BLACKSTONE First Quarter 2016 Earnings Investor Call
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Operator: Good day, ladies and gentlemen, and welcome to the Blackstone first quarter 2016 investor conference call. My name is Frances and I will be your operator for today. At this time, all participants are in a listen-only mode. Later, we will conduct a question and answer session. If at any time, you require operator assistance please press star followed by zero and we will be happy to assist you. As a reminder, this conference is being recorded for replay purposes. I would now like to turn the conference over to your host for today, to Mr. Weston Tucker, Head of Investor Relations. You may begin, sir.

Weston Tucker: Great. Thanks, Frances. So, good morning and welcome to Blackstone's first quarter 2016 conference call. I'm joined today by Steve Schwarzman, Chairman and CEO; Tony James, President and Chief Operating Officer; Michael Chae, our Chief Financial Officer; and Joan Solotar, Head of Multi-Asset Investing and External Relations. Earlier this morning, we issued a press release and slide presentation illustrating our results which are available on our website. We expect to file our 10-Q report in a few weeks.

I'd like to remind you that today's call may include forward-looking statements, which are uncertain and outside of the firm's control and may differ from actual results materially. We do not undertake any duty to update these statements. For discussions of some of the risks that could affect the firm's results, please see the Risk Factors section of our 10-K report.

We will also refer to non-GAAP measures on this call and the reconciliations in the press release. Also, note that nothing on this call constitutes an offer to sell or a solicitation of an offer to purchase an interest in any Blackstone funds. This audio cast is copyrighted material of Blackstone may not be duplicated without consent.

So, a quick recap of our results. We reported economic net income or ENI of $0.31 per unit for the first quarter. That was down from the prior year period, which is a record quarter due to a lower rate of appreciation in the funds, although still mostly positive, despite a more difficult market environment. Distributable earnings were $388 million in the first quarter or $0.33 per common unit for a $0.28 per unit distribution. That will be paid to holders of record as of May 2nd. And with that, I'll now turn the call over the Steve.

Stephen A. Schwarzman: Good morning and thanks, Weston. And thank you, all, for joining our call. The first quarter was a roller coaster for equity and debt markets. The S&P was down 11% only six weeks into the year, with many individual stocks down more than that, making the worst start to the year for equities since the Great Depression. In fact, if it would have kept going at that rate after a year, there would have been no S&P index left. The S&P then snapped back in March to finish the quarter basically flat. The global, European and Asian equity indices all ended the quarter in negative territory with some markets down as much as 15%. Developments in this debt market were even more extreme with high-yield spreads gapping out to over 900 basis points in early February, the highest since 2009, with a dramatic decline in liquidity. Even in volatile times, in fact especially so, limited partner investors are seeking the types of returns we can offer with our products, which helped drive our AUM up over 11% to a record $344 billion at the end of the quarter.

But we are not immune to market movements in terms of marks to the portfolio. Our largely locked in capital and our ability to affect change gives us tangible advantages and ultimate fund performance. We are patient investors, both in terms of when we decide to invest and when we exit.

The market tantrum in the first part of the year resulted in lots of dislocation, some of which has normalized, some of which has not. For example, many hedge funds were caught wrong footed in a classic short squeeze when the markets rebounded in March. Segments of the debt market still remain under considerable pressure. Investment sentiment is fragile and characterized by significant caution around choppy economic data, negative rates, political rhetoric and other factors. How can investors generate sustained positive returns against this type of turbulence?

The answer is many can't, at least in the traditional areas of money management, we're increasingly looking to the alternative area as a result. If you had been invested in the typical portfolio, mostly equities and fixed incomes, you would have made basically no money, so far, this year, as well as all of last year. Most pension funds is one example, obviously, can't reach their actuarial targets of 7-8% at the rates of return we've seen in the public markets. And that's not even addressing the issue of volatility. We believe the solution to these issues is to allocate more capital to alternative managers like Blackstone, and in fact, that's what the world is doing. While the equity markets were flat to down in the first quarter as I described, our funds mostly saw appreciation with exceptions in our liquid-hedge fund solutions platform and our distressed credit vehicles, which were down about 3% gross, which I'll discuss in a moment.

Our corporate private equity and real estate opportunistic funds appreciated about 2% in the first quarter and between 8% and 12% on an annualized basis since the beginning of last year, well ahead of the flat-to-negative performance of almost every major equity index over the same timeframe. That's pretty remarkable. Our job in private equity and real estate is to actively build great companies, not to invest passively in the market. And we'll continue to see the fruits of that labor. Despite predictions that earnings for S&P companies will be down nearly 10% in the first quarter, the worst performance since the crisis, our private equity companies grew revenue and EBITDA by 2.5% and 6.4% year-over-year, respectively.

Now, imagine, if the S&P is down 10% and our companies have grown their profits 6.4%, what the ultimate rate of return will be for private-equity-type investments compared to liquid securities. In real estate, our properties continue to report healthy fundamentals across the board. In our liquid funds, such as BAAM, returns are more likely to be impacted by public market dynamics in any given quarter. In that case – in the case of the first quarter, which BAAM was down about the same as the broader hedge fund industry, net inflows remained strong at $1.4 billion, even including the impact of the large redemption in one individual investor solutions area, what we call our mutual fund compliant products, which Michael will talk about a bit later.

Over time, BAAM has outperformed the broader market with much less volatility, which represents a compelling value proposition to our LPs. Since the beginning of last year, BAAM has reported over $6 billion in net inflows, which we estimate is greater than 10% of all capital inflows in what was a $3 trillion hedge fund industry, which is now starting to shrink. Our credit business, similarly, has been navigating a particularly challenging market environment and our distressed oriented vehicles, such as our rescue fund and our liquid hedge fund, saw further mark-to-market declines in the quarter. These marks were concentrated in our energy related holdings which, obviously are enduring a very difficult backdrop.

On the other hand, you're seeing energy prices rebound significantly by the end of the quarter. On the flipside, a new distress cycle is clearly underway in the energy credit area and other needs for credit which create significant opportunities for our business. I believe GSO is going into a period that's extremely positive to them, where they will be able to expand their business given the lack of liquidity and change governmental regulations that are going to affect that part of the market, creates a unique opportunity for GSO. Overall, we continue to see strong inflows across all of our businesses because investors are hungry for good return and that is why most of them, from the largest pool of capital in the world to retail and everything in between are looking for greater exposure to alternatives.

