

Affiliated Managers Group

4Q23E: Continued net outflows vs. EPS accretive capital deployment strategy

Reiterate Rating: NEUTRAL | PO: 188.00 USD | Price: 155.91 USD

Profit and net flows came in better than expected

AMG reported stronger than expected 4Q23 adjusted EPS of \$6.86 (vs. \$6.07 BofA & \$6.03 consensus) which benefited from lower taxes and higher share repurchases. Net flows were -\$6.1B, which beat our estimate and improved q/q (vs. -\$9.4B) despite negative 4Q seasonality. Net outflows were largely driven by continued redemptions in AMG's equities businesses partially offset by inflows into Alts. While we expect AMG's organic growth to remain negative, we look for improvement through 2024/25 driven by its liquid Alts and private markets businesses. AMG also remains committed to its capital return strategy as the company repurchased \$133M in shares in 4Q23 with total share buybacks of \$574M in 2023. AMG guided to at least \$400M of buybacks in 2024.

Increasing EPS & PO; 20% total return potential

We raised our 2024/25/26 estimates to \$21.49/\$24.38/\$27.14 from \$20.98/\$22.95/\$25.15 due to a higher estimate for performance fees combined with lower share count. Our PO increases to \$188 from \$176 and is based on an 8.0x multiple on our 2026 EPS less \$29 due to AMG's elevated financial leverage relative to peers. We use excess capital and leverage adjustments to our PO method across our coverage (including for TROW/BEN). Our PO implies 20% total return potential.

Reiterate Neutral; Good stewards of shareholder capital

AMG's strategic pivot into secular growth segments (private markets, specialty fixed income, wealth management and ESG) will help its organic growth over time. However, we believe outflows from its traditional products will continue to weigh on its near-term organic growth trajectory. On the M&A front, the backdrop is favorable for AMG as the company is facing less competition due to the wave of consolidation in the asset management industry. Nonetheless, we believe AMG's expansion into private markets will encounter competition from general partner staking models including Blue Owl, Blackstone and Goldman Sachs. While AMG recently sold two of its stakes, we estimate the valuations/timing of both exits were very attractive relative to AMG's stock valuation and provide a redeployment opportunity.

Estimates (Dec) (US\$)	2022A	2023A	2024E	2025E	2026E
EPS	20.17	19.58	21.49	24.38	27.14
EPS Change (YoY)	9.4%	-2.9%	9.8%	13.4%	11.3%
Consensus EPS (Bloomberg)			20.96	23.52	23.82
DPS	0.04	0.04	0.04	0.04	0.05
Valuation (Dec)					
P/E	7.7x	8.0x	7.3x	6.4x	5.7x

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Refer to important disclosures on page 6 to 8. Analyst Certification on page 4. Price Objective Basis/Risk on page 4.

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05 February 2024

Equity

Key Changes

(US\$)	Previous	Current
Price Obj.	172.00	188.00
2024E Rev (m)	2,112.8	2,032.9
2025E Rev (m)	2,060.4	1,994.3
2026E Rev (m)	1,996.6	1,935.3
2024E EPS	20.98	21.49
2025E EPS	22.95	24.38
2026E EPS	25.15	27.14

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Stock Data

Price	155.91 USD
Price Objective	188.00 USD
Date Established	5-Feb-2024
Investment Opinion	B-2-8
52-Week Range	120.22 USD -173.14 USD
Mrkt Val / Shares Out (mn)	5,271 USD / 33.8
Free Float	98.2%
Average Daily Value	31.83 USD
BofA Ticker / Exchange	AMG / NYS
Bloomberg / Reuters	AMG US / AMG.N
ROE (2024E)	15.9%
ESGMeter™	Medium

ESGMeter is not indicative of a company's future stock price performance and is not an investment recommendation or rating. ESGMeter is independent of BofA Global Research's equity investment rating, volatility risk rating, income rating, and price objective for that company. For full details, refer to "BofA ESGMeter Methodology".

