



Artisan Partners Asset Management (APAM)

Updated November 9th, 2023, by Josh Arnold

Key Metrics

Current Price:	\$35	5 Year CAGR Estimate:	7.9%	Market Cap:	\$2.8 B
Fair Value Price:	\$31	5 Year Growth Estimate:	4.0%	Ex-Dividend Date:	11/15/23
% Fair Value:	114%	5 Year Valuation Multiple Estimate:	-2.5%	Dividend Payment Date:	11/30/23
Dividend Yield:	7.4%	5 Year Price Target	\$37	Years Of Dividend Growth:	0
Dividend Risk Score:	F	Retirement Suitability Score:	D	Rating:	Hold

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, \$0.72 in 2021, and \$0.35 for 2022, in addition to its ample quarterly dividend. Artisan generates about a billion dollars in annual revenue and trades with a market capitalization of \$2.8 billion.

Artisan posted third quarter earnings on October 31st, 2023, and results were better than expected on both the top and bottom lines, if only slightly. Adjusted earnings-per-share came to 75 cents, which was a penny ahead of estimates. Revenue was up 6% year-over-year to \$249 million, which beat expectations by \$3.6 million.

AUM fell to \$137 billion, a decline of \$6.5 billion, or about 5%, from the year-ago period. The company noted the declines were due to \$5.1 billion of market depreciation, and \$1.3 billion of net client outflows.

Operating expenses were \$167 million, up \$11 million, or 7%, year-over-year. This was due to an increase in incentive compensation and higher fixed compensation and benefits costs. In addition, the company saw higher travel expenses, after that line item was essentially zero during and after COVID.

Adjusted operating margin was 32.5% of revenue in Q3, down from 32.9% from the same period a year ago. We now see \$2.80 in earnings-per-share for this year after Q3 results.

Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
EPS	\$2.54	\$3.17	\$2.69	\$2.13	\$2.41	\$2.94	\$2.67	\$3.30	\$5.03	\$3.11	\$2.80	\$3.41
DPS	\$0.86	\$2.25	\$2.40	\$2.40	\$2.40	\$2.40	\$2.36	\$2.79	\$3.92	\$3.67	\$2.60	\$2.87
Shares¹	20	34	39	42	51	54	56	63	67	68	68	69

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 4%. 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. Results normalized in 2022, but we see lower equity prices as a headwind until the market gets back near its highs.

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 year, the board considers several factors, and determines a variable special dividend.

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	20.0	17.7	16.1	13.7	13.0	10.9	10.2	10.6	10.0	9.5	12.5	11.0
Avg. Yld.	---	4.2%	5.4%	8.3%	7.7%	7.5%	8.9%	8.0%	7.8%	12.3%	7.4%	7.7%

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 12.5 today. With the \$2.60 annualized dividend, the stock is yielding 7.4%, 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 than currently forecast if equity markets perform well.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	34%	71%	89%	113%	100%	82%	89%	85%	78%	118%	93%	84%

