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Jan 08, 2020

Invesco Ltd. (IVZ)

$17.76 (As of 01/07/20)

Price Target (6-12 Months): **$22.00**

Long Term: 6-12 Months	**Zacks Recommendation:** (Since: 01/06/20) Prior Recommendation: Neutral	**Outperform**
Short Term: 1-3 Months	**Zacks Rank:** (1-5)	**2-Buy**
	Zacks Style Scores:	VGM:B
	Value: A | Growth: D | Momentum: B	

Summary

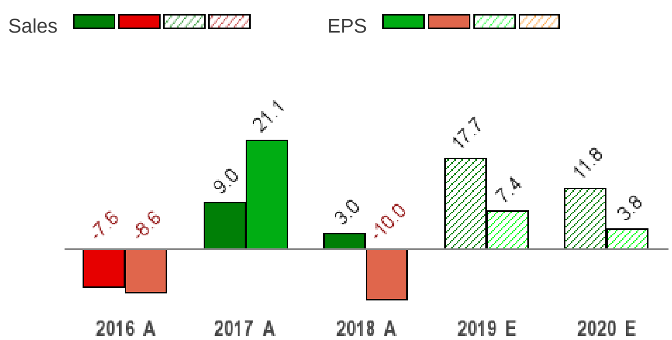
Shares of Invesco have outperformed the industry over the past one month. Also, it has an impressive earnings surprise history, having outpaced the Zacks Consensus Estimate in three of the trailing four quarters. Further, earnings estimates have been moving upward ahead of its fourth quarter 2019 results. Solid assets under management (AUM) balance and global presence are expected to continue aiding the company's revenues. While continuously increasing expenses (compensation, marketing and acquisition-related costs) and the presence of high debt levels remain major near-term concerns and will likely hamper financials to an extent, its efforts to capitalize on investors' demand for passive and alternative investment strategies will likely fuel growth. Additionally, synergies from acquisitions are expected to continue to support profits.

Price, Consensus & Surprise

Data Overview

52 Week High-Low	$22.18 - $15.15
20 Day Average Volume (sh)	4,572,257
Market Cap	$8.1 B
YTD Price Change	-1.2%
Beta	1.55
Dividend / Div Yld	$1.24 / 7.0%
Industry	Financial - Investment Management
Zacks Industry Rank	Top 35% (89 out of 254)
Last EPS Surprise	22.8%
Last Sales Surprise	-2.2%
EPS F1 Est- 4 week change	1.9%
Expected Report Date	01/29/2020
Earnings ESP	3.2%
P/E TTM	7.6
P/E F1	6.6
PEG F1	0.8
P/S TTM	1.4

Sales and EPS Growth Rates (Y/Y %)



Sales Estimates (millions of $)

	Q1	Q2	Q3	Q4	Annual*
2020	1,716 E	1,733 E	1,753 E	1,759 E	6,994 E
2019	1,215 A	1,439 A	1,721 A	1,736 E	6,256 E
2018	1,356 A	1,361 A	1,342 A	1,256 A	5,314 A

EPS Estimates

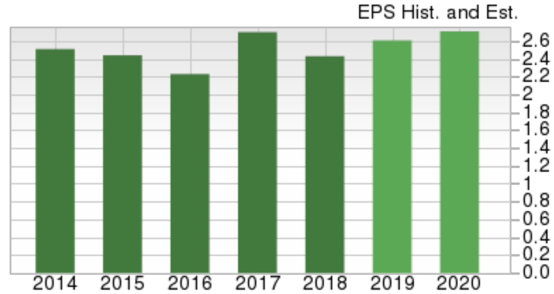
	Q1	Q2	Q3	Q4	Annual*
2020	$0.64 E	$0.68 E	$0.70 E	$0.71 E	$2.71 E
2019	$0.56 A	$0.65 A	$0.70 A	$0.68 A	$2.61 E
2018	$0.67 A	$0.66 A	$0.66 A	$0.44 A	$2.43 A

*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 01/07/2020. The reports text is as of 01/08/2020.

