

## AllianceBernstein

## 4Q23E: Net flow acceleration &amp; significant upside to op margin; Reiterate Buy

Reiterate Rating: BUY | PO: 50.00 USD | Price: 33.15 USD

## Expect stronger net flows and higher operating margin

While AB's net flows were modestly negative in 4Q23, driven by equities, fixed income net flows were robust (+\$3.7B) and inflected positively q/q. We look for flows to improve to slightly positive levels in 1Q24 before accelerating further driven by our forecast for sizable fixed income rebalancings (and less equity outflows). Our estimate for +2% organic growth in 2024 (vs. -1% in 2023) is supported by strength in AB's taxable bond, muni and Alts businesses. We are also bullish on AB's expense management efforts given a sizable step-down in costs from its headquarter consolidation (NYC office lease rolls-off in Dec'24) and Bernstein Research divestment in 1H24 and estimate for positive operating leverage through 2024/25.

## Increasing LT EPS and PO; Forecast 55% total return

We slightly lowered our 2024 EPS estimate to \$2.91 from \$2.95 due to a higher tax rate guide while we raised our 2025/26 EPS estimates to \$3.50/\$4.00 from \$3.41/\$3.76 largely due to an increased op margin estimate. Our PO rises to \$50 from \$47 on the higher 2026 EPS estimate and is derived from a 12.5x multiple on our 2026E EPS. Our PO implies 55% total return potential.

## Reiterate Buy; Bond reallocations + sizable cost cuts

AB's prior long-term outperformance has contributed to its +2% organic growth rate over the last five years, which tracks better than most of its peers. AB's fixed income performance is broadly strong with 75/73/77% outperforming over 1/3/5Ys. This supports our more bullish outlook for AB's fixed income flows, which also aligns with our industry thesis for fixed income reallocations. The potential for a net flow reacceleration driven by large fixed income reallocations in 2024-2025 and tangible expense saves through 2025 (Bernstein Research deconsolidation + Nashville HQ move) are the two critical points for our Buy thesis. Additionally, AB's strategic relationship with EQH is an additional long-term profit driver which is underappreciated by investors in our view.

Estimates (Dec) (US\$)	2022A	2023A	2024E	2025E	2026E
EPS	2.95	2.68	2.91	3.50	4.00
GAAP EPS	2.70	2.34	2.69	3.27	3.78
EPS Change (YoY)	-24.2%	-9.2%	8.6%	20.3%	14.3%
Consensus EPS (Bloomberg)			2.94	3.36	2.75
DPS	2.95	2.69	2.91	3.50	4.00
Valuation (Dec)					
P/E	11.2x	12.4x	11.4x	9.5x	8.3x
GAAP P/E	12.3x	14.2x	12.3x	10.1x	8.8x
Dividend Yield	8.9%	8.1%	8.8%	10.6%	12.1%

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07 February 2024

## Equity

## Key Changes

(US\$)	Previous	Current
Price Obj.	47.00	50.00
2024E Rev (m)	6,462.6	6,449.0
2025E Rev (m)	6,833.9	6,813.2
2026E Rev (m)	7,393.3	7,417.7
2024E EPS	2.95	2.91
2025E EPS	3.41	3.50
2026E EPS	3.76	4.00
2024E DPS	2.95	2.91

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## Stock Data

Price	33.15 USD
Price Objective	50.00 USD
Date Established	7-Feb-2024
Investment Opinion	B-1-7
52-Week Range	25.83 USD -42.00 USD
Mkt Val / Shares Out (mn)	3,706 USD / 111.8
Free Float	98.3%
Average Daily Value	11.24 USD
BofA Ticker / Exchange	AB / NYS
Bloomberg / Reuters	AB US / AB.N
ROE (2024E)	6.2%
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".

