

Affiliated Managers (AMG)

\$78.36 (As of 03/02/20)

Price Target (6-12 Months): **\$84.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 09/02/19)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

2-Buy

Zacks Style Scores:

VGM:A

Value: A

Growth: C

Momentum: C

Summary

Shares of Affiliated Managers have underperformed the industry over the past year. Its earnings surpassed the Zacks Consensus Estimate in three of the trailing four quarters. In fourth-quarter 2019, the company witnessed a fall in assets under management (AUM) along with a rise in expenses. It remains well-positioned for growth, backed by successful partnerships, diverse product mix and focus on strengthening retail market operations. The BlueMountain stake sale is likely to be accretive to earnings. Also, the company's capital deployment plans are impressive. However, declining AUM balance due to outflows and pressure on revenues are major concerns. These might hurt the company's prospects in the quarters ahead. Moreover, the presence of high levels of debt and substantial intangible assets on its balance sheet might hamper financials.

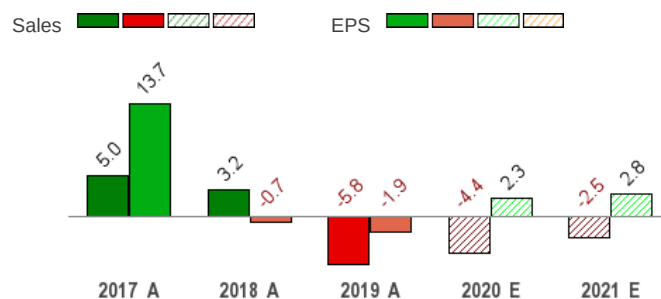
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$115.75 - \$71.08
20 Day Average Volume (sh)	634,469
Market Cap	\$3.8 B
YTD Price Change	-7.5%
Beta	1.57
Dividend / Div Yld	\$1.28 / 1.6%
Industry	Financial - Investment Management
Zacks Industry Rank	Top 10% (25 out of 255)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	12.2%
Last Sales Surprise	3.3%
EPS F1 Est- 4 week change	0.9%
Expected Report Date	05/04/2020
Earnings ESP	0.8%
P/E TTM	5.5
P/E F1	5.4
PEG F1	0.5
P/S TTM	1.7

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021					2,088 E
2020	534 E	534 E	537 E	537 E	2,141 E
2019	543 A	592 A	549 A	556 A	2,240 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021					\$14.96 E
2020	\$3.51 E	\$3.46 E	\$3.45 E	\$4.08 E	\$14.55 E
2019	\$3.26 A	\$3.33 A	\$3.16 A	\$4.52 A	\$14.22 A

*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 03/02/2020. The reports text is as of 03/03/2020.

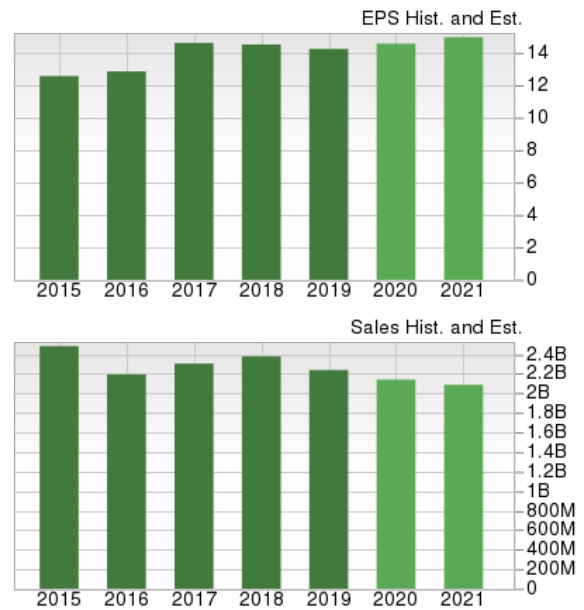
Overview

Headquartered in Massachusetts, Affiliated Managers Group is a global asset manager with equity investments in a large group of investment management firms or affiliates.

