2021 WILLIAM AND MARY DAME STOCK PITCH COMPETITION

KKR & Co. (NYSE:KKR)

RECOMMENDATION: BUY

February 25, 2021 | Discussion Materials

Investment Highlights

KKR's unmatched business model and levers for growth present an investment with high upside and low downside.

1 Contractual Revenues

86% of firm capital is locked up for 8+ years earning stable fees with $66 billion committed that hasn't even hit top line yet

2 Margin of Safety

Over 50% of KKR's current market capitalization is covered by book value of cash and investments

3 Runway for Growth

Growth in DE and BV due to underlying investment performance, AUM growth, monetization of BS Investments, and **operating leverage**

4 Virtuous Feedback Loop

KKR's stellar reputation leads to high AUM, which leads to the best talent, which leads to strong returns and a **self-reinforcing cycle of success**

Scenario	Bear	Base	Bull
Price	**$44.64**	**$65.94**	**$77.84**
Upside	**(2%)**	**45%**	**71%**

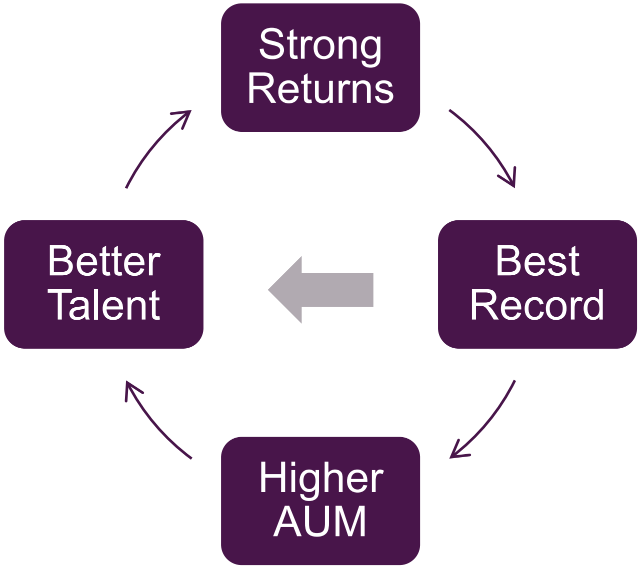
Source: KKR Investor Relations, Team Estimates

KKR's business model is one of the best on Earth

KKR is an A+ player in a game where the odds are skewed heavily in their favor.

KKR has all the qualities of a phenomenal business

1. **Recurring Revenue:** 86% of capital is locked up for 8+ years and 33% of capital is permanent
2. **Consistent Growth:** 4 flagships raising, with 20 strategies launching in next 2 years + GA acquisition
3. **Operating Leverage:** Incremental margins are high due to asset light model and comp structure
4. **Aligned Incentives:** Insiders own 37% of the firm and KKR invests $14 billion alongside their LPs
5. **Impenetrable Moat**: 45 year track record of outperformance = unbeatable reputation = more AUM



Source: Company filings

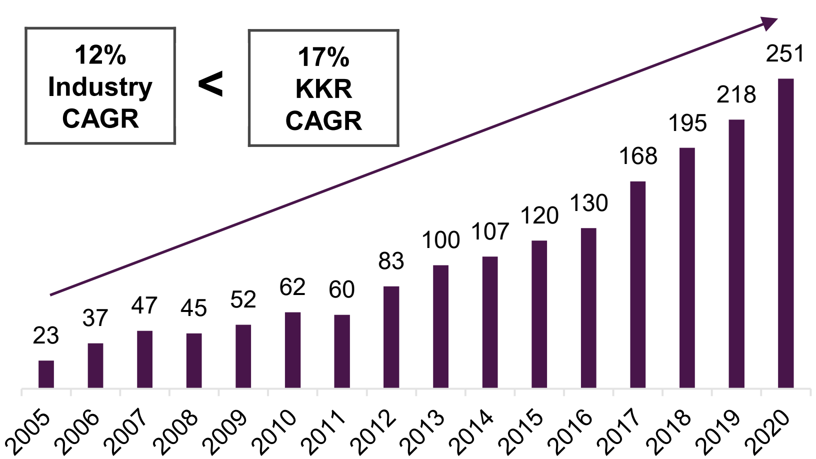
The Rich Get Richer

Megafunds, such as KKR, are increasingly dominating the alt. asset management industry in AUM, returns and talent.

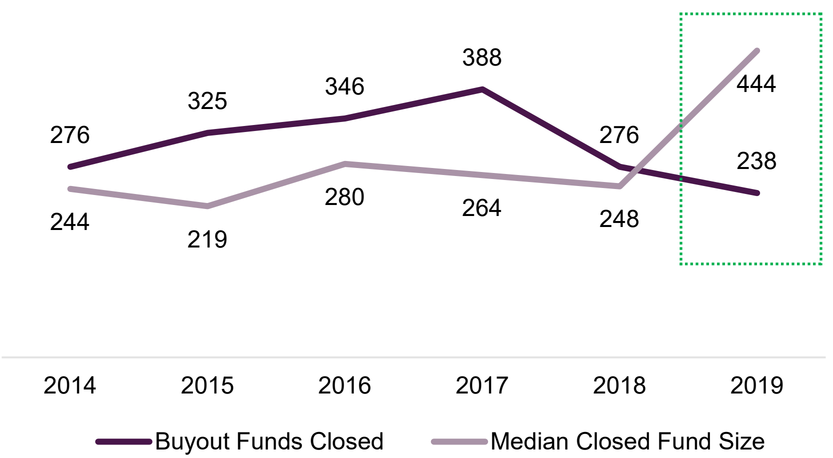
Fundraising favors larger firms

1. Megafunds with long track records are “safe,” with little career risk for a CIO, even if returns lag
2. Larger firms attract the best talent, which produces the best returns, which increases AUM
3. In a zero rate environment, LPs need a credible path to 8% returns offered by alt. assets

