

Eaton Vance Corp. (EV)

\$34.85 (As of 05/04/20)

Price Target (6-12 Months): **\$37.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 08/20/19)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:C

Value: C

Growth: D

Momentum: C

Summary

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

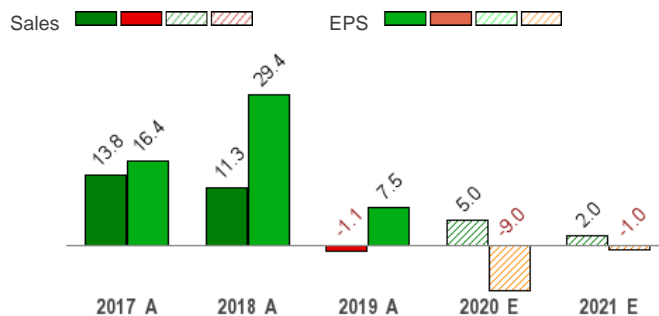
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$51.79 - \$23.59
20 Day Average Volume (sh)	771,684
Market Cap	\$4.0 B
YTD Price Change	-25.4%
Beta	1.51
Dividend / Div Yld	\$1.50 / 4.3%
Industry	Financial - Investment Management
Zacks Industry Rank	Bottom 23% (195 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	0.0%
Last Sales Surprise	2.3%
EPS F1 Est- 4 week change	-10.5%
Expected Report Date	05/19/2020
Earnings ESP	-8.0%

P/E TTM	9.7
P/E F1	11.1
PEG F1	1.7
P/S TTM	2.3

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	388 E	383 E	397 E	405 E	1,802 E
2020	453 A	440 E	434 E	440 E	1,767 E
2019	406 A	412 A	431 A	434 A	1,683 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$0.70 E	\$0.71 E	\$0.78 E	\$0.82 E	\$3.11 E
2020	\$0.86 A	\$0.79 E	\$0.76 E	\$0.78 E	\$3.14 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 05/04/2020. The reports text is as of 05/05/2020.

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 \$518.2 billion as of Jan 31, 2020.

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 20.9% of AUM as of Jan 31, 2020): 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.

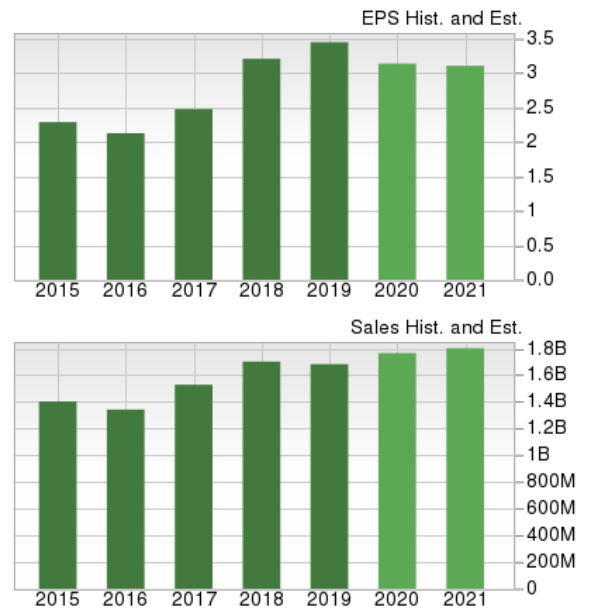
Closed-end Funds (4.8%): This segment is comprised of municipal bond, domestic and global equity, bank loan, multi-sector income and taxable income funds.

Private Funds (9.1%): 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 (33.8%): 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 (31.4%): 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), with the uptrend continuing in first-quarter fiscal 2020. The increase was 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%, with the uptrend continuing in the first three months of fiscal 2020. The increasing trend is expected to continue in the upcoming quarters driven by net inflows.
- ▲ 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 Jan 31, 2020, 4.9 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 35.29% compares favorably with 12.01% for the industry.

