



Artisan Partners Asset Management (APAM)

Updated February 6th, 2019 by Josh Arnold

Key Metrics

Current Price:	\$24	5 Year CAGR Estimate:	18.2%	Volatility Percentile:	75.9%
Fair Value Price:	\$28	5 Year Growth Estimate:	5.0%	Momentum Percentile:	6.6%
% Fair Value:	86%	5 Year Valuation Multiple Estimate:	3.1%	Growth Percentile:	33.5%
Dividend Yield:	10.1%	5 Year Price Target	\$35	Valuation Percentile:	73.7%
Dividend Risk Score:	F	Retirement Suitability Score:	C	Total Return Percentile:	94.4%

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 reported Q4 earnings on 2/4/19 and results were somewhat weak. Revenue was down 9% year-over-year as the company's assets under management fell by a similar amount. Volatility in December played a role in Artisan's relatively weak Q4 numbers as operating margins fell significantly. That sent adjusted earnings-per-share down over 8% to \$0.61 in Q4 against the year-ago period.

Artisan's decline in assets under management against the end of the third quarter of 2018 was 17.5%. Three quarters of the decline was due to depreciation from market losses, but the other quarter was due to nearly \$5 billion in client outflows. Artisan had \$5.4 billion in negative client cash flows in 2017 and 2018's number was \$7.4 billion in total, so it is something we certainly will keep an eye on moving forward.

Management stated that outflows in Q4 of 2018 were due to tax loss harvesting as well as trading out risk assets for money market and similar assets amid the significant volatility the markets experienced. Artisan also reiterated its focus on long-term goals instead of short-term movements in markets, but certainly, Q4 was a reminder of the relative fragility of the company's business model.

We are out with an initial estimate of \$2.30 in earnings-per-share for 2019, reflecting some of the volatility we've seen in the company's assets under management, which drives revenue and operating margins. Artisan's model affords a significant amount of operating leverage when revenue moves up or down, so we're a bit cautious this year given how 2018 ended.

Growth on a Per-Share Basis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
EPS	N/A	N/A	N/A	N/A	\$2.54	\$3.17	\$2.69	\$2.13	\$2.41	\$2.94	\$2.30	\$2.94
DPS	N/A	N/A	N/A	N/A	\$0.86	\$2.25	\$2.40	\$2.40	\$2.40	\$2.40	\$2.40	\$2.40
Shares	N/A	N/A	N/A	N/A	20	34	39	42	51	54	57	72

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%. Artisan's 2018 performance was quite strong against 2017 but given lower assets under management and operating margins that are moving unfavorably, we see earnings-per-share this year more in line with 2017. Applying a 5% growth rate to \$2.30 allows us to compute a 2024 earnings-per-share estimate of \$2.94.

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. Artisan pays a regular quarterly dividend but it also pays out significant special dividends annually. The company's policy is to pay out 80% of the cash the company generates. At the end of the

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year, the board takes into account several factors, and determines a variable special dividend. The 2018 special dividend is \$1.03 per share in addition to the \$2.40 in regular quarterly dividends that were paid.

Valuation Analysis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	Now	2024
Avg. P/E	N/A	N/A	N/A	N/A	20.0	17.7	16.1	13.7	13.0	10.9	10.3	12.0
Avg. Yld.	N/A	N/A	N/A	N/A	N/A	4.2%	5.4%	8.3%	7.7%	7.5%	10.1%	7.4%

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 12 times earnings. The company is trading at a price-to-earnings ratio of 10.3 today. If Artisan's price-to-earnings ratio expands to 12 over the next 5 years, this will increase its annualized returns by 3.1% during that 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 10.1%. We believe the yield will fall over time as the valuation normalizes, but for now, Artisan offers a unique blend of yield and value. Income investors would do well to remember that the total yield is much higher than the stated yield because of the special dividends the company pays.

Safety, Quality, Competitive Advantage, & Recession Resiliency

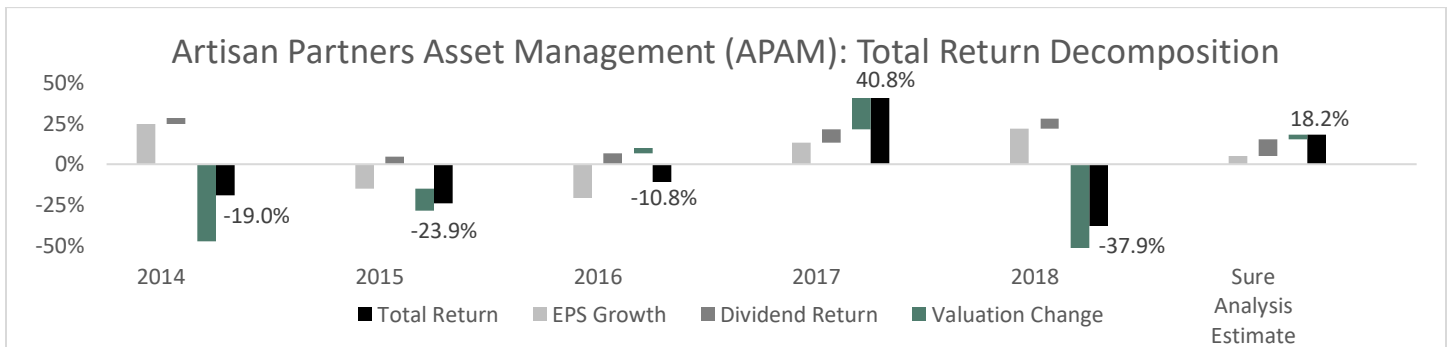
Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
Payout	N/A	N/A	N/A	N/A	34%	71%	89%	113%	100%	82%	104%	82%

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. Commentary from management would suggest there is still ample room to grow the payout and/or continue to use special dividends. There are no financing or balance sheet concerns for Artisan; the company is profitable and produces lots of cash it does not need to reinvest.

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, as it did during December. Still, Artisan Partners Asset Management earns a buy recommendation due to its 18.2% expected returns. Expected returns are composed of the current 10.1% yield, 5% growth and 3.1% 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 extremely high yield and 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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