KKR AUM growth trumps alt. asset industry[1]



More capital is flowing to fewer firms



Source: Bain & Co. Global Private Equity Report 2019, KKR Investor Relations

(1) $ billions

KKR has an immense runway for growth

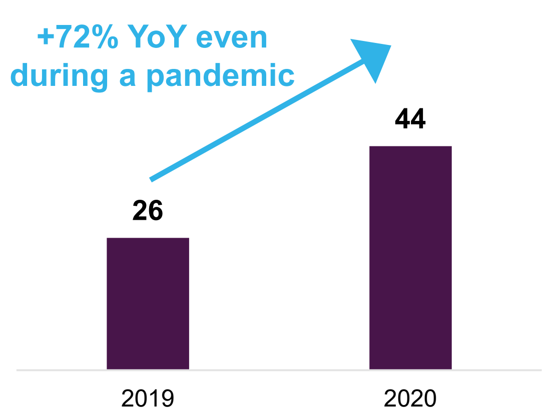
Although already an investing behemoth, KKR boasts a plethora of levers for realized growth.

Global Atlantic is a major step

1. KKR will become GA's investment manager, increasing their permanent capital base to 33% of AUM
2. GA is a top 5 provider of fixed annuities (ahead of Apollo's Athene)
3. GA brings a 29% CAGR in assets since 2013
4. Transaction expected to be accretive in AUM, FPAUM, BV, FRE, and After-tax DE

2020 was a record year for KKR fundraising

($ Fundraising in billions)



Over $30 billion of capital deployed in 2020 (record)

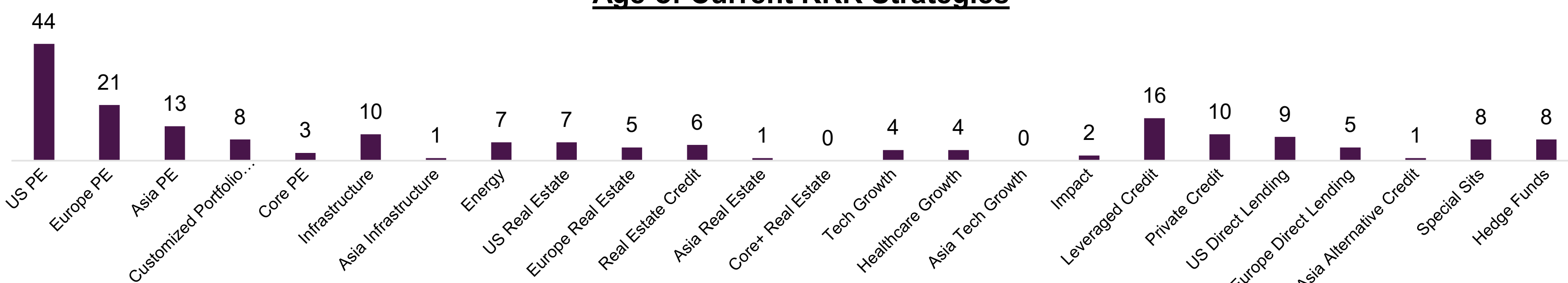
Over $66 billion in uncalled capital ready to deploy

Sell-side expected $100B capital raise in 2021

Younger, scaling strategies are an important tailwind

- It takes 10 years to scale a new strategy and **KKR has about 20 strategies that are under 10 years old**
- Newer funds are a drag on margins until larger, successor funds are raised and **operating leverage** kicks in
- **Four flagship strategies are currently raising** and 20+ additional strategies are expected to launch over the next two years

Age of Current KKR Strategies



Source: Company filings, Bain Global Private Equity Report 2020

Valuation Framework

KKR is best valued using a Sum of the Parts approach.

Franchise Value

Fee-Related Earnings

$1.39/sh.

Represents the baseline earnings of KKR's business

Future Incentives

Incentive generating AUM

Created from strategies with an incentive fee component

+

Asset Value

Book Value

$23.09/sh.