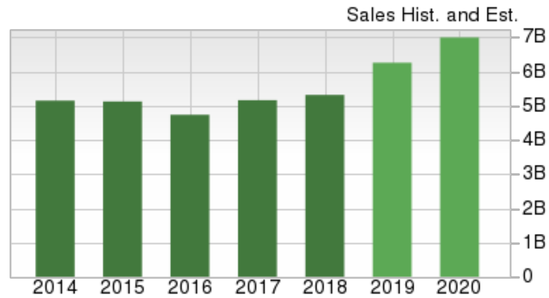
Overview

Headquartered in Atlanta, GA, Invesco Ltd., – formerly AMVESCAP PLC – operates as an independent investment manager and offers a wide range of investment products and services. The company was incepted in 1935. As of Sep 30, 2019, Invesco had offices in more than 20 countries and AUM worth $1,184.4 billion.



With the support of a global operating platform, Invesco distributes a broad range of investment products and services. Invesco's asset classes include money market, fixed income, balanced income, equity and alternatives.

Invesco sells its products through two principal distribution channels:



- **Retail**: Invesco offers retail products within all of the major asset classes in the form of mutual funds, separately managed accounts, variable annuities, collective trusts and ETFs. The retail product management teams collectively managed $837.4 billion in assets as of Sep 30, 2019.

- **Institutional**: Invesco offers a broad range of domestic and global products to institutional investors, which include traditional equities, structured equities, fixed income, real estate, private equity, financial structures and absolute return strategies. AUM for the channel totaled $347 billion as of Sep 30, 2019.

In 2010, Invesco completed the Van Kampen/Morgan Stanley deal. In 2013, it divested Atlantic Trust Private Wealth Management to Canadian Imperial Bank of Commerce.

In 2017, Invesco acquired Europe-based Source. In 2018, it acquired the ETF business of Guggenheim Partners LLC and the leading U.K.-based advisor-focused digital solutions firm, Intelliflo. In 2019, the company acquired OppenheimerFunds, Inc.

Reasons To Buy:

Invesco's improving AUM balance, diverse product offerings and widening global presence is expected to support top-line growth. Synergies from acquisitions will continue to aid profitability.

- Invesco's top-line growth looks impressive. Net revenues witnessed a five-year (2014-2018) CAGR of 1.4%, with the trend continuing in the first nine months of 2019. The increase was mainly driven by solid AUM balance and OppenheimerFunds buyout. The company's diverse product offerings and alternative investment strategies will continue to attract investors, which are expected to support revenue growth. Given a robust institutional pipeline along with a solid retail channel, and synergies from acquisitions, the company's revenues will continue to improve in the quarters ahead.

- Invesco's total AUM has been witnessing consistent improvement. Though total AUM declined in 2018 owing to significant market volatility, over the last five years (2014-2018) the same recorded a CAGR of 2.9%. The uptrend continued in the first nine months of 2019 as well. The acquisition of OppenheimerFunds resulted in rise in the company's AUM, making it one of the leading global asset managers. Further, the company has been capitalizing on the growing demand for passive products and alternate asset classes that were 23.4% and 15.6%, respectively, of total AUM as of Sep 30, 2019.

- Invesco is actively involved in capital deployment activities. Since 2009, it has been increasing its dividend annually, with the latest announced in April 2019. Also, the company has a share repurchase plan in place. Moreover, in October 2018, the company announced an additional $1.2 billion share buyback program that will be completed by 2021. Driven by a strong balance-sheet position and consistently improving earnings, Invesco will likely keep enhancing its shareholders' value.

- Apart from a strong presence in the United States, Invesco maintains a solid foothold in Europe, Canada and the Asia-Pacific. As of Sep 30, 2019, the company's client AUM from outside the United States constituted nearly 27.5% of total AUM. Acquisitions of the leading U.K.-based advisor-focused digital solutions firm, Intelliflo and Europe-based Source, a leading, independent specialist provider of ETFs to improve market share globally continue to support the company's global presence. This, along with its broad diversification will help the company generate further momentum from business in these regions.

- Shares of Invesco have outperformed the industry over the past one month. Also, the company's 2019 earnings estimates have been revised nearly 1% upward over the past 30 days. Further, the stock seems undervalued when compared with the broader industry. Its current price-to-book and price-to-earnings (F1) ratios are lower than the respective industry averages. Also, it has a Value Score of B. Hence, given the strength in fundamentals and positive estimate revisions, the stock has upside potential.

