

SELL

BLACKROCK, INC. (BLK)

04.08.2024

INVESTMENT THESIS

I recommend a sell on BlackRock Inc. (BLK). The Wisman Fund has held HRZN for over 2 years. During this time, BLK main source of revenue for this company is in investment management and advisory fees. The holding return for BLK is just over -2.3%. In comparison, the average annual return for large cap stocks is 9.62% annually, and the average annual return for the broad market is 10.0%. BLK has generally outperformed the index and industry in the last 10 years. However, it has outperformed the market for approximately two years. It is important for the Wisman Fund to cut their losses on this long-held security and look to invest these assets in companies with greater value.

DRIVERS OF THESIS

- Market projections:
 - Cooling inflationary environment.
 - FOMC meeting projections for GDP, Interest, and Unemployment.
- Stock performance in comparison to the industry and index.

TEN YEAR PERFORMANCE



Data Source: Yahoo Finance

COMPANY SUMMARY

BlackRock (1988) is a global investment management company that manages money for institutional clients and provides investment solutions for professional and personal investors. Blackrock is known for their diverse portfolio of investment products. The company operates with 70 offices in 30 different countries. Blackrock has changed their 2024 investment outlook. The new approach to portfolio management includes managing macro risk, steering portfolio outcomes, and harnessing mega forces.

BlackRock Inc.

NYSE	BLK
Price	\$797.56
Fair Value	\$830.00
Sector	Financials
Industry	Asset Management

Wisman Fund Characteristics

Shares	7
Holding Period	2.8 Years
Holding Period Return	-2.3%
YTD Return	1%

Key Statistics

Market Cap	\$115.54B
Shares Outstanding (M)	148.7
Five Year Beta	1.37
Forward Dividend Yield	2.56%
Price/Earnings	34.84
Price/Sales	6.99
Price/Book	3.12
Price/Cash Flow (TTM)	31.46

BlackRock has released several statements informing that they do not dictate how their clients invest, rather they offer a wide variety of choices. BlackRock has indicated that they are not boycotting the energy industry, and they are not buying individual houses in the US. The company has had higher revenues than the previous year, every year, except 2016 and 2022. Although this is the case, they had the highest return on assets of 3.83% and 13.73% return on equity in 2022.

BUSINESS MODEL

BlackRock's (BLK) business model revolves around its position as a leading global investment management and financial technology firm. Here's an overview of BLK's business model and key elements:

Asset Management: BlackRock primarily earns revenue from managing assets on behalf of institutional and individual clients. This includes actively managed mutual funds, passive index funds, exchange-traded funds (ETFs), and separately managed accounts. The firm offers a wide range of investment strategies across asset classes such as equities, fixed income, multi-asset, alternatives, and cash management.

Investment Services: BlackRock provides investment advisory and portfolio management services to a diverse client base, including pension funds, endowments, foundations, insurance companies, banks, governments, and individual investors. The firm offers customized investment solutions tailored to the specific objectives and risk profiles of its clients.

Technology Solutions (Aladdin): BlackRock's Aladdin platform is a comprehensive technology solution used by institutional investors and financial firms worldwide. Aladdin provides risk management, portfolio analytics, trading, and operational tools to optimize investment decisions and enhance operational efficiency. Revenue from Aladdin includes subscription fees and licensing arrangements.

Financial Advisory Services: BlackRock offers financial advisory services to clients seeking guidance on investment strategy, asset allocation, risk management, and retirement planning. These advisory services are designed to help clients achieve their financial goals and navigate complex market environments.

Strategic Acquisitions: BlackRock strategically acquires complementary businesses and technologies to expand its capabilities and market reach. Recent acquisitions have focused on enhancing BlackRock's presence in areas such as sustainable investing, alternative investments, and wealth management.

Sustainable Investing: BlackRock has increasingly emphasized sustainable investing and environmental, social, and governance (ESG) considerations across its investment offerings. The firm integrates ESG factors into its investment processes and engages with companies on sustainability issues.