LT = long-term

AuM = assets under management

SMA = separately managed account

# iQprofile<sup>SM</sup> AllianceBernstein

## Income Statement Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Total Revenue	6,077	6,090	6,449	6,813	7,418
% Change	-5.8%	0.2%	5.9%	5.6%	8.9%
Investment Advisory Fees	2,741	2,717	2,959	3,218	3,495
Compensation & Benefits	(1,649)	(1,689)	(1,699)	(1,720)	(1,853)
% Change	-3.4%	2.4%	0.6%	1.2%	7.7%
Non-Compensation Expenses	(722)	(732)	(740)	(639)	(662)
Net Income to Ordinary Shareholders	275	264	300	365	422
Adjusted Net Income (Operating)	300	303	325	391	446
% Change	-22.5%	0.9%	7.3%	20.3%	14.3%
Adjusted EBITDA (Operating)	965	951	1,051	1,237	1,407
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	61.0%	60.3%	62.2%	65.4%	66.1%
Pre-Tax Profit Margin	15.9%	15.6%	16.3%	18.2%	19.0%
Net Profit Margin	4.9%	5.0%	5.0%	5.7%	6.0%
Comp Expense/Revenue	27.1%	27.7%	26.3%	25.2%	25.0%
Non-Comp Expense / Revenue	11.9%	12.0%	11.5%	9.4%	8.9%
Net Revenue Growth	-5.8%	0.2%	5.9%	5.6%	8.9%
Operating Expense Growth	-0.8%	2.1%	0.7%	-3.3%	6.6%

## Asset Management Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Assets Under Management (\$bn)	634.6	725.2	786.1	859.9	938.0
% Change	-18.5%	14.3%	8.4%	9.4%	9.1%
% Equity	42.8%	42.7%	40.5%	38.8%	38.0%
% Fixed Income	39.7%	38.8%	41.0%	42.5%	43.0%
% Money Mkt / Other	17.4%	18.5%	18.5%	18.7%	18.9%
Net New Flows (\$bn)	-3.7	-6.9	12.9	25.3	25.5
Organic Growth	-0.5%	-1.1%	1.8%	3.2%	3.0%
Organic Growth ex-Money Market	NA	NA	NA	NA	NA
Advisory Fees / Avg. AUM	0.001%	0.001%	0.001%	0%	0%

## Balance Sheet Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Total Assets	11,031	11,590	12,184	12,897	13,714
Total Shareholders' Equity	4,395	4,954	5,548	6,262	7,079
Tangible Shareholders' Equity	343	902	1,496	2,209	3,026
BVPS (Stated Equity)	15.90	17.18	19.36	21.85	24.70
ROE (Stated Equity)	6.7%	6.5%	6.2%	6.6%	6.7%
Cash & Investments	1,322	1,881	2,475	3,188	4,005
Net Cash & Investments Per Share	5.09	6.48	8.64	11.13	0

## Company Sector

Asset Management

## Company Description

AllianceBernstein (AB) is a financial services firm with a large asset management business in addition to a captive private wealth platform and a sellside research business. AB is controlled by Equitable Holdings and is organized as a publicly-traded partnership.

## Investment Rationale

We think AB's improving business mix/organic growth trajectory will support a higher valuation in the future if AB's total net flows rebound in 2024 (our fixed income rebalancing thesis). Additionally, we forecast significant operating leverage through 2025 as AB's expensive NYC lease expires in December 2024 and it deconsolidates its research business.

## Quarterly Earnings Estimates

	2023	2024
Q1	0.66A	0.70E
Q2	0.61A	0.69E
Q3	0.65A	0.71E
Q4	0.77A	0.81E

## Additional detail

### **Inflection in fixed income flows a positive sign for bond reallocation theme**

In 4Q23, AB's fixed income business generated +\$3.7B of net flows (vs. \$0.7B of net outflows in 3Q23) largely driven by tax-exempt fixed income (+\$1.9B) and passive (+\$1.2B) with taxable fixed income flows inflecting positively as well q/q (+\$0.6B vs. -\$2.4B in 3Q23). Notably, AB's retail fixed income growth in 2023 was strong with retail ann. organic growth rates of +9.4% and +18.6% for retail taxable fixed income and retail munis. Despite the significantly improved bond flows q/q, AB's 4Q23 total net flows were negative and roughly in-line q/q (\$1.8B vs. \$1.9B in 3Q23) due mostly to deteriorated active equity outflows (\$5.0B) and also passive equity outflows (\$0.5B).

### **Expect stronger flows in 2024 led by fixed income (and less equity outflows)**

Although net flows were negative last quarter, we remain bullish on AB's organic growth trajectory in 2024 given our forecast for sizable fixed income rebalancings starting this year. Accordingly, we estimate AB's net flows could inflect positively in 1Q24 led by continued inflows into fixed income (active + passive) and as outflows in its active equity business moderate (industry re-risking dynamic). This drives our estimate for AB's overall organic growth to be positive in 2024/25 (est. +1.8%/+3.2%). AB's fixed income performance also remains strong with 75/73/77% of fixed income AuM outperforming over 1/3/5Ys which should support AB's ability to capture the expected money-in-motion.