Blackstone is viewed as a safe pair of hands, really the gold standard in the alternative space. We are a trusted partner in every area, private equity, real estate equity and debt, credit, hedge fund solutions, secondaries, tactical opportunities, and more. That's why our limited partners entrusted us with $17 billion of capital in the first quarter alone and over $100 billion since the beginning of last year, and let's not forget the fact that about 30% of global economy is now at almost zero interest rates or negative. In this kind of environment, the ability to generate high rates of return becomes a necessity for these pools of capital, and Blackstone is a very logical answer to these needs. And we have the trust and support of our limited partners to launch new businesses of significant scale.

We approach building new businesses with the same analytical process, oriented rigor that we approach investing, and we've been doing it since the firm was founded. And only when we can deliver something exceptional to our LPs is when we go forward with something new. And that's why our new initiatives have been so successful while many other firms struggle to expand outside their original business.

The hallmark of Blackstone from our inception is the ability to take some of our best people and put them on new opportunities and build those to scale businesses to the benefit of our public investors, as well as most importantly, our limited partners. A few examples. Tactical Opportunities, which is now over $15 billion, is in the final stages of raising its second vintage fund which is around $7 billion and has this new capital that's already been invested and committed. It's a very vigorous area with a lot of interesting opportunities.

Similarly, real estate core-plus is now $12 billion in only about two years with terrific returns so far and I have extremely ambitious objectives for this area which is actually about four times the size of the opportunity funds set as an industry. I think we can make major increases in the amount of money that we're managing in this area with great returns. Our secondaries business, Strategic Partners, now manages nearly $16 billion with over $10 billion of products in the market just this year. That compares to a $2 billion flagship fund at the time we acquired them in 2013. This is astonishing increase in that business with – again, with great returns.

Our Core Private Equity business has launched. It's a new concept. The 700 million of commitments in the quarter, which we expect will reach $5 billion in the next month alone.

And BAAM's individual investor solutions area, despite the redemption I mentioned has grown to nearly $7 billion, more than double where we were at the start of last year, with strong demand for its low volatility liquid exposure. The forward pipeline for fund-raising remains very healthy, driven by the secular trends I've discussed and most importantly, Blackstone's strong competitive position. We're raising so much capital from our LPs because we're, simultaneously, able to find attractive opportunities to deploy it. Our diversification, global presence and ability to use our intellectual capital across asset classes allows us to quickly move on pockets of dislocation when they develop pretty much anywhere in the world. And we've been seeing a lot of dislocation recently, particularly in the credit area.

In the first quarter, as Tony mentioned on the press call, we invested $7 billion which brings us to a record $34 billion that we've invested in the past 12 months. Surprisingly probably to you but not to us, nearly 40% of this amount was from our three largest new areas – core plus, strategic partners, and tactical opportunities – which should give you a sense of how meaningful our ability to launch and scale new products can be for LPs and shareholders alike.

I don't believe there's anyone else in the alternative area who can do anything vaguely of this type. Our significant pace of investments is setting us up for the basis for future realizations, which are always good things to have. In our largest businesses, we're generally looking to return $2 to our limited partners for each $1 they give us.

Over the past five years, we've deployed an average of $22 billion per year from our drawdown funds alone which, if we do our jobs successfully which I believe we will, will result in substantially larger realizations even compared to the last few years which were quite strong. And that translates to greater cash distributions for our shareholders.

We paid out $2.12 per unit over the past 12 months which equates to a current yield of 7.2%, one of the highest of any large company in the world. Although we can and do take marks in our funds in any given quarter based on the broader market dynamics, over time, we've shown that we've consistently achieved long-term outperformance versus all relevant benchmarks with less volatility in every one of our businesses. Our limited partners see that and they give us more capital in more areas because they're happy with our performance. And that is the virtuous circle that drives our business, supporting record capital deployment, and ultimately, cash earnings to you, our limited partners and our shareholders. Thank you for joining our call today. I'm going to turn things over now to our Chief Financial Officer, Michael Chae. Michael?

Michael Chae: Thanks, Steve, and good morning, everyone. Our first quarter results reflected good performance against a difficult market backdrop and underlying these results is strong momentum across our businesses. That momentum is first and best illustrated by our sustained robust growth in AUM. Total AUM grew 11% year-over-year to a record $344 billion, our seventh consecutive year of double-digit growth driven by $80 billion of inflows over the past 12 months which far outpaced $48 billion of realizations and outflows. The diversity and scale of our inflows is noteworthy with $30 billion raised in private equity, $20 billion in real estate, $19 billion in credit and $11 billion in BAAM. Fee-earning AUM rose 9% to $244 billion with positive growth in every business.

As AUM continues to grow, so do our fee-related earnings, a highly stable recurring source of cash profitability. FRE increased 21% to $219 million, our best first quarter ever despite spinning off our advisory businesses in October 2015. FRE margin was a healthy 36% in the first quarter, also a record for first quarter period. Looking out relative to our $244 billion of currently fee-earning AUM, we have $53 billion of management fee-eligible AUM already raised but not yet earning fees that will turn on as funds are launched or as capital is invested depending on the fund. I'll discuss the FRE outlook further in a moment.

ENI was $371 million in the first quarter with strong contribution from FRE and a more moderate contribution in the quarter from performance fees. The areas which typically contribute the most to performance fees, private equity and real estate, saw positive appreciation and investment performance that compared favorably to the markets in the quarter while the credit and hedge fund solutions businesses reported flat to slightly negative returns.

Let me provide some more color around our businesses investment performance. Our corporate private equity funds appreciated 1.7% in the quarter, with the key drivers being increases in our public holdings and a number of private companies, partly offset by unrealized marks primarily in certain private oil-and-gas-oriented energy investments. Our private valuations of these energy investments appropriately reflected the industry environments and backdrop of volatility and uncertainty in the energy sector. Having said that, I should note that our publics in energy and private equity were up 20% in the quarter and actually more than absorbed the effect of the private energy unrealized marks. Our energy publics have continued to appreciate since quarter-end and are up approximately 8% in April.

In real estate, our opportunistic funds appreciated 1.8% and core plus by 4.4% with appreciation in our private holdings underpinned by continued healthy fundamental operating environment. Our private equity and real estate companies overall are performing well. Private equity portfolio company EBITDA was up 6.4%, as Steve mentioned, and our real estate companies are delivering sustained positive operating results.

