



We also attempted to value the Alts on a sum-of-the parts basis, which we do not think has been especially accurate in forecasting medium or long-term unit price performance for the Alts. Similar to our valuation analysis, there are a number of subjective inputs, combined with longer range valuation assessments that we think can obscure what the stocks will do over a 12-month horizon, the timeframe in which are ratings/price targets are based on.

We show our sum-of-parts analysis in Figures 24-28. The analysis values the fee income stream at an asset manager P/E of 16.5x and the carried interest earnings potential (inclusive of dry powder) at a 2.0x MOIC (multiple on invested capital) over a 6-year horizon, and the balance sheets & accrued carry at 1.25x BV. We think this valuation is even more subjective than our P/E approach and can achieve vastly different results by altering the assumptions slightly. For example, our choice of a 2.0x MOIC over a 6-year horizon is conservative vs. past performance (though may be more accurate going forward). Our assumptions indicated the Alts are about fairly valued, with BX & OAK appearing the most overvalued and KKR the most undervalued, and we think this will be an active part of the intense valuation debate on this stock.

Figure 24: DB Sum of the Parts Valuation Analysis for APO

Fee-related Earnings:		Balance sheet value at 3Q13	
Aftertax Fee-related Earnings (2014E)	\$443	Principal investments	\$425
per unit	\$1.13	Accrued carry	\$1,254
Assigned Fwd P/E	16.5x	Total BV	\$1,679
Value per unit	\$18.62	Assigned BV multiple	1.25x
		Value	\$2,099
Carried Interest earnings:		per unit	\$5.35
Invested capital + dry powder at 3Q13	54,983	Total SOP Value	\$32.49
Assumed MOIC	2.0x	Current price	\$32.20
Carry rate	20%	SOP vs. current price	0.9%
Comp rate	40%		
Investment Horizon (yrs)	6.0	Wtd avg units 2014	392.3
Value	\$6,598		
PV	\$3,343		
PV per unit	\$8.52		

Source: Deutsche Bank

Figure 25: DB Sum of the Parts Valuation Analysis for BX

Fee-related Earnings:		Carried Interest earnings:	
Aftertax Fee-related Earnings (2014E)	\$815	Invested capital + dry powder at 3Q13	124,487
per unit	\$0.71	Assumed MOIC	2.0x
Assigned Fwd P/E	16.5x	Carry rate	20%
Value per unit	\$11.73	Comp rate	40%
		Investment Horizon (yrs)	6.0
Incentive Fee Earnings:		Value	\$14,938
Incentive Fees	\$622	PV	\$7,568
Comp accrual	40%	PV per unit	\$6.61
Pretax Incentive Fees	\$373		
Aftertax Incentive Fees	\$280	Balance sheet value at 3Q13	
per unit	\$0.24	Principal investments	\$2,598
Assigned Fwd P/E	8.3x	Accrued carry	\$2,769
Value per unit	\$2.01	Total BV	\$5,367
		Assigned BV multiple	1.25x
Total SOP Value	\$26.21	Value	\$6,709
Current price	\$31.13	per unit	\$5.86
SOP vs. current price	-15.8%		

Source: Deutsche Bank