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| <b>BlackRock, Inc.</b><br><b>Ticker: BLK</b><br><b>Sector: Financial Services</b><br><b>Industry: Asset Management</b> | <b>Intrinsic Value: \$364.23</b><br><b>Current Price: \$303.03</b><br><b>Stop Loss: \$257,8</b><br><b>Upside Review: \$400.6</b> | <b>TTM P/E: 18.07</b><br><b>Forward P/E: 16.26</b><br><b>FV Imp. P/E: 21.59</b><br><b>Beta: 1.3</b> | <b>Market Cap: \$51.39B</b><br><b>Dividend Yield: 2.5%</b><br><b>52 Wk Range: \$233.80 - \$326.00</b> |
|--|--|---|---|

**Industry Trends:**

In early 2013, the market reacted very favorably to agreements on the U.S. fiscal budget, yet it retreated on mid-year concerns over the timing of the Federal Reserve slowing market purchases. We expect ongoing volatility for equities, and rising volatility for bonds in 2014. We expect continued market volatility given the soft global economic environment, but the group's valuation remains attractive to us. We see upside potential for asset managers with solid reputations, better-than-average fund performance and strong management.

**Business Summary:**

BlackRock, Inc. provides investment management, risk management and advisory services for institutional and retail clients worldwide. The company offers its products directly and through intermediaries in a variety of vehicles, including open-end and closed-end mutual funds, iShares exchange-traded funds and other exchange-traded products, including exchange-traded funds and exchange-traded products, collective investment funds and separate accounts. The firm employs liquidity, asset allocation, balanced, real estate, and alternative strategies to make its investments. BlackRock, Inc. was founded in 1988 and is based in New York.

**Investment Thesis:**

BLK's top-tier position in passive investments, diversity and strong fund performance overall will help it continue to attract assets at above-industry-average rates over the next few years. It has increasingly become a leader as management is outspoken and innovative. Aladdin Platform is a high potential business. Aladdin is a risk management tool that also allows for crossing of fixed income and equity trades; it also enhances liquidity for BLK and its clients. We think interest is strong for ways to better manage risk given increased regulatory scrutiny.

**Competitive Analysis:**

BlackRock has the highest operating margin and net margin, 37% and 27.3% respectively, compared to its peers. It also provides the highest ROE, 10.9% compared to Charles Schwab, the second highest, at 9.9%. Its Beta of 1.3 is above that of the S&P 500, indicating that this stock could show greater volatility than the market.

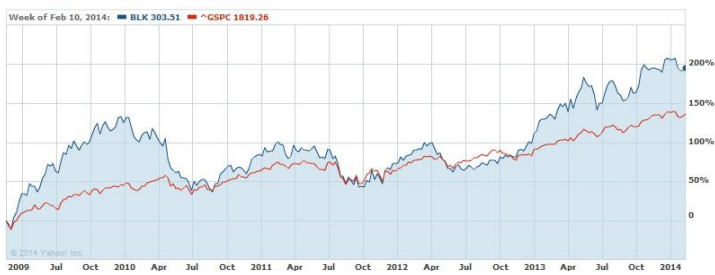
**Pros:**

- BlackRock is the largest asset manager in the world, with more than \$4.3 trillion
- BlackRock's impressive operating margin has been increasing over the last 5 years from 18.7% to 37.7%
- BlackRock increases quarterly dividend by 15% to \$1.93 a share, equates to 2.5% yield, approximately

**Risk Factors:**

- Institutional clients, although accounting for more than two third of total long-term Asset Under Management, generate low revenue due to the lower fee structure.
- InWhile actively managed funds account for just over one third of total long-term AUM, they account for more than half of long-term base fees, increasing the pressure on BlackRock to fix its active equity and fixed-income offerings.

**BLK 5 year stock performance:**



|                           | BlackRock, Inc. (BLK) | Legg Mason, Inc. (LM) | State Street Corporation (STT) | UBS AG (UBSN-CH) | Bank of New York Mellon Corporation (BK) | Charles Schwab Corporation (SCHW) |
|---------------------------|-----------------------|-----------------------|--------------------------------|------------------|--|-----------------------------------|
| Gross Margin (%)          | 88.2                  | 76.9                  | -                              | -                | -  | 95.5                              |
| Operating Margin (%)      | 37.0                  | 10.0                  | 29.0                           | 12.5             | 24.4                                     | 29.3                              |
| Pretax Margin (%)         | 36.9                  | 13.1                  | 27.4                           | 3.3              | 25.8                                     | 29.0                              |
| Net Margin (%)            | 27.3                  | 9.0                   | 21.0                           | 1.8              | 14.4                                     | 18.0                              |
| ROA (%)                   | 1.4                   | 3.5                   | 1.0                            | 0.1              | 0.6                                      | 0.7                               |
| ROE (%)                   | 10.9                  | 5.1                   | 9.9                            | 1.3              | 5.9                                      | 9.9                               |
| Revenue/Employee (000)    | 969.4                 | 917.3                 | 327.7                          | 598.9            | 302.3                                    | 387.2                             |
| Net Income/Employee (000) | 264.8                 | 82.4                  | 68.9                           | 10.6             | 43.7                                     | 69.8                              |
| Receivables Turnover (x)  | 3.0                   | 6.8                   | -                              | -                | -  | 0.4                               |

Sources:

FactSet

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**Total Return Estimates:**

3 Yr FV Reversion\*: 8.6%  
5 Yr FV Reversion\*: 6.1%  
(\* - From limit order price of \$42.67)

**Key Valuation Assumptions:**

Cost of equity 10.67%  
Terminal Growth Rate 3.0%  
10 yr. Risk Free Rate 3%  
Cost of debt 2.64%

**Key Financial Data:**

Est. 2014 EPS \$18.73  
Est. 2015 EPS \$19.85  
Price /Book 2.0  
Price/Cash Flow 18.7  
Debt/Equity market value 16%

**CSR Scores**

Human Rights 0/0  
Business Ethics Policy 1/1  
ESG Disclosure Score 14.91/13.22  
Equal Opportunity Score 1/0  
Emission Reduction 0/0  
Environmental Disclosure Score 0/0