

Envestnet (ENV)

\$53.98 (As of 03/12/20)

Price Target (6-12 Months): **\$46.00**

Long Term: 6-12 Months

Zacks Recommendation: Underperform

(Since: 02/26/20)

Prior Recommendation: Neutral

Short Term: 1-3 Months

Zacks Rank: (1-5)

5-Strong Sell

Zacks Style Scores:

VGM:D

Value: F

Growth: B

Momentum: B

Summary

With goodwill constituting high percentage of total assets, Envestnet's capital structure puts investors at risk, thereby weighing on the stock that has declined over the past year. 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. On the flip side, 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.

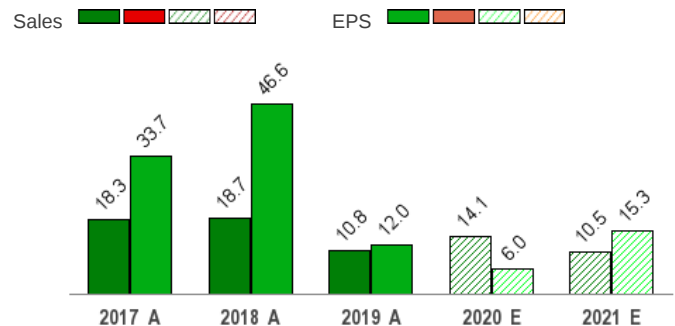
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$87.75 - \$51.00
20 Day Average Volume (sh)	511,902
Market Cap	\$2.9 B
YTD Price Change	-22.5%
Beta	1.68
Dividend / Div Yld	\$0.00 / 0.0%
Industry	Financial Transaction Services
Zacks Industry Rank	Bottom 35% (164 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	1.5%
Last Sales Surprise	0.1%
EPS F1 Est- 4 week change	-18.0%
Expected Report Date	05/13/2020
Earnings ESP	0.0%
P/E TTM	25.2
P/E F1	23.7
PEG F1	1.4
P/S TTM	3.2

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	273 E	286 E	291 E	298 E	1,135 E
2020	243 E	256 E	261 E	267 E	1,027 E
2019	200 A	224 A	236 A	240 A	900 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$0.58 E	\$0.61 E	\$0.71 E	\$0.76 E	\$2.63 E
2020	\$0.45 E	\$0.52 E	\$0.63 E	\$0.67 E	\$2.28 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 03/12/2020. The reports text is as of 03/13/2020.

Overview

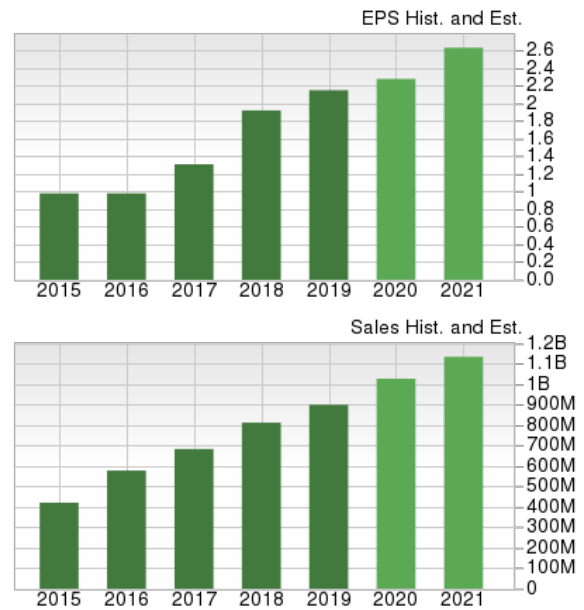
Founded in 1999, Chicago, IL based Envestnet is a leading provider of intelligent systems for wealth management and financial systems.

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 Sell:

- ▼ Envestnet 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 Envestnet's shares.
- ▼ Envestnet'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.
- ▼ With goodwill constituting nearly 50% of its total assets, Envestnet's **capital structure puts investors at risk**, thereby weighing on the stock that has declined 16.3% over the past year against the 11% rally of the industry. This is because such a large percentage of assets won't actually fetch any cash if there is any problem with the company.

With goodwill constituting high percentage of total assets, Envestnet's capital structure puts investors at risk.