On the whole, the affiliates manage more than 500 investment products across each major product category – global, international and emerging markets equities, domestic equities, alternative and fixed income products. As of Dec 31, 2019, Affiliated Managers had total AUM of \$722.5 billion.

The company operates its business through three principal distribution channels:

- Institutional:** Through affiliates, this channel manages assets for large institutional investors worldwide, including sovereign wealth funds, foundations, endowments and retirement plans for corporations and municipalities. Moreover, affiliates manage assets for non-U.S. clients in more than 50 countries. AUM acquired through the channel was \$407.2 billion as of Dec 31, 2019.
- Retail:** Through this channel, the company provides advisory or sub-advisory services to mutual funds and other retail-oriented products, which are distributed to retail and institutional clients directly and through intermediaries. AUM acquired through the channel was \$198.1 billion as of Dec 31, 2019.
- High Net Worth:** Through affiliates, the company offers advisory services to ultra-high net worth individuals, families and charitable foundations. Direct services to these clients include customized investment counseling, investment management and fiduciary services. Further, it provides advisory services to high net worth individuals through managed account relationships with intermediaries and provides enhanced managed account distribution and administration capabilities to individual managed account clients through AMG Funds. AUM acquired through the channel was \$117.2 billion as of Dec 31, 2019.



Reasons To Buy:

- ▲ Affiliated Managers with its strong balance sheet and liquidity position has considerable capability to invest in other companies and is expected to continue generating meaningful growth through new investments. The company is targeting investments in alternatives and global strategies, given the strong preference of investors for the same. In February 2020, it acquired a minority equity interest in Comvest Partners. In July 2019, it acquired an equity interest in Garda Capital Partners, while in October, 2019, given the tough operating backdrop, the company divested its stake in BlueMountain, which will likely be accretive to earnings. Given the rising global demand for equity and alternative strategies among institutional clients, the company's profitability is expected to improve going forward.
- ▲ Affiliated Managers has a steady capital deployment plan. In February 2019, the company announced a 7% hike in its quarterly dividend. Also, the company has a share buyback program in place. As of Dec 31, 2019, it had 6.9 million shares remaining for repurchase. Given the robust capital position and lower dividend payout ratio compared to its peers, the company is expected to sustain its capital deployment activities thereby continuing to enhance shareholder value.
- ▲ Affiliated Managers' trailing 12-month return on equity (ROE) reflects its superiority in terms of utilizing shareholders' funds. The company's ROE of 19.58% compares favorably with 13.96% for the industry.
- ▲ Shares of Affiliated Managers have underperformed the industry over the past year. However, the company's current-year earnings estimates have moved marginally upward over the past 30 days. Further, the stock seems undervalued when compared with the broader industry. Its current price-book (P/B) and price-earnings (P/E) (F1) ratios are lower than the respective industry averages. Also, the stock has a Value Score of A. Given the strong fundamentals and positive estimate revisions, the stock has upside potential.

Affiliated Managers remains well positioned for growth on successful partnerships, global distribution capability and robust balance sheet position. Its capital deployment activities are impressive.

Reasons To Sell:

- ▼ Though Affiliated Managers' revenues improved in 2017 and 2018 on the back of solid performance of affiliates and strong equity markets, the company is facing revenue pressure of late. Its revenues declined 5.8% in 2019 amid a challenging operating backdrop and significant market volatility. A similar trend is likely to continue in the near term despite the company's portfolio of investment products, which provides a competitive edge when it comes to fulfilling diverse needs of clients.
- ▼ Also, Affiliated Managers' affiliates have been witnessing a steady increase in net outflows over the past several months. In 2019, net client cash outflows were \$53.5 billion, which resulted in a decline in AUM balance as well. As of Dec 31, 2019, total AUM declined 1.8% year over year. Though the company's differentiated product categories will support flows across the channels, challenging operating backdrop and several geopolitical concerns are expected to keep investors on the sidelines in the near term.
- ▼ Intangible assets form a substantial portion of Affiliated Managers' balance sheet. These intangible assets are subject to annual impairment reviews. As of Dec 31, 2019, intangible assets (goodwill and acquired client relationships) constituted 50.1% of total assets. Several factors may initiate the impairment of the book value of such assets, due to which the value of these assets may have to be written down. This will adversely affect the company's financials.
- ▼ High debt level could restrict the company from procuring additional finance for working capital, capital expenditures, acquisitions, debt service requirements or other purposes. As of Dec 31, 2019, Affiliated Managers' debt was \$1.8 billion (23.4% of total assets). The company's exposure to high debt obligation might drag it to a relatively disadvantageous position.

