

## COMPANY UPDATE

# Fortress Investment Group LLC (FIG)

Neutral

## Lowering ests, PT on significant redemptions & potential fee breaks

### What's changed

We are lowering our 2008/2009/2010 DEPS estimates for Fortress to \$0.10/\$0.04/\$0.44 from \$0.11/\$0.10/\$0.57 reflective of \$3.5bn in redemptions and our expectations for potential fee breaks in the Liquid segment. Management indicated that the firm's Global Macro fund is expected to decline to \$3.65 bn by 1/1/09, down 54% from the end of September. Assuming limited redemptions in the \$1.1 bn Commodities fund, FIG's Liquid AuM will likely decline to \$4.5 bn by the end of 1Q09 – down 50% from 3Q08. Although suspending redemptions will limit additional outflows for the time being, we believe FIG will have to accommodate existing investors by potentially waiving or reducing management fees on remaining AuM.

### Implications

The firm's liquid business is currently running at a 44% redemption level -- significantly worse than expected, underscoring the "over-funded" theme highlighted in our 11/25/08 "Alternative Asset Managers -- What to do now and what's next?" report. Investors in alternative asset classes continue to seek liquidity wherever it is available. Even though Fortress' temporary suspension of redemptions will help in the near-term, we believe the remaining \$4.5 bn in Liquid AuM is in jeopardy. Moreover, we view suspending redemptions hampering Fortress' ability to raise capital in Hybrid and Private Equity even though the two segments are not directly affected by today's announcement.

### Valuation

Based on our DCF analysis and public multiples on our reduced estimates, we lower our 12-month price target to \$2.50 from \$3.50. This implies 12.5X our 2009 fee-related earnings estimate (\$0.20 per share), a 16% discount to average P/E of traditional managers.

### Key risks

Weaker than expected performance, fee reductions, further redemptions.

### INVESTMENT LIST MEMBERSHIP

Neutral

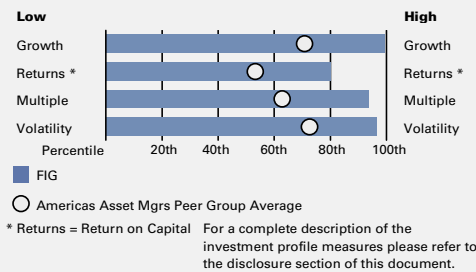
### Coverage View: Neutral

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### Investment Profile: Fortress Investment Group LLC

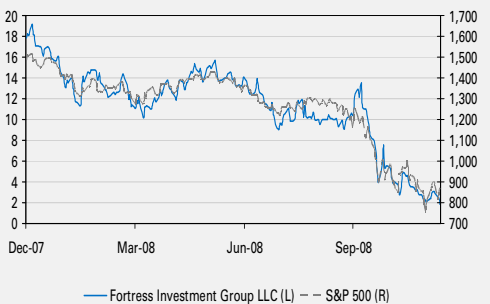


Key data	Current
Price (\$)	1.87
12 month price target (\$)	2.50
Market cap (\$ mn)	798.0

	12/07	12/08E	12/09E	12/10E
<b>Revenue (\$ mn) New</b>	<b>1,081.0</b>	<b>621.5</b>	<b>322.5</b>	<b>466.6</b>
Revenue (\$ mn) Old	1,081.0	624.8	432.6	713.3
<b>EPS (\$) New</b>	<b>0.98</b>	<b>0.10</b>	<b>0.04</b>	<b>0.44</b>
EPS (\$) Old	0.98	0.11	0.10	0.57
P/E (X)	1.9	18.2	42.1	4.2
EV/EBITDA (X)	17.9	5.4	11.4	6.6
ROE (%)	265.0	30.6	20.7	125.1

	9/08	12/08E	3/09E	6/09E
EPS (\$)	(0.03)	(0.06)	(0.03)	0.00

### Price performance chart



Share price performance (%)	3 month	6 month	12 month
Absolute	(81.5)	(86.6)	(89.5)
Rel. to S&P 500	(72.9)	(78.9)	(82.2)

Source: Company data, Goldman Sachs Research estimates, FactSet. Price as of 12/03/2008 close.

