



# Artisan Partners Asset Management (APAM)

Updated October 9<sup>th</sup>, 2018 by Nick McCullum

## Key Metrics

<b>Current Price:</b>	\$32	<b>5 Year CAGR Estimate:</b>	15.1%	<b>Volatility Percentile:</b>	74.0%
<b>Fair Value Price:</b>	\$36	<b>5 Year Growth Estimate:</b>	5.0%	<b>Momentum Percentile:</b>	37.3%
<b>% Fair Value:</b>	89%	<b>5 Year Valuation Multiple Estimate:</b>	2.5%	<b>Growth Percentile:</b>	30.0%
<b>Dividend Yield:</b>	7.6%	<b>5 Year Price Target</b>	\$150	<b>Valuation Percentile:</b>	76.0%
<b>Dividend Risk Score:</b>	C	<b>Retirement Suitability Score:</b>	C	<b>Total Return Percentile:</b>	89.0%

## Overview & Current Events

Artisan Partners Asset Management Inc. is a global investment management firm that provides a broad range of high value-asset investment strategies across several asset classes. Artisan Partners Asset Management executed its initial public offering on March 1<sup>st</sup>, 2013. The company has been a very shareholder-friendly allocator of capital since then, paying special dividends of \$0.95 per share in 2015, \$0.40 per share in 2016, \$0.36 per share in 2017, and \$0.79 per share in 2018.

In early September, Artisan Partners Asset Management announced (9/12/18) August 2018 assets under management of \$117.4 billion. Separate accounts accounted for \$58.8 billion of firm AUM while Artisan Funds and Artisan Global Funds accounted for \$58.6 billion. Overall, Artisan Partners' assets under management increased by 0.3% over the comparable July figure.

More recently, Artisan Partners Asset Management announced that Rezo Kanovich is joining the firm as a managing director and portfolio manager. Effective October 15<sup>th</sup>, Mr. Kanovich will be the sole portfolio manager for the Artisan Non-U.S. Small-Cap Growth Strategy. Mr. Kanovich has 18 years of investment management experience and is leaving a role as the portfolio manager of the Oppenheimer International Small-Mid Company Fund, which he led for more than six years.

Earlier in the summer, Artisan Partners Asset Management reported (7/31/18) financial results for the second quarter of fiscal 2018. In the quarter, revenues increased by 8.2% while operating income increased by 18.6% and diluted earnings-per-share increased by 60.0%. Adjusted financial results were also strong, but not quite as robust as their GAAP counterparts. More specifically, Artisan Partners Asset Management reported adjusted operating income growth of 8.2% and adjusted earnings-per-share growth of 31.0%. The company's robust bottom-line financial performance was driven primarily by tax reform. Artisan Partners' adjusted effective tax rate was 23.5% in the June 2018 quarter, which compares very favorably to the 37% reported in the June 2017 quarter. The markets responded favorably to Artisan Partners' financial performance and shares rose modestly following the announcement.

## Growth on a Per-Share Basis

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2023
<b>EPS</b>	N/A	N/A	N/A	N/A	N/A	\$2.54	\$3.17	\$2.69	\$2.13	\$2.41	<b>\$2.75</b>	<b>\$3.51</b>
<b>DPS</b>	N/A	N/A	N/A	N/A	N/A	\$0.86	\$2.25	\$2.40	\$2.40	\$2.40	<b>\$2.40</b>	<b>\$2.75</b>
<b>Shares</b>	N/A	N/A	N/A	N/A	N/A	19.8	34.2	39.4	42.2	50.5	<b>55.0</b>	<b>75.0</b>

Artisan Partners Asset Management has failed to generate meaningful per-share growth since its initial public offering, due largely to a ballooning share count. Because of this, we are hesitant to expect significant growth from the firm moving forward. Our 5-year earnings-per-share estimate for Artisan Partners is 5.0%. The company is likely to generate adjusted earnings-per-share of at least \$2.75 for fiscal 2018 (it generated \$1.53 in adjusted earnings-per-share through the first six months of the fiscal year). Applying a 5% growth rate to this earnings-per-share figure allows us to compute a 2023 earnings-per-share estimate of \$3.51. Income investors should note that the dividend figures listed in the above table exclude the numerous special dividends paid by the company since its IPO in 2013.

