10 August 2012 │ 18 pages

Asset Management & Custody Banks (GICS) │ Brokers & Asset Managers (Citi)
North America │ United States

AllianceBernstein Holding LP (AB)

Seeds of Flow Stabilization + ~9% Yield + High Misery Index = Upgrade Time; Raise Rating to Buy

- Company Update
- Rating Change
- Target Price Change
- Estimate Change

- **Upgrade to Buy** —Target +$1 to $14, or ~23% ETR, including a nearly double digit distribution yield. Our new target is 11.5x 2014E "adjusted" EPS discounted one year to capture the full impact of margin improvement, including RE cost saves, and stabilization of flows.
- **Raising 2012-2014 "adjusted" EPS outlook** — Revised are $1.06/$1.25/$1.39 versus $1.03/$1.17/$1.37 prior. Revisions primarily reflect 3QTD market impacts.
- **Upgrade thesis** — Five key factors pace our change in opinion: 1) after several years of powerful attrition, we believe the flow outlook is improving; 2) 2012-14 consensus EPS estimates likely already discount further shrinkage in institutional equities; 3) AB is among the few margin improvement stories beyond market impact and every 1% of margin lift translates into 9% accretion against 2012E EPS; 4) ~9% distribution yield is attractive, and should provide further downside support; and, 5) high "misery index" relative to our coverage universe with little sell-side support – while the stock is down ~6% YTD despite signs of flow stabilization; equities up 10%+ and key peers up 8% to 20%.
- **Central risks** — 1) Rapid "risk/on" trade could stunt flow recovery; 2) rising rates could dampen EPS given heavy FI skew; and, 3) slower than forecast G+A leverage related to recent RE consolidation effort. AB is an MLP, and investors will get a K-1, though unlike the Alternatives Managers, AB flows the bulk of income to investors quarterly and generally more predictably.
- **Adding some sector exposure** — While we remain cautious around Traditional Managers secular growth, we are comforted by: a) ~50% of platform in non-US; b) despite deep shrinkage, AB is still an institutional-oriented platform, though non-US retail is a major flow driver, with favorable lead indicators. We remain most bullish on Alternatives Managers, yet AB offers favorable risk/reward relative to key large cap A/Ms, such as BLK, BEN, and TROW where fundamentals and/or valuations are less appealing and even should markets drift lower, AB is still a robust yield play.
- **Flow picture seems to be inflecting** — 2Q outflows lowest in 17 quarters, and AB delivered a solid July AUM beat on the strength of better than forecast volumes, we estimate. Based on our analysis, AB was modestly positive in LT flows for the month, net of $5B Vanguard mandate loss (low impact). We believe decelerating E attrition + further FI growth and stabilizing PC volumes are fueling the improvement.

EPS	Q1	Q2	Q3	Q4	FY	FC Cons
2011A	0.41A	0.35A	0.30A	0.07A	1.14A	1.14A
2012E	**0.29A**	**0.24A**	**0.24E**	**0.29E**	**1.06E**	**1.03E**
Previous	0.29A	0.24A	0.23E	0.27E	1.03E	na
2013E	**na**	**na**	**na**	**na**	**1.25E**	**1.18E**
Previous	na	na	na	na	1.17E	na
2014E	**na**	**na**	**na**	**na**	**1.39E**	**1.39E**
Previous	na	na	na	na	1.37E	na

Source: Company Reports and dataCentral, Citi Research. FC Cons: First Call Consensus.

Buy	**1**
from Neutral	
Price (09 Aug 12)	US$12.22
Target price	US$14.00
from US$13.00	
Expected share price return	14.6%
Expected dividend yield	8.5%
Expected total return	**23.1%**
Market Cap	US$1,285M

Price Performance
(RIC: AB.N, BB: AB US)

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Fiscal year end 31-Dec	2010	2011	2012E	2013E	2014E
Valuation Ratios					
P/E adjusted (x)	7.7	10.7	11.6	9.8	8.8
P/E reported (x)	2.8	-6.4	8.1	3.3	2.8
P/BV (x)	0.3	0.3	0.3	0.3	0.3
P/Adjusted BV diluted (x)	na	na	na	na	na
Dividend yield (%)	10.7	9.3	8.0	10.1	11.2
Per Share Data (US$)					
EPS adjusted	1.60	1.14	1.06	1.25	1.39
EPS reported	4.30	-1.90	1.51	3.75	4.38
BVPS	43.72	43.97	41.81	42.80	43.76
Tangible BVPS	13.79	12.63	9.16	11.95	14.55
Adjusted BVPS diluted	na	na	na	na	na
DPS	1.31	1.14	0.98	1.23	1.37
Profit & Loss (US$m)					
Net interest income	-4	-3	-3	-3	-3
Fees and commissions	2,482	2,354	2,136	2,236	2,348
Other operating Income	470	399	543	611	674
Total operating income	**2,949**	**2,750**	**2,676**	**2,844**	**3,020**
Total operating expenses	-2,468	-2,937	-2,481	-2,402	-2,498
Oper. profit bef. provisions	**480**	**-187**	**195**	**442**	**521**
Bad debt provisions	0	0	0	0	0
Non-operating/exceptionals	-15	-21	-22	-22	-22
Pre-tax profit	**466**	**-208**	**173**	**420**	**499**
Tax	-39	-3	-12	-29	-35
Extraord./Min. Int./Pref. Div.	15	37	-7	-2	-3
Attributable profit	**442**	**-175**	**154**	**389**	**462**
Adjusted earnings	164	118	107	129	147
Growth Rates (%)					
EPS adjusted	14.9	-28.7	-7.4	18.2	11.7
Oper. profit bef. prov.	-21.5	-139.0	204.0	127.3	17.9
Balance Sheet (US$m)					
Total assets	**7,579**	**7,706**	**7,679**	**7,986**	**8,306**
Avg interest earning assets	na	na	na	na	na
Customer loans	na	na	na	na	na
Gross NPLs	na	na	na	na	na
Liab. & shar. funds	**7,579**	**7,706**	**7,679**	**7,986**	**8,306**
Total customer deposits	na	na	na	na	na
Reserve for loan losses	na	na	na	na	na
Shareholders' equity	**4,594**	**4,413**	**4,088**	**4,399**	**4,716**
Profitability/Solvency Ratios (%)					
ROE adjusted	3.7	2.7	2.7	3.1	3.3
Net interest margin	na	na	na	na	na
Cost/income ratio	83.7	106.8	92.7	84.4	82.7
Cash cost/average assets	33.9	39.0	33.0	30.7	30.7
NPLs/customer loans	na	na	na	na	na
Reserve for loan losses/NPLs	na	na	na	na	na
Bad debt prov./avg. cust. loans	na	na	na	na	na
Loans/deposit ratio	na	na	na	na	na
Tier 1 capital ratio	na	na	na	na	na
Total capital ratio	na	na	na	na	na

