

Bank of America Equity Research **HEADS UP!**

September 12, 2007

The Blackstone Group L.P. (BX)

Rating: Buy, Price: \$23.37, 12-Month Target: \$38.00, Market Cap.: \$25.4 BB

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Meeting W/ Mgmt, Tough Times Create Opportunities, BX is (Still) One of Them

- ✔ **Key take-aways from meeting w/ mgmt:** We recently met w/ senior mgmt of BX, incl. President & COO Hamilton James, and Head of Public Markets Joan Solotar. Mgmt continues to see a more rational return environment today vs. 6 mos. ago as competition for deals has diminished (even with less leverage, mgmt continues to see private equity ("PE") opportunities to invest at higher multiples on invested capital, though w/ longer more typical holding periods). That said, the era of large deals is behind us, meaning a more reasonable pace of investment (more singles & doubles vs. home runs). Finally mgmt continues to see ample investor demand for alternative investments and a solid pace of capital raising from Real Estate Private Equity, Marketable Alternatives (hedge funds), & Corporate Private Equity.
- ✔ **Current environment:** likely to be a little slower in terms of pace of investment spending & realization over the course of '07, and could be until early '08 before things get better. On financings, BX can still get financing for deals of up to \$1 billion, though appetite is gone for larger \$10B+ deals. BX continues to find investment opportunities in PIPEs (private investments in public equity), abroad (China & India), rescue financing transactions (minority investments in partnership with others or mgmt), and consolidation plays (buy a smaller company or asset which complements/grows an existing investment in the same area, like Southern Cross as an example). Mgmt is also looking at distressed debt opportunities (though conditions not cheap enough yet), and is looking into adding mortgage expertise to benefit from dislocation in mortgage assets.
- ✔ **M&A outlook:** mgmt expects a slower environment in the U.S. offset by a continued strong environment in Europe and Asia, and even more so for BX with investments they have made in their capabilities there and new relationships in China specifically which are beginning to bear fruit already.
- ✔ **Capital Raise Outlook Remains Bright:** Having just closed on BCP V at \$21.7B which is already 70%+ invested, mgmt will begin to market BCP VI in the fall. At best, mgmt expects BCPVI to be as big as BCP V (but more likely a bit smaller at \$15B or so), and to also raise other concurrent, more specific funds targeted at Europe, Asia Pacific & specialty focused funds (which could each be a few billion dollars). In addition, mgmt has several real estate funds in various stages of the capital raising process, which can be a 18 month or so process from start to finish (and BX is still working on investing the \$10B which is 40% invested from BREP V which just closed), which they expect will drive AUM growth of \$15-20 billion through the end of 2008 (vs. \$55B in total PE funds at Q2'07 and \$92B in total AUM) just on the private equity (corp. & real estate) side alone (w/ incremental asset growth coming from flows & performance in the hedge fund business).
- ✔ **Return Environment Still Looking Good.** Hedge fund returns are up nicely YTD and QTD, and on top of what has been good through-the-cycle performance, BX's marketable alternative business seems to be proving its worth as a manager which outperforms in a down part of the cycle. On PE side, the return environment still best in 2-3 years and clearly better than a year ago. The PE business is still on track for a very healthy year of investment spend, seeing **higher** multiples on invested capital, and more normal (longer) holding periods, which altogether should still drive above average returns.
- ✔ **Long-term demand for alternatives still in tact,** despite some slowing recently. In the near, term some institutional funds have hit near-term limits on allocation to alternatives as traditional asset classes (equities & fixed income) have seen market depreciation. That said, the long-term demand remains favorable from traditional institutional investors (like pension funds, endowments, etc). and more importantly the emerging foreign wealth nations including China, Russia, the Middle-east & Norway.
- ✔ Banc of America Securities LLC is acting as financial advisor to The Blackstone Group in connection with its announced acquisition of Hilton Hotels Corporation."

