

Artisan Partners Asset Management Inc.  
Form 10-Q  
May 02, 2018  
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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

Form 10-Q

(Mark  
One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE  
ACT OF 1934  
FOR THE QUARTERLY PERIOD ENDED MARCH 31, 2018

OR  
 TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE  
ACT OF 1934  
FOR THE TRANSITION PERIOD FROM TO

Commission file number: 001-35826

Artisan Partners Asset Management Inc.  
(Exact name of registrant as specified in its charter)

|   |   |
|---|---|
| Delaware  | 45-0969585                              |
| (State or other jurisdiction of<br>incorporation or organization) | (I.R.S. Employer<br>Identification No.) |

|  |            |
|--|------------|
| 875 E. Wisconsin Avenue, Suite 800       | 53202      |
| Milwaukee, WI                            |            |
| (Address of principal executive offices) | (Zip Code) |

(414) 390-6100  
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

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Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of “large accelerated filer,” “accelerated filer,” “smaller reporting company,” and “emerging growth company” in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer  Accelerated filer   
(Do not  
check if a  
Non-accelerated filer  smaller reporting company   
Smaller reporting  
company)  
Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

The number of outstanding shares of the registrant’s Class A common stock, par value \$0.01 per share, Class B common stock, par value \$0.01 per share, and Class C common stock, par value \$0.01 per share, as of April 27, 2018 were 53,936,262, 8,802,249 and 14,249,130, respectively.

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Except where the context requires otherwise, in this report, references to the "Company", "Artisan", "we", "us" or "our" refer to Artisan Partners Asset Management Inc. ("APAM") and its direct and indirect subsidiaries, including Artisan Partners Holdings LP ("Artisan Partners Holdings" or "Holdings"). On March 12, 2013, APAM closed its initial public offering and related corporate reorganization. Prior to that date, APAM was a subsidiary of Artisan Partners Holdings.

## Forward-Looking Statements

This report contains, and from time to time our management may make, forward-looking statements within the meaning of the safe harbor provisions of the U.S. Private Securities Litigation Reform Act of 1995. Statements regarding future events and our future performance, as well as management's current expectations, beliefs, plans, estimates, or projections relating to the future, are forward-looking statements within the meaning of these laws. In some cases, you can identify these statements by forward-looking words such as "may", "might", "will", "should", "expects", "intends", "plans", "anticipates", "believes", "estimates", "predicts", "potential" or "continue", the negative of these terms and comparable terminology. These forward-looking statements are only predictions based on current expectations and projections about future events. Forward-looking statements are subject to a number of risks and uncertainties, and there are important factors that could cause actual results, level of activity, performance, actions or achievements to differ materially from the results, level of activity, performance, actions or achievements expressed or implied by the forward-looking statements. These factors include: the loss of key investment professionals or senior management, adverse market or economic conditions, poor performance of our investment strategies, change in the legislative and regulatory environment in which we operate, operational or technical errors or other damage to our reputation and other factors disclosed in the Company's filings with the Securities and Exchange Commission, including those factors listed under the caption entitled "Risk Factors" in Item 1A of the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2017, filed with the SEC on February 21, 2018, which is accessible on the SEC's website at [www.sec.gov](http://www.sec.gov). We undertake no obligation to publicly update any forward-looking statements in order to reflect events or circumstances that may arise after the date of this report, except as required by law.