For further data queries on Citi's full coverage universe please contact Citi Research Data Services at CitiRsch.DataServices.Global@citi.com

Powered by: dataCentral

Seeds of Flow Stabilization + ~9% Yield + High Misery Index = Upgrade Time; Raise Rating to Buy

Investment Summary

We are upgrading our long standing Neutral rating to Buy and edging up our 12-month price target $1 to $14 following the collective impacts of 2Q dynamics, our recent meeting with the new CFO, Mr. John Weisenseel, and July AUM print post 8/9 market close – the latter of which reinforces the flow picture could be favorably inflecting, we believe, and usually a solid valuation catalyst within the sector at large.

After powerful attrition the past few years that has crushed earnings power, margins and resulted in sharp turnover among executives and rank and file, we believe the flow picture is nearing a favorable inflection.

Our upgrade is based on five key reasons. *First,* after powerful attrition the past few years that has crushed earnings power, margins and resulted in sharp turnover among executives and rank and file, we believe the flow picture is nearing a favorable inflection. *Second,* we believe consensus estimates already discount further sharp contraction in equities, particularly institutional equities. *Third,* we believe AB is among the few traditional managers with margin improvement beyond leverage to market moves as further rationalization of RE and flow picture improves. *Fourth,* AB offers a solid ~9% distribution yield, likely providing downside protection, while giving investors opportunity to “clip coupons” awaiting more decisive flow recovery. *Fifth,* AB is well out of favor, in our view, with among the highest misery indexes among our coverage universe. The shares are down 6% YTD despite the S&P 500 up ~11% and peers generally up 8% to 20% through early August.

While we remain most bullish globally on Asset Managers versus Exchanges + Broker Dealers, our primary focus is on Alternatives Managers. However, to further align our views with our domestic strategist’s recent upgrade of diversified financials, we have been seeking a new name within Traditionals. We already favor AMG and IVZ – though they are becoming household names — and we find uneven outlooks for BEN, BLK and TROW among the larger cap names. We think LM has turned into a bit of a “show me stock” and turn-around-oriented investors may migrate toward AB, particularly given the solid yield play the shares offer as an MLP versus greater FCF repatriation thesis at LM, at the margin.

Tweaking Higher EPS View

Our revised 2012-14 “adjusted” EPS estimates are $1.06, $1.25 and $1.39 versus $1.03, $1.17 and $1.37 prior. Revisions mostly reflect 3QTD market impact though we continue to discount heavy equities-led attrition despite building evidence to the contrary – beyond some lumpy outflows, such as the recently announced $5B Vanguard mandate.

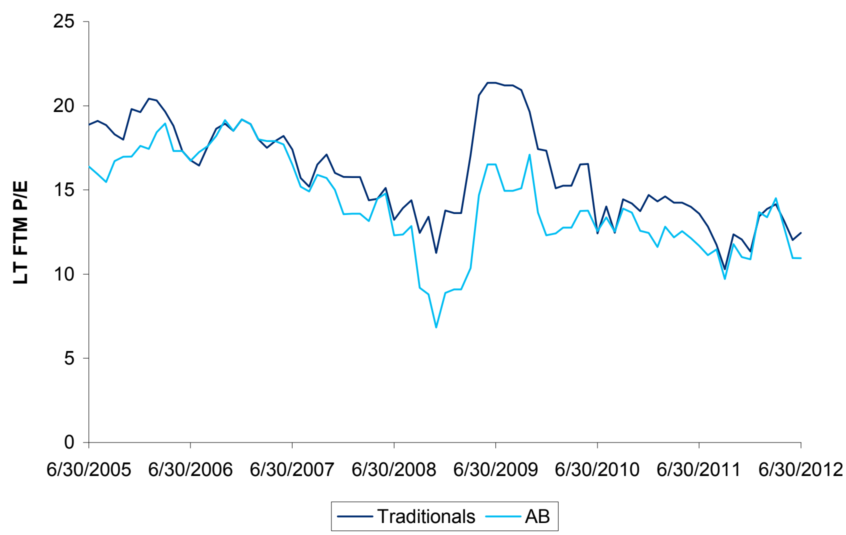
In chatting with management during our initial introduction with the new CFO, Mr. John Weisenseel, we came away a bit skeptical on EPS leverage given adverse mix shift and FI skew. To adjust for that, we have lowered our NAV assumption for FI from 4% to 3% – it is worth noting that we have not made such a call for our sector, and we appreciate that such a market perspective is beyond our pay grade, but we believe it is better to assume more caution than not for nascent turnarounds – our revised estimates factor further fee rate compression and elevated equities attrition.

Raising Target $1 to $14

We raise our 12-month target $1 to $14 with our new valuation methodology in which we utilize 2014 "adjusted" EPS and discount back one year.

