



Artisan Partners Asset Management (APAM)

Updated February 15th, 2020 by Josh Arnold

Key Metrics

Current Price:	\$36	5 Year CAGR Estimate:	12.0%	Market Cap:	\$3.0B
Fair Value Price:	\$36	5 Year Growth Estimate:	5.0%	Ex-Dividend Date:	02/13/20
% Fair Value:	100%	5 Year Valuation Multiple Estimate:	0.0%	Dividend Payment Date:	02/28/20
Dividend Yield:	7.6%	5 Year Price Target	\$41	Years Of Dividend Growth:	0
Dividend Risk Score:	F	Retirement Suitability Score:	C	Last Dividend Increase:	4.6%

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 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, \$0.79 per share in 2018, and \$0.60 in 2019, in addition to its ample quarterly dividend. Artisan generates nearly \$900 million in annual revenue and trades with a market capitalization of \$3 billion.

Artisan posted Q4 earnings on February 4th and results beat consensus on the top and bottom lines. Average assets under management, or AUM, was down 2% for the full-year against 2018, declining from \$113.8 billion to \$111.0 billion. Revenue was \$799 million, down 4% from \$828.6 million in 2018, primarily attributable to lower AUM.

Operating costs were \$515.5 million for 2019, down 2% from 2018 as a result of lower incentive compensation, partially offset by an increase in occupancy costs.

Operating margin was 35.5% of revenue in 2019, down from 36.8% in the prior year. Earnings came to \$2.67 for the year, down from \$2.94 in 2018, both on an adjusted basis.

We see earnings-per-share rebounding this year on strong equity market performance, which should drive not only inflows of capital from investors, but investment gains on the company's portfolio. These things should drive continued margin gains as well, so we think Artisan remains well-positioned despite a relatively weak 2019.

Growth on a Per-Share Basis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
EPS	---	---	---	\$2.54	\$3.17	\$2.69	\$2.13	\$2.41	\$2.94	\$2.67	\$3.07	\$3.38
DPS	---	---	---	\$0.86	\$2.25	\$2.40	\$2.40	\$2.40	\$2.40	\$2.36	\$2.72	\$3.00
Shares¹	---	---	---	20	34	39	42	51	54	56	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, 2019 earnings-per-share were 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 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. For 2019, a \$0.60 special dividend was declared in addition to the variable quarterly dividend that totaled \$2.36 per share.

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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Valuation Analysis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Now	2025
Avg. P/E	---	---	---	20.0	17.7	16.1	13.7	13.0	10.9	10.2	12.0	12.0
Avg. Yld.	---	---	---	---	4.2%	5.4%	8.3%	7.7%	7.5%	8.9%	7.6%	7.4%

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 12 today following a nice rally in recent weeks. With the \$2.72 annual dividend, the stock is yielding 7.6%, 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	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
Payout	---	---	---	34%	71%	89%	113%	100%	82%	89%	103%	89%

