



Artisan Partners Asset Management (APAM)

Updated November 11th, 2019 by Josh Arnold

Key Metrics

Current Price:	\$29	5 Year CAGR Estimate:	12.7%	Volatility Percentile:	81.4%
Fair Value Price:	\$32	5 Year Growth Estimate:	5.0%	Momentum Percentile:	74.0%
% Fair Value:	93%	5 Year Valuation Multiple Estimate:	1.5%	Growth Percentile:	40.9%
Dividend Yield:	8.8%	5 Year Price Target	\$41	Valuation Percentile:	84.5%
Dividend Risk Score:	F	Retirement Suitability Score:	C	Total Return Percentile:	91.7%

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, in addition to its ample quarterly dividend. Artisan generates about \$800 million in annual revenue and trades with a market capitalization of \$2.3 billion.

Artisan reported third quarter earnings on October 29th, beating expectations on the top and bottom lines. Total revenue was down -4.7% against the year-ago period, driven primarily by net outflows. Indeed, assets under management, or AUM, ended the third quarter at \$112.5 billion, down from \$116.6 billion at the end of last year's Q3. This decline was due to \$7.3 billion of net client cash outflows, partially offset by \$3.2 billion of market appreciation.

Operating expenses were \$127.4 million in the third quarter, down \$3.6 billion, or -3%, against the \$131 million from the year-ago period. Artisan was able to save some money on lower incentive and equity-based compensation, but those gains were partially offset by a higher number of full-time employees, bringing benefits and salary costs higher.

As a result of lower revenue, operating margin declined year-over-year, falling from 38.5% of revenue to 37.2%.

Obviously, this is still a very strong level of profitability, but asset managers see very high levels of operating leverage, which works in both directions; it worked against Artisan in Q3.

Net income came to \$54.8 million, or \$0.70 per share, on an adjusted basis in Q3, down from \$60.8 million, or \$0.79 per share, in the year-ago period. Still, with slight beats on the top and bottom lines in Q3, we're reiterating our estimate of \$2.65 in earnings-per-share for this year. The company also boosted its dividend yet again, this time adding a nickel to the quarterly payout, which is now \$0.65.

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	\$2.65	\$3.38
DPS	---	---	---	---	\$0.86	\$2.25	\$2.40	\$2.40	\$2.40	\$2.40	\$2.60	\$2.60
Shares¹	---	---	---	---	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 growth 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 than 2018.

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

¹ Share count in millions

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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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	11.1	12.0
Avg. Yld.	---	---	---	---	---	4.2%	5.4%	8.3%	7.7%	7.5%	8.8%	6.4%

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 11.1 today following a nice rally in recent weeks. If Artisan's price-to-earnings ratio expands to 12 over the next 5 years, this will increase its annualized returns by 1.5%. With the \$2.60 annual dividend, the stock is yielding 8.8%, 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%	98%	77%

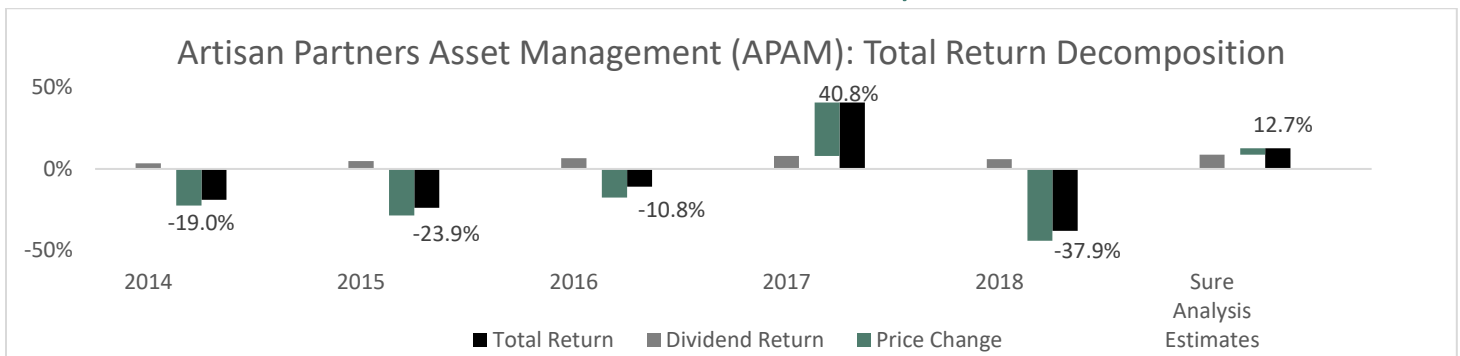
Artisan's payout ratio had improved significantly thanks to higher earnings, but has been increased again by the recent dividend raise. The payout ratio is now 98%, so we see the risk of another cut as fairly high. Given the eye-popping yield, this should hardly be a surprise.

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. Even with the recent rally, we still expect nearly 13% total annual returns thanks to the very high yield, decent growth outlook, and sub-fair value share price. After the Q3 report, we're reiterating Artisan at a buy rating.

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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