Cash & Investments net of debt, NCI & pref. shares

Net Accrued Incentives

Profit from BS Investments

Flowing at higher margin due to 90% carry

Source: Oaktree Memo, Team Estimates, Company filings

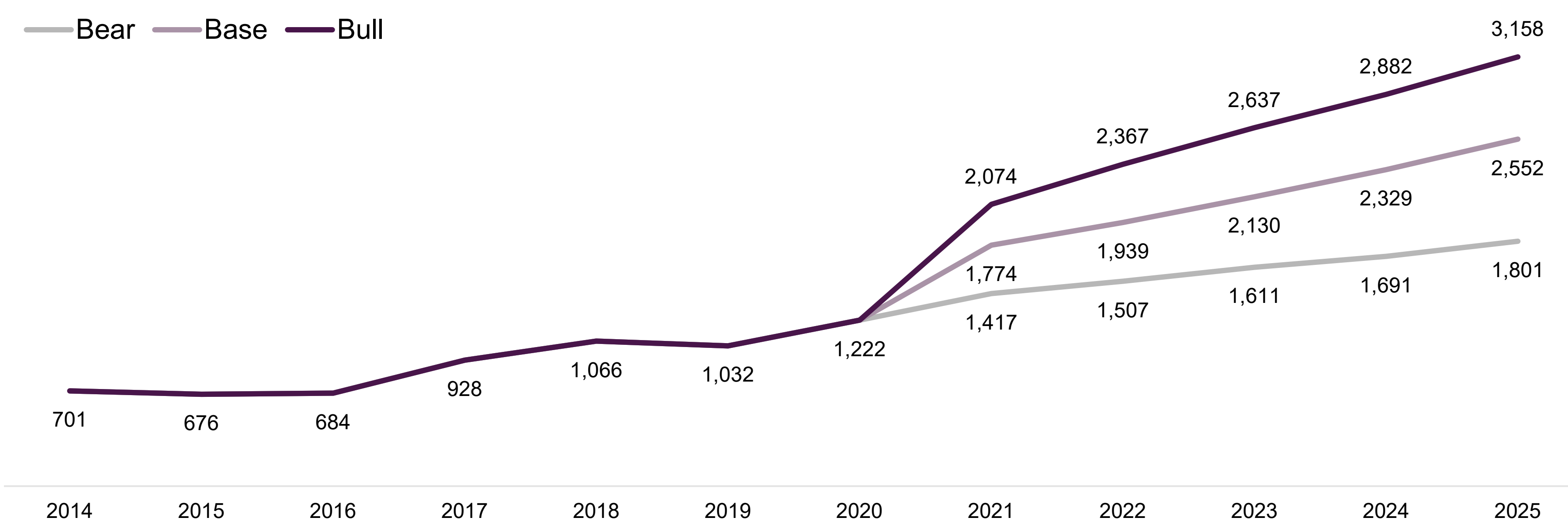
Management Fees are incredibly stable

KKR's management are high margin and predictable, almost "annuity-like."

Death, taxes, KKR management fee growth

1	20 straight years of positive management fee growth with $160 billion in FPAUM
2	$66 billion in uncalled capital commitments will drive roughly $700m in management fee growth
3	Global Atlantic acquisition will grow FPAUM by 48% to $279 billion

Fee Related Earnings Scenario Analysis ($m)



Source: KKR Investor Relations, Team Estimates

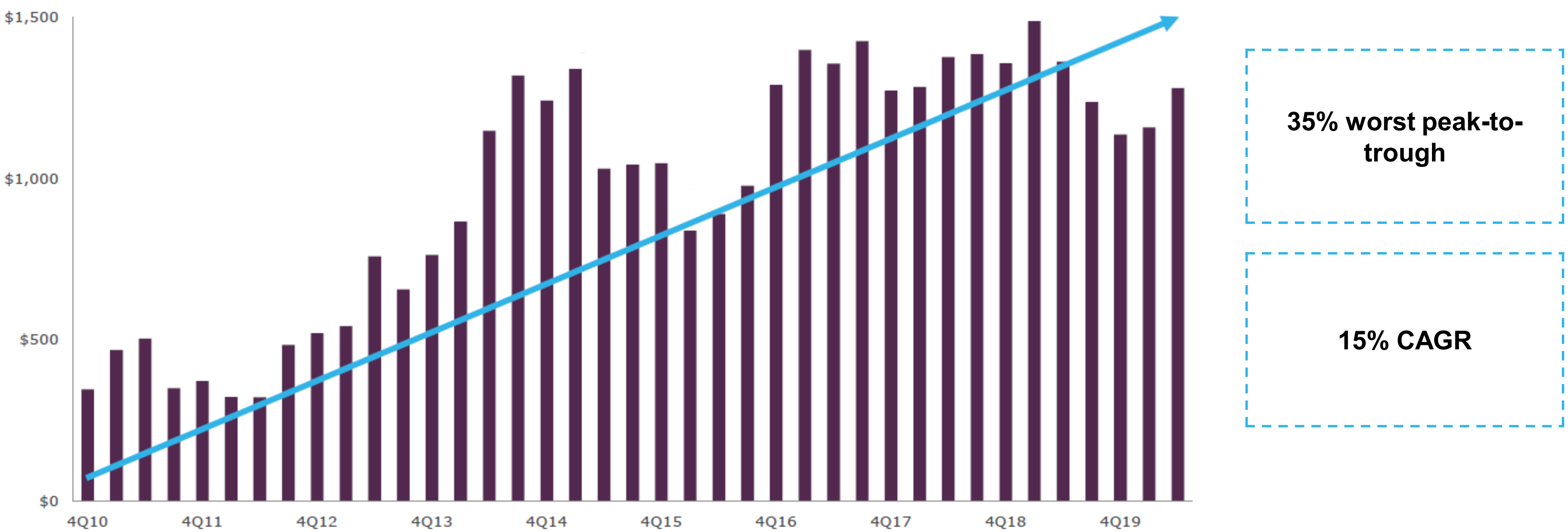
Performance Fees are under appreciated

Performance Fees are stable and contribute regularly to DE, with related expenses being highly variable.

Roughly 81% of KKR's capital is performance fee eligible

1	40+ quarters in a row of positive realized carried interest
2	Consistent CAGR of 15% growth of realized performance income over the last 10 years
3	New compensation target of 60 to 70% margin aligns interests and provides operating leverage

Realized Performance Income – Rolling LTM ($m)



Source: KKR Investor Relations

KKR accounting understates earnings potential

KKR's differentiated focus on compounding delivers LT value but understates distributable earnings

Balance Sheet is a strategic weapon

1. KKR balance sheet is larger than Blackstone, Apollo and Carlyle **combined**
2. Allows for buybacks in sell-offs ($1.3 billion repurchased over last 5 years at avg. cost of $18.75)
3. Earnings are understated due to accrual on balance sheet instead of adjusted income statement
4. Back-to-back quarters of 14% book value growth

$ in millions	2016	2017	2018	2019	LTM
BS Investments	**$ 6,959**	**$ 8,489**	**$ 9,847**	**$ 13,026**	**$ 14,042**
x est. return on BS investments	15%	15%	15%	15%	15%
Implied Inv. Income (illustrative)	1,044	1,273	1,477	1,954	2,106
Realized Inv. Income (act.)	(694)	(480)	(652)	(686)	(259)
Unrealized Inv. Income (est.)	**$ 350**	**$ 793**	**$ 825**	**$ 1,268**	**$ 1,847**

Roughly $2.00 of untapped distributable revenue per share accrued on balance sheet instead of reported on adjusted income statement

