



Lazard Ltd. (LAZ)

Updated February 16th, 2022 by Prakash Kollu

Key Metrics

Current Price:	\$38	5 Year CAGR Estimate:	14.3%	Market Cap:	\$3.90B
Fair Value Price:	\$51	5 Year Growth Estimate:	5.0%	Ex-Dividend Date:	02/11/22
% Fair Value:	75%	5 Year Valuation Multiple Estimate:	6.0%	Dividend Payment Date:	02/25/22
Dividend Yield:	5.0%	5 Year Price Target	\$65	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 Q4 2021 Lazard had roughly \$274B in assets under management (AUM).

Lazard reported yet another strong quarter for Q4 2021 results on February 3rd, 2022. Companywide operating revenue increased 14% to \$968M from \$849M and diluted adjusted earnings per share increased 16% to \$1.92 from \$1.66 on year-over-year basis on higher assets under management (AUM), M&A deals, and debt restructuring.

Financial Advisory operating revenue was \$608M, which was up 20% from \$509M in the prior year. Lazard has been engaged in Dell's spin-off of VMware, Air Products & Chemicals joint venture in Saudi Arabia, 3G Capital's acquisition of Hunter Douglas, Athene's merger with Apollo, Terminix's acquisition by Rentokil Initial, and many others. Lazard is also involved in debt restructuring for Puerto Rico, Brazos Electric Power Cooperative, Intelsat, Seadrill, Nordic Aviation Capital, Stoneway Capital, Grupo GICSA, and many other organizations.

Lazard's Asset Management operating revenue increased 3% to \$347M from \$336M in comparable periods. Assets under management grew 6% to \$274B from \$259B in the prior year and increased 21% in sequential quarters. The increase was driven by net outflows of (-\$6.7B), market action gains of \$9.9B, and foreign exchange depreciation of \$2.0B. Adjusted compensation expense was at 58.5% in Lazard's desired range of 55% - 59%. Adjusted non-compensation expense was 15.0% lower than desired range of 16% to 20%.

Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
EPS	\$1.44	\$2.01	\$3.21	\$3.60	\$3.09	\$3.78	\$4.16	\$3.28	\$3.60	\$5.04	\$4.60	\$5.87
DPS	\$1.16	\$1.00	\$1.20	\$1.35	\$1.49	\$1.61	\$1.76	\$1.85	\$1.88	\$1.88	\$1.88	\$1.88
Shares¹	135	134	134	133	133	133	130	104	105	104	103	98

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 2021 and we are no longer expecting increases. Lazard did not pay a special dividend in 2020 or 2021. The firm's focus now seems to be share repurchases.

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	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Now	2027
Avg. P/E	19.3	18.1	15.3	14.0	11.6	11.9	11.8	11.2	9.2	9.9	8.2	11.0
Avg. Yld.	4.2%	2.8%	2.4%	4.1%	4.1%	3.6%	3.5%	5.0%	5.7%	4.1%	5.0%	2.9%

Lazard's stock price is down significantly since our last report. The firm had a record 2021 but consensus is lower for 2022. Our fair value multiple for the long haul is now 11X, near the 5-year average, accounting for outflows and volatility in earnings. Our fair value estimate is now \$51 per share. Our 5-year price target is now \$65 per share.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	56%	52%	37%	39%	49%	43%	42%	56%	52%	372%	41%	32%

