PitchBook

Analysis of Public PE Firm Earnings: Q1 2021

Big five PE firms post impressive results

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Key takeaways

- The five largest public PE firms recorded an impressive Q1 2021, sustaining the momentum they had gained coming out of the COVID-19 pandemic trough in late 2020. All five increased trailing-twelve-month (TTM) fee related earnings (FRE), a key focus for these firms.

- Gargantuan fund returns in the quarter not only grew AUM through appreciation, but are likely to further propel fundraising for the year in an already benign environment. With all five managers speaking confidently about aggressive fundraising targets, we expect to see more and bigger mega-funds over the coming year, from KKR doubling down on opportunities in Asia to Apollo raising a massive North-America-based buyout fund.

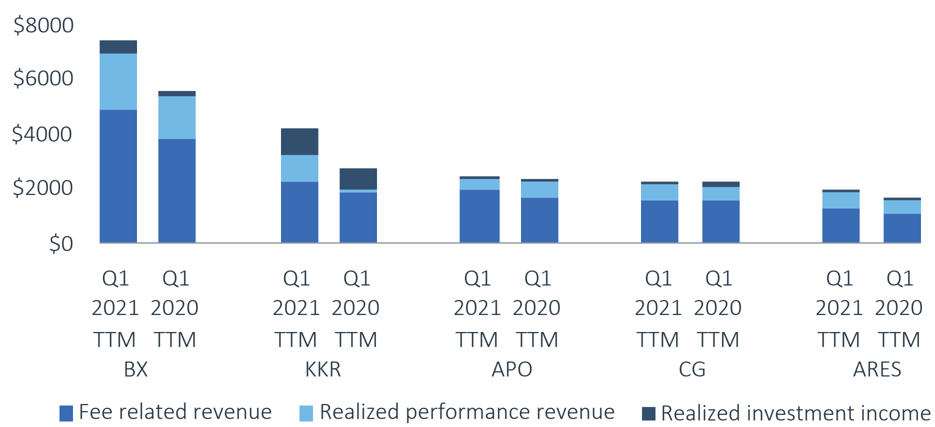
- KKR's model of significant balance sheet investment has led to share price outperformance over the quarter and year as funds have appreciated. Investors are also bullish on the reliability and growth potential of Ares' credit-heavy model. The market continues to reward these firms for rapidly scaling AUM and FRE, with all except Apollo outpacing the S&P 500 over the past year.

Financial metrics

The five largest public PE firms recorded an impressive Q1 2021, sustaining the momentum they had gained coming out of the pandemic trough in late 2020. The Blackstone Group (NYSE: BX), KKR (NYSE: KKR), Apollo Global Management (NYSE: APO), The Carlyle Group (NASDAQ: CG), and Ares Management (NYSE: ARES) all increased TTM fee related earnings, a key focus for these firms. Blackstone's remarkable 37.6% TTM FRE gain was driven largely by the growth of its real estate core plus business and its record-setting buyout fund exiting its fee holiday. Only Apollo posted negative TTM distributable earnings (DE) growth in Q1, driven by a drop in performance fee revenues—a result as much of enormous realizations in the fourth quarter of 2019 as the midyear effects of the pandemic.

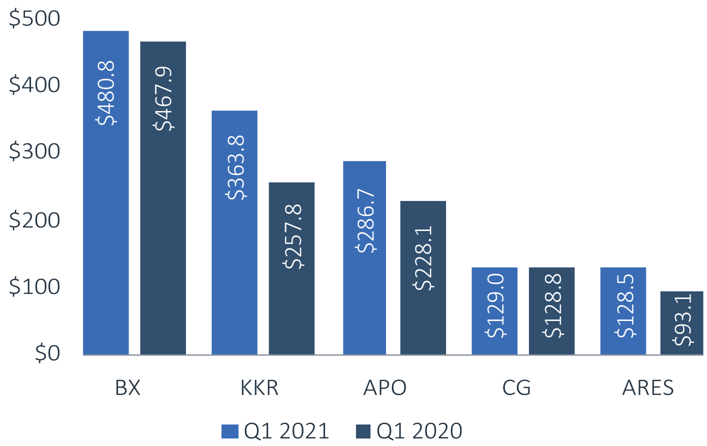
Performance fee revenues also ticked up for all the firms except Apollo—a remarkable feat given the market dislocation in Q2 and Q3 of 2020. Blackstone's performance revenue and investment income exhibited such robust growth that fees were slightly lower as a proportion of revenue over the past twelve months than in Q1 2020 TTM. Also of note is KKR's unique commitment among the cohort to investing off its balance sheet; investment income realizations contributed 22.8% of the firm's revenues.

