



Artisan Partners Asset Management (APAM)

Updated May 4th, 2019 by Josh Arnold

Key Metrics

Current Price:	\$28	5 Year CAGR Estimate:	13.8%	Volatility Percentile:	79.8%
Fair Value Price:	\$30	5 Year Growth Estimate:	5.0%	Momentum Percentile:	34.3%
% Fair Value:	95%	5 Year Valuation Multiple Estimate:	1.1%	Growth Percentile:	36.0%
Dividend Yield:	7.7%	5 Year Price Target	\$38	Valuation Percentile:	65.4%
Dividend Risk Score:	F	Retirement Suitability Score:	C	Total Return Percentile:	86.5%

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 Q1 earnings on 4/30/2019 and results were somewhat weak. Ending assets under management came in at \$107.8 billion, down 6% year-over-year despite the strong performance from stock markets globally in Q1. Average assets under management fell even more, declining more than 11% to \$104.9 billion. This caused revenue to fall nearly 12% year-over-year as Artisan's top line is heavily leveraged to its AUM.

Lower compensation and benefits expense helped to limit the damage to net income, but given the weak performance from revenue, adjusted earnings-per-share declined from \$0.75 in last year's Q1 to just \$0.47 this year. Net income on a dollar basis declined 24%, but thanks to a rising share count, Artisan's earnings-per-share was off 37%.

AUM appears to have stabilized as, subsequent to the end of the quarter, Artisan reported March AUM was essentially flat with February.

The stock has moved up meaningfully in recent weeks and earnings estimates have risen. Indeed, our estimate for this year is \$2.50, up from \$2.30, despite the weak Q1 report. A weak Q1 was certainly expected given the AUM outflows the company has seen in recent months, in addition to the very low starting point for equities as of the end of 2018. This impacted the company's AUM throughout the quarter and thus, its fees. We see a much better outlook for Artisan now that stock markets are at or near all-time highs.

Artisan also cut its dividend with the most recent declaration, moving the payout down 1.8% to \$0.55 quarterly. We were surprised by this announcement and have moved our estimate for this year's dividend down to \$2.20.

Growth on a Per-Share Basis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
EPS	---	---	---	---	\$2.54	\$3.17	\$2.69	\$2.13	\$2.41	\$2.94	\$2.50	\$3.19
DPS	---	---	---	---	\$0.86	\$2.25	\$2.40	\$2.40	\$2.40	\$2.40	\$2.20	\$2.20
Shares	---	---	---	---	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 2019 earnings-per-share more in line with 2017. Applying a 5% growth rate to \$2.50 allows us to compute a 2024 earnings-per-share estimate of \$3.19, which is only in-line with 2014's earnings-per-share number.

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 was \$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	---	---	---	---	20.0	17.7	16.1	13.7	13.0	10.9	11.4	12.0
Avg. Yld.	---	---	---	---	---	4.2%	5.4%	8.3%	7.7%	7.5%	7.7%	5.7%

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 11.4 today. If Artisan's price-to-earnings ratio expands to 12 over the next 5 years, this will increase its annualized returns by 1.1% during that time period. Despite the recent rally and small dividend cut, the yield is still very high at 7.7%. We believe the yield will fall over time as the valuation normalizes, but for now, Artisan offers investors a REIT-like yield. 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	---	---	---	---	34%	71%	89%	113%	100%	82%	88%	69%