iQprofileSM Affiliated Managers Group

Income Statement Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Total Revenue	2,330	2,058	2,033	1,994	1,935
% Change	-3.4%	-11.7%	-1.2%	-1.9%	-3.0%
Investment Advisory Fees	NA	NA	NA	NA	NA
Compensation & Benefits	(1,072)	(908)	(905)	(882)	(852)
% Change	2.3%	-15.3%	-0.3%	-2.5%	-3.5%
Non-Compensation Expenses	(488)	(465)	(462)	(456)	(447)
Net Income to Ordinary Shareholders	804	722	716	736	741
Adjusted Net Income (Operating)	804	722	716	736	741
% Change	2.8%	-10.2%	-0.8%	2.8%	0.7%
Adjusted EBITDA (Operating)	1,052	936	974	1,000	1,007
Cash EPS	NA	NA	NA	NA	NA
% Change	NA	NA	NA	NA	NA

Performance Metrics (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Operating Margin	33.1%	33.3%	32.7%	32.9%	32.9%
Pre-Tax Profit Margin	75.0%	46.6%	49.0%	51.0%	52.6%
Net Profit Margin	34.5%	35.1%	35.2%	36.9%	38.3%
Comp Expense/Revenue	46.0%	44.1%	44.5%	44.2%	44.0%
Non-Comp Expense / Revenue	20.9%	22.6%	22.7%	22.9%	23.1%
Net Revenue Growth	-3.4%	-11.7%	-1.2%	-1.9%	-3.0%
Operating Expense Growth	2.6%	-12.0%	-0.4%	-2.1%	-3.0%

Asset Management Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Assets Under Management (\$bn)	650,736.0	672,700.0	675,283.3	681,494.2	688,687.4
% Change	-20.0%	3.4%	0.4%	0.9%	1.1%
% Equity	0.5%	0.5%	0%	0%	0%
% Fixed Income	NA	NA	NA	NA	NA
% Money Mkt / Other	NA	NA	NA	NA	NA
Net New Flows (\$bn)	-32.9	-29.2	-21.0	-16.3	-14.3
Organic Growth	-4.0%	-4.5%	-3.1%	-2.4%	-2.1%
Organic Growth ex-Money Market	-4.0%	-4.5%	-3.1%	-2.4%	-2.1%
Advisory Fees / Avg. AUM	0.335%	0.312%	0.301%	0.294%	0.282%

Balance Sheet Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Total Assets	9,165	9,292	9,415	9,559	9,710
Total Shareholders' Equity	4,334	4,441	4,544	4,667	4,797
Tangible Shareholders' Equity	NA	NA	NA	NA	NA
BVPS (Stated Equity)	NA	NA	NA	NA	NA
ROE (Stated Equity)	20.0%	16.5%	15.9%	16.0%	15.7%
Cash & Investments	1,542	1,668	1,791	1,935	2,086
Net Cash & Investments Per Share	NA	NA	NA	NA	NA

Company Sector

Asset Management

Company Description

Affiliated Managers Group is a multi-affiliate asset manager with over \$650B in AuM. The company has over 35 affiliates, including traditional managers Yacktmann, Tweedy Browne and Artemis, and alternative managers AQR, Pantheon, Comvest and OCP Asia. The affiliates operate independently, but can leverage AMG's services to grow their business, including growth capital, global distribution, succession planning and strategic engagement.

Investment Rationale

AMG's strategic pivot into growth verticals should improve the company's organic growth trajectory. However, we believe outflows from traditional and quantitative products will continue to weigh on its organic growth. Additionally, while not imminent, we believe AMG's expansion into private markets should receive rising competition from general partner staking models.

Quarterly Earnings Estimates

	2023	2024
Q1	4.18A	5.21E
Q2	4.45A	4.77E
Q3	4.08A	4.78E
Q4	6.86A	6.74E

Additional details

Strategic pivot towards Alts supporting LT organic & EBITDA growth

AMG's Alts business contributes 47% of total EBITDA and 35% of AuM. Specifically, its liquid Alts suite constitutes 26% of EBITDA and 18% of AuM while private markets accounts for 21% of EBITDA and 17% of AuM which we expect will continue to expand through both fundraising and acquisitions. As AMG continues to drive its business mix towards Alts and secular growth verticals, we look for its net flow trajectory to improve and EBITDA growth to be positive. While its total Alts flows were positive in 4Q23, liquid Alts flows were -\$3B (primarily seasonality-driven) but we estimate for that to improve supported by very strong long-term performance with 85/95/84% of AuM outperforming benchmark on a 3/5/10Y basis. We expect AMG's equities businesses will continue outflowing, but better Alts flows should support an improvement to its overall organic growth rate through '24/25 (est. -3.1%/-2.4%).