We raise our 12-month target $1 to $14 with our new valuation methodology in which we utilize 2014 "adjusted" EPS and discount back one year to capture the full impact of margin improvement, including RE cost saves, and stabilization of flows. We then apply a ~11.5x multiple, below AB's 14x historical multiple, and below peers at ~13x (Figure 1). We use a ~12% cost of capital to discount back one year. We increased our target P/E from roughly 11x to reflect the improving flow picture that is developing, and note strong linkage between stock price movement and flow dynamics historically.

Figure 1. We Value AB at a Modest Discount to Peers; Consistent with Historical P/E Differential



Source: FactSet, Citi Research

Newfound Appreciation

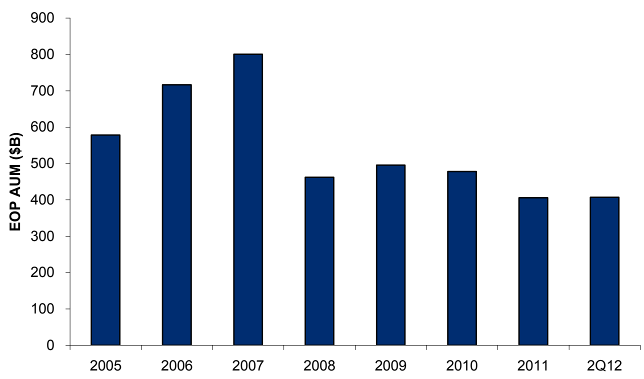
After several years of skepticism, we believe it is time to take a fresh look at AB. Five key reasons drive our upgrade as we note:

1. **Flow picture is improving, and we see the business inflecting into positive net flows over the next one year. There are three factors at play**:

   - **First, the equities platform has shrunk radically since peaking in 2007, led heavily by attrition in Value and Growth portfolios, and is becoming less of an incremental headwind for redemptions and net sales**. In Figure 2, we array AUM on annual basis, with related levels down 49% from YE07 through 6/30/12. Market impacts cut $145B, or 37% of the cumulative drop, but cumulative net outflows of $251B also heavily compressed AUM. Within the attrition, the equities and institutional platforms have also radically shrunk and represent the principal culprits in the attrition (Figures 3-4). After peaking at nearly $600B in 2007 and ~70% of AUM, equities are down to less than 30% of the platform, or a combined $108B. The relative impact of further attrition is likely to be far more manageable

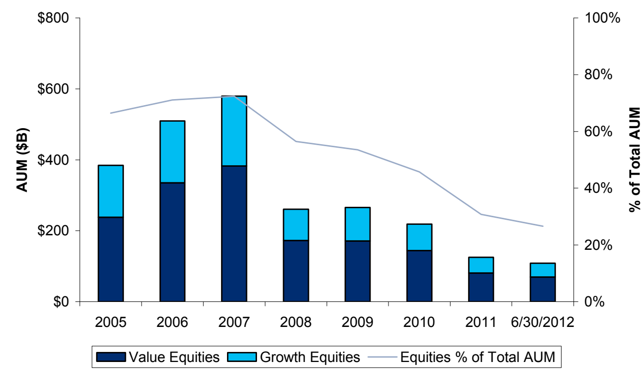
given the law of small numbers. In parsing through the equities book, we believe the Growth platform in Institutional is now stabilized, and even should Value shrink by another 50%, related attrition is much more manageable, in our view.

Figure 2. Total EOP AUM Down ~50% Since YE07…



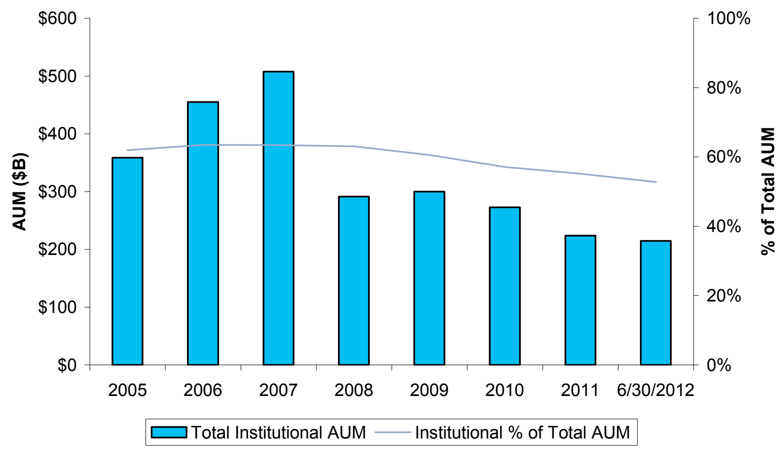
Source: Company reports, Citi Research

Figure 3. …While Total Equities AUM Has Dropped ~80%...



Source: Company reports, Citi Research

Figure 4. …And Institutional AUM Dropped ~60%

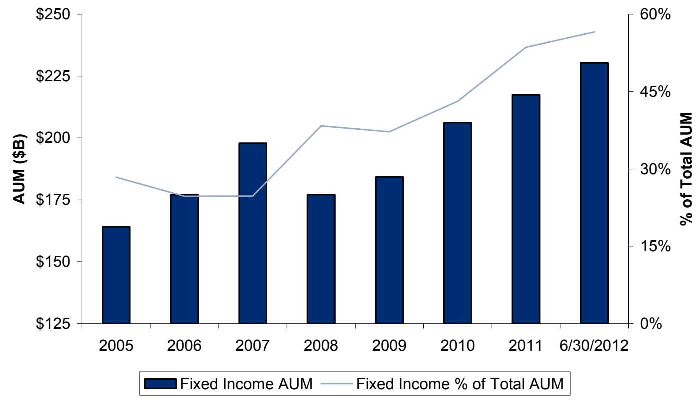


Source: Company reports, Citi Research

At the same time, management has retooled with a stronger FI platform, which now accounts for 57% of AUM versus just 25% at market's peak in 2007.

