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Blue Owl Capital, Inc. (OWL)

Q3 2021 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good day and thank you for standing by. Welcome to Blue Owl Third Quarter 2021 Conference Call. At this time, all participants are in a listen-only mode. After the speakers' presentation, there will be question-and-answer session. [Operator Instructions] Please be advised that today's conference is being recorded. [Operator Instructions]

I would now like to hand the conference over to speaker today, Ann Dai, Head of Investor Relations. Please go ahead.

Ann Dai

Managing Director & Head-Investor Relations, Blue Owl Capital, Inc.

Thanks, operator, and good morning to everyone. Joining me today are Doug Ostrover, our Chief Executive Officer; Marc Lipschultz and Michael Rees, our Co-Presidents; and Alan Kirshenbaum, our Chief Financial Officer.

I'd like to remind our listeners that remarks made during the call may contain forward-looking statements, which are not a guarantee of future performance or results and involve a number of risks and uncertainties that are outside the company's control. Actual results may differ materially from those in forward-looking statements as a result of a number of factors, including those described from time to time in Blue Owl Capital's filings with the Securities and Exchange Commission. The company assumes no obligation to update any forward-looking statements.

We'd also like to remind everyone that we'll refer to non-GAAP measures on the call, which are reconciled to GAAP figures in our press release available on the Investor Resources section of our website at blueowl.com.

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This morning, we issued our financial results for the third quarter of 2021 and reported fee-related earnings or FRE and distributable earnings or DE of $0.11 per share. We also declared a dividend of $0.09 per share payable on November 30 to shareholders of record as of November 22. During the call today, we'll be referring to the earnings presentation which we posted to our website this morning, so please have that on hand to follow along.

With that, I'd like to turn the call over to Doug.

Douglas Irving Ostrover

Co-Founder, Chief Executive Officer & Director, Blue Owl Capital, Inc.

Thank you, Ann, and good morning, everyone. It's been a busy few months for Blue Owl, so we're excited to provide all of you with an update on what we've been doing to move our strategic initiatives forward. Before I talk about this quarter, though, I'd like to take a moment to call out the tailwinds that have been present across alternatives and which have obviously benefited not just us, but our peers as well.

M&A activity has been near record levels driving elevated lending activity across public and private markets, accommodating equity markets have allowed for sponsors to exit investments and return capital to investors who, in turn, putting money back into alternatives. GPs are raising larger funds more quickly and are broadening their investment capabilities to be more relevant to their investors, which drives capital needs across their businesses.

The beauty of Blue Owl is that our growth does not take away from the growth of other alternative asset managers but, in fact, supports it. We grow with our peers as we lend to their portfolio companies and provide growth equity to the GPs, and we plan to continue expanding our market share in Direct Lending and investing in additional premier franchises in GP Solutions.

Turning to the third quarter, Blue Owl's strong results reflect continued robust growth for the firm as gross originations reached a record $8.8 billion across Direct Lending, and we raised capital across fundraising channels and investment strategies. AUM grew 13% to over $70 billion quarter-over-quarter, reflecting ongoing fundraising across the platform and appreciation in GP Solutions.

A few weeks ago, we announced the acquisition of Oak Street, adding another market-leading, scaled, yield-oriented capability to the Blue Owl platform. Pro forma for Oak Street, our September 30 assets under management would be $83 billion, and I'll touch on the compelling opportunities we see with Oak Street in a minute.

Our distributable earnings grew 32% from the prior quarter as a result of the new capital commitments, significant capital deployment firm-wide, and a tax benefit that Alan will discuss in greater detail. Our distributable earnings are anchored by the high level of permanent capital across the business, with 97% of our management fees coming from permanent capital.

This means shareholders have significant visibility into our existing earnings power, and then we continue to layer on incremental earnings through fundraising and deployment. We think this aspect of the Blue Owl story is powerful. None of our peers look like us with respect to our permanent capital profile, and it allows us to grow faster than our peers. Our focus remains on growing earnings, not AUM, and we will always prioritize profitability and scalability over asset gathering.

Last quarter, for our inaugural earnings call, we presented the history of the Owl Rock and Dyal businesses, the type of differentiated investment capabilities that each platform offers investors and how they grew into the

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businesses they are today. We talked about the unifying aspects of the firm as they came together under the Blue Owl banner, including: one, their positioning as market leaders in their respective spaces; two, the commitment to creating differentiated yield solutions for investors; three, the focus on long-dated and permanent capital streams; four, the notable synergies that we anticipate as we leverage the power of the combined Owl Rock and Dyal ecosystems; and five, the culture of respect and collaboration that permeates through our interactions with each other, our investors, and our counterparts in the market.

And we expect to demonstrate that combining these businesses under one roof will result in greater value creation than each would have on a standalone basis. Said another way, the benefits of the Blue Owl ecosystem should be measurably positive. The steps we are taking today in building out our investment capabilities, investing in our corporate infrastructure, and creating across collaboration framework across business lines are creating the runway for continued and meaningful growth ahead.

Let me highlight a few things that, I think, will be important areas of focus for the firm over the coming quarters and years, and then I'll turn it over to Marc and Michael to discuss Direct Lending and GP Solutions in greater detail.

