

Fitch Expects to Rate Blackstone Group's Unsecured Notes 'A+'

Written by Australian Business

NEW YORK--([BUSINESS WIRE](#))--Fitch Ratings expects to assign a rating of 'A+' to Blackstone Holdings Finance Co. L.L.C.'s 30-year unsecured debt issuance, in an amount up to \$500 million. The new notes will rank equally with existing unsecured debt and benefit from a joint and several guarantee from The Blackstone Group L.P., and Blackstone Holdings I, II, III, and IV L.P. (collectively Blackstone Holdings), which collect all management fees, incentive income, and investment income of the firm. Proceeds are expected to be used for general corporate purposes, including the funding of balance sheet co-investment commitments and potential acquisition opportunities.

KEY RATING DRIVERS

The ratings for Blackstone reflect its position as a leading diversified global alternative investment manager, its experienced management team, strong corporate culture, institutional investor base, large base of fee-earning assets under management (FAUM), which has demonstrated consistent growth, core operating consistency, modest cash flow leverage and subordination of general partner (GP) interests to outstanding indebtedness.

If the full \$500 million debt issuance is undertaken, it will push the firm's leverage ratio, as calculated as gross debt relative to fee related earnings before interest, taxes, depreciation and amortization (FEBITDA) from 1.72x at year-end 2013, to 2.24x, all else equal. This higher leverage ratio remains in-line with the peer average of 2.38x at year-end 2013 and below Fitch's general tolerance of 2.5x for alternative asset managers in the 'A' category.

The Stable Rating Outlook for Blackstone reflects Fitch's belief that core fundamentals will remain solid in 2014, and that the firm will continue to produce consistent investment performance to support future fundraising and FAUM expansion, and retain a solid liquidity profile in order to cover operating expenses and meet co-investment commitments to funds.

However, as a broader concern for the industry, Fitch believes alternative asset managers have a significant amount of capital to invest at a time when credit markets are frothy and valuations are high. There is more capital chasing fewer deals, which could lead

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to significant fund underperformance if competition bids prices up further. Outsized vintage concentration could potentially exacerbate this issue. While most of the large managers have operated through a variety of market cycles, and have demonstrated investment restraint, pressure for returns from limited partners is higher than ever, given the length of time that interest rates have been at low absolute levels.

RATING SENSITIVITIES

Fitch believes positive rating momentum for Blackstone is limited, given their current rating level and the nature and risk profile of the business, including the impact that key man events and/or reputational damage can have on the franchise and future fundraising prospects.

Negative rating actions could be driven by material changes in operating strategy or leverage tolerance resulting from changes in senior management or declines in investment performance which adversely impact the business franchise, meaningful FAUM and margin contraction which impairs FEBITDA, reduced product line diversity, sustained increases in leverage above Fitch's investment grade tolerance, and/or impairment of the liquidity profile as it relates to operating needs, debt maturities, and co-investment commitments.

Legislative risk and/or prolonged market disruptions that impact the ability to fundraise or arrange attractive exit opportunities could yield negative rating momentum for the industry overall.

Fitch has assigned the following expected rating:

Blackstone Holdings Finance Co. L.L.C.

--Unsecured debt 'A+' (exp).

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Fitch currently rates the following:

The Blackstone Group L.P.

Blackstone Holdings I, II, III, and IV L.P.

--Long-term IDR 'A+; and

--Short-term IDR 'F1'.

Blackstone Holdings Finance Co. L.L.C.

--Long-term IDR 'A+;

--Short-term IDR 'F1'; and

--Unsecured debt 'A+'.

Additional information is available at 'www.fitchratings.com'.

Applicable Criteria and Related Research:

--'Global Financial Institutions Rating Criteria' (January 2014);

--'Investment Manager and Alternative Funds Criteria' (December 2013).

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Global Financial Institutions Rating Criteria

http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=732397

Investment Manager and Alternative Funds Criteria

http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=725057

Additional Disclosure

Solicitation Status

http://www.fitchratings.com/gws/en/disclosure/solicitation?pr_id=826035

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