



ANALYST QUICK NOTES

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BlackRock Inc. (NYSE: BLK: BUY)

Target Price: \$420

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Investment Thesis

- BLK reports 4Q EPS on Jan. 13:
 - Argus is at \$5.34 versus \$5.06 consensus.
 - BLK exceeded 3Q consensus by \$0.14.

- Consensus estimate for 2017 (at about \$22) has been flat for past 60 days:
 - Risk-on markets generally a net positive for AUM.
 - Asset mix shift to equities should aid margins.
 - Appreciation of equity assets and equity inflows tend to more than offset fixed-income declines.
 - Expect consensus to rise toward our \$23.13 estimate, which has been based on improving market valuations.

- Market-share gains have been evident in recent quarters based on net inflows above the industry average.

- Broad product suite is well positioned to attract assets across major growth areas:
 - Equity index and factor-based ETFs, retirement funds, alternative and emerging market.

- Intermediate- and long-term trends remain favorable:
 - ETFs gaining share from mutual funds.
 - Passive index products gaining share from active management.
 - Move toward advisory/fee relationships from commission based.

- We believe BLK should trade at a premium to large-cap financial stocks given:
 - Above-average operating margins.
 - Stable long-term asset inflows.
 - Target price of \$420 is 18.2-times our 2017 estimate.
 - Valuation at upper end of 5-year historical range justified by operating margin expansion over the period.
 - Since November 8 election, BLK shares are up 8%, versus 18% for Financial Sector ETF (XLF):
 - Asset managers are not as large a beneficiary of the financial deregulation and higher interest rate theme, but...
 - BLK should be an interesting catch-up play in Financials following strong run-up in banks.
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