



Apollo Global (APO)

Updated December 1st, 2020 by Josh Arnold

Key Metrics

Current Price:	\$44	5 Year CAGR Estimate:	6.0%	Market Cap:	\$19 B
Fair Value Price:	\$32	5 Year Growth Estimate:	8.0%	Ex-Dividend Date:	02/17/21 ¹
% Fair Value:	138%	5 Year Valuation Multiple Estimate:	-6.2%	Dividend Payment Date:	02/28/21 ²
Dividend Yield:	5.3%	5 Year Price Target	\$47	Years Of Dividend Growth:	1
Dividend Risk Score:	F	Retirement Suitability Score:	D	Last Dividend Increase:	17.8%

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 \$433 billion today. Apollo has about 1,100 employees and the stock trades with a market capitalization of just over \$19 billion after a strong run thus far in 2020, but a pullback after third quarter earnings.

Apollo reported third quarter earnings on October 29th, 2020 and results were mixed. Total revenue was \$507 million, up from \$472 million in Q2 and up from \$411 million in last year's Q3. Distributable earnings-per-share came to \$0.47, missing estimates by two cents. The result was up from \$0.46 in the second quarter, but down from \$0.54 in the same period last year. Fee-related earnings-per-share rose from \$0.59 in the second quarter to \$0.63 in the third quarter.

The company saw capital inflows of \$13 billion in Q3, which was down very sharply from the \$89 billion gain in Q2. However, the huge dislocation that took place in the second quarter in global financial markets caused institutional investors to pour money into alternative asset managers like Apollo, which was unsustainable. Total assets under management stood at \$433 billion, up from \$414 billion at the end of June.

Credit assets under management were \$312 billion at the end of the quarter, up 50% year-over-year. This led to credit fee-related earnings of \$195 million, up from \$125 million in the year-ago quarter. Private equity fee-related earnings were \$70 million, equal with the same period a year ago, but down from \$97 million from Q2. Real assets fee-related earnings were \$5.5 million, down from \$18 million a year ago.

Dry powder ended the quarter at \$45.9 billion, down slightly from Q2 as Apollo is putting money to work.

Growth on a Per-Share Basis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
EPS	---	-\$0.86	\$3.82	\$4.80	\$1.42	\$0.96	\$2.36	\$3.57	-\$0.30	\$2.71	\$2.90	\$4.26
DPS	---	\$0.83	\$1.35	\$3.95	\$3.11	\$1.96	\$1.25	\$1.85	\$1.93	\$2.02	\$2.31	\$2.43
Shares³	---	124	130	146	163	181	185	195	200	200	227	300

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. We see earnings growth from here at 8% annually but note that results are quite volatile.

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.

¹ Estimated date

² Estimated date

³ 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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Apollo's dry powder is \$46 billion, so we see this as a potential tailwind for growth when this money is eventually deployed, particularly if deployments are made at favorable prices.

Apollo's dividend is critically important given the high yield, which is currently 5.3%. This yield is lower than it has been for substantially all 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 in the past several years due to this, and the dividend is therefore also difficult to forecast.

Valuation Analysis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Now	2024
Avg. P/E	---	---	3.7	5.5	18.9	21.4	7.2	7.6	---	12.3	15.2	11.0
Avg. Yld.	---	5.7%	9.6%	15.1%	11.6%	9.6%	7.4%	6.8%	6.0%	5.8%	5.3%	5.2%

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 15.2. We see fair value at 11 times earnings, implying a sizable annual headwind from valuation contraction if this were to come to fruition. We see the yield remaining about where it is but reiterate that the company's payouts are variable based upon distributable cash flows.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2019	2024
Payout	---	---	35%	82%	219%	204%	53%	52%	---	75%	80%	57%