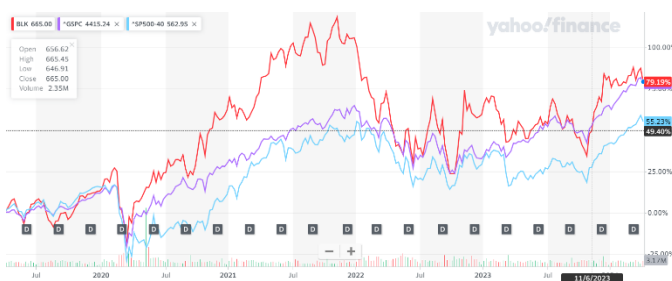
Distribution Channels: BlackRock distributes its investment products and services through multiple channels, including direct sales teams, financial advisors, institutional consultants, and digital platforms. This diversified distribution approach enables BlackRock to reach a broad client base globally.

Scale and Efficiency: BlackRock's business model is characterized by scale and operational efficiency, leveraging technology and data analytics to drive investment decisions, manage risks, and enhance client outcomes. The firm's size and global presence enable economies of scale and competitive advantages in asset management.

Overall, BlackRock's business model is centered around providing investment management expertise, technology-driven solutions, and financial advisory services to clients worldwide. The firm's diversified revenue streams, emphasis on innovation, and commitment to sustainable investing contribute to its position as a leader in the asset management industry.

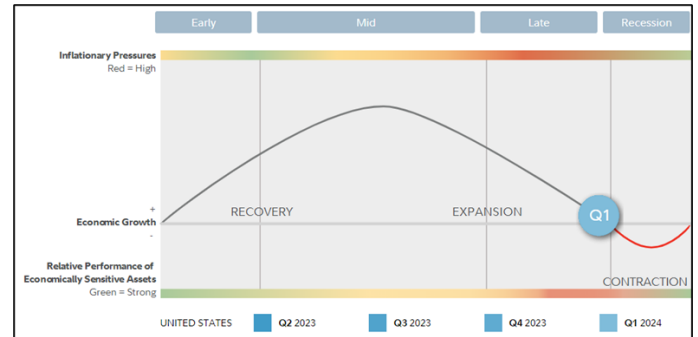
STOCK PERFORMANCE

BLK stock return has outperformed the S&P 500 index, and financial sector in over the past 5 years. YTD, BLK has a return of 1%, underperforming the S&P 500 and financial sector.



Data Source: Yahoo Finance

INVESTMENT THESIS

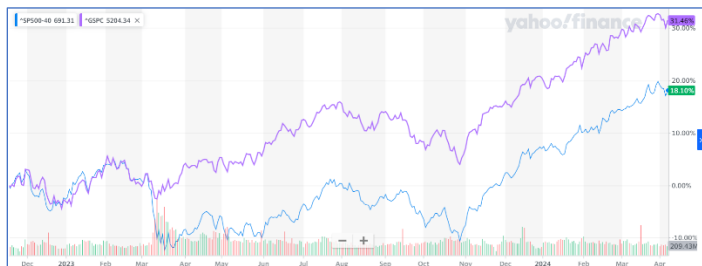


My investment thesis is based on an analysis of economic drivers, financial analysis, and the constant growth dividend discount model (Gordon growth model) to calculate fair value.

ECONOMIC DRIVERS

Financial Sector

The financial sector is influenced by a variety of economic drivers that shape its performance and dynamics. Key factors include interest rates, which impact borrowing and investment activity, and economic growth, which drives demand for financial services such as loans and investments. Additionally, the regulatory environment plays a crucial role in shaping operations and risk management practices within the sector. Market volatility, driven by fluctuations in financial markets and global economic conditions, also affects the sector's performance. Technological innovation, demographic trends, credit conditions, and inflation levels further contribute to the sector's evolution and impact on financial institutions and markets. Understanding these complex interactions helps stakeholders navigate challenges and capitalize on opportunities within the financial landscape.



Data Source: Yahoo Finance

The financial sector has not only historically underperformed the broader market, but also YTD. Fidelity expresses that the United States is currently in the late expansion phase of the business cycle. During this phase, the financial sector tends to earn market returns.

Data Source: Fidelity.com

Business cycle				
Historical performance of sectors during business cycle phases.				
Sector	Early	Mid	Late	Recession
Financials	+			-

Data Source: Fidelity.com

Company Specific Factors

Changes in interest rates, set by central banks, impact bond yields and borrowing costs, affecting BlackRock's fixed income investments and overall portfolio performance. Economic growth and market conditions directly influence corporate earnings and equity market performance, which in turn affect BlackRock's equity-focused investment strategies. Additionally, inflation levels and monetary policy decisions impact real investment returns and investor preferences for different asset classes. Global market conditions, including currency exchange rates and geopolitical events, also play a crucial role in shaping investment opportunities and portfolio risk management strategies. Regulatory developments and changes in financial regulations can impact

BlackRock's operations, compliance costs, and product offerings, requiring adjustments to investment strategies and business practices. Moreover, demographic trends, technological innovations, and the growing importance of sustainable investing and ESG factors contribute to the complexity of BlackRock's decision-making process and client engagement strategies in the evolving economic landscape. Understanding and navigating these economic dynamics are essential for BlackRock to deliver value to its clients and achieve long-term investment objectives.

