



Artisan Partners Asset Management (APAM)

Updated May 15th, 2022, by Josh Arnold

Key Metrics

Current Price:	\$35	5 Year CAGR Estimate:	12.4%	Market Cap:	\$2.7 B
Fair Value Price:	\$42	5 Year Growth Estimate:	2.0%	Ex-Dividend Date:	05/16/22 ¹
% Fair Value:	83%	5 Year Valuation Multiple Estimate:	3.9%	Dividend Payment Date:	05/28/22
Dividend Yield:	8.7%	5 Year Price Target	\$47	Years Of Dividend Growth:	2
Dividend Risk Score:	F	Retirement Suitability Score:	C	Rating:	Buy

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, \$0.31 in 2020, and \$0.72 in 2021, in addition to its ample quarterly dividend. Artisan generates \$1.1 billion in annual revenue and trades with a market capitalization of \$2.7 billion.

Artisan reported first quarter earnings on April 26th, 2022, and results were substantially weaker than expected on both the top and bottom lines. Adjusted earnings-per-share came to 98 cents, which was five cents less than expected. Revenue, likewise, missed estimates by more than \$12 million, coming to \$282 million. That was also a 3% decline year-over-year.

Assets under management fell \$15 billion, or 9%, to \$160 billion year-over-year. Artisan said the decline was due primarily to declining market values globally, distributions that were not reinvested, and a partial offset by new client inflows. Adjusted operating margin was 37.7%, down sharply from 43.8% in the year-ago period.

Operating expenses came to \$175 million, up 3% year-over-year, reflecting increased travel, occupancy, and technology costs. Compensation and benefits expense declined slightly.

We now see adjusted earnings-per-share at \$3.85 for this year as conditions have weakened so far in 2022.

Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
EPS	---	\$2.54	\$3.17	\$2.69	\$2.13	\$2.41	\$2.94	\$2.67	\$3.30	\$5.03	\$3.85	\$4.25
DPS	---	\$0.86	\$2.25	\$2.40	\$2.40	\$2.40	\$2.40	\$2.36	\$2.79	\$3.92	\$3.04	\$3.36
Shares²	---	20	34	39	42	51	54	56	63	67	70	95

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 2%. 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. With record results in 2021, we see lower earnings for 2022 as the perfect conditions of 2021 will be difficult to replicate.

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

¹ Estimated date

² Share count in millions

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year, the board considers several factors, and determines a variable special dividend. The special dividend in 2021 was \$0.72, which is more than double the 2021 special dividend, and the total dividends paid were \$4.64 per share.

Valuation Analysis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Now	2027
Avg. P/E	---	20.0	17.7	16.1	13.7	13.0	10.9	10.2	10.6	10.0	9.1	11.0
Avg. Yld.	---	---	4.2%	5.4%	8.3%	7.7%	7.5%	8.9%	8.0%	7.8%	8.7%	7.2%

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 11 times earnings. The company is trading at a price-to-earnings ratio of 9.1 today. With the \$3.04 annual dividend, the stock is yielding 8.7%, 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	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	---	34%	71%	89%	113%	100%	82%	89%	85%	78%	79%	79%

