

Envestnet (ENV)

\$78.88 (As of 01/31/20)

Price Target (6-12 Months): **\$85.00**

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: C

Value: D

Growth: B

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. However, with goodwill constituting high percentage of total assets, Envestnet's capital structure puts investors at risk, thereby weighing on the stock that has underperformed the industry in a year's time. 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.

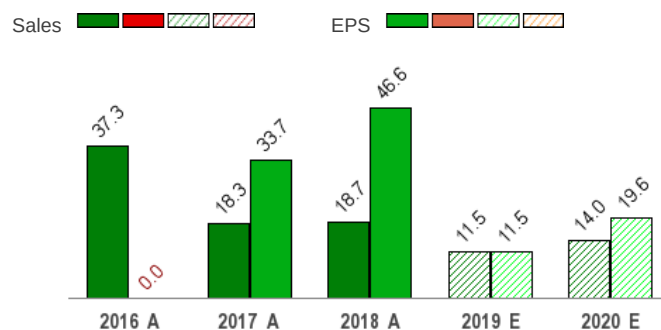
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$80.18 - \$51.00
20 Day Average Volume (sh)	378,125
Market Cap	\$4.2 B
YTD Price Change	14.3%
Beta	1.74
Dividend / Div Yld	\$0.00 / 0.0%
Industry	Financial Transaction Services
Zacks Industry Rank	Top 27% (69 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	0.7%
Expected Report Date	02/20/2020
Earnings ESP	0.0%
P/E TTM	38.6
P/E F1	30.8
PEG F1	1.8
P/S TTM	4.8

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2020	248 E	258 E	262 E	267 E	1,032 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	\$0.60 E	\$0.68 E	\$0.73 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 01/31/2020. The reports text is as of 01/31/2020.

Overview

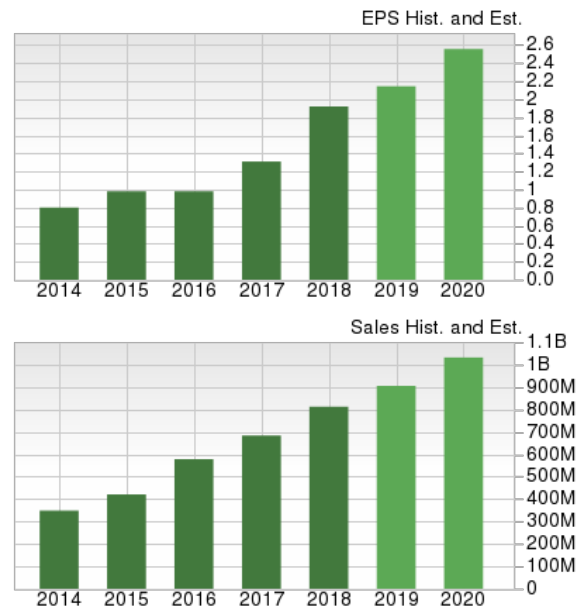
Founded in 1999, Chicago, IL based Envestnet is a leading provider of intelligent systems for wealth management and financial systems.

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.



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 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 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:

- ▼ 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**, thereby weighing on the stock that has underperformed the industry in the past year, gaining 46.7% compared with the industry's rise of 47.7%. 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.

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.

On **Sep 18, 2019**, Envestnet | Tamarac announced that it has entered into a partnership with Rockbridge Investment Management to provide reporting and trading technology services. The technology will help Rockbridge to simplify its back-end processes and improve client experience.

Valuation

Envestnet shares are up 46.7% over the trailing 12-month period. The Zacks sub-industry, sector and S&P 500 index are up 47.7%, 27.4% and 20.5%, respectively in the same time frame.