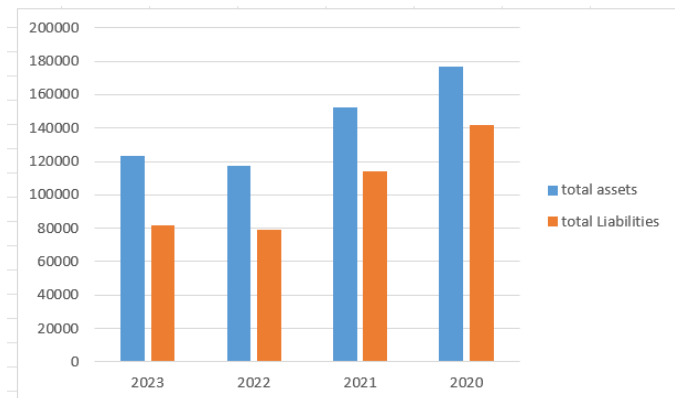
Tip Rank's suggests, BLK next quarter's earnings estimate is \$9.39. This is up \$1.46 a share from the previous quarter. Based on 14 Wall Street analysts offering 12-month price targets for BlackRock in the last 3 months. The average price target is \$911.71 with a high forecast of \$1,025.00 and a low forecast of \$767.00. The average price target represents a 14.31% change from the last price of \$797.56.

FINANCIAL ANALYSIS

The financial assessment process within the financial sector is influenced by several key factors that impact how institutions evaluate risks, opportunities, and overall financial health. These factors include economic conditions such as interest rates and GDP growth, which directly affect borrowing costs, investment returns, and demand for financial services. Regulatory frameworks and changes in policies also play a significant role by shaping compliance requirements and risk management practices. Market conditions, including asset prices, volatility, and liquidity levels, influence assessments of portfolio performance and risk exposure. Technological advancements and innovations in fintech impact how financial assessments are conducted, enabling more efficient data analysis and risk modeling. Demographic

trends and shifts in consumer behavior affect product demand and investment preferences, influencing assessment criteria. These diverse influences underscore the complexity of financial analysis and the need for adaptive strategies to navigate changing landscapes effectively.

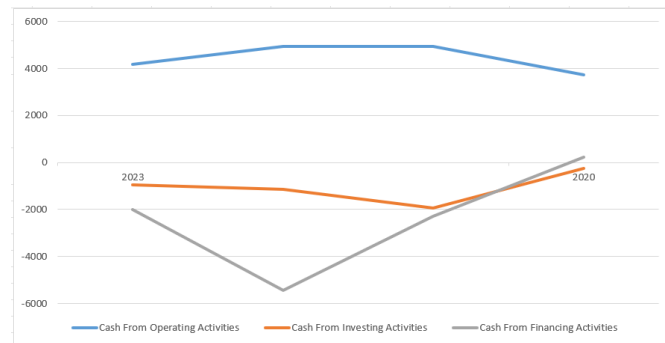
Balance Sheet Analysis



Source: Investing.com

The balance sheet data indicates a trend of consistent decline in total assets over the four periods, starting at \$176.982 million and reaching \$123.211 million. Concurrently, total liabilities have also decreased but at a faster pace, falling from \$141.699 million to \$81.971 million. The Total Liabilities to Assets ratio provides insights into the company's leverage, showing a declining trend from 80.06% to 66.53%. This suggests a favorable financial position, as the proportion of liabilities to assets has decreased over time, indicating increasing state of solvency and potential risk management. The declining ratio implies that a smaller portion of the company's assets is financed by liabilities, reflecting a positive trend in financial stability. Overall, the balance sheet portrays a picture of shrinking assets, shrinking liabilities, and improving financial health.

