

Affiliated Managers (AMG)

\$71.35 (As of 06/26/20)

Price Target (6-12 Months): **\$75.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 09/02/19)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:C

Value: B

Growth: F

Momentum: C

Summary

Shares of Affiliated Managers have underperformed the industry over the past year. The company's earnings have surpassed the Zacks Consensus Estimate in each of the trailing four quarters. The company remains well positioned for growth, backed by successful partnerships, diverse product mix, strong balance sheet position and focus on strengthening the retail market operations. Additionally, the BlueMountain stake sale is likely to be accretive to earnings. Given a solid capital position, its capital deployment activities look sustainable. Nevertheless, declining assets under management (AUM) balance owing to outflows and pressure on revenues are major concerns. These are expected to hurt the company's profitability in the quarters ahead. Moreover, the presence of substantial intangible assets on its balance sheet might hamper financials.

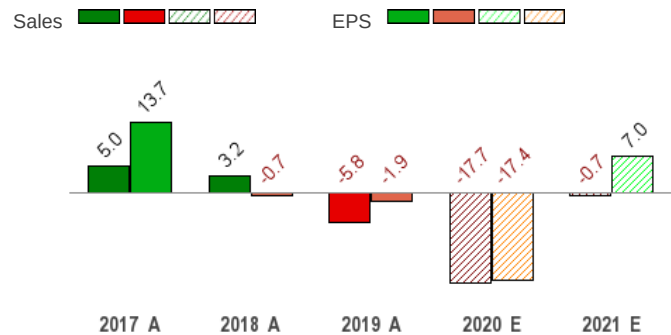
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$94.07 - \$44.37
20 Day Average Volume (sh)	487,211
Market Cap	\$3.4 B
YTD Price Change	-15.8%
Beta	1.54
Dividend / Div Yld	\$0.04 / 0.1%
Industry	Financial - Investment Management
Zacks Industry Rank	Top 13% (32 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	0.6%
Last Sales Surprise	4.9%
EPS F1 Est- 4 week change	0.9%
Expected Report Date	08/03/2020
Earnings ESP	0.2%
P/E TTM	5.0
P/E F1	6.1
PEG F1	0.6
P/S TTM	1.5

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021					1,831 E
2020	507 A	445 E	450 E	453 E	1,844 E
2019	543 A	592 A	549 A	556 A	2,240 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$3.09 E	\$2.87 E	\$2.93 E	\$3.38 E	\$12.57 E
2020	\$3.16 A	\$2.72 E	\$2.76 E	\$3.22 E	\$11.75 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 06/26/2020. The reports text is as of 06/29/2020.

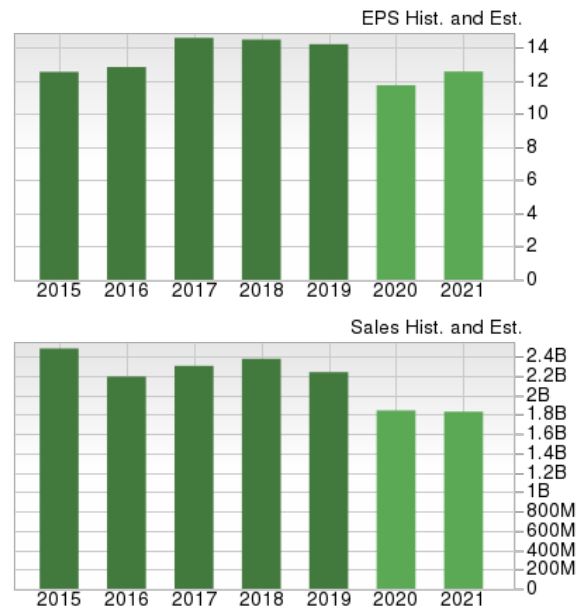
Overview

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 Mar 31, 2020, Affiliated Managers had total AUM of \$599.9 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 \$347.8 billion as of Mar 31, 2020.
- **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 \$149.9 billion as of Mar 31, 2020.
- **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 \$102.2 billion as of Mar 31, 2020.



