	7.2	5.3	*7.3*	*6.8*
EV/EBIT	7.2	5.3	*7.3*	*6.8*
Free Cash Flow Yield %	5.0	7.7	*4.8*	*5.2*
Dividend Yield %	4.1	6.0	*4.2*	*4.5*

Key Valuation Drivers

Cost of Equity %	11.0
Pre-Tax Cost of Debt %	5.8
Weighted Average Cost of Capital %	9.6
Long-Run Tax Rate %	35.0
Stage II EBI Growth Rate %	5.5
Stage II Investment Rate %	13.8
Perpetuity Year	20

Additional estimates and scenarios available for download at http://select.morningstar.com.

Discounted Cash Flow Valuation

	USD Mil	Firm Value (%)	Per Share Value
Present Value Stage I	10,511	22.9	9.06
Present Value Stage II	21,527	46.8	18.56
Present Value Stage III	13,926	30.3	12.01
Total Firm Value	**45,963**	**100.0**	**39.62**
Cash and Equivalents	16,901	—	14.57
Debt	-2,135	—	-1.84
Preferred Stock	—	—	—
Other Adjustments	—	—	—
Equity Value	**60,729**	**—**	**52.35**
Projected Diluted Shares	1,160		
Fair Value per Share (USD)	—		

The data in the table above represent base-case forecasts in the company's reporting currency as of the beginning of the current year. Our fair value estimate may differ from the equity value per share shown above due to our time value of money adjustment and in cases where probability-weighted scenario analysis is performed.

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Morningstar Analyst Forecasts

Income Statement (USD Mil)

Fiscal Year Ends in December				*Forecast*	
	2012	2013	2014	*2015*	*2016*
Revenue	**4,066**	**6,611**	**7,537**	***8,181***	***8,816***
Cost of Goods Sold	1,544	2,528	2,439	*3,028*	*3,258*
Gross Profit	**2,522**	**4,083**	**5,098**	***5,153***	***5,558***
Selling, General & Administrative Expenses	—	—	—	—	—
Employee Compensation & Benefits	481	486	554	*599*	*654*
Distribution & Servicing Costs	—	—	—	—	—
Depreciation & Amortization (if reported separately)	—	—	—	—	—
Operating Income (ex charges)	**2,041**	**3,597**	**4,544**	***4,554***	***4,904***
Restructuring & Other Cash Charges	—	—	—	—	—
Impairment Charges (if reported separately)	—	—	—	—	—
Other Non-Cash (Income)/Charges	—	—	—	—	—
Operating Income (incl charges)	**2,041**	**3,597**	**4,544**	***4,554***	***4,904***
Interest Expense	69	104	133	*150*	*150*
Interest Income	—	—	—	—	—
Pre-Tax Income	**1,972**	**3,493**	**4,411**	***4,404***	***4,754***
Income Tax Expense	46	82	200	*220*	*238*
Other After-Tax Cash Gains (Losses)	—	—	—	—	—
Other After-Tax Non-Cash Gains (Losses)	—	—	—	—	—
(Minority Interest)	—	—	—	—	—
(Preferred Dividends)	—	—	—	—	—
Net Income	**1,926**	**3,411**	**4,212**	***4,184***	***4,517***
Weighted Average Diluted Shares Outstanding	1,129	1,146	1,160	*1,160*	*1,160*
Diluted Earnings Per Share	**1.71**	**2.98**	**3.63**	***3.61***	***3.89***
Adjusted Net Income	1,926	3,411	4,212	*4,184*	*4,517*
Diluted Earnings Per Share (Adjusted)	**1.71**	**2.98**	**3.63**	***3.61***	***3.89***
Dividends Per Common Share	0.54	1.28	2.02	*1.74*	*1.86*
EBITDA	**2,041**	**3,597**	**4,544**	***4,554***	***4,904***
Adjusted EBITDA	**2,041**	**3,597**	**4,544**	***4,554***	***4,904***

Blackstone Group LP BX (NYSE) | ★★★★

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Morningstar Analyst Forecasts

