



Artisan Partners Asset Management (APAM)

Updated May 9th, 2021 by Josh Arnold

Key Metrics

Current Price:	\$56	5 Year CAGR Estimate:	9.6%	Market Cap:	\$4.5 B
Fair Value Price:	\$59	5 Year Growth Estimate:	4.0%	Ex-Dividend Date:	05/13/21
% Fair Value:	95%	5 Year Valuation Multiple Estimate:	1.0%	Dividend Payment Date:	05/28/21
Dividend Yield:	5.5%	5 Year Price Target	\$72	Years Of Dividend Growth:	2
Dividend Risk Score:	D	Retirement Suitability Score:	C	Last Dividend Increase:	16.9%

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, \$1.03 in 2019, and \$0.31 in 2020, in addition to its ample quarterly dividend. Artisan generates \$1.2 billion in annual revenue and trades with a market capitalization of \$4.5 billion.

Artisan reported first quarter earnings on April 27th, 2021, with results coming in well ahead of expectations on both the top and bottom lines. Assets under management were \$163 billion, up from \$95 billion in the same period a year ago. The company saw a \$59 billion gain from investment returns and \$9 billion of net client cash inflows, which were partially offset by a fractional decline in distributions that weren't reinvested. Average AUM for the quarter were 43% higher than the same period a year ago.

Revenue was \$291 million in Q1, up 43% from last year's Q1 total of \$203 million, which was driven by the higher AUM value. Operating expenses were \$169 million, up 28% year-over-year, which was due to higher incentive compensation and benefits costs. Even so, operating margin soared to 41.9% of revenue, up from 35% a year ago. Adjusted earnings were \$90 million, or \$1.13 per share, up from \$52 million and 66 cents, respectively, a year ago.

We've updated our estimate of earnings to \$4.90 per share for this year following a very strong start to the year.

Growth on a Per-Share Basis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
EPS	---	---	\$2.54	\$3.17	\$2.69	\$2.13	\$2.41	\$2.94	\$2.67	\$3.30	\$4.90	\$5.96
DPS	---	---	\$0.86	\$2.25	\$2.40	\$2.40	\$2.40	\$2.40	\$2.36	\$2.79	\$3.08	\$3.57
Shares¹	---	---	20	34	39	42	51	54	56	63	66	75

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 4%. Artisan's 2018 performance was quite strong against 2017 but given lower assets under management and operating margins that moved unfavorably, 2019 earnings-per-share were more in line with 2017 than 2018. We had anticipated weakness in 2020, but Artisan performed much better than expected and indeed, earnings soared thanks to a rising market. We expect this to continue in 2021 barring a major selloff in the equity markets as operating margins remain quite elevated, as confirmed by Q1 results.

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 considers several factors, and determines a variable special dividend. The special dividend in 2020 was \$0.31, which is much smaller than it has been in past years, but the total dividends paid were still \$3+ 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	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Now	2026
Avg. P/E	---	---	20.0	17.7	16.1	13.7	13.0	10.9	10.2	10.6	11.4	12.0
Avg. Yld.	---	---	---	4.2%	5.4%	8.3%	7.7%	7.5%	8.9%	8.0%	5.5%	5.0%

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 11.4 today. With the \$3.08 annual dividend, the stock is yielding 5.5%, excluding any special dividend received this year. We also note that because of Artisan's unusual policy of paying out most of its earnings on a variable basis, we could potentially see higher dividend payments this year than currently forecast if equity markets perform well.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
Payout	---	---	34%	71%	89%	113%	100%	82%	89%	85%	63%	60%

