

Envestnet (ENV)

\$74.83 (As of 07/03/20)

Price Target (6-12 Months): **\$79.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 05/07/20)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:D

Value: D

Growth: B

Momentum: D

Summary

Envestnet has strong asset-based and subscription-based recurring revenue generation capacity. The company continues to focus on technology development to improve operational efficiency and increase market competitiveness. Rising demand for personalized wealth management services are creating significant market opportunity for Envestnet's technology-enabled solutions and services, thereby benefiting the stock that has gained in the year-to-date period. On the flip side, with high debt as a percentage of total capital, Envestnet's capital structure puts investors at risk. The company never declared and does not have any plan to pay out cash dividends on common stock. The only way to achieve return on investment is share price appreciation, which is not guaranteed. The company remains exposed to foreign exchange rate fluctuations.

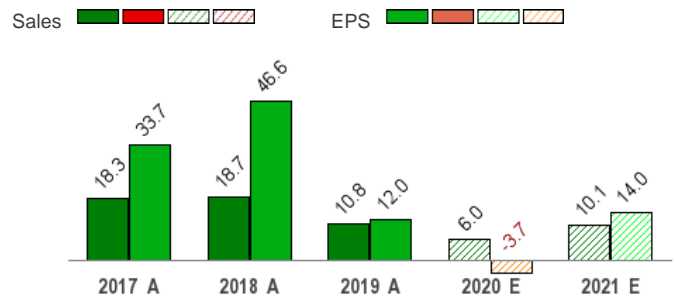
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$87.75 - \$45.53
20 Day Average Volume (sh)	454,574
Market Cap	\$4.0 B
YTD Price Change	7.5%
Beta	1.76
Dividend / Div Yld	\$0.00 / 0.0%
Industry	Financial Transaction Services
Zacks Industry Rank	Top 35% (89 out of 252)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	26.7%
Last Sales Surprise	2.0%
EPS F1 Est- 4 week change	0.0%
Expected Report Date	08/05/2020
Earnings ESP	0.0%
P/E TTM	32.3
P/E F1	36.2
PEG F1	2.1
P/S TTM	4.2

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	246 E	256 E	262 E	268 E	1,050 E
2020	247 A	227 E	237 E	242 E	954 E
2019	200 A	224 A	236 A	240 A	900 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$0.52 E	\$0.53 E	\$0.60 E	\$0.66 E	\$2.36 E
2020	\$0.57 A	\$0.45 E	\$0.53 E	\$0.54 E	\$2.07 E
2019	\$0.39 A	\$0.46 A	\$0.60 A	\$0.69 A	\$2.15 A

*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 07/03/2020. The reports text is as of 07/06/2020.

Overview

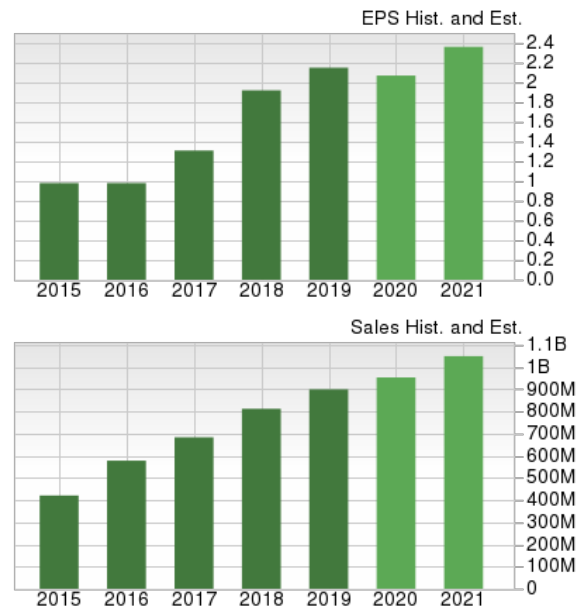
Founded in 1999, Chicago, IL based Envestnet is a leading provider of intelligent systems for wealth management and financial systems.

The company's financial network connects software, services and data. Envestnet serves more than 4,700 companies, including 43 of the 50 largest wealth management and brokerage firms, 16 of the 20 largest U.S. banks, more than 500 of the largest registered investment advisers and hundreds of Internet services companies. It operates through two segments -**Envestnet Wealth Solutions and Envestnet Data & Analytics**.