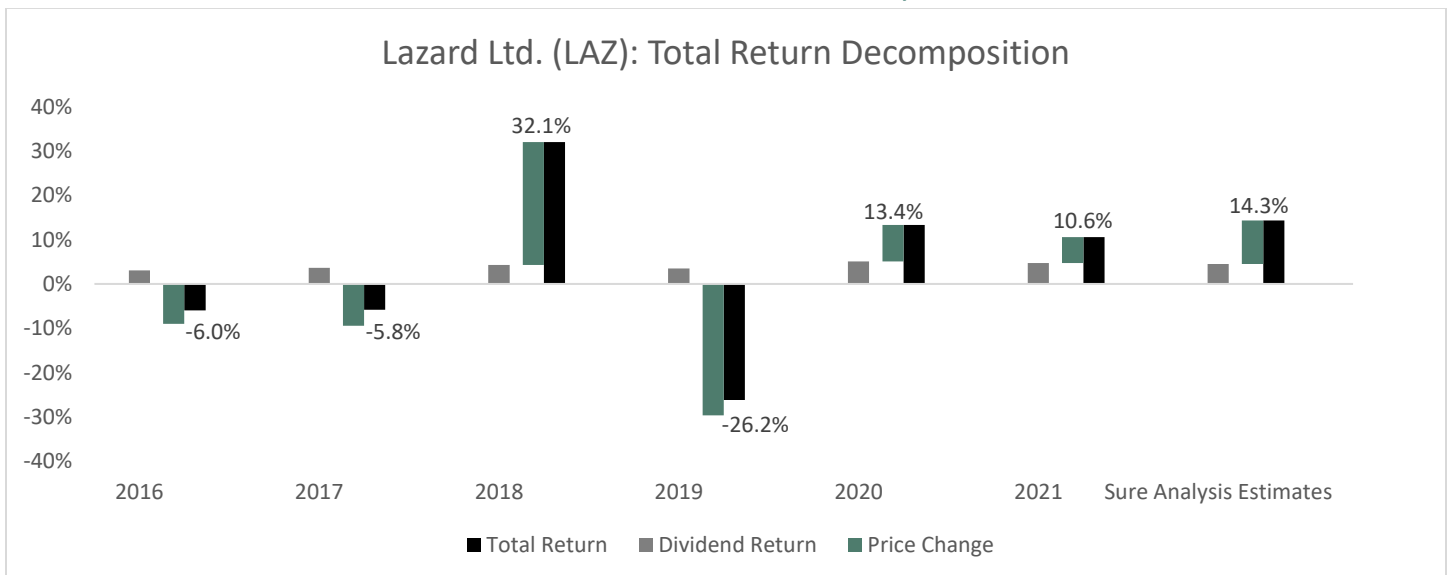
Lazard's competitive advantage is derived from its reputation for excellence and integrity, worldwide reach, diversity in asset management, long-term relationships, and ability to advise on complex transactions. The company is often the go to firm for complex global M&A transactions and restructuring. 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 \$1,685.2M in senior debt offset by \$2,812.6M in cash, equivalents, and short-term investments giving the firm a net cash position.

Final Thoughts & Recommendation

At present, we are forecasting 14.3% annualized total return over the next five years. Lazard's positive momentum since late 2020 continued into 2021 due to the strength of stock market, record AUM, record Financial Advisory business, and record operating revenue. However, market volatility may mean that 2022 is not as strong. The main interest here is the excellent 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	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Revenue	1994	2065	2363	2405	2384	2698	2885	2667	2647	3274
SG&A Exp.	391	398	403	398	399	455	564	568	370	395
D&A Exp.	39	45	41	39	69	41	18	55	37	---
Net Profit	84	160	427	986	388	254	527	287	402	528
Net Margin	4.2%	7.8%	18.1%	41.0%	16.3%	9.4%	18.3%	10.7%	15.2%	16.1%
Free Cash Flow	393	466	714	861	594	1001	649	635	512	---
Income Tax	31	52	85	-1010	124	566	148	95	99	181

Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Total Assets	2987	3011	3332	4478	4557	4929	4997	5640	5972	7147
Cash & Equivalents	850	841	1067	1132	1159	1484	1247	1232	1390	1465
Accounts Receivable	454	505	558	497	638	572	686	663	743	806
Goodwill & Int. Ass.	393	364	347	327	382	391	375	374	384	380
Total Liabilities	2335	2381	2562	3110	3263	3670	4027	4958	4972	5494
Long-Term Debt	1077	1048	1048	989	1189	1190	1434	1680	1683	1685
Shareholder's Equity	570	560	707	1313	1236	1200	917	610	912	975
LTD/E Ratio	1.89	1.87	1.48	0.75	0.96	0.99	1.56	2.75	1.85	1.73

Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Return on Assets	2.8%	5.3%	13.5%	25.3%	8.6%	5.3%	10.6%	5.4%	6.9%	8.1%
Return on Equity	13.0%	28.4%	67.4%	97.7%	30.4%	20.8%	49.8%	37.5%	52.9%	56.0%
ROIC	4.6%	9.4%	24.4%	47.3%	16.0%	10.3%	21.7%	12.0%	16.0%	17.5%
Shares Out.	135	134	134	133	133	133	130	104	113	114
Revenue/Share	15.42	15.44	17.66	18.05	17.97	20.36	22.23	22.98	23.32	28.8
FCF/Share	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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