

From: Richard Kahn <[REDACTED]>
To: Jeffrey Epstein <jeevacation@gmail.com>
Subject: Fwd: Apollo Global Management LLC: Mixed Results in a Choppy Backdrop
Date: Thu, 05 May 2016 21:43:19 +0000

Sent from my iPhone

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From: "Morgan Stanley" <ms-wmir@morganstanley.com>
Date: May 5, 2016 at 4:36:11 PM EDT
To: <[REDACTED]>
Subject: Apollo Global Management LLC: Mixed Results in a Choppy Backdrop
Reply-To: <mswmir-cie-feedback@morganstanley.com>



WEALTH MANAGEMENT

Subscription Notification: May 5

[Apollo Global Management LLC: Mixed Results in a Choppy Backdrop](#)

Michael J. Cyprys, CFA, CPA – Morgan Stanley

May 5, 2016 8:32 PM GMT

Results versus expectations: APO reported a large miss on EPS vs our estimates and consensus in 1Q16. EPS loss of -18c missed our 9c est by -27c and consensus by -21c due to lower net performance fees (-23c) and investment income (-8c), offset slightly by lower taxes (+4c). The miss was mostly attributable to a negative mark on a large strategic investment held on APO's balance sheet and in their funds. APO marked the strategic investment down -11% vs our -5% est. Stripping out the loss on the strategic investment, APO missed our EPS est by ~3c. Cash earnings (pre-tax) of 26c was in-line but cash earnings (after-tax) of 25c, was 3c above our 22c est due to lower cash taxes. APO paid out 100% of their distributable earnings for a dividend of 25c, above our 20c est but below consensus at 27c. How does our investment thesis change? Unchanged with potential downside risk from incremental negative marks on APO's strategic

investment which could be more than offset by lower taxes, higher fee-paying AuM levels on strong fundraising/deployment and catch-up carry in Fund VIII. We remain Equal-weight given muted outlook for cash earnings and the ~9% run up in APO's stock price YTD vs peers who are down -2.5% on avg. We'd look to get more positive if the current deployment pace in Fund VIII continues over the next few quarters and if Credit fundraising picks up significantly from here, driving meaningful growth in cash earnings. Fund returns better but performance fees weaker: PE (+0.5% vs MSe -1%) and RE (+2.2% vs MSe 1.2%) fund performance beat our estimates while Credit (+1.1% vs MSe +1.4%) slightly lagged. APO had some of the best credit performance vs peers who had a median return of -0.5% (see our Alt coverage 1Q key metric comp tables here). PE fund returns benefited from strong appreciation in Fund VIII of +9% while Fund VI and Fund VII were down -5%. Despite the strong overall fund returns, performance fees came in much lower than we were expecting at -\$130m vs ou

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