Hamilton Lane Inc. (HLNE)

Published October 15th, 2024, by Kody Kester

Key Metrics

Current Price:	$179	**5 Year CAGR Estimate:**	6.4%	**Market Cap:**	$10 B
Fair Value Price:	$125	**5 Year Growth Estimate:**	13.0%	**Ex-Dividend Date[1]:**	12/13/24
% Fair Value:	143%	**5 Year Valuation Multiple Estimate:**	-7.0%	**Dividend Payment Date:**	01/07/25
Dividend Yield:	1.1%	**5 Year Price Target**	$230	**Years Of Dividend Growth:**	7
Dividend Risk Score:	D	**Retirement Suitability Score:**	F	**Rating:**	Hold

Overview & Current Events

Founded in 1991, Hamilton Lane Incorporated is a global private markets investment solutions provider for primarily institutional investors. Secondarily, HLNE also has a private wealth channel for non-institutional investors (e.g., family offices and high-net-worth individuals).

Globally, the company operates across nearly two dozen offices in the United States, Canada, Europe, Asia, the Middle East, Latin America, and Australia. HLNE provides clients with a variety of services, including private equity and private credit, real estate, venture capital, and infrastructure. The company's investment solutions are comprised of funds managed by third-party managers, direct investments alongside funds, and acquisitions of secondary stakes in funds.

As of June 30th, HLNE had $940.1 billion in assets under management. Of that amount, $810.4 billion was in non-discretionary assets, with the remaining $129.7 billion in discretionary assets. In the fiscal year 2024, which ended March 31st, no single client made up more than 3% of the company's management and advisory fee revenue. Furthermore, the top 10 clients only generated roughly 14% of management and advisory fee revenue in FY 2024.

On Aug. 6th, HLNE shared its financial results for the fiscal first quarter ended June 30th. The company's total revenue climbed 57.3% year-over-year to $196.7 million during the quarter. This was driven by a near-tripling in incentive fees to $56.8 million in the quarter. That was due to a higher tax-related portion of carried interest distributions for the quarter and proceeds from the sale of an investment in one of its specialized funds. Management and advisory fees rose by 32.8% over the year-ago period to $140.0 million during the quarter. This was driven by an uptick in fee-earning assets under management and retroactive fees. HLNE's non-GAAP EPS jumped 60.6% year-over-year to $1.51 in the quarter. That topped the analyst consensus by $0.38 for the quarter. This was thanks to the higher revenue base and a 70-basis point expansion in the non-GAAP net profit margin to 41.4% during the quarter.

Growth on a Per-Share Basis

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2030
EPS	-	-	$0.89	$1.64	$1.91	$2.01	$2.73	$4.39	$3.34	$3.92	***$4.98***	***$9.18***
DPS	-	-	-	$0.70	$0.85	$1.10	$1.25	$1.40	$1.60	$1.78	***$1.96***	***$3.45***
Shares[2]	-	-	52.8	53.1	53.3	53.5	53.6	53.7	53.7	53.9	***54.0***	***54.5***

Since its IPO in 2017, HLNE has compounded its non-GAAP EPS by almost 24% annually. Because the company's non-GAAP earnings base has grown substantially in that time, it is working against the law of large numbers. Still, HLNE's growth prospects remain promising with organic growth via new clients and greater existing client account balances. Bolt-on acquisitions also provide another growth avenue for HLNE. This is why we anticipate 13% annual growth in non-GAAP EPS through 2029. In the meantime, we think the share count will be relatively unchanged for the foreseeable future based on its history as a publicly traded company.

[1] Estimate

[2] Share count is in millions.

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Valuation Analysis

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2030
Avg. P/E	-	-	20.5	25.7	22.9	24.4	33.3	17.8	23.1	28.8	***35.9***	***25.0***
Avg. Yld.	-	-	-	1.9%	2.0%	2.2%	1.4%	1.8%	2.2%	1.6%	***1.1%***	***1.5%***

Since 2017, HLNE's P/E ratio has varied from the high teens to the mid-30s. In its time as a publicly traded company, the average valuation multiple has been right around 25. Moving forward, we view this as a reasonable fair value multiple because of HLNE's still healthy growth potential. This implies that the stock's current-year P/E ratio of 35.9 is considerably higher than our fair value multiple. That leaves HLNE with no margin of safety currently.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2030
Payout	-	-	-	43%	45%	55%	46%	32%	48%	45%	***39%***	***38%***