Statement of Cash Flows Analysis



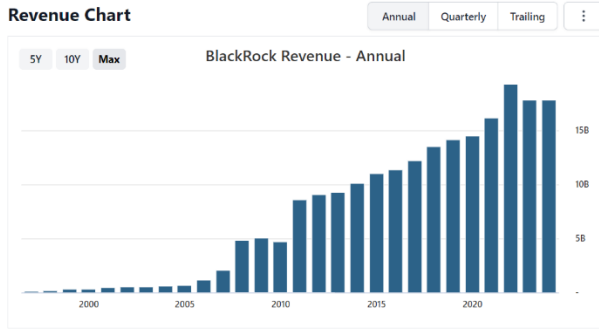
Source: Investing.com

The cash flow data reveals a negative trend in the net cash provided by operating activities over the four periods, shrinking from \$4165 million to \$3743 million. This indicates an inconsistent generation of cash from the core business operations. The net cash provided by (used for) financing activities fluctuate as well, showing fluctuating positive values, indicating cash inflow from financing activities. This suggests a potential shift from external financing to internal cash generation. Overall, the company demonstrates an average ability to generate cash from its operations, with variations in investing and financing activities possibly tied to strategic investment decisions and capital structure adjustments.

Company Reported Revenue

For the following analysis on the annual revenue as reported by Stockanalysis.com, refer to the chart below.

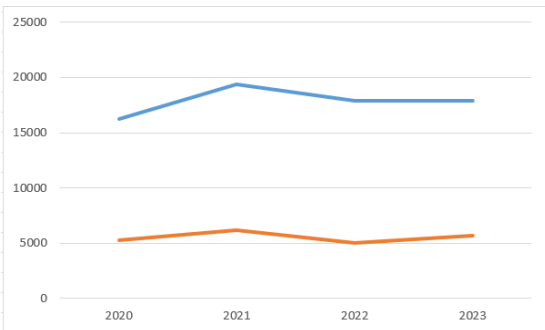
Overall:



Source: stockanalysis.com

The annual revenue data illustrates fluctuating financial performance between 2005 and 2010 trending in positive revenue growth. Slight fluctuations between 2020 and 2022 highlight the company's revenue volatility, with the last 2 years still recovering from the preceding increases to revenue.

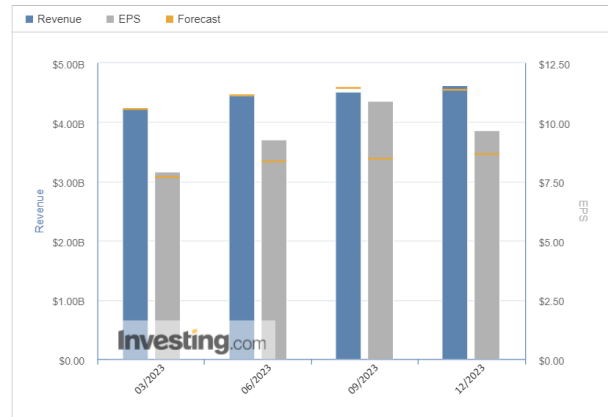
Income Statement Analysis



Source: Investing.com

The blue line illustrated above shows consistent fluctuations in revenue over the last 4 years, growing from \$16205 million in 2020 to \$17859 million in 2023, representing a cumulative growth of approximately 16.36%. Despite this revenue growth, the net income experienced fluctuations and trended in slight growth. From 2020 to 2023, there was an incline of approximately 6.87% as net income increased to 5676 million. Both revenue and net income has stayed relatively consistent within the last five year period, showing no major improvements to revenue or expenses.