Balance Sheet (USD Mil)

Fiscal Year Ends in December	2012	2013	2014	*Forecast* 2015	*Forecast* 2016
Cash and Equivalents	710	832	1,412	*1,137*	*1,500*
Investments	7,479	9,991	15,489	*16,000*	*16,000*
Accounts Receivable	1,517	1,646	1,490	*2,241*	*2,415*
Inventory	—	—	—	—	—
Deferred Tax Assets (Current)	—	—	—	—	—
Other Short Term Assets	248	149	—	*1,000*	*3,100*
Current Assets	**9,953**	**12,617**	**18,391**	***20,379***	***23,015***
Net Property Plant, and Equipment	—	—	—	*35*	*70*
Goodwill	1,704	1,787	1,787	*1,787*	*1,787*
Other Intangibles	599	561	459	*459*	*459*
Deferred Tax Assets (Long-Term)	1,286	1,209	1,252	*1,252*	*1,252*
Other Long-Term Operating Assets	314	254	290	*338*	*338*
Long-Term Non-Operating Assets	—	—	—	—	—
Total Assets	**13,855**	**16,428**	**22,179**	***24,250***	***26,922***
Accounts Payable	3,331	3,695	4,245	*4,147*	*4,463*
Short-Term Debt	—	—	—	—	—
Deferred Tax Liabilities (Current)	—	—	—	—	—
Other Short-Term Liabilities	—	—	—	—	—
Current Liabilities	**3,331**	**3,695**	**4,245**	***4,147***	***4,463***
Long-Term Debt	1,677	1,664	2,135	*2,135*	*2,135*
Deferred Tax Liabilities (Long-Term)	—	—	—	—	—
Other Long-Term Operating Liabilities	—	—	—	—	—
Long-Term Non-Operating Liabilities	369	392	116	*116*	*116*
Total Liabilities	**5,377**	**5,751**	**6,496**	***6,398***	***6,714***
Preferred Stock	—	—	—	—	—
Common Stock	—	—	—	—	—
Additional Paid-in Capital	—	—	—	—	—
Retained Earnings (Deficit)	4,956	6,003	7,000	*9,168*	*11,525*
(Treasury Stock)	—	—	—	—	—
Other Equity	1	1	—	—	—
Shareholder's Equity	**4,957**	**6,004**	**7,000**	***9,168***	***11,525***
Minority Interest	3,522	4,674	8,683	*8,683*	*8,683*
Total Equity	**8,478**	**10,678**	**15,683**	***17,851***	***20,208***

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Morningstar Analyst Forecasts

Cash Flow (USD Mil)

Fiscal Year Ends in December	2012	2013	2014	*Forecast 2015*	*Forecast 2016*
Net Income	1,926	3,411	4,212	*4,184*	*4,517*
Depreciation	—	—	—	—	—
Amortization	—	—	—	—	—
Stock-Based Compensation	700	-1,950	—	—	—
Impairment of Goodwill	—	—	—	—	—
Impairment of Other Intangibles	—	—	—	—	—
Deferred Taxes	—	—	—	—	—
Other Non-Cash Adjustments	328	566	-295	—	—
(Increase) Decrease in Accounts Receivable	-476	-47	608	*-751*	*-174*
(Increase) Decrease in Inventory	—	—	—	—	—
Change in Other Short-Term Assets	-162	549	-837	*-1,000*	*-2,100*
Increase (Decrease) in Accounts Payable	-456	-956	-306	*-98*	*316*
Change in Other Short-Term Liabilities	-684	276	-325	—	—
Cash From Operations	**1,176**	**1,849**	**3,057**	***2,335***	***2,558***
(Capital Expenditures)	-37	-26	-30	*-35*	*-35*
Net (Acquisitions), Asset Sales, and Disposals	-188	-146	—	—	—
Net Sales (Purchases) of Investments	—	—	—	*-511*	—
Other Investing Cash Flows	2	6	6	*-48*	—
Cash From Investing	**-223**	**-166**	**-25**	***-594***	***-35***
Common Stock Issuance (or Repurchase)	-22	-24	-36	—	—
Common Stock (Dividends)	-615	-1,469	-2,348	*-2,015*	*-2,161*
Short-Term Debt Issuance (or Retirement)	—	—	—	—	—
Long-Term Debt Issuance (or Retirement)	601	-5	491	—	—
Other Financing Cash Flows	512	276	-106	—	—
Cash From Financing	**476**	**-1,223**	**-1,999**	***-2,015***	***-2,161***
Exchange Rates, Discontinued Ops, etc. (net)	—	—	—	—	—
Net Change in Cash	**1,428**	**461**	**1,034**	***-274***	***363***