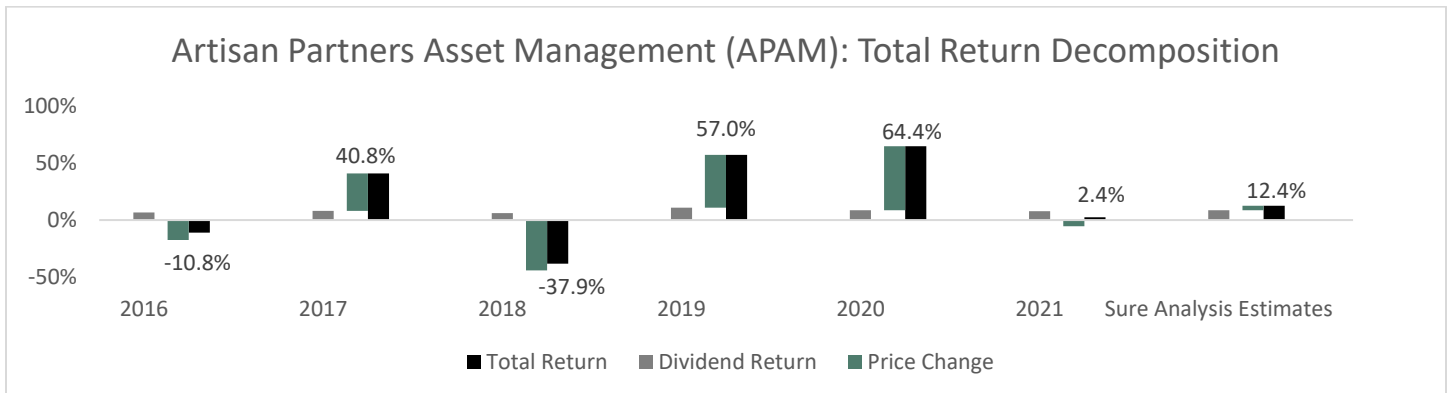
Artisan's payout ratio is 79% of earnings at current projections, but investors should keep in mind that Artisan pays special dividends at the end of the year, and that its quarterly dividend policy is variable. Thus, how the payout ratio performs depends significantly upon how much earnings the company can generate.

Artisan wasn't public during the Great Recession, but we expect the damage to earnings could be meaningful during a prolonged recession that brings with it lower equity prices. 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 produced record earnings.

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. 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 and the double-digit yield, we are reiterating the stock at a buy rating. Returns should accrue from 2% earnings growth, the 8.7% yield, and a ~4% tailwind from the valuation.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Revenue	506	686	829	805	721	796	829	799	900	1,227
SG&A Exp.	75	91	107	109	103	106	111	115	105	124
D&A Exp.	2	3	3	5	5	5	6	6	7	7
Operating Profit	47	-261	307	282	234	286	305	283	358	541
Operating Margin	9.3%	-38.1%	37.0%	35.1%	32.5%	36.0%	36.8%	35.5%	39.8%	44.0%
Net Profit	0	25	70	82	73	50	158	157	213	337
Net Margin	0.0%	3.6%	8.4%	10.2%	10.1%	6.2%	19.1%	19.6%	23.6%	27.4%
Free Cash Flow	125	109	342	314	263	220	319	275	316	393
Income Tax	1	26	49	47	51	421	48	28	61	107

Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Total Assets	288	581	849	946	936	837	805	934	1,152	1,208
Cash & Equivalents	151	231	182	166	157	159	175	144	199	189
Accounts Receivable	57	72	69	60	60	90	71	81	101	116
Total Liabilities	960	449	742	829	818	729	665	795	961	912
Accounts Payable	28	19	22	18	16	25	21	54	134	37
Long-Term Debt	290	0	0	199	199	199	199	199	199	199
Shareholder's Equity	0	9	111	130	132	110	135	133	180	296
LTD/E Ratio	N/A	0.00	0.00	1.53	1.51	1.81	1.48	1.50	1.10	0.67

Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Return on Assets	0.0%	5.7%	9.7%	9.1%	7.8%	5.6%	19.3%	18.0%	20.4%	28.5%
Return on Equity	0.0%	559%	116%	67.9%	55.8%	41.1%	129%	117%	136%	141%
ROIC	0.0%	-19.8%	58.1%	38.6%	23.1%	15.9%	48.9%	46.2%	58.4%	76.0%
Shares Out.	---	20	34	39	42	51	54	56	63	67
Revenue/Share	7.69	49.77	30.12	22.72	18.90	17.82	16.96	15.63	16.18	18.79
FCF/Share	1.89	7.91	12.43	8.86	6.90	4.93	6.54	5.38	5.67	6.56

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

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