# Apollo Global (APO)

*Updated May 6th, 2019 by Josh Arnold*

## Key Metrics

| | | | | | |
|---|---|---|---|---|---|
| **Current Price:** | $33 | **5 Year CAGR Estimate:** | 8.5% | **Volatility Percentile:** | 76.2% |
| **Fair Value Price:** | $29 | **5 Year Growth Estimate:** | 6.0% | **Momentum Percentile:** | 59.6% |
| **% Fair Value:** | 117% | **5 Year Valuation Multiple Estimate:** | -3.0% | **Growth Percentile:** | 53.2% |
| **Dividend Yield:** | 5.5% | **5 Year Price Target** | $38 | **Valuation Percentile:** | 32.1% |
| **Dividend Risk Score:** | F | **Retirement Suitability Score:** | C | **Total Return Percentile:** | 54.9% |

## Overview & Current Events

Apollo Global is an alternative asset manager that was founded in 1990 and went public in 2011. The company takes investment capital and puts it to work wherever it sees opportunity, including in credit, private equity, and buyouts of companies. Assets under management has grown by more than five times in the past decade and sits at $303 billion today. Apollo has about 1,100 employees and the stock trades with a market capitalization of $13 billion.

Apollo reported Q1 earnings on 5/2/19 and results were weaker than expected. Apollo generated capital inflows of $25 billion in Q1, bringing total assets under management to $303 billion. Fee-generating assets under management came in at $228 billion, while performance-fee eligible assets under management is now $129 billion. Apollo has dry powder of $45.8 billion as of the end of the quarter, as just $4.3 billion of the $25 billion in inflows was deployed.

Higher management fees and stronger investment income – both of which are very volatile in any particular quarter – helped boost revenue to $678 million in Q1 against $167 million in the comparable quarter last year. Expenses rose significantly as well as profit-sharing costs rise commensurately with revenue, but distributable earnings came in 10% higher year-over-year to $207 million.

Apollo uses this number to produce its dividend and in Q1, distributable earnings-per-share was $0.50 against $0.46 in the year-ago period. We expected closer to $3 in distributable earnings-per-share this year, but after Q1, we now see that number at $2.60. Apollo continues to hold $45+ billion in dry powder, which means it isn't using that capital to its fullest potential, and that is crimping earnings.

Further, because of relatively weak earnings performance, Apollo's declared distribution for Q1 is just $0.46, down from the $0.56 distribution from Q4, but up from the $0.38 payout from last year's Q1. With the significantly lower payout, Apollo's yield has fallen, and with it, the attractiveness of the stock.

Finally, Apollo announced it was converting from a publicly traded partnership to a C-Corporation in order to eliminate the K-1 form holders receive today, enhance liquidity, and potentially be included in stock indices.

## Growth on a Per-Share Basis

| Year | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2024 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| EPS | -- | -- | -$0.86 | $3.82 | $4.80 | $1.42 | $0.96 | $2.36 | $3.57 | -$0.30 | ***$2.60*** | ***$3.48*** |
| DPS | -- | -- | $0.83 | $1.35 | $3.95 | $3.11 | $1.96 | $1.25 | $1.85 | $1.93 | ***$1.84*** | ***$2.60*** |
| Shares | -- | -- | 124 | 130 | 146 | 163 | 181 | 185 | 195 | 200 | ***205*** | ***235*** |

Apollo's volatile earnings-per-share history is to be expected. Due to the complexity and variability of Apollo's investment strategy, returns are very lumpy. While 2018 was a transition year, we see Apollo's steady-state earnings-per-share between $3 and $4, and forecast 6% average growth annually to get there.

Apollo continues to grow its assets under management, which then allows it to grow its investment portfolio. This will be the primary source of returns moving forward as Apollo has more capital to enter into new investments. When Apollo enters and exits its stakes in these investments is critical for earnings, but these events cannot be forecast ahead of time, and thus results in volatility in earnings. For this reason, Apollo shares are not for the risk-averse investor. We see the considerable amount of dry powder as a key catalyst for earnings growth down the road, although we note that continuously holding large amounts of dry powder results in suboptimal investment returns, as it did in Q1.