First, I want to spend a minute on our technology lending BDC, which has reached nearly $7 billion of assets under management and has generated a gross IRR of 23% and a net IRR of 18% since inception, a strong result for BDC that focuses on senior secured lending. When we went to market with this strategy in 2018, we had the first tech-focused BDC of its size in the space, and it was tough to raise that equity.

Tech lending sounded risky to people, and they couldn't imagine our vision, which was a fund focused on making top of the capital structure senior secured loans to well-established upper-middle market technology companies with mission-critical products and recurring revenue bases. We have been able to construct the portfolio with significant downside protection, and our track record in this product has been terrific with no losses since inception and no loans on non-accrual.

We think the industry is in the very early innings of the adoption of private credit solutions to technology firms, and we are a leader due to our scale, domain expertise, and broad relationships which we have been developing for many years. For many of the tech companies to which we lend, we're providing growth capital at an attractive cost relative to raising another equity round, and we can provide bespoke solutions to fit their specific needs. The growth of this tech lending strategy could be very meaningful for Blue Owl over time and we look forward to providing more updates in future quarters.

The next area I'd like to highlight is retail, which has been a primary focus for the Owl Rock team since we founded the business. While retail flows to alternative assets have really begun to accelerate in recent years, we believe retail allocations to alternatives have a lot of room to expand; and expect Blue Owl to be amongst the meaningful beneficiaries of this trend.

We're still in the very early days of rolling out Direct Lending, GP Solutions, and down the line net lease products to retail, particularly in the wirehouse channels. The early feedback on our products has been very positive, with retail investors appreciating the yield profile we provide for senior secured product, as well as the fact that they are invested in the same loans as our institutional investors. Our BDCs are compelling alternatives to traditional fixed income products and, as you know, retail allocations to fixed income are very large.

For the third quarter, we raised over $1.1 billion of equity capital across retail, with approximately $500 million of that coming from Direct Lending and $600 million coming from GP Solutions. And pro forma for Oak Street, our

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retail fundraising for the third quarter, would have been over $1.6 billion as Oak Street raised more than $500 million from retail during the quarter. We don't want to get ahead of ourselves on the potential opportunity in retail, but clearly large amounts of capital can be raised in this channel and we intend to be fully in the mix with a number of differentiated products.

Finally, as I mentioned earlier, I'd like to spend a moment on our acquisition of Oak Street, a leading real estate private equity firm focused on the triple net lease market with over $12 billion of AUM as of September 30, as we detail on slide 8 of the presentation. We're very excited to have the Oak Street team join Blue Owl. They've built a great business with a market-leading position in net lease, and we expect it to be complementary to Blue Owl's platform in many ways.

This transaction fits the parameters we've been looking for, namely, one, an ability for Blue Owl to take a strong industry-leading franchise and leverage our scale and infrastructure to accelerate its already robust runway for growth. Two, a product set that can translate well to both institutional and retail investors and lends itself to long-dated and permanent capital structures which net lease certainly does. Three, a firm with an investment focus that does not compete with our existing Blue Owl investment capabilities, but rather is complementary and which has a big addressable market. And finally, we wanted to have the ability to create synergies for our stakeholders in the following ways.

This transaction offers our LPs, who may not have known Oak Street or invest in a net lease previously, exposure to a world-class investment platform now supported by the scale of Blue Owl's infrastructure. And the same is the case for Oak Street's LPs, the potential for cross-selling is meaningful, given the limited 3% overlap in our respective LP bases. We also believe Oak Street's net lease expertise can be very beneficial to the sponsors that we work with in Direct Lending and our partner managers in GP Solutions.

From a retail perspective, we welcome the opportunity to leverage Blue Owl's broad distribution platform to further expand Oak Street's retail presence across existing and new strategies. And finally, for our public shareholders, we expect that the Oak Street transaction will be 5% to 7% accretive to distributable earnings per share starting in 2022 based on Oak Street's existing growth trajectory. But as we consider all the things that we can do as a combined platform, the benefit to Blue Owl shareholders could exceed that over time.

I also like to add that our team has known Marc Zahr, the CEO and Founder of Oak Street, for a number of years now. And we have a lot of admiration for the business he's built and, importantly, the culture he's created at Oak Street, which we think is very similar to what we have at Blue Owl. We're excited to share more about the business once the transaction is closed and to introduce Marc to our Blue Owl stakeholders. Marc will be joining Blue Owl's Board of Directors and Executive Committee and will play an integral role in the strategic initiatives we have planned.

With that, I'd like to turn the call over to Marc Lipschultz, to give you an update on our Direct Lending business. Marc?

Marc S. Lipschultz

Co-Founder, Co-President & Director, Blue Owl Capital, Inc.

Great. Thanks, Doug. Across the industry, we are seeing accelerating use of Direct Lending as a solution for private equity sponsors and corporations, as they continue to see the benefits of working with one lender. Through that one relationship, borrowers find greater predictability, privacy, and partnership, the three P's that make private credit a very attractive alternative to broadly syndicated markets. So zooming in a bit, we really like

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our market positioning of lending to upper middle market companies at scale, and believe that Blue Owl will continue to take market share over time.