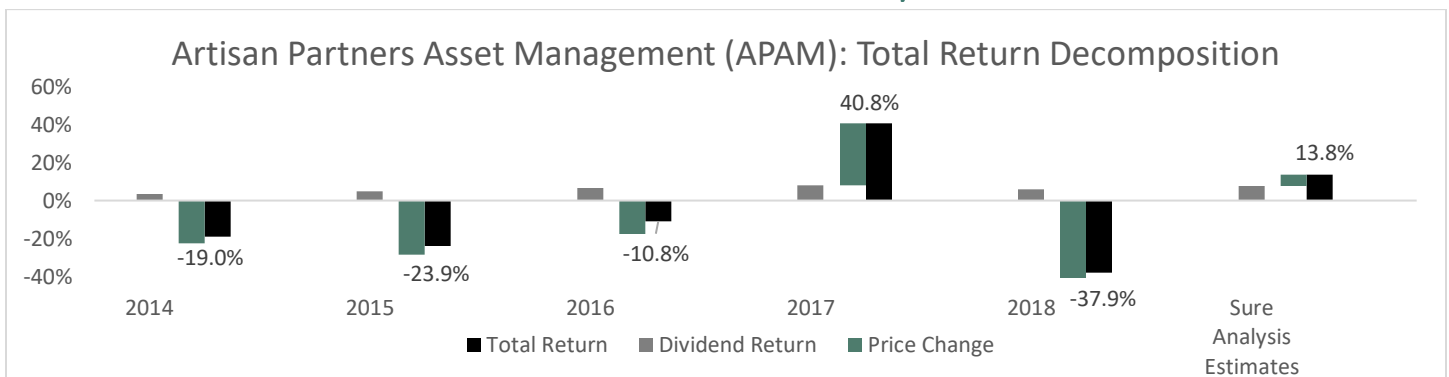
Artisan's payout ratio has improved significantly thanks to higher earnings and now, a lower dividend payment. Any company that cuts its dividend payment should be perceived as much riskier for income investors, and we see Artisan that way today. The recent cut was surprising as we didn't see the need for the company to cut it.

Artisan wasn't public during the last recession, but we expect the damage to earnings would be severe. Artisan is a highly cyclical company, so investors looking for safety and defensiveness need to look elsewhere. Adding to this risk, Artisan's competitive advantage of its well-performing funds hasn't resonated with customers.

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 at the end of 2018. Given the recent rally in the stock and the dividend cut, we are cutting Artisan to hold from buy. In our view, the risk of owning the stock has increased materially. Expected returns are composed of the current 7.7% yield, 5% growth and 1.1% tailwind from the rising valuation.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Revenue	296	382	455	506	686	829	805	721	796	829
SG&A Exp.	223	141	92	218	623	150	125	99	85	73
D&A Exp.	2	2	2	2	3	3	5	5	5	6
Operating Profit	73	65	154	47	-261	307	282	234	286	305
Operating Margin	24.7%	17.1%	33.9%	9.3%	-38.1%	37.0%	35.1%	32.5%	36.0%	36.8%
Net Profit	48	43	0	0	25	70	82	73	50	158
Net Margin	16.3%	11.1%	0.0%	0.0%	3.6%	8.4%	10.2%	10.1%	6.2%	19.1%
Free Cash Flow	89	115	101	125	109	342	314	263	220	319
Income Tax	0	1	1	1	26	49	47	51	421	48

Balance Sheet Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Total Assets	146	210	225	288	581	849	946	936	837	805
Cash & Equivalents	102	159	132	151	231	182	166	157	159	175
Accounts Receivable	32	37	39	57	72	69	60	60	90	71
Total Liabilities	903	946	866	960	449	742	829	818	729	665
Accounts Payable	8	10	9	28	19	22	18	16	25	21
Long-Term Debt	400	380	325	290	0	0	199	199	199	199
Shareholder's Equity	-757	-737	-664	0	9	111	130	132	110	135
D/E Ratio	N/A	N/A	-0.49	N/A	0.00	0.00	1.53	1.51	1.81	1.48

Profitability & Per Share Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Return on Assets	N/A	N/A	N/A	0.0%	5.7%	9.7%	9.1%	7.8%	5.6%	19.3%
Return on Equity	N/A	N/A	N/A	0.0%	559%	116%	67.9%	55.8%	41.1%	129%
ROIC	N/A	N/A	N/A	0.0%	-19.8%	58.1%	38.6%	23.1%	15.9%	48.9%
Shares Out.	N/A	N/A	N/A	N/A	20	34	39	42	51	54
Revenue/Share	4.50	5.81	6.92	7.69	49.77	30.12	22.72	18.90	17.82	16.96
FCF/Share	1.35	1.74	1.53	1.89	7.91	12.43	8.86	6.90	4.93	6.54

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

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