



# Artisan Partners Asset Management (APAM)

Updated February 9<sup>th</sup>, 2024, by Josh Arnold

## Key Metrics

<b>Current Price:</b>	\$42	<b>5 Year CAGR Estimate:</b>	9.8%	<b>Market Cap:</b>	\$3.4 B
<b>Fair Value Price:</b>	\$36	<b>5 Year Growth Estimate:</b>	8.0%	<b>Ex-Dividend Date:</b>	02/14/24
<b>% Fair Value:</b>	117%	<b>5 Year Valuation Multiple Estimate:</b>	-3.2%	<b>Dividend Payment Date:</b>	02/29/24
<b>Dividend Yield:</b>	6.5%	<b>5 Year Price Target</b>	\$53	<b>Years Of Dividend Growth:</b>	0
<b>Dividend Risk Score:</b>	F	<b>Retirement Suitability Score:</b>	D	<b>Rating:</b>	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 1<sup>st</sup>, 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, \$0.35 for 2022, and \$0.35 in 2023, in addition to its ample quarterly dividend. Artisan generates about \$1.1 billion in annual revenue and trades with a market capitalization of \$3.4 billion.

Artisan posted fourth quarter and full-year earnings on January 30<sup>th</sup>, 2024, and results were quite strong, beating estimates on both the top and bottom lines. Adjusted earnings-per-share totaled 78 cents, which was four cents ahead of estimates. Revenue was up 10% year-over-year to \$249 million, beating expectations by almost \$6 million. Revenue was up due to higher assets under management, as well as higher performance fees.

Assets under management ended the year at \$150 billion, up 17% year-over-year. The gain in AUM was due to investment returns of \$27 billion, partially offset by net client cash outflows of \$4.1 billion, as well as \$0.7 billion in fund distributions that were not reinvested.

Operating expenses totaled \$173 million in Q4, up 11% year-over-year, which was due primarily to higher compensation and benefits, offset by lower occupancy expense.

Adjusted operating margin was 32.1% of revenue in Q4, up from 31.2% a year ago. We start the year with an estimate of \$3.25 in earnings-per-share after a strong finish to 2023.

## Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
<b>EPS</b>	\$3.17	\$2.69	\$2.13	\$2.41	\$2.94	\$2.67	\$3.30	\$5.03	\$3.11	\$2.89	<b>\$3.25</b>	<b>\$4.78</b>
<b>DPS</b>	\$2.25	\$2.40	\$2.40	\$2.40	\$2.40	\$2.36	\$2.79	\$3.92	\$3.67	\$2.66	<b>\$2.72</b>	<b>\$3.00</b>
<b>Shares<sup>1</sup></b>	34	39	42	51	54	56	63	67	68	69	<b>70</b>	<b>75</b>

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 8%, however, as we see the company's rising margins and focus on expense management as driving outsized earnings growth in the coming years, along with strong equity markets supporting higher AUM.

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.

<sup>1</sup> 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	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Now	2029
<b>Avg. P/E</b>	17.7	16.1	13.7	13.0	10.9	10.2	10.6	10.0	9.5	15.3	<b>12.9</b>	<b>11.0</b>
<b>Avg. Yld.</b>	4.2%	5.4%	8.3%	7.7%	7.5%	8.9%	8.0%	7.8%	12.3%	6.0%	<b>6.5%</b>	<b>5.7%</b>

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 12.9 today. With the \$2.72 annualized dividend, the stock is yielding 6.5%, 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	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
<b>Payout</b>	71%	89%	113%	100%	82%	89%	85%	78%	118%	92%	<b>84%</b>	<b>63%</b>