Apollo's dividend is critically important given the high yield, which is currently 5.5%. This yield, however, is lower than it has been for much of the time the company has been public, so on this measure, the stock appears somewhat overvalued. Apollo's dividend is also irregular in that the company distributes what it can based upon earnings. The payout has seen a very wide range in the past several years due to this, and the dividend is therefore also difficult to forecast. However, we see the payout rising to $2.60 payout by 2024.

## Valuation Analysis

| Year | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | Now | 2024 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Avg. P/E** | --- | --- | --- | 3.7 | 5.5 | 18.9 | 21.4 | 7.2 | 7.6 | --- | ***12.8*** | ***11.0*** |
| **Avg. Yld.** | --- | --- | 5.7% | 9.6% | 15.1% | 11.6% | 9.6% | 7.4% | 6.8% | 6.0% | ***5.5%*** | ***6.8%*** |

The yield has been much higher than it is today, as mentioned, and the same is true of the valuation. Apollo has traded as high as 21 times earnings but today, it sits at 12.8. We see fair value at 11 times earnings, implying a 3% annual headwind from valuation expansion. We see the yield rising from the current 5.5% to 6.8% over time. If one can stomach the potential risk, Apollo could be a terrific income stock.

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

| Year | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2024 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Payout** | --- | --- | --- | 35% | 82% | 219% | 204% | 53% | 52% | --- | ***71%*** | ***75%*** |

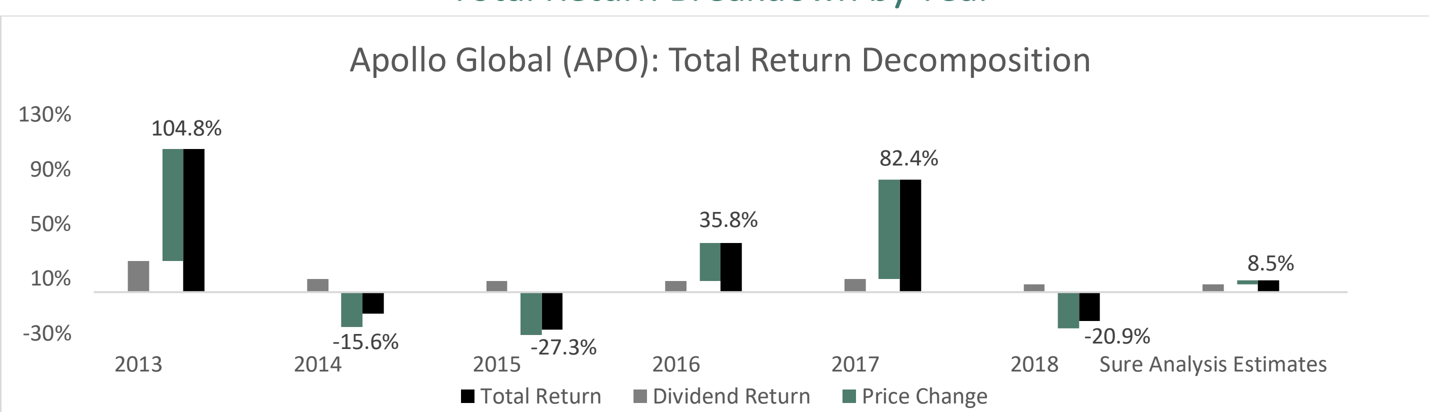
Apollo's dividend policy is to pay out most of the company's earnings to shareholders, so we see the payout ratio as remaining quite high. Volatility in the payout isn't ideal for income investors, so some caution is warranted.

Apollo has not endured a recession as a public company, but given its broad and complicated investment portfolio, it is likely it will suffer materially when a downturn strikes. Its competitive advantage is in its world-class leadership team that has years of experience in successful investment management.

## Final Thoughts & Recommendation

We are maintaining Apollo at a hold rating following Q1 results despite materially lower forecast annual returns. Indeed, we see total annual returns of 8.5% in the years to come, consisting of the 5.5% current yield, 6% earnings growth and a 3% headwind from the valuation. Apollo is certainly not for the risk-averse investor, and given the lower expected total returns, we are somewhat more cautious on Apollo.