Envestnet Wealth Solutions (79% of 2019 revenues) is a provider of wealth management services. Services include financial planning, risk assessment tools, investment strategies and solutions, asset allocation models, research, portfolio construction, proposal generation and paperwork preparation, model management and account rebalancing, account monitoring, customized fee billing, overlay services covering asset allocation, tax management and socially responsible investing, aggregated multi-custodian performance reporting and communication tools and data analytics.

The segment's solutions include Envestnet | Enterprise, Envestnet | Tamarac, Envestnet | Retirement Solutions ("ERS") and Envestnet | PMC. Envestnet | Enterprise provides an end-to-end open architecture wealth management platform, and data aggregation and reporting, data analytics, and digital advice capabilities. Envestnet | Tamarac provides trading, portfolio accounting, rebalancing, performance reporting, and client relationship management software. Envestnet | Retirement Solutions offer a suite of services for advisor-sold retirement plans. Envestnet | Portfolio Management Consultants provide research, due diligence, consulting services, patented portfolio overlay and tax optimization services.

Envestnet Data & Analytics' (21%) data aggregation and data analytics platform offers cloud-based innovation for digital financial services. As an artificial intelligence ("AI") and data specialist, the segment collects, polishes and aggregates end-user permissioned transaction level data, and combines them with financial applications, market research analysis, reports and application programming interfaces.



Reasons To Buy:

▲ Investnet's business model ensures solid asset-based and subscription-based **recurring revenue generation capacity**. The company provides asset-based and subscription-based services on a business-to-business-to-consumer ("B2B2C") basis to financial services clients. These clients offer solutions based on Investnet's platform to their end users. On a business-to-business ("B2B") basis, the company delivers an open platform to customers and third-party developers through an open API framework. Investnet's recurring revenues in 2019 increased 11% and those in the first quarter of 2020 increased 24.7% year over year. This might have positively impacted the stock that has gained 7.4% year to date.

Strong recurring revenue generation capacity, efforts to improve operational efficiency and market competitiveness bode well for Investnet.

▲ Investnet continues to focus on **technology development** with a view to improve operational efficiency, increase market competitiveness, address regulatory demands and cater to client-driven requests for new capabilities. Currently, the company's technology platforms are based on a three-tier architecture that combines a Web-based user interface, an application tier that houses the business logic for all of the platforms' functionality and a SQL Server database. It believes that its technology design allows for significant scalability.

▲ A number of trends are creating **significant market opportunity** for Investnet's technology-enabled solutions and services. Investment advice is becoming an important part of financial planning and customers are increasingly seeking personalized wealth management services. Technology adoption is likely to increase significantly with increasing need to interact with clients who prefer guided advice in a cost-effective manner. Moreover, according to various media sources, a massive wealth transfer will happen in the next 30- 40 years as baby boomers transfer assets to their offspring, who tend to prefer greater use of technology in their involvements with advisors.

Reasons To Sell:

- ▼ Investnet never declared and currently **does not have any plan to payout cash dividends** on common stock. So, the only way to achieve return on investment on the company's stock is share price appreciation, which is not guaranteed. Investors seeking cash dividends should avoid buying Investnet's shares.
- ▼ Investnet has a **debt-laden balance sheet**. Total debt at the end of first-quarter 2020 was \$697 million, up from the \$668 million recorded at the end of the prior quarter. The total debt to total capital ratio of 0.45 was higher than the previous quarter's 0.44. Increasing debt-to capital-ratio indicates that the proportion of debt to finance the company's assets is on the rise. Higher debt as a percentage of total capital indicates a higher risk of insolvency. Further, cash and cash equivalent balance of \$69 million at the end of the first quarter was well below the debt level, underscoring that the company doesn't have enough cash to meet this debt burden.
- ▼ Investnet's revenues are denominated in the U.S. dollar, while its costs are denominated in foreign currencies, mainly the Indian Rupee. This exposes the company to **foreign exchange rate fluctuations**. In particular, a weakening of the U.S. dollar, would negatively impact the company's operating results. The company incurred foreign currency translation loss of \$0.75 million in 2019.

Higher debt as a percentage of total capital indicates that Investnet has a higher risk of insolvency.

Last Earnings Report

Envestnet Beats Q1 Earnings and Revenue Estimates

Envestnet posted better-than-expected results for first-quarter 2020.