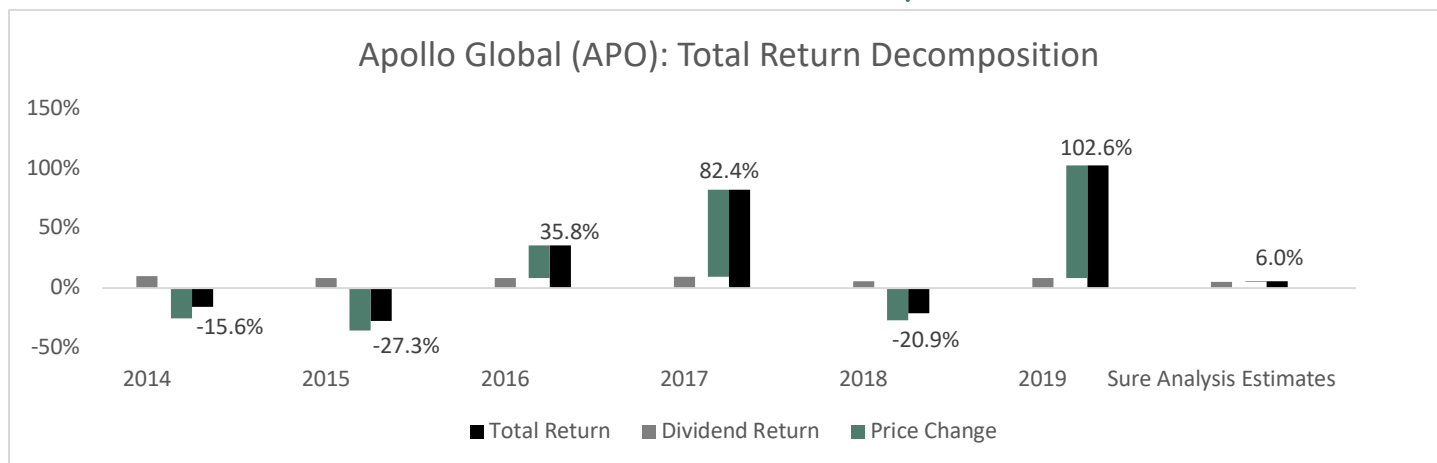
Apollo's dividend policy is to pay out most of the company's earnings to shareholders, so we see the payout ratio as remaining quite high. Volatility in the payout isn't ideal for income investors, so some caution is warranted.

Apollo held up extremely well during the 2020 recession, and we see it as well positioned coming out of it and into a recovery. 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 moving Apollo from sell to hold following third quarter results. We see total annual returns of 6% in the years to come, consisting of the 5.3% yield, 8% earnings growth and a headwind from the valuation. Apollo is certainly not for the risk-averse investor, but the pullback since our last report has helped the valuation meaningfully, producing our one-notch upgrade to hold.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Revenue	2,110	570	730	871	1,166	944	2,074	2,772	1,093	2,932
Gross Profit	167	(771)	(1,015)	(723)	425	407	1,224	1,736	518	1,671
Gross Margin	7.9%	-135.4%	-139.0%	-83.0%	36.5%	43.1%	59.0%	62.6%	47.4%	57.0%
SG&A Exp.	154	171	190	222	265	255	247	258	266	330
D&A Exp.	24	26	53	54	45	44	19	18	15	16
Operating Profit	(12)	(968)	(1,258)	(999)	160	152	977	1,479	252	1,340
Op. Margin	-0.6%	-170.0%	-172.3%	-114.7%	13.7%	16.1%	47.1%	53.3%	23.0%	45.7%
Net Profit	95	(469)	311	659	168	134	403	629	(10)	843
Net Margin	4.5%	-82.3%	42.6%	75.7%	14.4%	14.2%	19.4%	22.7%	-0.9%	28.8%
Free Cash Flow	(224)	723	320	1,127	(379)	576	593	851	800	1,043
Income Tax	92	12	65	108	147	27	91	326	86	(129)

Balance Sheet Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Total Assets	6,552	7,976	20,637	22,478	23,173	4,560	5,630	6,991	5,992	8,542
Cash & Equivalents	470	912	2,630	2,175	2,295	674	855	844	659	1,602
Goodwill & Int. Ass.	113	131	187	144	109	117	112	108	108	115
Total Liabilities	3,471	5,328	14,933	15,789	17,229	3,171	3,762	4,093	3,540	5,504
Accounts Payable	518	34	42	41	44	92	57	69	71	94
Long-Term Debt	752	3,928	12,573	13,174	15,151	1,827	2,139	2,364	2,216	3,501
Shareholder's Equity	151	726	2,667	2,637	1,786	650	835	1,199	822	1,298
D/E Ratio	4.98	5.41	4.71	5.00	8.48	2.81	2.56	1.62	1.61	1.89

Profitability & Per Share Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Return on Assets	1.9%	-6.5%	2.2%	3.1%	0.7%	1.0%	7.9%	10.0%	-0.2%	11.6%
Return on Equity	---	-106.9%	18.3%	24.9%	7.6%	11.0%	54.3%	61.9%	-1.0%	79.5%
ROIC	3.1%	-9.0%	2.5%	3.5%	0.8%	1.1%	11.2%	13.6%	-0.2%	15.0%
Shares Out.	---	124	130	146	163	181	185	195	200	200
Revenue/Share	21.76	4.89	5.64	6.13	7.51	5.45	11.27	14.39	5.47	14.04
FCF/Share	(2.31)	6.21	2.47	7.92	(2.44)	3.33	3.23	4.42	4.00	5.00

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

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