EPS Analysis

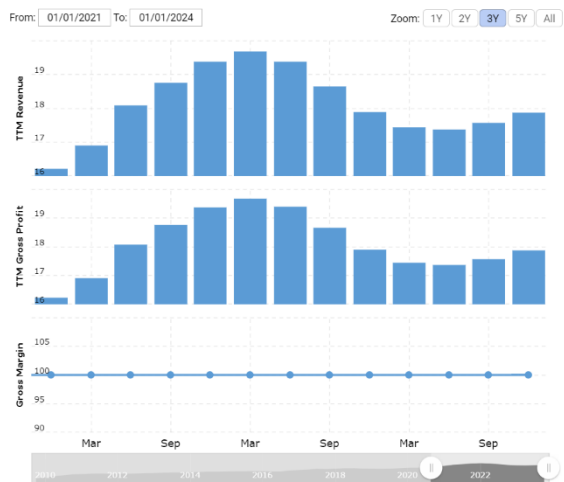


Source: Investing.com

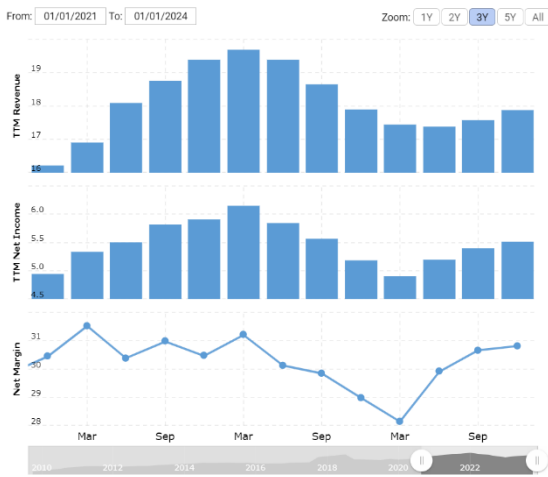
This EPS data was sourced from Investing.com. The EPS data reveals a fluctuating trajectory for the company's profitability from \$7.93 at the beginning of 2023 to \$9.66 by the end of 2023, reflecting an increase of approximately 17.91%. It should be noted that, according to investing.com, the 2024 estimates for the first 2 quarters are \$9.34 and \$9.84, respectively. With the addition of these estimates, the overall expected incline is approximately 19.41% from March 2023. The overall increase in EPS indicates improving earnings performance and more effective operational strategies. However based on EPS estimates for 2024, the market expects the company to drop in performance before improving again. Monitoring the company's response to market conditions, competition, and industry trends will be crucial for assessing its continued financial strength and future growth potential.

Profit Margin Analysis

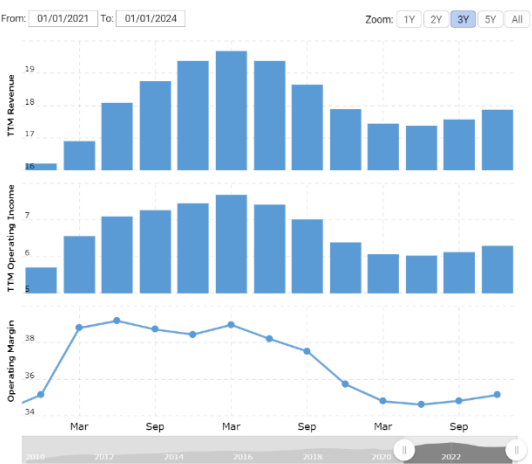
Gross Profit Margin



Profit Margin



Operating Profit Margin



Source: macrotrends.net

The profit margin data demonstrates an overall positive trend in the company's profitability ratios over the four-year period. The gross profit margin did not grow but stayed consistent, reflecting direct revenue and gross profit correlation. This consistency suggests effective cost management and increased efficiency in the production process. The operating profit margin fluctuated, but exhibited a general downward trajectory, shrinking from 35.14% in 2020 to 35.13% in 2023. This indicates worsening operational efficiency and cost inefficiency at the operating level. The net profit margin, representing the proportion of revenue converted into net income, experienced slight incline, rising to 30.81% in 2023 from 30.44% in 2020. Despite the increase to 31.52% in March 2021, the net profit margin fluctuated significantly, indicating volatility of overall profitability. These percentages collectively suggest a consistent or slight declining trend in the company's profitability metrics, reflecting ineffective management and operational performance over the four-year period.

Operating Performance

Operating Performance		2015	2016	2017	2018	2019	2020	2021	2022	2023	TTM	5-Yr	Index
Fiscal													
29.74981													
Return on Assets %		1.44	1.42	2.26	2.27	2.73	2.85	3.50	3.83	4.57	4.57	3.35	11.43
Return on Equity %		11.97	11.01	16.32	13.41	13.58	14.33	16.17	13.73	14.27	14.27	14.46	29.75
Return on Invested Capital %		10.05	9.75	14.45	11.76	12.01	12.45	13.38	11.21	11.25	11.25	12.18	19.53