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Volatility		Ratings		
		Buy	Neutral	Sell
Low	0%-25%	11%+	10.9%-0.1%	0% or worse
Medium	25%-35%	15%+	14.9%-(2.9)%	(3)% or worse
High	35%-55%	20%+	19.9%-(6.9)%	(7)% or worse
Extreme	55%+	32%+	31.9%-(14.9)%	(15)% or worse

Source for volatility: Bloomberg.

Rating Distribution*

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Coverage Universe	Companies	Pct.	Investment Banking Clients	Companies	Pct.**
Buy	414	45	Buy	329	79
Hold	484	52	Hold	355	73
Sell	30	3	Sell	24	80

Finance Sector

Coverage Universe	Companies	Pct.	Investment Banking Clients	Companies	Pct.**
Buy	60	42	Buy	49	82
Hold	78	55	Hold	61	78
Sell	5	3	Sell	5	100

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The Blackstone Group L.P. (BX)

Target Price, Valuation Method, Risk Factors

Target Price: \$38.00

Valuation Method Used To Reach Target Price: We use a dividend discount model to arrive at our \$38 target, which assumes a long-term tax rate of 33%, and which is 19x our 2008 EPS estimate vs. our 5-year secular growth rate expectation of 25%.

Risk Factors:

- 1 Credit Spreads widen to 2002 peaks making it more difficult to finance LBO deals, and compressing rates of returns.
- 2 Tax bill proposals pass which raise Blackstone's tax rate from 24% (on cash earnings) to 35-40%.
- 3 Brain drain as senior investment professionals receive stock which will become fully transferable over-time.
- 4 Conflict of interests between limited partner in BX's private equity funds and their public equity shareholders.

Blackstone Group L.P. (BX)

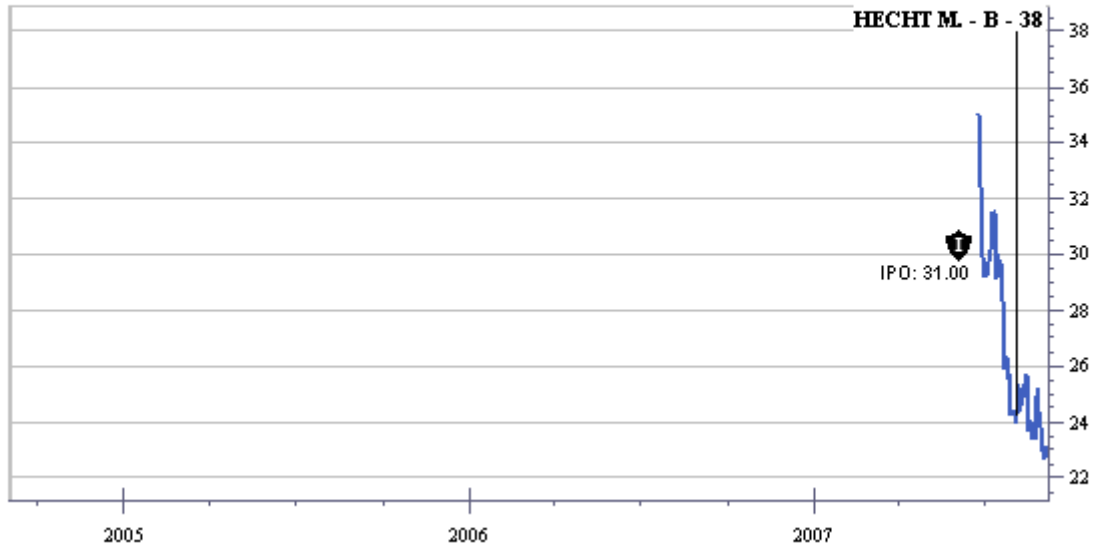
Stock Price Chart (rating and target price changes indicated)

U.S. Dollar (Sep 1, 2004 - Aug 31, 2007)

Current Analyst: Hecht M.

Rating System

Buy, Neutral, and Sell



B=Buy, N=Neutral, S=Sell, CIT=Coverage in Transition

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