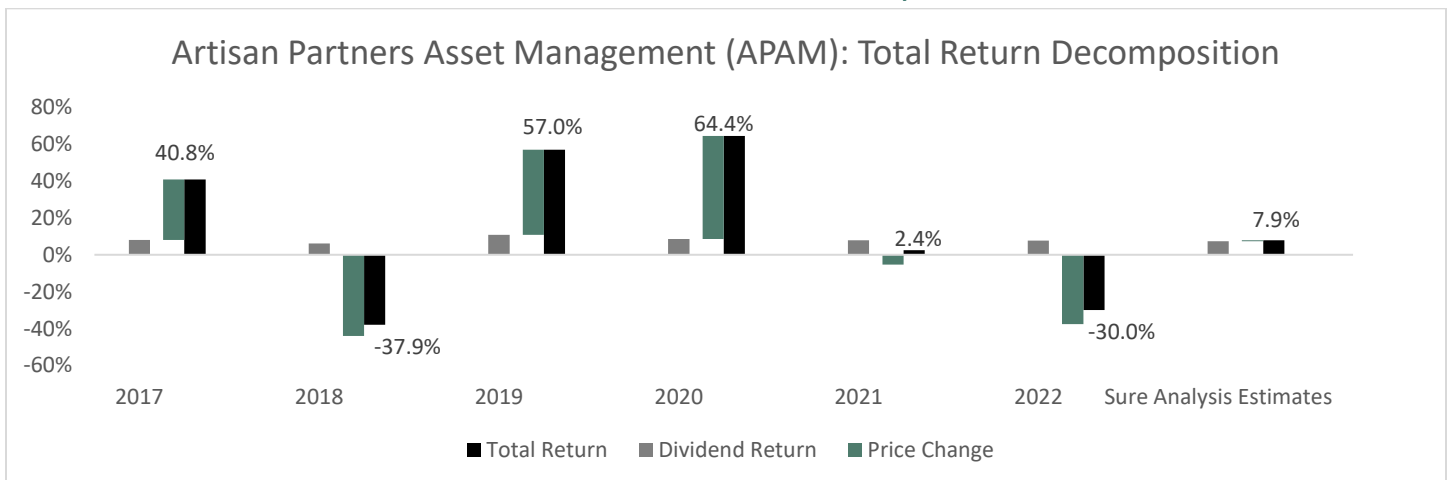
Artisan's payout ratio is 93% of earnings at current projections, but investors should keep in mind that Artisan pays special dividends at the end of the year, and that its quarterly dividend policy is variable. Thus, how the payout ratio performs depends significantly upon how much earnings the company 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, but 2023 should be back on track with historical results.

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, and indeed in 2022. We are reiterating the stock at a hold rating after Q3 results. Returns should accrue from 4% earnings growth, the 7.4% yield, and a 2.5% headwind from the valuation.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Revenue	686	829	805	721	796	829	799	900	1,227	993
SG&A Exp.	91	107	109	103	106	111	115	105	124	483
D&A Exp.	3	3	5	5	5	6	6	7	7	8
Operating Profit	-261	307	282	234	286	305	283	358	541	344
Operating Margin	-38.1%	37.0%	35.1%	32.5%	36.0%	36.8%	35.5%	39.8%	44.0%	34.6%
Net Profit	25	70	82	73	50	158	157	213	337	207
Net Margin	3.6%	8.4%	10.2%	10.1%	6.2%	19.1%	19.6%	23.6%	27.4%	20.8%
Free Cash Flow	109	342	314	263	220	319	275	316	393	293
Income Tax	26	49	47	51	421	48	28	61	107	63

Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Total Assets	581	849	946	936	837	805	934	1,152	1,208	1314
Cash & Equivalents	231	182	166	157	159	175	144	199	189	115
Accounts Receivable	72	69	60	60	90	71	81	101	116	99
Total Liabilities	449	742	829	818	729	665	795	961	912	899
Accounts Payable	19	22	18	16	25	21	54	134	37	54
Long-Term Debt	0	0	199	199	199	199	199	199	199	199
Shareholder's Equity	9	111	130	132	110	135	133	180	296	279
LTD/E Ratio	0.00	0.00	1.53	1.51	1.81	1.48	1.50	1.10	0.67	0.71

Profitability & Per Share Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Return on Assets	5.7%	9.7%	9.1%	7.8%	5.6%	19.3%	18.0%	20.4%	28.5%	16.4%
Return on Equity	559%	116%	67.9%	55.8%	41.1%	129%	117%	136%	141%	74.4%
ROIC	-19.8%	58.1%	38.6%	23.1%	15.9%	48.9%	46.2%	58.4%	76.0%	33.9%
Shares Out.	20	34	39	42	51	54	56	63	67	68.1
Revenue/Share	49.77	30.12	22.72	18.90	17.82	16.96	15.63	16.18	18.79	14.59
FCF/Share	7.91	12.43	8.86	6.90	4.93	6.54	5.38	5.67	6.56	4.69

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

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