

The top of the slide features a photograph of a mountain range with snow-capped peaks under a purple and pink sky. The BlackRock logo is positioned in the lower-left corner of this image.

BLACKROCK

# MII Potential Long: BlackRock Financial Management (BLK)

November 19, 2002

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## ABOUT BLACKROCK

BlackRock is one of the largest investment management firms in the United States

Assets are managed in a variety of fixed income, liquidity, equity and alternative investment separate accounts and mutual funds.

More than 3,000 institutional and 160,000 individual investors are served worldwide

BlackRock has been an annualized 72 basis points above benchmark over seven years.

Headquartered in New York City. Additional offices are in Wilmington, Delaware; Boston, Massachusetts; San Francisco, California; Japan, Edinburgh, Scotland and Hong Kong.

# History of BlackRock

- ❖ Started by CEO Larry Fink and seven of his friends
- ❖ Mr. Fink joined leveraged buyout specialist Blackstone Group in **1988** to start an asset management business that was 60% owned by employees
- ❖ By 1991, Mr. Fink and his colleagues managed \$9 billion. By 1994, Mr. Fink and his colleagues were ready to leave Blackstone Group. They renamed the company **BlackRock**, and found a new majority owner - PNC Bank.
- ❖ BlackRock has grown from 24 billion assets under management to 250 billion and from “a group of eight friends” to more than 800 employees



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# Relationship between BlackRock and PNC Bank

- PNC has a 70% stake in BlackRock; Mr. Fink and colleagues have 15%
- **BlackRock** operates as a subsidiary of PNC Asset Management Group
- **BlackRock** assumed responsibility for the management of PNC's fixed-income mutual funds and common trust funds, and set fixed-income strategy for PNC's investment professionals.
- Market Perception of BlackRock does not seem to be correlated with performance of PNC and employees of BlackRock feel that it has no visible effect on the daily operations of the corporation



The BlackRock logo is positioned in the top left corner of the slide. It consists of the word "BLACKROCK" in a white, serif, all-caps font. The background of the slide features a photograph of a mountain range at sunset or sunrise, with the sky transitioning from purple to orange. The mountains are dark and silhouetted against the bright sky.

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## The Investment Philosophy at BlackRock

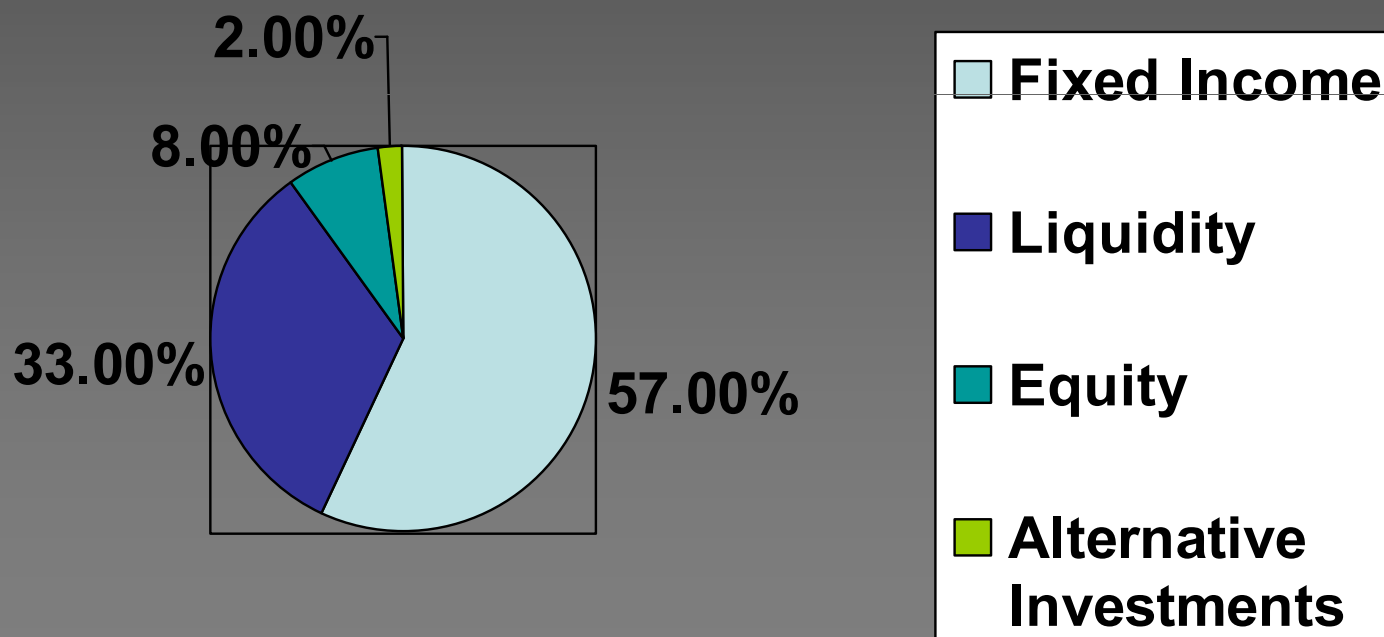
Business Model is **clientcentric**, rather than product-centric, which means that a senior relationship manager is responsible for delivering all products and the full resources of BlackRock to each client.