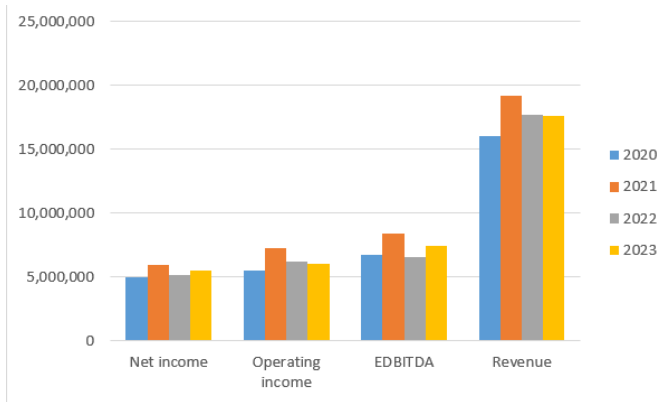
Source: Morningstar.com

The overall operating performance reported by Morningstar indicates that the operating efficiency has experienced a steady incline since 2019 apart from 2023. The index shows an ROA of 11.43 and ROE of 29.75, whereas BLK shows a 3.35 ROA and 14.46 ROE over the last 5 years. These factors show a general underperformance in comparison to

the market and the little increase in company profitability.

Growth Rates

Revenue & Income:

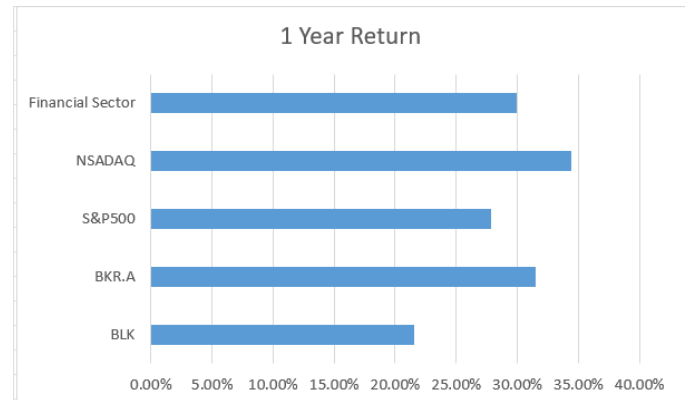


Source: nasdaq.com

The growth data reflects a dynamic performance for the company across various financial indicators over the four-year period. EBITDA growth exhibited fluctuating momentum, with successive increases from 2020 to 2021 and from 2022 to 2023, then experiencing a decline in opposite years. This indicates inconsistent operational activities, with rises and falls over the four-year period. Net income growth demonstrated fluctuation with slight increase and slight decreases between the years. Revenue growth remained net positive throughout the period, with declining acceleration from 16.53% in 2020 to -0.5% in 2023, signaling a potential increase in top-line expansion. Operating income growth also showed fluctuating trends, increasing from \$5,490,000 in 2020 to \$5,983,000 in 2023. Overall, these growth metrics depict a company experiencing varying degrees of decline or stabilization across key financial indicators over the analyzed period.

Cross-Sectional Analysis

This analysis will compare BLK different ratios and data to its closest competitors and the financial sector. The cross-sectional analysis allows for investors to examine different performance attributions across different time frames to make informed investment decisions.



Source: Morningstar.com and Yahoo Finance

This chart compares the returns of BLK to competitors, the financial sector, NASDAQ, and S&P 500. The below graph further compares these values in terms of overall percentage growth from 2008.



The light blue line represents HRZN.

The total returns data from 2003, provides a perspective on the performance of various investment instruments over the specified period. BLK stands out with a low total return (since 2008) of 1850.96%, outperforming all comparisons. This

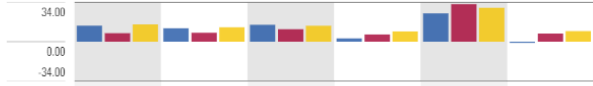
suggests that investments in HRZN have yielded large positive returns compared to some competitors and consistently outperforming the market. However, in the last year, BLK performed worse than the same comparisons that they previously outperformed. To get a better perspective over recent performance, the below graph is the last 5 years of performance.



Based on 5-year data, BLK is outperforming the sector and matching the market, but losing to its competitors. This data highlights the diverse performance of various investment options, emphasizing the importance of asset allocation and investment strategy based on market conditions and individual risk tolerance.