We've outgrown the market because we don't own the market passively. We sector select and back-and-build leaders in these sectors yet our private holdings remain on average marked in a material discount to current public markets. As an example, our private equity companies are marked at a nearly 20% discount to their comparable company valuation multiples. And as Steve said, our job is to build great companies that are leaders in their sectors and so should ultimately command a premium valuation. In credit, I said on last quarter's call that we should plan for continued market pressure that might further negatively impact the unrealized value of our portfolio, and that ended up being the case in the first quarter.

Our performing credit funds which include our mezzanine and BDC vehicles saw modest depreciation while our distressed oriented funds declined approximately 3% gross. The largest driver of this decline was unrealized marks in our energy portfolio. We are ideally positioned to capitalize on the ongoing dislocation on the credit markets. When markets swing as violently as they did in the first quarter, buyers and sellers transact less. But once the degree of stability returns, things start getting executed. On that basis, we see 2016 as potentially being a significant year for deployment. In this context, we're now raising our third mezzanine fund, targeting $6 billion which has been met with tremendous demand and should be largely completed in the second quarter. We also see a moment of opportunity to raise certain new vehicles to capitalize on dislocation in the liquid securities markets.

Meanwhile, we have approximately half of our second rescue fund left to deploy, 80% of our recently raised European direct lending fund and nearly all of our energy distressed funds. Totaling $14 billion in dry powder which with our new mezzanine fund, will give us over $20 billion in investing power from just these strategies and what we believe could be a historically attractive environment for deployment. Final point on energy across the firm. We've, indeed, been active investors and with a successful long-standing track record. I note, for example, that GSO's energy investment record and its drawdown funds remains in the mid-20s rate of return as of and including this quarter. While we've been active investors, our exposure as a firm is diversified across industry sectors, not just focused on oil-and-gas exploration. And even in such a turbulent period in the industry, in aggregate for the firm, it actually had minimal financial impact on first quarter ENI. In fact, it was slightly positive because of the positive appreciation of the private equity area that I discussed earlier.

For BAAM, the composite return was down 2.9% gross in the first quarter. While a challenging single quarter for the industry and for us, on a long-term basis, as Steve have mentioned, BAAM has delivered net returns 50% greater than the market with about one-third of the volatility over the past 15 years. And indeed, we saw total gross inflows in BAAM in the quarter of $3.2 billion, actually the highest quarter since mid-2014. Redemptions were at more or less average levels, even inclusive of the fact that we did have one large investor exit our daily liquidity platform as Steve mentioned. Let me give you a little more color on that.

This investor was an important partner to us in the original build out of the strategy with $1 billion commitment, and we learned a lot about the product from each other. But it was but one element of the multi-pronged strategic plan to build out our global platform in daily liquidity products which has been extremely successful. In the three years since we launched our daily liquidity products, we've raised over $6 billion, separate from this relationship, in our own U.S. mutual fund and UCITS products, with significant runway ahead. Indeed, we have increased AUM 82% in the last 12 months, with net inflows of over $625 million in the first quarter, more than offsetting the outflows from this investor in the same quarter. It's a real growth engine.

While this has obviously been a difficult time in the hedge fund industry, BAAM has shown the consistent ability to gain share in capital in challenging environments even as the rest of the industry may shrink. As you know, BAAM went from the fifth largest hedge fund solutions business before the financial crisis to the largest after the crisis. And indeed, BAAM is currently in dialogue with a number of existing clients about increasing their allocations. Certain cases in the context of the clients consolidating their manager lineup in the asset class, as well as global investors new to the asset class with whom there is the potential for some of the largest mandates we've ever seen. Moving on to our distributable earnings and the forward outlook. Distributable earnings were $388 million in the first quarter or $0.33 per unit, reflecting a slower pace of realizations and realized performance fees. DE obviously will be up or down at a given period depending on realizations which are market dependent.

The market backdrop in the first quarter was not conducive to optimizing exits, and we are patient investors who can take our timing. Also, net realized carried interests in private equity in a given quarter, particularly with BCP V, is also a function of the timing and mix of deals realized. As reflected in the net accrued performance fee receivable, there remains a lot of value to be realized in the future for BCP V, but the timing depends on the pace and mix of deals realized.

Looking forward, however, there are a few notable drivers to discuss. First, we have significant embedded FRE growth from locked-in capital plus new fundraising initiatives which we discussed. We know many public market investors who think FRE is highly valuable because of its consistency and predictability and there's a clear growth path here.

We expect FRE to be stable this year with strong underlying organic management fee growth momentum, offsetting the impact of the spin-off the advisory business and with a sharp positive trajectory into next year. For example, 2016 includes the full-year benefit of BREP VIII which only turned on in October of last year, and we expect to activate BCP VII in the next few weeks. Although that fund has a six-month fee holiday which will mute the benefit in 2016, we will see a full-year contribution of fees in 2017 from BCP VII which will drive a powerful increase in the private equity segment FRE. It is also worth noting on FRE that the effective management fee levels in many of our new vintages of flagship drawdown products are higher than the predecessor funds, reflecting the market demand and support for them and boding well for our FRE trends.

Second, we have nearly $260 billion of performance fee eligible AUM, including $172 billion which is invested. The recent recovery of the equity market is giving us a better look at monetizing our public portfolio. Since the market trough in mid-February, we've completed five secondary sales, and we'll continue to be opportunistic with our $23 billion public portfolio. We also continue to see excellent opportunities for private sales. In real estate, in particular, on a global basis, there remains a strong underlying bid in the market for high quality income producing assets, as exemplified by a recent LA office sale as well as our pending sale of Strategic Hotels. And more broadly, we have a comprehensive disposition plan for the year and quite an attractive pipeline of potential monetization opportunities around the world. Performance fees compose the majority of our earnings over time, while they're market dependent and less predictable in the given year, we've already over longer periods of time, given our investment record, they're, in fact, quite predictable.

Finally, I'd like to highlight an important emerging dimension to the firm's business and economic model pertaining to new businesses like real estate core+ and Core Private Equity, which together will be approaching $17 billion in the second quarter up from zero just to over two years ago.

These businesses target very long-term holds with greater opportunity for value compounding and less friction costs with the result a consistent long-dated and predictable earnings stream for unitholders. In the case of our real estate core+ strategy, you have the best of both worlds and recurring highly profitable FRE element plus the performance fee that will primarily crystallize on recurring basis without dependence on dispositions that we expect to become quite sizable as the business marches forward and scales. And with both core products, they naturally leverage and extend our existing platforms and teams in a powerful way operationally and financially. Taking together these two core platforms in real estate and private equity represent an important and rapidly growing element of our business model going forward. And they reflect our constant push to innovate and to develop and extend strategies, products and distribution to best serve our investors, and meet and sometimes create the market opportunity. And for our unit holders, the collateral benefit to the Blackstone business that is even stronger, faster growing, and we believe more financially attractive. With that, we thank you for joining the call, and we'd like to open it up now for questions.