## Total Return Breakdown by Year

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*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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## Income Statement Metrics

| Year | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 |
|---|---|---|---|---|---|---|---|---|---|---|
| Revenue | 967 | 2110 | 172 | 2860 | 3734 | 1560 | 1042 | 1970 | 2610 | 1093 |
| Gross Profit | -528 | 167 | -1169 | 1115 | 2139 | 820 | 504 | 1121 | 1575 | 518 |
| Gross Margin | -54.6% | 7.9% | -681% | 39.0% | 57.3% | 52.5% | 48.4% | 56.9% | 60.3% | 47.4% |
| SG&A Exp. | 95 | 154 | 175 | 212 | 264 | 281 | 263 | 273 | 272 | 269 |
| D&A Exp. | 24 | 24 | 26 | 53 | 54 | 45 | 44 | 19 | 18 | -- |
| Operating Profit | -690 | -12 | -1370 | 849 | 1821 | 539 | 241 | 848 | 1303 | 63 |
| Op. Margin | -71.3% | -0.6% | -798% | 29.7% | 48.8% | 34.5% | 23.1% | 43.0% | 49.9% | 5.8% |
| Net Profit | -155 | 95 | -469 | 311 | 659 | 168 | 134 | 403 | 629 | -10 |
| Net Margin | -16.1% | 4.5% | -273% | 10.9% | 17.7% | 10.8% | 12.9% | 20.4% | 24.1% | -0.9% |
| Free Cash Flow | 92 | -224 | 723 | 320 | 1127 | -379 | 576 | 609 | 800 | -- |
| Income Tax | 29 | 92 | 12 | 65 | 108 | 147 | 27 | 91 | 326 | 86 |

## Balance Sheet Metrics

| Year | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 |
|---|---|---|---|---|---|---|---|---|---|---|
| Total Assets | 3385 | 6552 | 7976 | 20637 | 22478 | 23173 | 4560 | 5630 | 6991 | 5992 |
| Cash & Equivalents | 366 | 470 | 912 | 2629 | 2173 | 2293 | 669 | 848 | 844 | 659 |
| Goodwill & Int. Ass. | 117 | 113 | 131 | 187 | 144 | 109 | 117 | 112 | 108 | 108 |
| Total Liabilities | 2086 | 3471 | 5328 | 14933 | 15789 | 17229 | 3171 | 3762 | 4093 | 3540 |
| Accounts Payable | 549 | 518 | 34 | 38 | 38 | 44 | 92 | 57 | 69 | 71 |
| Long-Term Debt | 934 | 752 | 3928 | 12573 | 13174 | 15151 | 1827 | 2139 | 2364 | 2216 |
| Shareholder's Equity | -304 | 151 | 726 | 2667 | 2637 | 1786 | 650 | 835 | 1199 | 822 |
| D/E Ratio | -3.07 | 4.98 | 5.41 | 4.71 | 5.00 | 8.48 | 2.81 | 2.56 | 1.62 | 1.61 |

## Profitability & Per Share Metrics

| Year | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 |
|---|---|---|---|---|---|---|---|---|---|---|
| Return on Assets | -5.3% | 1.9% | -6.5% | 2.2% | 3.1% | 0.7% | 1.0% | 7.9% | 10.0% | -0.2% |
| Return on Equity | 38.7% | -124% | -107% | 18.3% | 24.9% | 7.6% | 11.0% | 54.3% | 61.9% | -1.0% |
| ROIC | -8.7% | 3.1% | -9.0% | 2.5% | 3.5% | 0.8% | 1.1% | 11.2% | 13.6% | -0.2% |
| Shares Out. | -- | -- | 124 | 130 | 146 | 163 | 181 | 185 | 195 | 200 |
| Revenue/Share | 10.09 | 21.76 | 1.48 | 22.08 | 26.25 | 10.04 | 6.01 | 10.71 | 13.55 | 2.67 |
| FCF/Share | 0.96 | -2.31 | 6.21 | 2.47 | 7.92 | -2.44 | 3.33 | 3.31 | 4.15 | -- |

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