

Pzena Investment Management, Inc.
Form 10-Q
November 06, 2018
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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 September 30, 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 001-33761

PZENA INVESTMENT MANAGEMENT, INC.

(Exact Name of Registrant as Specified in its Charter)

Delaware 20-8999751
(State or Other Jurisdiction of (I.R.S. Employer
Incorporation or Organization) 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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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 November 5, 2018, there were 17,323,691 outstanding shares of the registrant's Class A common stock, par value \$0.01 per share.

As of November 5, 2018, there were 51,979,177 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, 2017. 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;
 - 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 September 30, 2018	December 31, 2017 (unaudited)
ASSETS		
Cash and Cash Equivalents (\$3,679 and \$3,717) ¹	\$31,913	\$ 63,414
Restricted Cash	1,026	1,017
Due from Broker (\$576 and \$1,485) ¹	894	1,875
Advisory Fees Receivable	34,398	32,531
Investments (\$3,623 and \$3,927) ¹	58,170	21,737
Receivable from Related Parties	1,251	1,453
Other Receivables (\$14 and \$15) ¹	196	132
Prepaid Expenses and Other Assets	906	990
Deferred Tax Asset	35,984	39,639
Property and Equipment, Net of Accumulated Depreciation of \$3,804 and \$3,063, respectively	5,631	6,259
TOTAL ASSETS	\$170,369	\$ 169,047
LIABILITIES AND EQUITY		
Liabilities:		
Accounts Payable and Accrued Expenses (\$16 and \$14) ¹	\$31,962	\$ 31,983
Due to Broker (\$321 and \$0) ¹	608	144
Liability to Selling and Converting Shareholders	36,441	36,441
Deferred Compensation Liability	3,490	918
Other Liabilities (\$150 and \$0) ¹	415	272
TOTAL LIABILITIES	72,916	69,758
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; 17,364,299 and 18,096,554 Shares Issued and Outstanding in 2018 and 2017, respectively)	173	180
Class B Common Stock (Par Value \$0.000001; 750,000,000 Shares Authorized; 51,930,427 and 50,709,673 Shares Issued and Outstanding in 2018 and 2017, respectively)	—	—
Additional Paid-In Capital	2,372	7,915

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Retained Earnings	26,854	24,214
Accumulated Other Comprehensive Loss	18	(5)
Total Pzena Investment Management, Inc.'s Equity	29,417	32,304
Non-Controlling Interests	68,036	66,985
TOTAL EQUITY	97,453	99,289
TOTAL LIABILITIES AND EQUITY	\$170,369	\$ 169,047

1 Asset and liability amounts in parentheses represent the aggregated balances at September 30, 2018 and December 31, 2017 attributable to Pzena International Value Service (a series of Pzena Investment Management, LLC), Pzena Investment Management Special Situations, LLC, and Pzena U.S. Best Ideas (GP), LLC, which were variable interest entities as of September 30, 2018 and December 31, 2017, respectively. Aggregated balances of variable interest entities at September 30, 2018 also reflect Pzena Global Best Ideas (GP), LLC.

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		For the Nine Months	
	Ended September 30,		Ended September 30,	
	2018	2017	2018	2017
REVENUE	\$39,580	\$36,229	\$117,180	\$102,386
EXPENSES				
Compensation and Benefits Expense	16,122	14,763	47,520	44,681
General and Administrative Expense	3,322	3,062	9,856	9,585
Total Operating Expenses	19,444	17,825	57,376	54,266
Operating Income	20,136	18,404	59,804	48,120
OTHER INCOME				
Interest Income	234			