Ares Management Corp. (ARES)

Published March 19th, 2025 by Aristofanis Papadatos

Key Metrics

Current Price:	$144	**5 Year CAGR Estimate:**	10.4%	**Market Cap:**	$46 B
Fair Value Price:	$104	**5 Year Growth Estimate:**	15.0%	**Ex-Dividend Date:**	3/17/25
% Fair Value:	138%	**5 Year Valuation Multiple Estimate:**	-6.3%	**Dividend Payment Date:**	3/31/25
Dividend Yield:	3.1%	**5 Year Price Target**	$209	**Years Of Dividend Growth:**	7
Dividend Risk Score:	F	**Retirement Suitability Score:**	F	**Rating:**	Buy

Overview & Current Events

Ares Management Corporation (ARES) is a leading global alternative investment manager that offers its clients investment solutions across the credit, real estate, private equity and infrastructure asset classes. Ares Management was founded in 1997 and is headquartered in Los Angeles, California. It has total assets under management of $484 billion and a market capitalization of $46 billion. Approximately 75% of the assets under management are in the U.S. while the remaining 25% is in Europe and Asia.

The key feature of Ares Management is its high-growth strategy, which has helped expand the investing platform of the company at a breathtaking pace. That's why Ares Management is one of the very few stocks that have outperformed the S&P 500 by an impressive margin over the last decade (+695% vs. +173%) and over the last five years (+435% vs. +134%).

In early February, Ares Management reported (2/5/25) financial results for the fourth quarter of fiscal 2024. Investment activity surged 34% over the prior year's quarter thanks to strong growth in U.S. private credit, real estate debt and equity and secondary solutions. Earnings-per-share grew only 2%, from $1.21 to $1.23, primarily due to the issuance of new shares. The company raised an all-time high of $93 billion of new funds in 2024 and thus grew its assets under management to $484 billion. Management expects increased transaction activity this year and continues to expand the investing platform and the customer base.

Growth on a Per-Share Basis

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2030
EPS	$0.23	$1.20	$0.62	$0.30	$1.06	$0.87	$2.15	$0.87	$3.65	$3.97	***$5.20***	***$10.46***
DPS	$0.84	$0.91	$1.10	$1.08	$1.28	$1.60	$1.88	$2.44	$3.08	$3.72	***$4.48***	***$6.00***
Shares[1]	81	83	82	96	120	150	180	176	201	215	***225***	***350***

Ares Management is a high-growth company. To be sure, it grew its assets under management at a 17% average annual rate from 2014 to 2021 and accelerated to 22% average annual growth of assets under management from 2021 to 2024. As a result, the company has increased the number of $1 billion funds that it operates from 10 in 2014 to 32 now. Ares Management has grown its earnings-per-share by 30% per year on average over the last five years and thus it has vastly outperformed the S&P 500 over this period (+435% vs. +134%). Even better, despite its explosive growth, the company has ample room for future growth. Private debt is undersized (less than 20%) vs. private equity and thus it has ample room to grow in the upcoming years. In addition, funding needs for global infrastructure are expected to grow to $5 trillion per year by 2040. We expect 15% average annual growth of earnings-per-share over the next five years.

Valuation Analysis

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	Now	2030
Avg. P/E	65.2	12.9	30.6	83.3	22.6	44.8	28.8	80.5	24.9	37.5	***27.7***	***20.0***
Avg. Yld.	5.6%	5.9%	5.8%	4.3%	5.3%	4.1%	3.0%	3.5%	3.4%	2.5%	***3.1%***	***2.9%***

[1] 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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Thanks to its extraordinary performance record, Ares Management has traded at an average price-to-earnings ratio of 43.1 over the last decade. This huge valuation premium has been justified by the stellar earnings growth of the company. Nevertheless, we assume a fair price-to-earnings ratio of 20.0 for this stock in order to be on the safe side. The stock is currently trading at a price-to-earnings ratio of 27.7, which is higher than our assumed fair valuation level. If the stock trades at its fair valuation level in five years, it will incur a -6.3% annualized valuation drag.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**	**2024**	**2025**	**2030**
Payout	365%	76%	177%	360%	121%	184%	87%	280%	84%	94%	***86%***	***57%***