Weston Tucker: Great. Frances, if we could open it up for questions. But if I could just ask, we have quite a long queue that's developed, so, if all analysts could please limit it to one question and one follow-up question, and then come back into the queue if you have anything further. That would be great. Thank you.

Operator: Thank you. [Operator Instructions] Our first question is from the line of Glenn Schorr from Evercore. You may begin.

Glenn Schorr: Hello there. Curious, tacking onto your comments on core plus. Now being at $12 billion, I think you said, and growing, in an environment that we've seen where real estate has done pretty well, could you talk about what you're investing in now at these prices and how you balance the money in versus money out and capital deployment.

Stephen A. Schwarzman: This is on core plus? Yeah.

Glenn Schorr: Yeah.

Stephen A. Schwarzman: The core plus business is really a terrific business. It's – we have an enormous flow here at the firm as the largest real estate investor in the world, and we see a variety of really interesting things to invest in. And as a result of that, we can sort of pick our shots of really attractive investments. And the prospects for growth in that business are huge just because the asset class within the institutional investment community, and also at some point, as we move into the retail chain of distribution with this, should be able to create a really very large-scale business. And it becomes indifferent. Individual asset class is – whether it's a significant-sized office, which can be improved and re-tenanted and take advantage of renovation. And it depends where in the country if you're doing U.S., what you want to be buying. There's still a lot of opportunity in that area because real estate is such a giant asset class. They're buildings outside of every office building you look at, there are buildings everywhere. And we find plenty of it with no difficulty.

Hamilton E. James: Let me jump in, Glenn. We bounced the money in and out – by accumulating demand and then when we have opportunity, we call down that money and buy the building. So, it's always in balance, so much to sell, we've replaced that selling shareholder with a new investor. So, we retained the assets. Obviously, the power of this business is holding the assets forever – of the other businesses, the traditional draw-down funds are treadmills because you raise the money, you invest them, and then you have to sell them and give the assets back. This, you don't have to do that, so it's just layers and layers and layers and continue to grow AUM. So, I wanted to make that point.

Secondly, the returns in this have been spectacular. So – whereas – this was not supposed to be the highest-returning fund, but last year, it was the highest returning real estate fund I think with 18%, 19%. This year first quarter was up 4.4%, I think we gave you at one point to 8% increase to our real estate. So, obviously, if you're buying higher quality buildings with less leverage, we're leveraging this to 50% and earning better returns, you can imagine the appeal of that was what Steve was talking about. And then if you have actually lower return hurdles, another way to say that is you have lower cost of capital, and it opens up vast new opportunities to buy things if you have a lower cost of capital. All in all, we're pretty excited about the ability of this to ramp up.

Glenn Schorr: And I guess the follow-up I would have is related – is the timing different? Meaning, if the end investor is more interested in steady income stream that these assets produce, is there more impetus to put the money to work and deploy capital quicker than you showed amazing patience in things like the private real estate and private equity. And hence, the $90 billion of dry powder?

Hamilton E. James: No, I don't think we're any more impatient. Investors, we accum – as I say, we wait for, until there is an interesting investment to draw down the money. It's not like we take the money and then it burns a hole in our pocket. That's more of a kind of issue with say to the BDCs where you have to take the money, and have to get it invested. That's not this. And you should know that investors do get a current yield, but there's a lot of appreciation baked into this product as well. So, they want both.

Glenn Schorr: Okay. I'll let others in. Thanks.

Hamilton E. James: Bye.

Mike Carrier: Hi. Thanks a lot. I guess, the first question just on the portfolio overall, I guess, some of the trends that you mentioned on the EBITDA growth versus what we're seeing for the overall market with the S&P, the earnings down 10%, there seems like a huge divergence. So, just wanted to get some sense of – when we look at that overall portfolio, where the exposures are, what you're seeing, maybe pockets where you're seeing more defensive that can withstand some of the pressures that are out there on the macro front. And whether it's on energy, whether it's the currencies, negative rates, I mean, there's a lot of things going on around the world, so just wanted to get your view on how the portfolio is holding up so well relative.

Hamilton E. James: Yeah. Well, in general, remember that when we buy a company, we're supposed to bring value add. And I've said before, if we can't bring value add and we can't –

there's not enough opportunities out there that the world's overlooked, and we're not enough smarter than other people just to find them and make a lot of money on huge amounts of capital. That's not really – that's not a sustainable business model. So what we have to do is buy companies and make them better-run, higher margin, faster growing, better invested, better management teams, more productive, etc. And so that's what you're seeing. That's why our company should always grow faster than the S&P. Once our companies are mature, and we've done that, we've done our magic, it should then mirror the S&P pretty much. And then at that point, we should be sellers, and we should go back into the public market or other exits. So, that's a general comment.

As Michael mentioned, we have some energy, but it hasn't been that impactful. The currency has been a net negative for us. We have some – but our portfolio is lumpy. So, for example, Hilton has been a big positive this quarter in EBITDA growth. So you have to unscramble the portfolio piece by piece, but I think the important thing to remember is – it's the value added that we bring is as operational investors that you can't lose sight of. You shouldn't compare any private equity firm just to the S&P where you're not getting that operational intervention.

Stephen A. Schwarzman: The other thing I would say on that is if you take Tony's description of the model, and you have superior organic growth of a significant degree and you put leverage on it to enhance that, then you should get way, way better returns than the S&P and the firm has compounded in these areas at about double the S&P rate for 30 years. So this is not a one-time audition. This is structural issue that's we believe enduring and 30 years is pretty good proof of concept.

Mike Carrier: Okay. That's helpful. And then just as a follow-up, maybe on Performance Fees and investment income, it seems like there was a little bit of divergence there, a little bit more pressure on investment income. So I wanted to just understand what was driving that. And then if I look at the incentive AUM, kind of same thing like that dip in the quarter, seemed like it was more on the hedge fund side than the credit. Just wanted to get some sense given the rebound that we've seen in the market, like how close maybe some of those assets are to getting back into the carry lane?