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), with the trend continuing in first-quarter fiscal 2020. 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 Jan 31, 2020, Eaton Vance's debt amounted to \$620.7 million (15.3% 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.
- ▼ Shares of Eaton Vance have outperformed the industry over the past year. However, the company's fiscal 2020 earnings estimates have been revised 10.5% lower over the past 30 days. Further, the stock seems overvalued when compared with the broader industry. Its current price-book and price-earnings (F1) ratios are above the respective industry averages. Therefore, given the concerns and negative estimate revisions, the impressive price performance is not expected to continue in the near term.

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 Q1 Earnings Meet Estimates, Revenues Rise

Eaton Vance's first-quarter fiscal 2020 (ended Jan 31) adjusted earnings of 86 cents per share were in line with the Zacks Consensus Estimate. The bottom line increased 17.8% year over year.

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

Net income attributable to shareholders (GAAP basis) was \$104 million, up 19.8% from the year-ago quarter.

Quarter Ending 01/2020

Report Date	Feb 26, 2020
Sales Surprise	2.31%
EPS Surprise	0.00%
Quarterly EPS	0.86
Annual EPS (TTM)	3.60

Revenues Improve, Expenses Rise

Total revenues were \$452.6 million, up 11.4% year over year. Rise in management fees and service fees drove the increase. The top line surpassed the Zacks Consensus Estimate of \$442.3 million.

Total expenses increased 11.4% from the prior-year quarter to \$317.8 million due to a rise in all expense components.

Total operating income increased 11.2% year over year to \$134.7 million.

Liquidity Position Strong, AUM Balance Improves

As of Jan 31, 2020, Eaton Vance had \$544.1 million in cash and cash equivalents compared with \$557.7 million as of Oct 31, 2019. The company had no borrowings outstanding against its \$300-million credit facility.

Eaton Vance's consolidated AUM grew 16.5% year over year to \$518.2 billion as of Jan 31, 2020. Net inflows and market price appreciation drove the rise.

Share Repurchase Update

During the quarter, the company repurchased and retired 1.4 million shares of its Non-Voting Common Stock for \$66.6 million under its existing repurchase authorization.

Outlook

The company expects incremental \$1-\$1.5 million decrease in stock-based compensation in the second quarter of fiscal 2020.

Effective tax rate for fiscal 2020 is expected between 26.5% and 27%.

Recent News

Dividend Update

On Apr 15, Eaton Vance announced a quarterly cash dividend of 37.5 cents per share. The dividend will be paid out on May 15 to shareholders of record as of Apr 30.

Valuation

Eaton Vance's shares are down 13% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Finance sector are down 22.6% and 22.5%, respectively, over the past year.

The S&P 500 index is down 3.3% in the past year.

The stock is currently trading at 11.16X forward 12 months earnings, which compares to 12.47X for the Zacks sub-industry, 14.86X for the Zacks sector and 20.18X for the S&P 500 index.

Over the past five years, the stock has traded as high as 20.67X and as low as 6.60X, with a 5-year median of 14.84X. Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$37 price target reflects 11.86X 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	11.16	12.47	14.86	20.18
	5-Year High	20.67	14.35	16.18	20.18
	5-Year Low	6.6	9.81	11.24	15.19
	5-Year Median	14.84	12.36	13.94	17.44
P/B	Current	3.2	1.56	2.08	3.75
	5-Year High	7.68	2.18	2.9	4.55
	5-Year Low	2.18	0.96	1.71	2.84
	5-Year Median	6.06	1.73	2.53	3.64
P/S F12M	Current	2.23	2.81	4.98	3.19
	5-Year High	4.18	3.67	6.7	3.44
	5-Year Low	1.45	2.29	4.98	2.54
	5-Year Median	3	2.97	6.06	3.01

As of 05/04/2020

Industry Analysis Zacks Industry Rank: Bottom 23% (195 out of 253)