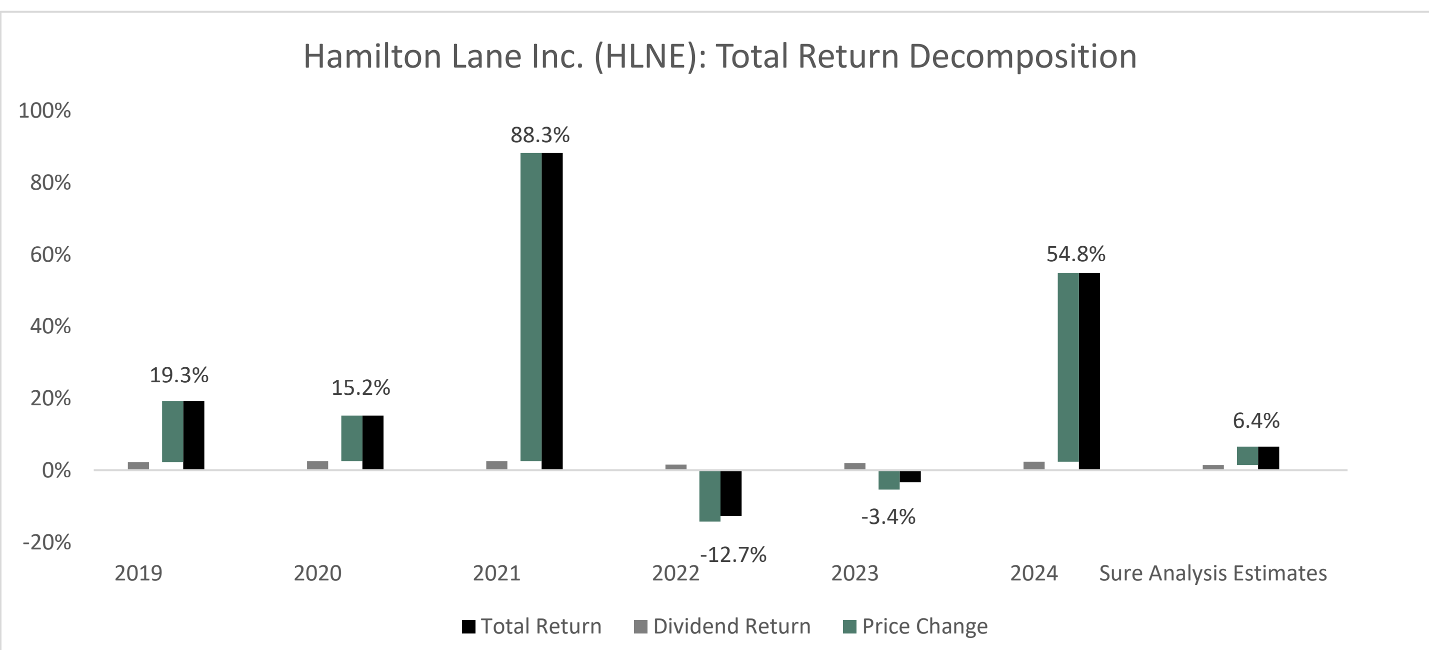
In its corporate history, HLNE has done right by its clients, generating excellent returns. This has earned the company a trusted reputation as a leader within its industry, which helps it to keep existing clients and attract new clients. That also explains how HLNE has consistently grown its non-GAAP EPS over the years.

The company's interest coverage ratio registered at 49.9 in the fiscal first quarter ended June 30th. That's robust and means HLNE is a financially solvent business. This is improved further by the fact that the dividend payout ratio is poised to be in the high 30% to low 40% range for FY 2025. Barring a major catastrophe, that should allow HLNE to keep upping the dividend for at least the next few years.

Final Thoughts & Recommendation

HLNE's 1.1% dividend yield, 13.0% annual non-GAAP EPS growth potential, and 7.0% annual valuation multiple downside could help it to post 6.4% annual total returns in the next five years. Overall, the underlying business of the stock is rather qualitative. Our only reservation is that the 59% rally in calendar year 2024 has pushed the valuation multiple well beyond fair value. That's why we're starting coverage with a hold rating.

Total Return Breakdown by Year



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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Income Statement Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Revenue	155	181	180	244	252	274	342	368	529	554
Gross Profit	95	89	108	161	153	188	225	260	379	387
Gross Margin	61.3%	49.1%	59.9%	66.0%	60.7%	68.7%	65.9%	70.5%	71.8%	70.0%
SG&A Exp.	27	27	32	38	49	72	70	90	139	142
D&A Exp.	2	2	2	2	3	3	4	5	7	8
Operating Profit	68	62	76	123	104	116	156	170	240	246
Operating Margin	44.0%	34.2%	42.3%	50.4%	41.3%	42.5%	45.6%	46.1%	45.4%	44.4%
Net Profit	-	-	1	17	34	61	98	146	109	141
Net Margin	0.0%	0.0%	0.3%	7.1%	13.3%	22.2%	28.7%	39.7%	20.6%	25.4%
Free Cash Flow	73	108	80	94	106	110	169	161	222	110
Income Tax	0	1	0	33	31	14	24	66	55	54

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets	202	197	241	294	361	474	1,137	1,295	1,141	1,271
Cash & Equivalents	67	69	32	48	49	50	87	72	112	115
Accounts Receivable	16	12	12	15	20	30	29	52	47	108
Total Liabilities	128	309	154	158	191	236	546	557	566	595
Accounts Payable	2	1	1	2	3	2	2	3	5	5
Long-Term Debt	108	243	84	84	71	75	163	171	214	196
Shareholder's Equity	56	(123)	60	78	110	155	238	347	415	525
LTD/E Ratio	1.92	(1.97)	1.40	1.07	0.64	0.48	0.69	0.49	0.51	0.37

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets		0.0%	0.3%	6.5%	10.3%	14.6%	12.2%	12.0%	9.0%	11.7%
Return on Equity				15.6%	22.0%	29.9%	23.7%	22.0%	16.6%	22.5%
ROIC		0.0%	0.4%	8.9%	14.6%	22.0%	18.4%	17.6%	12.9%	17.0%
Shares Out.	-	-	52.8	53.1	53.3	53.5	53.6	53.7	53.7	53.9
Revenue/Share	9.10	10.59	9.80	12.85	10.38	9.64	10.24	6.85	9.85	10.27
FCF/Share	4.28	6.34	4.38	4.97	4.37	3.88	5.05	3.00	4.13	2.04

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