Trailing Returns

Trailing Returns Daily Monthly Quarterly



Total Return %	15-Year	10-Year	5-Year	3-Year	1-Year	YTD
BLK	13.79	11.68	14.69	2.91	24.64	-1.13
Industry	7.30	7.79	10.75	6.35	32.54	6.93
Index	15.00	12.41	13.74	8.75	29.44	9.12

As of Apr 05, 2024 | Industry: Asset Management | Index: Morningstar US Market TR USD

Over the trailing return periods, BLK overperforms and underperforms both the industry and the market. In the shorter term, BLK displays underperforming returns, indicating recent challenges or market corrections. However, the long-term shows consistent overperformance compared to the market and industry.

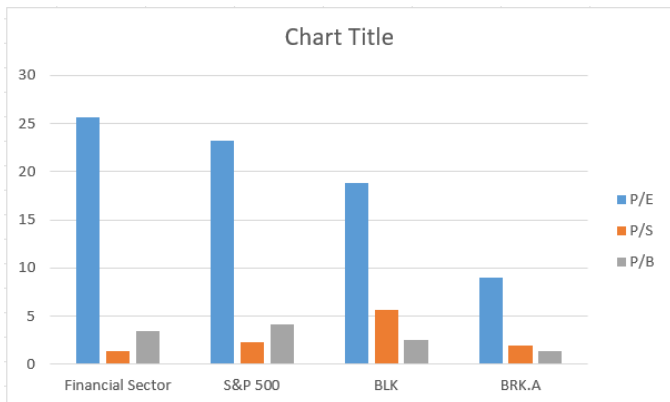
Financial Health

Financial health ratios to measure a company’s debt level structure and its ability to satisfy their debt obligations. Debt to equity is a measure of debt financing to equity financing. Lower ratios are desirable as this indicates a company’s financing that comes from its own operations. HRZN total debt to equity ratio was 23.76% in 2023, which is higher than the industry’s average debt to equity ratio of 0.27%. One of BLK main competitors, Berkshire Hathaway (BKR.A) had a D/E ratio of 23.40%. As a percentage of its overall capital, BLK relies more on debt financing than equity financing compared to the financial sector and BKR.A.

FAIR VALUE

Relative Stock Valuation

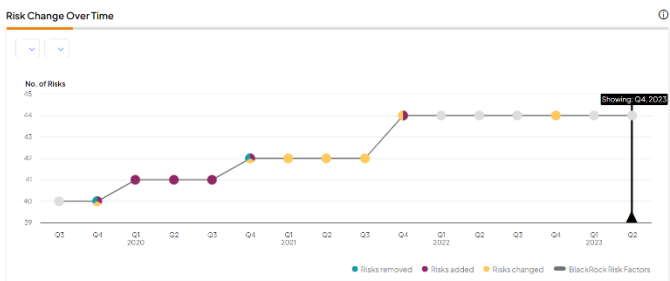
A relative valuation model is different from an absolute valuation model in that it refers to other companies and benchmarks. Relative valuation looks at valuation ratios like price-to-earnings (P/E), price-to-sales (P/S), price-to-cash flow (P/CF), and price-to-book (P/B). P/S, for example, shows a company’s share price as a multiple of its sales, P/E shows a company’s share price as a multiple of its earnings, and so on. Higher relative valuation ratios than peers may suggest that a company is overvalued. The chart below compares the relative valuation ratios of BLK, BKR.A (an industry peer), the financial sector and the S&P 500. BLK appears to be overvalued compared to its industry peer, BKR.A. BLK has a higher P/S, P/B and P/E ratio. Two ratios that may suggest BLK is undervalued compared to the S&P 500 index and the sector is the P/E and P/B ratio.



Risk Word Cloud



RISKS



According to TipRanks, the chart above dictates that BLK has not added additional risk factors as of Q3 2023. In general, the main risk category for BLK is Legal and Regulatory. Additionally, the word cloud below shows the most common phrases about risk factors from the most recent report. It is important to note that the larger text indicates the more used phrases.

RECOMMENDATION

I recommend a sell on BLK. My recommendation is based on an analysis of economic drivers and financial analysis. Although selling BLK does not align with the Wisman Fund’s objectives to sell securities that are deemed overvalued by the fund’s analysts, the overall objective of the Wisman Fund is to beat benchmark returns and HRZN is detracting from this objective. It is also important for the fund to cut their losses on this large cap stock and look to invest in greater value opportunities in mega-cap stocks.

REFERENCES

1. Yahoo Finance
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8. Macrotrends.net
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DISCLOSURES

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