



Lazard Ltd. (LAZ)

Updated February 3rd, 2023 by Prakash Kolli

Key Metrics

Current Price:	\$41	5 Year CAGR Estimate:	6.9%	Market Cap:	\$3.51B
Fair Value Price:	\$36	5 Year Growth Estimate:	5.0%	Ex-Dividend Date:	02/10/23
% Fair Value:	113%	5 Year Valuation Multiple Estimate:	-2.3%	Dividend Payment Date:	02/24/23
Dividend Yield:	4.9%	5 Year Price Target	\$46	Years Of Dividend Growth:	1
Dividend Risk Score:	C	Retirement Suitability Score:	A	Rating:	Hold

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 strategic, M&A, debt restructuring, capital raising, shareholder advisory, and sovereign advisory. 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 2022, Lazard had roughly \$216B in assets under management (AUM).

Lazard reported Q4 2022 and full year results on February 2nd, 2023. Companywide operating revenue decreased (-31%) to \$671M from \$968M and diluted adjusted earnings per share fell (-64%) to \$0.69 from \$1.92 on year-over-year basis on much lower M&A deals and AUM. Global conflicts, inflation, and the bear market are affecting results.

Financial Advisory operating revenue was \$404M, which was down (-34%) from \$608M in the prior year. Lazard has been engaged in Terminx's sale to Rentokil, Tenneco's sale to Appollo, Xylem's acquisition of Evoqua, Southwest Gas' restructuring, WestRock's deal for Grupo Gondi's assets, and many other deals.

Lazard's Asset Management operating revenue decreased (-25%) to \$259M from \$347M in comparable periods. Average AUM fell (-23%) to \$211B from \$274B in the prior year and increased 9% in sequential quarters. The decline was driven by net outflows of (-\$3.7B), market action gain of \$14.4B, and foreign exchange appreciation of \$7.7B. Adjusted compensation expense was at 59.8% outside of Lazard's desired range of 55% - 59%. Adjusted non-compensation expense was 18.7% in management's desired range of 16% to 20%.

Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
EPS	\$2.01	\$3.21	\$3.60	\$3.09	\$3.78	\$4.16	\$3.28	\$3.60	\$5.04	\$3.73	\$3.30	\$4.21
DPS	\$1.00	\$1.20	\$1.35	\$1.49	\$1.61	\$1.76	\$1.85	\$1.88	\$1.88	\$1.94	\$2.00	\$2.21
Shares¹	134	134	133	133	133	130	104	105	101	100	99	94

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. In 2022, Lazard was being impacted by weak global stock markets resulting in lower AUM. The coming year may be challenging because of market action, strong dollar, and inflation. Still, we expect on average 5% annual EPS growth out to 2028. 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. We now expect 2% yearly increases. 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	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Now	2028
Avg. P/E	18.1	15.3	14.0	11.6	11.9	11.8	11.2	9.2	9.9	11.7	12.4	11.0
Avg. Yld.	2.8%	2.4%	4.1%	4.1%	3.6%	3.5%	5.0%	5.7%	4.1%	4.3%	4.9%	4.8%

Lazard's stock price is up since our last report because of a rising stock market. We have set our earnings estimate to match consensus in 2023. 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 \$36 per share. Our 5-year price target is now \$46 per share.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	52%	37%	39%	49%	43%	42%	56%	52%	37%	52%	61%	52%

