

Affiliated Managers (AMG)

\$80.31 (As of 01/30/20)

Price Target (6-12 Months): **\$91.00**

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:A

Value: A

Growth: C

Momentum: A

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. Estimates have been going up ahead of its fourth-quarter 2019 results. The company remains well positioned for growth, based on successful partnerships, diverse product mix and focus on strengthening retail market operations. Additionally, BlueMountain stake sale is likely to be earnings accretive. The company's capital deployment plans are impressive. However, pressure on revenues and declining assets under management (AUM) balance due to outflows remain major concerns. These are expected to hurt the company's prospects in the quarters ahead. Moreover, presence of high levels of debt and substantial intangible assets on balance sheet might hamper its financials.

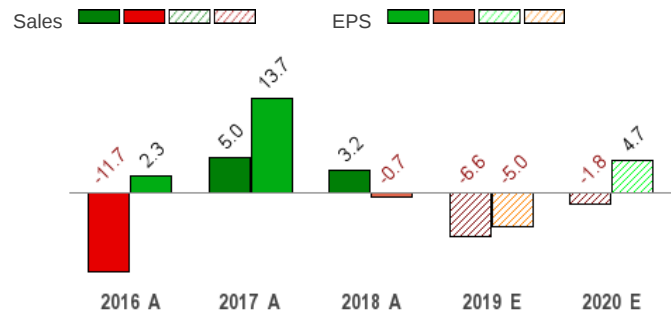
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$115.75 - \$71.09
20 Day Average Volume (sh)	480,857
Market Cap	\$4.0 B
YTD Price Change	-5.2%
Beta	1.66
Dividend / Div Yld	\$1.28 / 1.6%
Industry	Financial - Investment Management
Zacks Industry Rank	Top 5% (12 out of 255)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	0.6%
Last Sales Surprise	1.2%
EPS F1 Est- 4 week change	0.6%
Expected Report Date	02/03/2020
Earnings ESP	3.9%
P/E TTM	6.1
P/E F1	5.6
PEG F1	0.6
P/S TTM	1.8

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2020	538 E	538 E	540 E	542 E	2,182 E
2019	543 A	592 A	549 A	538 E	2,222 E
2018	612 A	600 A	601 A	564 A	2,378 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2020	\$3.44 E	\$3.40 E	\$3.43 E	\$4.08 E	\$14.42 E
2019	\$3.26 A	\$3.33 A	\$3.16 A	\$4.03 E	\$13.77 E
2018	\$3.92 A	\$3.61 A	\$3.45 A	\$3.53 A	\$14.50 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 01/30/2020. The reports text is as of 01/31/2020.

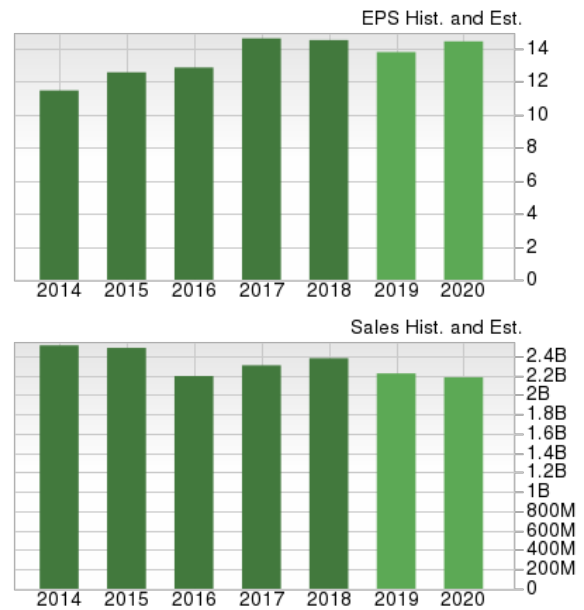
Overview

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 Sep 30, 2019, Affiliated Managers had total AUM of \$750.7 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 this channel was \$435.1 billion as of Sep 30, 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 this channel was \$199.8 billion as of Sep 30, 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 this channel was approximately \$115.8 billion as of Sep 30, 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 July 2019, it acquired an equity interest in Garda Capital Partners. Also, given the tough operating backdrop, the company divested its stake in BlueMountain, which will be accretive to earnings. Given the rising demand for global 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 October 2019, it had 8.2 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' fund. The company's ROE of 17.83% compares favorably with 12.39% for the industry.
- ▲ Shares of Affiliated Managers have underperformed the industry over the past six months. However, the company's current-year earnings estimates have moved marginally upward over the past seven 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 revenues improved in the last two years on the back of solid performance of affiliates and strong equity markets, Affiliated Managers is facing revenue pressure of late. The company's revenues declined 7.2% in the first nine months of 2019 amid 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. During the last four quarters, net client cash outflows were \$58 billion. This has also resulted in decline in AUM balance. As of Sep 30, 2019, AUM balance declined 9.5% 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 Sep 30, 2019, intangible assets constituted almost 50% 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 Sep 30, 2019, Affiliated Managers' debt was nearly \$1.8 billion (23.3% 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 Q3 Earnings Beat, Revenues Down

