



Lazard Ltd. (LAZ)

Updated November 7th, 2022 by Prakash Kolli

Key Metrics

Current Price:	\$35	5 Year CAGR Estimate:	13.4%	Market Cap:	\$3.00B
Fair Value Price:	\$44	5 Year Growth Estimate:	5.0%	Ex-Dividend Date:	11/04/22
% Fair Value:	80%	5 Year Valuation Multiple Estimate:	4.5%	Dividend Payment Date:	08/18/22
Dividend Yield:	5.7%	5 Year Price Target	\$56	Years Of Dividend Growth:	1
Dividend Risk Score:	C	Retirement Suitability Score:	A	Rating:	Buy

Overview & Current Events

Lazard Ltd. is an international investment advisory company that traces its history to 1848. The company has two business segments: 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 2022 Lazard had roughly \$198B in assets under management (AUM).

Lazard reported surprisingly good Q3 2022 results on October 27th, 2022. Companywide operating revenue increased 3% to \$724M from \$702M and diluted adjusted earnings per share gained 7% to \$1.05 from \$0.98 on year-over-year basis on more M&A deals and debt restructuring offset by lower assets under management (AUM). The European Financial Advisory business is having a record year, so far.

Financial Advisory operating revenue was \$454M, which was up 19% from \$381M in the prior year. Lazard has been engaged in Intel's \$30B investment with Brookfield, Orange's combination with Masmoil, Cargill's acquisition of Sanders Farms, Bungie's sale to Sony Interactive Entertainment, and many other deals.

Lazard's Asset Management operating revenue decreased (-15%) to \$263M from \$311M in comparable periods. Average AUM fell (-24%) to \$212B from \$278B in the prior year and decreased (-8%) in sequential quarters. The decline was driven by net outflows of (-\$2.0B), market action loss of (-\$10.3B), and foreign exchange depreciation of (-\$6.6). Adjusted compensation expense was at 59.5% outside of Lazard's desired range of 55% - 59%. Adjusted non-compensation expense was 17.7% in management's 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	\$3.96	\$5.05
DPS	\$1.16	\$1.00	\$1.20	\$1.35	\$1.49	\$1.61	\$1.76	\$1.85	\$1.88	\$1.88	\$2.00	\$2.00
Shares¹	135	134	134	133	133	133	130	104	105	101	100	95

After a difficult 2019, 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 were negative) and was the global leader in announced restructurings. That said, COVID-19 affected both segments in 2020. However, the robust stock market, much better deal flow as global economies recovered, and greater debt restructuring volumes improved Lazard's fortunes through 2021. Currently in 2022, Lazard is being impacted by weak global stock markets resulting in lower AUM. We lowered our earnings estimate downward twice this year, but it may still be too optimistic depending on market action. Still, we expect on average 5% annual EPS growth out to 2027. The regular dividend yield is lofty but covered by earnings and a net cash position on the balance sheet. The quarterly dividend was held constant in 2020 and 2021, but the firm surprised shareholders and raised it 6% in 2022. However, the firms' focus now seems to be share repurchases and the share count is declining rapidly over the past few years.

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	8.8	11.0
Avg. Yld.	4.2%	2.8%	2.4%	4.1%	4.1%	3.6%	3.5%	5.0%	5.7%	4.1%	5.7%	3.6%

Lazard's stock price is down since our last report because of a declining stock market. We have lowered our earnings estimate to match consensus. Our fair value multiple for the long haul is 11X, near the 5-year average, accounting for volatility in earnings. Our fair value estimate is now \$44 per share. Our 5-year price target is now \$56 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%	37%	51%	40%

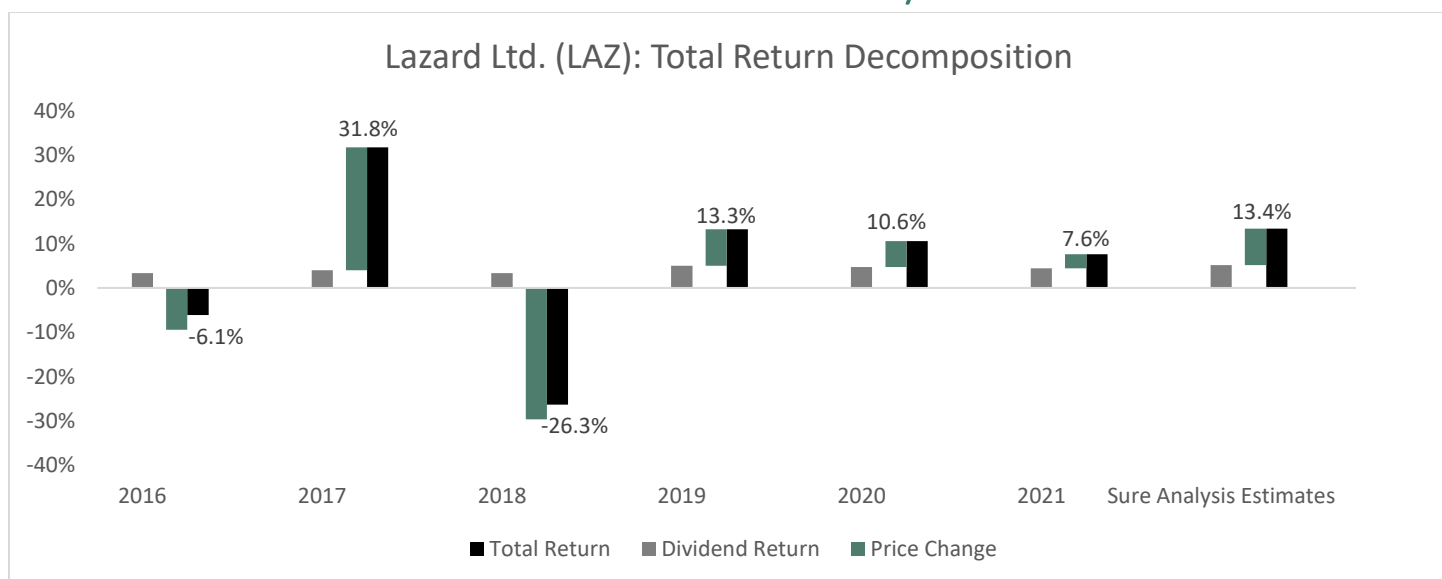
Lazard's competitive advantage is derived from its reputation for excellence and integrity, worldwide reach, diversity in asset management, long-term relationships, and ability to advise on complex transactions. The company is often the go to firm for complex global M&A transactions and restructuring. 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 \$1,687.1M in senior debt offset by \$2,341.6M in cash, equivalents, and short-term investments giving the firm a net cash position.

Final Thoughts & Recommendation

At present, we are forecasting 13.4% annualized total return over the next five years from a dividend yield of 5.7%, 5.0% EPS growth, and 4.5% P/E multiple expansion. Lazard's positive momentum since late 2020 continued into 2021 but 2022 is proving to be more challenging due to the weak stock market and conflict in Ukraine. 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	38
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	826
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	7.27

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

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