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. Recently, it announced plans of becoming a minority equity partner to Inclusive Capital Partners. In February 2020, it acquired a minority equity interest in Comvest Partners, while in July 2019, it had acquired an equity interest in Garda Capital Partners. Beside, in October 2019, the company had divested its stake in BlueMountain, which will likely be accretive to earnings. Despite the current crisis owing to the coronavirus pandemic, rising demand for equity and alternative strategies among institutional clients are expected to aid the company's profitability, going forward.
- ▲ Affiliated Managers has a steady capital deployment plan. Though the company lowered quarterly dividends, it intends to reallocate \$50 million capital toward buybacks through 2020. Given a robust capital position and lower dividend payout ratio than peers, the company is expected to sustain capital deployment activities, thereby continuing to enhance shareholder value.
- ▲ As of Mar 31, 2020, Affiliated Managers had total debt worth \$204.5 billion. The company's first-quarter 2020 total debt to total capital of 36.8% — which has remained relatively unchanged over the last few quarters — compares favorably with the industry average of 40.5%. This implies that the company has relatively less credit risk when compared with peers. In fact, its current times-interest-earned ratio of 8.0 improved sequentially at the end of the first quarter. This shows that despite being highly leveraged, the company's earnings position is sufficient to be able to meet debt obligations in the near term even if economic situation worsens.
- ▲ Affiliated Managers' trailing 12-month return on equity (ROE) reflects its superiority in terms of utilizing shareholders' funds. The company's ROE of 19.43% compares favorably with 12.55% for the industry and 16.06% for the S&P 500.
- ▲ Shares of Affiliated Managers have underperformed the industry over the past year. Nevertheless, the company's earnings estimates for the current year have moved marginally upward over the past 30 days. Moreover, the stock seems undervalued than the broader industry. Its current price-book (P/B) and price-earnings (P/E) (F1) ratios are lower than the respective industry averages. Also, it has a Value Score of B. Given the strength in fundamentals and positive estimate revisions, the price performance is expected to improve in the near term.

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

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, with the continuation of same trend in the first quarter. A similar trend is likely to continue in the near term despite the company's portfolio of investment products, which provides Affiliated Managers 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. Likewise, outflows continued in the first three months of 2020. This resulted in a further plunge in the AUM balance. Though the company's differentiated product categories will support cash outflows across the channels, a challenging operating backdrop is 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 Mar 31, 2020, 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.

Pressure on revenues owing to substantial outflows and decline in the assets balance will hurt Affiliated Managers' prospects. Presence of intangible assets on its balance sheet is a key concern.

Last Earnings Report

Affiliated Managers' Q1 Earnings Beat, Revenues Fall

Affiliated Managers' first-quarter 2020 economic earnings of \$3.16 per share surpassed the Zacks Consensus Estimate of \$3.14. However, the bottom line declined 3.1% year over year.

The results reflect lower operating expenses and a robust liquidity position. However, lower revenues, fall in assets under management (AUM) balance and decline in adjusted earnings before interest, taxes, depreciation and amortization (EBITDA) were the undermining factors.

Economic net income was \$151.3 million, down 10.5% from the prior-year quarter.

Revenues & AUM Down, Expenses Fall

Total revenues fell 6.6% year over year to \$507.3 million. However, the top line beat the Zacks Consensus Estimate of \$483.7 million.

Adjusted EBITDA was \$200.4 million, down 7.1% from the year-ago quarter.

Total expenses decreased 8.6% from the prior-year quarter to \$354.3 million. Decline in compensation and related expenses, selling, general and administrative costs, and intangible amortization and impairments primarily led to the fall.

As of Mar 31, 2020, total AUM was \$599.9 billion, down 22.5% year over year. Net client cash outflows of \$13.8 billion hurt AUM.

Capital & Liquidity Position Decent

As of Mar 31, 2020, Affiliated Managers had \$592.2 million in cash and cash equivalents compared with \$539.6 million as of Dec 31, 2019. The company had \$2 billion of debt, up 14% from the Dec 31, 2019 level.

Shareholders' equity as of Dec 31, 2019 was \$3 billion, up from \$2.9 billion on Dec 31, 2019.

Share Repurchase Updates

During the first quarter, the company repurchased shares worth \$70 million. Moreover, through 2020, it intends to reallocate \$50 million capital toward buybacks in place of dividend payments.

Second-Quarter 2020 Outlook

Management expects adjusted EBITDA of \$160 million. Performance fee is anticipated to be \$3 million, lower sequentially owing to seasonality.

Interest expenses are expected to be \$22 million, suggesting 10% increase from the prior quarter level. The company's share of reported amortization and impairments are expected to be \$55 million.

Adjusted weighted average share count is estimated to be \$47 million.

GAAP tax rate is expected to be 25%. Additionally, cash tax rate is expected to be 18%.