Top Peers

Company (Ticker)	Rec	Rank
Affiliated Managers Group, Inc. (AMG)	Neutral	3
Ares Management L.P. (ARES)	Neutral	3
BlackRock, Inc. (BLK)	Neutral	3
Focus Financial Partners Inc. (FOCS)	Neutral	3
SEI Investments Company (SEIC)	Neutral	4
T. Rowe Price Group, Inc. (TROW)	Neutral	4
Federated Hermes, Inc. (FHI)	Underperform	4
Janus Capital Group, Inc (JHG)	Underperform	4

Industry Comparison Industry: Financial - Investment Management				Industry Peers		
	EV	X Industry	S&P 500	ARES	FHI	SEIC
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Underperform	Neutral
Zacks Rank (Short Term)	3	-	-	3	4	4
VGM Score	C	-	-	F	A	F
Market Cap	3.98 B	700.33 M	19.65 B	4.24 B	2.30 B	7.39 B
# of Analysts	5	3	14	5	4	4
Dividend Yield	4.30%	2.87%	2.19%	4.99%	4.76%	1.40%
Value Score	C	-	-	D	C	F
Cash/Price	0.76	0.23	0.06	2.21	0.18	0.10
EV/EBITDA	4.61	5.58	11.76	-5.81	5.37	9.37
PEG Ratio	1.76	1.16	2.48	2.44	1.05	1.51
Price/Book (P/B)	3.20	1.35	2.63	2.36	2.20	4.26
Price/Cash Flow (P/CF)	8.94	7.88	10.38	15.80	7.65	12.90
P/E (F1)	11.33	9.65	18.81	20.08	10.47	18.09
Price/Sales (P/S)	2.30	1.66	2.02	2.40	1.67	4.44
Earnings Yield	9.01%	10.15%	5.07%	4.99%	9.56%	5.52%
Debt/Equity	1.50	0.21	0.73	0.38	0.19	0.02
Cash Flow (\$/share)	3.90	1.75	7.01	2.03	2.97	3.88
Growth Score	D	-	-	F	A	D
Hist. EPS Growth (3-5 yrs)	11.86%	6.99%	10.87%	13.19%	12.06%	14.45%
Proj. EPS Growth (F1/F0)	-8.99%	-12.83%	-8.14%	-4.43%	-19.33%	-14.74%
Curr. Cash Flow Growth	0.77%	-4.05%	5.88%	-37.87%	15.18%	-0.22%
Hist. Cash Flow Growth (3-5 yrs)	4.81%	3.50%	8.55%	-3.84%	11.71%	8.52%
Current Ratio	5.98	2.18	1.25	1.03	2.69	5.94
Debt/Capital	63.92%	23.67%	44.07%	24.18%	27.43%	2.09%
Net Margin	24.13%	11.81%	11.00%	8.43%	20.45%	29.85%
Return on Equity	35.29%	12.01%	16.43%	15.65%	28.57%	29.17%
Sales/Assets	0.43	0.34	0.55	0.16	0.76	0.81
Proj. Sales Growth (F1/F0)	4.95%	0.00%	-1.76%	2.90%	-10.67%	-2.16%
Momentum Score	C	-	-	B	B	B
Daily Price Chg	1.87%	0.00%	-0.01%	-1.93%	6.17%	0.38%
1 Week Price Chg	1.88%	1.91%	0.53%	-3.03%	3.03%	1.96%
4 Week Price Chg	8.80%	8.80%	6.66%	4.03%	19.02%	4.65%
12 Week Price Chg	-29.07%	-25.62%	-20.38%	-18.37%	-37.58%	-26.98%
52 Week Price Chg	-15.64%	-27.71%	-13.44%	27.09%	-28.74%	-7.29%
20 Day Average Volume	771,684	117,678	2,567,149	849,081	643,541	649,196
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	-0.23%	0.00%
(F1) EPS Est 4 week change	-10.49%	-11.08%	-6.96%	-10.64%	-16.86%	-16.67%
(F1) EPS Est 12 week change	-12.63%	-20.00%	-13.90%	-16.44%	-31.11%	-24.26%
(Q1) EPS Est Mthly Chg	-11.37%	-11.37%	-13.62%	-9.38%	-4.79%	-20.44%

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	C
Growth Score	D
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.