Turning to the third quarter specifically, as you can see on slide 15 of our presentation, our Direct Lending business saw record originations of $8.8 billion, surpassing the prior record of $5.1 billion from the second quarter of 2021. Market conditions remained very supportive of M&A activity during the quarter, and this favorable environment has sustained through the first part of the fourth quarter. Although it has been just six months since the merger between Dyal and Owl Rock, we've seen concrete and positive impacts to our deal flow as a result.

Direct Lending ended the quarter with $34.6 billion of AUM, reflecting an 11% growth from the prior quarter as a result of strong origination activity. If you go back about five years, I don't think there had been a single Direct Lending solution of $1 billion or greater. Year-to-date, we have signed or closed on 17 deals with facility sizes in excess of $1 billion. This clearly demonstrates how the addressable market for Direct Lending continues to expand as private equity sponsors and private companies value our ability to provide bespoke and flexible solutions and certainty of execution.

Performance remains very strong with a gross IRR of 12% and a net IRR of 9% since inception at the end of the third quarter for ORCC, our publicly-traded diversified lending BDC; and a gross IRR of 23% and net IRR of 18% since inception at the end of the third quarter for ORTF, our tech lending BDC. We've continued to focus on downside protection with a weighted average loan-to-value in the mid-40s in our diversified lending strategy; and a weighted average loan-to-value of less than 30% in our tech lending strategy as of September 30. And our credit performance remained strong, with annualized net realized losses of approximately 5 basis points since inception.

As Doug mentioned, retail fundraising within Direct Lending was roughly $500 million for the third quarter. We gained even more traction in October, with nearly $350 million raised in this month alone; and we continue to broaden our distribution and evaluate new products for retail. Between retail expansion, new product development, and the strength of our existing platforms, we're very optimistic about the growth ahead for our Direct Lending business and look forward to providing updates on new, exciting products in the coming quarters.

With that, let me turn it to my partner, Michael Rees, to discuss GP Solutions in more detail.

Michael Rees

Co-Founder, Co-President & Director, Blue Owl Capital, Inc.

Thank you, Marc. We continue to see investor interest in our GP Solutions strategy, which provides a balance of current income and appreciation potential tied to the continued growth of the industry. And from an investment standpoint, the pipeline remains very strong, as firms in the space continue to scale and require substantial growth capital to do so.

In the third quarter, we continued to form strong partnerships with top private managers, including CVC. We are extremely pleased to be establishing this relationship with CVC, the culmination of six years of productive dialogue and relationship-building. They're a true leader in the industry. As of today, we have invested, committed or have agreement in principle to commit approximately 65% of what we expect to raise for our GP minority equity strategy in our fifth fund.

Our value proposition of providing passive equity capital to premier managers through minority stakes has continued to resonate in the market. And even in the early days of Blue Owl, the merger between Owl Rock and Dyal, we've created significant touch points that can drive incremental opportunities down the road. Our GP

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Solutions business ended the quarter at $35.9 billion of AUM, reflecting new capital raised and appreciation across the portfolio. Performance remains very strong with Fund III marked at a gross IRR of 33% and net IRR of 25% since inception; and Fund IV marked at a gross IRR of 140% and net IRR of 86% since inception.

What people may not realize about these IRRs is that, in addition to the capital appreciation over time, investors are getting cash on cash returns on a regular basis, meaning our LPs are receiving significant amounts of income while their underlying investments appreciate. For example, as of September 30, Fund III, which closed only in 2016, has already returned approximately 75% of the capital contributed by the LPs in the fund, and we continue to hold the majority of our positions in each of those 10 underlying firms. We think our funds stand out in this respect, marrying potential for private equity returns with ongoing income generation.

We raised $1.6 billion of new capital during the quarter, primarily in our GP minority equity strategy, and we remain confident in our prior capital raising expectations for this strategy. We anticipate fundraising will continue through the balance of 2021 and into early 2022. As a reminder, the revenue generation for this strategy does not depend on when the funds close, as we earn catch up fees back to October 2020. Looking ahead, we're working on a number of interesting new products that I look forward to discussing in more detail on future calls.

With that, I will turn things over to Alan to discuss the financial results.

Alan J. Kirshenbaum

Chief Financial Officer, Blue Owl Capital, Inc.

Thank you, Michael. Good morning, everyone. I'm going to start off by walking through the numbers for this quarter, and then I'll touch on a few other items. I'll be making references to pages in our earnings presentation, as Ann mentioned, so please feel free to have that available to follow along.

As a reminder, the key drivers of our short- and intermediate-term growth include: one, deploying the capital that we've already raised, as we generally earn management fees on the total assets of our funds for Direct Lending; two, some of the products moving to full fees after their initial fee discount period; and three, raising new equity capital in Direct Lending and GP Solutions. And remember, for GP Solutions, we generally earn management fees on committed capital.

So, let's get into the quarterly results. Our third quarter reflected a continued strong deployment pace and fundraising across Direct Lending and GP Solutions, resulting in robust AUM and earnings growth. On slide 11, you can see adjusted revenues of $236 million, up 12%; FRE of $142 million, up 9%; and DE of $143 million, up 32%; all compared to the prior quarter.

Our third quarter was impacted by a significant tax benefit from a revenue share buyout with one of our large strategic investors that we announced in September. We expect the tax benefit to offset taxable earnings for the rest of the year, so you should not expect to see any material tax expense included in our DE results for the fourth quarter either.