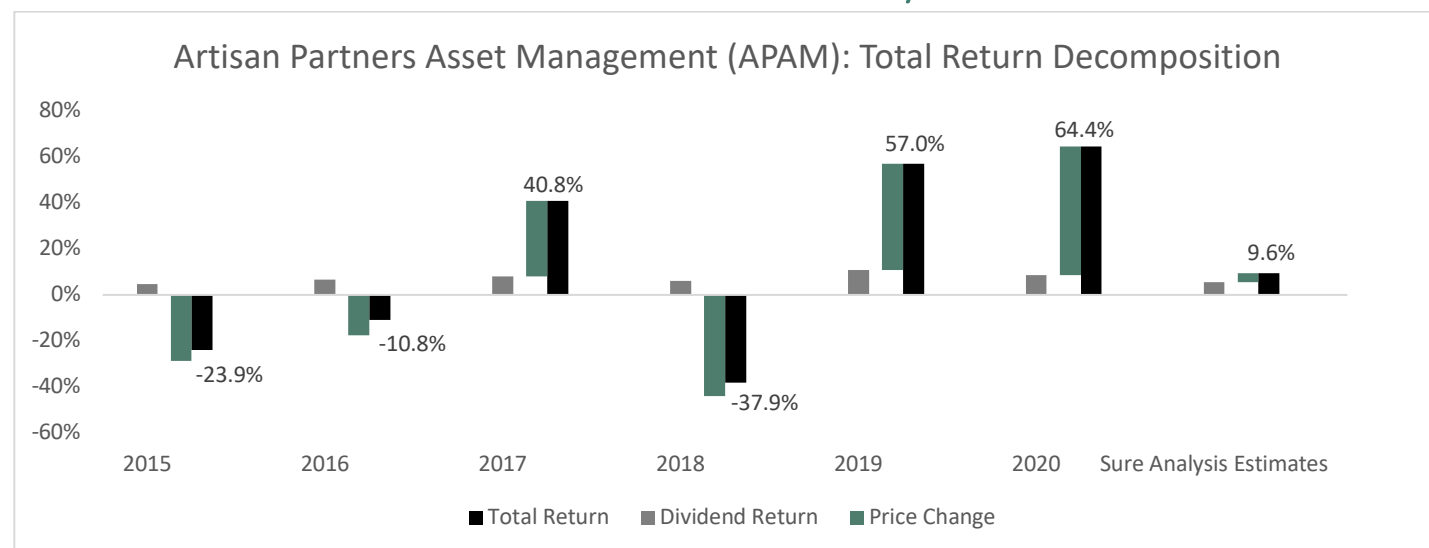
Artisan's payout ratio is back to just two-thirds of earnings at current projections, but investors should keep in mind that Artisan pays special dividends at the end of the year, and that its quarterly dividend policy is variable. Thus, how the payout ratio performs depends significantly upon how much earnings the company can generate.

Artisan wasn't public during the last recession, but we expect the damage to earnings could be meaningful. Artisan is a highly cyclical company, so investors looking for safety and defensiveness would look elsewhere. Adding to this risk, Artisan's competitive advantage of its well-performing funds hasn't resonated with customers. We do note that Artisan performed extremely well in 2020, and 2021 is off to a great start.

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, as we saw in 2020. Conversely, the company will likely perform very poorly during a bear market, as it did at the end of 2018. With recent price action in the stock, as well as earnings estimates, we are moving Artisan from buy to hold on slightly lower 9.6% projected total annual returns.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Revenue	455	506	686	829	805	721	796	829	799	900
SG&A Exp.	68	75	91	107	109	103	106	111	115	106
D&A Exp.	2	2	3	3	5	5	5	6	6	---
Operating Profit	154	47	-261	307	282	234	286	305	283	358
Operating Margin	33.9%	9.3%	-38.1%	37.0%	35.1%	32.5%	36.0%	36.8%	35.5%	39.8%
Net Profit	0	0	25	70	82	73	50	158	157	213
Net Margin	0.0%	0.0%	3.6%	8.4%	10.2%	10.1%	6.2%	19.1%	19.6%	23.6%
Free Cash Flow	101	125	109	342	314	263	220	319	275	---
Income Tax	1	1	26	49	47	51	421	48	28	61

Balance Sheet Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Total Assets	225	288	581	849	946	936	837	805	934	1,152
Cash & Equivalents	132	151	231	182	166	157	159	175	144	155
Accounts Receivable	39	57	72	69	60	60	90	71	81	100
Total Liabilities	866	960	449	742	829	818	729	665	795	961
Accounts Payable	9	28	19	22	18	16	25	21	54	38
Long-Term Debt	325	290	0	0	199	199	199	199	199	199
Shareholder's Equity	-664	0	9	111	130	132	110	135	133	191
D/E Ratio	-0.49	N/A	0.00	0.00	1.53	1.51	1.81	1.48	1.50	1.04

Profitability & Per Share Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Return on Assets	---	0.0%	5.7%	9.7%	9.1%	7.8%	5.6%	19.3%	18.0%	20.4%
Return on Equity	---	0.0%	559%	116%	67.9%	55.8%	41.1%	129%	117%	131%
ROIC	---	0.0%	-19.8%	58.1%	38.6%	23.1%	15.9%	48.9%	46.2%	58.4%
Shares Out.	---	---	20	34	39	42	51	54	56	63
Revenue/Share	6.92	7.69	49.77	30.12	22.72	18.90	17.82	16.96	15.63	16.18
FCF/Share	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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