Artisan Partners Asset Management (APAM)

Updated May 4th, 2024, by Josh Arnold

Key Metrics

Current Price:	$42	**5 Year CAGR Estimate:**	10.1%	**Market Cap:**	$3.4 B
Fair Value Price:	$37	**5 Year Growth Estimate:**	8.0%	**Ex-Dividend Date:**	05/16/24
% Fair Value:	112%	**5 Year Valuation Multiple Estimate:**	-2.3%	**Dividend Payment Date:**	05/31/24
Dividend Yield:	5.8%	**5 Year Price Target**	$55	**Years Of Dividend Growth:**	0
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, $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 first quarter earnings on April 23rd, 2024, and results were weaker than expected on both the top and bottom lines. Adjusted earnings-per-share came to 76 cents, a penny light of estimates. Revenue was up 13% year-over-year to $264 million, but missed estimates by $6.5 million.

Assets under management ended the quarter at $160 billion, which was up 16% year-over-year. The change was primarily due to $26 billion of investment returns, partially offset by $3.4 billion of net client cash outflows and $0.7 billion of distributions not reinvested. The increase in assets under management was primarily responsible for higher revenue during the quarter.

Operating expenses were $187 million, up 12% year-over-year, primarily due to higher incentive compensation, which is linked to assets under management and revenue performance. The company also noted headcount is up 4% year-over-year, driving higher operating expenses.

We now see $3.40 in earnings-per-share for Artisan after Q1 results, noting we continue to see extremely volatile performances.

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
EPS	$3.17	$2.69	$2.13	$2.41	$2.94	$2.67	$3.30	$5.03	$3.11	$2.89	***$3.40***	***$5.00***
DPS	$2.25	$2.40	$2.40	$2.40	$2.40	$2.36	$2.79	$3.92	$3.67	$2.66	***$2.44***	***$2.69***
Shares[1]	34	39	42	51	54	56	63	67	68	69	***70***	***75***

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.

[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.

Artisan Partners Asset Management (APAM)

Updated May 4th, 2024, by Josh Arnold

Valuation Analysis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Now	2029
Avg. P/E	17.7	16.1	13.7	13.0	10.9	10.2	10.6	10.0	9.5	15.3	***12.4***	***11.0***
Avg. Yld.	4.2%	5.4%	8.3%	7.7%	7.5%	8.9%	8.0%	7.8%	12.3%	6.0%	***5.8%***	***4.9%***

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 12.4 today. With the $2.44 annualized dividend, the stock is yielding 5.8%, 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. It works in the other direction, too, and actual dividends could be lower than forecast.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	71%	89%	113%	100%	82%	89%	85%	78%	118%	92%	***72%***	***54%***

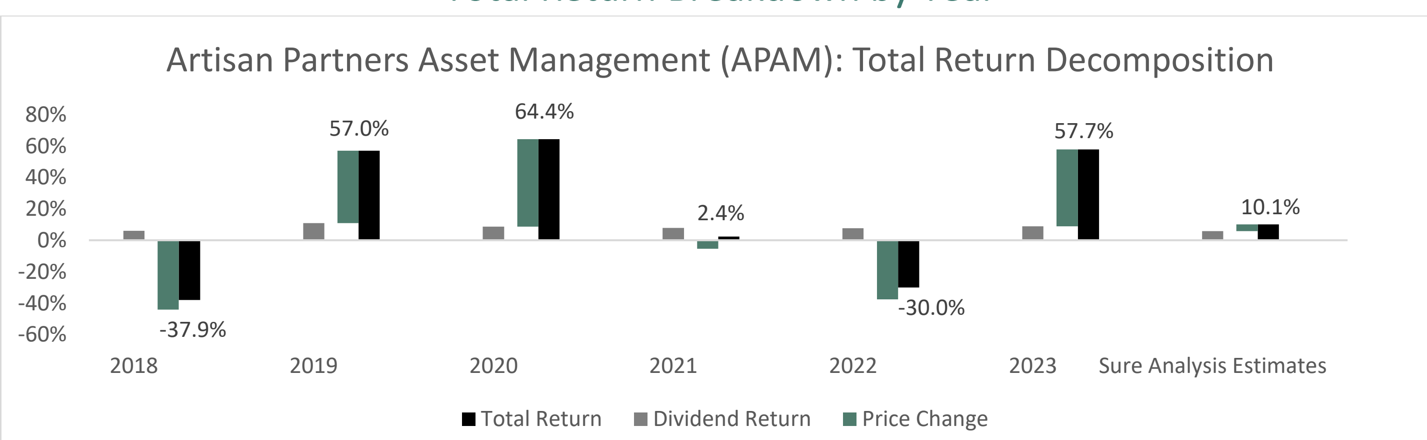
Artisan's payout ratio is 72% of earnings at current projections, but investors should keep in mind that Artisan generally pays special dividends at the end of the year, and that its quarterly dividend policy is variable. Thus, how the payout ratio performs depends significantly upon how much earnings 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 boosting the stock from hold to buy after Q1 results. Returns should accrue from 8% earnings growth, the 5.8% yield, and a 2.3% headwind from the valuation.

Total Return Breakdown by Year



Click here to rate and review this research report. Your feedback is important to us.

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.

Artisan Partners Asset Management (APAM)

Updated May 4th, 2024, by Josh Arnold

Income Statement Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Revenue	829	805	721	796	829	799	900	1,227	993	975
SG&A Exp.	107	109	103	106	111	115	105	124	483	142
D&A Exp.	3	5	5	5	6	6	7	7	8	9
Operating Profit	307	282	234	286	305	283	358	541	344	304
Operating Margin	37.0%	35.1%	32.5%	36.0%	36.8%	35.5%	39.8%	44.0%	34.6%	31.1%
Net Profit	70	82	73	50	158	157	213	337	207	222
Net Margin	8.4%	10.2%	10.1%	6.2%	19.1%	19.6%	23.6%	27.4%	20.8%	22.8%
Free Cash Flow	342	314	263	220	319	275	316	393	293	244
Income Tax	49	47	51	421	48	28	61	107	63	72

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets	849	946	936	837	805	934	1,152	1,208	1314	1406
Cash & Equivalents	182	166	157	159	175	144	199	189	115	141
Accounts Receivable	69	60	60	90	71	81	101	116	99	101
Total Liabilities	742	829	818	729	665	795	961	912	899	802
Accounts Payable	22	18	16	25	21	54	134	37	54	78
Long-Term Debt	0	199	199	199	199	199	199	199	199	199
Shareholder's Equity	111	130	132	110	135	133	180	296	279	351
LTD/E Ratio	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
Return on Assets	9.7%	9.1%	7.8%	5.6%	19.3%	18.0%	20.4%	28.5%	16.4%	16.8%
Return on Equity	116%	67.9%	55.8%	41.1%	129%	117%	136%	141%	74.4%	72.5%
ROIC	58.1%	38.6%	23.1%	15.9%	48.9%	46.2%	58.4%	76.0%	33.9%	31.4%
Shares Out.	34	39	42	51	54	56	63	67	62	69
Revenue/Share	30.12	22.72	18.90	17.82	16.96	15.63	16.18	18.79	14.59	14.13
FCF/Share	12.43	8.86	6.90	4.93	6.54	5.38	5.67	6.56	4.69	3.85

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