We announced a dividend of $0.09 per share for the third quarter. This represents approximately 85% of DE, which continues to be our dividend target. Since transaction close, on an adjusted basis, our FRE margin was 61% and we continue to target a range of 65% to 70%. Our compensation expense as a percentage of total revenue was 29%, in line with our expected target of 25% to 30%.

On slide 12, we reported AUM of $70.5 billion, fee-paying AUM of $47 billion, and total permanent capital of $64.4 billion. AUM not yet paying fees was $9 billion as of September 30. As Doug mentioned, inclusive of the Oak

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Street acquisition, our AUM would be $83 billion. AUM grew 13% to $70.5 billion quarter-over-quarter, driven primarily by deployment of capital in Direct Lending, capital raising across the platform, and portfolio appreciation in GP Solutions. Fee-paying AUM grew 10% to $47 billion quarter-over-quarter, driven primarily by deployment in Direct Lending and capital raising across the platform.

AUM not yet paying fees reached $9 billion, including $6.4 billion in Direct Lending and $2.6 billion in GP Solutions. This AUM corresponds to an expected increase in annual management fees totaling approximately $140 million, primarily upon deployment for Direct Lending and upon the conclusion of the fee holiday for GP Solutions. If our tech BDC were to go public, we expect that could be another incremental $65 million of annualized management fees. These two factors alone could drive $205 million of annualized management fees, largely from permanent capital.

As Marc highlighted earlier, we had another record quarter of deployment in Direct Lending, with gross originations of $8.8 billion. That makes our gross originations for the last 12 months $19.7 billion, with $9.2 billion of net funded deployments. So, as it relates to the $6.4 billion of AUM not yet paying fees in Direct Lending, it would take us a little less than three quarters to fully deploy this, based on our average net funded deployment pace over the last 12 months.

Now, I'll move on to some comments around the announcements we've made during or subsequent to the third quarter, starting with the Oak Street acquisition. We expect the acquisition to close in the fourth quarter and, therefore, the financial impact of Oak Street will largely be felt in 2022 and beyond. As we highlighted in our presentation when we announced the acquisition, our base case expectation of accretion is 5% to 7% for 2022, with the potential for incremental value creation over time. This base case incorporates only Oak Street's existing business, and we are optimistic that we can potentially deliver greater accretion through the benefits of the combination that Doug highlighted earlier, including new product development and cross-selling opportunities.

Next, I'll touch briefly on the revenue share buyout I mentioned earlier, which we announced in September. One of our large strategic investors had revenue share economics across some of our Dyal Funds. When we bought out this revenue share arrangement, it created the tax benefit I described earlier. We view transactions like this as strategically important and accretive to Blue Owl shareholders, and we'll continue to further assess opportunities in this regard.

Turning to our balance sheet, we continue to be in a very strong capital position. You can see on slide 20 that we currently have almost $1 billion of liquidity with a long-dated capital structure that is comprised of $700 million of 10-year unsecured debt; $350 million of 30-year unsecured debt, which we issued subsequent to quarter end; and an undrawn $150 million revolver with almost 3 years of maturity remaining. We continue to monitor the debt capital markets as we see this as a source of flexible, cost-efficient capital to fund our strategic initiatives. Also, subsequent to quarter end, we instituted a dividend reinvestment program as an option for our shareholders. Details of that program can be found on our Investor Resources website.

Now, pulling the lens back for a moment, before we get into Q&A, we are very pleased with the progress we've made in the short time since our merger closed in May. We have some very exciting growth plans ahead of us and feel we are well-positioned to execute on them. We look forward to updating everyone on these in February next year. Thank you again to everyone who has joined us on the call today.

With that, operator, can we please open the line for questions?

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QUESTION AND ANSWER SECTION

Operator: Thank you. [Operator Instructions] Your first question comes from Alex Blostein with Goldman Sachs. Your line is open.

Alexander Blostein
Analyst, Goldman Sachs & Co. LLC

Q

Hey, good morning, everybody. Thanks for the update. Maybe we could start with the retail discussion. Obviously, big number in terms of fundraising in the quarter. I think I heard you guys say $500 million Direct Lending. And not too long ago, I think it was running at about $100 million a month, so quite a step up. So, maybe just take us through what happened in the last couple of months to drive the increase. Sounds like October is off to a pretty strong start as well. Is that largely coming through the open-ended fund, I think it's ORCIC? And how the fee structure sort of works on this incremental capital that's coming in, is it NAV-based or is it on deployed capital?

Douglas Irving Ostrover
Co-Founder, Chief Executive Officer & Director, Blue Owl Capital, Inc.

A

Okay. Well, good morning, and thanks for the question. This is Doug. I'm going to hit on all your points, but I just want to start from the beginning, from day one. When we built our business, we built it to be retail-ready. We really wanted to be a pioneer in bringing alts to retail. So, I think you know this, but maybe not everyone on the phone does. We've been in the retail market for over six years. I think we've created a strong brand. We've got broad distribution. We can handle meaningful volume. And our view is, today we are becoming one of the top alternative players within retail.

We've got a very big distribution network. We work with some of the largest wirehouses, independent broker-dealers, RIAs, family offices. I don't know the exact number of FAs that we're touching, but I think it's over 100,000 today and growing. We've got a large team that covers those advisers, lots of salespeople and support functions. We expect to grow that team modestly in the US. We'll talk more about this in future calls, but I think you'll see us really ramp the team in Asia and Europe; and we've already made some hires.