Michael Chae: Sure, Mike. It's Michael. On investment income, that metric does move around over time. The biggest driver comes back to the realizations and so – and it's in two parts, one is – or maybe three. One is the level of sort of gross realizations in the quarter, which was obviously lower. The second would be actually the amount of gains, sort of the multiple of money in the given set of deals that we sold in that quarter. And that was actually a little bit lower than sort of the average multiple of money of the realizations in prior quarters. And then third is sort of the yield or the net of carry from those realizations based on which deals they were and which fund. And so, as you know, in BCP V, there are a number of different aspects to that. There's the catch-up. There's how much gain the deal produced and where it sits versus the accretive preferred return, et cetera, for that deal. So, that affects, in any given deal, sort of the carry yield.

Now, when you step back, as I mentioned, BCP V – we've taken a lot of carry out of that, we and our shareholders. There's still a good amount to go and, hopefully, even more than what's carried on our balance sheet. But in any given quarter, any given deal, what we take out of it, it depends on that deal's circumstances.

Mike Carrier: Okay. And then just at the level, meaning the incentive AUM, it seemed that that went down maybe on credit and hedge funds. I just wanted to get a sense on how close those assets are just given the rebound.

Michael S. Chae: For BAAM, in the fourth quarter, a small portion of their AUM, a smaller portion went below. And then in the first quarter, given being down what they were down – a few percent – just a few percent puts a fair bit more substantial portion of the AUM below the high water mark. But if 3% down in the quarter taketh away, then reversing that obviously giveth – will take it back. And so it's a high percentage, but we're not far, hopefully, with – I think some of the guys would say kind of a few months' performance – of good performance, good normal performance will bring us back.

Mike Carrier: Got it. Thanks.

Operator: Your next question will come from the line of Patrick Davitt from Autonomous. You may begin.

Patrick Davitt: Hey. Good morning. Thanks. My question is focused on the private real estate marks, which as best we can tell, we used to be able to depend on that being kind of a mid single-digit market. Looks like it's now kind of tracking more in the 1% to 2% range despite the big Strategic Hotels announcement and a few other smaller announcements, which I think a lot of us thought would boost that mark more. So, could you walk through the dynamics kind of driving that apparent slowdown in the private marks? Does it have to do with where the bids are? And are you concerned that there are some signs of a turn there as some recent news articles have suggested?

Michael S. Chae: Thanks, Patrick. It's Michael. The short answer is we're not concerned. And as I think Steve and I both mentioned, the operating performance in our portfolio and frankly the fundamentals for nearly all of the Real Estate sectors that we cover are very solid. You mentioned Strategic Hotels – I'd just say, in general, that when we sign a contract to sell a company, we don't necessarily, in fact, we usually don't sort of recognize all of the purchase price immediately into our marks, which we think is prudent. We might take some of it in, and then, as we get closer to closing, take all of it in.

So, I just kind of point that discrete matter out.

But back to the fundamentals, we feel really good about our portfolio. If you look around, the U.S., for example, the office market supply is still low, other than in a few select markets. U.S. retail supply low and performance good in our housing portfolio for us and kind of the sector overall. Supply is still at real lows relative to history and home price appreciation is very solid: mid-single-digits plus. So, I could go on and on and then talk about Europe or the industrial sector, where we have a big exposure – really actually got momentum. And sectors that we play in Asia on a select basis, we select because they're fundamentally strong.

So, portfolio is very good and we do think about things in an appropriate way where, for example, if you pick one sector – lodging, and it's a little bit like energy in our Private Equity portfolio where our privates were down and we took pain to mark them, kind of, carefully, appropriately. Meanwhile, the energy publics, kind of the score that the market was keeping was very positive.

The lodging sector, I think, when we looked at our private marks, we were trying to be similarly cautious given there's a little bit more volatility around thinking in that sector in the broader market. But meanwhile, the public markets and our own publics in the lodging sector did great last quarter. So, don't over read into the appreciation. We think the state of our portfolio and the fundamentals in the market are generally good with certain industry exceptions.

Hamilton E. James: Yeah. I might just add a couple of points there. Remember, for non-U.S. assets, which is a very substantial portion of the new investments in Real Estate, it's affected by currencies. Even – in local currencies you'd see consistently strong performance. Secondly, on the assets we're selling, I would say the bids are still very good. We're seeing no softness whatsoever. We're seeing no turn in rents or occupancies. So, it all feels good to us.

Patrick Davitt: Great. Thanks a lot.

Weston Tucker: Thanks, Patrick.

Operator: Your next question is from the line of Craig Siegenthaler from Credit Suisse. You may begin.

Craig Siegenthaler: Thanks. Good morning, everyone. Just wondering if you could comment on what drove the muted capital deployment in the Credit segment in 1Q, just because I would have thought you would have seen more activity given where bond and loan spreads went in the quarter.

Michael Chae: It's a good question, Craig. I think, look, in the first six weeks of the quarter, it's obviously historic sort of meltdown in the markets. And as a result, the number of deals in the market went away. And so, that portion of GSO's business which is in part to support acquisition finance, the major part of it, the volumes obviously were lower. So, that is probably the simplest answer.

And with the sort of revival of the markets in the past few weeks, deals are coming back. And GSO had an investor conference yesterday, and we're talking about how their pipeline has never been stronger actually. They're really, really excited, chomping at the bit around the market opportunity Steve and I talked about. And the pipeline and the backlogs are picking up, and the pricing in terms available to them are quite attractive. So, I think you will surely see – almost surely see if this market stays put more or less, the deal volumes picking up at GSO.

Craig Siegenthaler: Thanks, Michael. And then just on the hedge fund business, I see the gross returns there. But also in the footnotes, I think you point out that this doesn't include a lot of the businesses there like Senfina. Is there any other data points you could give us on 1Q performance in the hedge fund segment just because the number you gave us doesn't capture all the underlying businesses?

Weston Tucker: Yeah, Craig, we really can't talk about performance for that product. You can see on our investment record, some of the drawdown funds, how those move each period. But the BAAM composite reflects most of the business. It's all the customized and commingled for the most part.

Craig Siegenthaler: Thank you.

Weston Tucker: Thanks.

Michael Chae: Thanks, Craig.

Operator And your next question will come from the line of Bill Katz from Citigroup. You may begin.

Bill Katz: Okay. Thanks so much for taking the question this morning. Somewhat maybe tangentially related, could you talk a little bit about any impact, if at all, positive or negative, what the recent inversion was with the IRS and what that might mean for M&A or your businesses just in general?