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Comparable Company Analysis

These companies are chosen by the analyst and the data are shown by nearest calendar year in descending market capitalization order.

Valuation Analysis

		Price/Earnings			EV/EBITDA			Price/Free Cash Flow			Price/Book			Price/Sales		
Company/Ticker	Price/Fair Value	2014	2015(E)	2016(E)	2014	2015(E)	2016(E)	2014	2015(E)	2016(E)	2014	2015(E)	2016(E)	2014	2015(E)	2016(E)
KKR & Co LP KKR USA	0.77	11.9	10.0	9.2	19.9	19.5	18.8	14.4	19.3	17.6	2.6	2.4	2.2	9.3	8.0	7.4
The Carlyle Group L P CG USA	0.85	—	8.6	7.1	—	NM	NM	—	14.6	13.5	—	2.7	2.3	—	2.9	2.6
Apollo Global Management LLC APO	0.52	—	9.7	6.9	—	3.8	2.7	—	8.7	8.4	—	45.7	17.3	—	4.5	3.4
Average		11.9	9.4	7.7	19.9	11.7	10.8	14.4	14.2	13.2	2.6	16.9	7.3	9.3	5.1	4.5
Blackstone Group LP BX US	**0.77**	**9.3**	**11.3**	**10.5**	**5.3**	**7.3**	**6.8**	**13.0**	**21.0**	**19.2**	**5.6**	**5.3**	**4.2**	**5.2**	**5.9**	**5.5**

Returns Analysis

		ROIC %			Adjusted ROIC %			Return on Equity %			Return on Assets %			Dividend Yield %		
Company/Ticker	Last Historical Year Total Assets (Mil)	2014	2015(E)	2016(E)	2014	2015(E)	2016(E)	2014	2015(E)	2016(E)	2014	2015(E)	2016(E)	2014	2015(E)	2016(E)
KKR & Co LP KKR USA	13,212 USD	—	—	—	61.4	60.2	48.3	17.3	18.3	18.1	13.9	14.2	14.3	5.4	3.6	3.9
The Carlyle Group L P CG USA	— USD	—	—	—	37.8	31.8	31.4	32.2	33.8	34.6	12.8	14.8	16.3	—	6.6	7.1
Apollo Global Management LLC APO	— USD	—	—	—	51.5	99.6	154.8	66.1	360.5	368.5	10.6	26.4	34.6	—	12.0	11.1
Average		—	—	—	50.2	63.9	78.2	38.5	137.5	140.4	12.4	18.5	21.7	5.4	7.4	7.4
Blackstone Group LP BX US	**22,179** USD	**—**	**—**	**—**	**-210.4**	**-473.0**	**204.5**	**64.8**	**51.8**	**43.7**	**21.8**	**18.0**	**17.7**	**6.0**	**4.2**	**4.5**

