

Eaton Vance Corp. (EV)

\$38.35 (As of 07/15/20)

Price Target (6-12 Months): **\$41.00**

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:A

Value: A

Growth: A

Momentum: A

Summary

Shares of Eaton Vance have underperformed the industry so far this year. The company's earnings surpassed the Zacks Consensus Estimate in three and met in one of the trailing four quarters. Despite the coronavirus-induced slowdown, the company is expected to witness growth in revenues, driven by solid assets under management (AUM) balance, and diverse product offerings. Further, its global footprint is expected to keep supporting growth in the long term. Impressive capital-deployment activities reflect strong earnings growth. Recently, the company agreed to acquire the assets of wealth management firm, WaterOak Advisors. However, continuously increasing expenses (owing to higher compensation costs) are expected to hurt the bottom line to some extent. Additionally, the presence of high levels of debt makes us apprehensive about its prospects.

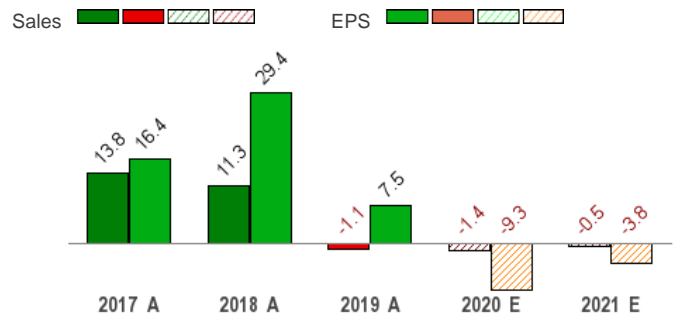
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$51.79 - \$23.59
20 Day Average Volume (sh)	649,113
Market Cap	\$4.4 B
YTD Price Change	-17.9%
Beta	1.49
Dividend / Div Yld	\$1.50 / 3.9%
Industry	Financial - Investment Management
Zacks Industry Rank	Top 8% (21 out of 251)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	12.7%
Last Sales Surprise	-5.3%
EPS F1 Est- 4 week change	0.4%
Expected Report Date	08/25/2020
Earnings ESP	3.7%
P/E TTM	10.9
P/E F1	12.3
PEG F1	1.9
P/S TTM	2.5

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021					1,652 E
2020	453 A	406 A	399 E	403 E	1,660 E
2019	406 A	412 A	431 A	434 A	1,683 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$0.68 E	\$0.71 E	\$0.76 E	\$0.78 E	\$3.01 E
2020	\$0.86 A	\$0.80 A	\$0.74 E	\$0.73 E	\$3.13 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 07/15/2020. The reports text is as of 07/16/2020.

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 \$465.3 billion as of Apr 30, 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 20.4% of AUM as of Apr 30, 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.

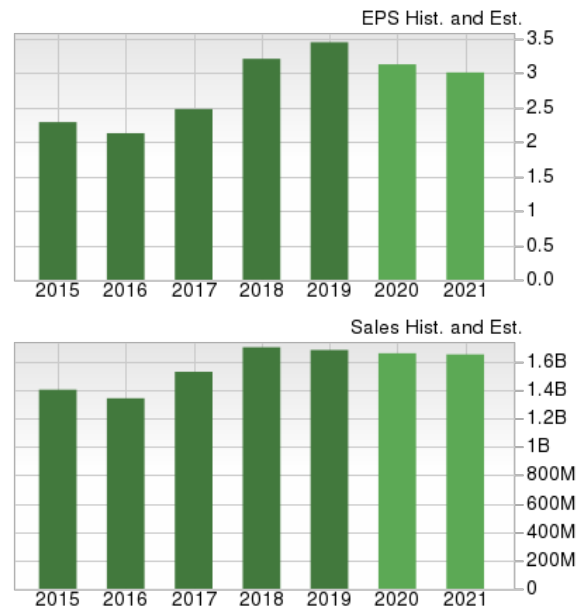
Closed-end Funds (4.6%): This segment is comprised of municipal bond, domestic and global equity, bank loan, multi-sector income and taxable income funds.

Private Funds (9.5%): 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 (33.3%): 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 (32.2%): 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 was mainly driven by improving AUM balance. The uptrend in revenues continued in the first six months of fiscal 2020. 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. While AUM declined in the first six months of fiscal 2020 mainly due to net outflows as a result of the virus-induced uncertainty, the same witnessed a CAGR of 13.9% over the last four fiscal years (2016-2019). 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 Apr 30, 2020, nearly 4 million shares remained available under buyback authorization. Given a 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 32.92% compares favorably with 12.36% 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 solid earnings strength.

