

## Envestnet (ENV)

**\$86.60** (As of 02/14/20)

Price Target (6-12 Months): **\$95.00**

Long Term: 6-12 Months

**Zacks Recommendation:**

**Neutral**

(Since: 10/08/19)

Prior Recommendation: Underperform

Short Term: 1-3 Months

**Zacks Rank:** (1-5)

**2-Buy**

Zacks Style Scores:

VGM:D

Value: D

Growth: C

Momentum: C

## 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, increase market competitiveness and cater to client-driven requests for new capabilities. Rising demand for personalized wealth management services are creating significant market opportunity for Envestnet's technology-enabled solutions and services. Due to these positives, shares of Envestnet have outperformed the industry over the past year. However, with goodwill constituting high percentage of total assets, 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.

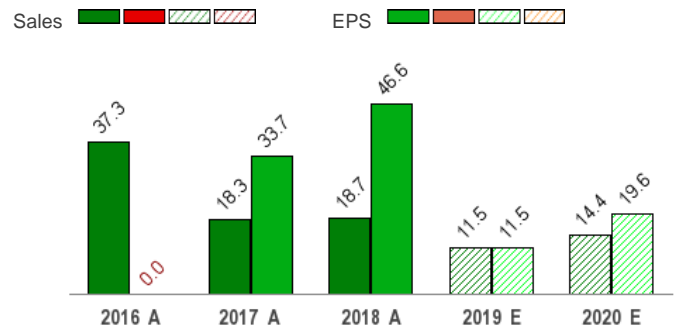
## Price, Consensus & Surprise



## Data Overview

52 Week High-Low	\$86.66 - \$51.00
20 Day Average Volume (sh)	413,524
Market Cap	\$4.5 B
YTD Price Change	24.4%
Beta	1.78
Dividend / Div Yld	\$0.00 / 0.0%
Industry	<a href="#">Financial Transaction Services</a>
Zacks Industry Rank	Top 30% (77 out of 255)

## Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	3.5%
Last Sales Surprise	1.1%
EPS F1 Est- 4 week change	0.6%
Expected Report Date	02/20/2020
Earnings ESP	0.0%
P/E TTM	42.0
P/E F1	33.8
PEG F1	1.9
P/S TTM	5.2

## Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2020	249 E	259 E	264 E	269 E	1,035 E
2019	200 A	224 A	236 A	240 E	905 E
2018	198 A	201 A	203 A	210 A	812 A

## EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2020	\$0.56 E	\$0.61 E	\$0.70 E	\$0.72 E	\$2.56 E
2019	\$0.39 A	\$0.46 A	\$0.60 A	\$0.68 E	\$2.14 E
2018	\$0.37 A	\$0.41 A	\$0.53 A	\$0.61 A	\$1.92 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 02/14/2020. The reports text is as of 02/17/2020.

## Overview

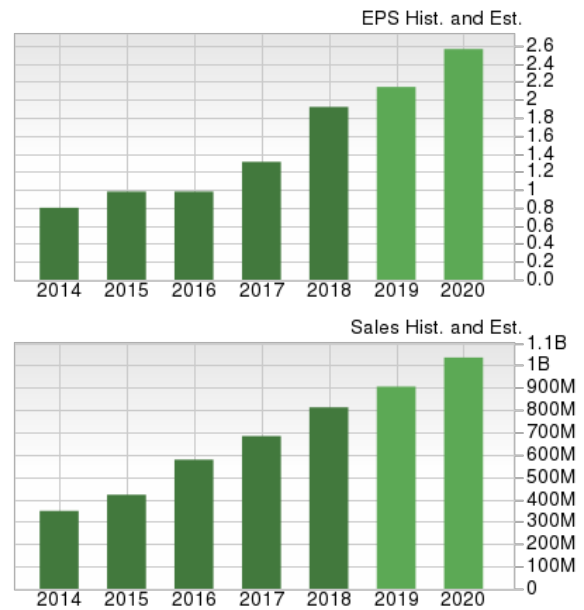
Founded in 1999, Chicago, IL based Envestnet is a leading provider of intelligent systems for wealth management and financial systems.

The company's financial network connects software, services and data. Envestnet serves more than 3,500 companies, including 43 of the 50 largest wealth management and brokerage firms, 15 of the 20 largest U.S. banks, more than over 500 of the largest registered investment advisers and hundreds of Internet services companies. It operates through two segments - **Envestnet and Envestnet | Yodlee**.