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Forward-looking statements include, but are not limited to, statements about:

- our anticipated future results of operations;
  - our potential operating performance and efficiency;
  - our expectations with respect to future levels of assets under management, including the capacity of our strategies and client cash inflows and outflows;
  - our expectations with respect to industry trends and how those trends may impact our business;
  - our financing plans, cash needs and liquidity position;
  - our intention to pay dividends and our expectations about the amount of those dividends;
  - our expected levels of compensation of our employees, including equity compensation;
  - our expectations with respect to future expenses and the level of future expenses;
  - our expected tax rate, and our expectations with respect to deferred tax assets; and
  - our estimates of future amounts payable pursuant to our tax receivable agreements.
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## Part I — Financial Information

## Item 1. Unaudited Consolidated Financial Statements

## ARTISAN PARTNERS ASSET MANAGEMENT INC.

## Unaudited Condensed Consolidated Statements of Financial Condition

(U.S. dollars in thousands, except per share amount)

|  | March 31,<br>2018 | December 31,<br>2017 |
|--|-------------------|----------------------|
| <b>ASSETS</b>  |                   |                      |
| Cash and cash equivalents  | \$ 200,831        | \$ 137,286           |
| Accounts receivable  | 74,758            | 76,693               |
| Investment securities  | 5,298             | 4,978                |
| Property and equipment, net  | 20,262            | 21,025               |
| Deferred tax assets  | 440,383           | 429,212              |
| Restricted cash  | 629               | 629                  |
| Prepaid expenses and other assets  | 12,295            | 13,364               |
| Assets of consolidated investment products   |                   |                      |
| Cash and cash equivalents  | 44,783            | 21,881               |
| Accounts receivable and other  | 35,367            | 16,768               |
| Investment assets, at fair value   | 119,577           | 115,319              |
| <b>Total assets</b>  | <b>\$ 954,183</b> | <b>\$ 837,155</b>    |
| <b>LIABILITIES, REDEEMABLE NONCONTROLLING INTERESTS, AND STOCKHOLDERS' EQUITY</b>  |                   |                      |
| Accounts payable, accrued expenses, and other  | \$ 24,515         | \$ 23,019            |
| Accrued incentive compensation   | 68,490            | 2,911                |
| Borrowings   | 199,171           | 199,129              |
| Amounts payable under tax receivable agreements  | 400,467           | 385,413              |
| Liabilities of consolidated investment products  |                   |                      |
| Accounts payable, accrued expenses, and other  | 27,213            | 8,180                |
| Investment liabilities, at fair value  | 53,755            | 47,857               |
| <b>Total liabilities</b>   | <b>773,611</b>    | <b>666,509</b>       |
| Commitments and contingencies  |                   |                      |
| Redeemable noncontrolling interests  | 81,652            | 62,581               |
| Common stock   |                   |                      |
| Class A common stock (\$0.01 par value per share, 500,000,000 shares authorized, 53,483,634 and 50,463,126 shares outstanding at March 31, 2018 and December 31, 2017, respectively) | 535               | 505                  |
| Class B common stock (\$0.01 par value per share, 200,000,000 shares authorized, 9,707,506 and 11,922,192 shares outstanding at March 31, 2018 and December 31, 2017, respectively)  | 97                | 119                  |
| Class C common stock (\$0.01 par value per share, 400,000,000 shares authorized, 13,796,501 and 13,184,527 shares outstanding at March 31, 2018 and December 31, 2017, respectively) | 138               | 132                  |
| Additional paid-in capital   | 89,001            | 147,910              |
| Retained earnings (deficit)  | 4,040             | (37,870)             |
| Accumulated other comprehensive income (loss)  | (739)             | (873)                |
| <b>Total Artisan Partners Asset Management Inc. stockholders' equity</b>   | <b>93,072</b>     | <b>109,923</b>       |
| Noncontrolling interest - Artisan Partners Holdings  | 5,848             | (1,858)              |
| <b>Total stockholders' equity</b>  | <b>98,920</b>     | <b>108,065</b>       |
| <b>Total liabilities, redeemable noncontrolling interests, and stockholders' equity</b>  | <b>\$ 954,183</b> | <b>\$ 837,155</b>    |
| The accompanying notes are an integral part of the consolidated financial statements.  |                   |                      |



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## ARTISAN PARTNERS ASSET MANAGEMENT INC.