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

Quarter Ending 03/2020

Report Date	Apr 27, 2020
Sales Surprise	4.89%
EPS Surprise	0.64%
Quarterly EPS	3.16
Annual EPS (TTM)	14.17

Recent News

Affiliated Managers to Partner With Inclusive Capital - Jun 23, 2020

Affiliated Managers announced that it will be a minority equity partner to the recently founded San Francisco-based independent investment firm, Inclusive Capital Partners. Notably, Inclusive Capital Partners has been launched, following the completion of ValueAct Capital Management's long-term succession plan, initially established in 2007.

ValueAct Capital Management is a longtime affiliate of Affiliated Managers. Its founder, Jeffrey W. Ubben, will retire from ValueAct Capital and continue to manage the ValueAct Spring Fund after he transitions to Inclusive Capital Partners.

Affiliated Managers' president and CEO, Jay C. Horgen, stated, "The success of this generational transition has enabled ValueAct founder Jeff Ubben to retire and launch Inclusive Capital Partners, which will focus on the important mission of allocating capital to corporate leaders who prioritize long-term responsible decision-making. AMG's investment in ValueAct was the first investment I led upon joining AMG, which has now come full-circle."

He added, "Long-term sustainability has been at the very heart of AMG's business strategy since inception, in working closely with Affiliates to design and implement management succession over time and support Affiliate growth initiatives. We are very pleased with the excellent execution of ValueAct's succession plan over the past decade, which has resulted in the successful transition from the founding generation to a truly outstanding next generation of partners, led by CEO Mason Morfit, and we are highly confident in ValueAct's forward prospects."

In fact, Mr. Ubben said, "Inclusive Capital Partners will seek to demonstrate that high returns should accrue to businesses that responsibly and creatively address environmental and societal problems by using sustainable business models, and we have partnered with stakeholders who we believe are world pioneers in wildlife, conservation, governance, and social equality to help encourage companies to embrace these principles. I am thrilled to announce the formation of Inclusive Capital Partners as the next iteration of my investing career."

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."

Dividend Update

On Apr 27, Affiliated Managers announced a quarterly dividend of 1 cent per share. The dividend was paid on May 21 to shareholders of record on May 7.

Valuation

Affiliated Managers' shares are down 15.8% in the year-to-date period and 22.4% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Finance sector are down 8.9% and 23.2% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and the sector are down 6.2% and 18.4%, respectively.

The S&P 500 index is down 6.7% in the year-to-date period but up 2% in the past year.

The stock is currently trading at 5.87X forward 12 months earnings, which compares to 12.94X for the Zacks sub-industry, 15.65X for the Zacks sector and 21.51X for the S&P 500 Index.

Over the past five years, the stock has traded as high as 15.04X and as low as 3.27X, with a 5-year median of 9.81X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$75 price target reflects 6.17X forward earnings.

The table below shows summary valuation data for AMG

Valuation Multiples - AMG				
	Stock	Sub-Industry	Sector	S&P 500
Current	5.87	12.94	15.65	21.51

P/E F12M	5-Year High	15.04	14.35	16.18	22.11
	5-Year Low	3.27	9.75	11.57	15.23
	5-Year Median	9.81	12.35	13.98	17.49
P/B	Current	0.96	1.92	2.24	4.11
	5-Year High	3.31	2.2	2.91	4.56
	5-Year Low	0.64	0.96	1.71	2.83
	5-Year Median	1.97	1.75	2.53	3.69
P/S F12M	Current	1.83	3.65	6	3.37
	5-Year High	4.94	3.65	6.66	3.44
	5-Year Low	1.08	2.3	4.96	2.53
	5-Year Median	3.24	2.98	6.06	3.02

As of 06/26/2020

Industry Analysis Zacks Industry Rank: Top 13% (32 out of 253)



Top Peers

Company (Ticker)	Rec	Rank
Apollo Global Management, LLC (APO)	Neutral	3
Ares Management L.P. (ARES)	Neutral	2
Eaton Vance Corporation (EV)	Neutral	3
Federated Hermes, Inc. (FHI)	Neutral	2
Janus Capital Group, Inc (JHG)	Neutral	2
Lazard Ltd (LAZ)	Neutral	3
Legg Mason, Inc. (LM)	Neutral	2
SEI Investments Company (SEIC)	Neutral	3