As we said in the prepared remarks, we raised over $1.1 billion of equity across retail. So that breaks out $500 million from our Direct Lending, $600 million to GP Solutions. And as was mentioned, pro forma for Oak Street, for the third quarter, we would have been at $1.6 billion because Oak Street raised $500 million. Let me focus for a minute on the $500 million that you referenced that we raised in Direct Lending. Most of that came from what we call our Core Income Fund which is perpetually offered.

We were in just one wirehouse partway through the third quarter, and we've added one additional wirehouse subsequent to quarter end. We're continuing to see really good traction. As you mentioned, our sales are stepping up from $500 million in the third quarter to a nice quarter in October, $350 million. We're proud of that. We think we can expand upon that. We are very optimistic; very about what we can achieve over time.

Just to take a step back, we have believed since day one, since we launched six years ago that retail is a very large opportunity. It's as large, if not larger than the institutional market, but with much lower adoption rates. We think our products are very competitive. Our performance has been strong and I don't think many people realize this, but one of the unique things about our platform is we built our firm from day one to serve our institutional and our retail investors in the same way. Not everyone does it that way, and we think that makes a big difference in terms of what the retail experience is going to be.

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So we're optimistic as it relates to retail. We're not ready to make any big predictions at this point. We'll see how things go as we continue to expand distribution and the types of products that we offer into retail. One last thing which we haven't talked much about, but we are really excited for what we can do with both Dyal and the Oak Street strategies in the retail markets. We'll have a lot more to say on this in the upcoming quarters. October was strong, and we're going to continue to execute there.

Alan J. Kirshenbaum
Chief Financial Officer, Blue Owl Capital, Inc.
A

And Alex, for our Core Income product, ORCIC, we charge management fees on NAV.

Alexander Blostein
Analyst, Goldman Sachs & Co. LLC
Q

Got it. Perfect. That was great. Thank you, guys, very much. Second question, maybe a little bit more technical in nature, but clearly the technicals around the stock continue to be sort of focused around the lock-up. So, maybe it'd be helpful to just flesh out what are the important dates investors should be mindful of when it comes to any shares unlocking post the deal closing in May; I think it's in the middle of November, but also a framework in terms of how many shares get unlocked and how, if any offering does happen, kind of how – what that could look like? Thanks.

Alan J. Kirshenbaum
Chief Financial Officer, Blue Owl Capital, Inc.
A

Thanks, Alex. Really good question. So, as a reminder for everyone, we have a lock-up expiration coming up next Friday, November 19. Although about 55% of our outstanding shares were coming off lock-up at that time, the overwhelming majority of those shares are still sitting in private units in our structure. But I do want to provide some added transparency here. Since it's an important question, it's something I wanted to address. I'm going to run through a breakdown of our shares as of September 30 to map all of this out.

So we have about a total of 1.4 billion outstanding shares. Of this amount, about 365 million shares are public shares; we call these the Class A common shares. These shares are either in the market currently or available for trading on November 19. And more specifically, 170 million shares of the 365 million shares are rolling off lock-up on November 19. So the rest, almost 200 million shares within this 365 million shares, are already in the market. Now, the remaining outstanding shares, a little over 1 billion shares, are in private units in our structure and we call these the Common Units.

So, let's also break this down a little more. As a reminder, on a quarterly basis our private unitholders have the ability to exchange their private units for public shares. And remember, we as the management team, we hold about 300 million shares and we're subject to a two-year lock-up. So we will not be part of any share sales for the foreseeable future. Separately from these quarterly exchanges, approximately half of these private units or about 500 million shares can be exchanged at any time and become immediately available-for-sale.

So, finally, as a reminder, certain of our large shareholders have registration rights. It's possible that one or more holders may seek to do an underwritten secondary offering at some point, following the expiration of the lock-up. We do expect that any offering would obviously be subject to market conditions and other factors, and we expect to continue to engage with our larger shareholders to help facilitate any sales in an orderly manner.

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Alexander Blostein
Analyst, Goldman Sachs & Co. LLC

Q

Great. Very helpful for that. Lots more we can cover, but I'll jump back in the queue for now. Thanks.

Alan J. Kirshenbaum
Chief Financial Officer, Blue Owl Capital, Inc.

A

Thank you, Alex.

Douglas Irving Ostrover
Co-Founder, Chief Executive Officer & Director, Blue Owl Capital, Inc.

A

Thanks, Alex.

Operator: And your next question comes from the line of Robert Lee with KBW. Your line's open.

Robert Lee
Analyst, Keefe, Bruyette & Woods, Inc.

Q

Great. Thanks, everyone. Thanks for the full update and for taking our questions. I guess, maybe I'd like to ask on Oak Tree a bit, so – or, sorry, Oak Street a bit. The – you had a pretty nice – they had a pretty nice jump in AUM obviously from the end of June to the end of October. And I know there's a limit to what you can say, you gave some color on their inflows, but anything you could relay in terms of what's actually their current dry powder, how we should think about, once they close, kind of just kind of the built-in earnings growth that's already on the platform? That is my first question.

Marc S. Lipschultz
Co-Founder, Co-President & Director, Blue Owl Capital, Inc.