Hamilton E. James: Okay. Well, I'll take that, Bill. I don't think it affects our business much at all. We've never done an inversion. We've never premised a deal on it. It undoubtedly will affect M&A somewhat, already has. You've seen what happened to the Pfizer deal. But most of the M&A that's relevant to us is not Pfizer buying things, it's much more manageable-sized companies and for the most part, they haven't been big inversion players.

Bill Katz: Okay. And then just sort of stepping back, in everything we're sort of reading is that there's been some decline in allocation to hedge funds generally within the construct of more allocation going into alternatives, what is the opportunity for Blackstone within that construct sort of stripping away near-term performance dynamics?

Stephen A. Schwarzman: I think that there's a reevaluation going on in the hedge fund sector given some of the fee structures and some of the performance. And so, we expect the industry itself to shrink as people who want to be in that sector are more selective in terms of who they work with. And thus far, this has been a good trend for us because we're an acknowledged expert in that field. We've avoided virtually every blowup in terms of individual analysis of hedge funds whether they were Madoffs and some of the other well-known things. And as people enter that asset class, what we're seeing is they're extremely interested in working with us.

So, this will be some period of evolution in that field, both fee structure as well as aggregate assets and there will be a flight to quality in our view, and what we're seeing is that that's advantageous for us.

Bill Katz: Okay. Thank you very much.

Stephen A. Schwarzman: Thanks, Bill.

Operator Your next question will come from the line of Eric Berg with RBC Capital Market. You may begin.

Eric Berg: Thanks much. My question is actually a follow on in the regulatory area. It's probably a little bit too early to talk about this proposed effort by the Financial Stability Oversight Council to look at liquidity in mutual funds and how that would affect your liquid alternatives business. If you have any views, I'd certainly welcome them. But it's probably not too early to talk about the fiduciary rule which on first blush would seem to affect distributors, but again, in the same vein, I'd like to know as Bill was asking, is there any way good, bad or neutral that Blackstone's business could be affected by the Department of Labor's fiduciary rule? Thank you.

Hamilton E. James: Okay. I'll take this one. We've basically run our businesses and particularly the hedge fund business, which is where your focus is, with fiduciary duty now. We have fiduciary duty to all the [unintelligible] accounts already. So, we're living up to that standard.

We don't depend on brokers putting clients into 401(k)s for our products and anything. That's not our business model. So, from our standpoint, I don't think there's going to be an impact on this that's discernible.

Eric Berg: Thank you.

Hamilton E. James: Thanks, Eric.

Operator: Your next question will come from the line of Brian Bedell from Deutsche Bank. You may begin.

Brian Bedell: Great. Thanks very much. Good morning, folks. Maybe just to go back to the real estate, obviously, that's been – continues to be really strong, it's about 60% of your ENI this quarter and the pace of realizations continues to be pretty good. Maybe you could just talk about through the tempo going into the second quarter on demand for, I think, you mentioned the high quality properties demand is still extremely high. But is it – if you can talk a little bit about the trends in the secondary and tertiary markets – whether that's been dropping off in the first quarter and then coming into the second quarter, and does that matter that much for you?

Stephen A. Schwarzman: I'd say that we're not big buyers in Real Estate in secondary and tertiary markets. And one of the reasons we've been able to have really remarkable results in Real Estate is you have to pick your asset class but you got to pick your regions where you're doing things. So, I would say, we are dramatically underrepresented in secondary markets and I don't know of any part of our Real Estate business that even touches a tertiary market from like being involved with approving all the deals. So, our business is not Real Estate across the board, everywhere. We're highly selective in what we do and those calls have been really – they've been the right calls.

Hamilton E. James: You know, what we'd love to do, Brian, is we love to buy a building that's got great bones and a great market but it's not well managed, fix it up like we do in Private Equity, fill it up. And then in the process of that, we convert bargains to Core Real Estate and capture all of the appreciation that comes with that much lower discount rate.

Brian Bedell: Yeah. That's pretty powerful. And then, I mean, the core returns like you mentioned, 18% to 19% IRRs obviously exceeding, your targets were closer to 10% on that. Do you see that as a sustainable type of return going forward or is it more kind of [indiscernible] –

Stephen A. Schwarzman: I wish it were. I think that's unlikely.

Hamilton E. James: By the way, yeah, I would hope that we beat the 10%, but we're certainly not going to target 19%.

Brian Bedell: Great. Okay. And then just on fundraising, that too, obviously very strong in the first quarter. I think you mentioned in a couple of different comments, mezzanine fund this quarter, I think, was $6 billion and then Tac Ops up to $7 billion. Do I have those numbers right? And then if we layer core+ in there for the second quarter, we could be back to a $17 billion type of quarter for fundraising in the second quarter, is that accurate?

Hamilton E. James: No. I don't think we're going to have – Michael will answer your question but we're not at $7 billion of closings in Tac Ops this quarter. That's for sure.

Michael Chae: Yeah. I think we won't have that. I think Steve was alluding to a future sort of size but second quarter we think will be quite good. We're working on a good quarter, we believe.

Brian Bedell: Great. Thanks very much.

Operator: And your next question will come from the line of Michael Kim from Sandler O'Neill. You may begin.

Michael Kim: Hi Guys. Good morning – good afternoon. First, just in terms of the $53 billion of assets that are currently not yet earning management fees, just beyond BCP VII, can you talk about some of the other bigger chunks that might be included in that number? I think core+ Real Estate might be in there, if I remember correctly.

Weston Tucker: Yes. I can take that. So, a lot of that is GSO's dry powder. So, if you remember, GSO has fund structures that don’t earn management fees until the capital’s invested, so that was roughly $12 billion of the dry powder at the end of the quarter. And then also, with the new real estate, mezzanine fund was a big piece of that. And so, it's a little bit of core+, as you mentioned.

Michael Chae: BCP VII, some Tac Ops, some SP – strategic partners, BREP Europe V, BREDS III, some big – some nice chunky products in that number. And most of them will be lit up in the pretty near term.

Michael Kim: Got it. Okay. And then from more of a modeling perspective, with BCP VII coming online in the next few weeks, I guess, does that suggest we'll see a step down in fees related to BCP VI and we'll sort of have a couple of quarters of depressed management fees, if you will, until the fee holiday expires for BCP VII?

Michael Chae: That is what will happen in terms of the step down. And so, directionally you're right. I think it'll be not like a violent line here in the next couple of quarters. It will tick back up in the fourth quarter. And as I mentioned, next year, we'll a full year of BCP VII, as well as Core being activated and we're looking forward to that.