Affiliated Managers' third-quarter 2019 economic earnings of \$3.16 per share surpassed the Zacks Consensus Estimate of \$3.14. However, the figure declined 8.4% year over year.

Results benefited from decline in operating expenses and robust liquidity position. However, lower revenues and fall in AUM balance were the undermining factors.

Economic net income was \$159.4 million, down 13.4% from the prior-year quarter.

Quarter Ending 09/2019

Report Date	Oct 28, 2019
Sales Surprise	1.20%
EPS Surprise	0.64%
Quarterly EPS	3.16
Annual EPS (TTM)	13.28

Revenues, AUM & Expenses Down

Total revenues fell 8.7% year over year to \$549 million. However, the top line beat the Zacks Consensus Estimate of \$542.5 million.

Adjusted earnings before interest, taxes, depreciation and amortization were \$206.5 million, down 13.2% from the year-ago quarter.

Total expenses decreased 11.4% to \$412.6 million. Lower compensation and related expenses, and selling, general and administrative costs primarily led to the decline.

As of Sep 30, 2019, total AUM was \$750.7 billion, down 9.5% year over year. Net outflows of \$19.7 billion hurt AUM.

Capital & Liquidity Position Decent

As of Sep 30, 2019, Affiliated Managers had \$402.5 million in cash and cash equivalents compared with \$565.5 million as of Dec 31, 2018. Notably, the company had \$1.79 billion of debt, down 2.1% from the Dec 31, 2018 level.

Shareholders' equity as of Sep 30, 2019, was \$3.07 billion, down from \$3.46 billion as of Dec 31, 2018.

Share Repurchase Update

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

Fourth-quarter 2019 Outlook

Management expects adjusted EBITDA to average AUM to be in the range of 10.5-12.5 bps. This is based on the assumptions of divestiture of BlueMountain, net performance fees of 20-60 cents per share and repositioning charges of 15-30 cents per share.

Interest expenses are expected to be \$19 million. The company's share of reported amortization and impairments are expected to be nearly \$68 million.

Adjusted weighted average share count is estimated to be 49 million.

GAAP tax rate is expected to be 25%. Additionally, cash tax rate will be favorably impacted by one-time benefit of roughly \$50 million related to the BlueMountain transaction. Excluding this, cash tax rate is expected to be nearly 20%.

Intangible-related deferred taxes are expected to be approximately \$53 million and includes the above-mentioned one-time charge.

The company is targeting share repurchases of \$100 million or more.

Recent News

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.

Affiliated Managers Closes Garda Capital Partners Deal - Jul 8, 2019

Affiliated Managers has closed the deal to acquire minority equity interest in Minneapolis, MN-based Garda Capital Partners LP. The financial terms of the transaction, announced in May 2019, were not disclosed.

With roughly \$4 billion in assets under management as of Apr 30, 2019, Garda Capital is an alternative investment manager specializing in fixed income relative value strategies. It serves a diversified set of sophisticated institutional clients across the globe. As part of the deal, senior partners of Garda Capital have agreed to long-term commitments with Affiliated Managers. They will hold majority of the equity of the business, and conduct the firm's day-to-day operations.

Additionally, at the time of announcement of agreement, Affiliated Managers had projected that the deal will lead to economic earnings accretion of roughly 20 cents per share on a full year basis. Of this, half will likely be realized in the second half of 2019.

Dividend Update

On Oct 28, 2019, Affiliated Managers announced a quarterly dividend of 32 cents per share. The dividend was paid on Nov 21 to shareholders of record as of Nov 7.

Valuation

Affiliated Managers' shares are down 23.5% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Finance sector are up 7.5% and 8%, over the past year, respectively.

The S&P 500 index is up 20.1% in the past year.