A

Sure. So, maybe I could just start out – this is Marc – talking about kind of the Oak Street acquisition and where we are at some of their progress, and then we can jump into a couple of numbers. So, first, I think what you are seeing is what we saw in wanting to combine with the Oak Street, which is really an exceptionally strong franchise with a great set of products that particularly meet the moment of – the risk returns are very compelling. This is a product and the reason that we acquired Oak Street, I think, is something you'll find indicative of how we think about strategy.

We – we're not interested in growing AUM to grow AUM. We've talked about this, I think you'll continuously hear us talk in a very different way on these calls. AUM is certainly part of our business, but it's not an end state for us, we want to grow the earnings power of this business. And what we really want and what we found in Oak Street was an industry-leading scaled franchise in an asset class with a large addressable market. So, key point there, we really want to lead in the products that we're in.

The second thing, a strategy that lends itself well to permanent capital and long-dated capital, and we'll talk about that at a moment when Alan comments on some numbers, but you can see that in part with the retail flows that are evolved in that business as well. Three, high margin business. We like high margin growth businesses. Again, that's Oak Street. And a complementary investment strategy to what we already have.

And then, over all of that, which will always be imperative from our point of view, is a very strong cultural fit. We are trying to build a business that really has a common DNA about what we're trying to accomplish as we go forward in the next 10 years and beyond. So, that's really what we saw in Oak Street.

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And then, what we're looking for is a business that we can take that's already doing great and help accelerate its growth through access to the Blue Owl ecosystem, which will be a great benefit to the LPs of the – on this case, Oak Street, but any company that's joined our system; and a great benefit to our shareholders.

So, that's really what we're trying to accomplish in focusing on Oak Street. And now, to come to your question on the composition of their growth which, again, I think reflects the compelling nature of their products, I'll just turn it to Alan for a moment.

Alan J. Kirshenbaum
Chief Financial Officer, Blue Owl Capital, Inc.
A

Thank you, Marc. Thank you, Robert. So, the Oak Street business is about $12.4 billion of AUM. We saw about a 15% growth quarter-over-quarter. Of the $12.4 billion, a little more than a third of that is permanent capital, and about half of the $12.4 billion is fee-paying AUM. So, they use leverage on their products and they charge on NAV. So, that's the difference between fee-paying and overall AUM.

Robert Lee
Analyst, Keefe, Bruyette & Woods, Inc.
Q

Great. That's helpful. And then, maybe real quickly just also on – in GP stakes and Fund V, can you just maybe update us kind of where it is currently? I know you're still fundraising, but the – how we should think of that flowing into fee-paying and future closes and what does this – what do you currently think – I know it's – you're still raising this, but obviously this probably accelerates the next fund. So, if you can – any color you might have on how we should start thinking about that from a modeling perspective as we get laid into 2022 or 2023, kind of what's the break you would take between fundraising?

Michael Rees
Co-Founder, Co-President & Director, Blue Owl Capital, Inc.
A

Thank you, Robert. This is Michael. We had a really good quarter in GP Solutions. We deployed significant capital with our CVC transaction and continued very steady progress towards our target overall fundraise for Fund V. We'll continue that through the back half of this year and early into next year. A number of clients are looking at investing now out of their 2022 calendar, so we'll spill over there. As you know, the fees get paid back all the way to the original closing in October of last year. So, really, the timing of the dollars coming in is less relevant for this fund.

But you hit on a really good question about what future fund raises look like. We're not certain yet and not giving guidance towards it, but we're about two-thirds deployed on Fund V, and that's the real measure for when the next fundraise will start. We always want to have dry powder and continue our position as a market leader in this space. So, we'll keep you updated on future deployment as we go into Q4 and early next year, and that should give everybody some sense for when Fund VI will come.

Robert Lee
Analyst, Keefe, Bruyette & Woods, Inc.
Q

Great. And if I could maybe just squeeze one more in. I appreciate your patience. Maybe for Alan, just so on – just to make sure I have it clear, on the lock-ups, on the November 19, there's 170 million shares of Class A that rolls off a lock-up, and then there's 500 million shares that are currently in private units that will come off lock-ups and have register – and can be exchanged quarterly and have registration rights, is that kind of the right way to think of it? Almost 700 million shares, theoretically, on November 19?

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Alan J. Kirshenbaum
Chief Financial Officer, Blue Owl Capital, Inc.
A

The – I think that's the right way to think about it. The 500 million shares of the 1 billion shares that are in private units, those can be exchanged at any time. The – so, yes, I think you should think of it that way.

Robert Lee
Analyst, Keefe, Bruyette & Woods, Inc.
Q

Okay. Great. Thank you so much for taking my questions.

Alan J. Kirshenbaum
Chief Financial Officer, Blue Owl Capital, Inc.
A

Thank you, Robert.

Douglas Irving Ostrover
Co-Founder, Chief Executive Officer & Director, Blue Owl Capital, Inc.
A

Thank you.

Operator: [Operator Instructions] Your next question comes from the line of Patrick Davitt with Autonomous Research. Your line's open.