Risks

- Invesco's operating expenses have increased at a three-year CAGR of 7.5% (2016-2018), with the similar trend continuing in the first nine months of 2019. Rise in compensation costs and marketing expenses are the primary reasons for this increase. While the company realized net cost synergies of $501 million from the OppenheimerFunds acquisition, exceeding the target of $475 million; operating expenses are likely to flare up in the upcoming quarters, given its inorganic growth efforts and investment in franchise.

- 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 Sep 30, 2019, Invesco's long-term debt amounted to $2.3 billion (nearly 6.1% of total assets). High-debt obligation, if combined with unfavorable economic and industry conditions, can drag the company to a relatively disadvantageous position.

- The goodwill and intangible assets in Invesco's balance sheet are subject to annual impairment reviews. As of Sep 30, 2019, goodwill and net intangible assets remained at considerably high levels, totaling $15.7 billion (accounting for roughly 41.4% of total assets). Several factors may initiate the impairment of the book value of such assets, due to which their value may have to be written down. This will adversely affect the company's financials.

- Invesco's trailing 12-month return on equity (ROE) undercuts its growth potential. The company's ROE of 10.60% compares unfavorably with ROE of 12.34% for the industry and 17.16% for the S&P 500. This reflects that the company is less efficient in using shareholders' funds.

Last Earnings Report

Invesco Q3 Earnings Beat on Higher Revenues & Assets

Quarter Ending	09/2019
Report Date	Oct 23, 2019
Sales Surprise	-2.18%
EPS Surprise	22.81%
Quarterly EPS	0.70
Annual EPS (TTM)	2.35

Invesco reported third-quarter 2019 adjusted earnings of 70 cents per share, beating the Zacks Consensus Estimate of 57 cents. Also, the bottom line was 6.1% up from the prior-year quarter figure.

Results benefited from improvement in AUM balance and rise in revenues, driven by the OppenheimerFunds buyout. However, increase in operating expenses and net outflows were the undermining factors.

On a GAAP basis, net income attributable to common shareholders was $167.1 million or 36 cents per share, down from $269.6 million or 65 cents per share a year ago.

Revenues & Expenses Rise

GAAP operating revenues were $1.72 billion, increasing 28.2% year over year. However, the figure missed the Zacks Consensus Estimate of $1.76 billion. Adjusted net revenues jumped 27.1% to $1.23 billion.

Adjusted operating expenses were $726.1 million, up 19.2% from the prior-year quarter.

At the end of the third quarter, Invesco achieved $501 million in annualized net expense synergies related to integration of the OppenheimerFund business. This is in excess of its target of $475 million, and also ahead of original schedule.

Adjusted operating margin for the quarter was 40.9% compared with 37.0% a year ago.

AUM Improves

As of Sep 30, 2019, AUM was $1.18 trillion, up 20.7% year over year. Average AUM for the third quarter totaled $1.19 trillion, up 20.6%. AUM growth was mainly driven by the closure of the deal to acquire OppenheimerFunds in May 2019.

Further, the September quarter witnessed long-term net outflows of $11.1 billion.

Share Repurchase Update

During the third quarter, Invesco repurchased shares worth $315 million.

The company repurchased $962 million worth of shares since announcing $1.2 billion buyback authorization in October 2018. Further, Invesco is on track to repurchase the remaining $238 million by the first quarter of 2021.

Outlook

The company expects 2020 expense run rate of nearly $2.9 billion, post synergies from the OppenheimerFunds buyout.

By the second half of 2020, the earnings power of the combined firm will likely reach the targeted $1 billion of cash, which is well above the regulatory capital requirements. Also, the combined organization is anticipated to have an annual EBITDA of more than $2.6 billion, by the end of 2020, post synergies.

Recent News

Invesco Up 1.4% as November AUM Rises on Market Gains - Dec 10, 2019

Invesco announced its AUM for November 2019. The company's preliminary month-end AUM of $1,201.9 billion inched up 0.6% from the prior month.

This upswing stemmed from favorable market returns, and non-management fee earning AUM. These were partly offset by outflows in Money Market AUM and net long-term outflows. Also, unfavorable foreign-exchange movement hurt AUM by $0.4 billion.

Invesco's preliminary average total AUM for November was $1,193.7 billion and preliminary average active AUM totaled $911 billion.

