



# Artisan Partners Asset Management (APAM)

Updated August 17<sup>th</sup>, 2019 by Josh Arnold

## Key Metrics

<b>Current Price:</b>	\$26	<b>5 Year CAGR Estimate:</b>	18.1%	<b>Volatility Percentile:</b>	80.5%
<b>Fair Value Price:</b>	\$32	<b>5 Year Growth Estimate:</b>	5.0%	<b>Momentum Percentile:</b>	37.8%
<b>% Fair Value:</b>	82%	<b>5 Year Valuation Multiple Estimate:</b>	3.9%	<b>Growth Percentile:</b>	38.1%
<b>Dividend Yield:</b>	9.2%	<b>5 Year Price Target</b>	\$41	<b>Valuation Percentile:</b>	74.2%
<b>Dividend Risk Score:</b>	F	<b>Retirement Suitability Score:</b>	C	<b>Total Return Percentile:</b>	89.6%

## 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 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 addition to its ample quarterly dividend. Artisan generates about \$800 million in annual revenue and trades with a market capitalization of just over \$2 billion.

Artisan reported Q2 earnings on 7/30/19 and results beat expectations on the top and bottom lines. Assets under management, or AUM was \$114 billion at the end of the quarter, essentially flat year-over-year. Artisan saw \$8.1 billion of net client cash outflows that were partially offset by \$7.7 billion of market appreciation. Like any other asset manager, Artisan's fee-generating assets rise and fall with market movements. Q2 saw market appreciation mostly offset outflows, but the sizable outflows are concerning.

Revenue was \$201 million in the June quarter but fell 5% year-over-year due primarily to lower average AUM. Operating expenses were down 3%, however, helping to offset some of the weakness in revenue. Operating costs declined due to lower compensation and third-party distribution expense, partially offset by higher technology spending and higher occupancy costs.

In total, operating margin was 35.3% of revenue in Q2, down from 37.2% in the year-ago period. Net income came to \$0.67 per share on an adjusted basis, down 11% from last year's showing of \$0.76. However, we've raised our estimate for this year from \$2.50 to \$2.65 based upon first half earnings outpacing our expectations.

Artisan also raised its dividend by 9% from the prior quarterly payout of 55 cents, to the new payout of 60 cents. We're a bit surprised by this move given the high payout ratio, but the move signals a lot of confidence from management.

## Growth on a Per-Share Basis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
<b>EPS</b>	---	---	---	---	\$2.54	\$3.17	\$2.69	\$2.13	\$2.41	\$2.94	<b>\$2.65</b>	<b>\$3.38</b>
<b>DPS</b>	---	---	---	---	\$0.86	\$2.25	\$2.40	\$2.40	\$2.40	\$2.40	<b>\$2.40</b>	<b>\$2.40</b>
<b>Shares<sup>1</sup></b>	---	---	---	---	20	34	39	42	51	54	<b>57</b>	<b>72</b>

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%. 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. Although Q2 results caused us to raise estimates, we still see significantly lower earnings this year.

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

<sup>1</sup> Share count in millions

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special dividends annually. The company's policy is to pay out 80% of the cash the company generates. At the end of the year, the board takes into account several factors, and determines a variable special dividend. The 2018 special dividend (paid in 2019) 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	9.9	12.0
Avg. Yld.	---	---	---	---	---	4.2%	5.4%	8.3%	7.7%	7.5%	9.2%	5.9%

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 9.9 today. If Artisan's price-to-earnings ratio expands to 12 over the next 5 years, this will increase its annualized returns by 3.9% during that time period. With the reinstated \$2.40 annual dividend, and a recent pullback in the stock, it is now yielding 9.2%, excluding any special dividend received this year. 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%	91%	71%

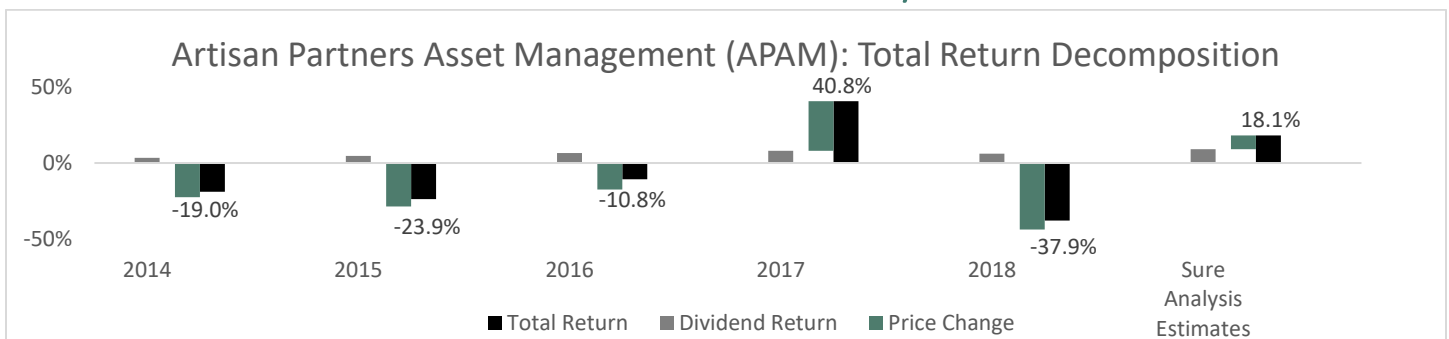
Artisan's payout ratio had improved significantly thanks to higher earnings, but has been increased again by the recent dividend raise. The payout ratio is now 91%, so we see the risk of another cut, even if it is temporary, as fairly high. Given the eye-popping yield, this should hardly be a surprise.

Artisan wasn't public during the last recession, but we expect the damage to earnings could 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. However, the recent pullback in the stock and the higher dividend have boosted total return potential to 18.1%. Expected returns are composed of the current 9.2% yield, 5% growth and 3.9% tailwind from the rising valuation. Given this, we're upgrading Artisan to buy from hold.

## 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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