- **Second, AB is becoming a larger player in FI, particularly outside the US.** Not surprisingly, management has worked to ring-fence the equities platform, right sizing underlying economics and has worked through significant headcount adjustments while bolstering Absolute Return offerings to compliment the shrinking legacy Growth and Value businesses. At the same time, management has retooled with a stronger FI platform, which now accounts for 57% of AUM versus just 25% at market's peak in 2007 (Figure 5). Lead indicators remain favorable, led by both non-US and institutional, the latter generating a 60%+ Q/Q increase in the pipeline and heavily skewed toward FI.

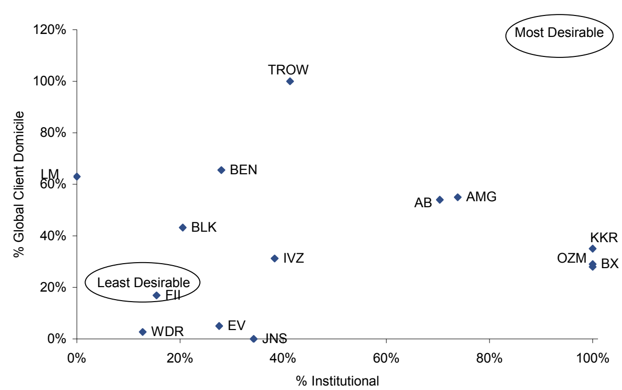
Figure 5. Fixed Income Now Accounts for Roughly 57% of Total AUM



Source: Company reports, Citi Research

- **Third, AB is an increasingly global player,** where demographic and fundamental trends are most robust, we believe. At 6/30, non-US AUM totaled $208B, or ~50% of AUM, making AB among the deepest plays on non-US growth – where we remain broadly bullish. Such growth reflects both sustained investment outside the US plus shrinkage in the US but nonetheless offers superior LT flow potential (Figure 6).

Figure 6. AB Is Growing as a Global Player with ~50% of AUM in Non-US



Source: Company reports, Citi Research

In Figure 7, we array quarterly organic growth trends back to 1Q10, and note: a) FI is a consistent flow generator; b) 2Q12 equities attrition lowest quarterly level in several years; and, c) non-US flow dynamics are generally more favorable relative to US. We note that non-US equities has been a major source of attrition but the absolute level of AUM stands at just $64B at 6/30, down sharply versus $76.5B in 1Q11, for instance, and again cutting relative impact.

Figure 7. FI + Non-US Volume Trends Remain Most Encouraging, Though Equities Attrition in 2Q Appears to Be Finally Stabilizing

	Net New Flows ($B) + Annualized Organic Growth									
	1Q10	2Q10	3Q10	4Q10	1Q11	2Q11	3Q11	4Q11	1Q12	2Q12
Fixed Income Net Flows	5.6	5.0	0.1	-1.3	1.6	1.5	-0.6	0.7	2.4	4.0
Fixed Income Annualized Organic Growth	12%	10%	0%	-2%	3%	3%	-1%	1%	4%	7%
Equity Net Flows	-12.2	-10.4	-15	-30.1	-19	-23.5	-17.1	-16.1	-15.6	-7.4
Equity Annualized Organic Growth	-18%	-16%	-28%	-53%	-35%	-45%	-37%	-49%	-50%	-24%
Non-US Net Flows	N/A	0.5	-8.7	-15.8	-7.7	-7.3	-5.0	-9.4	-8.2	0.7
Non-US Annualized Organic Growth	N/A	1%	-21%	-37%	-18%	-18%	-12%	-27%	-16%	1%
US Net Flows	N/A	-5.2	-10.2	-40.4	-6.7	-12.2	-10.4	-33.1	-3.9	-3.5
US Annualized Organic Growth	N/A	-6%	-14%	-51%	-9%	-16%	-14%	-43%	-8%	-7%

Note: US + Non-US AUM/flows by distribution channel represent domicile 1Q10-4Q11 and investment service 1Q12-2Q12

Source: Company reports, Citi Research

Importantly, 2Q attrition was moderately lower (less negative) than we anticipated and among the few “positive” surprises thus far in the month. Post 8/9 market close, AB reported $407B in AUM, or $4B ahead of our forecast. The bulk of the variance, we estimate, reflects lower than forecast attrition beyond the already announced $5B low fee Vanguard sub-advisory mandate. In turn, we estimate further FI inflows, and further stabilization in private client and equities attrition (Figure 8).

Figure 8. We Estimate Flows Less Negative Than Originally Anticipated in July

	Net Flow Estimates ($B) 7/31/12			Estimated Annualized
	Post-Release	Pre-Release	$ Variance	Organic Growth
Total	-3.3	-4.2	0.9	-9.8%
Channel:				
Retail	2.0	1.3	0.8	19.5%
Institutional	-5.0	-4.5	-0.5	-28.0%
Private Client	-0.3	-0.9	0.6	-6.0%
Asset Class:				
Equity	-5.3	-7.3	1.9	-59.2%
Fixed Income	2.9	2.8	0.1	15.2%
Other	-0.9	0.3	-1.1	-15.6%

We estimate implied flows by subtracting estimated NAV & FX impacts from the MTM change in AUM. AB pre-announced $5B low fee Vanguard-related mandate loss in recent 10-Q SEC filing, implying positive flows overall for July. By channel, retail remains the central driver, while FI remains strongest asset class.

Source: Company reports, Citi Research

2. **Consensus estimates likely already discount heavy attrition in equities, reducing downward EPS revisions – beyond market impact**. Our revised 2012-14 EPS estimates factor another cumulative $48B in equities outflows (Figure 9). Yet, our estimates for each of the following three years are about in-line with peers. Given conservative margin assumptions on our part, we suspect investors generally already anticipate heavy attrition, allowing for less flow disappointment at the margin.

