

AFFILIATED MANAGERS GROUP, INC.

Form 10-Q

November 12, 2013

[QuickLinks](#) -- Click here to rapidly navigate through this document

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, DC 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 September 30, 2013

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 001-13459

Affiliated Managers Group, Inc.

(Exact name of registrant as specified in its charter)

Delaware

04-3218510

(State or other jurisdiction
of incorporation or organization)

(IRS Employer Identification Number)

600 Hale Street, P.O. Box 1000, Prides Crossing, Massachusetts 01965

(Address of principal executive offices)

(617) 747-3300

(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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

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

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

There were 52,978,842 shares of the registrant's common stock outstanding on November 5, 2013.

PART I—FINANCIAL INFORMATION

Item 1. Financial Statements

AFFILIATED MANAGERS GROUP, INC.
CONSOLIDATED STATEMENTS OF INCOME

(in millions, except per share data)

(unaudited)

	For the Three Months		For the Nine Months	
	Ended September 30, 2012	2013	Ended September 30, 2012	2013
Revenue	\$467.3	\$551.6	\$1,314.5	\$1,594.8
Operating expenses:				
Compensation and related expenses	196.8	229.8	565.9	679.7
Selling, general and administrative	93.9	106.4	267.7	298.2
Intangible amortization and impairments	24.0	32.7	169.1	98.1
Depreciation and other amortization	3.5	3.4	10.6	10.3
Other operating expenses	9.4	10.2	27.7	27.5
	327.6	382.5	1,041.0	1,113.8
Operating income	139.7	169.1	273.5	481.0
Income from equity method investments	19.4	34.1	47.3	121.0
Other non-operating (income) and expenses:				
Investment and other income	(6.9)	(8.0)	(20.3)	(20.0)
Interest expense	21.8	19.9	58.8	68.5
Imputed interest and contingent payment arrangements	6.7	3.9	(35.7)	26.5
	21.6	15.8	2.8	75.0
Income before income taxes	137.5	187.4	318.0	527.0
Income taxes	19.4	31.0	46.0	106.6
Net income	118.1	156.4	272.0	420.4
Net income (non-controlling interests)	(63.2)	(81.2)	(173.1)	(218.1)
Net income (controlling interest)	\$54.9	\$75.2	\$98.9	\$202.3
Average shares outstanding—basic	51.7	53.2	51.6	53.0
Average shares outstanding—diluted	53.0	56.9	52.9	54.7
Earnings per share—basic	\$1.06	\$1.41	\$1.92	\$3.82
Earnings per share—diluted	\$1.04	\$1.37	\$1.87	\$3.70

The accompanying notes are an integral part of the Consolidated Financial Statements.

AFFILIATED MANAGERS GROUP, INC.
 CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
 (in millions)
 (unaudited)

	For the Three Months		For the Nine Months	
	Ended September 30,		Ended September 30,	
	2012	2013	2012	2013
Net income	\$ 118.1	\$ 156.4	\$ 272.0	\$ 420.4
Other comprehensive income (loss):				
Foreign currency translation adjustment	15.2	18.1	19.7	(14.4)
Change in net realized and unrealized gain (loss) on derivative securities, net of tax	(0.3)	—	(0.9)	0.8
Change in net unrealized loss on investment securities, net of tax	1.2	6.3	(1.1)	(3.9)
Other comprehensive income (loss)	16.1	24.4	17.7	(17.5)
Comprehensive income	134.2	180.8	289.7	402.9
Comprehensive income (non-controlling interests)	(63.4)	(80.8)	(174.8)	(216.3)
Comprehensive income (controlling interest)	\$ 70.8	\$ 100.0	\$ 114.9	\$ 186.6

The accompanying notes are an integral part of the Consolidated Financial Statements.

