

Eaton Vance Corp. (EV)

\$28.73 (As of 03/19/20)

Price Target (6-12 Months): **\$31.00**

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:D

Value: C

Growth: D

Momentum: D

Summary

Shares of Eaton Vance have outperformed the industry over the past year. The company's earnings surpassed the Zacks Consensus Estimate in three of the trailing four quarters. Its fiscal first-quarter 2020 (ended Jan 31) results were driven by an improvement in assets under management (AUM) and rise in revenues, offset by higher costs. Revenue growth will likely continue, driven by solid AUM balance, and diverse product offerings and investment strategies. 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, elevated expenses (owing to higher compensation costs) are expected to hurt the bottom line to an extent. The presence of high levels of debt makes us apprehensive.

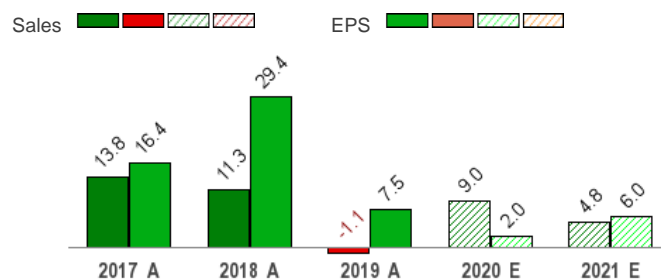
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$51.79 - \$25.58
20 Day Average Volume (sh)	930,446
Market Cap	\$3.3 B
YTD Price Change	-38.5%
Beta	1.52
Dividend / Div Yld	\$1.50 / 5.2%
Industry	Financial - Investment Management
Zacks Industry Rank	Bottom 42% (147 out of 254)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	0.0%
Last Sales Surprise	2.3%
EPS F1 Est- 4 week change	-2.2%
Expected Report Date	05/19/2020
Earnings ESP	-0.9%
P/E TTM	8.0
P/E F1	8.2
PEG F1	1.5
P/S TTM	1.9

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021					1,923 E
2020	453 A	450 E	464 E	470 E	1,835 E
2019	406 A	412 A	431 A	434 A	1,683 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$0.88 E	\$0.89 E	\$0.92 E	\$0.92 E	\$3.73 E
2020	\$0.86 A	\$0.85 E	\$0.86 E	\$0.90 E	\$3.52 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 03/19/2020. The reports text is as of 03/20/2020.

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.

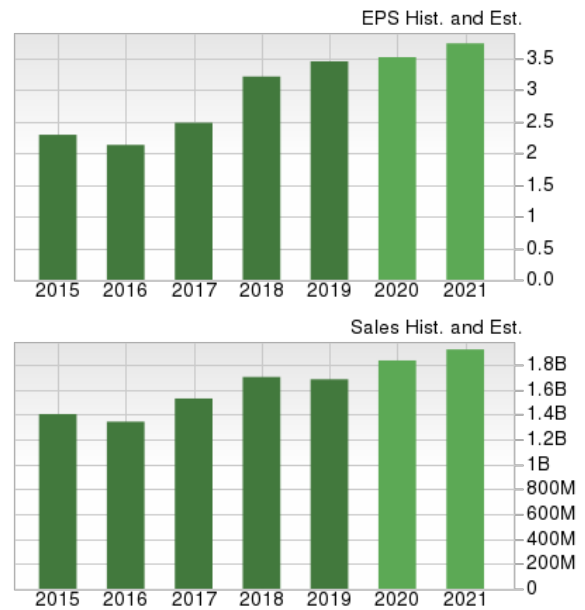
Closed-end Funds (4.8%): This segment is comprised of municipal bond, domestic and global equity, bank loan, multi-sector income and taxable income funds.

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 13.31% 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), 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.
- ▼ 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 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 Jan 9, 2020, Eaton Vance announced a quarterly cash dividend of 37.5 cents per share. The dividend was paid out on Feb 14 to shareholders of record as of Jan 31.

Valuation

Eaton Vance's shares are down 30.1% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Finance sector are down 32.8% and 30.1%, respectively, over the past year.

The S&P 500 index is down 16.7% in the past year.

The stock is currently trading at 7.82X forward 12 months earnings, which compares to 8.42X for the Zacks sub-industry, 9.85X for the Zacks sector and 14.12X for the S&P 500 index.