## Unaudited Consolidated Statements of Operations

(U.S. dollars in thousands, except per share amounts)

|  | For the Three Months<br>Ended March 31, |            |
|--|---|------------|
|  | 2018                                    | 2017       |
| Revenues   |   |            |
| Management fees  | \$211,966                               | \$184,074  |
| Performance fees   | 42                                      | —          |
| Total revenues   | \$212,008                               | \$184,074  |
| Operating Expenses   |   |            |
| Compensation and benefits  |   |            |
| Salaries, incentive compensation and benefits  | 105,224                                 | 93,249     |
| Pre-offering related compensation - share-based awards                                       | —                                       | 6,339      |
| Total compensation and benefits  | 105,224                                 | 99,588     |
| Distribution, servicing and marketing  | 7,009                                   | 7,374      |
| Occupancy  | 3,925                                   | 3,506      |
| Communication and technology   | 8,660                                   | 8,423      |
| General and administrative   | 7,204                                   | 7,151      |
| Total operating expenses   | 132,022                                 | 126,042    |
| Total operating income   | 79,986                                  | 58,032     |
| Non-operating income (loss)  |   |            |
| Interest expense   | (2,776 )                                | (2,881 )   |
| Net investment gain (loss) of consolidated investment products                               | 6,285                                   | —          |
| Net investment income  | 321                                     | 93         |
| Other non-operating income (expense)   | 133                                     | 60         |
| Total non-operating income (loss)  | 3,963                                   | (2,728 )   |
| Income before income taxes   | 83,949                                  | 55,304     |
| Provision for income taxes   | 12,285                                  | 12,749     |
| Net income before noncontrolling interests   | 71,664                                  | 42,555     |
| Less: Net income attributable to noncontrolling interests - Artisan Partners Holdings        | 26,052                                  | 22,760     |
| Less: Net income attributable to noncontrolling interests - consolidated investment products | 4,338                                   | —          |
| Net income attributable to Artisan Partners Asset Management Inc.                            | \$41,274                                | \$19,795   |
| Basic and diluted earnings per share   | \$0.75                                  | \$0.37     |
| Basic and diluted weighted average number of common shares outstanding                       | 47,360,438                              | 41,019,598 |
| Dividends declared per Class A common share  | \$1.39                                  | \$0.96     |

The accompanying notes are an integral part of the consolidated financial statements.



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## ARTISAN PARTNERS ASSET MANAGEMENT INC.

## Unaudited Consolidated Statements of Comprehensive Income

(U.S. dollars in thousands)

|  | For the Three<br>Months Ended<br>March 31, |          |
|--|--|----------|
|  | 2018                                       | 2017     |
| Net income before noncontrolling interests   | \$71,664                                   | \$42,555 |
| Other comprehensive income (loss), net of tax  |  |          |
| Unrealized gain (loss) on investment securities:   |  |          |
| Unrealized gain (loss) on investment securities, net of tax of \$0 and (\$8), respectively       | —  | 56       |
| Less: reclassification adjustment for gain (loss) included in net income                         | —  | 93       |
| Net unrealized gain (loss) on investment securities  | —  | (37 )    |
| Foreign currency translation gain (loss)   | 632  | 206      |
| Total other comprehensive income (loss)  | 632  | 169      |
| Comprehensive income   | 72,296                                     | 42,724   |
| Comprehensive income attributable to noncontrolling interests - Artisan Partners Holdings        | 26,291                                     | 23,058   |
| Comprehensive income attributable to noncontrolling interests - consolidated investment products | 4,338                                      | —        |
| Comprehensive income attributable to Artisan Partners Asset Management Inc.                      | \$41,667                                   | \$19,666 |

The accompanying notes are an integral part of the consolidated financial statements.

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## ARTISAN PARTNERS ASSET MANAGEMENT INC.