Quarterly report represents an earnings surprise of 26.67% and earnings increased 46% year over year. Revenues of \$246.5 million surpassed the consensus mark of \$241.6 million and climbed 23% year over year.

Quarterly Numbers in Detail

Adjusted revenues of \$247 million jumped 24% year over year. Adjusted net revenues grew 22% to \$178.4 million.

Asset-based recurring revenues of \$134.8 million increased 24% year over year, representing 55% of total revenues. Subscription-based recurring revenues of \$104.6 million were up 26% from the prior-year period, representing 42% of total revenues. Professional services and other non-recurring revenues decreased 6% year over year to \$7.2 million.

Adjusted EBITDA came in at \$54.6 million, up 61% year over year. Adjusted EBITDA margin expanded 512 basis points (bps) year over year to 22.3%.

Envestnet ended the first quarter with cash and cash equivalent balance of \$68.6 million compared with the \$82.5 million witnessed at the end of the prior quarter. The company generated around \$9 million of cash from operating activities and CapEx was \$2.2 million.

Outlook

For second-quarter 2020, Envestnet expects adjusted EPS to be 47 cents, above the current Zacks Consensus Estimate of 43 cents. Total revenues are estimated between \$225.9 million and \$227.4 million, the mid-point (\$226.7 million) of which is below the consensus estimate of \$228.6 million.

Adjusted revenues are anticipated between \$226 million and \$227.5 million. Adjusted net revenues are projected at \$165-\$167 million. The company expects adjusted EBITDA in the band of \$47.5 million to \$48.5 million.

For 2020, adjusted EPS is expected between \$1.92 and \$ 2.02, the mid-point (\$1.97) of which is much below the consensus mark of \$2.04. Total revenues are anticipated between \$939.5 million and \$945.5 million, below the consensus estimate of \$951.6 million.

The company expects adjusted revenues of \$940-\$946 million. Adjusted net revenues are projected at \$678-\$689 million. The company projects adjusted EBITDA of \$200 million to \$203 million.

Quarter Ending **03/2020**

Report Date	May 07, 2020
Sales Surprise	2.03%
EPS Surprise	26.67%
Quarterly EPS	0.57
Annual EPS (TTM)	2.32

Recent News

On **May 5, 2020**, Envestnet | MoneyGuide announced that it has rolled out an enhancement to the MoneyGuide Client Portal. This enables advisors to engage with clients using MoneyGuide financial planning solutions on-screen with one and two-way video.

On **Apr 8, 2020**, Envestnet announced a special free offer of its MyBlocks financial planning tool. This tool is expected to give consumers access to planning solutions which they can explore on their own through a financial advisor.

On **Mar 31, 2020**, Envestnet's board of directors announced the following appointments, effective immediately. These include William Crager as chief executive officer; Stuart DePina as president and James Fox as chairman and Charles Roame as vice chairman of the board.

On **Mar 24, 2020**, Envestnet announced that it has entered into a collaboration with Compliance Solutions Strategies (CSS) to offer a comprehensive, fully customizable Form CRS software solution for registered investment advisers (RIAs) and broker-dealers to Envestnet clients.

Valuation

Envestnet shares are up 7.4% in the year-to-date period and 7.3% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Business Services sector are down 0.5% and 1.6% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry is up 7.9% but the sector is down 0.2%.

The S&P 500 index is down 2.7% in the year-to-date period but up 5.7% in the past year.

The stock is currently trading at 33.72X price to forward 12 months' earnings, which compares to 30.87X for the Zacks sub-industry, 29.73X for the Zacks sector and 22.38X for the S&P 500 index.

Over the past five years, the stock has traded as high as 68.39X and as low as 22.27X, with a 5-year median of 39.67X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$79.00 price target reflects 35.59X forward 12 months' earnings.

