



Apollo Global (APO)

Updated November 11th, 2019 by Josh Arnold

Key Metrics

Current Price:	\$42	5 Year CAGR Estimate:	1.6%	Volatility Percentile:	81.3%
Fair Value Price:	\$25	5 Year Growth Estimate:	6.0%	Momentum Percentile:	97.8%
% Fair Value:	167%	5 Year Valuation Multiple Estimate:	-9.8%	Growth Percentile:	57.7%
Dividend Yield:	4.7%	5 Year Price Target	\$34	Valuation Percentile:	4.8%
Dividend Risk Score:	F	Retirement Suitability Score:	D	Total Return Percentile:	11.2%

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 have grown by more than five times in the past decade and sit at \$323 billion today. Apollo has about 1,100 employees and the stock trades with a market capitalization of \$17 billion.

Apollo reported Q3 earnings on October 31st. The company reported distributable earnings-per-share of \$0.54, missing consensus of \$0.58, and flat from the year-ago quarter. Growth in fee-related revenue and net realized performance fees was offset by higher taxes, as well as the result of the company's C-Corporation conversion.

Total revenue was \$518 million, down from \$703 million in the year-ago period, and down from \$637 million in the second quarter of this year; revenue tends to be very volatile for asset managers. Total assets under management, or AUM, ended the quarter at \$323 billion, while fee-generating AUM was \$243 billion, and performance fee-eligible AUM was \$131 billion. Inflows of \$15.9 billion in Q3 helped bolster AUM, primarily from growth in the company's arrangement with Athene, and across its credit and real estate funds. Apollo ended the quarter with \$44 billion in capital available for investment.

In early September, Apollo completed its conversion from a partnership to a corporation, helping the company gain access to more institutional investors, enhanced liquidity, and inclusion 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	\$2.30	\$3.08
DPS	---	---	\$0.83	\$1.35	\$3.95	\$3.11	\$1.96	\$1.25	\$1.85	\$1.93	\$2.00	\$2.68
Shares¹	---	---	124	130	146	163	181	185	195	200	200	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. Apollo's dry powder is down significantly from prior quarters, a key headwind to growth we noted in prior updates. With Apollo putting that money to work, returns should pick up in the coming quarters.

Apollo's dividend is critically important given the high yield, which is currently 4.7%. This yield is lower than it has been for much of the time the company has been public, so on this measure, the stock appears 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

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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in the past several years due to this, and the dividend is therefore also difficult to forecast. However, we see the payout rising to \$2.68 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	---	18.4	11.0
Avg. Yld.	---	---	5.7%	9.6%	15.1%	11.6%	9.6%	7.4%	6.8%	6.0%	4.7%	7.9%

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 18.4 after a huge rally in recent weeks. We see fair value at 11 times earnings, implying a massive -9.8% annual headwind from valuation contraction if this were to come to fruition. We see the yield rising from the current 4.7% to 7.9% over time.

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%	---	87%	87%

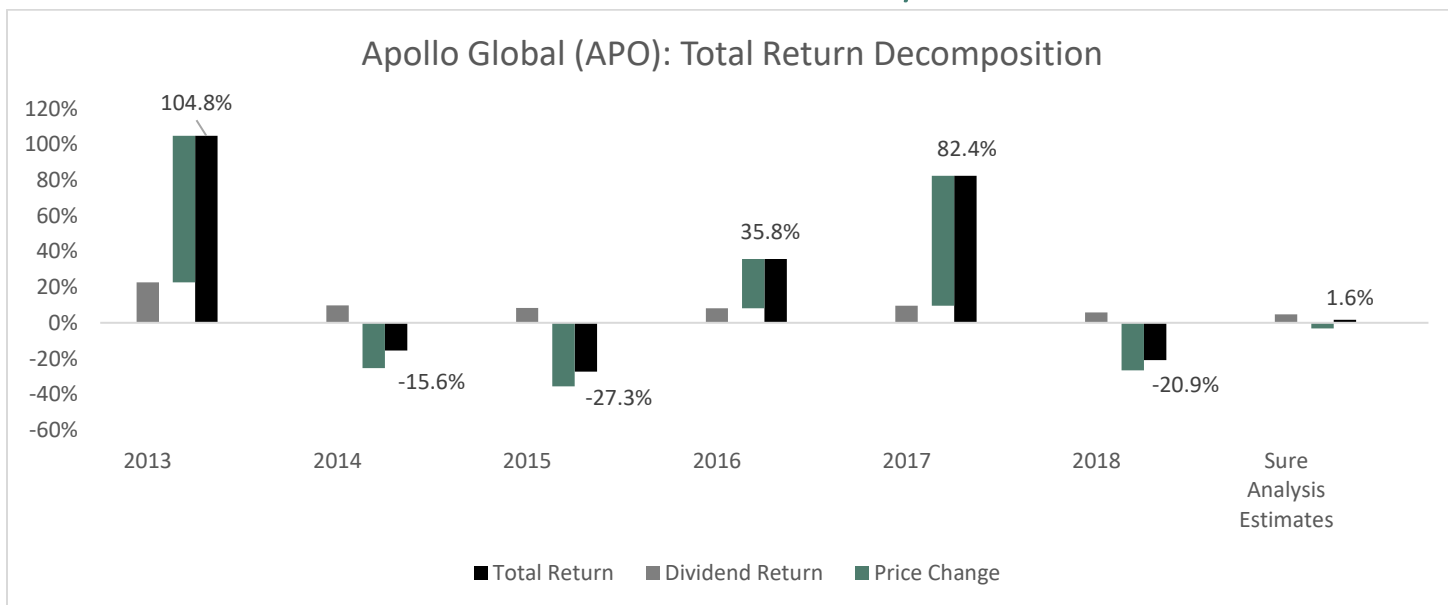
Apollo's dividend policy is to pay out most of the company's earnings to shareholders, so we see the payout ratio as remaining quite high. Volatility in the payout isn't ideal for income investors, so some caution is warranted.

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. We expect that a downturn would put its dividend in jeopardy, and that the valuation would suffer materially as well. Its competitive advantage is in its world-class leadership team that has years of experience in successful investment management, and its ability to continue to raise capital.

Final Thoughts & Recommendation

We are downgrading Apollo to a sell rating following Q3 results. We see total annual returns of just 1.6% in the years to come, consisting of the 4.7% yield, 6% earnings growth and a sizable headwind from the valuation. Apollo is certainly not for the risk-averse investor, and prior total forecast returns have been basically wiped out by the recent rally.

Total Return Breakdown by Year



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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.

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