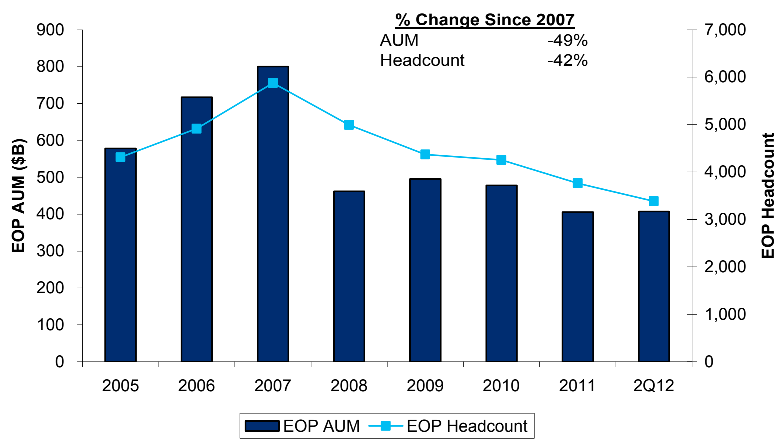
Figure 9. Consensus Likely Already Discounts Heavy Attrition

	2012	2013	2014
New "Adjusted" EPS Estimates	$1.06	$1.25	$1.39
Consensus EPS Estimates	$1.03	$1.18	$1.39
Estimated Equities Flows	-$39.0	-$5.5	-$3.6
Estimated Total Flows	-$12.6	$7.8	$12.2

Source: Company reports, Thomson Reuters, Citi Research

3. **Margins have room to work higher at a time of uncertain structural outlooks for most Traditionals – beyond market impact**. Two factors are broadly at play. *First,* despite a deteriorating fee realization outlook given the mix of business, a stabilizing flow outlook generally tends to soften margin pressures. *Second,* and most controllable, management has strongly right-sized headcount to lower AUM (Figure 10), and retooled compensation structures – the latter of which should help temper unwanted employee turnover but also collectively pave the way for operating leverage should the top line build. Management continues to guide toward 50% compensation to "adjusted" net revenues but we see some improvement into 2014 as flow picture improves, in our view (though we do not model as much improvement as we implicitly anticipate).

Figure 10. Management Has Right-Sized Headcount with the Lower AUM



Source: Company reports, Citi Research

The incremental margin opportunity for AB reflects its move to shed another 460,000 square feet of excess real estate. As we discussed in our post 2Q recap – see also our 8/3 report, Off The Call — Right Sizing The Business + Flows Gaining Traction But Waiting For More Decisive Entry – much of the excess capacity is located in NYC and London, which should allow for reasonable absorption rates over the next few years. Management guided toward $38M to $43M of cumulative savings and will update investors on timing post 3Q earnings in October/November. We model $38M including $10M in 2013 and $18M in 2014. In turn, the midpoint of the savings translates into ~170 bps of margin improvement.

While we look for "adjusted" operating margins to soften a bit into 3Q reflecting the cumulative impact of recent AUM dynamics, we do foresee margins working higher into 4Q12 and 2013-14 (assuming improving markets). Interestingly, AB's absolute level of "adjusted" margins are still less than 20%. While we do not believe AB can return to the hey days of the 1990s and early 2000s given mix shift, we do believe there is solid structural upside, particularly as global managers are generally around 35%+ margins. Every 1% margin improvement translates into ~$0.10 per year EPS accretion, or 9% relative to 2012E.

Based on our revised 2012-14 EPS estimates, we calculate distribution yields of ~8%, ~10% and ~11%.

4. **Clipping attractive coupons while waiting for flow picture to further improve** – Based on our revised 2012-14 EPS estimates, we calculate distribution yields of ~8%, ~10% and ~11%. Such yields are attractive on both an absolute and relative sense, in our view. Importantly, stress testing our EPS for various market contingencies suggests still favorable yield potential. If we assume flat markets, the 2012 distribution yield remains ~8% and 2013 ~9% while if we assume markets down 10%, 2012 remains ~8% and 2013 ~8%, suggesting relative consistency. We see two added benefits:

   - Unlike the PTP structures of the Alternatives, AB's MLP immediately passes through the bulk of their earnings in the form of a distribution. MLPs have generally been grandfathered from carried interest tax law changes. PTPs generally pay out partially in the first three quarters of the year, with a "catch up" in 4Q, net of hold back for growth;

   - As such, we see investors getting paid to wait for nascent flow recovery to gain further traction.

5. **AB is well out of favor, suggesting sentiment can really only get better from here** – Indeed, AB is not a widely discussed stock among our conversations with investors, who remain more focused on AMG and IVZ. However, with a high misery index including only one Buy-rating among the 11 sell side analysts covering the stock, we think it is tough to get much worse for the shares.

   To put that into some further perspective, AB is still down ~6% YTD, among the worst performers in our coverage universe despite building evidence of flow picture. In turn, we see solid ETR, heavily bolstered by attractive yield.

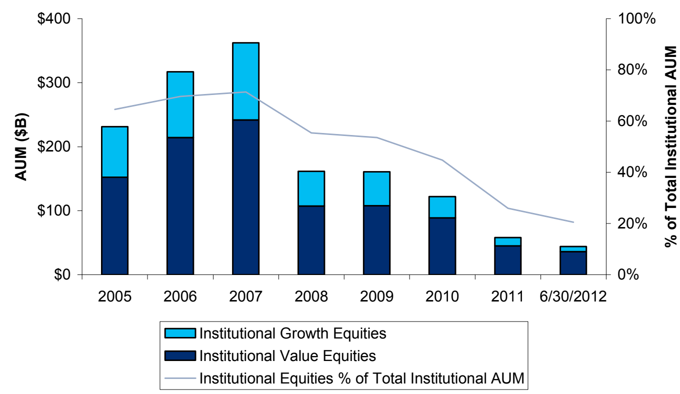
What Are the Risks?

We see three key risks:

***First*, AB has strongly built out FI against the backdrop of low rates and historically strong bond inflows, which suggest some regression to the mean could occur and whipsaw flows.** However, should a "risk/on" trade develop, we believe equities performance in legacy Value and Growth would strongly improve, helping to blunt incremental attrition while incremental margins on equities tend to be strong.