Source: Company filings

SOTP Valuation - BASE

Sum of the Parts Target Share Price	
Book Value per Adj Share	**$ 23.09**
Multiple (1)	1.2x
Book Value per Adj. Share	**$ 27.71**
LTM Fee-Related Earnings	**$ 1,222**
Adjusted Shares	878
LTM FRE per Adj Share	**$ 1.39**
Multiple (2)	20.0x
FRE Value per Adj. Share	**$ 27.84**
PV of Future Performance Fees (3)	**$ 7.50**
Global Atlantic Mgmt. Fees	200
Margin	75%
Tax Rate	21%
A/T FRE	**118.5**
2022E Adj Shares	902
FRE per Adj Share	**$ 0.13**
FRE Multiple	22.0x
Global Atlantic Value	**$2.89**
Implied KKR Value per Class A Share	**$ 65.94**
Current KKR Share Price	$ 45.44
Upside	36%

1. **Greater than 1.0x multiple on book value reflects compounding opportunity and back-to-back quarters of 14% growth in BV**

2. **Conservative multiple compared to BX estimates (23-26x), Apollo (20-23x), and Softbank Fortress Acquis. (15x)**

3. **Assumes a 2.0x MOIC on private equity funds and a 6% IRR on public investments, both far below KKR's historical average**

Source: Team Estimates

KKR is built to survive volatility and regulation

KKR's fortress of a balance sheet combined with a massive pool of locked up capital diversified across strategy, geography and industry lend it the durability to survive almost any market condition or specific regulation.

Potential Risks

- Proposed but largely unlikely regulations on private equity are an exaggerated risk
  - Elizabeth Warren's preferential carry treatment **wouldn't affect Class A shareholders at all**
  - Taxing monitoring fees at 100% is likely immaterial on top line growth
  - Tying debt and pension obligations back to the funds is highly unlikely given Warren's election loss, but even if it ever happened it would not apply to foreign countries and would only make certain companies in certain strategies unattractive
- Reputation is less of a risk given track record and APO's recent recovery from Leon Black scandal
- A market sell-off would allow KKR to buyback stock and make investments at attractive valuations **since they are not forced sellers**

Even in a draconian downside scenario, it would take years for growth to turn negative, given the firm's locked up capital base, sizeable balance sheet, diversified presence globally, and successive fund structure.

Source: KKR Investor Relations, Team Estimates

Reviewing KKR’s assortment of value propositions

KKR enjoys one of the best business models on earth, with a vast margin or safety, multiple levers for growth, an impenetrable moat, and unmatched feedback loop of success.

Catalysts

- Compounding in distributable earnings and book value of investments
  - Continued out-performance
  - AUM & FPAUM growth
  - Maturing and scaling of younger strategies
  - Monetization of BS investments
  - Operating leverage
- Successful integration of Global Atlantic and subsequent growth in permanent capital
- Potential for **inclusion in the S&P 500** in the near future would force institutional buying and increase investor awareness

Source: KKR Investor Relations, Team Estimates

A. Appendix

KKR: A Diversified Behemoth of Investing

Private Markets	**125B AUM**	▪ Private Equity, Core Assets, and Growth Equity (78.9B) ▪ Infrastructure, Real Estate, and Energy (27.7B) ▪ Other Strategies (12.7B)
Public Markets	**97B AUM**	▪ Leveraged Credit: seeks to take advantage of credit market dislocation which spans assets types and liquidity profiles ▪ Private Credit: Includes direct lending and private opportunistic credit. Invest across the capital structure from senior debt financing to mezzanine debt to take advantage of marginal equity exposure with greater upside potential ▪ Hedge Funds: Strategic partnerships with third-party hedge fund managers where a minority stake is obtained by KKR
Capital Markets	**~$500 mm revenue**	▪ Global Franchise that generates ~$500 mm revenue per year on average ▪ Portfolio Financing and Refinancing, Syndication, Equity Underwriting and Debt Financing, Third Party Capital Markets ▪ KKR's own portfolio companies pay for this service, essentially allowing the firm to monetize portfolio companies prior to exit
Principal Activities	**21B Assets**	▪ Manage the firms' own assets on the balance sheet and deploy capital strategically to support and grow business segments ▪ Seeding new strategies from KKR's own balance sheet gives LP's conviction and helps them reach scale quickly than otherwise possible ▪ 15.5 B of cash & investments across KKR's asset classes, 1.3B repurchased stock since 2015 at an average price per share of 18.75
Global Atlantic	**73B AUM**	▪ Purchased Global Atlantic, the world's fourth largest originator of fixed annuity contracts in the U.S., and raised KKR's AUM by over one third ▪ The large annuity block was incredibly attractive to KKR who's shrewd investors can strategically deploy the assets more profitably ▪ Further diversifies and scales KKR while improving the quality and visibility of KKR's earnings

Source: KKR September Investor Presentation, KKR 2019 10k
(1)

Economics of a KKR PE Deal

KKR's Capital Markets business is highly synergistic, making it easier to raise debt and equity.

- Historically, KKR teamed up with other PE firms to write larger equity checks that they couldn't afford out of their own fund, **only earning carry on their own investment**
- Today, KKR uses its capital markets business to syndicate part of a deal to co-investors **while still earning a 10% carry**

Management Example (Capital Markets)

($ in millions)	Fund	Syndicate	BS	Cap. Mrkt	Total
Investment	**$ 500**	**$ 400**	**$ 100**	**-**	**$ 1,000**
MOIC	3 2.5x	2.5x	2.5x	-	2.5x
Profit	750	600	150	-	1,500
Carry - %	20%	10% 2	100%	-	24%
KKR Profits	150	60	150	-	360
Cap. Markets Fees	-	-	-	30	30
Mgmt. Fees	25	-	-	-	25
KKR Revenues	**$ 175**	**$ 60**	**$ 150**	**-**	1 **$ 415**

1 **KKR would generate roughly $400m in revenue and $200m in operating earnings using $100m of its balance sheet**

2 **Carry is 10% on syndicated capital and 100% on BS contribution**

3 **Team assumption of 2.5x multiple on invested capital**

Source: KKR Investor Relations, Team Estimates

Ownership is aligned with shareholders

Insiders, Management and Employees are aligned with both KKR LPs and KKR Public Shareholders.