Blackrock has a very **disciplined Investment Philosophy** to preserve consistency

BlackRock believes that risk is important; **management of that risk** is very important.

BlackRock sets out to analyze such issues as option and credit risk in order to take a **large number of fixed-income bets with a strong prospect of outperforming**. Duration exposure is strictly controlled. **Bets taken by competitor Pimco tend to be gutsier.**

## 2001 Breakdown of Assets Under Management



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## Potential for Growth Over the Next 3-5 Years

### ➤ *BlackRock Solutions*

- Overall Growth in Assets Under Management
- Equity Markets
- Private Client Business/High Net worth Individuals
- Increase in Revenue from continued performance in Fixed Income
- Increase in Alternative Investment Products
- Increased Global Presence



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## KEY COMPETITIVE ADVANTAGE!!!

Risk Management Advisory and Investment Services System

In the absence of comprehensive third party products capable of meeting the firm's needs, the corporation built own system.

Proprietary System built by institutional investors for institutional investors!

Pricy and Timely Initial Investment **raises Barriers to Entry**- Took almost a decade to develop!!

Complexity of system and integrated capabilities reduces threat of Buyers Backward Integration

In 2001, obtained 11 new clients and achieved 50% growth.

Approximately Two Hundred Employees devoted to group





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First and Premier Client: Freddie Mac

Value Added Research:

✓Employee of Freddie Mac says firm is happy with BlackRock's system and support team. Employee does not know of any competitors and does not see the firm discontinuing to outsource with BlackRock in the near future. He said it is far superior to the internal risk management system the company had in the past.

✓Employee of BlackRock says that having satisfied clients like Freddie Mac helps to build BlackRock's credibility when marketing to new clients.

Other clients include insurance companies, finance companies, pension funds, foundations, REITs, commercial and mortgage banks, savings institutions and government agencies.

Quote from BlackRock Solutions Analyst: "BlackRock Solutions is like icing on the cake."



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## FUTURE OF BLACK ROCK SOLUTIONS