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# Fortress Investment Group LLC: Summary financials

Profit model (\$ mn)	12/07	12/08E	12/09E	12/10E	Balance sheet (\$ mn)	12/07	12/08E	12/09E	12/10E
Total revenue	1,081.0	621.5	322.5	466.6	Cash & equivalents	100.4	216.9	283.7	140.5
Cost of goods sold	--	--	--	--	Accounts receivable	0.0	0.0	0.0	0.0
SG&A	0.0	0.0	0.0	0.0	Inventory	0.0	0.0	0.0	0.0
R&D	--	--	--	--	Other current assets	198.7	51.9	63.1	66.2
Other operating profit/(expense)	(537.5)	(361.2)	(186.6)	(236.0)	<b>Total current assets</b>	<b>299.1</b>	<b>268.8</b>	<b>346.8</b>	<b>206.7</b>
ESD expense	0.0	0.0	0.0	0.0	Net PP&E	0.0	0.0	0.0	0.0
<b>EBITDA</b>	<b>543.5</b>	<b>260.3</b>	<b>135.9</b>	<b>228.5</b>	Net intangibles	0.0	0.0	0.0	0.0
Depreciation & amortization	(8.5)	(9.3)	(8.0)	(2.0)	Total investments	1,107.9	997.3	1,282.5	1,410.8
<b>EBIT</b>	<b>535.0</b>	<b>251.0</b>	<b>127.9</b>	<b>228.5</b>	Other long-term assets	582.8	602.1	626.4	652.2
Net interest income/(expense)	--	--	--	--	<b>Total assets</b>	<b>1,989.8</b>	<b>1,868.3</b>	<b>2,255.7</b>	<b>2,269.7</b>
Income/(loss) from associates	0.0	0.0	0.0	0.0	Accounts payable	455.7	395.5	395.5	423.2
Others	17.0	(193.0)	(100.0)	50.0	Short-term debt	0.0	0.0	0.0	0.0
<b>Pretax profits</b>	<b>552.0</b>	<b>58.0</b>	<b>27.9</b>	<b>278.5</b>	Other current liabilities	269.3	158.4	215.6	232.8
Provision for taxes	(139.1)	(14.2)	(6.8)	(68.2)	<b>Total current liabilities</b>	<b>725.1</b>	<b>553.9</b>	<b>611.1</b>	<b>656.0</b>
Minority interest	0.0	0.0	0.0	0.0	Long-term debt	535.0	800.0	1,000.0	800.0
<b>Net income pre-preferred dividends</b>	<b>412.9</b>	<b>43.8</b>	<b>21.0</b>	<b>210.3</b>	Other long-term liabilities	210.3	243.9	362.1	400.3
Preferred dividends	0.0	0.0	0.0	0.0	<b>Total long-term liabilities</b>	<b>745.3</b>	<b>1,043.9</b>	<b>1,362.1</b>	<b>1,200.3</b>
<b>Net income (pre-exceptionals)</b>	<b>412.9</b>	<b>43.8</b>	<b>21.0</b>	<b>210.3</b>	<b>Total liabilities</b>	<b>1,491.6</b>	<b>1,597.8</b>	<b>1,973.1</b>	<b>1,856.3</b>
Post tax exceptionals	0.0	0.0	0.0	0.0	Preferred shares	0.0	0.0	0.0	0.0
<b>Net income (post-exceptionals)</b>	<b>412.9</b>	<b>43.8</b>	<b>21.0</b>	<b>210.3</b>	<b>Total common equity</b>	<b>190.1</b>	<b>95.6</b>	<b>107.7</b>	<b>228.5</b>
<b>EPS (basic, pre-exception) (\$)</b>	<b>1.03</b>	<b>0.10</b>	<b>0.05</b>	<b>0.47</b>	Minority interest	308.0	174.9	174.9	184.9
<b>EPS (diluted, pre-exception) (\$)</b>	<b>0.98</b>	<b>0.10</b>	<b>0.04</b>	<b>0.44</b>	<b>Total liabilities &amp; equity</b>	<b>1,989.8</b>	<b>1,868.3</b>	<b>2,255.7</b>	<b>2,269.7</b>