Management Owns 37.4% of KKR

- **Henry Kravis (Co-Founder, Co-CEO)**
  - 14,965,126 Class A Shares
    - **13.5% ownership of KKR**

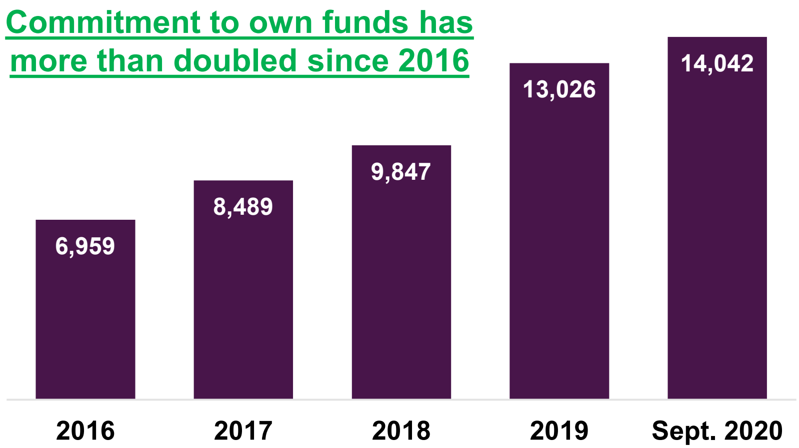
- **George Roberts (Co-Founder, Co-CEO)**
  - 12,585,598 Class A Shares
    - **13.4% ownership of KKR**

- **Joseph Bae (Co-President, Co-COO)**
  - 1,463,122 Class A Shares
    - **1% ownership of KKR**

- **Scott Nuttall (Co-President, Co-COO)**
  - 1,641,410 Class A Shares
    - **1% ownership of KKR**

Over 100 years of combined operating experience in the alternative asset management industry

KKR has $14 billion invested in its own funds



ValueAct is a Watchdog for Shareholders

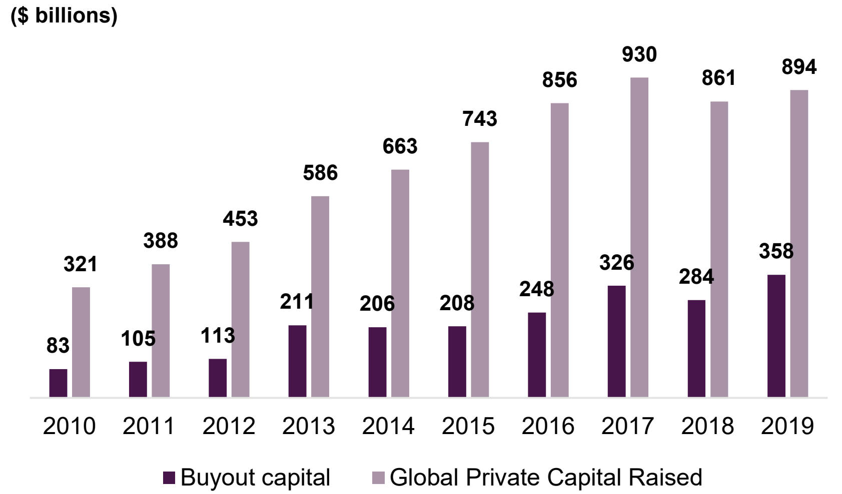
- Largest institutional owner with 8.6% of outstanding shares
- Founded in 2000 by billionaire investor Jeff Ubben
- Long history of peaceful activist campaigns (notably at Microsoft) with a successful track record of driving sustainable value
  - **Credited with influencing KKR to convert to a C-Corp**

Source: KKR website, Company Filings, WSJ, Bloomberg, ValueAct.com

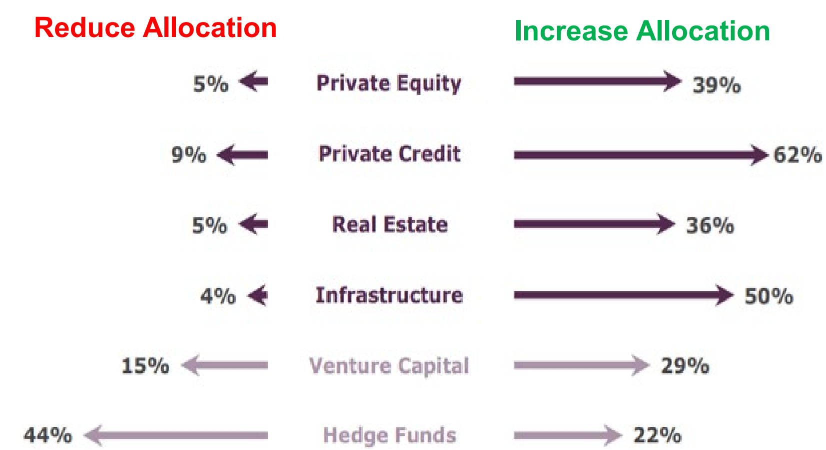
KKR is taking market share in a growing industry

KKR's plethora of drivers of scale have helped the firm outgrow its industry by about 5% per year.

