

Eaton Vance Corp. (EV)

\$45.75 (As of 01/31/20)

Price Target (6-12 Months): **\$51.00**

Long Term: 6-12 Months

Zacks Recommendation:
Neutral

(Since: 08/20/19)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

2-Buy

Zacks Style Scores:

VGM:C

Value: C

Growth: C

Momentum: B

Summary

Shares of Eaton Vance have outperformed the industry over the past year. The company has an impressive earnings surprise history. Its earnings surpassed the Zacks Consensus Estimate in three of the trailing four quarters. Revenue growth is expected to continue, driven by improving assets under management (AUM) balance, and diverse product offerings and investment strategies. Moreover, the company's global footprint is expected to continue supporting growth in the long term. Further, its impressive capital deployment activities reflect strong liquidity position and will likely continue enhancing shareholder value. However, elevated expenses (owing to higher compensation costs) are expected to hurt the bottom line to some extent in the near term. Moreover, the presence of high levels of debt remains a major concern and makes us apprehensive.

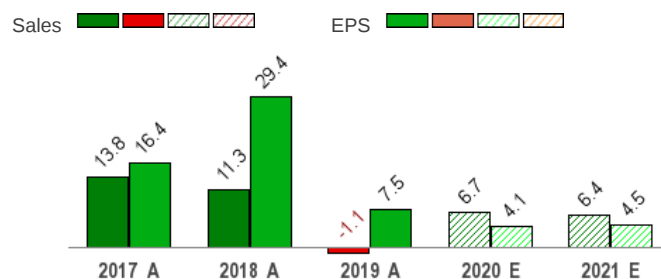
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$48.98 - \$36.84
20 Day Average Volume (sh)	441,500
Market Cap	\$5.2 B
YTD Price Change	-2.0%
Beta	1.52
Dividend / Div Yld	\$1.50 / 3.3%
Industry	Financial - Investment Management
Zacks Industry Rank	Top 7% (17 out of 255)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	6.7%
Last Sales Surprise	-1.3%
EPS F1 Est- 4 week change	0.4%
Expected Report Date	02/25/2020
Earnings ESP	-0.7%
P/E TTM	13.2
P/E F1	12.7
PEG F1	2.4
P/S TTM	3.1

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021					1,910 E
2020	442 E	438 E	453 E	460 E	1,795 E
2019	406 A	412 A	431 A	434 A	1,683 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$0.89 E	\$0.82 E	\$0.79 E	\$0.72 E	\$3.75 E
2020	\$0.86 E	\$0.86 E	\$0.91 E	\$0.94 E	\$3.59 E
2019	\$0.73 A	\$0.89 A	\$0.90 A	\$0.95 A	\$3.45 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 02/03/2020.

Overview

Headquartered in Boston, MA, Eaton Vance Corp. operates as an independent investment manager, and offers a wide range of investment products and services. Incorporated in 1981, it has offices U.S., U.K., Singapore, Australia and Japan. The company's total AUM was \$497.4 billion as of Oct 31, 2019.

The company operates its business through one segment, called investment adviser to funds and separate accounts. Eaton Vance manages its AUM through the following investment vehicles:

Open-end Funds (constituting 21.1% of AUM as of Oct 31, 2019): Funds included in the segment consist of equity funds, state and national municipal income funds, taxable fixed-income and cash-management funds, floating-rate bank loan funds, alternative funds, and multi-asset funds.

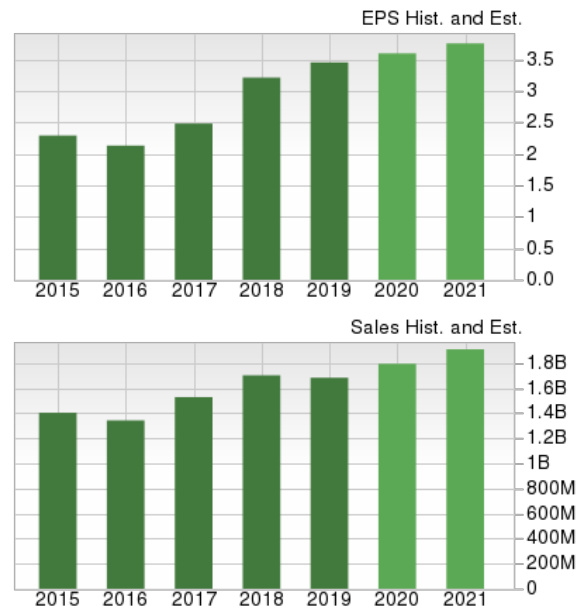
Closed-end Funds (4.9%): This segment is comprised of municipal bond, domestic and global equity, bank loan, multi-sector income and taxable income funds.