The table below shows summary valuation data for ENV

Valuation Multiples - ENV					
		Stock	Sub-Industry	Sector	S&P 500
P/E F 12M	Current	33.84	31.66	29.27	22.09
	5-Year High	68.39	31.66	29.27	22.09
	5-Year Low	22.27	20.78	18.68	15.23
	5-Year Median	39.67	23.17	20.73	17.49
P/S F12M	Current	3.98	11.25	3.99	3.43
	5-Year High	4.37	11.25	3.99	3.44
	5-Year Low	1.16	7.18	3.05	2.53
	5-Year Median	2.82	8.69	3.57	3.02
P/B TTM	Current	4.51	7.69	4.31	4.17
	5-Year High	7.15	12.78	6.68	4.56
	5-Year Low	1.6	5.22	3.2	2.83
	5-Year Median	4.29	8.08	5.18	3.65

As of 06/01/2020

Industry Analysis Zacks Industry Rank: Top 35% (89 out of 252)



Top Peers

Company (Ticker)	Rec	Rank
AssetMark Financial Holdings, Inc. (AMK)	Neutral	2
Bottomline Technologies, Inc. (EPAY)	Neutral	4
Fiserv, Inc. (FISV)	Neutral	3
Q2 Holdings, Inc. (QTWO)	Neutral	3
SSC Technologies Holdings, Inc. (SSNC)	Neutral	3
Workday, Inc. (WDAY)	Neutral	3
Fair Isaac Corporation (FICO)	Underperform	3
Intuit Inc. (INTU)	Underperform	5

Industry Comparison Industry: Financial Transaction Services				Industry Peers		
	ENV	X Industry	S&P 500	EPAY	QTWO	SSNC
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	3	-	-	4	3	3
VGM Score	D	-	-	C	F	C
Market Cap	4.00 B	2.35 B	21.98 B	2.20 B	4.30 B	14.51 B
# of Analysts	6	6	14	3	10	7
Dividend Yield	0.00%	0.00%	1.91%	0.00%	0.00%	0.88%
Value Score	D	-	-	D	F	C
Cash/Price	0.02	0.08	0.07	0.09	0.03	0.03
EV/EBITDA	53.90	16.21	12.74	39.69	-1,125.55	12.29
PEG Ratio	2.08	1.87	2.89	1.92	NA	NA
Price/Book (P/B)	4.58	4.14	2.98	5.76	11.91	2.85
Price/Cash Flow (P/CF)	23.52	13.53	11.75	25.65	107.03	8.12
P/E (F1)	36.34	28.65	21.41	38.33	NA	14.62
Price/Sales (P/S)	4.23	4.09	2.30	5.00	12.78	3.11
Earnings Yield	2.77%	3.11%	4.42%	2.62%	-0.03%	6.84%
Debt/Equity	0.79	0.43	0.76	0.47	1.29	1.44
Cash Flow (\$/share)	3.18	2.39	6.94	1.95	0.82	6.97
Growth Score	B	-	-	B	F	C
Hist. EPS Growth (3-5 yrs)	24.31%	18.08%	10.93%	-4.21%	NA	31.24%
Proj. EPS Growth (F1/F0)	-3.72%	-8.48%	-9.56%	8.22%	-107.07%	1.08%
Curr. Cash Flow Growth	21.89%	13.06%	5.51%	8.40%	120.39%	50.39%
Hist. Cash Flow Growth (3-5 yrs)	32.21%	14.80%	8.62%	25.62%	41.09%	42.09%
Current Ratio	0.92	1.25	1.30	2.03	1.27	1.06
Debt/Capital	44.15%	34.80%	44.46%	31.98%	56.25%	58.99%
Net Margin	-0.66%	7.54%	10.62%	-0.61%	-25.46%	9.79%
Return on Equity	8.94%	19.20%	15.75%	4.17%	-7.20%	19.95%
Sales/Assets	0.52	0.49	0.55	0.62	0.34	0.29
Proj. Sales Growth (F1/F0)	5.97%	-4.36%	-2.54%	8.85%	25.85%	-1.59%
Momentum Score	D	-	-	F	C	D
Daily Price Chg	0.11%	0.00%	0.47%	0.14%	0.21%	0.05%
1 Week Price Chg	-7.01%	-4.13%	-3.90%	-2.76%	4.56%	-7.45%
4 Week Price Chg	2.53%	0.71%	-3.77%	-5.39%	6.46%	-5.84%
12 Week Price Chg	30.91%	30.45%	8.02%	28.44%	32.38%	14.34%
52 Week Price Chg	6.38%	-9.31%	-7.59%	13.97%	12.03%	-1.84%
20 Day Average Volume	454,574	542,122	2,649,865	272,122	517,849	1,546,442
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	-11.29%	0.00%	0.00%
(F1) EPS Est 4 week change	0.00%	0.14%	0.00%	-11.29%	1.00%	0.00%
(F1) EPS Est 12 week change	-6.32%	-15.93%	-9.53%	-29.98%	-26.92%	-4.69%
(Q1) EPS Est Mthly Chg	0.00%	0.00%	0.00%	0.00%	1.69%	0.00%

Zacks Stock Rating System

We offer two rating systems that take into account investors' holding horizons: Zacks Rank and Zacks Recommendation. Each provides valuable insights into the future profitability of the stock and can be used separately or in combination with each other depending on your investment style.