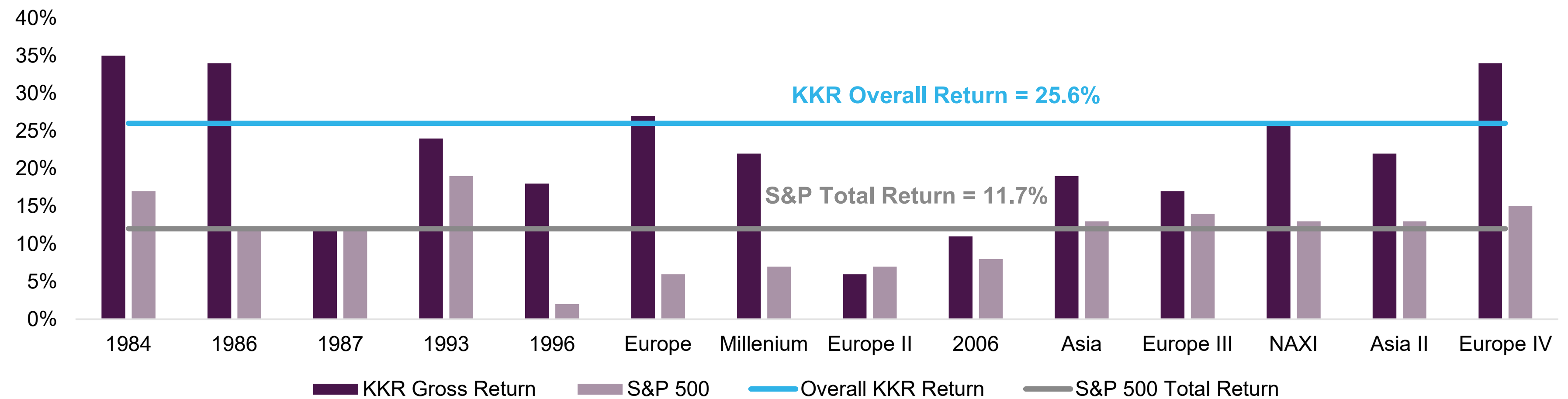
Buyouts are taking share in alt. asset industry



Institutional investors favor alt. assets long term



Track Record of Out-Performance in Private Equity



Source: Company filings, Wall Street research, Bloomberg, Bain, McKinsey

Differentiation will compound value for shareholders

KKR's balance sheet and capital markets business builds conviction that KKR will be the biggest outperformer in the alternative investing space.

Large Balance Sheet

- KKR's balance sheet is larger than Blackstone, Apollo, and Carlyle combined
  - KKR being the largest investor in each of their funds allows them to compound capital alongside their LP's and facilitates alignment
  - One of the few PE firms that can pursue mega deals through their expansive balance sheet and capital markets business
    - On the flip side they can also seed and scale newer strategies more effectively than their peers
- Big and liquid Balance Sheet is defensive in a down-market and allows for a multiplier on monetization in an up-market
  - This flexibility will create value for equity holders no matter what business cycle exists

Capital Markets

- Services that would otherwise be provided by an IB allow KKR to monetize all parts of the transaction and earn fees from independent clients

Source: KKR Investor Relations, Team Estimates

Fee-Related Earnings Build

BASE CASE

For the Fiscal Year Ended December 31	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
Fee Related Earnings												
Assets Under Management	**$ 107,119**	**$ 119,514**	**$ 129,556**	**$ 168,701**	**$ 194,720**	**$ 218,355**	**$ 251,679**	**$ 342,284**	**$ 376,512**	**$ 414,163**	**$ 455,580**	**$ 501,138**
% growth YoY	-	*11.6%*	*8.4%*	*30.2%*	*15.4%*	*12.1%*	*15.3%*	*36.0%*	*10.0%*	*10.0%*	*10.0%*	*10.0%*
Fee-Paying Assets Under Management	**$ 85,857**	**$ 91,721**	**$ 101,473**	**$ 117,438**	**$ 141,008**	**$ 161,210**	**$ 186,217**	**$ 256,713**	**$ 282,384**	**$ 310,622**	**$ 341,685**	**$ 375,853**
% of AUM	*80.2%*	*76.7%*	*78.3%*	*69.6%*	*72.4%*	*73.8%*	*74.0%*	*75.0%*	*75.0%*	*75.0%*	*75.0%*	*75.0%*
Total Fees and Other, Net	$ 1,099	$ 1,142	$ 1,075	$ 1,502	$ 1,854	$ 1,862	$ 2,121	$ 3,081	$ 3,389	$ 3,727	$ 4,100	$ 4,510
% of FPAUM	1.3%	1.2%	1.1%	1.3%	1.3%	1.2%	1.1%	1.2%	1.2%	1.2%	1.2%	1.2%
Total Distributable Revenues	2,956	2,506	2,870	3,073	3,863	3,683	3,971	4,169	4,378	4,597	4,827	5,068
% growth YoY	*0.0%*	*(15.2%)*	*14.5%*	*7.1%*	*25.7%*	*(4.6%)*	*7.8%*	*5.0%*	*5.0%*	*5.0%*	*5.0%*	*5.0%*
Total Distriubtable Expenses	1,229	1,208	1,230	1,379	1,884	1,849	1,930	2,001	2,101	2,206	2,317	2,433
Total Dsitrubtable Operating Earnings	**$ 1,727**	**$ 1,298**	**$ 1,640**	**$ 1,694**	**$ 1,979**	**$ 1,835**	**$ 2,041**	**$ 2,168**	**$ 2,277**	**$ 2,390**	**$ 2,510**	**$ 2,635**
Equity Based Compensation	159	186	186	204	243	208	246	232	229	236	232	232
Distributable Operating Margin	63.8%	59.2%	63.6%	61.8%	57.5%	55.5%	57.6%	57.6%	57.2%	57.1%	56.8%	56.6%
Fee Related Earnings	**$ 701**	**$ 676**	**$ 684**	**$ 928**	**$ 1,066**	**$ 1,032**	**$ 1,222**	**$ 1,774**	**$ 1,939**	**$ 2,130**	**$ 2,329**	**$ 2,552**

Source:
(1)