The Envestnet segment (78% of 2018 revenues) is a provider of unified wealth management software and 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 | Yodlee segment's (22%) data aggregation and data analytics platform offers cloud-based innovation for digital financial services. As an artificial intelligence ("AI") and data specialist, Envestnet | Yodlee collects, polishes and aggregates end-user permissioned transaction level data, and combines them with financial applications, market research analysis, reports and application programming interfaces ("APIs") for its customers.



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## Reasons To Buy:

▲ 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 2018 came in at \$776.7 million that constituted 96% of total revenues and increased 18% year over year.

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

▲ 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, thereby positively impacting its share price that has outperformed the industry in the past year, gaining 52.5% compared with the industry's rise of 43.3%. 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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### 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.
- ▼ With goodwill constituting more than 50% of its total assets, Envestnet's **capital structure puts investors at risk**. This is because such a large percentage of assets won't actually fetch any cash if there is any problem with the company.

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## Last Earnings Report

### Investnet Beats Q3 Earnings Estimate

Investnet's third-quarter 2019 adjusted EPS came in at 60 cents beating the Zacks Consensus Estimate by 3.4% and increasing 13% year over year. Revenues of \$236.1 million surpassed the consensus mark by 0.9% and increased 16% year over year.

The company's raised revenue and earnings guidance for 2019 lifted investors optimism on the stock. Investnet currently expects full-year revenues between \$896.5 million and \$898 million, compared with the previous expectation of \$888.5-\$894.5 million.

Quarter Ending **09/2019**

Report Date	Nov 07, 2019
Sales Surprise	1.10%
EPS Surprise	3.45%
Quarterly EPS	0.60
Annual EPS (TTM)	2.06

### More Details on Quarterly Numbers

Adjusted revenues of \$239.3 million increased 18% year over year. Adjusted net revenues grew 20% to \$175 million.

Asset-based recurring revenues of \$ 126.6 million increased 6% year over year, representing 54% of total revenues. Subscription-based recurring revenues of \$100.6 million were up 32% from the prior-year period, representing 43% of total revenues. Professional services and other non-recurring revenues increased 13% year over year to \$8.9 million. PortfolioCenter and PIETech acquisitions contributed revenues of \$2.4 million and \$11.5 million, respectively.

Adjusted EBITDA came in at \$54.5 million, up 28% year over year. Adjusted net income of \$32.4 million increased 28%.

Investnet ended the quarter with cash and cash equivalent balance of \$71.6 million, compared with \$77.7 million at the end of the prior quarter. Total debt was \$618 million. The company generated around \$59.5 million of cash from operating activities and CapEx was \$7.3 million.

### 2019 Outlook

Adjusted revenues are anticipated between \$905.5 and \$907 million, compared with the previous guidance of \$897-\$903 million. Adjusted net revenues are projected in the range of \$661.5 million to \$663.5 million, compared with \$656 million to \$663 million expected earlier. Adjusted EPS is expected to be \$2.14, compared with the prior guidance of \$2.10 to \$2.12. The company anticipates adjusted EBITDA in the range of \$192 million to \$193 million, compared with the prior expectation of \$191.5 million to \$193 million.

### Q4 Outlook

Investnet expects revenues between \$236.5 million and \$238 million. Adjusted revenues are anticipated between \$238.5 million and 240 million. Adjusted net revenues are expected in the range of \$173 million to \$175 million. The company projects adjusted EBITDA in the range of \$60 million to \$61 million. Adjusted EPS is anticipated to be 68 cents.

## Recent News

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

On **Nov 12, 2019**, Envestnet | Tamarac and Flyer announced availability of their integrated software for advisors seeking enhancement of trading capabilities.

## Valuation

Envestnet shares are up 52.5% over the trailing 12-month period. The Zacks sub-industry, sector and S&P 500 index are up 43.3%, 24.5% and 21%, respectively in the same time frame.

