Apollo Global (APO)

Updated August 19th, 2021, by Josh Arnold

Key Metrics

Current Price:	$57	**5 Year CAGR Estimate:**	6.2%	**Market Cap:**	$25 B
Fair Value Price:	$51	**5 Year Growth Estimate:**	5.0%	**Ex-Dividend Date:**	08/18/21
% Fair Value:	112%	**5 Year Valuation Multiple Estimate:**	-2.3%	**Dividend Payment Date:**	08/31/21
Dividend Yield:	3.7%	**5 Year Price Target**	$65	**Years Of Dividend Growth:**	4
Dividend Risk Score:	D	**Retirement Suitability Score:**	D	**Last Dividend Increase:**	3.9%

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 $472 billion today. Apollo has about 1,800 employees and the stock trades with a market capitalization of $25 billion.

Apollo reported second quarter earnings on August 4th, 2021, and results were mixed against expectations, with earnings coming in ahead, while the top line lagged. Q2 saw Apollo deliver record fee-related earnings and its highest quarterly distributable earnings since 2013. Capital deployment was $28 billion during the second quarter alone, across all the company's investment origination platforms.

Assets under management was $472 billion at the end of the quarter, up $11 billion quarter-over-quarter, and up $58 billion year-over-year. The gain against this year's Q1 was due primarily to the company's insurance company customers. Distributable earnings-per-share were $1.14, up from 66 cents in Q1, and soaring past estimates of 71 cents. Fee-related earnings-per-share were 68 cents, up from 65 cents last quarter, and up from 59 cents year-over-year.

Total revenue was $1.38 billion, down from $2.3 billion in Q1, and up from $1.15 billion in the comparable period last year. We note that revenue is notoriously volatile given Apollo's unique structure.

We've boosted our estimate of earnings-per-share for this year to $3.90 following Q2 results as Apollo's asset growth and monetization of those assets is fueling much better results than anticipated.

Growth on a Per-Share Basis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
EPS	-$0.86	$3.82	$4.80	$1.42	$0.96	$2.36	$3.57	-$0.30	$2.71	$0.44	***$3.90***	***$4.98***
DPS	$0.83	$1.35	$3.95	$3.11	$1.96	$1.25	$1.85	$1.93	$2.02	$2.31	***$2.11***	***$2.69***
Shares[1]	124	130	146	163	181	185	195	200	200	228	***229***	***260***

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 5% annually.

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 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 $48 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 important, currently yielding 3.7%. This yield is lower than it has been for substantially all the time the company has been public, so on this measure, the stock appears overvalued. Apollo's dividend is also irregular in

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[1] Share count in millions

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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	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Now	2026
Avg. P/E	---	3.7	5.5	18.9	21.4	7.2	7.6	---	12.3	---	***14.6***	***13.0***
Avg. Yld.	5.7%	9.6%	15.1%	11.6%	9.6%	7.4%	6.8%	6.0%	5.8%	5.1%	***3.7%***	***4.2%***

Apollo has traded as high as 21 times earnings but is down to 14.6 today. We see fair value at 13 times earnings, implying a small annual headwind from valuation contraction if this were to come to fruition. We see the yield rising over time due to a higher payout, as well as a lower valuation.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
Payout	---	35%	82%	219%	204%	53%	52%	---	75%	---	***54%***	***54%***

