Apollo Global (APO)

Updated November 22nd, 2021, by Josh Arnold

Key Metrics

Current Price:	$75	**5 Year CAGR Estimate:**	3.4%	**Market Cap:**	$32 B
Fair Value Price:	$60	**5 Year Growth Estimate:**	5.0%	**Ex-Dividend Date:**	11/18/21
% Fair Value:	125%	**5 Year Valuation Multiple Estimate:**	-4.4%	**Dividend Payment Date:**	11/30/21
Dividend Yield:	2.8%	**5 Year Price Target**	$76	**Years Of Dividend Growth:**	0
Dividend Risk Score:	D	**Retirement Suitability Score:**	D	**Last Dividend Increase:**	N/A

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 $481 billion today. Apollo has about 1,800 employees and the stock trades with a market capitalization of $32 billion.

Apollo reported third quarter earnings on November 2nd, 2021, and results were light on the top line, but better than expected for profits. Total assets under management came to $481 billion, while fee-generating AUM was $361 billion. Performance fee-eligible AUM was $141 billion, and dry powder ended the quarter at $47 billion.

Apollo saw inflows of $18 billion in Q3, and in the past four quarters, inflows have been $57 billion. Deployment was $28 billion in Q3 and was $105 billion for the past four quarters. Realizations were $8.8 billion in capital returned to shareholders and is at $25 billion for the past four quarters.

Total revenue was $1.02 billion, down from $1.08 billion in the year-ago period. Total expenses fell from $649 million to $531 million year-over-year. Net income was $263 million, up from $249 million year-over-year. On a per-share basis, earnings were $1.11, up from $1.01.

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	***$4.60***	***$5.87***
DPS	$0.83	$1.35	$3.95	$3.11	$1.96	$1.25	$1.85	$1.93	$2.02	$2.31	***$2.10***	***$2.68***
Shares[1]	124	130	146	163	181	185	195	200	200	228	***227***	***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 $47 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 2.8%. 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 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.

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[1] Share count in millions

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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	---	***16.3***	***13.0***
Avg. Yld.	5.7%	9.6%	15.1%	11.6%	9.6%	7.4%	6.8%	6.0%	5.8%	5.1%	***2.8%***	***3.5%***

Apollo has traded as high as 21 times earnings but is down to 16.3 today. We see fair value at 13 times earnings, implying an 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%	---	***46%***	***46%***

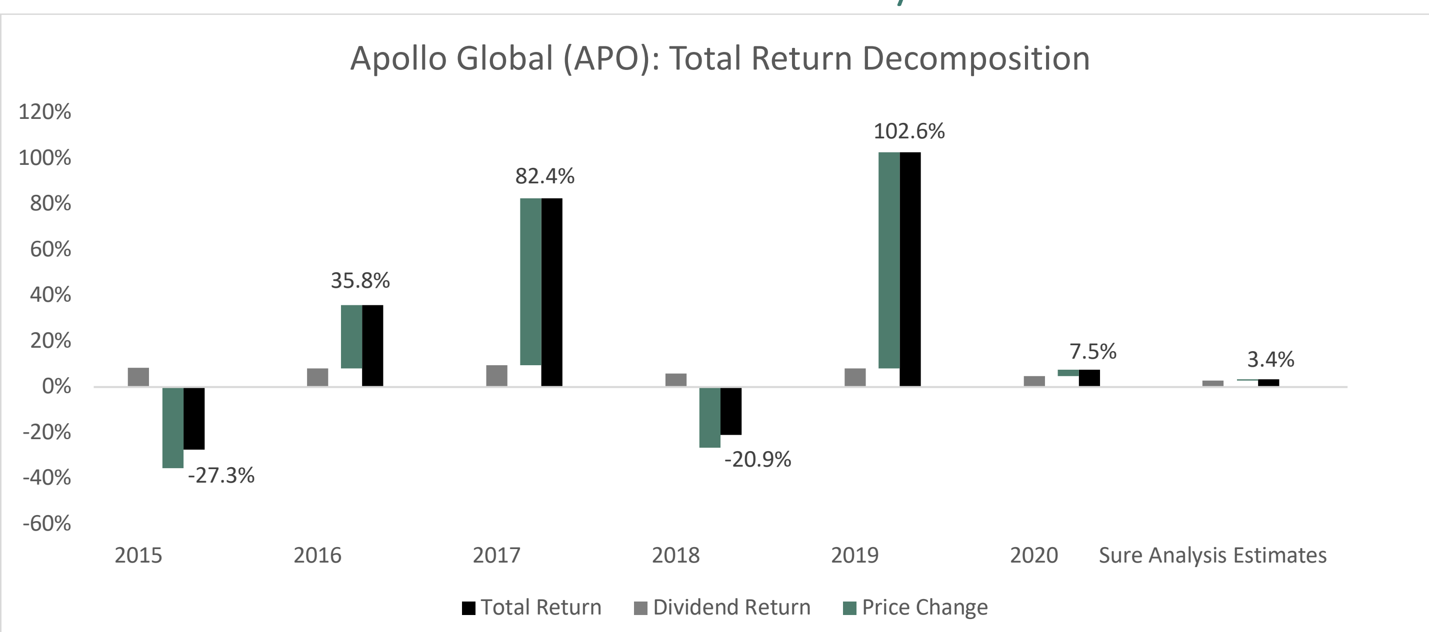
Apollo's dividend policy is to pay out most of the company's earnings to shareholders but note that the company's irregular dividend policy means any particular year may have a very high or very low payout ratio. Volatility in the payout isn't ideal for income investors, so some caution is warranted. The four declared dividends for this year came to $2.10, although the most recent dividend was 50 cents per share. This will end the company's four-year streak of dividend increases.

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 forecast total annual returns of 3.4% in the years to come, consisting of the 2.8% yield, 5% earnings growth and a headwind from the valuation. Apollo is certainly not for the risk-averse investor, and we see the valuation as driving low potential returns. The dividend yield is also quite low based upon the company's historical yields. Shares earn a hold rating.

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.