The stock is currently trading at 33.06X price to forward 12 months' earnings, which compares to 29.55X for the Zacks sub-industry, 26.66X for the Zacks sector and 19.36X 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 Neutral recommendation indicates that the stock will perform in-line with the market. Our \$95.00 price target reflects 36.27X 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	33.06	29.55	26.66	19.36
	5-Year High	68.39	29.55	26.66	19.36
	5-Year Low	22.27	20.78	18.77	15.18
	5-Year Median	39.88	23	20.57	17.47
P/S F 12M	Current	4.32	11.24	4.26	3.58
	5-Year High	4.37	11.65	5.13	3.58
	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	5.28	8.7	5.23	4.36
	5-Year High	9.75	12.79	6.72	4.42
	5-Year Low	1.6	5.34	4.13	2.85
	5-Year Median	4.42	8.07	5.27	3.62

As of 02/14/2020

## Industry Analysis Zacks Industry Rank: Top 30% (77 out of 255)



## Top Peers

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

Industry Comparison Industry: Financial Transaction Services				Industry Peers		
	ENV Neutral	X Industry	S&P 500	EPAY Neutral	QTWO Neutral	SSNC Neutral
<b>VGM Score</b>	<b>D</b>	-	-	<b>C</b>	<b>F</b>	<b>B</b>
Market Cap	4.54 B	2.51 B	24.61 B	2.16 B	4.24 B	16.74 B
# of Analysts	5	6	13	5	7	7
Dividend Yield	0.00%	0.00%	1.78%	0.00%	0.00%	0.75%
<b>Value Score</b>	<b>D</b>	-	-	<b>D</b>	<b>F</b>	<b>C</b>
Cash/Price	0.02	0.07	0.04	0.05	0.15	0.01
EV/EBITDA	52.94	19.41	14.06	39.07	862.98	26.14
PEG Ratio	1.93	1.73	2.09	NA	96.23	2.31
Price/Book (P/B)	5.25	5.33	3.29	5.45	10.97	3.48
Price/Cash Flow (P/CF)	28.91	18.74	13.65	25.09	212.95	14.19
P/E (F1)	33.83	23.45	19.21	36.56	1,924.56	16.17
Price/Sales (P/S)	5.22	5.23	2.70	4.96	14.32	3.61
Earnings Yield	2.96%	4.16%	5.19%	2.74%	0.06%	6.19%
Debt/Equity	0.56	0.34	0.71	0.25	1.18	1.64
Cash Flow (\$/share)	3.00	2.73	6.92	1.95	0.41	4.67
<b>Growth Score</b>	<b>C</b>	-	-	<b>C</b>	<b>C</b>	<b>B</b>
Hist. EPS Growth (3-5 yrs)	20.02%	17.05%	10.85%	-4.09%	NA	27.19%
Proj. EPS Growth (F1/F0)	19.67%	16.50%	7.17%	-0.74%	-60.49%	6.97%
Curr. Cash Flow Growth	30.88%	10.67%	8.56%	8.40%	515.17%	86.74%
Hist. Cash Flow Growth (3-5 yrs)	36.18%	10.92%	8.36%	25.62%	28.60%	34.08%
Current Ratio	0.46	1.15	1.23	1.49	5.93	1.08
Debt/Capital	36.09%	36.09%	42.91%	20.16%	54.08%	62.18%
Net Margin	-2.35%	8.29%	11.81%	1.29%	-22.67%	9.46%
Return on Equity	8.44%	19.60%	16.86%	5.11%	-12.11%	19.96%
Sales/Assets	0.55	0.46	0.54	0.64	0.41	0.29
Proj. Sales Growth (F1/F0)	14.36%	10.36%	3.85%	6.89%	31.21%	2.09%
<b>Momentum Score</b>	<b>C</b>	-	-	<b>B</b>	<b>F</b>	<b>D</b>
Daily Price Chg	1.30%	0.61%	0.06%	1.16%	0.05%	1.04%
1 Week Price Chg	3.03%	2.57%	2.47%	-8.06%	-1.27%	-0.86%
4 Week Price Chg	16.32%	1.45%	0.59%	-9.91%	1.45%	4.76%
12 Week Price Chg	32.78%	8.49%	6.98%	0.25%	6.35%	10.62%
52 Week Price Chg	54.81%	36.92%	16.62%	4.17%	31.61%	17.61%
20 Day Average Volume	413,524	426,343	2,020,569	318,137	299,151	1,058,285
(F1) EPS Est 1 week change	0.58%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	0.58%	0.00%	-0.05%	-15.60%	0.00%	0.00%
(F1) EPS Est 12 week change	-0.39%	0.00%	-0.17%	-15.00%	-2.34%	0.42%
(Q1) EPS Est Mthly Chg	0.91%	0.00%	-0.24%	-32.26%	0.00%	-0.28%

## 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	C
Momentum Score	C
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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