At the end of the reported month, the company's Equity AUM increased 2.6% from the prior month to $582.6 billion. Balanced AUM for November was $65.7 billion, up marginally on a sequential basis.

However, Alternatives AUM declined 1.2% from October 2019 to $183.6 billion. Further, Fixed Income AUM fell marginally to $281.6 billion. Also, Money Market AUM of $88.4 billion decreased 6.1% sequentially.

Invesco October AUM Up on Market Gains & Positive FX Effects - Nov 11, 2019

Invesco announced its AUM for October 2019. The company's preliminary month-end AUM of $1,195.2 billion inched up 0.9% from the prior month.

This upswing stemmed from favorable market returns, and reinvested distributions. Also, favorable foreign-exchange movement boosted the month's AUM by $5 billion. These were partly offset by outflows in long-term AUM, money market, and non-management fee earning AUM.

Invesco's preliminary average total AUM for October was $1,184.2 billion, while preliminary average active AUM totaled $906.1 billion.

At the end of the reported month, the company's Equity AUM increased 2% from the prior month to $567.9 billion. Balanced AUM for October was $65.4 billion, up 2.5% sequentially.

Also, Alternatives AUM and Fixed Income AUM increased marginally to $185.8 billion and $282 billion, respectively. However, Money Market AUM of $94.1 billion decreased 3.7% from the previous month.

Invesco Closes OppenheimerFunds Buyout, Assets Rise to $1.2T - May 24, 2019

Invesco has completed the acquisition of MassMutual's asset management unit, OppenheimerFunds, Inc. The deal, announced in October 2018, significantly boosted the company's AUM, bringing total AUM to around $1.2 trillion.

Following the completion, Invesco has become one of the leading global investment managers. This will likely further strengthen the company's "ability to help meet client needs through its comprehensive range of high-conviction active, passive and alternative capabilities." Martin L. Flanagan, president and CEO of Invesco, said, "We will leverage the combined firm's highly talented team of professionals, expanded set of capabilities and deep global presence to continue providing tailored solutions that help our clients around the world achieve their investment objectives."

Deal Benefits & Other Details

The deal is expected to be accretive to Invesco's adjusted earnings immediately. It is projected to be roughly 24 cents per share accretive in 2019, and 58 cents per share accretive in 2020. Also, Invesco and MassMutual will likely continue to explore future strategic tie ups.

Per the terms, the agreement consideration comprises roughly 81.9 million Invesco shares (including approximately 6 million shares issued as part of the conversion of unvested restricted stock awards held by OppenheimerFunds employee shareholders into Invesco restricted stock awards) and nearly $4 billion worth of 5.9% fixed rate perpetual, non-cumulative preferred shares with a 21-year non-call period. As a result of such a deal arrangement, now MassMutual is a significant stakeholder in Invesco, with nearly 15.7% holdings in the common stock.

Further, Invesco and MassMutual entered into a shareholder agreement, which gave MassMutual customary minority shareholder rights, including representation on Invesco's board of directors. MassMutual has nominated William F. Glavin, Jr., the retired CEO of MassMutual, to Invesco's board.

Dividend Update

On Oct 23, 2019, Invesco declared a quarterly dividend of 31 cents per share. The dividend was paid on Dec 2 to shareholders of record as of Nov 12.

Valuation

Invesco's shares are up 2.6% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Finance sector are up 9.2% and 15.9% over the past year, respectively.

The S&P 500 index is up 25.1% in the past year.

The stock is currently trading at 6.56X forward 12 months earnings, which compares to 12.31X for the Zacks sub-industry, 14.77X for the Zacks sector and 18.79X for the S&P 500 index.

Over the past five years, the stock has traded as high as 15.26X and as low as 5.79X, with a 5-year median of 11.64X. Our Outperform recommendation indicates that the stock will perform better than the market. Our $22 price target reflects 8.12X forward earnings.

