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Analysis of Public PE Firm Earnings: Q4 2020

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Key takeaways

- **Overall, all five of the largest public PE firms grew fee-related earnings in 2020.** Even the less credit-heavy managers are clearly seeking to increase their fee earnings on an absolute basis and relative to their performance fees.

- **Despite 2020 US PE fundraising falling by approximately a third compared to 2019 levels, the large public PE firms registered healthy fundraising years as LPs chose to reup with existing relationships.** KKR amassed more capital in 2020 than ever before, and Blackstone raised nearly $100 billion without flagship funds in the market.

- **Perpetual capital, mainly through investing insurance assets, once again proved to be a critical long-term growth component.** Apollo tacked on nearly $100 billion in AUM because of insurance M&A, and in early 2021 KKR closed on a deal that added over $90 billion. Blackstone, Ares, and Carlyle each added to their insurance base during the year as well. These assets not only grow the AUM but assist in the firms' attempts to boost fee earnings.

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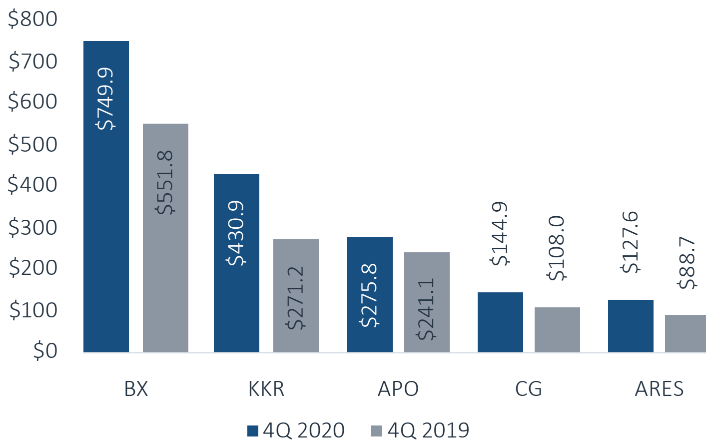
Financial metrics

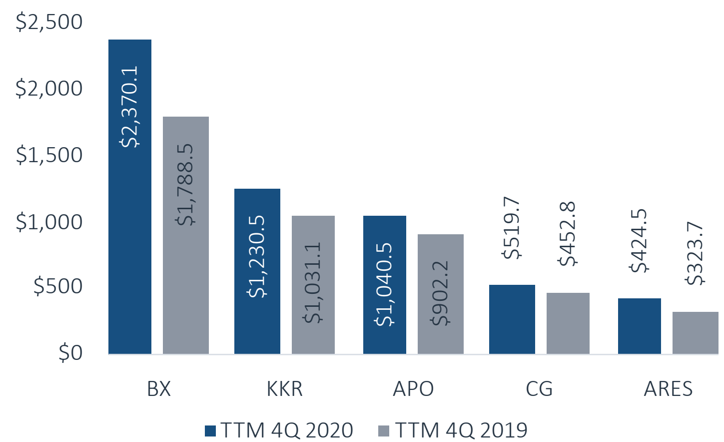
Despite pandemic-induced headwinds, the five largest public PE firms—The Blackstone Group (NYSE: BX), KKR (NYSE: KKR), Apollo Global Management (NYSE: APO), The Carlyle Group (NASDAQ: CG), and Ares Management (NYSE: ARES)—recorded a financially successful year in 2020. All five firms posted YoY fee-related earnings (FRE) growth. Blackstone not only put up the highest FRE figures, but it also posted the highest YoY percentage gain as some flagship vehicles exited their fee holidays. Ares was the only other manager in this cohort to register YoY FRE gains higher than 30% as the credit-heavy manager continued to raise capital aggressively. Blackstone is on pace to surpass a $3.0 billion FRE run rate in 2021, while KKR may achieve $1.5 billion. On a trailing-twelve-month (TTM) basis, Apollo, Carlyle, and Ares achieved the lowest FRE gains, but as Apollo folds in assets from transactions with Athene and Athora, the firm's FRE ought to climb notably higher in the coming quarters.