Michael Kim: Okay. Great. Thanks for taking my questions.

Operator: Your next question will come from the line of Michael Cyprys from Morgan Stanley. You may begin.

Michael Cyprys: Hi. Good morning. You mentioned in your Private Equity portfolio that the portfolio companies I think have marked to that 20% discount or so to comparative public multiples. I guess just on the Real Estate side, how would that similarly look there whether it's in terms of cap rates or some sort of multiples on EBITDA, and how are you thinking about the risks to your Real Estate portfolio today as you see it?

Hamilton E. James: Yeah. It's Tony – in general, when we sell an asset, we get something like 20% to 30% higher realizations than our mark on average. And that's true of both Real Estate and Private Equity. So, it's a little hard to say that we're marking, undermarking 20%, but – so I think you can feel the assets are conservatively marked in both portfolios in a similar way. Did you want to say something, Michael?

Michael Chae: Yeah. I agree with that. And our valuation process, which we think is a really good one. Real Estate has a different kind of character to it than Private Equity where you're looking at publicly traded comparable companies in the same industry. In Real Estate – and it's amazing process: if we're marking and valuing a group of office buildings in LA, you'll see in our evaluation process like a list of the last few years of trades of neighboring buildings. And Jon and the team will know exactly what that carry was, how to compare the quality of the assets, and it's a different kind of process but a really rigorous one.

Hamilton E. James: And I think you asked about risk to the valuations of Real Estate, did you?

Michael Cyprys: Yeah. Okay.

Hamilton E. James: I think the biggest risks in Real Estate are overbuilding. And when you get excess supply, and particularly if demand turns down, that's when you get crushed in Real Estate and we don't see that happening right now.

Michael Cyprys: Okay. Great. And if I could just follow-up quickly on your comments earlier about higher effective management fees within some of the newer funds. Just curious why that is? Are your sticker fees going up? Are you raising pricing? Or is it just more simply the – where you're cutting the fee breaks for size? What are some of the dynamics at play there?

Hamilton E. James: Well, I think, there's a lot of elements in that. I mean, so some of it is mix, i.e., some new products that has higher fees than small products. Some of it were actually raising fees in certain areas based on superior performance. And sometimes we'll start a new product area with a relative bargain for people and then as it proves out, the second generation investors have to pay more normal fees. And so, it's a variety of things, there's no one thing.

Michael Chae: Right. And it is a fact that in several of our most recent Private Equity and Real Estate flagship funds, you had two things happen: larger funds at higher effective management fee rates.

Michael Cyprys: Nice. Okay. Thanks.

Weston Tucker: Great. Thank you.

Operator: Your next question will come from the line of Ken Worthington from JPMorgan. You may begin.

Ken Worthington: Hi. Good afternoon now. BCEP has committed capital on the books now. Given that this is a new type of product for you. Any takeaways from the first rounds of fund raising here, maybe surprises in the type of clients who may not be investing in it? And given what you've seen so far, are you feeling better or worse about BCEP getting to be a really big fund over time? Thanks.

Hamilton E. James: Well, this product was not offered broadly. I wanted to be clear about that. It was offered very selectively to sophisticated investors. And I think we've gotten a very good response. We're going to be over – we initially set our target of $5 billion, we'll be over that. And so, I think if we get that money invested well, it's got big potential like some of the Core Real Estate businesses. These are assets we anticipate holding for a long, long time. So, they will layer on and then continue to scale AUM but whether we – how big a fund at any one time of uninvested capital, I'm not sure because we're going to try to put that money to work reasonably, properly, we've got a shorter invested period. So we raised it and put it to work, and we'll raise more, and then layer on. It will be more like core+ Real Estate if you think about how it plays through the AUM than the normal drawdown fund.

Ken Worthington: Okay. Great. And then any takeaways on who's attracted to the product here, given the first rounds of fundraising?

Hamilton E. James: Who's attracted to it?

Ken Worthington: Yeah. Or are you seeing differences in who is committing to this product versus some of the more traditional private equity funds, and who's avoiding it?

Hamilton E. James: Well, there's no one avoiding it, I don't think. I'd say we offer it selectively to our biggest, most core LPs, and they've liked it.

Michael Chae: And we have attracted – this is a great product for large, large family office-type players including in Europe who think in terms of decades in their ownership. And it's also I think attracting investors who historically think large global pension funds who may be more negative about sort of plain vanilla fund investing, and also had very long-term view and a great sort of liability position. And this sort of strategy has been appealing to them as well. So we have investors who are some of our most loyal existing investors. And then we have a couple who've done less with us because they have that philosophy but this product really appeals.

Ken Worthington: Perfect. That was what I was looking for. Thank you very much.

Operator: And your next question is from the line of Devin Ryan from JMP Securities. You may begin.

Devin Ryan: Hey. Thanks. Good afternoon. Just a quick follow-up here on the private mark methodology and the mechanics there. So, how does that current 20% discount compare, I guess, relative to history? And really, how has that relationship fluctuated in the past, just when markets pull back? Meaning, is that gap narrow if you're not seeing the commensurate change in the actual business or does it widen because liquidity discount is increasing, so that may actually put downward pressure on that relationship? Just trying to get some thoughts on the mechanics there.

Hamilton E. James: I think people are kind of maybe focusing a little too much on this, but historically, it's been pretty consistent, because we mark, right? So, markets go down, we mark it down. But historically, that's been pretty consistent. And we never – if we have a public stock, for example, we've got a mark to where the public stock is. But if we find a strategic buyer, they usually pay a premium over whatever the stock price happens to be at the time.

Stephen A. Schwarzman: Blackstone is regulated by the SEC. And the SEC has a variety of opinions on how to value things. And so, we have certain constraints on how we value things as a result of that. The fact that historically they turn out to be overly conservative is not something we can do much about.

Devin Ryan: Understood. No, that's helpful. We're just looking to see if that relationship is kind of consistent, but I understand the conservatism.

And then, just secondly with respect to BCP V, can you just give us an update of maybe where those percentages are on a catch-up phase, on an ENI and DE basis?

Hamilton E. James: Yeah, Michael?

Michael Chae: Sure. Our favorite metrics. So, two things. One, in terms of the percentage, it's about 74% in terms of the degree to which the main fund is through the catch-up, overall. And then, the other way to think about it is what percentage of LPs are in full carry and what percent are in catch-up, and that remains around 50/50.

Devin Ryan: Got it. Okay. Great. Thank you.

Michael Chae: Thanks, Devin.