Illustrative Book Value Build

Historical As Reported

	2015A	2016A	2017A	2018A	2019A	2020A
Illustrative Book Value Build						
Operating Assets						
Cash and Short-term Investments	1,288	3,388	3,215	2,502	2,784	5,961
Investments	8,958	6,959	8,489	9,847	13,026	14,992
Unrealized Carry	1,415	1,214	1,620	1,223	1,982	2,626
Tax Assets	-	-	-	561	112	43
Other Assets	1,768	1,773	2,438	3,454	3,716	4,199
Total Operating Assets	**13,429**	**13,333**	**15,761**	**17,588**	**21,620**	**27,821**
Operating Liabilities						
Debt Obligations - KKR (ex-KFN)	(2,000)	(2,000)	(2,000)	(2,368)	(3,097)	(4,688)
Debt Obligations - KFN	(657)	(399)	(765)	(949)	(949)	(949)
Preferred Shares - KFN	(374)	(374)	(374)	-	-	-
Tax Liabilities	-	-	-	(174)	(170)	(529)
Other Liabilities	(292)	(245)	(427)	(591)	(514)	(858)
Total Operating Liabilities	**(3,323)**	**(3,017)**	**(3,565)**	**(4,082)**	**(4,730)**	**(7,024)**
Noncontrolling Interests	(127)	(20)	(22)	(25)	(26)	(30)
Preferred Stock	-	(500)	(500)	(500)	(500)	(500)
Book Value	**$ 9,979**	**$ 9,797**	**$ 11,674**	**$ 12,981**	**$ 16,364**	**$ 20,267**
Adjusted Shares	819,181,463	806,137,733	822,146,070	833,938,476	850,388,924	877,613,164
Book Value per Adjusted Share	**$12.18**	**$12.15**	**$14.20**	**$15.57**	**$19.24**	**$23.09**
YoY Growth		*0%*	*17%*	*10%*	*24%*	*20%*

Source: Company filings
(1)

Performance Fee Valuation Scenario Analysis

	Multiple Of Invested Capital				
Private Equity	**1.50x**	**1.75x**	**2.00x**	**2.25x**	**2.50x**
Unrealized Value	78,522	78,522	78,522	78,522	78,522
Current MOIC	1.5x	1.5x	1.5x	1.5x	1.5x
Incentive	20%	20%	20%	20%	20%
Comp	43%	43%	43%	43%	43%
Time Horizon	4	4	4	4	4
Performance Fees	127	1,895	3,663	5,431	7,198
NPV	87	1,294	2,502	3,709	4,917
Performance Fees PS	**$0.00**	**$1.40**	**$2.80**	**$4.20**	**$5.40**
IRR	0%	4%	8%	11%	14%

Discount rate (%)	10.0%
Time horizon (years)	4
Shares out (M)	895
Tax Rate	0.21

	Multiple Of Invested Capital				
Real Assets	**1.50x**	**1.75x**	**2.00x**	**2.25x**	**2.50x**
Unrealized Value	40,278	40,278	40,278	40,278	40,278
Current MOIC	1.1x	1.1x	1.1x	1.1x	1.1x
Incentive	20%	20%	20%	20%	20%
Comp	43%	43%	43%	43%	43%
Time Horizon	5	5	5	5	5
Performance Fees	1,277	2,184	3,090	3,997	4,904
NPV	793	1,356	1,919	2,482	3,045
Performance Fees PS	**$0.80**	**$1.60**	**$2.20**	**$2.80**	**$3.40**
IRR	5%	9%	12%	14%	17%

Discount rate (%)	10.0%
Time horizon (years)	5
Shares out (M)	895

	IRR				
Public Markets	**4.0%**	**5.0%**	**6.0%**	**7.0%**	**8.0%**
Unrealized Value	30,522	30,522	30,522	30,522	30,522
Incentive	20%	20%	20%	20%	20%
Comp	43%	43%	43%	43%	43%
Performance Fees	110	137	165	192	220
NPV	1,466	1833	2199	2566	2932
Performance Fees PS	**$1.60**	**$2.00**	**$2.40**	**$2.80**	**$3.20**

Scenario	*1*	*2*	*3*	*4*	*5*
MOIC	**1.50x**	**1.75x**	**2.00x**	**2.25x**	**2.50x**
IRR	**4.0%**	**5.0%**	**6.0%**	**7.0%**	**8.0%**
Private Equity	$0.00	$1.40	$2.80	$4.20	$5.40
Real Assets	$0.80	$1.60	$2.20	$2.80	$3.40
Public Markets	$1.60	$2.00	$2.40	$2.80	$3.20
Performance Fees P.S.	**$2.40**	**$5.00**	**$7.50**	**$9.80**	**$12.00**

Source:
(1)

Comparable Companies Analysis

					($ billions)				($ millions)				($ billions)	
Ticker	Company	Stock Price	Cash and Net Inv. per share	Price ex-cash & Inv.	Mrkt Cap.	AUM	FPAUM	FPAUM margin	LTM FRE	FRE per Share	DE	DE per share	Perm. Cap	Perm. Cap %
BX	Blackstone	$70.53	$9.61	$60.92	85	619	469	76%	2,370	$1.97	3,342	$2.65	135	22%
APO	Apollo	$50.50	$6.05	$44.45	22	414	336	81%	1,041	$2.37	893	$2.02	258	62%
KKR	KKR & Co.	$48.19	$23.86	$24.33	41	252	186	74%	1,230	$1.39	1,522	$1.78	112	44%

Source:
(1)

SOTP Valuation - BEAR

SOTP Target Share Price	
Book Value per Adj Share	**$ 23.09**
Multiple	0.8x
Book Value per Adj. Share	**$ 18.47**
LTM Fee-Related Earnings	**$ 1,222**
Adjusted Shares	878
LTM FRE per Adj Share	**$ 1.39**
Multiple	15.0x
FRE Value per Adj. Share	**$ 20.88**
PV of Future Performance Fees	**$ 2.40**
Global Atlantic Mgmt. Fees	200
Margin	75%
Tax Rate	21%
A/T FRE	**118.5**
2022E Adj Shares	902
FRE per Adj Share	**$ 0.13**
FRE Multiple	22.0x
Global Atlantic Value	**$2.89**
Implied KKR Value per Class A Share	**$ 44.64**
Current KKR Share Price	$ 45.44
Upside	(2%)