Growth Analysis

		Revenue Growth %			EBIT Growth %			EPS Growth %			Free Cash Flow Growth %			Dividend/Share Growth %		
Company/Ticker	Last Historical Year Revenue (Mil)	2014	2015(E)	2016(E)	2014	2015(E)	2016(E)	2014	2015(E)	2016(E)	2014	2015(E)	2016(E)	2014	2015(E)	2016(E)
KKR & Co LP KKR USA	2,956 USD	-13.9	16.0	8.4	-20.9	24.3	7.8	-32.9	18.7	8.3	42.7	-23.3	-4.2	37.4	-36.6	9.0
The Carlyle Group L P CG USA	2,954 USD	-12.3	4.3	14.2	-20.8	8.2	19.7	-29.7	20.4	20.5	-14.5	12.8	8.4	-12.5	11.1	8.6
Apollo Global Management LLC APO	1,614 USD	-57.8	19.0	31.2	-69.3	39.6	42.2	-73.9	99.1	39.1	185.9	10.9	3.0	-27.2	-14.1	-7.8
Average		-28.0	13.1	17.9	-37.0	24.0	23.2	-45.5	46.1	22.6	71.4	0.1	2.4	-0.8	-13.2	3.3
Blackstone Group LP BX US	**7,537** USD	**14.0**	**8.5**	**7.8**	**26.3**	**0.2**	**7.7**	**22.0**	**-0.7**	**8.0**	**-15.4**	**-24.2**	**11.3**	**57.9**	**-14.2**	**7.2**

Blackstone Group LP BX (NYSE) | ★★★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Industry Group
40.92 USD	53.00 USD	31.80 USD	82.15 USD	High	Wide	Stable	Exemplary	Asset Management

Comparable Company Analysis

These companies are chosen by the analyst and the data are shown by nearest calendar year in descending market capitalization order.

Profitability Analysis

	Last Historical Year	Gross Margin %			EBITDA Margin %			Operating Margin %			Net Margin %			Free Cash Flow Margin %		
Company/Ticker	Net Income (Mil)	2014	2015(E)	2016(E)	2014	2015(E)	2016(E)	2014	2015(E)	2016(E)	2014	2015(E)	2016(E)	2014	2015(E)	2016(E)
KKR & Co LP KKR USA	1,559 USD	68.7	69.7	68.9	58.9	54.5	52.0	58.9	63.1	62.8	52.8	56.5	56.4	65.0	41.3	41.8
The Carlyle Group L P CG USA	881 USD	48.4	50.0	51.2	37.3	38.8	40.5	36.6	37.9	39.8	29.8	34.4	36.3	18.3	20.0	19.1
Apollo Global Management LLC APO	459 USD	53.4	59.4	60.3	41.4	47.5	50.5	38.0	44.6	48.3	28.4	47.6	50.5	56.4	52.0	40.9
Average		56.8	59.7	60.1	45.9	46.9	47.7	44.5	48.5	50.3	37.0	46.2	47.7	46.6	37.8	33.9
Blackstone Group LP BX US	**4,212** USD	**67.6**	**63.0**	**63.1**	**60.3**	**55.7**	**55.6**	**60.3**	**55.7**	**55.6**	**55.9**	**51.1**	**51.2**	**40.2**	**28.1**	**28.6**

Leverage Analysis

	Last Historical Year	Debt/Equity %			Debt/Total Cap %			EBITDA/Interest Exp.			Total Debt/EBITDA			Assets/Equity		
Company/Ticker	Total Debt (Mil)	2014	2015(E)	2016(E)	2014	2015(E)	2016(E)	2014	2015(E)	2016(E)	2014	2015(E)	2016(E)	2014	2015(E)	2016(E)
KKR & Co LP KKR USA	2,184 USD	20.8	19.1	17.5	17.2	16.0	14.9	19.8	15.0	15.5	1.3	1.2	1.1	1.3	1.2	1.2
The Carlyle Group L P CG USA	1,142 USD	39.3	33.9	28.5	28.2	25.3	22.2	19.7	23.0	26.9	1.0	1.0	0.8	2.4	2.2	2.1
Apollo Global Management LLC APO	1,000 USD	315.0	527.9	199.8	75.9	84.1	66.6	29.9	30.4	42.4	1.5	1.1	0.8	10.9	18.2	7.8
Average		125.0	193.6	81.9	40.4	41.8	34.6	23.1	22.8	28.3	1.3	1.1	0.9	4.9	7.2	3.7
Blackstone Group LP BX US	**2,135** USD	**30.5**	**23.3**	**18.5**	**23.4**	**18.9**	**15.6**	**34.2**	**30.4**	**32.7**	**0.5**	**0.5**	**0.4**	**3.2**	**2.6**	**2.3**