Operator: And your next question is from the line of Alex Blostein from Goldman Sachs. You may begin.

Alexander Blostein: Okay. Great. Thanks, everyone. A follow-up question for you guys, on the regulatory backdrop. I just want to touch base on [indiscernible] statements from early this week. Obviously, everything has been kind of going – coming out of the SEC with respect to leverage and liquidity. How does that, if at all, inform your retail strategy on a positive front and a negative front? So, meaning, are there any products that potentially might not work in a contract that the regulators are trying to pursue? I guess, then on the flipside, does this create meaningful opportunity for maybe some of your less liquid businesses within Credit in particular, if some of the mutual funds can really do or stop doing certain things they're doing today?

Hamilton E. James: I think it's great for us. It's great for us because we have fantastic products that give superior returns for the risk and if people have to be more – have a higher duty to choose good products, it can only be good for us.

Stephen A. Schwarzman: I'd also say that these liquidity issues that affect mutual funds and other aggregators will make it more difficult for certain credit-oriented products to be – and securities – to be held by these funds. This presents an enormous opportunity for us at GSO, assuming that we can attract the capital. And what should happen is that these liquidity issues should result in the value of certain types of lesser rated credit to gap out and provide a much higher level of return for GSO on products. And the scale of this opportunity from our preliminary thinking could be really very, very large because we're, in effect, replacing certain mutual fund investments with capital that's raised on a very long-term basis. So it's safe for us to be doing this, but the return should be higher and the demands for this capital to be supplied should really escalate. So I think it's one of these unintended consequences where it should provide really a very substantial opportunity to expand aspects of our GSO business.

Michael Chae: I think, Alex, the first part of your question was around our own daily liquidity and retail strategy. For example, the BAAM product that we've spoken about on this call. And I'll tell you there we really think in terms of process, systems, technology, how we interact with sub-advisors that were really kind of state-of-the-art in terms of really being daily liquidity when you're required to be daily liquidity. And so, we think that'll also be a source of competitive advantage against those who also sort of purport to be daily liquidity but perhaps are not.

Alexander Blostein: Yeah. That answered. Thanks very much.

Operator: And your next question will come from the line of Ken Hill from Barclays. You may begin.

Ken Hill: Hi. Thanks for taking my question. So, coming through a relatively challenged period for the asset managers, I'm wondering if any of this recent market stress has led you guys to see more opportunities for M&A or if there's any areas of your business you feel that some additional scale will provide opportunity going forward? And then could you also run through maybe a checklist of attributes you might look for in a potential target?

Stephen A. Schwarzman: I'd say yes, it provides more opportunities. And beyond that, I'd prefer not to comment. All these things are sort of long shots, if you will, because they involve cultures of different businesses and assessing the growth opportunities and having quality consistent with Blackstone. But you definitely see a lot more opportunities being tossed up in the air for us to assess as a result of this type of period.

Hamilton E. James: And unlike the criteria, I think there are a few and I'll just do this off the top of my head, I'm sure, I'll miss some. But first of all, I don't think we'll make an acquisition what we didn't bring something significant to the future of that company, where we can't create value by having part of the Blackstone platform. Similarly, we like businesses that contribute and make the rest of us better, number one.

Number two, they're going to be a talent-intensive business but not a body-intensive business. We don't want hundreds and hundreds and hundreds of employees. Number three, we want a business where we can be a global leader. We're not interested in being also-rans in either performance or size in any business.

Number four, we like businesses where if you do have superior performance, they’re businesses with a moat around it. They're not easily knockoff-able. They're not easily replicable. They're sustainable. And then five, I think we'd have to have the right people that really fit in culturally. They're team players that put the firm first that aren't out for themselves and that sort of thing. So, those would be some of the criteria that jump to mind.

Ken Hill: Okay. I appreciate the color there. The other one I wanted to follow up on was – and I know this had been talked about for years, but with the presidential candidates and a lot of the debates, the carried interest tax has gotten a little bit more press. I'm just wondering if you could provide, like, maybe a more updated assessment on how you're seeing that, and maybe what the will is to change that over the next presidential cycle, and if that has any impact on how you're viewing the corporate structure of your business.

Stephen A. Schwarzman: I think the whole presidential situation is a little incomprehensible. So we really can't figure out much of anything at this point. So I'll just leave it at that. It's certainly a very animated set of discussions in almost everything. It's a very unusual set of presidential campaign dialogues.

Ken Hill: Okay. Thanks for taking my questions.

Operator: And our final question will come from the line of Chris Shutler from William Blair. You may begin.

Chris Shutler: Hey, guys. Good afternoon. Another question on Core PE. Since that product is going to have longer holding periods, lower expected returns relative to opportunistic, and I think some of the deals or most of the deal would probably be sourced by some of the same people at Blackstone. Does that make it easier or any tougher to find attractive targets? And then should we expect purchase multiples in that business to generally be higher given you're going to be sticking with those companies for a longer period of time?

Hamilton E. James: Well, I don't think it's harder to find targets. It's a lower cost-of-capital source of funding, so I suppose you could make the models work on more companies. The trick is to keep the bar very, very high in terms of the quality you're buying. And that may lead to somewhat higher multiples. But if you're going to hold something for 20 years, the entry multiple and exit multiple are much less important than if you're holding them for a shorter holding period. And what becomes important is your ability to drive organic growth through that period of time. The way we look at it, the absolute gain, so the dollar's gain per dollar invested, which is what really ultimately drives carry should be substantially higher with this product than with opportunistic because of the compounding in the holding period and the lack of friction costs.

Chris Shutler: Okay. Understood. And then just one final one on the – you gave us stats for the Private Equity portfolio. They grew revenue 2.5% and EBITDA 6.4% in the quarter. Can you give us those comparable stats for Q4?

Hamilton E. James: I'm going to do this off the top of my head. I think the revenues were a bit higher and the EBITDA growth is a bit lower.

Michael Chae: I think they are – [crosstalk] Okay. It was 1.8% revenue in the fourth quarter and 6.7% EBITDA in the fourth quarter. So...

Chris Shutler: Great.

Michael Chae: ...we're little higher on revenues and consistent on EBITDA.

Chris Shutler: Okay. Thank you, guys.

Weston Tucker: Thanks, Chris.

Operator: And now, I'd like to turn the call over to Weston Tucker for your closing remarks.

Weston Tucker: Thanks, everybody, for joining us today.

Operator: And ladies and gentlemen, this concludes your presentation. You may now disconnect and enjoy your day.