



Lazard Ltd. (LAZ)

Updated November 8th, 2021 by Prakash Kolli

Key Metrics

Current Price:	\$48	5 Year CAGR Estimate:	12.8%	Market Cap:	\$4.93B
Fair Value Price:	\$60	5 Year Growth Estimate:	5.0%	Ex-Dividend Date:	11/05/21
% Fair Value:	79%	5 Year Valuation Multiple Estimate:	4.7%	Dividend Payment Date:	11/19/21
Dividend Yield:	4.0%	5 Year Price Target	\$76	Years Of Dividend Growth:	0
Dividend Risk Score:	B	Retirement Suitability Score:	A	Last Dividend Increase:	5.1%

Overview & Current Events

Lazard Ltd. is an international investment advisory company that traces its history to 1848. The company has two business segments that are Financial Advisory and Asset Management. The Financial Advisory business includes M&A, debt restructuring, capital raising, and other advisory business. The Asset Management business is about 80% equities and focuses primarily on institutional clients. By geography, Lazard's revenue is about 60% Americas, 30% Europe and Middle East, and 10% Asia Pacific. Revenue is almost 50% Financial Advisory and 50% Asset Management. At the end of Q3 2021 Lazard had roughly \$273B in assets under management (AUM).

Lazard reported yet another strong quarter for Q3 2021 results on October 29th, 2021. Companywide operating revenue increased 23% to \$702M from \$569M and diluted adjusted earnings per share increased 46% to \$0.98 from \$0.67 on year-over-year basis on higher assets under management (AUM), M&A deals, and debt restructuring.

Financial Advisory operating revenue was \$381M, which was up 24% from \$307M in the prior year. Lazard has been engaged in Brown Bothers Harriman's sale of its Investor Services Business, Southwest Gas' acquisition of Questar Pipeline from Dominion, Macquarie Infrastructure Corporation's sale of Atlantic Aviation to KKR, and many others. Lazard is also involved in debt restructuring for Puerto Rico, Brazos Electric Power Cooperative, Intelsat, Seadrill, and many other organizations.

Lazard's Asset Management operating revenue increased 19% to \$311M from \$261M in comparable periods. Assets under management grew 20% to \$273B from \$228B in the prior year but decreased (-2%) in sequential quarters. The decrease was driven by net outflows of (-\$2.3B), market action gains of \$0.838B, and foreign exchange depreciation of \$3.3B. Adjusted compensation expense was at 59.5% higher than Lazard's desired range of 55% - 59%. Adjusted non-compensation expense was 16.6% in the desired range of 16% to 20%.

Growth on a Per-Share Basis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
EPS	\$1.36	\$1.44	\$2.01	\$3.21	\$3.60	\$3.09	\$3.78	\$4.16	\$3.28	\$3.60	\$4.60	\$5.87
DPS	\$0.61	\$1.16	\$1.00	\$1.20	\$1.35	\$1.49	\$1.61	\$1.76	\$1.85	\$1.88	\$1.88	\$2.29
Shares¹	123	135	134	134	133	133	133	130	104	105	104	99

Lazard had a difficult 2019 due to weakness in Financial Advisory and Asset Management. Financial Advisory ranked the lowest in 15 years and Asset Management had negative net flows since 2018. But Lazard seemed to have turned the corner in Asset Management and started 2020 with a higher AUM than in 2019 due to market action (outflows are still negative) and was the global leader in announced restructurings. That said, COVID-19 was affecting both segments in 2020. However, the robust stock market, much better deal flow as global economies recover, and greater debt restructuring improved Lazard's fortunes in the second half of 2020. Indeed, Lazard finished 2020 with a record quarter and record AUM. We expect on average 5% annual EPS growth out to 2026. The regular dividend yield is elevated. The quarterly dividend was held constant in 2020 and after that we are forecasting an average annual increase in the dividend of 4% out to 2026. Lazard did not pay a special dividend in 2020.

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	25.0	19.3	18.1	15.3	14.0	11.6	11.9	11.8	11.2	9.2	10.3	13.0
Avg. Yld.	1.8%	4.2%	2.8%	2.4%	4.1%	4.1%	3.6%	3.5%	5.0%	5.7%	4.0%	3.0%

Lazard's stock price is down since our last report. We have again raised our earnings estimate to match consensus 2021 estimates. Our fair value multiple for the long haul is 13X, a little lower than the average this past decade accounting for outflows in AUM. Our fair value estimate is now \$60 per share. Our 5-year price target is now \$76 per share.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
Payout	47%	56%	52%	37%	39%	49%	43%	42%	56%	52%	41%	39%