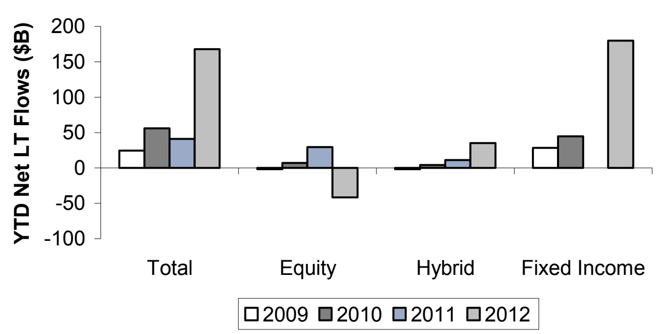
Second, **rising rates (a related risk to point #1) could impair AUM and EPS if FI attrition picks up at time of lackluster equities flows.** However, we note: 1) we believe rates will need to move much higher to offset the inertia of current flow trends; 2) we see structural shift within institutional platforms toward FI and away from equities (Figure 11); and, 3) FI growth is diverse globally, adding some mitigating pressure as we would not expect all investors to uniformly move back toward equities. To be sure, as noted in Figure 12, the weekly flow picture in the US remains underwhelming into equities while solid for fixed income. That said, our model assumes some conservative assessment for FI, and July AUM implies solid FI flows. Nonetheless, there is some risk that AB could get a double negative of stepped up FI outflows against lagging equities inflows.

Figure 11. We Believe the Bulk of the Institutional Attrition Is Now Vastly Behind as Equity Platform Is Sharply Lower but Could Limit Flow Recovery Should Equities Volumes Accelerate



Source: Company reports, Citi Research

Figure 12. …As Industry (Retail) Flows Remain Focused on Fixed Income



Source: ICI, Citi Research

Third, **the RE rationalization program could take longer to play out, blunting some of the margin improvement we see into 2014.** We model $2.5M of savings for 4Q12, or $10M annualized, with another $10M for 2013 and $18M for 2014, or a total of $38M, at low end of management's guidance. With much of the square footage in prime markets, we are hopeful such sub-leasing will occur ratably. That said, a 25% hair cut to such saves, only cuts our 2013-14 EPS estimates by $0.01 and $0.02, respectively.

Companies mentioned: (AMG.N; US$116.51; 1); (BLK.N; US$174.79; 2); (IVZ.N; US$23.59; 1); (TROW.O; US$61.02; 3); (BEN.N; US$116.18; 2).

Figure 13. AllianceBernstein Summary Model

AllianceBernstein L.P.
Earnings Results and Forecasts
($ Millions, Except As Noted)