Risks

- Envestnet'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 Envestnet'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. Envestnet's recurring revenues in 2019 came in at \$863.1 million that constituted 96% of total revenues and increased 11% year over year.
 - Envestnet 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 Envestnet'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.
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Last Earnings Report

Envestnet Beats Q4 Earnings and Revenue Estimates

Envestnet posted better-than-expected results for the fourth quarter of 2019.

The company delivered earnings and revenue surprises of 1.47% and 0.11%, respectively, for the quarter. Quarterly adjusted EPS of 69 cents increased 13% year over year. Revenues of \$239.9 million increased 14% year over year.

Quarterly Numbers in Detail

Adjusted revenues of \$242.5 million increased 15% year over year. Adjusted net revenues grew 18% to \$177.1 million.

Asset-based recurring revenues of \$128.7 million increased 5% year over year, representing 54% of total revenues. Subscription-based recurring revenues of \$102.9 million were up 32% from the prior-year period, representing 43% of total revenues. Professional services and other non-recurring revenues decreased 11% year over year to \$8.3 million. PortfolioCenter and PIE tech acquisitions contributed revenues of \$2.3 million and \$12.2 million, respectively.

Adjusted EBITDA came in at \$61.5 million, up 30% year over year. Adjusted net income of \$37.1 million increased 28%.

Envestnet ended the quarter with cash and cash equivalent balance of \$82.5 million, compared with \$71.6 million at the end of the prior quarter. The company generated around \$46.9 million of cash from operating activities and CapEx was \$3.8 million.

Outlook

For the first quarter of 2020, Envestnet expects adjusted EPS to be 45 cents. Total revenues are expected between \$241.7 million and \$243.7 million. Adjusted revenues are anticipated between \$242 million and \$244 million. Adjusted net revenues are projected in the range of \$172 million to \$174.5 million. The company expects adjusted EBITDA in the range of \$46 million to \$47 million.

For 2020, adjusted EPS is expected between \$2.22 and \$ 2.27. Total revenues are anticipated between \$1017.5 million and \$1027.5 million. The company expects adjusted revenues to be between \$1,018 million and \$1,028 million. Adjusted net revenues are expected in the range of \$724 million to \$736 million. The company projects adjusted EBITDA of \$220 million to \$224 million.

Quarter Ending **12/2019**

Report Date	Feb 20, 2020
Sales Surprise	0.11%
EPS Surprise	1.47%
Quarterly EPS	0.69
Annual EPS (TTM)	2.14

Recent News

On **Feb 19, 2020**, Envestnet | PMC announced that it has launched a Strategist UMA program. It is a suite of unified managed accounts for advisors who work with high-net-worth and ultra-high-net-worth clients.

On **Jan 16, 2020**, Envestnet and Invesco launched seven new model portfolios that combine active and passive management.

On **Dec 19, 2019**, Envestnet | Tamarac announced that it has deployed strategic enhancements to PortfolioCenter. The enhancements streamlined administrative tasks to improve user efficiency.

Valuation

Envestnet shares are down 16.1% over the trailing 12-month period. While stocks in the Zacks sub-industry are up 11%, those in the Zacks Business Services sector are down 2% in the past year.

The S&P 500 index is down 3.4% in the past year.

The stock is currently trading at 22.99X price to forward 12 months' earnings, which compares to 23.67X for the Zacks sub-industry, 21.29X for the Zacks sector and 15.84X 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 39.88X. Our Underperform recommendation indicates that the stock will perform worse than the market. Our \$44.00 price target reflects 18.72X 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	22.99	23.67	21.29	15.84
	5-Year High	68.39	28.03	25.27	19.34
	5-Year Low	22.27	20.78	18.79	15.18
	5-Year Median	39.88	23.01	20.59	17.42
P/S F 12M	Current	2.72	9.05	3.36	2.91
	5-Year High	4.37	10.7	4	3.44
	5-Year Low	1.16	7.19	3.09	2.54
	5-Year Median	2.84	8.69	3.63	3
P/B TTM	Current	3.27	6.66	4.22	3.69
	5-Year High	9.71	12.79	6.71	4.56
	5-Year Low	1.6	5.34	4.13	2.85
	5-Year Median	4.41	7.93	5.24	3.63

As of 03/12/2020

Industry Analysis Zacks Industry Rank: Bottom 35% (164 out of 253)