Capital allocation strategy (M&A + buybacks) drives EPS accretion

AMG repurchased \$133M of shares in 4Q23 (after \$172M in 3Q23) bringing total share buybacks to \$574M in 2023 which compares to \$475M in 2022. The elevated buyback level is supported by AMG's enhanced capital position and the company reiterated its guide of at least \$400M in share repurchases for 2024. Given robust buyback activity, we increased our share repurchase assumption for 2024 to \$480M (from \$460M) and considering the company's long history of strong share repurchase activity, we look for increased buyback activity (alongside M&A) to be sustained through at least 2025. Buybacks are also highly accretive to EPS due to the low valuation of the AMG stock. Accordingly, we look for +10/13% EPS growth in 2024/25 (vs. -3% in 2023) to be mostly fueled by capital returns/deployments.



Price objective basis & risk

Affiliated Managers Group (AMG)

Our price objective (PO) for AMG is \$188 and is derived from a price to earnings method. We apply an 8.0x multiple to our 2026 estimate, less \$29 due to AMG's elevated financial leverage relative to peers to obtain our PO. We apply an 8.0x multiple which is a discount to the peer group average of 10x given prospects for lower revenue organic growth which will translate into below average EPS growth.

Risks to our PO are (1) continued elevated net redemptions from AMG's quant businesses which would weigh on the company's organic growth trajectory and (2) inability to find acquisition candidates at attractive valuations especially in private markets.

Analyst Certification

I, Craig Siegenthaler, CFA, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

US - Brokers, Asset Managers, & Exchanges Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
BUY				
	AllianceBernstein	AB	AB US	Craig Siegenthaler, CFA
	Ameriprise Financial	AMP	AMP US	Craig Siegenthaler, CFA
	Ares Management Corp	ARES	ARES US	Craig Siegenthaler, CFA
	BlackRock, Inc.	BLK	BLK US	Craig Siegenthaler, CFA
	Blackstone	BX	BX US	Craig Siegenthaler, CFA
	Blue Owl Capital	OWL	OWL US	Craig Siegenthaler, CFA
	Cboe Global Markets	CBOE	CBOE US	Craig Siegenthaler, CFA
	Interactive Brokers	IBKR	IBKR US	Craig Siegenthaler, CFA
	Intercontinental Exchange	ICE	ICE US	Craig Siegenthaler, CFA
	KKR & Co. Inc.	KKR	KKR US	Craig Siegenthaler, CFA
	Raymond James Financial	RJF	RJF US	Mark McLaughlin, CFA
	TPG Inc	TPG	TPG US	Craig Siegenthaler, CFA
	Tradeweb Markets Inc.	TW	TW US	Craig Siegenthaler, CFA
	Victory Capital Holdings, Inc.	VCTR	VCTR US	Craig Siegenthaler, CFA
	Virtu Financial	VIRT	VIRT US	Craig Siegenthaler, CFA
NEUTRAL				
	Affiliated Managers Group	AMG	AMG US	Craig Siegenthaler, CFA
	Apollo Global Management	APO	APO US	Craig Siegenthaler, CFA
	Brookfield Asset Management	BAM	BAM US	Craig Siegenthaler, CFA
	CME Group Inc	CME	CME US	Craig Siegenthaler, CFA
	Invesco	IVZ	IVZ US	Craig Siegenthaler, CFA
	Janus Henderson Group	JHG	JHG US	Craig Siegenthaler, CFA
	LPL Financial Holdings	LPLA	LPLA US	Craig Siegenthaler, CFA
	Patria	PAX	PAX US	Craig Siegenthaler, CFA
UNDERPERFORM				
	Charles Schwab Corp.	SCHW	SCHW US	Craig Siegenthaler, CFA
	Franklin Resources	BEN	BEN US	Craig Siegenthaler, CFA
	Nasdaq	NDAQ	NDAQ US	Craig Siegenthaler, CFA
	Robinhood Markets	HOOD	HOOD US	Craig Siegenthaler, CFA
	T. Rowe Price	TROW	TROW US	Craig Siegenthaler, CFA
	The Carlyle Group	CG	CG US	Craig Siegenthaler, CFA