Liquidity Analysis

		Cash per Share			Current Ratio			Quick Ratio			Cash/Short-Term Debt			Payout Ratio %		
Company/Ticker	Market Cap (Mil)	2014	2015(E)	2016(E)	2014	2015(E)	2016(E)	2014	2015(E)	2016(E)	2014	2015(E)	2016(E)	2014	2015(E)	2016(E)
KKR & Co LP KKR USA	27,342 USD	1.40	1.86	2.19	—	—	—	—	—	—	—	—	—	95.9	50.7	51.1
The Carlyle Group L P CG USA	9,024 USD	4.03	4.10	4.19	2.44	2.61	2.68	2.44	2.61	2.68	30.80	31.34	31.98	60.6	55.9	50.4
Apollo Global Management LLC APO	8,656 USD	1.72	1.61	1.79	3.56	2.98	2.88	3.56	2.98	2.88	—	—	—	264.2	114.0	75.5
Average		2.38	2.52	2.72	3.00	2.80	2.78	3.00	2.80	2.78	30.80	31.34	31.98	140.2	73.5	59.0
Blackstone Group LP BX US	**48,401** USD	**1.22**	**0.98**	**1.29**	**4.33**	**4.91**	**5.16**	**4.33**	**4.91**	**5.16**	—	—	—	**55.8**	**48.2**	**47.8**

Research Methodology for Valuing Companies

Components of Our Methodology

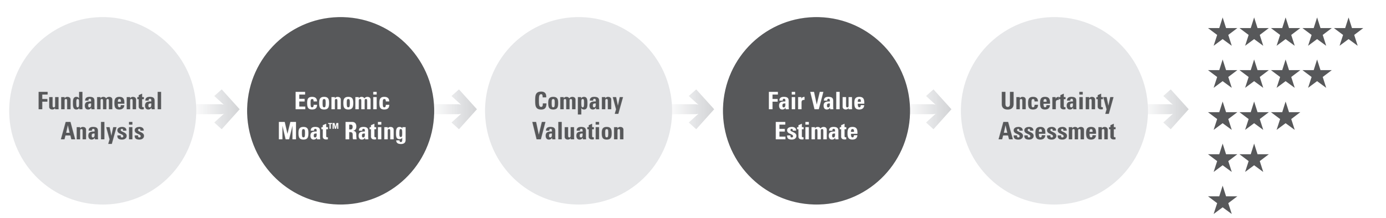
- Economic Moat™ Rating
- Moat Trend™ Rating
- Moat Valuation
- Three-Stage Discounted Cash Flow
- Weighted Average Cost of Capital
- Fair Value Estimate
- Scenario Analysis
- Uncertainty Ratings
- Margin of Safety
- Consider Buying/Selling
- Stewardship Rating

The Morningstar Rating for stocks identifies companies trading at a discount or premium to our analysts' assessment of their fair value. A number of components drive this rating: (1) our assessment of the firm's economic moat, (2) our estimate of the stock's intrinsic value based on a discounted cash-flow model, (3) the margin of safety bands we apply to our Fair Value Estimate, and (4) the current stock price relative to our fair value estimate.

The concept of the Morningstar Economic Moat™ Rating plays a vital role not only in our qualitative assessment of a firm's investment potential, but also in our valuation process. We assign three moat ratings—none, narrow, or wide—as well as the Morningstar Moat Trend™ Rating—positive, stable, or negative—to each company we cover. There are two major requirements for firms to earn either a narrow or wide moat rating: (1) the prospect of earning above-average returns on capital; and (2) some competitive edge that prevents these returns from quickly eroding. The assumptions we make about a firm's moat determine the length of "economic outperformance" that we assume in the latter stages of our valuation model. We also quantify the value of each firm's moat, which represents the difference between a firm's enterprise value and the value of the firm if no future net investment were to occur. Said differently, moat value identifies the value generated by the firm as a result of any future net new investment. Our Moat Trend Rating reflects our assessment of whether each firm's competitive advantage is either getting stronger or weaker, since we think of moats as dynamic, rather than static.