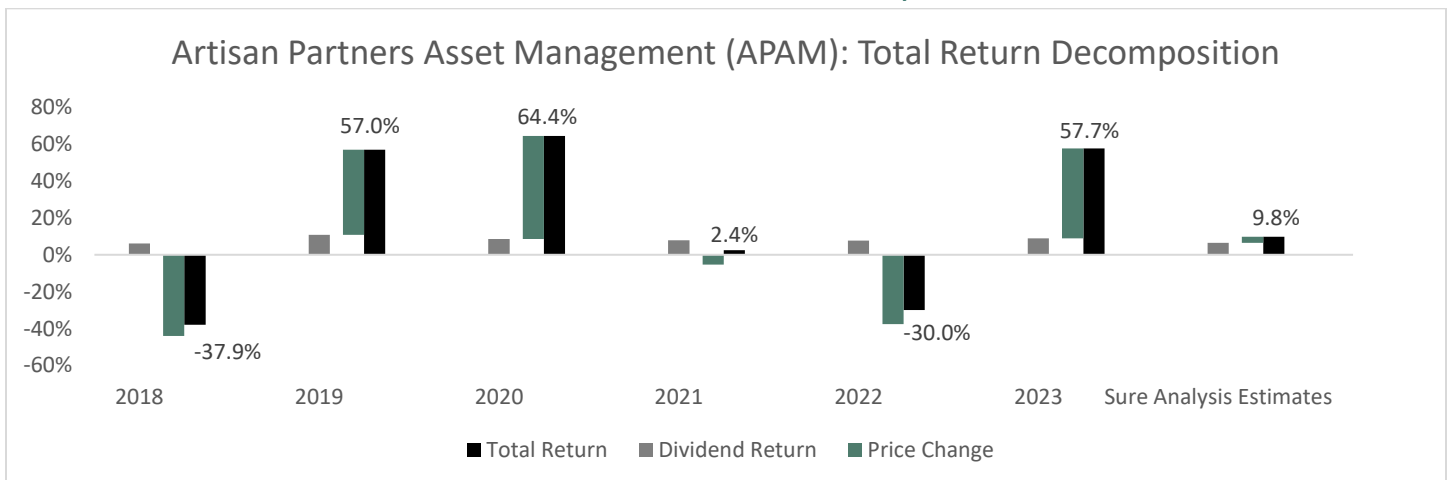
Artisan’s payout ratio is 84% of earnings at current projections, but investors should keep in mind that Artisan pays special dividends at the end of the year, and that its quarterly dividend policy is variable. Thus, how the payout ratio performs depends significantly upon how much earnings the company 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 was 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 Q4 results. Returns should accrue from 8% earnings growth, the 6.5% yield, and a 3.2% headwind from the valuation.

## Total Return Breakdown by Year



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## Income Statement Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
<b>Revenue</b>	829	805	721	796	829	799	900	1,227	993	975
<b>SG&amp;A Exp.</b>	107	109	103	106	111	115	105	124	483	142
<b>D&amp;A Exp.</b>	3	5	5	5	6	6	7	7	8	---
<b>Operating Profit</b>	307	282	234	286	305	283	358	541	344	304
<b>Operating Margin</b>	37.0%	35.1%	32.5%	36.0%	36.8%	35.5%	39.8%	44.0%	34.6%	31.1%
<b>Net Profit</b>	70	82	73	50	158	157	213	337	207	222
<b>Net Margin</b>	8.4%	10.2%	10.1%	6.2%	19.1%	19.6%	23.6%	27.4%	20.8%	22.8%
<b>Free Cash Flow</b>	342	314	263	220	319	275	316	393	293	---
<b>Income Tax</b>	49	47	51	421	48	28	61	107	63	72

## Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
<b>Total Assets</b>	849	946	936	837	805	934	1,152	1,208	1314	1406
<b>Cash &amp; Equivalents</b>	182	166	157	159	175	144	199	189	115	141
<b>Accounts Receivable</b>	69	60	60	90	71	81	101	116	99	101
<b>Total Liabilities</b>	742	829	818	729	665	795	961	912	899	802
<b>Accounts Payable</b>	22	18	16	25	21	54	134	37	54	78
<b>Long-Term Debt</b>	0	199	199	199	199	199	199	199	199	199
<b>Shareholder's Equity</b>	111	130	132	110	135	133	180	296	279	351
<b>LTD/E Ratio</b>	0.00	1.53	1.51	1.81	1.48	1.50	1.10	0.67	0.71	0.57

## Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
<b>Return on Assets</b>	9.7%	9.1%	7.8%	5.6%	19.3%	18.0%	20.4%	28.5%	16.4%	16.8%
<b>Return on Equity</b>	116%	67.9%	55.8%	41.1%	129%	117%	136%	141%	74.4%	72.5%
<b>ROIC</b>	58.1%	38.6%	23.1%	15.9%	48.9%	46.2%	58.4%	76.0%	33.9%	31.4%
<b>Shares Out.</b>	34	39	42	51	54	56	63	67	62	69
<b>Revenue/Share</b>	30.12	22.72	18.90	17.82	16.96	15.63	16.18	18.79	14.59	14.13
<b>FCF/Share</b>	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.

### Disclaimer

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