TTM revenue by manager and type ($M)



Source: PitchBook | **Geography:** US
*As of March 31, 2021

Quarterly FRE by manager ($M)



Source: PitchBook | **Geography:** US
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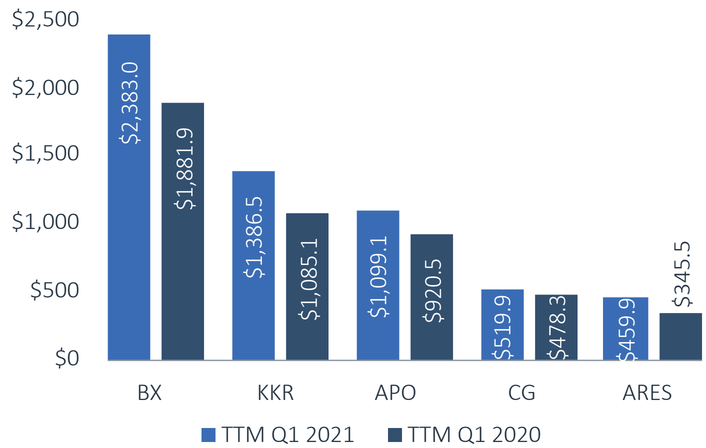
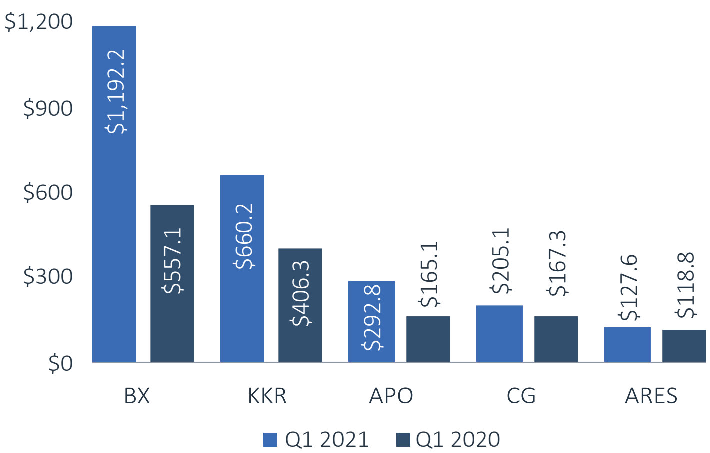
TTM FRE by manager ($M)



Source: PitchBook | **Geography:** US
*As of March 31, 2021

Quarterly DE by manager ($M)



Source: PitchBook | **Geography:** US
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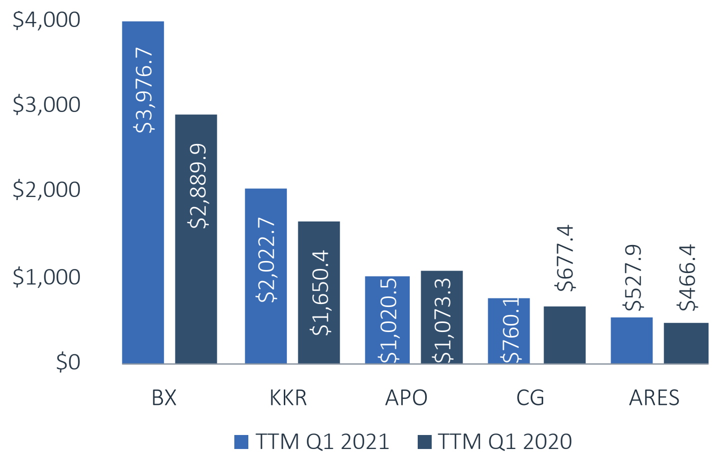
TTM DE by manager ($M)



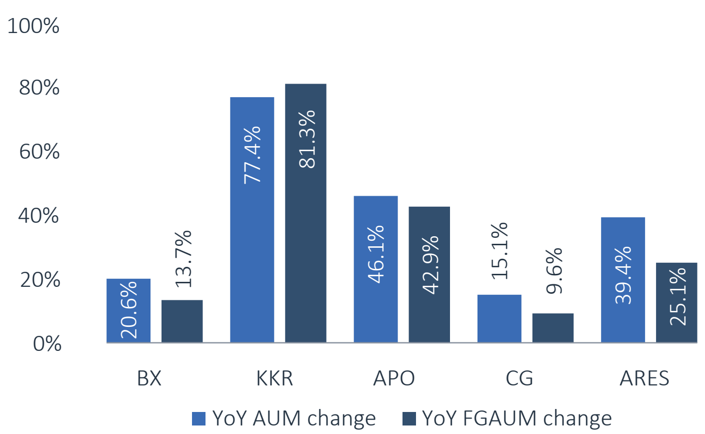
Source: PitchBook | **Geography:** US
*As of March 31, 2021