Private Funds (9.0%): Through this segment, Eaton Vance manages equity funds, which are privately offered, to ensure that the diversification and tax-management needs of high-net-worth clients are met.

Institutional Separate Accounts (34.8%): The company provides services to a wide range of clients through this segment which include government, corporate and union retirement plans, endowments and foundations, nuclear-decommissioning trusts and asbestos litigation trusts, sovereign wealth funds and investment funds funded by others for which they serve as a sub-adviser.

Individual separate accounts (30.2%): Eaton Vance provides tailored investment services to high-net-worth and family office clients, per their individual requirements. Also, the company serves individual investors.

The company's fiscal year ends on Oct 31.



Reasons To Buy:

- ▲ Eaton Vance's top-line growth looks impressive. Revenues (on a GAAP basis) witnessed a CAGR of 7.8% over the last four fiscal years (2016-2019). The increase is mainly driven by improving AUM balance. Moreover, the company's diverse product offerings and investment strategies will continue to attract investors, which along with improving AUM balance, are expected to support revenue growth in the upcoming quarters.
- ▲ Eaton Vance's total AUM has been witnessing consistent improvement. Over the last four fiscal years (2016-2019), AUM recorded a CAGR of 13.9%. The increasing trend is expected to continue in the upcoming quarters as well, with anticipated improvement in the markets.
- ▲ We remain encouraged by Eaton Vance's impressive capital deployment activities. In October 2019, the company announced a dividend hike for the 39th consecutive fiscal year. Also, the company has a share-repurchase plan in place. In July 2019, it announced a new repurchase authorization of 8 million shares, replacing the prior buyback plan announced in October 2018. As of Oct 31, 2019, nearly 6.3 million shares remained available under its buyback authorization. Given a strong capital position and decent earnings growth, the company will be able to sustain its capital-deployment plans, thus enhancing shareholder value.
- ▲ Eaton Vance's trailing 12-month return on equity (ROE) reflects its superiority in terms of utilizing shareholders' funds. The company's ROE of 35.32% compares favorably with 13.88% for the industry.
- ▲ Shares of Eaton Vance have outperformed the industry over the past year. Moreover, the company's fiscal 2020 earnings estimates have been revised marginally upward over the past 30 days. Therefore, given the strength in fundamentals and positive estimate revisions, the impressive price performance is expected to continue.

Consistent organic growth and strong assets under management balance are expected to be key growth drivers for Eaton Vance. Further, enhanced capital deployments reflect a strong liquidity position.

Reasons To Sell:

- ▼ Eaton Vance's expenses have witnessed a CAGR of 5.4% over the last four fiscal years (2016-2019). Rise in compensation costs, as well as fund-related charges, are expected to keep expenses high in the future. Thus, elevated costs are expected to hurt the bottom line to some extent.
- ▼ High debt level of the company could restrict it from procuring additional finance for working capital, capital expenditures, acquisitions, debt service requirements or other purposes. As of Oct 31, 2019, Eaton Vance's debt amounted to \$620.5 million (nearly 14.6% of total assets). Further, the company's debt/equity ratio is higher than the industry average. High debt obligation, if combined with unfavorable economic and industry conditions, can drag the company to a relatively disadvantageous position.
- ▼ Further, Eaton Vance seems overvalued when compared with the broader industry. Its current price-book and price-earnings (F1) ratios are above the respective industry averages.

High debt levels and mounting expenses (mainly due to higher compensation costs) remain major concerns for Eaton Vance in the near term. A stretched valuation limits the stock's upside potential.