Top Peers

Q2 Holdings, Inc. (QTWO)	Outperform
AssetMark Financial Holdings, Inc. (AMK)	Neutral
Bottomline Technologies, Inc. (EPAY)	Neutral
Fair Isaac Corporation (FICO)	Neutral
Fiserv, Inc. (FISV)	Neutral
Intuit Inc. (INTU)	Neutral
SS&C Technologies Holdings, Inc. (SSNC)	Neutral
Workday, Inc. (WDAY)	Neutral

Industry Comparison Industry: Financial Transaction Services				Industry Peers		
	ENV Underperform	X Industry	S&P 500	EPAY Neutral	QTWO Outperform	SSNC Neutral
VGM Score	D	-	-	D	F	B
Market Cap	2.86 B	2.23 B	17.38 B	1.40 B	3.10 B	10.87 B
# of Analysts	6	6.5	13	5	6	6
Dividend Yield	0.00%	0.00%	2.51%	0.00%	0.00%	1.18%
Value Score	F	-	-	D	F	C
Cash/Price	0.02	0.08	0.05	0.06	0.04	0.01
EV/EBITDA	39.99	11.43	10.90	25.33	-829.11	10.39
PEG Ratio	1.43	1.23	1.54	NA	NA	NA
Price/Book (P/B)	3.26	3.08	2.35	3.53	8.12	2.10
Price/Cash Flow (P/CF)	16.97	11.49	9.60	16.27	78.01	6.10
P/E (F1)	25.10	16.17	13.98	24.06	3,491.46	10.37
Price/Sales (P/S)	3.17	3.20	1.89	3.22	9.82	2.35
Earnings Yield	4.22%	6.02%	7.07%	4.16%	0.03%	9.64%
Debt/Equity	0.75	0.35	0.70	0.25	1.21	1.45
Cash Flow (\$/share)	3.18	2.86	7.01	1.95	0.82	6.97
Growth Score	B	-	-	C	D	B
Hist. EPS Growth (3-5 yrs)	21.66%	17.05%	10.85%	-4.09%	NA	29.44%
Proj. EPS Growth (F1/F0)	5.97%	14.73%	5.99%	-2.22%	-95.53%	7.01%
Curr. Cash Flow Growth	21.89%	8.41%	6.15%	8.40%	120.39%	50.39%
Hist. Cash Flow Growth (3-5 yrs)	32.21%	10.92%	8.52%	25.62%	41.09%	42.09%
Current Ratio	0.90	1.15	1.24	1.49	1.40	1.00
Debt/Capital	42.98%	38.74%	42.57%	20.16%	54.85%	59.21%
Net Margin	-1.90%	8.29%	11.64%	1.29%	-22.47%	9.46%
Return on Equity	8.20%	19.57%	16.74%	5.11%	-5.98%	19.64%
Sales/Assets	0.53	0.45	0.54	0.64	0.37	0.28
Proj. Sales Growth (F1/F0)	14.12%	9.00%	3.54%	6.89%	30.85%	2.61%
Momentum Score	B	-	-	B	F	B
Daily Price Chg	-14.76%	-9.34%	-10.03%	-12.19%	-4.89%	-7.71%
1 Week Price Chg	-3.82%	-0.98%	-0.67%	-9.67%	-7.46%	-5.46%
4 Week Price Chg	-36.86%	-23.46%	-28.22%	-34.42%	-27.21%	-35.18%
12 Week Price Chg	-24.29%	-18.98%	-25.63%	-40.84%	-19.42%	-30.28%
52 Week Price Chg	-16.28%	-13.00%	-16.72%	-35.41%	-5.87%	-32.70%
20 Day Average Volume	511,902	599,670	3,061,271	282,950	653,366	2,186,209
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	-1.65%	0.00%
(F1) EPS Est 4 week change	-18.02%	-0.34%	-0.32%	0.00%	-2.13%	1.47%
(F1) EPS Est 12 week change	-16.94%	-0.35%	-0.65%	-21.99%	1.59%	1.47%
(Q1) EPS Est Mthly Chg	-33.51%	-0.88%	-0.62%	0.00%	-34.43%	1.20%

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	F
Growth Score	B
Momentum Score	B
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.

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