From: Richard Kahn <[redacted]>
To: "jeffrey E." <jeevacation@gmail.com>
Subject: Fwd: Apollo Global Management LLC: Outlook Improving as Fund VIII Enters Carry
Date: Wed, 03 Aug 2016 18:07:42 +0000

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Begin forwarded message:

From: "Morgan Stanley" <[redacted]>
Subject: Apollo Global Management LLC: Outlook Improving as Fund VIII Enters Carry
Date: August 3, 2016 at 2:05:24 PM EDT
To: <[redacted]>
Reply-To: <[redacted]>

W E A L T H   M A N A G E M E N T

Subscription Notification: August 3

Apollo Global Management LLC: Outlook Improving as Fund VIII Enters Carry

Michael J. Cyprys, CFA, CPA – Morgan Stanley
August 3, 2016 6:02 PM GMT

Results versus expectations: APO reported a large beat on EPS vs our estimates and consensus in 2Q16. EPS of 98c beat our 14c est and beat consensus of 20c due to higher net performance fees (+51c), investment income (+34c) and fee-related earnings (+13c), offset slightly by higher taxes (-14c). The beat was mostly attributable to 1) higher monitoring and transaction fees from rising deployment (+14c), 2) a positive mark on a large strategic investment held on APO's balance sheet (+40) and 3) Fund VIII entering carry earlier than expected (+22c). Cash earnings (after-tax) of 40c were above our 26c est driven by the transaction fee beat. APO paid out 93% of their distributable earnings for a dividend of 37c, above our 25c est and consensus of 28c. How does our investment thesis change? Slightly more positive on Equal-weight APO with deployment pace in Fund VIII accelerating, fund marks improving and robust fundraising in Credit. Despite a more positive view, we remain Equal-weight given muted outlook for cash earnings (which were down 17% y/y in 2Q) and the ~16% run up in APO's stock price YTD vs peers who are up ~3.3% on avg. We'd look to get more positive if: 1) the current deployment pace in Fund VIII continues, pulling forward the fundraising for Fund IX to early 2017 (we model 4Q17-1Q18) and 2) Credit fundraising momentum persists and shifts gears to gathering assets with meaningfully higher economics to drive growth in the mgmt and incentive business. Fund returns better; Fund VIII enters carry earlier than expected: PE (+3.1% vs MSe -2.6%), Credit (+3.7% vs MSe +0.5%) and RE (+2.2% vs MSe +1%) all generated strong returns. For the second straight quarter, APO had some of the best credit performance vs peers who had a median return of +2.7% (see our Alt coverage 2Q key metric comp tables here). PE fund returns benefited from strong appreciation in privates, energy holdings and public debt positions. Better fund returns and Fund VIII entering carry earlier

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Andrew Atlas, [redacted]

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