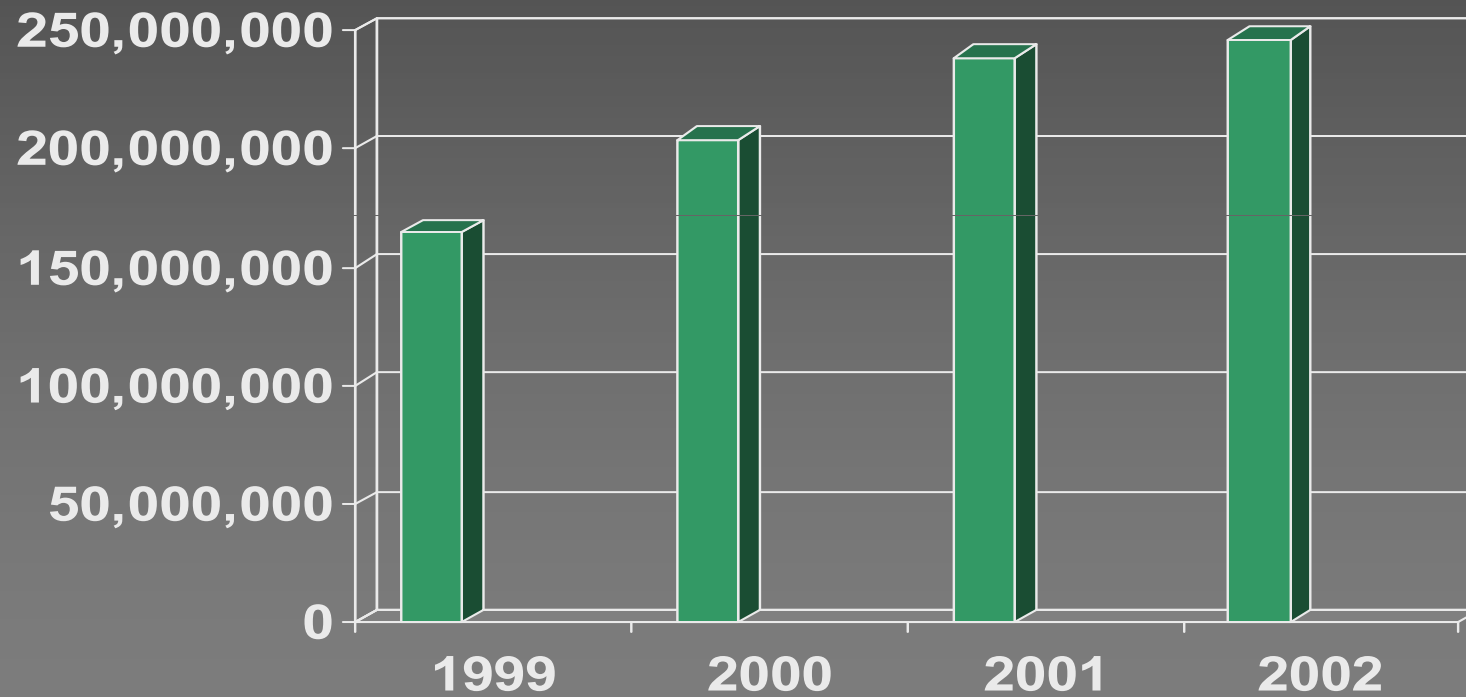
With technology in place, increases in clients do not need to be matched with increased headcount

As the capital markets assume the traditional role of banks in corporate lending, the ability to evaluate and price credit risk is very important

As the economy picks up, companies will have more money to invest in high tech systems and BlackRock Solutions client base and revenue will increase substantially! It is far from a saturation point.

Previous clients have been obtained through Word of Mouth on Wall Street. Black Rock Solutions is now **beginning to market their services** to the financial world. In fact, BlackRock Solutions used this year's MBA convention to demonstrate its new product, ANSER, for prospective mortgage banking clients.

## ASSETS UNDER MANAGEMENT CONTINUOUSLY GROW!!



# EQUITY MARKETS

- BlackRock recently bought Cyllenius Capital Management, a \$100 million all-cap growth equity hedge fund. This is BlackRock's first move into the domestic hedge fund market.
- In 2001, BlackRock formed a new seven-person small and mid cap value team.
- In 2001, International Equity Fund increased 8% during poor equities market
- Actively engaged in developing strategies to reshape domestic equity business, evaluating numerous hiring and acquisition opportunities
- President Schlosstein says the firm plans to boost its large-cap growth capabilities as well.

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## Expansion in Private Client Group and High Net Worth Individuals!!

