



Carlyle Group Calls Accumulate on Likely Conversion Event

Ticker/Price: CG (\$23.40)

Analysis:

Carlyle (CG) with 1,000 December \$17.50 calls bought today for \$6.00 to \$6.10 and follows accumulation recently of 4,000 August \$22.50 calls and 9,985 August \$25 calls. CG also has notable September \$17.50, \$20, and \$22.50 calls in OI. Shares have run strong recently and dipping back to the rising 8-EMA today. Long-term, CG recently broke a downtrend from the 2018 highs and room back up to \$25 which clears a big monthly base and targets \$35. The \$7.9B asset manager trades 9X earnings, 3.7X book and 8.5X cash with a 3.2% yield. They have strong ROE relative to peers like BX and KKR. CG sees 59.2% and 20% EPS growth through FY21. CG is coming off a strong quarter with AUM up across the board and continue to see growth in fee-generating assets. CG is benefitting from a wealth of private equity opportunities as well as a hot IPO market where they are seeing strong realizations. On 6-11 the company said they were likely to top their \$110B fundraising goal by year-end as alternatives draw higher demand. In May it was reported that the company was 'seriously' considering converting to a C-corp as peers Blackstone (BX), Ares Capital (ARES) and KKR have done. The reduction in the corporate tax rate makes the move much more attractive to CG now than before and management commentary has noticeably shifted in recent quarters. Analysts have an average target for shares of \$20 with 5 buy ratings and 7 hold. CSFB downgrading to Neutral on 5-21 with a \$22 PT citing valuation and seeing better opportunities in names which had already converted to a C-corp where the firm expects better fee-related earnings growth. Short interest is 3% and near the highest levels since 2012. Hedge Fund ownership fell 4.5%. Alkeon Capital a top holder with 5M shares. In November, a director bought \$100,954 in stock at \$20.19.

Hawk Vision:



Trading Strategy: CG is in the group of names of interest for this conversion due to tax changes, and although extended near-term, activity suggests upside remains.

Confidence Ranking: \$\$