



Artisan Partners Asset Management (APAM)

November 9th, 2018 by Josh Arnold

Key Metrics

Current Price:	\$27	5 Year CAGR Estimate:	21.6%	Volatility Percentile:	74.9%
Fair Value Price:	\$39	5 Year Growth Estimate:	5.0%	Momentum Percentile:	12.4%
% Fair Value:	69%	5 Year Valuation Multiple Estimate:	7.7%	Growth Percentile:	30.3%
Dividend Yield:	8.9%	5 Year Price Target	\$50	Valuation Percentile:	94.4%
Dividend Risk Score:	F	Retirement Suitability Score:	C	Total Return Percentile:	96.8%

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 executed its initial public offering on March 1st, 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.

Artisan Partners reported Q3 earnings on 10/30/18 and results were somewhat positive. Assets under management grew almost 3% year-over-year, although that number has since come down with the volatility we saw in the equity markets in October. Revenue was up 4% against last year's Q3 despite a flat effective fee rate of 73bps. The general trend among asset managers is for fees to decline over time, as investors have access to more products than ever and competition is constantly rising. The fact that Artisan was able to keep its fees flat is a bit of an accomplishment.

Unfortunately, the increase in AUM was due entirely – and then some – to the higher stock market. Client money flowed out at a rate of \$1.5 billion in Q3 for a total of \$2.5 billion in outflows thus far in 2018. While that's an improvement over a \$3 billion net outflow in the same period last year, it certainly is not a positive trend. Total operating expenses also rose 6% year-over-year as the vast majority of the company's costs are compensation. Its pay structure is variable, meaning it fluctuates up and down with AUM and revenue, so we should see that line item decline in Q4 should weakness in the equity markets persist. However, with operating expense growth outpacing that of revenue in Q4, operating margins declined 90bps on an adjusted basis. A lower tax rate salvaged earnings-per-share growth of 21%, but there are certainly some items of concern in the Q3 report despite the rosy headline numbers.

Apart from that, Artisan said it has generated \$2.86 per share in available cash for the dividend in the first three quarters of the year. That is good for an annualized rate of ~\$3.81 per share, well in excess of the current dividend of \$2.40 per share. We suspect Artisan will elect to continue using special dividends to allocate this additional cash rather than raising the quarterly dividend, although timing and amount is tricky with special dividends. Still, the point is that the yield appears to be very safe based upon the numbers provided by management.

Growth on a Per-Share Basis

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2023
EPS	N/A	N/A	N/A	N/A	N/A	\$2.54	\$3.17	\$2.69	\$2.13	\$2.41	\$3.00	\$3.83
DPS	N/A	N/A	N/A	N/A	N/A	\$0.86	\$2.25	\$2.40	\$2.40	\$2.40	\$2.40	\$2.75
Shares	N/A	N/A	N/A	N/A	N/A	19.8	34.2	39.4	42.2	50.5	55.0	75.0

Artisan 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 is 5.0%. The company is likely to generate adjusted earnings-per-share of about \$3.00 for fiscal 2018 (it generated \$2.32 in adjusted earnings-per-share through the first nine 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 \$3.83. 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.



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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	9.0	13.0
Avg. Yld.	N/A	N/A	N/A	N/A	N/A	N/A	4.2%	5.4%	8.3%	7.7%	8.9%	5.5%

Like many firms, Artisan 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 lies somewhere around 13 times earnings. The company is trading at a price-to-earnings ratio of 9 today. If Artisan's price-to-earnings ratio expands to 13 over the next 5 years, this will increase its annualized returns by 7.7% during this time period. In addition to the lower share price making the stock look appealing from a valuation perspective, the yield is also very high at 8.9%. We believe the yield will fall over time as the valuation normalizes, but for now, Artisan offers a unique blend of yield and value.

