

## ANALYST QUICK NOTES

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**BlackRock, Inc. (NYSE: BLK: BUY)**

**Target Price: \$430**

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### Investment Thesis

- BLK reports 4Q earnings on April 19:
  - Argus is at \$5.36 versus \$4.89 consensus.
  - BLK exceeded 3Q and 4Q consensus by \$0.14 and \$0.12, respectively.
  - Argus estimate excludes expected \$25 million of severance for restructuring of active equity unit.
- 1Q trends likely included several positives:
  - Risk-on markets generally a net positive for AUM.
  - Asset mix shift to equities should aid margins, although fee pressure from lower expense ratios on large index funds will be an offset.
  - Equities had mid-single-digit returns worldwide, while bond prices recovered late in the quarter.
  - Strong net inflows across most categories.
- Market share gains have been evident in recent quarters based on above-industry-average net inflows.
- Broad product suite is well positioned to attract assets across major growth areas:
  - Factor-based ETFs, retirement funds, alternative and emerging market.
- We see a net positive in recent news suggesting that active equity products will take a more data-driven approach:
  - New active product categories include Core Alpha, High Conviction Alpha, Outcome Oriented, and Country and Sector Specialty.
  - BLK active equity funds have in the past struggled to outperform.
  - Move reflects reality of stronger fund flows into passive index products and outperformance over actively managed funds.
  - Low cost and better performance driving passive index fund flows.
  - BLK's iShares IVV S&P 500 tracking fund, with a 0.04% expense ratio, compares with Schwab's at 0.03%.
- Intermediate- and long-term trends remain favorable:
  - ETFs gaining share from mutual funds.
  - Move toward advisory/fee relationships from commission-based.
- DoL rule requiring fiduciary standards on retirement accounts has gained momentum in industry as a best practice, despite delayed implementation date.
  - Low-cost index funds with defined objectives are beneficiaries.
- In our view, BLK should trade at a premium to large-cap financial stocks given:

- Above-average 41% operating margins.
  - Stable long-term asset inflows.
  - Target price of \$430 is 19-times our 2017 estimate.
    - Valuation at the high end of five-year historical range justified by operating margin expansion.
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