

Pzena Investment Management, Inc.
Form 10-Q
May 03, 2019
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the Quarterly Period Ended March 31, 2019

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 001-33761

PZENA INVESTMENT MANAGEMENT, INC.

(Exact Name of Registrant as Specified in its Charter)

Delaware	20-8999751
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)

320 Park Avenue

New York, New York 10022

(Address of Principal Executive Offices) (Zip Code)

Registrant's telephone number, including area code: (212) 355-1600

Not Applicable

(Former Address of Principal Executive Offices) (Zip Code)

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Securities registered or to be registered pursuant to Section 12(b) of the Act.

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Class A common stock, par value \$0.01 per share	PZN	New York Stock Exchange

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 every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a 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.

Large accelerated filer	Accelerated filer
Non-accelerated filer	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. Yes No

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

As of May 2, 2019, there were 17,874,842 outstanding shares of the registrant's Class A common stock, par value \$0.01 per share.

As of May 2, 2019, there were 52,199,324 outstanding shares of the registrant's Class B common stock, par value \$0.000001 per share.

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CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q contains forward-looking statements. Forward-looking statements provide our current expectations, or forecasts, of future events. Forward-looking statements include statements about our expectations, beliefs, plans, objectives, intentions, assumptions and other statements that are not historical facts. Words or phrases such as “anticipate,” “believe,” “continue,” “ongoing,” “estimate,” “expect,” “intend,” “may,” “plan,” “predict,” “project” or similar words or phrases, or the negatives of those words or phrases, may identify forward-looking statements, but the absence of these words does not necessarily mean that a statement is not forward-looking.

Forward-looking statements are subject to known and unknown risks and uncertainties and are based on our views, plans, estimates, and expectations. Potentially inaccurate assumptions could cause actual results to differ materially from those expected or implied by the forward-looking statements. Our actual results could differ materially from those anticipated in forward-looking statements for many reasons, including the factors described in Item 1A, “Risk Factors” in Part I of our Annual Report on Form 10-K for our fiscal year ended December 31, 2018. Accordingly, you should not unduly rely on these forward-looking statements, which speak only as of the date they are made. We undertake no obligation to publicly revise any forward-looking statements included in this Quarterly Report to reflect circumstances or events after the date of this Quarterly Report, or to reflect the occurrence of unanticipated events. You should, however, review the factors and risks we describe in the reports we will file from time to time with the Securities and Exchange Commission (“SEC”), after the date of this Quarterly Report on Form 10-Q.

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

- our ability to respond to global economic, market, business and geopolitical conditions;
 - our anticipated future results of operations and operating cash flows;
 - our successful formulation and execution of business strategies and investment policies;
 - our financing plans and the availability of short- or long-term borrowing, or equity financing;
 - our competitive position and the effects of competition on our business;
 - our ability to identify and capture potential growth opportunities available to us;
 - the effective recruitment and retention of our key executives and employees;
 - our expected levels of compensation for our employees;
 - expectations relating to dividend payments and our ability to make such payments;
 - our potential operating performance, achievements, efficiency, and cost reduction efforts;
 - our expected tax rate;
 - changes in interest rates;
 - our expectations with respect to the economy, capital markets, the market for asset management services, and other industry trends; and
 - the impact of future legislation and regulation, and changes in existing legislation and regulation, on our business.
- The reports that we file with the SEC, accessible on the SEC’s website at www.sec.gov, identify additional factors that can affect forward-looking statements.

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

PZENA INVESTMENT MANAGEMENT, INC.

CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION

(in thousands, except share and per-share amounts)

	As of	
	March 31, 2019	December 31, 2018
	(unaudited)	
ASSETS		
Cash and Cash Equivalents (\$3,723 and \$3,733) ¹	\$ 14,731	\$ 38,099
Restricted Cash	1,029	1,028
Due from Broker (\$101 and \$16) ¹	177	64
Advisory Fees Receivable	32,866	32,590
Investments (\$4,115 and \$3,295) ¹	39,033	50,470
Receivable from Related Parties	1,816	4,239
Other Receivables (\$12 and \$13) ¹	431	474
Prepaid Expenses and Other Assets	1,494	1,386
Right-of-use Assets	14,704	—
Deferred Tax Asset	35,631	37,232
Property and Equipment, Net of Accumulated Depreciation of \$3,974 and \$3,724, respectively	5,658	5,394
TOTAL ASSETS	\$ 147,570	\$ 170,976
LIABILITIES AND EQUITY		
Liabilities:		
Accounts Payable and Accrued Expenses (\$18 and \$15) ¹	\$ 18,018	\$ 37,266
Due to Broker (\$0 and \$4) ¹	74	360
Liability to Selling and Converting Shareholders	32,389	32,389
Lease Liabilities	15,066	—
Deferred Compensation Liability	1,190	1,845
Other Liabilities	—	108
TOTAL LIABILITIES	66,737	71,968
Commitments and Contingencies (see Note 12)		
Equity:		
Preferred Stock (Par Value \$0.01; 200,000,000 Shares Authorized; None Outstanding)	—	—
Class A Common Stock (Par Value \$0.01; 750,000,000 Shares Authorized; 17,874,842 and 18,398,211 Shares Issued and Outstanding in 2019 and 2018, respectively)	178	183
	—	—

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Class B Common Stock (Par Value \$0.000001; 750,000,000 Shares Authorized; 52,126,056 and 51,253,526 Shares Issued and Outstanding in 2019 and 2018, respectively)		
Additional Paid-In Capital	—	3,913
Retained Earnings	22,684	28,871
Accumulated Other Comprehensive Income	18	35
Total Pzena Investment Management, Inc.'s Equity	22,880	33,002
Non-Controlling Interests	57,953	66,006
TOTAL EQUITY	80,833	99,008
TOTAL LIABILITIES AND EQUITY	\$ 147,570	\$ 170,976

1 Asset and liability amounts in parentheses represent the aggregated balances at March 31, 2019 and December 31, 2018 attributable to Pzena International Value Service (a series of Pzena Investment Management, LLC), Pzena Investment Management Special Situations, LLC, Pzena U.S. Best Ideas (GP), LLC, and Pzena Global Best Ideas (GP), LLC which were variable interest entities as of March 31, 2019 and December 31, 2018, respectively.

See accompanying notes to unaudited consolidated financial statements.

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PZENA INVESTMENT MANAGEMENT, INC.

UNAUDITED CONSOLIDATED STATEMENTS OF OPERATIONS

(in thousands, except share and per-share amounts)

	For the Three Months	
	Ended March 31,	
	2019	2018
REVENUE	\$37,410	\$39,252
EXPENSES		
Compensation and Benefits Expense	17,189	16,174
General and Administrative Expense	4,027	3,155
Total Operating Expenses	21,216	19,329
Operating Income	16,194	19,923
OTHER INCOME		
Interest Income	217	62
Dividend Income	62	36
Net Realized and Unrealized Gains/ (Losses) from Investments	837	(34)
Equity in Earnings/ (Losses) of Affiliates	758	(129)
Other (Expense)/ Income	(55)	15
Total Other Income/ (Expense)	1,819	(50)
Income Before Income Taxes	18,013	19,873
Income Tax Expense	2,071	2,207
Net Income	15,942	17,666
Less: Net Income Attributable to Non-Controlling Interests	12,840	14,143
Net Income Attributable to Pzena Investment Management, Inc.	\$3,102	\$3,523
Net Income for Basic Earnings per Share	\$3,102	\$3,523
Basic Earnings per Share	\$0.17	\$0.20
Basic Weighted Average Shares Outstanding ¹	18,278,773	18,015,368
Net Income for Diluted Earnings per Share	\$12,808	\$14,226
Diluted Earnings per Share	\$0.17	\$0.20
Diluted Weighted Average Shares Outstanding ¹	74,258,120	72,285,962
Cash Dividends per Share of Class A Common Stock	\$0.49	\$0.42

¹ The Company issues restricted shares of Class A common stock and restricted Class B units that have non-forfeitable dividend rights. Under the "two-class method," these shares and units are considered participating securities and are required to be included in the computation of basic and diluted earnings per share.