Quarterly FRE by manager ($M)



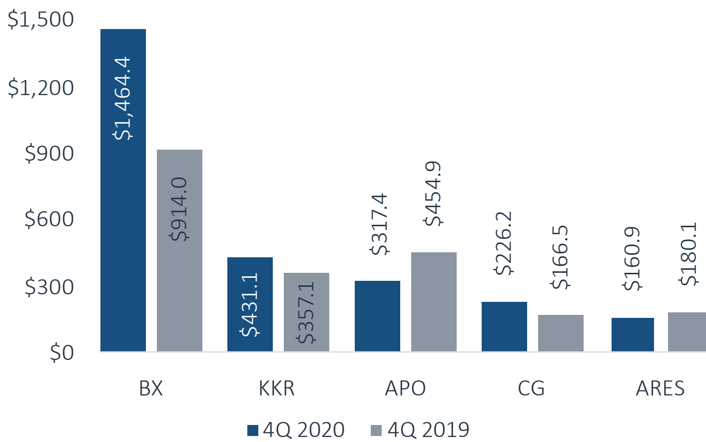
Source: Public filings

TTM FRE by manager ($M)



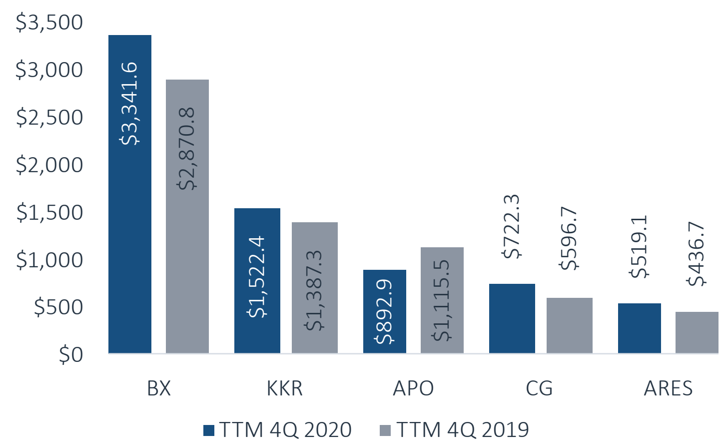
Source: Public filings

Quarterly DE by manager ($M)



Source: Public filings

TTM DE by manager ($M)

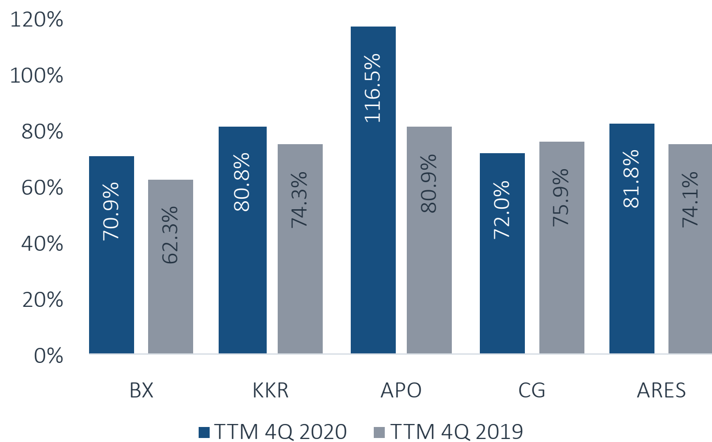


Source: Public filings

FRE continues to be a driving factor in the public firms' actions. KKR adjusted its compensation formula to give shareholders better insight into the firm's FRE margins, highlighting how important this metric is to this cohort of public GPs. In terms of annual financials, four of the five firms managed to lift FRE as a proportion of their overall distributable earnings (DE). Even the firms that have been relatively less active in credit, including Blackstone and KKR, made inroads. Performance revenues could remain a healthy proportion of KKR's income stream in future years, though. The firm is scaling its PE practices in Europe and Asia while also building out its real estate and infrastructure offerings. These products are likely to boost performance revenues considerably if KKR can sustain their performance.