At the heart of our valuation system is a detailed projection of a company's future cash flows. The first stage of our three-stage discounted cash flow model can last from 5 to 10 years and contains numerous detailed assumptions about various financial and operating items. The second stage of our model—where a firm's return on new invested capital (RONIC) and earnings growth rate implicitly fade until the perpetuity year—can last anywhere from 0 years (for no-moat firms) to 20 years (for wide-moat companies). In our third stage, we assume the firm's RONIC equals its weighted average cost of capital, and we calculate a continuing value using a standard

Morningstar Research Methodology for Valuing Companies



Analyst conducts company and industry research:

- Financial statement analysis
- Channel checks
- Trade-show visits
- Industry and company reports and journals
- Conference calls
- Management and site visits

Strength of competitive advantage is rated: None, Narrow, or Wide

Advantages that confer an economic moat:

High Switching Costs (Microsoft)

Cost advantage (Wal-Mart)

Intangible assets (Johnson & Johnson)

Network Effect (Mastercard)

Efficient Scale (Lockheed Martin)

Analyst considers past financial results and focuses on competitive position and future prospects to forecast future cash flows.

Assumptions are entered into Morningstar's proprietary discounted cash-flow model.

Analyst uses a discounted cash-flow model to develop a Fair Value Estimate, which serves as the foundation for the Morningstar Rating for stocks.

The analyst then evaluates the range of potential intrinsic values for the company and assigns an Uncertainty Rating: Low, Medium, High, Very High, or Extreme.

The Uncertainty Rating determines the margin of safety required before we would recommend the stock. The higher the uncertainty, the wider the margin of safety.

The current stock price relative to Morningstar's Fair Value Estimate, adjusted for uncertainty, determines the Morningstar Rating for stocks.

The Morningstar Rating for stocks is updated each evening after the market closes.

Research Methodology for Valuing Companies

Detailed Methodology Documents and Materials*

- Comprehensive Equity Research Methodology
- Uncertainty Methodology
- Cost of Equity Methodology
- Morningstar DCF Valuation Model
- Stewardship Rating Methodology

* Please contact a sales representative for more information.

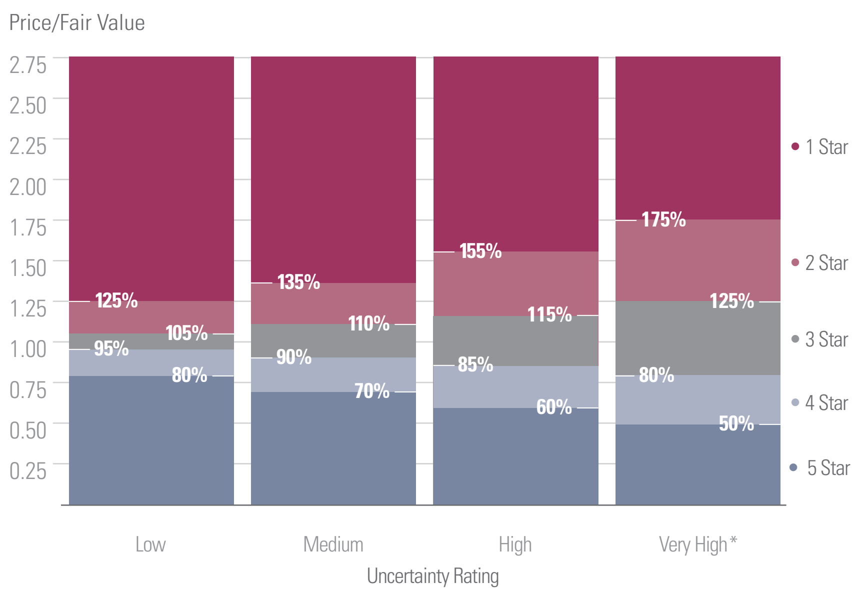
perpetuity formula. In deciding on the rate at which to discount future cash flows, we ignore stock-price volatility. Instead, we rely on a system that measures the estimated volatility of a firm's underlying future free cash flows, taking into account fundamental factors such as the diversity of revenue sources and the firm's fixed cost structure.