See accompanying notes to unaudited consolidated financial statements.

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PZENA INVESTMENT MANAGEMENT, INC.

UNAUDITED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(in thousands)

	For the Three Months	
	Ended March 31,	
	2019	2018
NET INCOME	\$15,942	\$17,666
OTHER COMPREHENSIVE GAIN		
Foreign Currency Translation Adjustment	63	68
Total Other Comprehensive Gain	63	68
Comprehensive Income	16,005	17,734
Less: Comprehensive Income Attributable to Non-Controlling Interests	12,920	14,229
Total Comprehensive Income Attributable to Pzena Investment Management, Inc.	\$3,085	\$3,505

See accompanying notes to unaudited consolidated financial statements.

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PZENA INVESTMENT MANAGEMENT, INC.

UNAUDITED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(in thousands, except share and per-share amounts)

	Shares of Class A Common Stock	Shares of Class B Common Stock	Class A Common Stock	Additional Paid-in Capital	Accumulated			Total Equity
					Other Comprehensive Income	Retained Earnings	Non-Controlling Interests	
Balance at December 31, 2018	18,398,211	51,253,526	\$ 183	\$ 3,913	\$ 35	\$ 28,871	\$ 66,006	\$ 99,008
Amortization of Non-Cash Compensation	10,000	241,996	—	414	—	—	1,140	1,554
Issuance of Shares under Equity Incentive Plan	—	715,874	—	1,065	—	—	3,022	4,087
Sale of Shares under Equity Incentive Plan	—	10,399	—	17	—	—	48	65
Directors' Share Grants	—	—	—	78	—	—	223	301
Net Income	—	—	—	—	—	3,102	12,840	15,942
Foreign Currency Translation Adjustments	—	—	—	—	(17)	—	80	63
Repurchase and Retirement of Class A Common Stock	(533,369)	—	(5)	(4,369)	—	(338)	—	(4,712)
Repurchase and Retirement of Class B Units	—	(95,739)	—	(176)	—	—	(499)	(675)
Class A Cash Dividends Declared and Paid (\$0.49 per share)	—	—	—	—	—	(8,951)	—	(8,951)
Tax Impact of Transactions with Non-Controlling Shareholders	—	—	—	(207)	—	—	—	(207)
Contributions from Non-Controlling Interests	—	—	—	—	—	—	23	23

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Distributions to Non-Controlling Interests	—	—	—	—	—	—	(25,665)	(25,665)
Other	—	—	—	(735)	—	—	735	—
Balance at March 31, 2019	17,874,842	52,126,056	\$ 178	\$ —	\$ 18	\$ 22,684	\$ 57,953	\$ 80,833

	Accumulated							
	Shares of Class A Common Stock	Shares of Class B Common Stock	Class A Common Stock	Additional Paid-In Capital	Other	Retained Earnings	Non-Controlling Interests	Total Equity
Balance at December 31, 2017	18,096,554	50,709,673	180	7,915	(5)	24,214	66,985	99,289
Amortization of Non-Cash Compensation	10,000	26,178	—	339	—	—	921	1,260
Issuance of Shares under Equity Incentive Plan	—	300,931	—	1,096	—	—	3,095	4,191
Sale of Shares under Equity Incentive Plan	—	547	—	1	—	—	3	4
Directors' Share Grants	—	—	—	64	—	—	181	245
Net Income	—	—	—	—	—	—	—	—