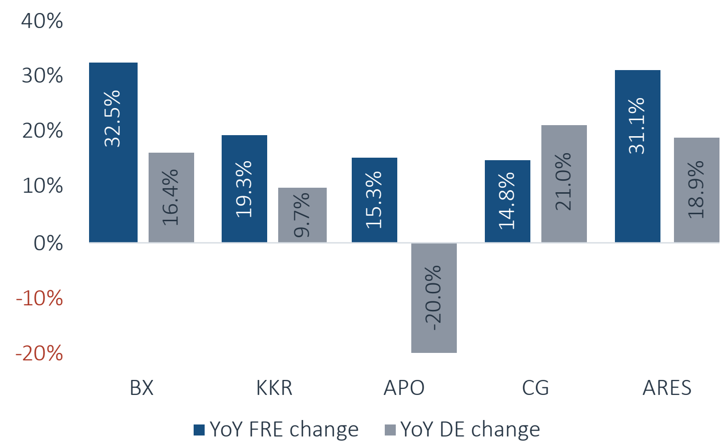
However, Blackstone remains at the bottom of the pack, with just over 70% of its DE derived from FRE. This illustrates how critical performance fees remain, especially for the firms most active in PE and real estate. The firm had several successful monetizations, its most notable being the monetization of lab space giant, BioMed. Heading into 2021, Blackstone has inked the massive sale of Refinitiv and the public listing of Bumble. Several other high-profile public listings via special purpose acquisition companies (SPACs) may further drive performance revenues for the alternatives giant.

TTM FRE as a % of DE by manager



Source: Public filings

YoY change in TTM financials by manager



Source: Public filings

The SPAC boom may also boost revenues in the coming years as this cohort of public PE firms seeks to take advantage of the surging market by sponsoring SPACs and taking portfolio companies public via reverse mergers with these shell companies. Sponsoring SPACs has attractive payout potential because sponsors are awarded a quarter of the initial SPAC amount for a minimal consideration. SPACs also offer a unique financing option that may help companies of a certain size and complexity achieve a higher valuation than they otherwise would have.

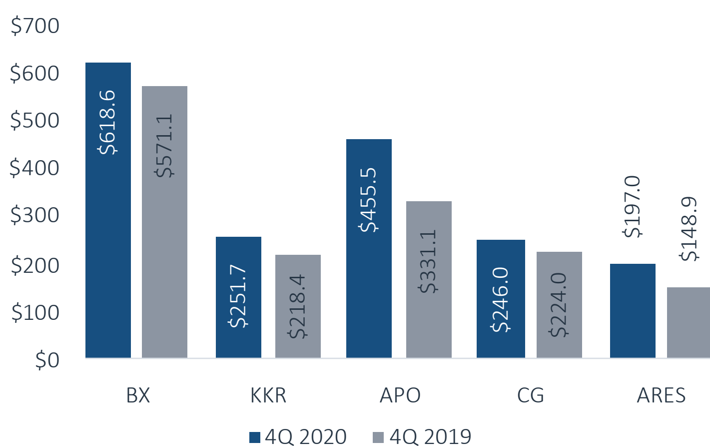
Several of the large public PE firms in this cohort were on one or both sides of SPAC deals in 2020. Blackstone and CVC agreed to take Paysafe public with the help of a SPAC at a $9.0 billion valuation. Blackstone then decided to take Alight public via another SPAC at a $7.3 billion valuation. Apollo opted to sponsor two SPACs during the year. The firm even mentioned

SPACs as a new growth initiative, alongside infrastructure and impact. In early 2021, KKR also entered the SPAC arena, filing plans for a $1.0 billion SPAC offering. Several theories exist around how SPACs may affect private markets, PE in particular, over the next decade. Some industry experts see the blank-check companies fading away, while others believe they offer an enduring alternative to the IPO and may even chip away at the aggregate opportunity for buyout, growth equity, and venture firms to deploy capital. Whatever the case may be, the firms that are plowing resources into SPACs may end up tacking on incremental revenues in the coming years without the same cost of building out a new product offering.