We also employ a number of other tools to augment our valuation process, including scenario analysis, where we assess the likelihood and performance of a business under different economic and firm-specific conditions. Our analysts typically model three to five scenarios for each company we cover, stress-testing the model and examining the distribution of resulting fair values.

The Morningstar Uncertainty Rating captures the range of these potential fair values, based on an assessment of a company's future sales range, the firm's operating and financial leverage, and any other contingent events that may impact the business. Our analysts use this range to assign an appropriate margin of safety—or the discount/premium to a fair value we apply in setting our consider buying/consider selling prices. Firms trading below our consider-buying prices receive our highest rating of five stars, whereas firms trading above our consider-selling prices receive our lowest rating of one star.

Our corporate Stewardship Rating represents our assessment of management's stewardship of shareholder capital, with particular emphasis on capital allocation decisions. Analysts consider companies' investment strategy and valuation, financial leverage, dividend and share buyback policies, execution, compensation, related party transactions, and accounting practices. Corporate governance practices are only considered if they've had a demonstrated impact on shareholder value. Analysts assign one of three ratings: "Exemplary," "Standard," and "Poor." Analysts judge stewardship from an equity holder's perspective. Ratings are determined on an absolute basis. Most companies will receive a Standard rating, and this is the default rating in the absence of evidence that managers have made exceptionally strong or poor capital allocation decisions.

Morningstar Margin of Safety and Star Rating Bands



* Occasionally a stock's uncertainty will be too high for us to estimate, in which case we label it Extreme.

Blackstone Group LP BX (NYSE) | ★★★★

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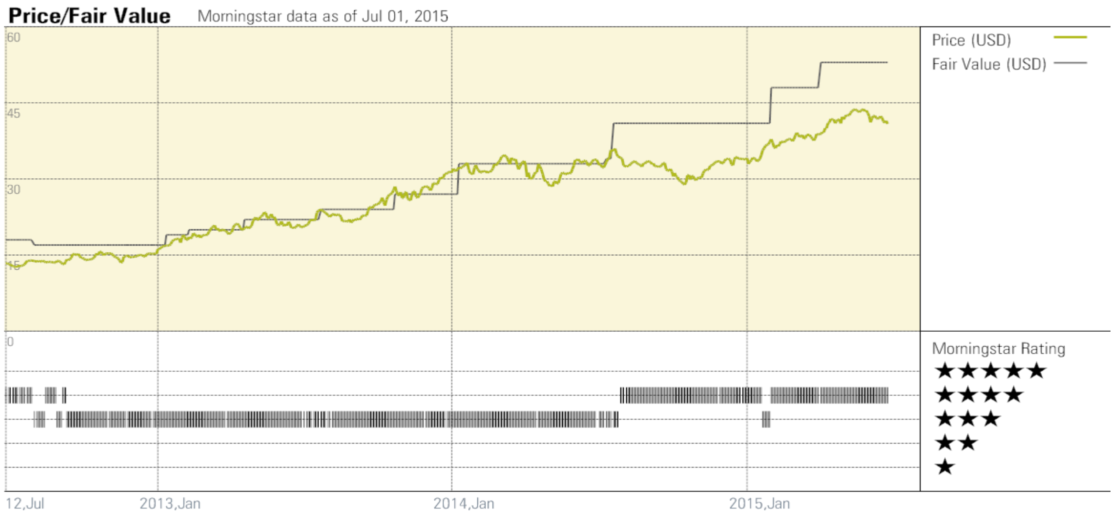

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Blackstone Group LP BX (NYSE) | ★★★★

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