Reasons To Sell:

- ▼ Eaton Vance's expenses have witnessed a CAGR of 5.4% over the last four fiscal years (2016-2019), with the uptrend continuing in the first six months of 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.
- ▼ Eaton Vance's high debt levels could restrict it from procuring additional finance for working capital, capital expenditure, acquisitions, debt service requirements or other purposes. As of Apr 30, 2020, the company had total debt worth \$2.02 billion, significantly higher than the cash and cash equivalents balance of \$914.9 million. Moreover, its times-interest-earned ratio of 21.2 at the end of second-quarter fiscal 2020 declined sequentially. This shows that the company's current liquidity position might not be sufficient to meet debt obligations if economic situation worsens.
- ▼ Shares of Eaton Vance have underperformed the industry so far this year. The company's fiscal 2020 earnings estimates have remained unchanged over the past 30 days. Therefore, given the concerns and no estimate revisions, the stock has limited upside potential 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 Q2 Earnings Beat Estimates, Costs Fall

Eaton Vance's second-quarter fiscal 2020 (ended Apr 30) adjusted earnings of 80 cents per share surpassed the Zacks Consensus Estimate of 71 cents. Including certain one-time items, earnings came in at 65 cents, down 27% year over year.

Results were driven by prudent expense management. However, fall in AUM balance and revenues were on the downside.

Net income attributable to shareholders (GAAP basis) was \$72.1 million, down 29.2% from the year-ago quarter.

Revenues Down, Expenses Fall

Total revenues in the reported quarter were \$405.9 million, down 1% year over year. Fall in management fees was partially offset by higher performance fees. The top line also lagged the Zacks Consensus Estimate of \$428.7 million.

Total expenses decreased marginally from the prior-year quarter to \$284 million. Lower compensation and distribution expenses were partially muted by higher service fee expense, amortization of deferred sales commissions, fund-related expenses and other expenses.

Total operating income slid 4% year over year to \$122 million.

Liquidity Position Strong, AUM Balance Declines

As of Apr 30, 2020, Eaton Vance had \$914.9 million in cash and cash equivalents compared with \$557.7 million on Oct 31, 2019. The company had no borrowings outstanding against its \$300-million credit facility.

Eaton Vance's consolidated AUM edged down 1% year over year to \$465.3 billion as of Apr 30, 2020. The company recorded market price depreciation, partly offset by net inflows.

Share Repurchase Update

During the first six months of fiscal 2020, Eaton Vance repurchased and retired 2.4 million shares of its Non-Voting Common Stock for \$299.9 million under the company's existing repurchase authorization.

Outlook

Effective tax rate for fiscal 2020 is expected between 26% and 27%.

Quarter Ending **04/2020**

Report Date	May 20, 2020
Sales Surprise	-5.31%
EPS Surprise	12.68%
Quarterly EPS	0.80
Annual EPS (TTM)	3.51

Recent News

Eaton Vance to Expand in Florida, Acquire WaterOak Advisors - Jul 1, 2020

Eaton Vance, through its wholly-owned subsidiary, Eaton Vance Investment Counsel, will acquire the assets of the Winter Park, FL-based wealth management firm, WaterOak Advisors, LLC. The terms of the transaction, still subject to certain closing conditions, have not been disclosed.

WaterOak, with about \$2 billion of client assets under management, provides wealth advisory services and is one of the leading providers of fiduciary wealth management services in Florida. Eaton Vance Investment Counsel also offers wealth management services and has an AUM of \$8.2 billion as of Apr 30, 2020.

As part of the deal, L. Clarke Lemons, founder and president of WaterOak, Stephen Curley and Scott Macaione, along with their team, will join Eaton Vance Investment Counsel.

David C. McCabe, president of Eaton Vance Investment Counsel said, "Eaton Vance and WaterOak share a focus on customized client service and a commitment to long-term relationships, based on comprehensive wealth management with integrity. Our vision is to offer industry-leading wealth solutions, encompassing tax-aware investment management, risk management, and financial planning strategies to sophisticated investors."

Lemons stated, "We enter this partnership with great excitement and look forward to expanding our offerings to include Eaton Vance's distinctive array of wealth management solutions. Our ability to serve clients will be significantly enhanced."

Dividend Update

On Jul 15, Eaton Vance announced a quarterly cash dividend of 37.5 cents per share. The dividend will be paid out on Aug 14 to shareholders of record as of Jul 31.

Valuation

Eaton Vance's shares are down 17.9% in the year-to-date period and 11.9% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Finance sector are down 4% and 19.5% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry is up 0.6% and the sector is down 15.1%.

The S&P 500 index is down 0.5% in the year-to-date period but up 7.1% in the past year.