AFFILIATED MANAGERS GROUP, INC.
CONSOLIDATED BALANCE SHEETS
(in millions)
(unaudited)

	December 31, 2012	September 30, 2013
Assets		
Current assets:		
Cash and cash equivalents	\$ 430.4	\$ 522.4
Investment advisory fees receivable	255.5	269.9
Investments in marketable securities	128.9	132.9
Unsettled fund shares receivable	40.1	159.3
Prepaid expenses and other current assets	57.4	62.9
Total current assets	912.3	1,147.4
Fixed assets, net	81.5	88.1
Equity method investments in Affiliates	1,031.3	982.5
Acquired client relationships, net	1,585.5	1,485.4
Goodwill	2,355.2	2,345.9
Other assets	221.3	211.8
Total assets	\$ 6,187.1	\$ 6,261.1
Liabilities and Equity		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 324.7	\$ 387.8
Unsettled fund shares payable	39.8	162.1
Payables to related party	11.3	32.9
Total current liabilities	375.8	582.8
Senior bank debt	325.0	575.0
Senior notes	340.0	340.0
Senior convertible securities	450.1	—
Junior convertible trust preferred securities	515.5	517.9
Deferred income taxes	497.1	461.4
Other long-term liabilities	164.7	167.3
Total liabilities	2,668.2	2,644.4
Redeemable non-controlling interests	477.5	614.1
Equity:		
Common stock	0.5	0.5
Additional paid-in capital	868.5	548.0
Accumulated other comprehensive income	79.1	63.4
Retained earnings	1,350.7	1,553.0
	2,298.8	2,164.9
Less treasury stock, at cost	(214.6) (132.6
Total stockholders' equity	2,084.2	2,032.3
Non-controlling interests	957.2	970.3
Total equity	3,041.4	3,002.6
Total liabilities and equity	\$ 6,187.1	\$ 6,261.1

The accompanying notes are an integral part of the Consolidated Financial Statements.

AFFILIATED MANAGERS GROUP, INC.
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
(in millions)
(unaudited)

	Total Stockholders' Equity						
	Common Stock	Additional Paid-In Capital	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Treasury Stock at Cost	Non-controlling interests	Total Equity
December 31, 2012	\$0.5	\$868.5	\$79.1	\$1,350.7	\$(214.6)	\$957.2	\$3,041.4
Stock issued under option and other incentive plans	—	(52.5)	—	—	97.7	—	45.2
Tax benefit of option exercises	—	17.9	—	—	—	—	17.9
Changes in the value of Affiliate equity and other	—	(162.0)	—	—	—	15.4	(146.6)
Share-based payment arrangements	—	29.3	—	—	—	—	29.3
Settlement of senior convertible securities	—	(130.7)	—	—	—	—	(130.7)
Forward equity transactions	—	(22.5)	—	—	—	—	(22.5)
Share repurchases	—	—	—	—	(15.7)	—	(15.7)
Distributions to non-controlling interests	—	—	—	—	—	(218.6)	(218.6)
Net income	—	—	—	202.3	—	218.1	420.4
Other comprehensive loss	—	—	(15.7)	—	—	(1.8)	(17.5)
September 30, 2013	\$0.5	\$548.0	\$63.4	\$1,553.0	\$(132.6)	\$970.3	\$3,002.6

The accompanying notes are an integral part of the Consolidated Financial Statements.

AFFILIATED MANAGERS GROUP, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(in millions)
(unaudited)