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							Forecast:				Forecast:				% Change		
Income Statement - Operating Partnership	**1Q11**	**2Q11**	**3Q11**	**4Q11**	**1Q12**	**2Q12**	**3Q12E**	**4Q12E**	**2011**	**2012E**	**2013E**	**2014E**	**3QE/2Q**	**3QE/3Q**	**12E/11E**	**13E/12E**	**14E/13E**
Base Fees	509.9	504.6	469.5	415.9	423.2	422.0	423.2	434.6	1,899.9	1,703.0	1,776.1	1,864.0	0.3	(9.9)	(10.4)	4.3	5.0
Performance Fees	5.1	3.8	0.6	7.1	4.4	3.8	5.0	5.0	16.6	18.2	25.0	27.5	30.1	718.3	10.1	37.1	10.0
Distribution Revenues	88.8	92.3	87.9	82.6	89.0	95.2	101.7	107.1	351.6	393.0	462.7	519.4	6.9	15.7	11.8	17.7	12.3
Institutional Research Services	119.6	107.6	118.1	92.0	106.3	103.0	95.0	110.0	437.4	414.4	435.1	456.8	(7.8)	(19.6)	(5.3)	5.0	5.0
Other	32.9	20.4	(34.1)	27.8	59.6	19.0	36.0	35.7	47.0	150.3	148.1	154.9	89.9	(205.6)	219.9	(1.5)	4.6
Interest Expense	1.0	0.6	0.5	0.4	0.7	0.8	0.7	0.7	2.6	2.9	2.9	2.9	(14.4)	34.1	14.5	0.0	0.0
Total Net Revenues	755.4	728.0	641.5	625.0	681.8	642.2	660.3	691.6	2,749.9	2,675.9	2,844.0	3,019.7	2.8	2.9	(2.7)	6.3	6.2
Compensation & Benefits	339.5	326.9	283.7	298.4	302.5	272.8	279.4	289.2	1,248.5	1,144.0	1,175.2	1,222.9	2.4	(1.5)	(8.4)	2.7	4.1
Promotion & Servicing	138.4	147.7	137.8	134.0	137.9	148.1	156.2	163.8	558.0	606.0	685.2	761.5	5.5	13.3	8.6	13.1	11.1
General and Admin.	132.9	131.8	129.3	139.6	124.9	129.3	130.0	127.5	533.6	511.7	512.8	510.1	0.5	0.5	(4.1)	0.2	(0.5)
One-time Charge	0.0	0.0	6.9	587.4	9.3	6.8	50.0	150.0	594.4	216.1	25.0	0.0					
Total Operating Costs	617.0	612.4	563.8	1,165.2	580.6	563.4	622.1	736.9	2,958.4	2,503.0	2,423.6	2,520.3	10.4	10.3	(15.4)	(3.2)	4.0
Operating Income	138.4	115.6	77.7	(540.2)	101.2	78.7	38.2	(45.3)	(208.5)	172.9	420.4	499.4	(51.5)	(50.8)	(182.9)	143.1	18.8
Non Operating Income/(Expense)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0					
Pretax Income	138.4	115.6	77.7	(540.2)	101.2	78.7	38.2	(45.3)	(208.5)	172.9	420.4	499.4	(51.5)	(50.8)	(182.9)	143.1	18.8
Income Taxes	10.0	8.2	5.2	(20.3)	6.7	5.8	2.7	(3.2)	3.1	12.0	29.4	35.0	(54.2)	(48.4)	288.8	144.3	18.8
Tax Rate-%	*7.2*	*7.1*	*6.7*	*3.8*	*6.6*	*7.4*	*7.0*	*7.0*	*(1.5)*	*7.0*	*7.0*	*7.0*					
Net Income	136.5	114.1	91.0	(516.4)	87.3	74.2	35.0	(42.7)	(174.8)	153.7	388.5	461.9	(52.9)	(61.6)	(187.9)	152.8	18.9
Net Operating Earnings (ex Amort & Nonrecurring)	136.5	114.2	97.9	71.1	96.5	81.0	85.0	107.3	419.6	369.8	413.5	461.9	4.9	(13.2)	(11.9)	11.8	11.7
AllianceBernstein Holding L.P. (Publicly Traded Partnership)																	
Equity in Earnings of Operating Partnership	51.1	42.7	34.1	(193.5)	32.7	27.8	13.1	(16.0)	(65.6)	57.6	145.8	173.3	(52.8)	(61.5)	(187.8)	153.1	18.9
Income Taxes	7.4	7.2	7.1	6.0	6.0	6.5	6.6	6.8	27.7	25.8	27.7	29.1	1.4	(7.3)	(6.7)	7.3	5.0
Net Income	43.7	35.5	27.0	(199.5)	26.7	21.3	6.6	(22.8)	(93.3)	31.8	118.1	144.2	(69.2)	(75.7)	(134.1)	271.6	22.1
Tax Rate-%	*14.5*	*16.9*	*20.8*	*(3.1)*	*18.4*	*23.2*	*50.0*	*(42.4)*	*(42.2)*	*44.8*	*19.0*	*16.8*					
Adjusted Net Revenues	659.4	636.9	602.3	527.5	562.3	546.1	544.6	567.1	2,426.1	2,220.1	2,321.4	2,426.7					
Adjusted Operating Income	144.5	125.6	106.5	37.0	101.5	87.8	83.0	97.7	413.6	369.9	427.4	480.3					
Adjusted Operating Margin	21.9%	19.7%	17.7%	7.0%	18.0%	16.1%	15.2%	17.2%	17.0%	16.7%	18.4%	19.8%					
Adjusted Net Income	43.2	36.8	30.8	6.9	29.4	24.2	24.2	29.3	117.7	107.1	129.1	147.0					
Adjusted EPU	**$0.41**	**$0.35**	**$0.30**	**$0.07**	**$0.29**	**$0.24**	**$0.24**	**$0.29**	**$1.14**	**$1.06**	**$1.25**	**$1.39**	0.2	(20.0)	(7.4)	18.2	11.7
GAAP EPU	$0.42	$0.34	$0.26	($1.97)	$0.26	$0.21	$0.07	($0.23)	($0.90)	$0.31	$1.16	$1.39	(68.3)	(74.5)	(134.8)	272.2	19.8
Distribution Per Unit	$0.42	$0.34	$0.26	$0.12	$0.26	$0.21	$0.23	$0.28	$1.14	$0.98	$1.23	$1.37	11.0	(10.4)	(14.0)	25.4	11.6
Avg Diluted Units (Holding) (M)	105.5	104.5	103.2	101.4	101.8	101.4	101.4	101.4	103.3	101.5	103.5	105.5	0.0	(1.7)	(1.7)	2.0	1.9
Avg Diluted Units (LP)	278.9	278.6	278.0	278.0	277.8	277.8	278.0	278.0	253.0	254.8	256.6	260.0					
EBITDA	167.8	144.2	124.9	71.9	124.7	108.3	109.5	126.0	508.7	468.5	530.6	585.3	1.1	(12.3)	(7.9)	13.2	10.3
Free Cash Flow	148.6	121.0	99.1	54.2	104.0	93.6	89.0	104.3	454.3	390.9	449.3	504.1					
Margins (%) (Operating Partnership)																	
Adjusted Income Margin	21.9%	19.7%	17.7%	7.0%	18.0%	16.1%	15.2%	17.2%	17.0%	16.7%	18.4%	19.8%					
Investment Advisory Revenue Yield (bps)	43.0	42.7	42.5	40.6	40.7	41.1	41.0	40.9	42.2	40.9	40.6	39.8	(0.3)	(3.6)	(3.0)	(0.9)	(1.8)
EOP AUM ($ Billions)	**477.4**	**461.1**	**402.0**	**405.9**	**419.1**	**407.3**	**415.4**	**424.1**	**405.9**	**424.1**	**451.6**	**484.7**	**2.0**	**3.3**	**4.5**	**6.5**	**7.3**
Average AUM ($ Billions)	481.1	474.0	437.9	410.8	417.5	411.1	410.9	422.3	450.9	415.4	437.5	467.8	(0.0)	(6.2)	(7.9)	5.3	6.9
Total Net Flow ($ Billions)	**(14.4)**	**(19.5)**	**(15.4)**	**(13.2)**	**(12.1)**	**(2.8)**	**(1.5)**	**4.2**	**(62.5)**	**(12.2)**	**7.8**	**12.2**	**(45.5)**	**(90.1)**	**80.4**	**(163.8)**	**56.4**
Q/Q % Change	-0.1%	-3.4%	-12.8%	1.0%	3.3%	-2.8%	2.0%	2.1%	-15.1%	4.5%	6.5%	7.3%					
Annualized Organic Growth (Loss) Rate	-12.0%	-16.3%	-13.4%	-13.1%	-11.9%	-2.7%	-1.5%	4.0%	-13.1%	-3.0%	1.8%	2.7%					

Source: Company reports, Citi Research

AllianceBernstein Holding LP

Company description

AllianceBernstein Holding L.P. and its subsidiaries provide investment management and related services to institutional, retail and private clients throughout the world. The company's investment professionals have expertise in growth equities, value equities, fixed income securities, blend strategies and alternative investments, operating in over 20 countries. It also offers in-depth and independent fundamental research, portfolio strategy, trading and brokerage-related services to institutional investors, such as pension fund, hedge fund and mutual fund managers, and other institutional investors. In addition, AllianceBernstein provides distribution, shareholder servicing and administrative services to its sponsored mutual funds. The company was founded in 1987. It was formerly known as Alliance Capital Management Holding L.P. and changed its name to AllianceBernstein Holding L.P. in 2006.