Zacks Recommendation

The Zacks Recommendation aims to predict performance over the next 6 to 12 months. The foundation for the quantitatively determined Zacks Recommendation is trends in the company's estimate revisions and earnings outlook. The Zacks Recommendation is broken down into 3 Levels; Outperform, Neutral and Underperform. Unlike many Wall Street firms, we have an excellent balance between the number of Outperform and Neutral recommendations. Our team of 70 analysts are fully versed in the benefits of earnings estimate revisions and how that is harnessed through the Zacks quantitative rating system. But we have given our analysts the ability to override the Zacks Recommendation for the 1200 stocks that they follow. The reason for the analyst over-rides is that there are often factors such as valuation, industry conditions and management effectiveness that a trained investment professional can spot better than a quantitative model.

Zacks Rank

The Zacks Rank is our short-term rating system that is most effective over the one- to three-month holding horizon. The underlying driver for the quantitatively-determined Zacks Rank is the same as the Zacks Recommendation, and reflects trends in earnings estimate revisions.

Zacks Style Scores

The Zacks Style Score is as a complementary indicator to the Zacks rating system, giving investors a way to focus on the highest rated stocks that best fit their own stock picking preferences.

Academic research has proven that stocks with the best Value, Growth and Momentum characteristics outperform the market. The Zacks Style Scores rate stocks on each of these individual styles and assigns a rating of A, B, C, D and F. We also produce the VGM Score (V for Value, G for Growth and M for Momentum), which combines the weighted average of the individual Style Scores into one score. This is perfectly suited for those who want their stocks to have the best scores across the board.

Value Score	D
Growth Score	B
Momentum Score	D
VGM Score	D

As an investor, you want to buy stocks with the highest probability of success. That means buying stocks with a Zacks Recommendation of Outperform, which also has a Style Score of an A or a B.

Disclosures

This report contains independent commentary to be used for informational purposes only. The analysts contributing to this report do not hold any shares of this stock. The analysts contributing to this report do not serve on the board of the company that issued this stock. The EPS and revenue forecasts are the Zacks Consensus estimates, unless indicated otherwise on the reports first page. Additionally, the analysts contributing to this report certify that the views expressed herein accurately reflect the analysts personal views as to the subject securities and issuers. ZIR certifies that no part of the analysts compensation was, is, or will be, directly or indirectly, related to the specific recommendation or views expressed by the analyst in the report.

Additional information on the securities mentioned in this report is available upon request. This report is based on data obtained from sources we believe to be reliable, but is not guaranteed as to accuracy and does not purport to be complete. Any opinions expressed herein are subject to change.

ZIR is not an investment advisor and the report should not be construed as advice designed to meet the particular investment needs of any investor. Prior to making any investment decision, you are advised to consult with your broker, investment advisor, or other appropriate tax or financial professional to determine the suitability of any investment. This report and others like it are published regularly and not in response to episodic market activity or events affecting the securities industry.

This report is not to be construed as an offer or the solicitation of an offer to buy or sell the securities herein mentioned. ZIR or its officers, employees or customers may have a position long or short in the securities mentioned and buy or sell the securities from time to time. ZIR is not a broker-dealer. ZIR may enter into arms-length agreements with broker-dealers to provide this research to their clients. Zacks and its staff are not involved in investment banking activities for the stock issuer covered in this report.

ZIR uses the following rating system for the securities it covers. **Outperform-** ZIR expects that the subject company will outperform the broader U.S. equities markets over the next six to twelve months. **Neutral-** ZIR expects that the company will perform in line with the broader U.S. equities markets over the next six to twelve months. **Underperform-** ZIR expects the company will underperform the broader U.S. equities markets over the next six to twelve months.

No part of this report can be reprinted, republished or transmitted electronically without the prior written authorization of ZIR.