*Disclosure: This analyst has no position in the security discussed in this research report, and no plans to initiate one in the next 72 hours.*

## Valuation Analysis

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	Now	2023
Avg. P/E	N/A	N/A	N/A	N/A	N/A	20.0	17.7	16.1	13.7	13.0	<b>11.5</b>	<b>13.0</b>
Avg. Yld.	N/A	N/A	N/A	N/A	N/A	N/A	4.2%	5.4%	8.3%	7.7%	<b>7.6%</b>	<b>6.0%</b>

Like many firms, Artisan Partners Asset Management traded at elevated levels for some time following its initial public offering. Because of this, we do not believe that the company's historical valuation multiples are indicative of its fair value. Instead, we believe that a fair value for Artisan Partners Asset Management lies somewhere around 13 times earnings. The company is trading at a price-to-earnings ratio of 11.5 today. If Artisan Partners' price-to-earnings ratio expands to 13 over the next 5 years, this will increase its annualized returns by 2.5% during this time period.

## Safety, Quality, Competitive Advantage, & Recession Resiliency

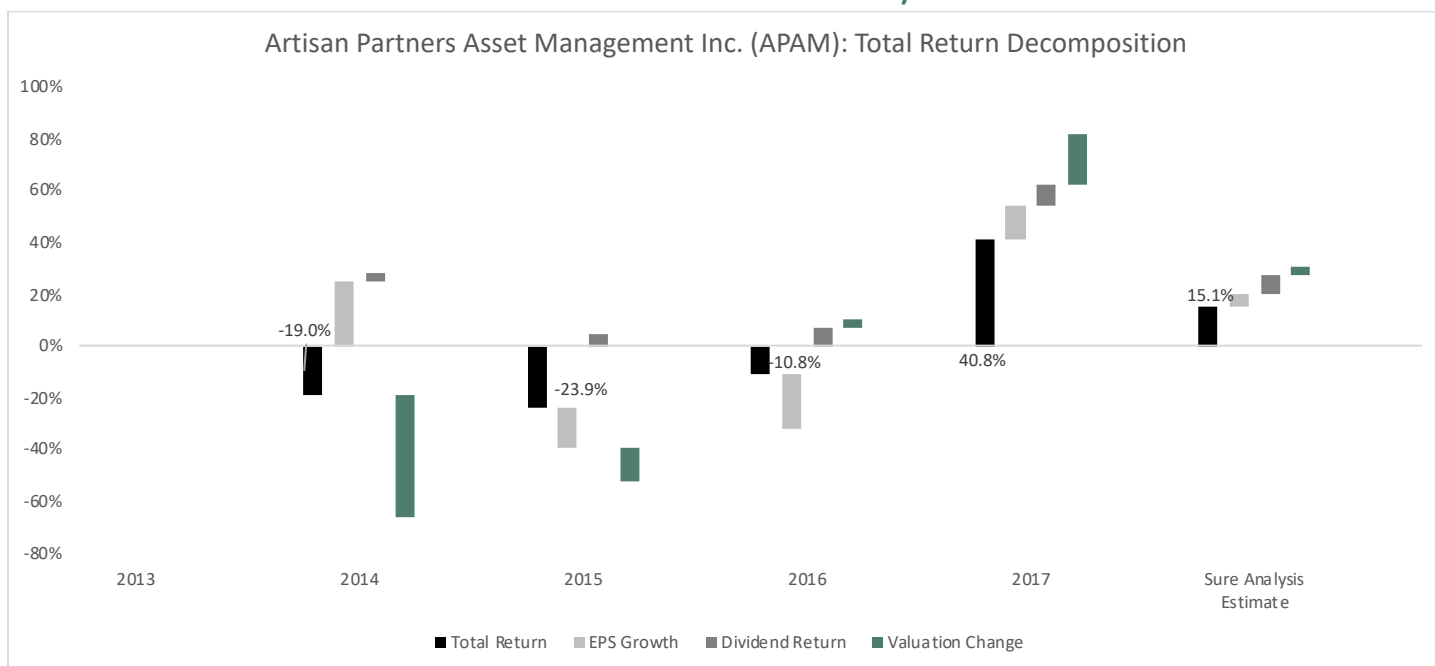
Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2023
Debt/A	N/A	N/A	N/A	N/A	N/A	77.2%	87.3%	87.7%	87.4%	87.1%	<b>87.5%</b>	<b>87.5%</b>
Int. Cov.	N/A	N/A	N/A	N/A	N/A	-16.5	26.2	23.1	20.3	50.9	<b>25.0</b>	<b>25.0</b>
Payout	N/A	N/A	N/A	N/A	N/A	33.9%	71.0%	89.2%	113%	99.6%	<b>87.3%</b>	<b>78.3%</b>
Std. Dev.	N/A	N/A	N/A	N/A	N/A	31.7%	22.5%	22.0%	33.8%	21.9%	<b>24.0%</b>	<b>24.0%</b>