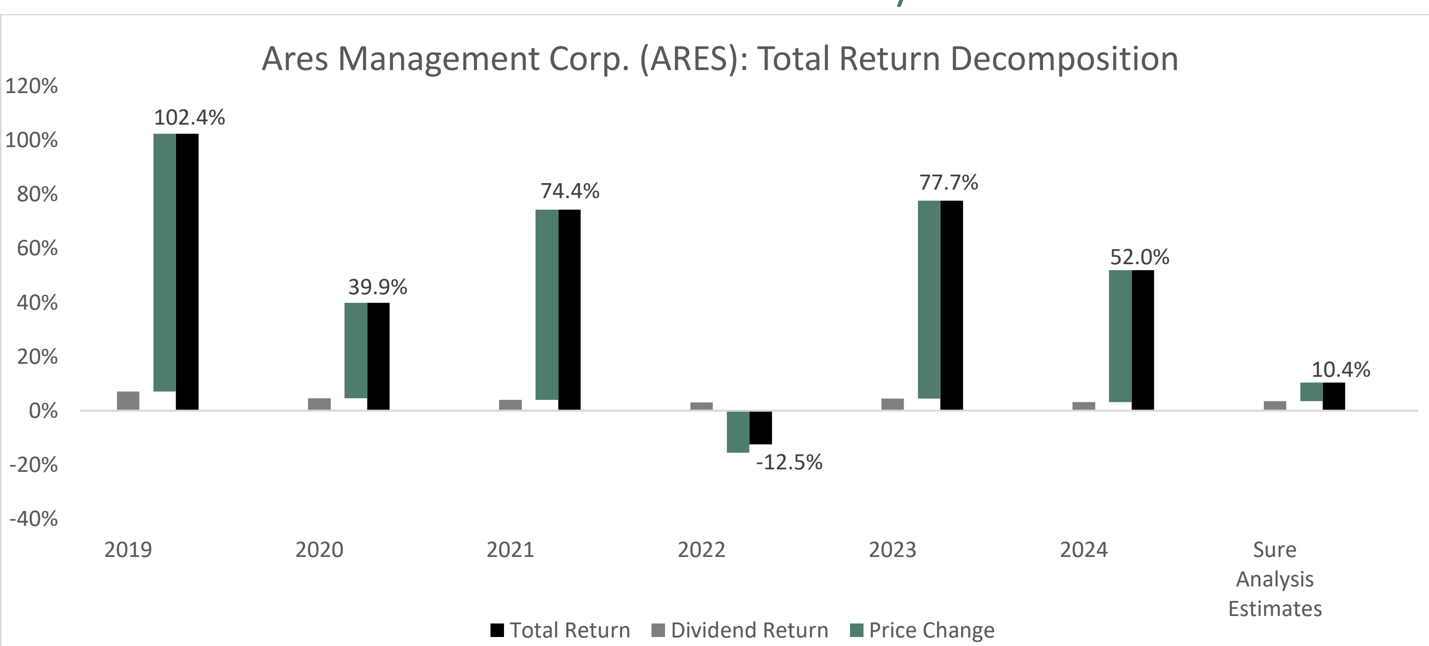
Ares Management faces competition from several well-known global alternative asset managers, such as Blackstone and KKR. Nevertheless, Ares Management has proved capable of growing its business at a fast pace with remarkable consistency thanks to its multi-asset class expertise. The company offers highly attractive investing opportunities to its customers and thus it has been growing its assets and its earnings with hardly any pressure from competitors.