Investment strategy

Five key factors pace our Buy rating: 1) after several years of powerful attrition, we believe the flow outlook is improving; 2) 2012-14 consensus EPS estimates already discount further shrinkage in institutional equities platform; 3) AB is among few with margin improvement story beyond market impact; 4) ~9% distribution yield is attractive, and should further provide downside support; and 5) offers highest “misery index” among our coverage universe with little sell-side support.

Valuation

Our target price on AB is $14.00. We value the units using 2014 "adjusted" EPS given improving flow and earnings leverage and discount back one year at a~12% cost of capital and apply a ~11.5x and below the firm's 14x historical FTM P/E given uneven organic growth.

Risks

We see the central risks to achieving our target price around: 1) rapid "risk/on" trade could stunt flow recovery; 2) rising rates could dampen EPS given heavy FI skew; and, 3) slower-than-forecast G+A lift related to recent RE consolidation effort. AB is an MLP, and investors will get a K-1, though unlike the alternatives managers, AB flows the bulk of income to investors quarterly and generally more predictably.

Appendix A-1

Analyst Certification

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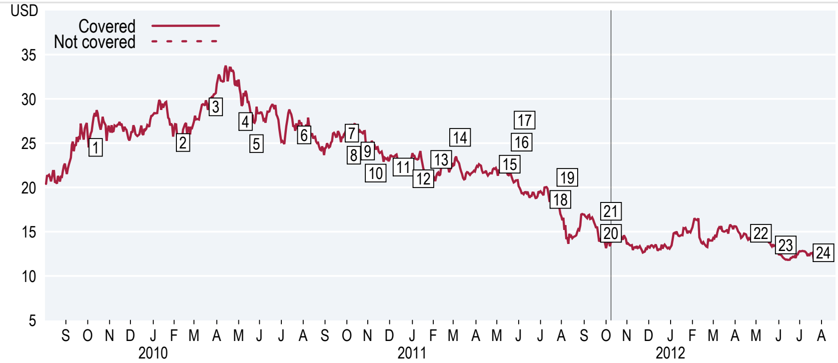
IMPORTANT DISCLOSURES

AllianceBernstein Holding LP (AB)

Ratings and Target Price History
Fundamental Research

Analyst: William R Katz
Covered since March 31 2010



	Date	Rating	Target Price	Closing Price
1	13-Oct-09	2H	*27.00	28.00
2	12-Feb-10	2H	*28.00	26.53
3	31-Mar-10	*1M	*35.50	30.66
4	12-May-10	1M	*35.00	30.92
5	27-May-10	1M	*32.00	29.11
6	3-Aug-10	1M	*30.00	26.30
7	8-Oct-10	*2M	*28.00	26.76
8	12-Oct-10	2M	*27.00	27.09
9	1-Nov-10	2M	*26.00	24.11
10	11-Nov-10	2M	*25.00	24.27
11	21-Dec-10	2M	*23.50	22.50
12	18-Jan-11	*3M	*20.00	22.13
13	11-Feb-11	*2M	*21.50	22.34
14	10-Mar-11	2M	*21.00	22.21
15	19-May-11	2M	*20.00	21.53
16	6-Jun-11	2M	*19.00	19.35
17	9-Jun-11	2M	*18.00	19.45
18	29-Jul-11	2M	*17.00	17.00
19	9-Aug-11	2M	*14.50	14.37
20	8-Oct-11	Stock rating system changed		
21	8-Oct-11	*2	14.50	13.35
22	8-May-12	2	*15.00	14.27
23	12-Jun-12	2	*12.50	11.84
24	3-Aug-12	2	*13.00	12.30

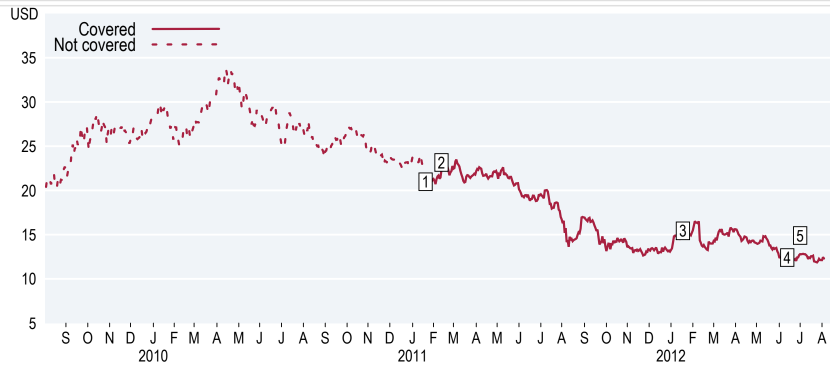
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

AllianceBernstein Holding LP (AB)

Ratings and Target Price History
Best Ideas Research
Relative Call (3 Month)

Analyst: William R Katz
Covered since March 31 2010



	Date	Rating	Target Price	Closing Price
1	20-Jan-11	*ADD LP	-	21.69
2	11-Feb-11	*REM LP	-	22.34
3	18-Jan-12	*ADD LP	-	14.60
4	13-Jun-12	*REM LP	-	11.86
5	30-Jun-12	*N	-	12.69

* Indicates change

Rating/target price changes above reflect Eastern Standard Time

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	12 Month Rating			***Relative Rating***		
Data current as of 30 Jun 2012	**Buy**	**Hold**	**Sell**	**Buy**	**Hold**	**Sell**
Citi Research Global Fundamental Coverage	53%	37%	10%	10%	80%	10%
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