Safety, Quality, Competitive Advantage, & Recession Resiliency

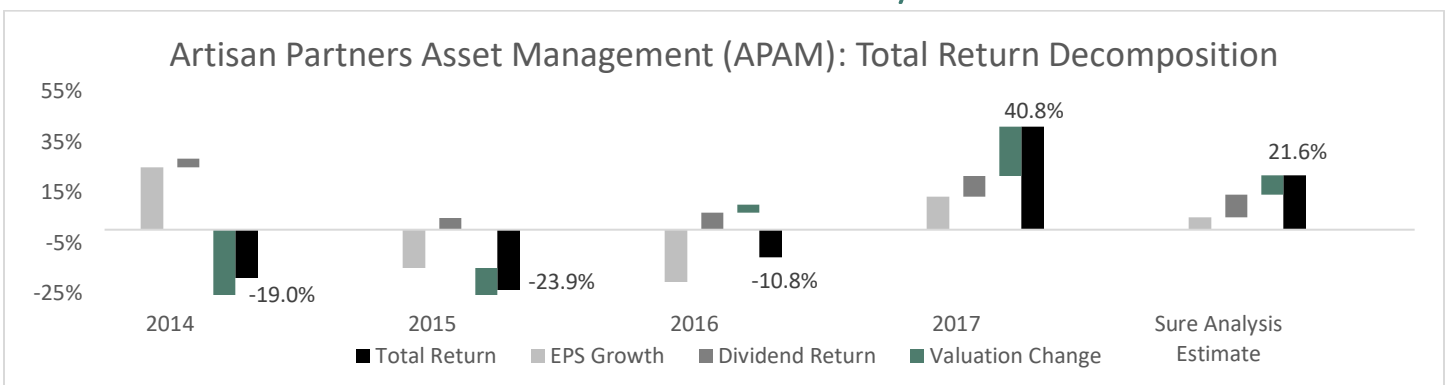
Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2023
Debt/A	N/A	N/A	N/A	N/A	N/A	77.2%	87.3%	87.7%	87.4%	87.1%	87.5%	87.5%
Int. Cov.	N/A	N/A	N/A	N/A	N/A	-16.5	26.2	23.1	20.3	50.9	25.0	30.0
Payout	N/A	N/A	N/A	N/A	N/A	33.9%	71.0%	89.2%	113%	99.6%	80.0%	71.8%
Std. Dev.	N/A	N/A	N/A	N/A	N/A	31.7%	22.5%	22.0%	33.8%	21.9%	24.0%	24.0%

Artisan 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. Commentary from management would suggest there is still ample room to grow the payout and/or continue to use sporadic special dividends. There are no financing or balance sheet concerns for Artisan; the company is profitable and produces lots of cash.

Final Thoughts & Recommendation

Artisan can be seen as a leveraged play on the equity markets. When markets are rising, the company will benefit from ballooning AUM due to market returns and 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 21.6% total returns. Expected returns are composed of the current 8.9% yield, 5% growth and 7.7% tailwind from the rising valuation. Artisan is not for the risk-averse but for those willing to stomach a potentially volatile stock, it earns a buy recommendation. The combination of the high yield and very low valuation make Artisan quite attractive.

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	686	829	805	721	796
SG&A Exp.	N/A	N/A	N/A	N/A	N/A	933	501	498	455	475
D&A Exp.	N/A	N/A	N/A	N/A	N/A	3	3	5	5	5
Operating Profit	N/A	N/A	N/A	N/A	N/A	-261	307	282	234	286
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	25	70	82	73	50
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	342	314	263	198
Income Tax	N/A	N/A	N/A	N/A	N/A	26	49	47	51	421

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	849	946	936	837
Cash & Equivalents	N/A	N/A	N/A	N/A	N/A	231	182	166	157	159
Accounts Receivable	N/A	N/A	N/A	N/A	N/A	72	69	60	60	93
Total Liabilities	N/A	N/A	N/A	N/A	N/A	449	742	829	818	729
Accounts Payable	N/A	N/A	N/A	N/A	N/A	19	22	18	16	25
Long-Term Debt	N/A	N/A	N/A	N/A	N/A	0	0	199	199	199
Shareholder's Equity	N/A	N/A	N/A	N/A	N/A	9	111	130	132	110
D/E Ratio	N/A	N/A	N/A	N/A	N/A	0.00	0.00	1.53	1.51	1.81

Profitability & Per Share 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%
Shares Out.	N/A	N/A	N/A	N/A	N/A	19.8	34.2	39.4	42.2	50.5
Revenue/Share	N/A	N/A	N/A	N/A	N/A	49.77	30.12	22.72	18.90	17.82
FCF/Share	N/A	N/A	N/A	N/A	N/A	7.91	12.43	8.86	6.90	4.44

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.

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