### **AB is disrupting the municipal bond market; #1 inflower in industry**

AB's US retail muni SMA platform is now \$23B in AuM and generated +\$5B of net flows in 2023 (+18.6% annualized organic growth) which marks its 11<sup>th</sup> consecutive year of organic growth. Retail muni sales were driven by SMAs and AB's Muni Income fund ranked first amongst its peer group on a net inflow basis in 4Q23. As the SMA product becomes more attractive given yield increases (+ tax benefits), we look for the tailwind from SMA growth to continue to drive accelerating organic growth in AB's muni business and support its overall fixed income net flow trajectory.

### **Tangible expense saves over next 12 months will drive op margin higher**

AB expects to deconsolidate its Equity Research business in 1H24 from its financials after the JV with SocGen closes and guides to a run rate (on a going forward annual basis) of 200-250bps of adj. op margin improvement. Additionally, with its headquarter move to Nashville already completed, AB has realized \$42M of savings (\$23M in 2023, \$19M in 2022) and following the expiration in December 2024 of its expensive NYC office lease (1345 Avenue of the Americas), the company expects to reach \$75M of realized savings in 2025 which adds add an additional 100-150bps to its operating margin. In total, AB targets a 350-500bps lift by 2027 (from 2023) which we note is conservative as it assumes flat markets (we assume equity markets rise by 2% per quarter). On the call today, the company guided to core expense growth in 2024 (promotion and servicing + G&A up low single digits) and an adj. comp ratio of 49% in 1Q24.

## Price objective basis & risk

### AllianceBernstein (AB)

Our price objective (PO) is derived from a price to earnings method. We apply a 12.5x multiple on our 2026E EPS to obtain our \$50 PO. 12.5x is in line with the company's five-year average but represents a premium to its traditional/active peer group excluding BlackRock. We think that AB's improving business mix/organic growth trajectory could support a higher valuation in the future if AB's total net flows rebound in 2024.

Downside risks to AB: (1) active to passive rotation + industry fee pressure, (2) AB's business model is procyclical and is impacted from market prices, (3) Bernstein's research business faces secular pressures relating to industry consolidation, (4) AB has soft investment performance in its active equity business, (5) its large APAC franchise faces risks related to a potential US-China decoupling and a China-Taiwan conflict.

Upside risks: (1) improving net flows, (2) investment performance (improving since June 16), and (3) favorable 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
<b>BUY</b>				
	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
<b>NEUTRAL</b>				
	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
<b>UNDERPERFORM</b>				
	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

## US - Brokers, Asset Managers, &amp; Exchanges Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
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**iQmethod<sup>SM</sup> 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 &amp; 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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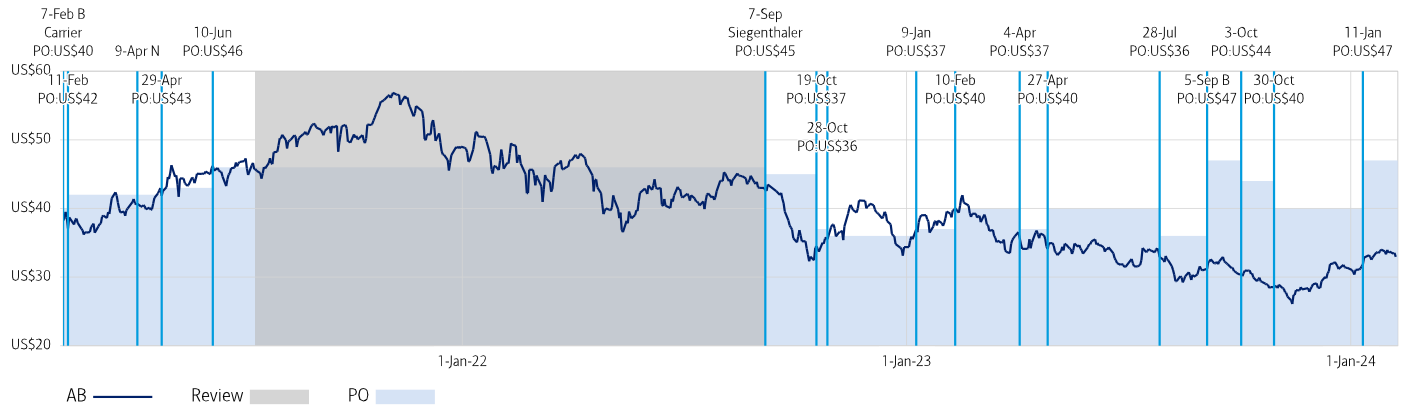
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# Disclosures

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### AllianceBernstein (AB) 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 <sup>R1</sup>	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 <sup>R1</sup>	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%

<sup>R1</sup> 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 <sup>R2</sup>
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

<sup>R2</sup> 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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