Industry Comparison Industry: Financial - Investment Management				Industry Peers		
	AMG	X Industry	S&P 500	ARES	JHG	LAZ
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	3	-	-	2	2	3
VGM Score	C	-	-	F	C	F
Market Cap	3.37 B	702.88 M	21.00 B	9.59 B	3.76 B	2.86 B
# of Analysts	5	3	14	5	3	2
Dividend Yield	0.06%	2.46%	2%	4.13%	7.07%	6.90%
Value Score	B	-	-	D	B	C
Cash/Price	0.17	0.18	0.07	0.17	0.19	0.61
EV/EBITDA	5.05	6.16	12.28	12.42	4.96	3.99
PEG Ratio	0.62	1.53	2.80	4.46	1.55	NA
Price/Book (P/B)	0.96	1.27	2.88	5.72	0.86	5.11
Price/Cash Flow (P/CF)	3.97	8.39	11.08	19.11	7.08	3.55
P/E (F1)	6.17	9.78	20.57	23.39	9.44	16.71
Price/Sales (P/S)	1.53	1.65	2.14	7.37	1.69	1.12
Earnings Yield	16.47%	9.94%	4.62%	4.28%	10.61%	5.99%
Debt/Equity	0.00	0.21	0.77	0.75	0.07	4.12
Cash Flow (\$/share)	17.98	1.75	7.01	2.03	2.88	7.67
Growth Score	F	-	-	F	D	F
Hist. EPS Growth (3-5 yrs)	3.66%	7.43%	10.84%	14.72%	8.85%	0.41%
Proj. EPS Growth (F1/F0)	-17.38%	-9.98%	-10.73%	-0.84%	-12.68%	-50.30%
Curr. Cash Flow Growth	-3.43%	-3.43%	5.46%	-37.87%	-11.77%	-13.25%
Hist. Cash Flow Growth (3-5 yrs)	2.29%	3.83%	8.55%	-3.84%	21.01%	1.06%
Current Ratio	0.42	2.31	1.29	0.23	3.25	1.69
Debt/Capital	14.22%	26.66%	45.14%	38.79%	15.07%	80.46%
Net Margin	9.12%	8.87%	10.53%	5.60%	3.74%	9.89%
Return on Equity	19.43%	12.55%	16.06%	15.52%	9.98%	52.29%
Sales/Assets	0.29	0.37	0.55	0.11	0.32	0.47
Proj. Sales Growth (F1/F0)	-17.66%	0.00%	-2.70%	5.09%	-8.03%	-20.78%
Momentum Score	C	-	-	C	A	D
Daily Price Chg	-4.77%	-2.13%	-1.90%	-0.59%	-5.08%	-3.68%
1 Week Price Chg	3.34%	0.30%	0.92%	1.93%	-0.62%	5.54%
4 Week Price Chg	3.57%	-0.46%	-3.33%	6.57%	-6.99%	-1.45%
12 Week Price Chg	25.79%	25.40%	19.31%	28.53%	35.55%	18.86%
52 Week Price Chg	-21.95%	-21.08%	-9.84%	48.54%	-4.37%	-20.64%
20 Day Average Volume	487,211	162,576	2,782,477	1,559,935	2,071,246	861,639
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	0.93%	0.00%	0.00%	0.00%	4.52%	0.00%
(F1) EPS Est 12 week change	-13.92%	-11.75%	-12.23%	-10.29%	-13.50%	-56.59%
(Q1) EPS Est Mthly Chg	1.12%	0.00%	0.00%	0.00%	4.35%	0.00%

Zacks Stock Rating System

We offer two rating systems that take into account investors' holding horizons: Zacks Rank and Zacks Recommendation. Each provides valuable insights into the future profitability of the stock and can be used separately or in combination with each other depending on your investment style.

Zacks Recommendation

The Zacks Recommendation aims to predict performance over the next 6 to 12 months. The foundation for the quantitatively determined Zacks Recommendation is trends in the company's estimate revisions and earnings outlook. The Zacks Recommendation is broken down into 3 Levels; Outperform, Neutral and Underperform. Unlike many Wall Street firms, we have an excellent balance between the number of Outperform and Neutral recommendations. Our team of 70 analysts are fully versed in the benefits of earnings estimate revisions and how that is harnessed through the Zacks quantitative rating system. But we have given our analysts the ability to override the Zacks Recommendation for the 1200 stocks that they follow. The reason for the analyst over-rides is that there are often factors such as valuation, industry conditions and management effectiveness that a trained investment professional can spot better than a quantitative model.

Zacks Rank

The Zacks Rank is our short-term rating system that is most effective over the one- to three-month holding horizon. The underlying driver for the quantitatively-determined Zacks Rank is the same as the Zacks Recommendation, and reflects trends in earnings estimate revisions.

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	B
Growth Score	F
Momentum Score	C
VGM Score	C

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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