Perpetual capital

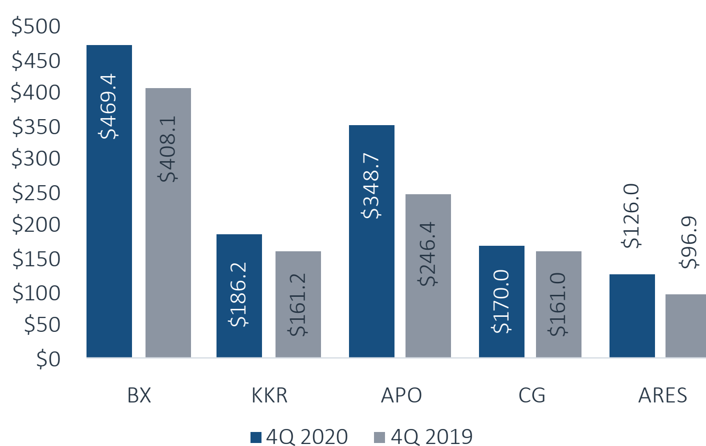
The pandemic-related headwinds that challenged smaller GPs in 2020, including the lack of face-to-face due diligence meetings, made re-upping with established managers an easy choice for LPs. Some firms, including KKR, had record fundraising years. The firm brought in $44 billion in new commitments, a 72% bump over 2019 figures. Blackstone's gross inflows hit a healthy $95 billion on the year, despite not having any flagship products in the market. Successful fundraising progress in their growth equity, healthcare, and GP stakes funds were major drivers on the PE side of the ledger.

AUM by manager ($B)



Source: Public filings

FGAUM by manager ($B)



Source: Public filings

One of the strongest trends among the public PE firms has been the pursuit of permanent capital. Because it is raised in vehicles with no predefined lifespan, GPs can hold this type of capital for much longer than a traditional fund structure. Part of the desire to amass longer-duration capital follows trends seen in the PE industry more broadly with a rise in GP-led secondaries and fund restructurings, and another part appears to be more unique to this subset of public GPs. Perpetual capital enables an increased level of stability, which is highly valued by public market investors. The money is typically allocated to lower-yielding, higher-fee-paying (as a proportion) investments, such as credit and infrastructure. The importance of permanent capital to a higher valuation was evident in late 2020 when CEO Doug Ostrover of Blue Owl—a combination of Owl Rock Capital Group and Dyal Capital Partners—

highlighted its permanent capital base in investor presentations. Ostrover pointed out that while other asset managers talk about net inflows, Blue Owl's permanent capital base should only increase.[1]

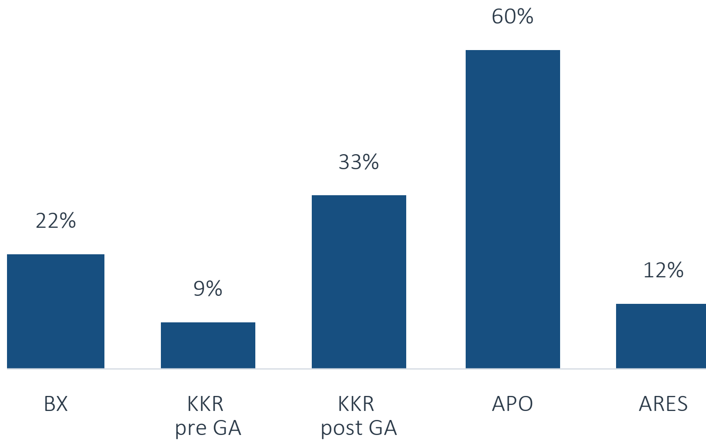
The three largest public PE firms, Blackstone, KKR, and Apollo, clearly made permanent capital a critical part of their strategy in 2020. They will likely continue to do so going into 2021 and may even accelerate those efforts in some cases. On Blackstone's earnings call, Jon Gray and Steve Schwarzman each mentioned how the firm is emphasizing perpetual capital vehicles and that the overall capital base is shifting to key areas, including real estate core plus, infrastructure, insurance solutions, and private credit. The $14.6 billion BioMed transaction, wherein Blackstone rolled the gargantuan asset into a perpetual life vehicle, was one of the two most notable deals targeting perpetual capital from the firm in 2020. BioMed is now worth at least $20 billion after the add-ons of several Cambridge, MA, properties and should deliver significant management and performance fees for years to come. Blackstone's other sizable transaction mirrored KKR's and Apollo's strategies, buying insurance assets and rolling their investment assets into their own products. The firm bought a life and annuity company from Allstate with $28.0 billion in long-dated assets, said Gray. This brings Blackstone's insurance assets up to nearly $100 billion, although Gray noted there is still significant growth potential.