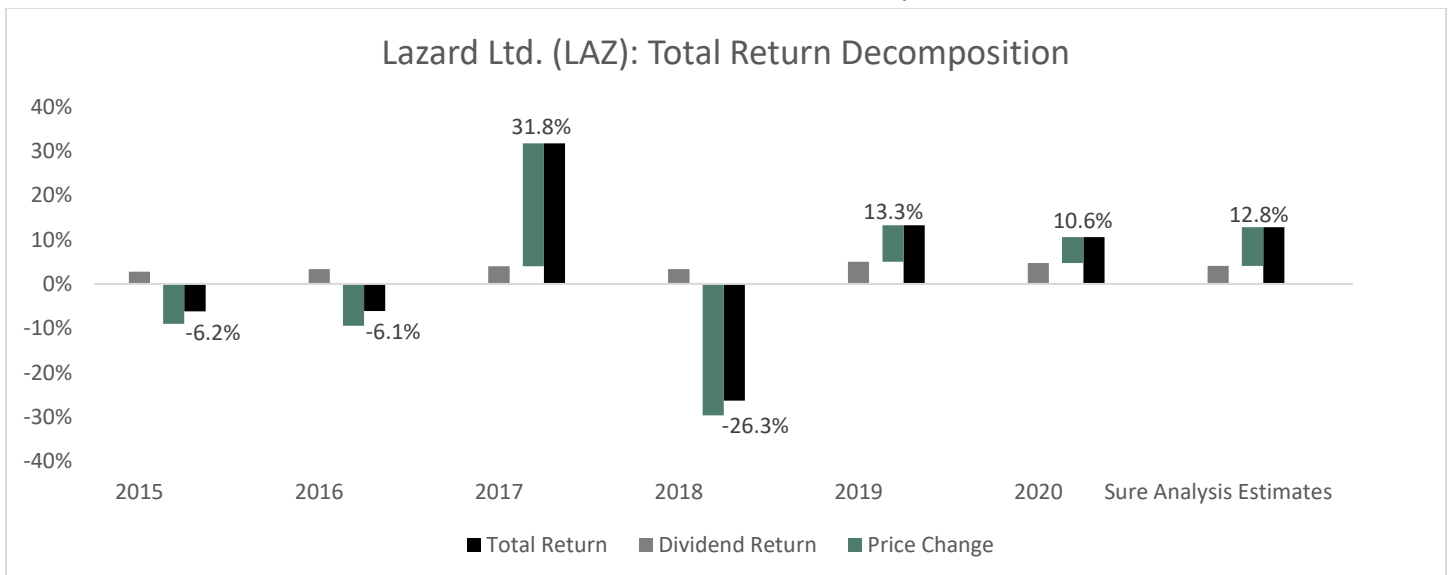
Lazard's competitive advantage is derived from its reputation for excellence and integrity, worldwide reach, diversity in asset management, long-term relationships, and ability to advise on complex transactions. The company is often the go to firm for complex global M&A transactions and restructuring. The company's reputation also permits it to attract top talent, which is important in the advisory business. Notably its managing directors have on average over 25 years of experience. Lazard's top and bottom lines and thus stock price is sensitive to the economic cycle and markets. Lazard is a relatively small player in the asset management business, which is undergoing consolidation. Scale is important in asset management for profitability. Earnings per share declined significantly during the last recession but rapidly recovered.

Lazard makes conservative use of debt and has about \$1,684.6M in senior debt offset by \$2,545.7M in cash, equivalents, and short-term investments giving the firm a net cash position.

Final Thoughts & Recommendation

At present, we are forecasting 12.8% annualized total return over the next five years. Lazard's positive momentum since late 2020 continued due to the strength of stock market, record AUM, record Financial Advisory business, and record operating revenue. A robust economy should mean that 2021 will be better than 2020. The main interest here is the very good dividend yield supported by a strong balance sheet. At the current share price, we rate this stock a buy.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Revenue	1920	1994	2065	2363	2405	2384	2698	2885	2667	2647
SG&A Exp.	373	391	398	403	398	399	455	564	568	473
D&A Exp.	36	39	45	41	39	69	41	18	55	---
Net Profit	175	84	160	427	986	388	254	527	287	402
Net Margin	9.1%	4.2%	7.8%	18.1%	41.0%	16.3%	9.4%	18.3%	10.7%	15.2%
Free Cash Flow	351	393	466	714	861	594	1001	649	635	---
Income Tax	45	31	52	85	-1010	124	566	148	95	99

Balance Sheet Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Total Assets	3082	2987	3011	3332	4478	4557	4929	4997	5640	5972
Cash & Equivalents	1004	850	841	1067	1132	1159	1484	1247	1232	1390
Accounts Receivable	486	454	505	558	497	638	572	686	663	743
Goodwill & Int. Ass.	393	393	364	347	327	382	391	375	374	384
Total Liabilities	2215	2335	2381	2562	3110	3263	3670	4027	4958	4972
Long-Term Debt	1077	1077	1048	1048	989	1189	1190	1434	1680	1683
Shareholder's Equity	726	570	560	707	1313	1236	1200	917	610	912
D/E Ratio	1.48	1.89	1.87	1.48	0.75	0.96	0.99	1.56	2.75	1.85

Profitability & Per Share Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Return on Assets	5.4%	2.8%	5.3%	13.5%	25.3%	8.6%	5.3%	10.6%	5.4%	6.9%
Return on Equity	25.4%	13.0%	28.4%	67.4%	97.7%	30.4%	20.8%	49.8%	37.5%	52.9%
ROIC	8.8%	4.6%	9.4%	24.4%	47.3%	16.0%	10.3%	21.7%	12.0%	16.0%
Shares Out.	123	135	134	134	133	133	133	130	104	103
Revenue/Share	13.95	15.42	15.44	17.66	18.05	17.97	20.36	22.23	22.98	23.32
FCF/Share	2.55	3.04	3.48	5.33	6.46	4.48	7.56	5.00	5.47	4.51

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

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