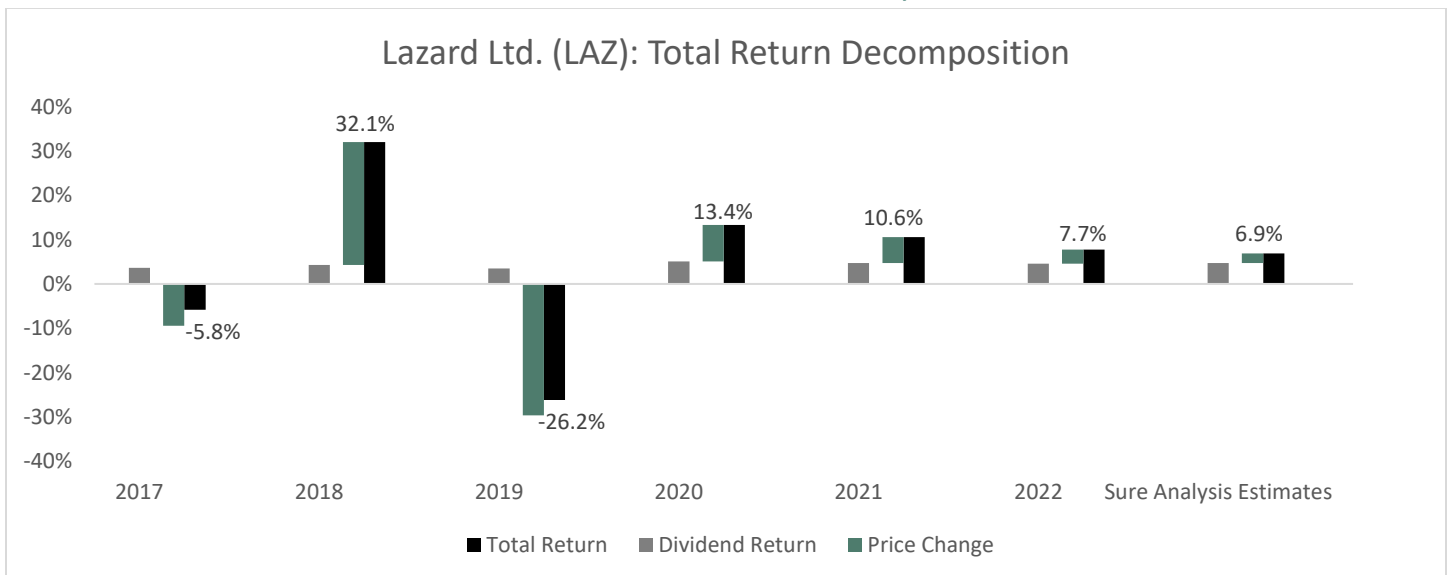
Lazard's competitive advantage is derived from its reputation for excellence and integrity, worldwide reach, diversity in asset management, long-term relationships, and ability to advise on complex transactions. The company is often the go to firm for complex global M&A transactions and restructuring. 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 11 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 \$2,014M in cash, equivalents, and short-term investments giving the firm a net cash position.

Final Thoughts & Recommendation

At present, we are forecasting 6.9% annualized total return over the next five years from a dividend yield of 4.9%, 5.0% EPS growth, and (-2.3%) P/E multiple contraction. The past year was challenging due to the weak stock market, inflation, and conflict in Ukraine and these trends are continuing in 2023. 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 hold.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Revenue	2065	2363	2405	2384	2698	2885	2667	2647	3274	2855
SG&A Exp.	398	403	398	399	455	564	568	370	395	275
D&A Exp.	45	41	39	69	41	18	55	37	38	---
Net Profit	160	427	986	388	254	527	287	402	528	358
Net Margin	7.8%	18.1%	41.0%	16.3%	9.4%	18.3%	10.7%	15.2%	16.1%	12.5%
Free Cash Flow	466	714	861	594	1001	649	635	512	826	---
Income Tax	52	85	-1010	124	566	148	95	99	181	124

Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Total Assets	3011	3332	4478	4557	4929	4997	5640	5972	7147	5853
Cash & Equivalents	841	1067	1132	1159	1484	1247	1232	1390	1465	1235
Accounts Receivable	505	558	497	638	572	686	663	743	806	653
Goodwill & Int. Ass.	364	347	327	382	391	375	374	384	380	377
Total Liabilities	2381	2562	3110	3263	3670	4027	4958	4972	5494	4594
Long-Term Debt	1048	1048	989	1189	1190	1434	1680	1683	1685	1688
Shareholder's Equity	560	707	1313	1236	1200	917	610	912	975	556
LTD/E Ratio	1.87	1.48	0.75	0.96	0.99	1.56	2.75	1.85	1.73	3.03

Profitability & Per Share Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Return on Assets	5.3%	13.5%	25.3%	8.6%	5.3%	10.6%	5.4%	6.9%	8.1%	5.5%
Return on Equity	28.4%	67.4%	97.7%	30.4%	20.8%	49.8%	37.5%	52.9%	56.0%	46.7%
ROIC	9.4%	24.4%	47.3%	16.0%	10.3%	21.7%	12.0%	16.0%	17.5%	11.4%
Shares Out.	134	134	133	133	133	130	104	113	114	101
Revenue/Share	15.44	17.66	18.05	17.97	20.36	22.23	22.98	23.32	28.8	28.27
FCF/Share	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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