April 17, 2002--**BlackRock Inc. has hired three private-client specialists** to launch its own asset management group for **high-net-worth individuals**. The new team was brought in to expand its capabilities in specialized investment products and services for institutional investors to a growing clientele of high-net-worth individuals. The firm currently manages more than \$500 million on behalf wealthy individuals, but, according to CEO Laurence D. Fink, has received increasing inquiries regarding their services in this field from prospective clients

Nov. 6, 2002--BlackRock, Inc. today announced that it has hired four professionals to build its private client distribution capabilities. CEO Fink says, "Today's announcement demonstrates our commitment to making equally important investments in expanding our **Private Client business.**"

## Increased Revenue from Fixed Income

- Good Relationship with Consultants who feed the firm business
- Strong Brand Name and Track Record on Wall Street
- Survival among many failing managers in a poor economy
- When the economy picks up, Fixed Income will perform better
- The Economy is not likely going to be in as big of a bubble as it was in the past, and investors are going to remain more cautious in their investment practices.
- Over the years, incremental funding from existing clients has been an important source of new business. More recently, additional assignments from existing clients have become an increasingly important source of growth as well.

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## BlackRock continues to increase global partnerships!!

March 30, 1999--Nomura Asset Management Co. of Japan and **BlackRock** Inc. of the United States plan to fund a fifty-fifty joint asset management venture to serve Japanese institutional and investment trust investors.

November 29, 1999--**BlackRock**, Inc. announced that a team of European equity investment specialists will be joining the firm by January 1, 2000.

May 21, 2002--**BlackRock**, Inc. announced that it has entered into a strategic alliance with Rothschild Australia Asset Management Limited (RAAM) to offer global fixed income investment management services to institutional and individual investors in Australia.

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## **STRONG MANAGEMENT**

**The Eight Founders of BlackRock built the business and still work there among all of the new employees, thus creating a strong and unique corporate culture.**

**Laurence Fink, 49** Chairman and CEO

Fink started at First Boston in 1976 in the company's training program, moved to fixed-income trading and **was the pioneer of the mortgage-backed securities business.**

**Ralph Schlosstein, 51** President

Schlosstein came to the investment world via the public sector in Washington. He spent time with the mortgage and savings group of Lehman Brothers before forming BlackRock . He started Lehman's interest rate swap group.

**ALL MANAGERS HAS IMPRESSIVE TRACK RECORDS THAT HELP BUILD CLIENTS' CONFIDENCE AND THE BLACKROCK BRAND NAME!!!**



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## CORPORATE CULTURE



- Various BlackRock Employees rave about the high Intellect at the firm
- No formal two year analyst program, much promotion from within motivates employees
- Work with the “people who built the business”
- Small firm, ability to interact and ask questions to co-workers in all departments and at all levels

Quote from Analyst at BlackRock: “The unique culture at BlackRock makes the employees work very hard. Having one of the founders of the company working on my team is an extremely different experience.”

# Financial Summary

Share Price (11/15)	36.58		2000	2001	2002E	2003E	2004E
Shares Outstanding	17.50M	Revenues (\$)	485M	545M	637.7M	733.3M	843.3M
Market Capitalization	2.371 B	<i>Growth</i>	26.17%	12.37%	17%	15%	15%
Enterprise Value	2157.69M	EPS	1.35	1.65	2.08	2.58	3.20
LT Debt	-----	<i>Growth</i>	29.8%	22%	26%	24%	24%
Short Interest	.132 M	P/E	18.66				



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# More Financial Measures

**Return on Capital:** 21.50%

**WACC:** 8.07%

**Cash:** 213.68M

(Previous 12 Months)