Assets under management

All five firms continue to work to scale AUM aggressively, with strong YoY gains driven by asset appreciation, healthy fundraising, and M&A. Continuing a theme that we have been tracking for several quarters, the three largest firms made significant moves in insurance acquisitions this quarter. KKR's $2.8 billion acquisition of Global Atlantic closed in February, a transaction that alone increased the firm's AUM by 48%. Just a month later, Apollo announced that it would merge with Athene, the insurance company in which Apollo already owns a 27% stake. While the merger will not immediately increase Apollo's AUM—the firm already manages Athene's assets—it opens up opportunities to develop new product lines and reinvest Athene's profits to propel organic growth. Meanwhile, Blackstone's acquisition of Allstate's life insurance business will propel the firm's insurance AUM over $100 billion while preserving its "asset-light" balance sheet approach.

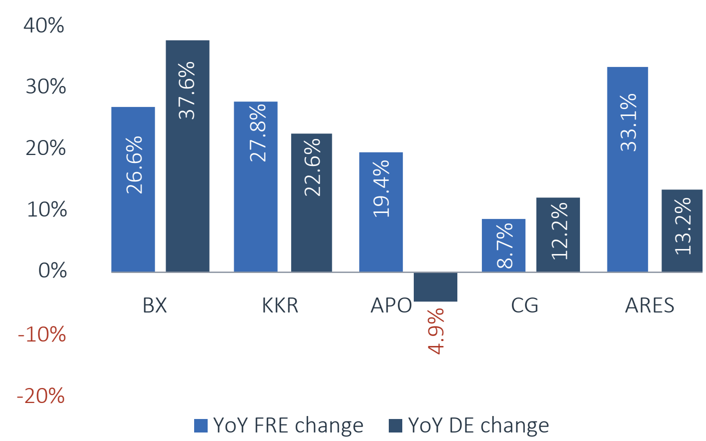
Looking ahead, the managers spoke confidently about their fundraising prospects for 2021. KKR, for instance, has targeted $100 billion in fundraising in 2021 and 2022 across PE, infrastructure, real estate, and credit. The firm closed its $15.0 billion Asia IV fund, the region's largest fund, following Asia real estate and infrastructure funds. Ares and Carlyle also mentioned Asia on their calls, noting that they see exceptional growth potential in the region. Apollo, meanwhile, noted that they plan to grow mostly in North America and Europe. But the firm is launching its PE Fund X next year, a fund that may set the record for the largest ever. All managers stand to benefit from the denominator effect, though. Strong public equities performance and the low yield environment continue to push institutional investors toward alternative investment products—and LPs are increasingly doing this by re-upping with existing GP relationships.

YoY change in AUM by manager



Source: PitchBook | **Geography:** US
*As of March 31, 2021

YoY change in TTM financials by manager



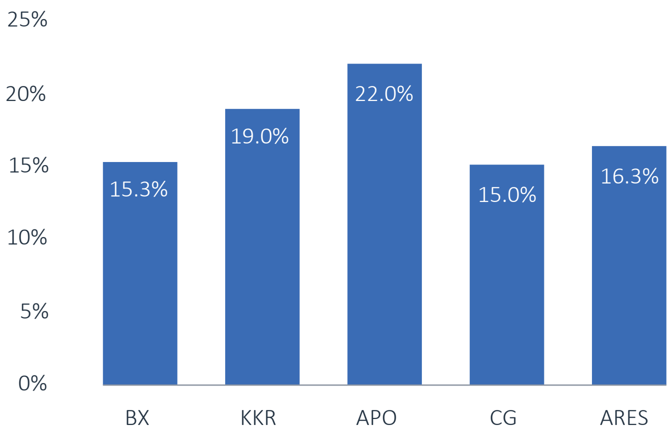
Source: PitchBook | **Geography:** US
*As of March 31, 2021

Fund performance

Corporate private equity fund performance came in red hot in Q1 2021. All five managers recorded gross performance that was 15% or higher in the quarter. With a full four quarters now behind the performance nadir achieved at the end of Q1 2020, TTM returns looked even better. All five GPs had annual gross performance come in north of 40%; Apollo's PE funds were up a staggering 66.5% in the past year.