Source:
(1)

SOTP Valuation - BULL

Sum of the Parts Target Share Price	
Book Value per Adj Share	**$ 23.09**
Multiple	1.4x
Book Value per Adj. Share	**$ 32.33**
LTM Fee-Related Earnings	**$ 1,222**
Adjusted Shares	878
LTM FRE per Adj Share	**$ 1.39**
Multiple	22.0x
FRE Value per Adj. Share	**$ 30.62**
PV of Future Performance Fees	**$ 12.00**
Global Atlantic Mgmt. Fees	200
Margin	75%
Tax Rate	21%
A/T FRE	**118.5**
2022E Adj Shares	902
FRE per Adj Share	**$ 0.13**
FRE Multiple	22.0x
Global Atlantic Value	**$2.89**
Implied KKR Value per Class A Share	**$ 77.84**
Current KKR Share Price	$ 45.44
Upside	71%

Source:
(1)

Analysts: Daniel Bannon, William Fox, and Colin Gutzmer
Target: KKR & Co. (NYSE: KKR)
Recommendation: BUY

Investment Highlights

KKR is one of the world's most recognizable and successful alternative asset managers, controlling various funds across asset classes including private equity, energy, infrastructure, real estate, credit, and hedge fund partnerships. The firm has **$252 billion in assets under management** and is headquartered in New York City with 20 offices across 4 continents. The firm has raised 40 investment funds since inception, including 21 private equity funds.

KKR is an attractive investment opportunity because:

- **(i)** Private equity remains one the **best business models on Earth**, and KKR is an A+ player in a game where the odds are skewed in their favor.
- **(ii)** **Secular tailwinds:** Fundraising in the alternative asset management industry favors larger firms like KKR with scale and a demonstrated track record. KKR has outgrown its industry with a CAGR of 19% compared to the industry average of 12%.
- **(iii)** **Margin of Safety:** KKR boasts a fortress of a balance sheet, with almost half its stock price covered by cash and investments, on top of a capital base of $252 billion in locked up capital commitments.
- **(iv)** **Elite Capital Allocators:** KKR's massive balance sheet, together with 86% of capital locked up for 8+ years and 33% of AUM in permanent capital vehicles, allows the firm to deploy capital strategically in down markets as well as buyback stock, or realize investments and carry in up markets.
- **(v)** **Operating Leverage:** Compensation is KKR's primary variable cost, leading to high incremental margins. KKR uses their balance sheet to seed new strategies and invest in talent, allowing them to scale funds and strategies faster than competitors.

Growth Strategy

Strong Balance Sheet: In terms of cash as a percent of total market capitalization, KKR has the strongest balance sheet of any publicly traded private equity firm. While we have touched on the downside protection this balance sheet provides, this capital can also be used to feed other funds (such as KKR's hedge fund partnerships) and close deals with additional capital. KKR can also syndicate deals through its Capital Markets business, likely reducing their cost of capital. KKR can continue to close mega deals because of this access to capital paired with the Capital Markets business.

Recurring Revenue: KKR is increasingly prioritizing its "permanent" capital base, as seen in its recent purchase of insurance company Global Atlantic. Roughly 33% of KKR's capital is permanent and about 86% has 8 or more years of duration.

Growth Runway: KKR has enormous opportunities for expansion in real estate and infrastructure markets, which are relatively new strategies for the firm. Market leaders in these assets classes are raising funds up to 20X larger than KKR's current levels. As strategies mature more AUM will be raised.

Younger Funded Strategies Poised for Earnings Expansion: Despite KKR's 45+ year track record, a significant number of their funds are under ten years old, including Infrastructure, Energy, US Real Estate, European Real Estate, Asian Real Estate, Tech and Healthcare Growth, Private Credit, US Lending and European Lending. The economics behind these funds become substantially better over time, as the first fund in a given strategy is normally smaller and early management fees often do not cover expenses related to fundraising. As larger funds are developed in the strategy around years 4-8, management fees and incentive fees start to kick in that continue to improve as the funds get older and grow in size.

Insider Ownership: Management owns 40% of KKR and employees have over $14 billion invested alongside clients. Employees are therefore aligned with both clients and shareholders.

Operating Leverage: Compensation is KKR's primary variable cost, leading to high incremental margins with each incremental dollar of AUM and profit.

Index Inclusion: KKR is poised to be added to the S&P 500 Index, which would line up a slate of forced institutional buyers and increase investor awareness surrounding the firms and the business model.

Risks

Regulation: Politicians, particularly with the backing of a Democratic president, are likely to push for reform on leverage used by private equity firms, potentially threatening KKR's business model. Generally, this risk is overstated, as owning a stake in the GP can still be very profitable even if buyout returns suffer slightly due to new rules. Additionally, asset management firms have an incredibly strong lobbying presence and the chances that ideas like Elizabeth Warren's tax principles are actually put into practice are extremely low.

Exposure to Leverage: KKR's portfolio companies by nature are levered equities and could be susceptible to debt problems in a recession. This risk is offset due to KKR's incredibly diversified holdings and by the fact that the firm is not a forced seller in a recession and basically controls the valuation of their own companies.

Reputation: As seen with Leon Black and Apollo recently, the leaders of investment firms and their personal reputations can change on a dime and effect how successful the business operates. Even with this risk as a constant backdrop, KKR is no longer reliant on a single person's reputation and even Apollo has so far shown the ability to survive even with questions surrounding its founder's personal actions.

Final Recommendation: BUY

KKR's share price has at least 50% upside over the next year due to the firm's attractive positioning in a growing industry, margin of safety covering almost half of the current stock price, and plethora of levers for growth and scale, all on a highly durable capital base with high top line visibility.