The stock is currently trading at 5.67X forward 12 months earnings, which compares to 12.52X for the Zacks sub-industry, 14.65X for the Zacks sector and 18.80X 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 10.20X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$91 price target reflects 6.43X 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	5.67	12.52	14.65	18.8
	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	10.2	12.47	14.07	17.46
P/B TTM	Current	1.09	2.13	2.79	4.48
	5-Year High	3.53	2.22	2.89	4.55
	5-Year Low	0.97	0.97	1.83	2.85
	5-Year Median	2.05	1.74	2.51	3.62
P/S F12M	Current	1.83	3.57	6.53	3.49
	5-Year High	4.94	3.66	6.61	3.49
	5-Year Low	1.64	2.32	5.39	2.54
	5-Year Median	3.39	3.01	6.04	3

As of 01/30/2020

Industry Analysis Zacks Industry Rank: Top 5% (12 out of 255)



Top Peers

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

Industry Comparison Industry: Financial - Investment Management				Industry Peers		
	AMG Neutral	X Industry	S&P 500	JHG Outperform	KKR Neutral	LAZ Outperform
VGM Score	A	-	-	C	F	C
Market Cap	3.96 B	841.14 M	23.94 B	4.81 B	16.73 B	4.50 B
# of Analysts	5	3	13	3	5	3
Dividend Yield	1.59%	2.23%	1.77%	5.61%	1.65%	4.39%
Value Score	A	-	-	A	F	B
Cash/Price	0.10	0.17	0.04	0.16	0.21	0.64
EV/EBITDA	5.74	9.09	14.14	5.82	12.41	3.74
PEG Ratio	0.55	1.47	2.01	0.81	2.86	NA
Price/Book (P/B)	1.09	1.64	3.25	1.01	0.59	6.60
Price/Cash Flow (P/CF)	4.61	10.34	13.56	8.23	9.92	5.98
P/E (F1)	5.49	10.69	18.90	9.72	14.16	11.36
Price/Sales (P/S)	1.76	2.58	2.64	2.25	NA	1.69
Earnings Yield	17.96%	9.06%	5.28%	10.29%	7.07%	8.81%
Debt/Equity	0.49	0.25	0.72	0.07	0.90	3.40
Cash Flow (\$/share)	17.42	1.94	6.92	3.11	3.06	7.16
Growth Score	C	-	-	D	F	D
Hist. EPS Growth (3-5 yrs)	4.82%	5.83%	10.68%	10.01%	9.02%	3.20%
Proj. EPS Growth (F1/F0)	4.72%	11.98%	7.59%	6.74%	31.82%	14.84%
Curr. Cash Flow Growth	-1.46%	1.94%	10.81%	11.04%	-19.51%	3.10%
Hist. Cash Flow Growth (3-5 yrs)	4.91%	5.16%	8.78%	28.11%	-5.24%	8.30%
Current Ratio	1.42	2.20	1.22	2.64	1.13	1.91
Debt/Capital	42.08%	23.45%	42.99%	10.10%	46.93%	77.26%
Net Margin	-7.03%	11.54%	11.69%	19.63%	NA	10.74%
Return on Equity	17.83%	13.88%	17.33%	9.69%	5.29%	53.07%
Sales/Assets	0.29	0.37	0.55	0.31	NA	0.48
Proj. Sales Growth (F1/F0)	-1.78%	6.49%	4.12%	5.51%	19.17%	4.81%
Momentum Score	A	-	-	B	A	A
Daily Price Chg	1.04%	0.00%	0.36%	-0.58%	-2.03%	0.28%
1 Week Price Chg	-3.19%	-0.27%	-1.09%	0.44%	-1.63%	-5.24%
4 Week Price Chg	-4.38%	0.99%	-0.22%	4.65%	3.47%	5.00%
12 Week Price Chg	-7.74%	3.20%	4.08%	5.34%	4.61%	11.40%
52 Week Price Chg	-23.48%	2.79%	16.06%	17.50%	35.37%	7.56%
20 Day Average Volume	480,857	82,580	1,808,632	839,249	3,027,649	995,241
(F1) EPS Est 1 week change	0.45%	0.00%	0.00%	0.00%	0.00%	0.71%
(F1) EPS Est 4 week change	0.57%	1.25%	0.00%	4.49%	3.05%	5.95%
(F1) EPS Est 12 week change	2.36%	1.98%	-0.09%	7.21%	4.30%	3.20%
(Q1) EPS Est Mthly Chg	1.57%	0.54%	0.00%	1.75%	0.35%	4.64%

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	A
Growth Score	C
Momentum Score	A
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.

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