While Ares Management has proved an excellent investment for long-term investors, it is not suitable for all types of investors. Whenever there is a bear market or a sell-off of the broad market, the stock usually declines much faster than the broad market due to its sensitivity to the underlying investment environment and the huge premium in its valuation. This year, while the S&P 500 has shed -10% due to fears over the economic impact of tariffs, the stock of Ares Management has declined -28%. Therefore, the stock is suitable only for patient investors, who can endure adverse periods and remain focused on the long-term growth trajectory of this high-quality investment manager.

Final Thoughts & Recommendation

Ares Management has shed -28% off its peak in January, primarily due to concerns over the impact of tariffs on the economy. If the economy decelerates significantly, it will probably exert a drag on the business performance of Ares Management. However, we view this headwind as temporary. The stock could offer a 10.4% average annual return over the next five years thanks to 15.0% growth of earnings-per-share and its 3.1% dividend, partly offset by a -6.3% valuation headwind. While the short-term outlook for the stock is negative, the stock receives a buy rating for long-term investors.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Revenue	938	1,388	1,675	1,300	2,193	2,130	4,756	3,729	4,987	5,192
Gross Profit	524	940	1,161	730	1,540	1,363	3,594	2,231	3,500	3,460
Gross Margin	55.8%	67.7%	69.3%	56.1%	70.2%	64.0%	75.6%	59.8%	70.2%	66.6%
SG&A Exp.	336	548	676	246	767	663	2,185	1,214	1,268	1,186
D&A Exp.	55	37	33	29	39	41	113	341	232	159
Operating Profit	169	372	445	430	730	679	1,346	980	2,189	2,253
Operating Margin	18.0%	26.8%	26.6%	33.0%	33.3%	31.9%	28.3%	26.3%	43.9%	43.4%
Net Profit	19	112	76	57	149	152	409	168	474	464
Net Margin	2.1%	8.1%	4.5%	4.4%	6.8%	7.1%	8.6%	4.5%	9.5%	8.9%
Free Cash Flow	(539)	(638)	(1,896)	(1,435)	(2,100)	(442)	(2,623)	(770)	(300)	2,700
Income Tax	19	11	(23)	32	52	55	147	72	173	165

Balance Sheet Metrics

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Total Assets	4,321	5,830	8,564	10,155	12,014	15,169	21,605	22,003	24,731	24,884
Cash & Equivalents	281	798	675	495	745	1,062	1,393	1,115	1,498	2,735
Accounts Receivable	537	760	26	61	47	45	160	121	129	169
Goodwill & Int. Ass.	229	202	184	175	152	593	2,211	2,208	2,182	2,138
Total Liabilities	3,353	4,452	7,103	8,760	10,156	12,697	17,791	18,204	20,256	18,060
Accounts Payable	122	104	146	167	150	162	383	400	423	687
Long-Term Debt	2,575	3,392	5,718	7,368	8,398	10,723	12,289	13,144	15,436	12,506
Shareholder's Equity	247	592	275	289	470	895	1,825	1,589	1,893	2,085
LTD/E Ratio			9.97	12.53	10.93	8.98	6.73	8.27	8.15	3.53

Profitability & Per Share Metrics

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Return on Assets	0.1%	2.2%	1.1%	0.6%	1.3%	1.1%	2.2%	0.8%	2.0%	1.9%
Return on Equity	0.6%	9.5%	5.4%	4.0%	9.2%	7.0%	13.0%	4.4%	11.5%	8.2%
ROIC	0.2%	3.0%	1.3%	0.7%	1.6%	1.3%	2.8%	1.0%	2.6%	2.4%
Shares Out.	81	83	82	96	120	150	180	176	201	215
Revenue/Share	11.63	16.74	20.46	13.54	18.30	14.25	26.41	21.25	25.47	26.21
FCF/Share	(6.68)	(7.69)	(23.17)	(14.95)	(17.52)	(2.95)	(14.56)	(4.39)	(1.53)	13.63

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