Apollo and KKR targeted even larger insurance transactions. Through Athene and Athora, two insurance companies for which Apollo dictates investments, the firm closed on multibillion-dollar acquisitions in 2020. The two deals helped Apollo boost its AUM by nearly $100 billion in a single quarter and helped the firm grow its permanent capital base to 60% of its assets, by far the highest amount of perpetual capital in the industry. In fact, when CEO Leon Black announced he was stepping down, it was decided that Marc Rowan would be the next CEO. Rowan is the architect of the firm's groundbreaking insurance strategy, and his appointment foretells where the firm is likely to continue heading.

Despite these notable transactions, KKR was the most aggressive in the insurance space. Its acquisition of Global Atlantic (GA) closed in early 2021 and is poised to dramatically alter the firm's AUM mix. The purchase of GA added $90 billion to KKR's AUM and took the firm from fourth place to second regarding their perpetual capital proportion. This single transaction boosts the firm's insurance assets from $22 billion to $112 billion and ought to propel FRE higher in the coming years. Like other large public PE firms seeking to build their insurance operations, KKR is likely to use GA as a growth platform and continue boosting AUM, organically and inorganically.

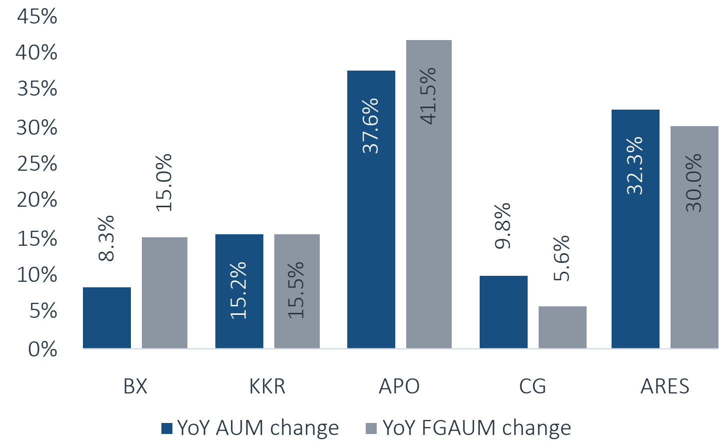
1: As a side note, we will be adding Blue Owl to this coverage once the SPAC deal goes through.