Artisan Partners Asset Management has a high level of debt relative to its overall asset base. In addition, the firm's stock price standard deviation is higher than the average among our investment universe. With that said, the company has one of the safest yields among our universe of 7%+-yielding securities. The company earns a C rating for Dividend Safety due largely to its lack of consistent historical dividend growth.

## Final Thoughts & Recommendation

Artisan Partners Asset Management is a small investment management firm that can be seen as a leveraged play on the equity markets. When markets are rising, the company will benefit from ballooning AUM due to (1) market returns and (2) stronger client inflows. Conversely, the company will likely perform very poorly during a bear market. Still, Artisan Partners Asset Management earns a buy recommendation due to its mid-double-digit expected total returns. The company also earns a C rating for Retirement Suitability, again because of its short dividend history.

## Total Return Breakdown by Year



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## Income Statement Metrics

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Revenue	N/A	N/A	N/A	N/A	N/A	685.8	828.7	805.5	720.9	795.6
SG&A Expense	N/A	N/A	N/A	N/A	N/A	932.6	500.8	497.6	454.5	475.1
D&A Expense	N/A	N/A	N/A	N/A	N/A	3.2	3.3	4.5	5.3	5.3
Operating Profit	N/A	N/A	N/A	N/A	N/A	-261.2	306.9	282.4	234.2	286.4
Operating Margin	N/A	N/A	N/A	N/A	N/A	-38.1%	37.0%	35.1%	32.5%	36.0%
Net Profit	N/A	N/A	N/A	N/A	N/A	24.8	69.6	81.8	73.0	49.6
Net Margin	N/A	N/A	N/A	N/A	N/A	3.6%	8.4%	10.2%	10.1%	6.2%
Free Cash Flow	N/A	N/A	N/A	N/A	N/A	109.0	341.9	313.9	263.1	198.2
Income Tax Prov.	N/A	N/A	N/A	N/A	N/A	26.4	48.8	46.8	51.5	420.5

## Balance Sheet Metrics

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Total Assets	N/A	N/A	N/A	N/A	N/A	581.4	849.5	945.8	936.2	837.2
Cash & Equivalents	N/A	N/A	N/A	N/A	N/A	231.0	182.3	166.2	156.8	159.2
Accounts Receivable	N/A	N/A	N/A	N/A	N/A	71.5	69.4	60.1	59.7	76.7
PP&E	N/A	N/A	N/A	N/A	N/A	27.2	33.6	39.1	44.7	48.2
Intangible Assets	N/A	N/A	N/A	N/A	N/A	449.1	742.0	829.3	818.5	729.1
Total Liabilities	N/A	N/A	N/A	N/A	N/A	18.8	21.9	18.1	15.6	16.7
Accounts Payable	N/A	N/A	N/A	N/A	N/A	0.0	0.0	199.3	199.5	199.1
Long-Term Debt	N/A	N/A	N/A	N/A	N/A	8.9	110.9	130.0	131.7	109.9
Shareholders' Equity	N/A	N/A	N/A	N/A	N/A	0.0	0.0	1.5	1.5	1.8
D/E Ratio	N/A	N/A	N/A	N/A	N/A	581.4	849.5	945.8	936.2	837.2

## Profitability Metrics

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Return on Assets	N/A	N/A	N/A	N/A	N/A	5.7%	9.7%	9.1%	7.8%	5.6%
Return on Equity	N/A	N/A	N/A	N/A	N/A	559%	116%	67.9%	55.8%	41.1%
ROIC	N/A	N/A	N/A	N/A	N/A	-19.8%	58.1%	38.6%	23.1%	15.9%

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