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**From:** Richard Kahn [REDACTED] >  
**Sent:** Friday, February 3, 2017 3:29 PM  
**To:** jeffrey E.  
**Subject:** Fwd: APO US: Apollo Global Management - Revenue beat, with good performance and improving distribution - NEUTRAL - United States

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575 Lexington Avenue 4th Floor  
New York, NY 10022  
[REDACTED]

Begin forwarded message:

From: =/b>"Ens, Amanda" [REDACTED]

Subject: =/b>APO US: Apollo Global Management - Revenue beat, with good performance and improving distribution - NEUTRAL - United States

Date: =/b>February 3, 2017 at 9:25:48 AM =ST

To: =/b>"Rich Kahn" <[REDACTED]>

Reply-To: =/b>"Ens, Amanda" [REDACTED]

Rich, just as an update

Global Research

Apollo Global Management

Revenue beat, with good performance and improving distribution

Maintain Rating: NEUTRAL

PO: 23.00 USD | Price: 21.70 USD

Equity | 03 February 2017

#### Key takeaways

- APO reported ENI of \$0.98, beating the Street/BofAML at \$0.80/\$0.96, on better-than-expected perf. fees and transaction fees.
- Strong qtr included Athene mark (IPO in 4Q), but core results also healthy, with good performance and distribution of \$0.45.
- A solid quarter but we remain neutral given modest near-term outlook for distributions and valuation in line with the sector.

FULL REPORT

APO reported ENI/share of \$0.98, beating expectations

APO reported ENI/share of \$0.98, beating the Street/our estimates of \$0.80/\$0.96, due to better-than-expected revenue, driven by performance fees and transaction fees. We would note that the strong quarter was driven in part by an anticipated positive mark on Athene, which IPO'd in 4Q. However, the core business also performed well, with strong performance (PE +5.9%, Credit +2.1% and RE +5.3%), growing AUM and rising accrued performance fees. This quarter, APO changed its disclosure slightly and is no longer including share-based compensation in fee-related earnings (FRE), more in line with some peers. The distribution was relatively strong, at \$0.45. Overall, a good quarter and we expect the stock to do well on the consensus beat, but, despite a healthy growth/ deployment outlook, given a modest outlook for distributions over the near term and a valuation in line with the sector, we maintain our Neutral rating.

#### Positives in the quarter

1. Distribution was stronger than expected, at \$0.45.
2. Performance was healthy across segments: PE +5.9%, Credit +2.1%, and RE +5.3%.
3. Net performance fees were above our forecast, at \$226M, driven by private equity.
4. Fee revenue was ahead of our forecast, driven by strong transaction/advisory fees, partially offset by lower management fees.
5. AUM/FAUM increased 2%/1%, to \$192B/\$151B, with \$26B of dry powder.
6. Carry-gen. AUM +8% q/q, to \$55.6B.
7. Net accrued receivables increased 34%, to \$709M, driven by private equity.
8. Healthy fundraising of \$6.6B/\$3.8B net of \$2.8B outflows (\$0.6B of which is redemptions).
9. Deployment was strong at \$3.5B, along with decent \$1.7B of realizations.

#### Issues in the quarter

1. Transaction fees were elevated again, but likely to moderate from here, and management fees came in lower than expected.
2. Core expenses, particularly comp, increased 16% q/q and were above expectations.
3. FRE declined 10% q/q, to \$131M, while the FRE margin declined slightly, to 4%. We would note that APO started excluding share-based compensation from FRE this quarter.
4. The tax rate aided the beat, at 13%, below the prior quarter and year periods.
5. Funds VI & VII remain in escrow (although Fund VIII is out of escrow this quarter), limiting future distributions from those funds.

6. </span>Pace </span>f share repurchases picked up, with \$54M spent in 4Q, up from \$5M in </span>Q. \$196M remains under \$250M authorization.

Conference call </span>

Our Neutral rating, estimates and PO </span>email unchanged. APO is due to host a conference call at 10:00 AM ET to </span>discuss results ( </span>

Michael Carrier, CFA  
Research Analyst  
MLPF&S

</span>

This report is intended for amanda.ens@baml.com </span>

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