
From: Richard Kahn <richardkahn12@gmail.com>
Sent: Monday, May 21, 2018 12:43 PM
To: jeffrey E.
Subject: Fwd: Apollo Global Management LLC: Three Reasons to Own Apollo

Richard Kahn
HBRK Associates Inc.
575 Lexington Avenue 4th Floor
New York, NY 10022
tel 212-971-1306
fax 212-320-0381
cell [REDACTED]

Begin forwarded message:

From: =/b>"Morgan Stanley" <ms-wmir@morganstanley.com>
Subject: =/b>Apollo Global Management LLC: Three Reasons to Own Apollo
Date: =/b>May 21, 2018 at 1:53:15 AM =DT
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Wealth Management

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Apollo Global Management LLC: Three Reasons to Own Apollo

Michael J. Cyprys, =FA, CPA – Morgan Stanley

May 21, =018 5:48 AM GMT

We think the market =ndervalues APO's growth in sticky management fee earnings and =erformance fee upcycle. Current valuation reflects just \$1 of value for =uture performance fees vs. \$13 value in our SOTP valuation. Overweight =ith \$41 PT for 40% potential upside.

Attractive entry =oint with APO shares down 12.5% YTD, underperforming Alt peers by 1300 =ps on volatile marks in their public PE portfolio and investors taking =ains following 2017's extremely strong 73% stock performance. Yet we =ee an inflection point for growth that's not priced in to the stock. =hree key reasons to buy APO: 1) Accelerating growth in management fee =arnings from new initiatives, credit business scaling faster, and fees =urning on-line will drive upside to estimates and expand the stickier =arnings stream that should be rewarded by the market and command a =igher multiple. We expect 20% CAGR in fee-paying AUM to drive 15% CAGR =n management fee-related earnings (FRE) over the next 3-years. 2) =erformance fee upcycle starts now; we expect cash performance fees in =E to double in 2018 vs 2017, and sustain an elevated pace over the next =everal years as Fund VIII enters the portfolio harvesting stage, energy =unds shift into their monetization phase and credit funds ramp =erformance fee generation. 3) Compelling valuation with the stock =ricing in nearly zero value for performance fees. We see the stock =ricing in just \$1.03/share in value for performance fees, far below the =13.14/share in our sum-of-the-parts valuation. Expect 27% of current =hare price returned in dividends over the next 3 years. Sticky core =gmt fee earnings yield 4.4% suggest meaningful downside protection from =ong-term locked-up nature of client assets under mgmt. Upcoming =atalysts: 50% sequential growth in fee-related earnings (FRE) in 2Q18 =ith 900 bps FRE margin expansion and double digit FRE growth over next =ew years. Increased industry M&A activity accelerates portfolio =arvesting via strategic sales;

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