Last Earnings Report

Eaton Vance Q4 Earnings Beat Estimates, Costs Increase

Eaton Vance's fourth-quarter fiscal 2019 (ended Oct 31) adjusted earnings of 95 cents per share surpassed the Zacks Consensus Estimate of 89 cents. Also, the bottom line increased 12% year over year.

Results were driven by improvement in AUM balance and a slight rise in revenues. However, higher operating expenses acted as a headwind.

Net income attributable to shareholders (GAAP basis) was \$109.2 million, up 4% from the year-ago quarter.

For fiscal 2019, adjusted earnings of \$3.45 per share beat the Zacks Consensus Estimate of \$3.41 and jumped 7% year over year. Net income attributable to shareholders (GAAP basis) grew 5% to \$400 million.

Revenues & Expenses Rise

Total revenues in the reported quarter were \$433.7 million, up 1% year over year. Rise in management fees and performance fees were partially offset by lower distribution and service fees. The top line lagged the Zacks Consensus Estimate of \$439.6 million.

For fiscal 2019, total revenues declined 1% to \$1.68 billion. Also, it missed the consensus estimate of \$1.69 billion.

Total expenses increased 4% from the prior-year quarter to \$298.3 million largely due to higher amortization of deferred sales commissions and fund-related costs.

Total operating income declined 6% year over year to \$135.4 million.

Liquidity Position Strong, AUM Balance Improves

As of Oct 31, 2019, Eaton Vance had \$557.7 million in cash and cash equivalents compared with \$600.7 million as of Oct 31, 2018. The company had no borrowings outstanding against its \$300-million credit facility.

Eaton Vance's consolidated AUM grew 13% year over year to \$497.4 billion as of Oct 31, 2019. Net inflows and market price appreciation drove the rise.

Share Repurchase Update

During fiscal 2019, Eaton Vance repurchased and retired nearly 7.4 million shares of its Non-Voting Common Stock for \$299.9 million under its existing repurchase authorization.

Outlook

The company expects compensation costs as a percentage of revenues to be modestly higher than 37% in the first quarter of fiscal 2020 because of seasonal pressures associated with payroll tax clock reset 401(k) funding, the acceleration of stock-based compensation expenses associated with retirements, and year-end base salary increases.

Effective tax rate for fiscal 2020 is anticipated to be 26.5-27%.

Quarter Ending 10/2019

Report Date	Nov 26, 2019
Sales Surprise	-1.32%
EPS Surprise	6.74%
Quarterly EPS	0.95
Annual EPS (TTM)	3.47

Recent News

Dividend Update

On Jan 9, 2020, Eaton Vance announced a quarterly cash dividend of 37.5 cents per share. The dividend will be paid on Feb 14 to shareholders of record as of Jan 31.

Valuation

Eaton Vance's shares are up 15% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Finance sector are up 5.1% and 6.2%, respectively, over the past year.

The S&P 500 index is up 17.4% in the past year.

The stock is currently trading at 12.59X forward 12 months earnings, which compares to 12.32X for the Zacks sub-industry, 14.49X for the Zacks sector and 18.51X for the S&P 500 index.

Over the past five years, the stock has traded as high as 20.67X and as low as 10.85X, with a 5-year median of 15.06X. Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$51 price target reflects 14.05X forward earnings.

The table below shows summary valuation data for EV

Valuation Multiples - EV					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	12.59	12.32	14.49	18.51
	5-Year High	20.67	14.39	16.21	19.34
	5-Year Low	10.85	9.85	12.01	15.18
	5-Year Median	15.06	12.44	14.07	17.46
P/TB TTM	Current	6.13	3.48	3.21	12.35
	5-Year High	16.68	3.83	3.98	12.75
	5-Year Low	5.15	1.65	2.44	6.03
	5-Year Median	10.62	3.06	3.46	9.1
P/S F12M	Current	2.84	3.57	6.53	3.43
	5-Year High	4.18	3.66	6.61	3.43
	5-Year Low	2.15	2.32	5.39	2.54
	5-Year Median	3.03	3.01	6.04	3

As of 01/31/2020

Industry Analysis Zacks Industry Rank: Top 7% (17 out of 255)