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2012	2013	2012	2013
Cash flow from operating activities:				
Net income	\$118.1	\$156.4	\$272.0	\$420.4
Adjustments to reconcile Net income to net cash flow from operating activities:				
Intangible amortization and impairments	24.0	32.7	169.1	98.1
Amortization of issuance costs	2.0	2.1	5.7	7.8
Depreciation and other amortization	3.5	3.4	10.6	10.3
Deferred income tax provision	7.8	(4.8)	5.8	24.0
Imputed interest and contingent payment arrangements	6.7	3.9	(35.7)	26.5
Income from equity method investments, net of amortization	(19.4)	(34.1)	(47.3)	(121.0)
Distributions received from equity method investments	20.8	40.9	79.4	187.2
Share-based compensation	8.0	9.0	24.1	26.7
Affiliate equity expense	2.3	2.5	9.4	10.9
Other adjustments	2.6	(1.6)	2.7	7.6
Changes in assets and liabilities:				
(Increase) decrease in investment advisory fees receivable	2.4	—	(21.3)	(14.2)
Increase in prepaids and other current assets	(3.8)	(3.4)	(12.9)	(10.0)
Increase in other assets	(1.6)	(0.4)	(2.5)	(0.3)
Increase in unsettled fund shares receivable	(5.6)	(48.3)	(15.3)	(114.8)
Increase in unsettled fund shares payable	4.4	48.2	10.7	117.8
Increase (decrease) in accounts payable, accrued liabilities and other long-term liabilities	38.9	76.3	(7.4)	70.6
Cash flow from operating activities	211.1	282.8	447.1	747.6
Cash flow used in investing activities:				
Investments in Affiliates	(350.0)	(26.3)	(755.3)	(26.3)
Purchase of fixed assets	(4.9)	(7.1)	(9.9)	(15.9)
Purchase of investment securities	(2.7)	(1.7)	(13.8)	(6.3)
Sale of investment securities	3.6	1.0	31.1	4.7
Cash flow used in investing activities	(354.0)	(34.1)	(747.9)	(43.8)
Cash flow from (used in) financing activities:				
Borrowings of senior bank debt	360.0	475.0	555.0	595.0
Repayments of senior bank debt	(360.0)	—	(360.0)	(345.0)
Issuance of senior notes	200.0	—	200.0	—
Settlement of senior convertible securities	—	(572.3)	—	(641.3)
Issuance of common stock	23.3	11.7	45.7	47.7
Repurchase of common stock	—	(15.7)	(60.9)	(15.7)
Issuance costs	(6.0)	(0.2)	(6.0)	(7.4)
Excess tax benefit from exercise of stock options	6.9	7.0	11.6	17.1
Note and contingent payments	(1.8)	(0.1)	(2.1)	(36.7)
Distributions to non-controlling interests	(18.0)	(39.2)	(137.7)	(218.6)
Affiliate equity issuances and repurchases	(2.2)	(11.7)	(25.1)	(6.7)

Edgar Filing: AFFILIATED MANAGERS GROUP, INC. - Form 10-Q

Cash flow from (used in) financing activities	202.2	(145.5)	220.5	(611.6)
Effect of foreign exchange rate changes on cash and cash equivalents	2.3	5.4	3.4	(0.2)
Net increase (decrease) in cash and cash equivalents	61.6	108.6	(76.9)	92.0
Cash and cash equivalents at beginning of period	311.0	413.8	449.5	430.4
Cash and cash equivalents at end of period	\$372.6	\$522.4	\$372.6	\$522.4
Supplemental disclosure of non-cash financing activities:				
Notes received for Affiliate equity sales	\$—	\$—	\$3.0	\$—
Payables recorded for Affiliate equity purchases	0.9	21.5	14.5	30.5
Payables recorded under contingent payment arrangements	—	—	24.8	—
Payables recorded for forward equity sale settlements	—	22.5	—	22.5

The accompanying notes are an integral part of the Consolidated Financial Statements.

AFFILIATED MANAGERS GROUP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Basis of Presentation

The consolidated financial statements of Affiliated Managers Group, Inc. ("AMG" or the "Company") have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") for interim financial information and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. The year-end condensed balance sheet data was derived from audited financial statements, but does not include all of the disclosures required by GAAP. In the opinion of management, all adjustments considered necessary for a fair statement of the results have been included. All intercompany balances and transactions have been eliminated. Certain reclassifications have been made to the prior period's financial statements to conform to the current period's presentation. Operating results for interim periods are not necessarily indicative of the results that may be expected for any other period or for the full year. The Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2012 includes additional information about AMG, its operations, financial position and accounting policies, and should be read in conjunction with this Quarterly Report on Form 10-Q.

All amounts in these notes, except per share data in the text and tables herein, are stated in millions unless otherwise indicated.

2. Recent Accounting Developments

In February 2013, the Financial Accounting Standards Board issued an update to the guidance for reporting reclassifications out of accumulated other comprehensive income. The new guidance requires companies to present the impact of significant amounts reclassified from accumulated other comprehensive income and the income statement line items affected by the reclassification. The new guidance is effective for interim and fiscal periods beginning after December 15, 2012. The Company adopted this guidance in the first quarter of 2013. Adoption of this new guidance did not have a significant impact on the Company's Consolidated Financial Statements.

In June 2013, the Financial Accounting Standards Board issued an update to the guidance for determining whether a public or private company is an investment company. The new guidance clarifies the characteristics of an investment company and amends certain disclosure and measurement requirements. The new guidance is effective for interim and fiscal periods beginning after December 15, 2013 (early application is prohibited). The Company is evaluating the impact of this guidance and does not expect it to have a significant impact on the Company's Consolidated Financial Statements.