Pressure on revenues, substantial outflows, decline in assets balance, and presence of intangible assets and high levels of debt on Affiliated Managers' balance sheet are key near-term concerns.

Last Earnings Report

Affiliated Managers Q4 Earnings Beat Estimates, Revenues Fall

Affiliated Managers' fourth-quarter 2019 economic earnings of \$4.52 per share surpassed the Zacks Consensus Estimate of \$4.03. Also, the bottom line grew 28% year over year.

Results benefited from higher adjusted earnings before interest, taxes, depreciation and amortization (EBITDA), and robust liquidity position. However, lower revenues, fall in AUM balance and rise in expenses were the undermining factors.

Economic net income was \$221.8 million, up 19.4% from the prior-year quarter.

In 2019, economic earnings were \$14.22 per share, down 1.9% year over year. However, the figure beat the consensus estimate of \$13.77. Economic net income declined 7.7% to \$720.2 million.

Revenues & AUM Down, Expenses Rise

Total revenues for the quarter fell 1.6% year over year to \$555.5 million. However, the top line beat the Zacks Consensus Estimate of \$537.6 million.

In 2019, total revenues were \$2.34 billion, down 5.8%. The figure outpaced the consensus estimate of \$2.22 billion.

Adjusted EBITDA was \$200.3 million, up 4.7% from the year-ago quarter.

Total expenses increased 4.1% to \$445 million. Rise in compensation and related expenses, and intangible amortization and impairments primarily led to the increase.

As of Dec 31, 2019, total AUM was \$722.5 billion, down 1.8% year over year. Net outflows of \$11.3 billion hurt AUM.

Capital & Liquidity Position Decent

As of Dec 31, 2019, Affiliated Managers had \$539.6 million in cash and cash equivalents compared with \$565.5 million as of Dec 31, 2018. The company had \$1.79 billion of debt, down 2% from the Dec 31, 2018 level.

Shareholders' equity as of Dec 31, 2019, was \$2.94 billion, down from \$3.46 billion as of Dec 31, 2018.

Share Repurchase Update

During the fourth quarter, the company repurchased shares worth \$110 million.

First-Quarter 2020 Outlook

Management expects adjusted EBITDA of \$215-\$225 million. Performance fee is anticipated to be \$15-\$25 million.

Interest expenses are expected to be \$19 million, suggesting no change from the prior quarter level. The company's share of reported amortization and impairments are expected to be \$50 million.

Adjusted weighted average share count is estimated to be \$47.7 million.

GAAP tax rate is expected to be 25%. Additionally, cash tax rate is expected to be 20%.

Intangible-related deferred taxes are expected to be \$6 million. Other economic items are anticipated to be \$1 million.

The company expects share repurchases of \$150-\$200 million for the first half of 2020.

Quarter Ending 12/2019

Report Date	Feb 03, 2020
Sales Surprise	3.34%
EPS Surprise	12.16%
Quarterly EPS	4.52
Annual EPS (TTM)	14.27

Recent News

Affiliated Managers Acquires Minority Stake in Comvest – Feb 18, 2020

Affiliated Managers acquired a minority equity interest in Comvest Partners. The terms of the transaction have not been disclosed yet.

Comvest is a middle-market private equity and credit investment firm, which provides financial, strategic and operational support as well as business-development assistance to growing companies. It has \$3.7 billion in assets under management.

Affiliated Managers' president and CEO, Jay C. Horgen, stated, "Comvest operates in the highly attractive segments of private credit and private equity. Our partnership with Comvest demonstrates the ongoing appeal of AMG's innovative model, including our ability to provide growth capital and our proven distribution capabilities to both alternative and traditional firms."