**Cash Flow:** 144.46M

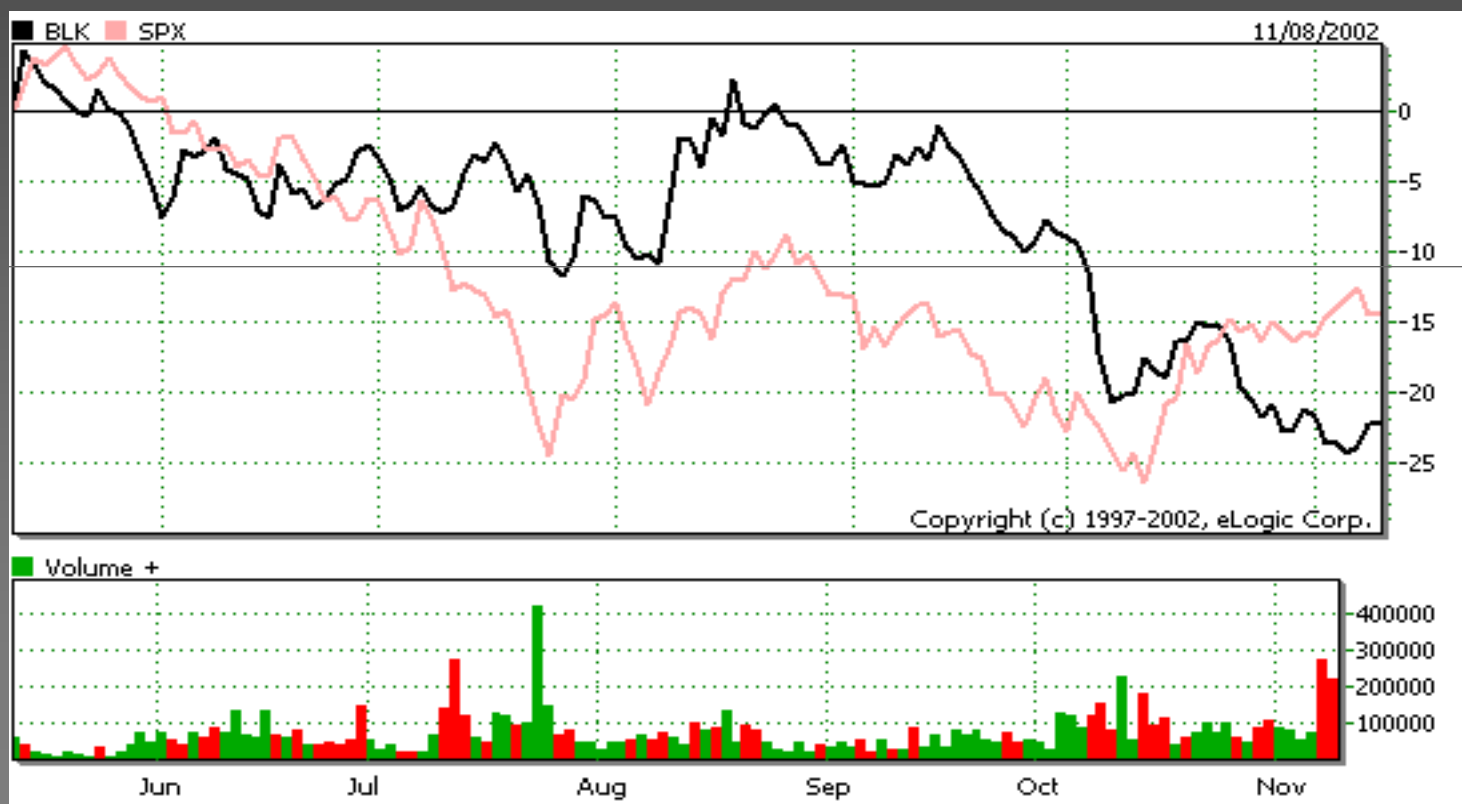
**FCF:** 92.21M

**Return on Assets:** 17.59%

**Return on Equity:** 25.15%

# BlackRock vs S & P 500 over the Past 6 months

## Nov 7 - Price hit new 52-week low (\$33.55)



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# *RISKS*

What would happen if BlackRock separated from PNC Bank?

What would happen if PNC Bank has financial difficulties or negative news?

What would happen if a bigger firm with greater economies of scale invested in a system that surpassed BlackRock Solutions?

What if one of its key competitors developed such complex analytics?

When the economy picks up, can a fixed income concentrated money Manager sustain its successes during a bear market?

What will happen when the interest rates go up?

Will BlackRock be accepted by clients as a diversified money manager With a minimal track record in equities?

## Why should the MII invest in BlackRock?

- ☀️ "Baby Firm" with a many areas for growth
- ☀️ Competitive Advantage in the industry through Investment Philosophy and superior Analytic Systems
- ☀️ Extremely Strong Management and Corporate Culture
- ☀️ Strong Brand Name on Wall Street
- ☀️ Small firm allows us the opportunity for much VALUE ADDED RESEARCH!!

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Questions????????