Patrick Davitt
Analyst, Autonomous Research LLP
Q

Hey, guys. Good morning. On retail again, so you had one wirehouse in 3Q, now two in 4Q, selling the ORCIC product, and volume has clearly stepped up already meaningfully. So, maybe you could update us on the pipeline of adding even more wirehouses, and it seems like just adding the one has already brought up the volume there pretty meaningfully? And then, maybe the timing of bringing on more wirehouses.

Douglas Irving Ostrover
Co-Founder, Chief Executive Officer & Director, Blue Owl Capital, Inc.
A

Yeah. Hi, this is Doug. I'm – and thanks for the question. I think the way to think about it is we expect, by the middle of next year, to have a very robust slate of partners selling our products. And I say products, we hope to have more than one product in the market at that point. So, can't really give you an exact number but I think if you give us six to nine months, I think we'll have a syndicate put together that will rival any of our peers. And as I mentioned, we expect the Core Income Fund, those sales to continue to increase.

We're working with Dyal. We're working on other products at Owl Rock. And then, obviously, the Oak Street product, we are really excited about. I think you know, the non-traded REIT asset classes is really large. We're not sure exactly what our structure will be, whether we'll be a non-traded REIT or another structure, but we think there is significant retail appetite for real estate products and we think this product will – the Oak Street product will compare really favorably to what's currently in the market.

Marc S. Lipschultz
Co-Founder, Co-President & Director, Blue Owl Capital, Inc.
A

This is Marc, just to tack on to that last point. Now, remember, the Oak Street product is really distinctive. And part of, again, why we were so drawn to Marc Zahr and the Oak Street business, because it is – it's in the same

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vein, it's in real estate, and it owns the hard assets but their tenants are investment-grade counterparties with very long-dated leases. So, the nature of the stability of the income that gets generated by Oak Street is really, frankly, it's in a different category from what the market has seen to-date in the retail side.

Patrick Davitt
Analyst, Autonomous Research LLP

Q

Great. That's helpful. Thanks. And on the new products front, I think you filed for a tech lending product, similar to ORCIC, recently. Could you remind us what the kind of timeline is for – from filing to going live for something like that could be?

Douglas Irving Ostrover
Co-Founder, Chief Executive Officer & Director, Blue Owl Capital, Inc.

A

Well, we are – right now, we're focused on rolling out our second tech BDC. That's the focus. We're working with some of the wirehouses to see when and if we should roll-out a perpetually offered tech product. But I think, over the next couple of quarters, our primary focus will be on our new tech lending. We're fully invested in the first fund, we're getting a really good reception, and we'll have a lot more to say on that tech strategy in the next two quarters.

Patrick Davitt
Analyst, Autonomous Research LLP

Q

Great. Thanks. And one quick one, if I can throw one more. The expenses I think were a little bit higher than most of us were expecting. Was there anything lumpy in there around the deal being closed or anything else, or should we think about this being kind of the right run rate from here, particularly on the G&A side.

Alan J. Kirshenbaum
Chief Financial Officer, Blue Owl Capital, Inc.

A

Thanks, Patrick. It's a little higher than our run rate level. Taking a step back, it's hard to look at any one quarter in isolation. We had some smaller one-time items in our expense line this quarter. A little bit deal-related, a little bit fundraising-related. And we've been hiring in advance of our growth, and that will normalize over the next quarter or so. Pulling the lens back, I think I noted in my prepared remarks, we're certainly within our comp-to-revenue range of 25% to 30%, although we're on the higher end, and I do expect that will come down; and we're on track to hit our 65% to 70% EBITDA margin target next year.

Patrick Davitt
Analyst, Autonomous Research LLP

Q

Thanks a lot.

Alan J. Kirshenbaum
Chief Financial Officer, Blue Owl Capital, Inc.

A

Of course.

Douglas Irving Ostrover
Co-Founder, Chief Executive Officer & Director, Blue Owl Capital, Inc.

A

Thank you, Patrick.

Operator: All right. And we have a follow-up question from Alex Blostein with Goldman Sachs. Your line is open.

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Alexander Blostein
Analyst, Goldman Sachs & Co. LLC

Q

Hey. Thanks for taking the follow-up. I wanted to go back to Marc's comments around origination, and the numbers definitely stood out this quarter. You guys get almost $9 billion of gross originations versus $5 billion, I guess, last quarter. We tend to think of just the origination volume as perhaps more of a binding constraint for growth for you guys, given the fact that everybody's chasing yield.

So, impressive growth, so maybe take a step back and walk us through the sources of acceleration sequentially. And it sounds like, Q4, you're running at about a similar pace. So, is it tech, is it the traditional BDC Direct Lending products? Just a little more color there in the opportunities, that would be great.

Marc S. Lipschultz
Co-Founder, Co-President & Director, Blue Owl Capital, Inc.

A

Yeah. More than happy to, and thank you again for the time today. So, we continue to see very robust growth in demand for the Direct Lending products. And candidly, I think we see that very much continuing, as you said, to be specific. And Craig commented on this on the earnings call for ORCC the other day. We are seeing great strength carry forward into the fourth quarter. I mean, the third quarter's volumes were obviously tremendous. But if you look at the fourth quarter, we have every reason to think it's going to be another robust quarter, maybe roughly it's back more to Q2 than Q3 which was pretty anomalous.