3. Investments in Marketable Securities

Investments in marketable securities at December 31, 2012 and September 30, 2013 were \$128.9 million and \$132.9 million, respectively. These investments are comprised of the Company's investment in Value Partners Group Limited, a publicly-traded asset management firm based in Hong Kong, and investments held by Affiliates.

The following is a summary of the cost, gross unrealized gains and losses and fair value of investments classified as available-for-sale and trading at December 31, 2012 and September 30, 2013:

	Available-for-Sale		Trading	
	December 31, 2012	September 30, 2013	December 31, 2012	September 30, 2013
Cost	\$103.2	\$104.0	\$10.3	\$18.2
Unrealized Gains	15.3	9.5	6.5	3.7
Unrealized Losses	(3.2)	(2.5)	(3.2)	—
Fair Value	\$115.3	\$111.0	\$13.6	\$21.9

The following is a summary of the Company's realized gains and losses on investments classified as available-for-sale and trading:

	Available-for-Sale				Trading			
	For the Three Months Ended September 30, 2012		For the Nine Months Ended September 30, 2013		For the Three Months Ended September 30, 2012		For the Nine Months Ended September 30, 2013	
Gains	\$0.1	\$—	\$0.1	\$2.1	\$0.2	\$0.2	\$0.8	\$0.6
Losses	—	—	—	—	0.0	—	(0.3)	—
Net realized gains	\$0.1	\$—	\$0.1	\$2.1	\$0.2	\$0.2	\$0.5	\$0.6

4. Variable Interest Entities

Sponsored Investment Funds

The Company's Affiliates act as the investment manager for certain investment funds that are considered variable interest entities ("VIEs"). Affiliates are entitled to receive management fees and may be eligible, under certain circumstances, to receive performance fees. The Affiliates' exposure to risk in these entities is generally limited to any equity investment and any uncollected management or performance fees, neither of which were material at September 30, 2013. The Affiliates do not have any investment performance guarantees to these VIEs.

The Affiliates are not the primary beneficiary of any of these VIEs as their involvement is limited to that of a service provider and their investment, if any, represents an insignificant interest in the fund's assets under management. Since the Affiliates' variable interests will not absorb the majority of the variability of the entity's net assets, these entities are not consolidated.

Trust Preferred Vehicles

The Company established wholly-owned trusts in connection with the 2006 and 2007 issuances of junior convertible trust preferred securities. These entities are considered VIEs and the Company is not the primary beneficiary, therefore these entities are not consolidated in the Company's financial statements.

The net assets and liabilities of the Company's unconsolidated VIEs and its maximum risk of loss related thereto are as follows:

Category of Investment	December 31, 2012		September 30, 2013	
	Unconsolidated VIE Net Assets	Carrying Value and Maximum Exposure to Loss	Unconsolidated VIE Net Assets	Carrying Value and Maximum Exposure to Loss
Sponsored investment funds	\$7,186.9	\$0.8	\$7,994.4	\$1.6
Trust preferred vehicles	9.0	9.0	9.0	9.0

5. Long-Term Debt

Senior Bank Debt

The Company entered into a \$1.25 billion senior unsecured revolving credit facility in April 2013 (the "credit facility") which matures in April 2018. As of September 30, 2013, the current outstanding balance under the credit facility is \$575.0 million.

The credit facility is unsecured and contains financial covenants with respect to leverage and interest coverage, as well as customary affirmative and negative covenants, including limitations on indebtedness, liens, cash dividends, asset dispositions and fundamental corporate changes.

Convertible Securities

In the second and third quarters of 2013, the Company repurchased \$79.5 million principal amount outstanding of its 3.95% senior convertible notes due 2038 ("2008 senior convertible notes"). Subsequent to the repurchases, the Company called the remaining 2008 senior convertible notes (\$380.5 million principal amount) for redemption on August 15, 2013 at their principal amount. In lieu of redemption, holders of the 2008 senior convertible notes elected to convert their securities. The Company elected to settle such conversions in cash. In connection with its call and prior repurchases, the Company paid an aggregate of \$641.3 million. All of the Company's 2008 senior convertible notes have been canceled and retired.