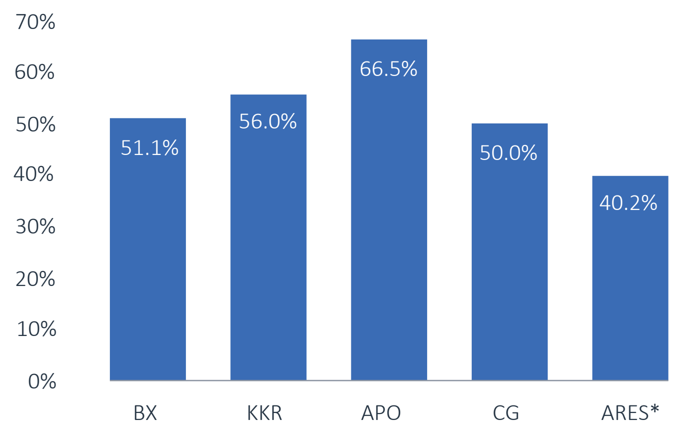
These fantastic numbers have brought managers firmly back into the black for many PE funds. This means the firms are accruing substantial performance revenues. Blackstone, for example, saw $1.7 billion in net performance revenues accrue in the quarter. As firms look to tap the exit market, we expect FRE to account for a lower proportion of DE until performance figures and the pace of monetizations normalize.

Quarterly gross corporate PE returns



Source: PitchBook | **Geography:** US
*As of March 31, 2021

Annual gross corporate PE returns



Source: PitchBook | **Geography:** US
**As of March 31, 2021
**Note: Because Ares does not publish results, we multiplied their previous four quarterly results.*

Some of this performance is due to concentrated, thematic investments. KKR noted that nearly 40% of the firm's investments in the past three years were into tech businesses or digital themes. Blackstone has invested similarly in PE and heavily out of its life sciences and its real estate portfolios. Apollo is also deploying capital in areas where it sees deep value, including the resurgent hospitality, gaming, leisure, and travel sectors. We will be closely watching which strategy produces higher returns, both absolute and risk-adjusted.

Another theme that was brought up, although to a lesser extent, was environmental, social, and corporate governance (ESG). Although ESG was far from front-and-center in the quarter's earnings calls, there were indications of more to come. Blackstone has identified sustainability as a key investment theme, announcing buyouts of Desotec, an environmental services business, and Sabre, an electrification infrastructure company. Apollo CEO Marc Rowan alluded to efforts to expand opportunities for marginalized communities at both the firm and portfolio company level, promising more detail to follow. And KKR will raise a Global Impact Fund II in the next 12–18 months as the first fund of the strategy, which closed in Q1 2020, is recording healthy results. The firm has also continued executing on its plan to roll out employee share ownership programs (ESOPs) at its US industrial portfolio companies. These large managers are likely to ride the ESG tailwinds, but the effects of these early moves on fundraising and investment performance will help to determine how intensely they commit additional attention to ESG themes in coming quarters.

Secondaries

Expansion into the secondaries market was frequently brought up on this quarter's earnings calls. Blackstone and Carlyle, through AlpInvest, have significant secondaries businesses already, although Blackstone's commentary around the top end of the market was illuminating. The firm announced its $11.0 billion, eighth flagship vehicle was almost fully invested after just two years, and the next vintage was being brought to market. This next fund is expected to be even larger and hold a first close in H2. Blackstone also mentioned plans to launch a fund to invest in GP-led secondaries,[1] cashing in on the explosion in these deals we have seen GPs pursue in recent years.

Meanwhile, Apollo and Ares are jumping into the space. Apollo is going the "build it" route and seeking to launch a credit secondaries platform, building off the firm's specialty in the space. Apollo mentioned there could be a future for secondaries offerings in infrastructure and other spaces as well. Ares decided to go the "buy it" route and announced the purchase of Landmark Partners, which has nearly $19 billion in AUM, for $1.08 billion at the end of March. All firms believe there is significant runway in the overall growth of the secondaries market as LPs continue to utilize the market for portfolio and liquidity management and more, while GPs continue to tap the market with innovative new structures.