But the demand side of this equation is really exceptional, and I think it reflects a few things. Certainly, it reflects the continued adoption by the private equity community of the private solution and, of course, the continued secular growth of the private equity funds themselves. So there's, what, at least $1.4 trillion of dry powder in the hands of private equity firms, $400 billion raised just in the second half. We all know what the funds flows look like which, of course, we're the beneficiaries of on the GP stake side of our business as well. But in any case, that growth builds in the structural demand for financings.

And so, what we're seeing is a growth in the overall demand for financing, and then a growth in share for Direct Lending solutions. And why is that? I think there's a few things going on. One is just the ability by a handful of us to meet the largest financing needs. And part of the strategy for Blue Owl and Owl Rock from the beginning was to be one of the few people that could be the one-stop shop for any financing required.

And that's continue to be true, and we've continued to grow along with a couple of our peers. And so now we can finance, as noted, $1 billion-plus capital structures. So part of the reason, back five years ago, there hadn't been $1 billion financing was partly because of the demand side in terms of what people would use Direct Lending solutions for, but partly because where was the available capital? Now, both have met each other. So, $17 billion-plus financings that just we've participated in this year.

And I do think that's reflective of a continuing trend that we feel is pretty durable. And the reason that's durable, just to reference back to the earlier comments, the three Ps of Direct Lending which is really predictability and privacy and partnership. And that last one, partnership, is really front of mind for users of capital. The power of knowing who holds that very large part of your capital structure when you've invested a huge amount of equity. Remember that our share of these capital structures has been coming down, an unusual feature in a later-stage, so to speak, of some kind of economic cycle.

And so, we're now down in the mid-40s in our typical loan and below $30 billion in tech. So, protecting that equity, it's a very small price to pay. To pay incremental, yes, it costs more. Yes, the documents are tighter. But you also

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know who to pick up the phone and call when you want to make a change for better or worse, preferably for better. So, we really feel like a very durable dynamic and feel very good about the book we've built, and don't really see a practical limit to sort of the addressable market out there.

Alexander Blostein
Analyst, Goldman Sachs & Co. LLC

Q

Great. Very helpful. Thanks. Last one, I promise. This one's for Alan; the revenue share stuff. I think I heard you say, there are potentially more revenue share that could be renegotiated just like you guys did at this quarter. Besides the tax benefit, are there any other kind of P&L or impact on pre-tax DE we should be thinking about when things like that happen?

Alan J. Kirshenbaum
Chief Financial Officer, Blue Owl Capital, Inc.

A

Great question, Alex. Thank you. We have a few small revenue shares remaining in one of the Dyal Funds, and we have – part of what we've done over the past six years is we have some seed investors in different parts of our capital structure. They come through the minority interest line, so that's already fully consolidated into our result. And I commented in my prepared remarks that we'll continue to assess other opportunities. We just completed a buyout of our tech seed investors, which closed yesterday. And so, you'll see a comment in that in our Q. That just wipes out the minority interest portion that's already fully embedded in our revenues and our expenses.

Alexander Blostein
Analyst, Goldman Sachs & Co. LLC

Q

Got it. Thanks again for all the time.

Alan J. Kirshenbaum
Chief Financial Officer, Blue Owl Capital, Inc.

A

Of course, thank you, Alex.

Operator: All right, we also have a follow up question from Robert Lee with KBW. Your line is open.

Robert Lee
Analyst, Keefe, Bruyette & Woods, Inc.

Q

Great. Thanks for taking my follow-up, and there was a lot of questions and conversation about products and new product development, and there's a lot going on. I'm just kind of curious, I mean, where things stand, I know you had talked in the past about your co-invest strategic capital and I think also kind of a GP secondaries once all the firms were kind of married together. So, any update on how you're thinking about that as we start to look into 2022 and beyond, if those are getting close to launch, some of those products?

Michael Rees
Co-Founder, Co-President & Director, Blue Owl Capital, Inc.

A

Thanks, Robert. This is Michael. Those – the area of co-investment and secondary are two that we feel very strongly about, as the overall industry continues to evolve. I think we're seeing real structural change in the industry, and those parts of the market are ripe for long-term structural growth. We have alluded to, in the past, product development in this area and we are getting very close to having announcements that we can [indiscernible] (00:54:10).

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But our ecosystem across the Blue Owl platform, as Marc said, of being a capital provider from a GP Solution on the far spectrum to a portfolio company loan on the other and everything in between, that that business model is what we're executing on. And as we continue to fill in some of those product gaps, we think that the ecosystem will really play to our benefit.

Robert Lee

Analyst, Keefe, Bruyette & Woods, Inc.

Q

Great. That was it. Thanks for taking my question.

Douglas Irving Ostrover

Co-Founder, Chief Executive Officer & Director, Blue Owl Capital, Inc.

A

Thank you, Robert.

Operator: All right. [Operator Instructions] All right. There are no further questions at this time. I'll have to call back to Doug Ostrover for any closing remarks.

Douglas Irving Ostrover

Co-Founder, Chief Executive Officer & Director, Blue Owl Capital, Inc.

Well, thank you. And I just wanted to take a minute, thank everybody again for joining. I know I speak on behalf of everyone at Blue Owl when I say we're grateful for the partnership, the support. We look forward to speaking with all of you next quarter, and thanks again.

Operator: All right. Thank you. And that concludes the Blue Owl Third Quarter 2021 Conference Call. You may now disconnect.

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