Top Peers

Invesco Ltd. (IVZ)	Outperform
SEI Investments Company (SEIC)	Outperform
T. Rowe Price Group, Inc. (TROW)	Outperform
Franklin Resources, Inc. (BEN)	Neutral
BlackRock, Inc. (BLK)	Neutral
Federated Investors, Inc. (FII)	Neutral
Hamilton Lane Inc. (HLNE)	Neutral
Legg Mason, Inc. (LM)	Neutral

Industry Comparison Industry: Financial - Investment Management				Industry Peers		
	EV Neutral	X Industry	S&P 500	BEN Neutral	LM Neutral	SEIC Outperform
VGM Score	C	-	-	C	A	C
Market Cap	5.18 B	793.05 M	23.55 B	12.63 B	3.40 B	9.81 B
# of Analysts	5	3	13	5	4	4
Dividend Yield	3.28%	2.28%	1.81%	4.27%	4.09%	1.07%
Value Score	C	-	-	B	A	C
Cash/Price	0.64	0.17	0.04	0.47	0.18	0.08
EV/EBITDA	5.44	8.99	13.97	4.01	8.64	13.10
PEG Ratio	2.40	1.44	1.97	1.39	0.79	1.49
Price/Book (P/B)	4.37	1.52	3.21	1.20	0.91	5.64
Price/Cash Flow (P/CF)	11.74	10.47	13.36	8.72	4.10	16.84
P/E (F1)	12.74	10.49	18.42	9.73	10.50	17.89
Price/Sales (P/S)	3.08	2.59	2.60	2.19	1.17	5.94
Earnings Yield	7.85%	9.26%	5.43%	10.28%	9.53%	5.59%
Debt/Equity	1.37	0.25	0.72	0.07	0.61	0.02
Cash Flow (\$/share)	3.90	1.94	6.92	2.90	9.54	3.88
Growth Score	C	-	-	F	B	C
Hist. EPS Growth (3-5 yrs)	10.01%	5.83%	10.68%	-4.92%	-0.72%	13.16%
Proj. EPS Growth (F1/F0)	4.17%	11.98%	7.59%	3.17%	1,080.92%	12.58%
Curr. Cash Flow Growth	0.77%	1.94%	10.81%	-22.73%	24.28%	-0.22%
Hist. Cash Flow Growth (3-5 yrs)	4.81%	5.16%	8.78%	-10.94%	11.04%	11.96%
Current Ratio	3.44	2.20	1.22	2.96	2.22	4.44
Debt/Capital	61.64%	23.45%	42.99%	12.33%	44.06%	2.16%
Net Margin	23.77%	11.54%	11.69%	21.99%	8.18%	30.39%
Return on Equity	35.32%	13.88%	17.33%	12.84%	8.43%	29.88%
Sales/Assets	0.44	0.37	0.55	0.40	0.37	0.81
Proj. Sales Growth (F1/F0)	6.61%	6.49%	4.12%	-1.64%	0.27%	6.73%
Momentum Score	B	-	-	B	C	C
Daily Price Chg	-2.51%	-1.09%	-1.98%	-3.47%	-1.14%	-2.83%
1 Week Price Chg	-1.43%	-0.27%	-1.09%	-1.86%	2.94%	-2.38%
4 Week Price Chg	-2.60%	0.00%	-2.11%	-1.21%	7.41%	-0.82%
12 Week Price Chg	-4.43%	2.31%	2.15%	-11.97%	2.68%	4.37%
52 Week Price Chg	18.77%	0.23%	14.15%	-14.56%	31.38%	37.27%
20 Day Average Volume	441,500	82,580	1,808,632	3,521,579	731,121	563,982
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	1.50%	1.29%
(F1) EPS Est 4 week change	0.39%	1.25%	0.00%	0.19%	2.33%	4.65%
(F1) EPS Est 12 week change	1.64%	1.98%	-0.09%	2.26%	2.97%	4.65%
(Q1) EPS Est Mthly Chg	0.23%	0.54%	0.00%	1.45%	1.71%	5.06%

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	C
Growth Score	C
Momentum Score	B
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.

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