6. Forward Equity Sales

In 2012, the Company amended its forward equity agreement with its counterparties to increase the amount of shares of common stock it may sell to an aggregate of \$400.0 million. During 2012, the Company entered into contracts to sell a notional amount of \$147.2 million at an average share price of \$121.37. The Company has the ability to settle the contracts either by delivering shares of common stock and receiving cash or net settling for cash or shares of common stock. During the three months ended September 30, 2013, the Company agreed to net settle \$37.6 million notional amount of forward equity contracts for cash at an average share price of \$185.13 and, in October 2013, agreed to net settle an additional \$39.4 million notional amount at an average share price of \$185.98. In total, the Company has agreed to net settle \$77.0 million notional amount of forward equity contracts for cash at an average share price of \$185.56.

7. Derivative Financial Instruments

From time to time, the Company seeks to offset its exposure to changing interest rates under its debt financing arrangements by entering into interest rate hedging contracts.

The following summarizes the amount of derivative instrument gains and losses reported in the Consolidated Statements of Comprehensive Income:

	For the Three Months Ended September 30, 2012		For the Nine Months Ended September 30, 2013	
Cash Flow Hedges				
Interest rate swaps	\$ (0.5)	\$ (0.0)	\$ (1.4)	\$ 1.3

The following summarizes the location and fair values of derivative instruments on the Consolidated Balance Sheets:

	December 31, 2012		September 30, 2013	
Cash Flow Hedges				
Interest rate swaps ⁽¹⁾	\$ (4.0)	\$ (2.7)		

(1) Presented within Other long-term liabilities.

The Company's derivative contracts contain provisions that may require the Company or the counterparties to post collateral based upon the current fair value of the derivative contracts. As of September 30, 2013, the Company had posted collateral of \$3.6 million related to its interest rate swap contracts.

The Company does not generally hold or issue derivative financial instruments for trading purposes. Interest rate swaps are intended to enable the Company to achieve a level of variable-rate and fixed-rate debt that limits interest rate exposure.

8. Commitments and Contingencies

The Company and its Affiliates are subject to claims, legal proceedings and other contingencies in the ordinary course of their business activities. Each of these matters is subject to various uncertainties, and it is possible that some of these matters may be resolved in a manner unfavorable to the Company or its Affiliates. The Company and its Affiliates establish accruals for matters for which the outcome is probable and the amount of the liability can be reasonably estimated. Management believes that any liability in excess of these accruals upon the ultimate resolution of these matters will not have a material adverse effect on the Company.

Certain Affiliates operate under regulatory authorities which require that they maintain minimum financial or capital requirements. Management is not aware of any significant violations of such financial requirements occurring during the period.

In connection with a past acquisition agreement, the Company has committed to co-invest in certain investment partnerships where it serves as the general partner. As of September 30, 2013, these commitments totaled approximately \$71.6 million and may be called in future periods. The Company is contractually entitled to reimbursement from the prior owner for \$33.8 million of these commitments if they are called.

Under past acquisition agreements, the Company is contingently liable, upon achievement by Affiliates of specified financial targets, to make payments of up to \$474.0 million through 2017. As of September 30, 2013, the Company expects to

make payments of \$226.0 million (none in 2013) to settle these contingent obligations, including \$151.0 million related to the Company's equity method investments. The net present value of the expected payments for consolidated Affiliates totals \$46.1 million as of September 30, 2013.

9. Fair Value Measurements

The following table summarizes the Company's financial assets and liabilities that are measured at fair value on a recurring basis:

	Fair Value Measurements			
	December 31, 2012	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Other Unobservable Inputs (Level 3)
Financial Assets				
Cash equivalents	\$ 13.5	\$ 13.5	\$—	\$ —
Investments in marketable securities ⁽¹⁾				
Trading securities	13.6	13.6	—	—
Available-for-sale securities	115.3	115.3	—	—
Other investments ⁽²⁾	155.4	15.7	20.8	118.9
Financial Liabilities				
Contingent payment arrangements ⁽³⁾	\$ 31.0	\$—	\$—	\$ 31.0
Obligations to related parties ⁽⁴⁾	77.8	—	—	77.8
Interest rate derivatives ⁽⁵⁾	4.0	—	4.0	—

	Fair Value Measurements			
	September 30, 2013	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Other Unobservable Inputs (Level 3)
Financial Assets				
Cash equivalents	\$ 32.1	\$ 32.1	\$—	\$ —
Investments in marketable securities ⁽¹⁾				
Trading securities	21.9	21.9	—	—
Available-for-sale securities	111.0	111.0	—	—