Over the past five years, the stock has traded as high as 20.67X and as low as 7.35X, with a 5-year median of 14.97X. Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$31 price target reflects 8.45X 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	7.82	8.42	9.85	14.12
	5-Year High	20.67	14.35	16.21	19.34
	5-Year Low	7.35	8.42	9.85	14.12
	5-Year Median	14.97	12.37	13.97	17.42
P/TB TTM	Current	3.62	1.65	2.18	9.1
	5-Year High	16.53	3.76	3.98	12.81
	5-Year Low	3.4	1.64	2.18	6.02
	5-Year Median	10.23	3	3.46	9.14
P/S F12M	Current	1.76	3.67	5.99	2.58
	5-Year High	4.18	3.67	6.64	3.43
	5-Year Low	1.65	2.29	5.39	2.54
	5-Year Median	3.02	2.98	6.04	3

As of 03/19/2020

Industry Analysis Zacks Industry Rank: Bottom 42% (147 out of 254)



Top Peers

Franklin Resources, Inc. (BEN)	Neutral
BlackRock, Inc. (BLK)	Neutral
Hamilton Lane Inc. (HLNE)	Neutral
Invesco Ltd. (IVZ)	Neutral
Legg Mason, Inc. (LM)	Neutral
SEI Investments Company (SEIC)	Neutral
T. Rowe Price Group, Inc. (TROW)	Neutral
Waddell & Reed Financial, Inc. (WDR)	Neutral

Industry Comparison Industry: Financial - Investment Management				Industry Peers		
	EV Neutral	X Industry	S&P 500	BEN Neutral	LM Neutral	SEIC Neutral
VGM Score	D	-	-	D	B	C
Market Cap	3.28 B	574.64 M	16.45 B	9.65 B	4.06 B	6.36 B
# of Analysts	5	3	13	4	4	4
Dividend Yield	5.22%	3.65%	2.67%	5.56%	3.43%	1.65%
Value Score	C	-	-	B	B	C
Cash/Price	0.79	0.22	0.06	0.66	0.20	0.11
EV/EBITDA	3.50	5.05	10.36	2.42	9.33	7.79
PEG Ratio	1.53	0.69	1.49	0.81	1.11	1.07
Price/Book (P/B)	2.64	1.10	2.16	0.89	1.06	3.67
Price/Cash Flow (P/CF)	7.37	6.70	8.92	6.70	4.89	10.95
P/E (F1)	8.12	6.63	13.12	8.07	12.74	12.80
Price/Sales (P/S)	1.90	1.41	1.72	1.67	1.40	3.86
Earnings Yield	12.25%	15.02%	7.54%	12.40%	7.84%	7.83%
Debt/Equity	1.50	0.20	0.70	0.07	0.59	0.02
Cash Flow (\$/share)	3.90	2.02	7.01	2.90	9.54	3.88
Growth Score	D	-	-	F	B	B
Hist. EPS Growth (3-5 yrs)	11.86%	5.56%	10.85%	-4.47%	0.24%	13.85%
Proj. EPS Growth (F1/F0)	1.91%	6.25%	4.90%	-4.46%	1,064.47%	2.31%
Curr. Cash Flow Growth	0.77%	-1.67%	6.03%	-22.73%	24.28%	-0.22%
Hist. Cash Flow Growth (3-5 yrs)	4.81%	4.34%	8.55%	-10.94%	11.04%	8.52%
Current Ratio	5.98	2.18	1.23	3.58	2.12	4.44
Debt/Capital	63.92%	22.40%	42.57%	12.77%	43.28%	2.16%
Net Margin	24.13%	14.85%	11.57%	21.99%	8.18%	30.39%
Return on Equity	35.29%	13.31%	16.74%	12.76%	8.37%	29.88%
Sales/Assets	0.43	0.37	0.54	0.40	0.37	0.81
Proj. Sales Growth (F1/F0)	9.00%	0.97%	3.13%	-5.13%	0.95%	2.16%
Momentum Score	D	-	-	F	F	F
Daily Price Chg	6.49%	2.80%	1.03%	-1.87%	3.14%	-0.31%
1 Week Price Chg	-15.22%	-13.90%	-11.01%	-16.35%	-1.37%	-6.42%
4 Week Price Chg	-44.41%	-38.74%	-33.45%	-24.31%	-7.45%	-38.74%
12 Week Price Chg	-39.54%	-37.48%	-30.67%	-26.18%	29.58%	-35.70%
52 Week Price Chg	-30.11%	-33.40%	-23.69%	-41.44%	66.55%	-18.84%
20 Day Average Volume	930,446	139,590	3,981,936	7,742,283	4,523,812	995,807
(F1) EPS Est 1 week change	-2.50%	0.00%	-0.01%	-2.13%	-1.21%	-9.12%
(F1) EPS Est 4 week change	-2.17%	-2.20%	-0.85%	-6.03%	-2.01%	-9.12%
(F1) EPS Est 12 week change	-1.79%	-1.16%	-1.70%	-7.23%	0.62%	-7.06%
(Q1) EPS Est Mthly Chg	-0.82%	-1.11%	-0.88%	-11.81%	-7.32%	-5.11%

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	D
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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