The stock is currently trading at 12.65X forward 12 months earnings, which compares to 12.94X for the Zacks sub-industry, 16.21X for the Zacks sector and 22.72X 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 14.69X. Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$41 price target reflects 13.53X 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	12.65	12.94	16.21	22.72
	5-Year High	20.67	14.35	16.21	22.72
	5-Year Low	6.6	9.75	11.59	15.25
	5-Year Median	14.69	12.35	14.16	17.52
P/B	Current	3.42	2.01	2.35	4.38
	5-Year High	7.41	2.2	2.91	4.56
	5-Year Low	2.18	0.96	1.71	2.83
	5-Year Median	5.95	1.75	2.53	3.7
P/S F12M	Current	2.64	3.79	6.04	3.55
	5-Year High	4.18	3.79	6.66	3.55
	5-Year Low	1.45	2.3	4.96	2.53
	5-Year Median	2.97	2.98	6.06	3.02

As of 07/15/2020

Industry Analysis Zacks Industry Rank: Top 8% (21 out of 251)



Top Peers

Company (Ticker)	Rec	Rank
BlackRock, Inc. (BLK)	Outperform	1
Federated Hermes, Inc. (FHI)	Outperform	3
Janus Capital Group, Inc. (JHG)	Outperform	1
SEI Investments Company (SEIC)	Outperform	1
T. Rowe Price Group, Inc. (TROW)	Outperform	1
Affiliated Managers Group, Inc. (AMG)	Neutral	3
Ares Management L.P. (ARES)	Neutral	3
Focus Financial Partners Inc. (FOCS)	Neutral	3

Industry Comparison Industry: Financial - Investment Management				Industry Peers		
	EV	X Industry	S&P 500	ARES	FHI	SEIC
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Outperform	Outperform
Zacks Rank (Short Term)	3	-	-	3	3	1
VGM Score	A	-	-	F	B	D
Market Cap	4.37 B	883.63 M	22.66 B	10.01 B	2.32 B	8.55 B
# of Analysts	5	3	14	5	4	4
Dividend Yield	3.91%	2.20%	1.83%	3.96%	4.69%	1.21%
Value Score	A	-	-	F	B	D
Cash/Price	0.64	0.17	0.07	0.17	0.14	0.09
EV/EBITDA	5.39	6.57	12.99	12.96	5.89	10.99
PEG Ratio	1.91	1.65	2.97	3.52	0.92	1.61
Price/Book (P/B)	3.42	1.75	3.12	5.96	2.23	4.93
Price/Cash Flow (P/CF)	9.84	8.62	12.14	19.93	7.75	14.91
P/E (F1)	12.29	10.53	22.04	24.40	9.16	19.32
Price/Sales (P/S)	2.54	1.78	2.38	7.69	1.69	5.14
Earnings Yield	8.16%	9.18%	4.32%	4.11%	10.90%	5.18%
Debt/Equity	1.37	0.20	0.76	0.75	0.29	0.02
Cash Flow (\$/share)	3.90	1.75	6.94	2.03	2.97	3.88
Growth Score	A	-	-	F	D	D
Hist. EPS Growth (3-5 yrs)	13.30%	7.43%	10.85%	14.72%	12.06%	14.45%
Proj. EPS Growth (F1/F0)	-9.28%	-6.52%	-9.64%	-0.84%	-6.60%	-7.72%
Curr. Cash Flow Growth	0.77%	-4.05%	5.51%	-37.87%	15.18%	-0.22%
Hist. Cash Flow Growth (3-5 yrs)	4.81%	3.83%	8.55%	-3.84%	11.71%	8.52%
Current Ratio	5.28	2.31	1.30	0.23	2.69	5.94
Debt/Capital	60.55%	24.73%	44.46%	38.79%	32.47%	2.09%
Net Margin	22.48%	9.12%	10.59%	5.60%	20.45%	29.85%
Return on Equity	32.92%	12.36%	15.75%	15.52%	28.57%	29.17%
Sales/Assets	0.42	0.36	0.54	0.11	0.76	0.81
Proj. Sales Growth (F1/F0)	-1.37%	0.00%	-2.52%	3.73%	4.11%	0.91%
Momentum Score	A	-	-	C	B	B
Daily Price Chg	5.15%	1.88%	1.91%	1.69%	3.00%	2.48%
1 Week Price Chg	-1.82%	0.00%	-0.41%	0.13%	-5.06%	1.81%
4 Week Price Chg	-5.89%	0.00%	1.88%	3.56%	-3.92%	3.07%
12 Week Price Chg	13.80%	19.07%	16.37%	30.24%	10.83%	17.66%
52 Week Price Chg	-11.90%	-14.79%	-4.22%	43.57%	-30.20%	3.27%
20 Day Average Volume	649,113	114,825	2,266,132	1,413,596	715,711	668,398
(F1) EPS Est 1 week change	0.45%	0.00%	0.00%	1.10%	0.90%	5.56%
(F1) EPS Est 4 week change	0.45%	0.00%	0.00%	0.00%	5.57%	8.24%
(F1) EPS Est 12 week change	-0.32%	0.54%	-5.76%	1.47%	15.52%	1.79%
(Q1) EPS Est Mthly Chg	0.82%	0.48%	0.00%	0.00%	-3.08%	12.06%

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	A
Growth Score	A
Momentum Score	A
VGM Score	A

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.