

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

November 12, 2007

The Blackstone Group L.P. (BX)

Rating: Buy, Price: \$24.28, 12-Month Target: \$38.00, Market Cap.: \$26.4 BB

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Q3 Cash Earnings Just Below Our Estimate, Outlook Remains Favorable

- ✓ **Bottom Line:** BX reported Q3'07 EPS (adjusted cash flow from ops) of \$0.29 vs. our est. of \$0.30 (same as street) & \$0.16 a yr ago. Adj. cash flow from ops was \$311mm vs. \$323mm we expected, with lower than expected realizations driving the difference vs. our number. Adj. cash flow from ops is the number to track here in our view since it excludes non-cash unrealized gains & compensation accruals for those gains and more importantly drives the dividend payout (\$1.20 per unit, note BX declared their first quarterly dividend payment of \$0.30 to be made in Dec.). While quarterly results can be lumpy, with YTD adjusted cash flow from ops per share of \$1.38 (9 mos. '07), we continue to see the dividend as biased to the upside for next year. BX ends Q3'07 with \$28.1 B of unrealized value (gains of \$8.2B) in its corporate & private equity fund businesses (vs. \$26.1 billion last qtr) which is worth ~\$1.00+ per share in earnings power (adjusted cash from ops) we estimate, not to mention \$9.3B of LP capital already committed but not deployed across its Corporate and Real Estate Private Equity groups (vs. \$8.8B a qtr ago), worth another ~\$1.50+. BX's hedge fund segment also saw positive returns for the quarter which compared favorably to peers, as well as solid asset under mgmt growth, particularly fee paying AUM. Financial Advisory (M&A) revs also rose 60% year/year, and were 9% more than expected.
- ✓ **Asset Growth Solid:** Total assets under management ended the quarter at \$98.2 billion, 56.6% above a year ago and up 7.0% sequentially. The highest sequential asset growth was seen in the Marketable Alternative Asset Management segment, up 9.7% sequentially followed by Real Estate up 8.5% from Q2'07. Average fee earning AUM was \$76.5 billion in Q3'07 up 7.1% from Q2'07 and up 55.8% from a year ago. Within Corporate Private Equity, the firm deployed \$2.34 billion in Limited Partner Capital compared to \$915.3 million a year ago. LP capital deployed within the Real Estate segment totaled \$269.8 million in Q3, down from \$982.8 million in Q3'06.
- ✓ **Solid Year over Year Revenue Trends Across Segments; Down Sequentially on Fewer Deal Closings:** Revenues of \$526.7 million were up from \$461.5 million a year ago on stronger year over year results in Corporate Private Equity, Marketable Alternative Asset Management and Financial Advisory segments. By segment, results in the private equity segments were well below our expectations (more so on the recognition of realized gains \$109mm vs. the \$269mm we had modeled), and below our expectations in the Market Alternative Asset Mgmt business though partially offset by stronger than expected results in the M&A Advisory business.
- ✓ **Unrealized Value:** Total unrealized value at the end of the third quarter equaled \$28.2 billion offset by a cost basis of \$19.9 billion for net gains of roughly \$8.3 billion. Net unrealized value from Real Estate represents 57% of the total while the remaining 43% is from Corporate Private Equity.
- ✓ **Conference Call Details:** Blackstone will host a conference call at 10:30am (EST) to review Q3'07 and first half earnings results. The dial in number for U.S. investors is (888) 680-0890 and (617) 213-4857 for international callers, passcode for the call is 57287019.
- ✓ **Focus areas on call:** Overview of investment performance of MAAM, impact credit markets are having on IRR expectations on more recent PE transactions, outlook for comp expense % revenues, PE and M&A backlog of transactions, any pick-up in restructuring business, color on net capital flows in Q3'07 and backlog of requests for proposals or capital raises which have not funded yet, tax rate guidance/thoughts on tax bill proposals, and any updated dividend guidance.

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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*

Global Coverage

Coverage Universe	Companies	Pct.	Investment Banking Clients	Companies	Pct.**
Buy	425	43	Buy	240	56
Hold	522	53	Hold	298	57
Sell	33	3	Sell	21	64

Finance Sector

Coverage Universe	Companies	Pct.	Investment Banking Clients	Companies	Pct.**
Buy	66	41	Buy	34	52
Hold	89	55	Hold	58	65
Sell	6	4	Sell	6	100

* For the purposes of this Rating Distribution, "Hold" is equivalent to our "Neutral" rating.

** Percentage of companies in each rating group that are investment banking clients.

As of 11/01/2007.

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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)

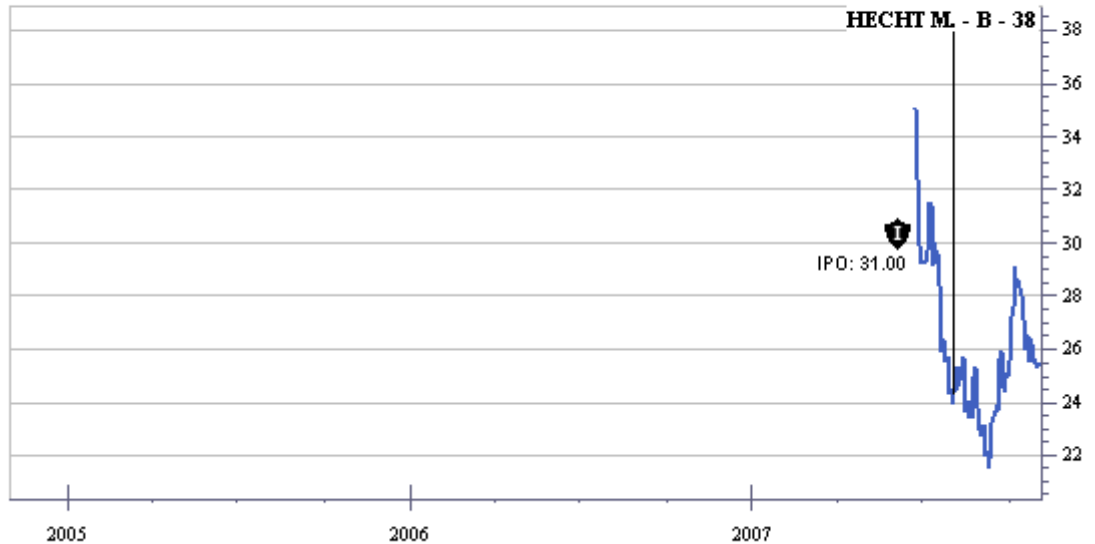
Stock Price Chart (rating and target price changes indicated)

U.S. Dollar (Nov 1, 2004 - Oct 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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