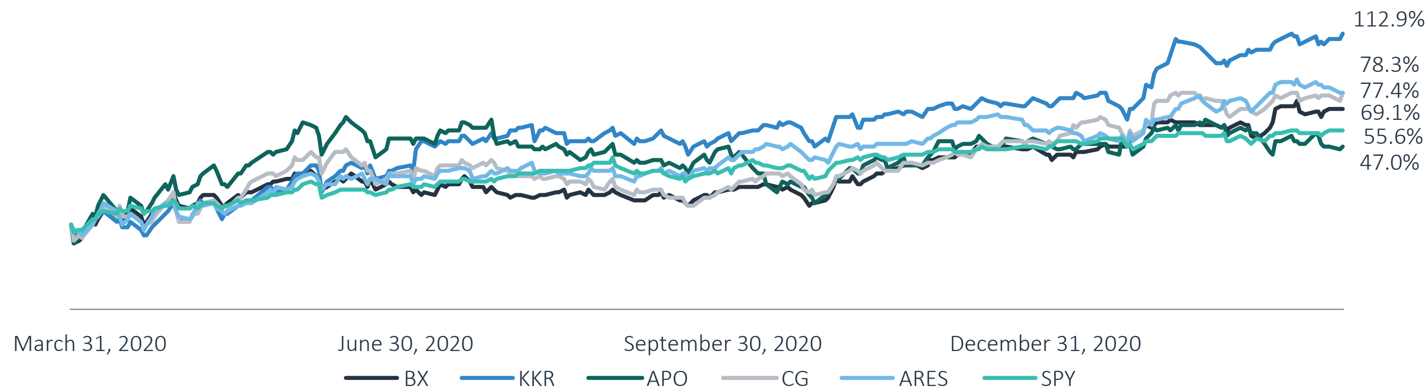
Share price

With the exception of Apollo, the cohort outperformed the S&P 500's 7.4% returns this quarter; KKR posted a 24.4% return. Roughly a full year from the low point of 2020's downturn, Blackstone, KKR, Carlyle, and Ares have also outpaced the S&P's recovery. Turning to share price per TTM DE, investors continue to rate the reliability and organic growth potential of Ares' credit-heavy fee mix highly; Ares' share price has more than quadrupled over the past five years, with most of the gains coming after the pandemic trough. The firm has posted sequential FRE gains for each of the last 16 quarters.

1: "Blackstone Seeks About $15 Billion for New Secondaries Funds," Bloomberg, Benjamin Robertson, February 23, 2021.

By contrast, Apollo's stock has been affected by continuing questions around the firm's leadership following Leon Black stepping down and the all-stock merger with Athene. Some investors are waiting for additional insight into the financial implications of Apollo's announced merger with Athene, details the firm promised to provide in an investor day later this year. The market may be pricing in lower growth for the overall entity as it subsumes these insurance holdings.

Total return for select public firms and SPY index



Source: PitchBook | **Geography:** US
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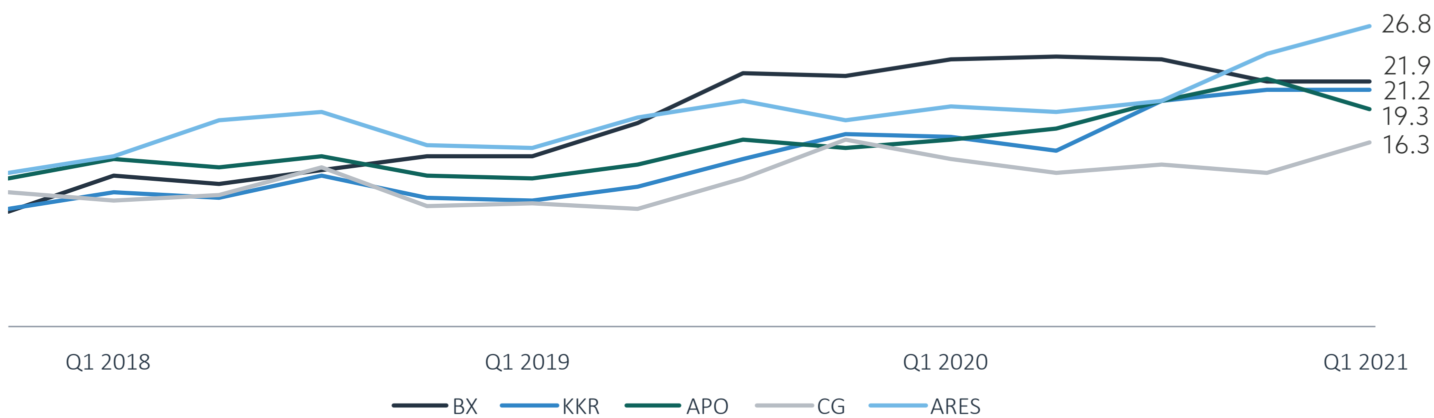
Share price* to DE ratio



Source: PitchBook | **Geography:** US
**As of March 31, 2021
**Note: Share price shown is the one-quarter average.*