Horgen added, "Against the backdrop of strong client demand for private equity and private credit, and increasing client allocations to this segment of the market in particular, Comvest has outstanding forward prospects."

The senior partners of Comvest are expected to continue to own a significant majority of the equity of the business.

Michael Falk, CEO and managing partner of Comvest, said, "Our new partnership with AMG, and its commitment to invest alongside our LPs, brings significant competitive advantages to our business, and amplifies our strong long-term growth potential. AMG's unique partnership approach will enable us to preserve our entrepreneurial culture while continuing to focus on delivering long-term value for our clients."

Affiliated Managers Closes Divestiture of Stake in BlueMountain – October 2019

Affiliated Managers has completed the sale of its equity stake in BlueMountain Capital Management, LLC to Assured Guaranty US Holdings Inc., a subsidiary of Assured Guaranty Ltd. The deal was announced in August. Affiliated Managers had invested in BlueMountain in 2007 and was its majority stakeholder, holding 54% of its stake.

Earlier in May, Affiliated Managers had written down the value of its stake in BlueMountain, an alternative asset management firm, by \$415 million. Since then, the company was working with advisers on a potential sale of its stake.

Per the terms of the deal, Assured Guaranty paid purchase price of nearly \$160 million. Of this, not less than \$114.8 million is expected to be paid in cash. The remaining consideration will be paid either in cash, common shares, one-year promissory note or in a combination of the foregoing at the option of Assured Guaranty. Notably, subject to certain limited adjustments, Affiliated Managers received \$90 million in cash.

Dividend Update

On Feb 3, Affiliated Managers announced a quarterly dividend of 32 cents per share. The dividend was paid out on Feb 27 to shareholders of record as of Feb 13.

Valuation

Affiliated Managers' shares are down 29% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Finance sector are down 10.4% and 4%, over the past year, respectively.

The S&P 500 index is up 4.9% in the past year.

The stock is currently trading at 5.36X forward 12 months earnings, which compares to 10.79X for the Zacks sub-industry, 13.18X for the Zacks sector and 16.87X for the S&P 500 index.

Over the past five years, the stock has traded as high as 16.10X and as low as 5.02X, with a 5-year median of 10.14X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$84 price target reflects 5.75X forward earnings.

The table below shows summary valuation data for AMG

Valuation Multiples - AMG					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	5.36	10.79	13.18	16.87
	5-Year High	16.1	14.39	16.21	19.34
	5-Year Low	5.02	9.85	12.01	15.18
	5-Year Median	10.14	12.38	13.97	17.44
P/B TTM	Current	1.1	1.86	2.51	3.96
	5-Year High	3.53	2.23	2.89	4.54
	5-Year Low	0.97	0.97	1.83	2.85
	5-Year Median	2.03	1.75	2.52	3.62
P/S F12M	Current	1.81	3.57	6.55	3.12
	5-Year High	4.94	3.66	6.65	3.43
	5-Year Low	1.64	2.32	5.39	2.54
	5-Year Median	3.35	3.01	6.04	3.01

As of 03/02/2020

Industry Analysis Zacks Industry Rank: Top 10% (25 out of 255)



Top Peers

AllianceBernstein Holding L.P. (AB)	Outperform
Janus Capital Group, Inc (JHG)	Outperform
KKR & Co. Inc. (KKR)	Outperform
Lazard Ltd (LAZ)	Outperform
Legg Mason, Inc. (LM)	Outperform
Eaton Vance Corporation (EV)	Neutral
SEI Investments Company (SEIC)	Neutral
SCHRODERS PLC (SHNWF)	Neutral