iQmethodSM Measures Definitions

Business Performance

Return On Capital Employed

Return On Equity

Operating Margin

Earnings Growth

Free Cash Flow

Numerator

NOPAT = (EBIT + Interest Income) × (1 – Tax Rate) + Goodwill Amortization

Net Income

Operating Profit

Expected 5 Year CAGR From Latest Actual

Cash Flow From Operations – Total Capex

Denominator

Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill Amortization

Shareholders' Equity

Sales

N/A

N/A

Quality of Earnings

Cash Realization Ratio

Asset Replacement Ratio

Tax Rate

Net Debt-To-Equity Ratio

Interest Cover

Numerator

Cash Flow From Operations

Capex

Tax Charge

Net Debt = Total Debt – Cash & Equivalents

EBIT

Denominator

Net Income

Depreciation

Pre-Tax Income

Total Equity

Interest Expense

Valuation Toolkit

Price / Earnings Ratio

Price / Book Value

Dividend Yield

Free Cash Flow Yield

Enterprise Value / Sales

Numerator

Current Share Price

Current Share Price

Annualised Declared Cash Dividend

Cash Flow From Operations – Total Capex

EV = Current Share Price × Current Shares + Minority Equity + Net Debt +

Other LT Liabilities

Enterprise Value

Denominator

Diluted Earnings Per Share (Basis As Specified)

Shareholders' Equity / Current Basic Shares

Current Share Price

Market Cap = Current Share Price × Current Basic Shares

Sales

Basic EBIT + Depreciation + Amortization

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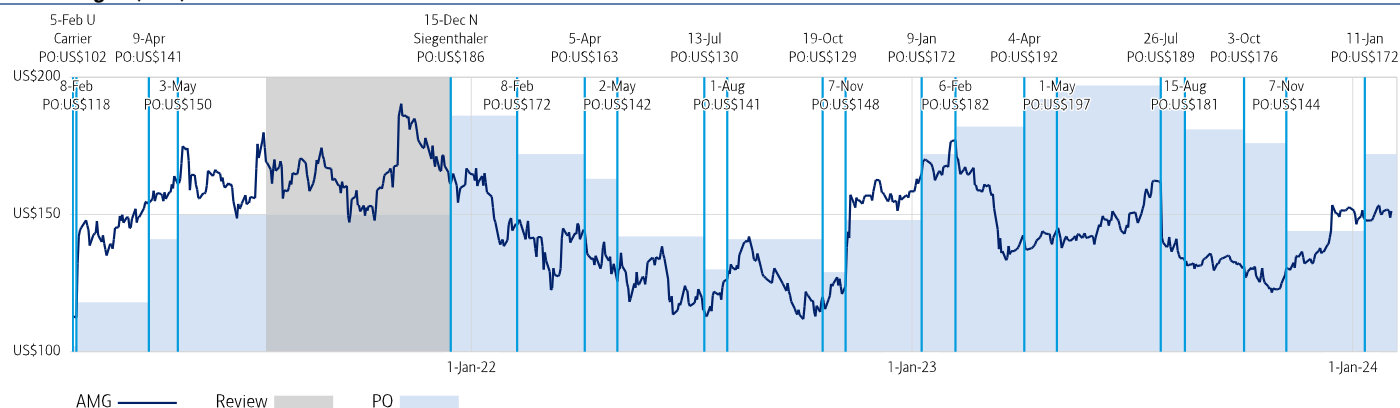
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Disclosures

Important Disclosures

Affiliated Managers (AMG) Price Chart



B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark grey shading indicates the security is restricted with the opinion suspended. Medium grey shading indicates the security is under review with the opinion withdrawn. Light grey shading indicates the security is not covered. Chart is current as of a date no more than one trading day prior to the date of the report.

Equity Investment Rating Distribution: Financial Services Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	156	53.79%	Buy	94	60.26%
Hold	72	24.83%	Hold	48	66.67%
Sell	62	21.38%	Sell	35	56.45%

Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

^{R1} Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster ^{R2}
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

^{R2} Ratings dispersions may vary from time to time where BofA Global Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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