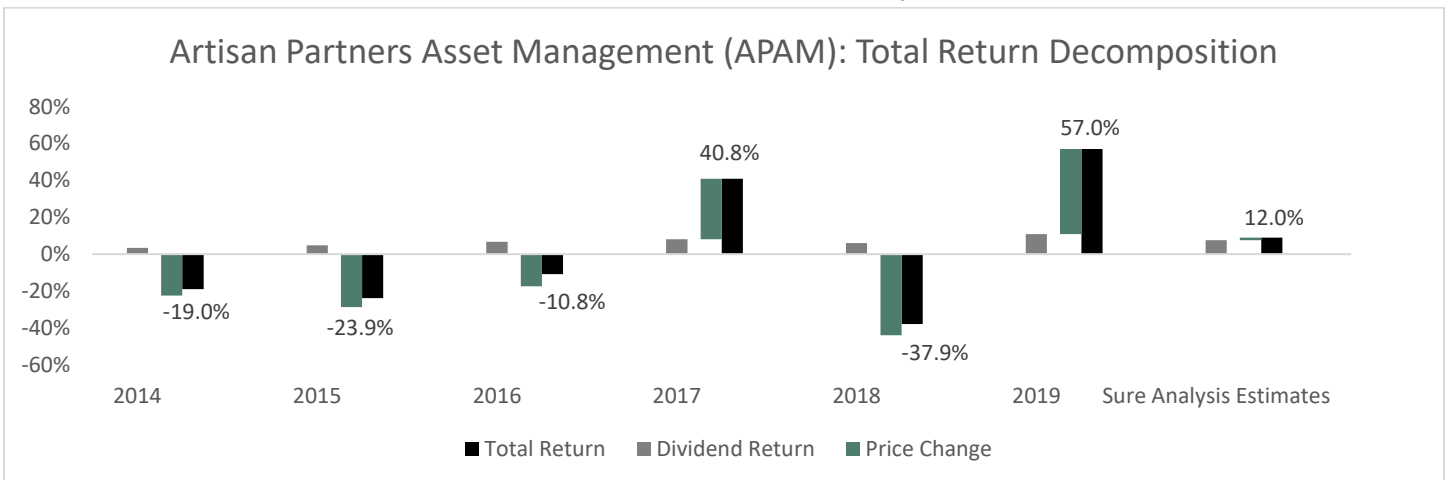
Artisan's payout ratio had improved significantly thanks to higher earnings, but has been increased again by the recent dividend raise. The payout ratio is now 103%, so we see the risk of another cut as reasonably high. Given the eye-popping yield, this should hardly be a surprise.

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 12% total annual returns thanks to the very high yield, and decent growth outlook. After the Q4 report, we're maintaining a buy rating on Artisan.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Revenue	382	455	506	686	829	805	721	796	829	799
SG&A Exp.	141	92	218	623	150	125	99	85	73	76
D&A Exp.	2	2	2	3	3	5	5	5	6	6
Operating Profit	65	154	47	-261	307	282	234	286	305	398
Operating Margin	17.1%	33.9%	9.3%	-38.1%	37.0%	35.1%	32.5%	36.0%	36.8%	35.5%
Net Profit	43	0	0	25	70	82	73	50	158	157
Net Margin	11.1%	0.0%	0.0%	3.6%	8.4%	10.2%	10.1%	6.2%	19.1%	19.6%
Free Cash Flow	115	101	125	109	342	314	263	220	319	275
Income Tax	1	1	1	26	49	47	51	421	48	28

Balance Sheet Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Total Assets	210	225	288	581	849	946	936	837	805	934
Cash & Equivalents	159	132	151	231	182	166	157	159	175	135
Accounts Receivable	37	39	57	72	69	60	60	90	71	80
Total Liabilities	946	866	960	449	742	829	818	729	665	795
Accounts Payable	10	9	28	19	22	18	16	25	21	20
Long-Term Debt	380	325	290	0	0	199	199	199	199	199
Shareholder's Equity	-737	-664	0	9	111	130	132	110	135	133
D/E Ratio	N/A	-0.49	N/A	0.00	0.00	1.53	1.51	1.81	1.48	1.50

Profitability & Per Share Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Return on Assets	N/A	N/A	0.0%	5.7%	9.7%	9.1%	7.8%	5.6%	19.3%	18.0%
Return on Equity	N/A	N/A	0.0%	559%	116%	67.9%	55.8%	41.1%	129%	117%
ROIC	N/A	N/A	0.0%	-19.8%	58.1%	38.6%	23.1%	15.9%	48.9%	46.2%
Shares Out.	N/A	N/A	N/A	20	34	39	42	51	54	56
Revenue/Share	5.81	6.92	7.69	49.77	30.12	22.72	18.90	17.82	16.96	15.6
FCF/Share	1.74	1.53	1.89	7.91	12.43	8.86	6.90	4.93	6.54	5.38

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

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