Proportion of AUM in perpetual capital vehicles



Source: Public filings

YoY change in AUM by manager

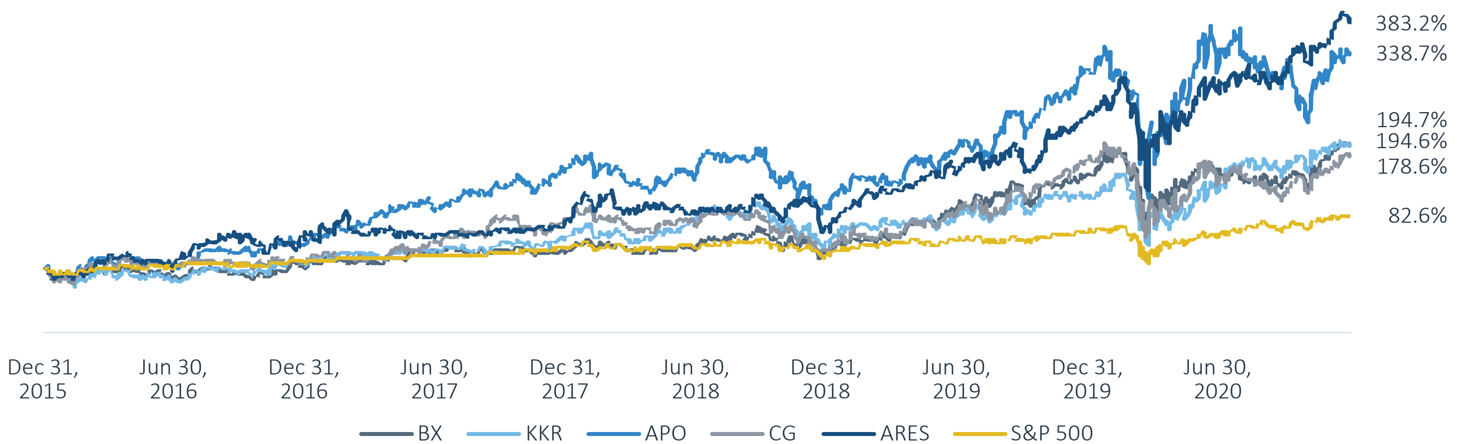


Source: Public filings

Share price performance

In the past five years, this cohort of public GPs have handily outperformed the S&P 500 on a total return basis. The worst-performing stock still more than doubled the S&P's return during that timeframe. Public shareholders really began rerating these companies more highly a couple years ago as the recurring fees accounted for a more substantial chunk of earnings and as these franchises demonstrated they could endure for multiple generations. The credit-heavy managers, Apollo and Ares, topped them all.

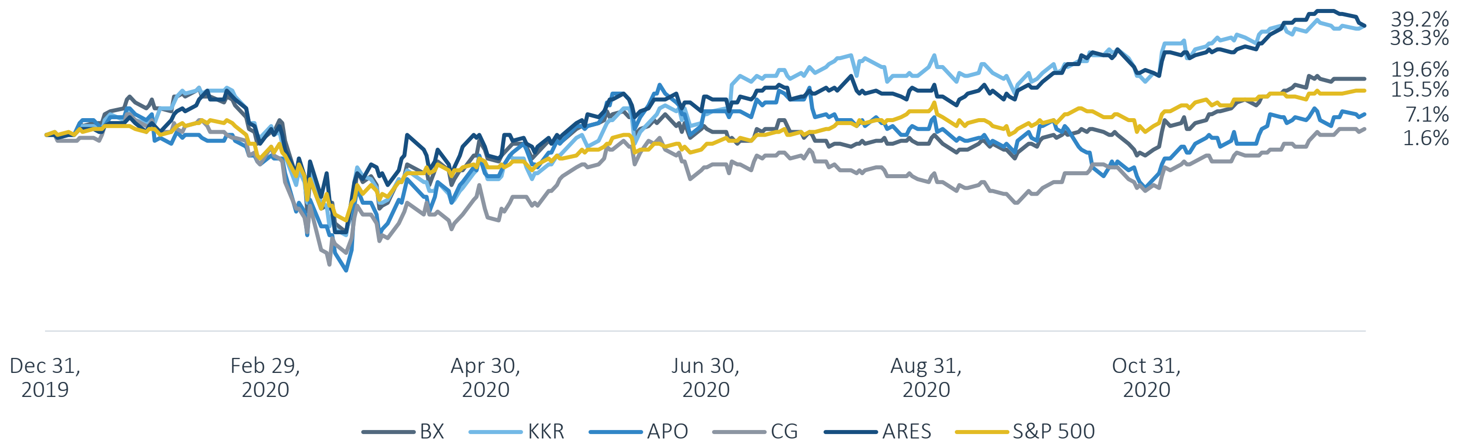
Total return for select public firms and the S&P 500



Source: Pitchbook

More recent performance has been mixed. Apollo's share price, in particular, stagnated as the impending results of Black's internal investigation around his relationship with the late, disgraced Jeffrey Epstein loomed. The results coincided with Black stepping down as CEO and handing over the reins to Rowan. However, perhaps the more important long-term news was the governance improvements Apollo put forth. The board is expanding to contain mostly independent directors, and the board will evaluate and consider transitioning to a "one share, one vote" structure. This structure change would make them eligible for S&P global indexes and could further boost their ownership, just as a C-Corp conversion did. This appears to be a step that all public GPs will eventually take, whether it happens as the first generation steps back or later. When asked on a call about Blackstone's structure, Gray made it clear he was happy with the current arrangement. However, all eyes will be on how Apollo share voting changes and how the stock performs. "One share, one vote" seems to be a logical next step in unlocking shareholder value, and the firm may pursue it if the rewards are lucrative enough.

Total return for select public firms and the S&P 500



Source: Pitchbook