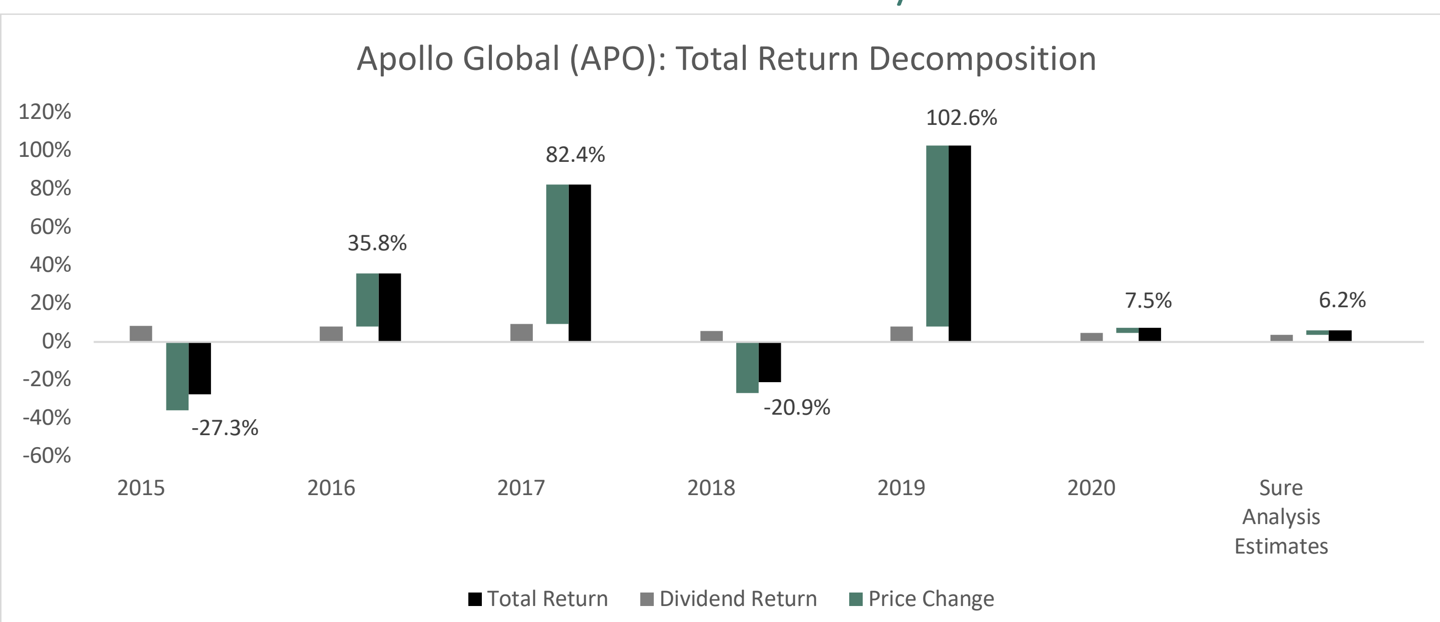
Apollo's dividend policy is to pay out most of the company's earnings to shareholders but note that the company's irregular dividend policy means any particular year may have a very high or very low payout ratio. Volatility in the payout isn't ideal for income investors, so some caution is warranted.

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 upgrading Apollo to a hold rating given the recent pullback which has made the stock much cheaper. We see total annual returns of 6.2% in the years to come, consisting of the 3.7% yield, 5% earnings growth and a small headwind from the valuation. Apollo is certainly not for the risk-averse investor, but we see the much-improved valuation as boosting the stock's appeal for both value and income investors.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Revenue	570	730	871	1,166	944	2,074	2,772	1,093	2,932	2,354
Gross Profit	(771)	(1,015)	(723)	425	407	1,224	1,736	518	1,671	1,265
Gross Margin	-135%	-139.0%	-83.0%	36.5%	43.1%	59.0%	62.6%	47.4%	57.0%	53.8%
SG&A Exp.	171	190	222	265	255	247	258	266	330	354
D&A Exp.	26	53	54	45	44	19	18	15	16	19
Operating Profit	(968)	(1,258)	(999)	160	152	977	1,479	252	1,340	911
Op. Margin	-170%	-172.3%	-114.7%	13.7%	16.1%	47.1%	53.3%	23.0%	45.7%	38.7%
Net Profit	(469)	311	659	168	134	403	629	(10)	843	157
Net Margin	-82%	42.6%	75.7%	14.4%	14.2%	19.4%	22.7%	-0.9%	28.8%	6.7%
Free Cash Flow	723	320	1,127	(379)	576	593	851	800	1,043	(1,676)
Income Tax	12	65	108	147	27	91	326	86	(129)	87

Balance Sheet Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Total Assets	7,976	20,637	22,478	23,173	4,560	5,630	6,991	5,992	8,542	23,669
Cash & Equivalents	912	2,630	2,175	2,295	674	855	844	659	1,602	2,449
Goodwill & Int. Ass.	131	187	144	109	117	112	108	108	115	141
Total Liabilities	5,328	14,933	15,789	17,229	3,171	3,762	4,093	3,540	5,504	18,156
Accounts Payable	34	42	41	44	92	57	69	71	94	120
Long-Term Debt	3,928	12,573	13,174	15,151	1,827	2,139	2,364	2,216	3,501	14,288
Shareholder's Equity	726	2,667	2,637	1,786	650	835	1,199	822	1,298	875
D/E Ratio	5.41	4.71	5.00	8.48	2.81	2.56	1.62	1.61	1.89	10.00

Profitability & Per Share Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Return on Assets	-6.5%	2.2%	3.1%	0.7%	1.0%	7.9%	10.0%	-0.2%	11.6%	1.0%
Return on Equity	-107%	18.3%	24.9%	7.6%	11.0%	54.3%	61.9%	-1.0%	79.5%	14.4%
ROIC	-9.0%	2.5%	3.5%	0.8%	1.1%	11.2%	13.6%	-0.2%	15.0%	1.2%
Shares Out.	124	130	146	163	181	185	195	200	200	228
Revenue/Share	4.89	5.64	6.13	7.51	5.45	11.27	14.39	5.47	14.04	10.35
FCF/Share	6.21	2.47	7.92	(2.44)	3.33	3.23	4.42	4.00	5.00	(7.37)

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