## Unaudited Consolidated Statements of Changes in Stockholders' Equity

(U.S. dollars in thousands)

|  | Class<br>A<br>Common<br>stock | Class B<br>Common<br>stock | Class C<br>Common<br>stock | Additional<br>paid-in<br>capital | Retained<br>earnings | Accumulated<br>other<br>comprehensive<br>income<br>(loss) | Non-controlling<br>interest -<br>Artisan<br>Partners<br>Holdings | Total<br>stockholders'<br>equity | Redeemable<br>non-controlling<br>interest |
|--|-------------------------------|----------------------------|----------------------------|----------------------------------|----------------------|---|--|----------------------------------|---|
| Balance at January 1, 2018   | \$505                         | \$ 119                     | \$ 132                     | \$ 147,910                       | \$(37,870)           | \$ (873 )   | \$ (1,858 )  | \$ 108,065                       | \$ 62,581                                 |
| Net income   | —                             | —                          | —                          | —                                | 41,274               | —   | 26,052   | 67,326                           | 4,338                                     |
| Other comprehensive<br>income - foreign currency<br>translation                                | —                             | —                          | —                          | —                                | —                    | 429   | 203  | 632                              | —   |
| Other comprehensive<br>income - available for sale<br>investments, net of tax                  | —                             | —                          | —                          | —                                | 358                  | (260 )  | —  | 98                               | —   |
| Cumulative impact of<br>changes in ownership of<br>Artisan Partners Holdings<br>LP, net of tax | —                             | —                          | —                          | (383 )                           | —                    | (35 )   | 418  | —                                | —   |
| Amortization of<br>equity-based compensation   | —                             | —                          | —                          | 10,043                           | —                    | —   | 4,357  | 14,400                           | —   |
| Deferred tax assets, net of<br>amounts payable under tax<br>receivable agreements              | —                             | —                          | —                          | 3,271                            | —                    | —   | —  | 3,271                            | —   |
| Issuance of Class A<br>common stock, net of<br>issuance costs                                  | 6                             | —                          | —                          | 21,293                           | —                    | —   | —  | 21,299                           | —   |
| Forfeitures and<br>employee/partner<br>terminations  | —                             | (11 )                      | 11                         | —                                | —                    | —   | —  | —                                | —   |
| Issuance of restricted stock<br>awards   | 15                            | —                          | —                          | (15 )                            | —                    | —   | —  | —                                | —   |
| Employee net share<br>settlement   | (1 )                          | —                          | —                          | (1,210 )                         | —                    | —   | (594 )   | (1,805 )                         | —   |
| Exchange of subsidiary<br>equity   | 10                            | (5 )                       | (5 )                       | —                                | —                    | —   | —  | —                                | —   |
| Purchase of equity and<br>subsidiary equity  | —                             | (6 )                       | —                          | (21,472 )                        | —                    | —   | —  | (21,478 )                        | —   |
| Capital contributions  | —                             | —                          | —                          | —                                | —                    | —   | —  | —                                | 14,733                                    |
| Distributions  | —                             | —                          | —                          | —                                | —                    | —   | (22,683 )  | (22,683 )                        | —   |
| Dividends  | —                             | —                          | —                          | (70,436 )                        | 278                  | —   | (47 )  | (70,205 )                        | —   |
| Balance at March 31, 2018  | \$535                         | \$ 97                      | \$ 138                     | \$ 89,001                        | \$ 4,040             | \$ (739 )   | \$ 5,848   | \$ 98,920                        | \$ 81,652                                 |

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|  |        |        |        |            |           |           |              |              |
|--|--------|--------|--------|------------|-----------|-----------|--------------|--------------|
| Balance at January 1, 2017   | \$ 421 | \$ 151 | \$ 171 | \$ 119,221 | \$ 13,395 | \$ (1,648 | ) \$ (13,997 | ) \$ 117,714 |
| Net income   | —      | —      | —      | —          | 19,795    | —         | 22,760       | 42,555       |
| Other comprehensive income -<br>foreign currency translation                   | —      | —      | —      | —          | —         | 126       | 80           | 206          |
| Other comprehensive income -<br>available for sale investments, net of—<br>tax |        |        |        |            |           |           |              |              |