Industry Comparison Industry: Financial - Investment Management				Industry Peers		
	AMG Neutral	X Industry	S&P 500	JHG Outperform	KKR Outperform	LAZ Outperform
VGM Score	A	-	-	B	F	C
Market Cap	3.75 B	869.22 M	22.14 B	4.05 B	16.74 B	3.99 B
# of Analysts	5	3	13	3	5	3
Dividend Yield	1.63%	2.56%	1.98%	6.65%	1.67%	4.95%
Value Score	A	-	-	A	D	A
Cash/Price	0.15	0.20	0.05	0.20	0.20	0.65
EV/EBITDA	3.45	7.63	12.79	5.40	6.60	4.74
PEG Ratio	0.54	1.03	1.92	0.67	2.14	NA
Price/Book (P/B)	1.10	1.44	3.00	0.83	0.55	5.85
Price/Cash Flow (P/CF)	4.36	10.41	11.97	7.53	17.11	4.95
P/E (F1)	5.39	9.53	17.43	8.09	13.91	10.07
Price/Sales (P/S)	1.67	2.44	2.48	1.85	3.96	1.49
Earnings Yield	18.57%	10.27%	5.74%	12.37%	7.20%	9.93%
Debt/Equity	0.00	0.20	0.70	0.06	0.90	3.41
Cash Flow (\$/share)	17.98	1.81	6.94	2.88	1.75	7.67
Growth Score	C	-	-	D	F	D
Hist. EPS Growth (3-5 yrs)	4.21%	6.34%	10.85%	9.21%	10.91%	1.91%
Proj. EPS Growth (F1/F0)	2.32%	12.01%	6.48%	8.37%	29.10%	14.94%
Curr. Cash Flow Growth	-3.43%	-2.38%	6.03%	-11.77%	-40.84%	-13.25%
Hist. Cash Flow Growth (3-5 yrs)	2.29%	2.83%	8.52%	21.01%	-8.13%	1.06%
Current Ratio	0.39	2.18	1.23	3.35	1.17	1.69
Debt/Capital	20.76%	23.24%	42.57%	16.85%	46.97%	77.32%
Net Margin	0.70%	14.60%	11.57%	19.36%	47.50%	10.74%
Return on Equity	19.58%	13.86%	16.66%	9.74%	4.24%	53.88%
Sales/Assets	0.29	0.37	0.54	0.31	0.07	0.48
Proj. Sales Growth (F1/F0)	-4.38%	2.72%	4.07%	2.95%	20.06%	6.65%
Momentum Score	C	-	-	A	D	D
Daily Price Chg	4.17%	2.80%	3.82%	2.17%	4.86%	5.95%
1 Week Price Chg	-15.27%	-11.32%	-12.06%	-18.52%	-13.62%	-13.52%
4 Week Price Chg	-2.36%	-6.72%	-6.43%	-15.09%	-5.51%	-8.13%
12 Week Price Chg	-7.00%	-2.25%	-5.15%	-11.99%	3.45%	-0.26%
52 Week Price Chg	-28.95%	-4.12%	4.77%	-11.34%	29.94%	0.61%
20 Day Average Volume	634,469	92,649	2,363,047	1,647,399	3,041,831	734,679
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	0.90%	0.00%	-0.04%	1.39%	0.75%	0.00%
(F1) EPS Est 12 week change	2.35%	1.91%	-0.33%	7.79%	4.66%	6.05%
(Q1) EPS Est Mthly Chg	2.15%	0.00%	-0.38%	8.62%	-6.84%	0.00%

Zacks Style Scores

The Zacks Style Score is as a complementary indicator to the Zacks rating system, giving investors a way to focus on the highest rated stocks that best fit their own stock picking preferences.

Academic research has proven that stocks with the best Value, Growth and Momentum characteristics outperform the market. The Zacks Style Scores rate stocks on each of these individual styles and assigns a rating of A, B, C, D and F. We also produce the VGM Score (V for Value, G for Growth and M for Momentum), which combines the weighted average of the individual Style Scores into one score. This is perfectly suited for those who want their stocks to have the best scores across the board.

Value Score	A
Growth Score	C
Momentum Score	C
VGM Score	A

As an investor, you want to buy stocks with the highest probability of success. That means buying stocks with a Zacks Recommendation of Outperform, which also has a Style Score of an A or a B.

Disclosures

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