<b>EPS (basic, post-exception) (\$)</b>	<b>1.03</b>	<b>0.10</b>	<b>0.05</b>	<b>0.47</b>	<b>Additional financials</b>	<b>12/07</b>	<b>12/08E</b>	<b>12/09E</b>	<b>12/10E</b>
<b>EPS (diluted, post-exception) (\$)</b>	<b>0.98</b>	<b>0.10</b>	<b>0.04</b>	<b>0.44</b>	Net debt/equity (%)	87.2	215.6	253.5	159.6
Common dividends paid	(70.4)	(113.9)	(15.8)	(15.8)	Interest cover (X)	--	--	--	--
DPS (\$)	0.74	0.45	0.00	0.33	Inventory days	--	--	--	--
Dividend payout ratio (%)	71.7	448.4	0.0	70.9	Receivable days	18.5	NM	NM	NM
<b>Growth &amp; margins (%)</b>	<b>12/07</b>	<b>12/08E</b>	<b>12/09E</b>	<b>12/10E</b>	BVPS (\$)	0.45	0.21	0.23	0.48
Sales growth	48.1	(42.5)	(48.1)	44.7	ROA (%)	3.2	2.3	1.0	9.3
EBITDA growth	61.8	(52.1)	(47.8)	68.2	CROCI (%)	--	--	--	--
EBIT growth	62.6	(53.1)	(49.1)	78.7	<b>Dupont ROE (%)</b>	<b>82.9</b>	<b>16.2</b>	<b>7.4</b>	<b>50.9</b>
Net income (pre-exception) growth	66.0	(89.4)	(51.9)	899.6	Margin (%)	38.2	7.0	6.5	45.1
EPS growth	66.0	(90.3)	(53.2)	898.0	Turnover (X)	0.5	0.3	0.1	0.2
Gross margin	--	--	--	--	Leverage (X)	4.0	6.9	8.0	5.5
EBITDA margin	50.3	41.9	42.1	49.0	Free cash flow per share (\$)	(3.04)	0.49	0.37	0.74
EBIT margin	49.5	40.4	39.6	49.0	Free cash flow yield (%)	(13.1)	26.0	20.0	39.7
<b>Cash flow statement (\$ mn)</b>	<b>12/07</b>	<b>12/08E</b>	<b>12/09E</b>	<b>12/10E</b>					
Net income	(60.0)	(219.0)	27.9	278.5					
D&A add-back (incl. ESO)	8.5	9.3	8.0	2.0					
Minority interest add-back	0.0	0.0	0.0	0.0					
Net (inc)/dec working capital	113.6	26.4	59.0	45.5					
Other operating cash flow	(1,271.5)	379.7	72.9	6.7					
<b>Cash flow from operations</b>	<b>(1,209.4)</b>	<b>221.6</b>	<b>167.7</b>	<b>332.7</b>					
Capital expenditures	(8.4)	(9.1)	0.0	0.0					
Acquisitions	0.0	0.0	0.0	0.0					
Divestitures	0.0	0.0	0.0	0.0					
Others	(438.9)	28.6	(285.2)	(128.2)					
<b>Cash flow from investing</b>	<b>(416.6)</b>	<b>19.6</b>	<b>(285.2)</b>	<b>(128.2)</b>					
Dividends paid (common & pref)	(70.4)	(113.9)	(15.8)	(157.7)					
Inc/(dec) in debt	97.5	265.0	200.0	(200.0)					
Other financing cash flows	2,745.3	(275.8)	0.0	10.0					
<b>Cash flow from financing</b>	<b>1,665.3</b>	<b>(124.6)</b>	<b>184.2</b>	<b>(347.7)</b>					
<b>Total cash flow</b>	<b>39.3</b>	<b>116.5</b>	<b>66.8</b>	<b>(143.2)</b>					

Note: Last actual year may include reported and estimated data.  
Source: Company data, Goldman Sachs Research estimates.

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## Reg AC

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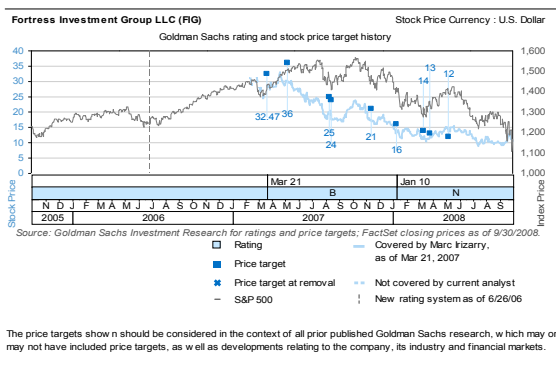
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## Price target and rating history chart(s)



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