The stock is currently trading at 30.67X price to forward 12 months' earnings, which compares to 28.88X for the Zacks sub-industry, 26.06X for the Zacks sector and 18.83X 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 \$85.00 price target reflects 32.82X 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	30.67	28.88	26.06	18.83
	5-Year High	68.39	28.88	26.06	19.34
	5-Year Low	22.27	20.78	18.77	15.18
	5-Year Median	39.88	22.92	20.56	17.45
P/S F 12M	Current	4.01	10.9	4.13	3.49
	5-Year High	4.37	11.65	5.13	3.49
	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	4.85	8.47	5.09	4.49
	5-Year High	9.75	12.79	6.72	4.55
	5-Year Low	1.6	5.34	4.13	2.85
	5-Year Median	4.42	7.92	5.29	3.62

As of 01/30/2020

Industry Analysis Zacks Industry Rank: Top 27% (69 out of 255)



Top Peers

Fair Isaac Corporation (FICO)	Outperform
SS&C Technologies Holdings, Inc. (SSNC)	Outperform
AssetMark Financial Holdings, Inc. (AMK)	Neutral
Bottomline Technologies, Inc. (EPAY)	Neutral
Fiserv, Inc. (FISV)	Neutral
Intuit Inc. (INTU)	Neutral
Q2 Holdings, Inc. (QTWO)	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 Outperform
VGM Score	C	-	-	B	F	C
Market Cap	4.17 B	2.51 B	23.94 B	2.51 B	4.33 B	16.34 B
# of Analysts	5	6	13	4	7	7
Dividend Yield	0.00%	0.00%	1.77%	0.00%	0.00%	0.77%
Value Score	D	-	-	D	F	C
Cash/Price	0.02	0.07	0.04	0.04	0.15	0.01
EV/EBITDA	48.99	19.63	14.14	45.93	881.97	25.70
PEG Ratio	1.76	1.77	2.01	NA	98.25	2.27
Price/Book (P/B)	4.82	4.82	3.25	6.68	11.20	3.39
Price/Cash Flow (P/CF)	26.56	18.09	13.56	29.19	217.43	13.85
P/E (F1)	30.81	23.35	18.90	40.85	1,965.03	15.91
Price/Sales (P/S)	4.80	5.19	2.64	5.77	14.62	3.60
Earnings Yield	3.22%	4.25%	5.28%	2.44%	0.06%	6.28%
Debt/Equity	0.56	0.34	0.72	0.35	1.18	1.64
Cash Flow (\$/share)	3.00	2.62	6.92	1.95	0.41	4.67
Growth Score	B	-	-	A	C	A
Hist. EPS Growth (3-5 yrs)	20.02%	16.43%	10.68%	-4.99%	NA	27.19%
Proj. EPS Growth (F1/F0)	19.25%	17.46%	7.59%	3.33%	-60.49%	9.34%
Curr. Cash Flow Growth	30.88%	10.67%	10.81%	8.40%	515.17%	86.74%
Hist. Cash Flow Growth (3-5 yrs)	36.18%	10.92%	8.78%	25.62%	28.60%	34.08%
Current Ratio	0.46	1.15	1.22	1.63	5.93	1.08
Debt/Capital	36.09%	36.09%	42.99%	26.04%	54.08%	62.18%
Net Margin	-2.35%	10.25%	11.69%	1.29%	-22.67%	7.83%
Return on Equity	8.44%	19.33%	17.33%	5.18%	-12.11%	19.25%
Sales/Assets	0.55	0.44	0.55	0.65	0.41	0.28
Proj. Sales Growth (F1/F0)	14.00%	10.37%	4.12%	6.70%	31.21%	3.17%
Momentum Score	C	-	-	A	F	F
Daily Price Chg	6.86%	0.11%	0.36%	0.71%	2.66%	0.54%
1 Week Price Chg	2.58%	0.00%	-1.09%	1.76%	-0.63%	3.12%
4 Week Price Chg	12.18%	4.93%	-0.22%	5.52%	8.46%	4.87%
12 Week Price Chg	25.87%	9.24%	4.08%	35.18%	30.60%	13.07%
52 Week Price Chg	46.64%	40.05%	16.06%	10.32%	51.15%	25.54%
20 Day Average Volume	378,125	426,516	1,808,632	219,360	272,653	1,296,891
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	1.42%	0.00%	0.00%
(F1) EPS Est 4 week change	0.74%	0.00%	0.00%	1.42%	3.64%	0.00%
(F1) EPS Est 12 week change	1.28%	0.07%	-0.09%	10.00%	-48.86%	0.39%
(Q1) EPS Est Mthly Chg	0.92%	0.00%	0.00%	3.23%	0.00%	-0.28%

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	C
VGM Score	C

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.