The table below shows summary valuation data for IVZ

Valuation Multiples - IVZ

		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	6.56	12.31	14.77	18.79
	5-Year High	15.26	14.33	16.21	19.34
	5-Year Low	5.79	9.81	12.01	15.17
	5-Year Median	11.64	12.43	13.98	17.44
P/B TTM	Current	0.81	2.02	2.83	4.43
	5-Year High	2.03	2.2	2.89	4.45
	5-Year Low	0.69	0.95	1.83	2.85
	5-Year Median	1.55	1.72	2.5	3.6
P/S F12M	Current	1.15	3.54	6.53	3.48
	5-Year High	3.31	3.61	6.61	3.48
	5-Year Low	1.01	2.28	5.2	2.54
	5-Year Median	2.42	2.97	6.04	3

As of 01/07/2020

Industry Analysis **Zacks Industry Rank:** Top 35% (89 out of 254)

Top Peers

Franklin Resources, Inc. **(BEN)**	Neutral
BlackRock, Inc. **(BLK)**	Neutral
Eaton Vance Corporation **(EV)**	Neutral
Federated Investors, Inc. **(FII)**	Neutral
Hamilton Lane Inc. **(HLNE)**	Neutral
Legg Mason, Inc. **(LM)**	Neutral
SEI Investments Company **(SEIC)**	Neutral
T. Rowe Price Group, Inc. **(TROW)**	Neutral

Industry Comparison Industry: Financial - Investment Management

Industry Peers

	IVZ Outperform	X Industry	S&P 500	BEN Neutral	SEIC Neutral	TROW Neutral
VGM Score	B	-	-	B	C	C
Market Cap	8.06 B	824.91 M	23.82 B	12.76 B	9.76 B	29.45 B
# of Analysts	7	3	13	4	3	7
Dividend Yield	6.98%	2.23%	1.8%	4.23%	1.08%	2.41%
Value Score	A	-	-	A	C	C
Cash/Price	0.19	0.17	0.04	0.48	0.08	0.08
EV/EBITDA	13.16	8.82	13.92	4.08	13.04	10.76
PEG Ratio	0.76	1.45	2.00	1.41	1.48	1.71
Price/Book (P/B)	0.81	1.62	3.32	1.21	5.73	4.31
Price/Cash Flow (P/CF)	6.01	10.64	13.58	8.81	17.32	15.42
P/E (F1)	6.55	10.91	18.86	9.85	17.72	15.32
Price/Sales (P/S)	1.43	2.46	2.63	2.21	5.98	5.40
Earnings Yield	15.26%	9.10%	5.30%	10.17%	5.65%	6.53%
Debt/Equity	0.78	0.25	0.72	0.07	0.02	0.02
Cash Flow ($/share)	2.96	1.94	6.94	2.90	3.75	8.17
Growth Score	D	-	-	D	C	B
Hist. EPS Growth (3-5 yrs)	0.27%	5.83%	10.56%	-4.92%	13.16%	13.33%
Proj. EPS Growth (F1/F0)	3.89%	9.29%	7.49%	2.98%	12.82%	4.58%
Curr. Cash Flow Growth	-6.37%	9.93%	14.83%	-22.73%	28.86%	30.72%
Hist. Cash Flow Growth (3-5 yrs)	1.83%	6.31%	9.00%	-10.94%	11.96%	11.74%
Current Ratio	1.57	2.20	1.23	2.96	5.74	3.60
Debt/Capital	36.94%	23.45%	42.92%	12.33%	2.17%	15.44%
Net Margin	8.86%	11.59%	11.08%	20.71%	29.95%	35.28%
Return on Equity	10.60%	12.39%	17.16%	12.28%	29.77%	28.84%
Sales/Assets	0.16	0.38	0.55	0.40	0.82	0.63
Proj. Sales Growth (F1/F0)	11.81%	6.61%	4.15%	-1.41%	6.22%	5.49%
Momentum Score	B	-	-	A	A	D
Daily Price Chg	-0.17%	0.00%	-0.22%	1.07%	-0.03%	0.40%
1 Week Price Chg	-0.90%	0.00%	-0.30%	-4.42%	-1.35%	1.57%
4 Week Price Chg	5.40%	1.81%	2.11%	-1.08%	0.53%	3.00%
12 Week Price Chg	12.48%	4.12%	5.70%	-6.27%	9.12%	13.14%
52 Week Price Chg	2.78%	3.62%	22.84%	-16.44%	39.12%	36.50%
20 Day Average Volume	4,572,257	95,106	1,570,747	3,206,424	546,627	777,085
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	2.80%	0.00%
(F1) EPS Est 4 week change	1.88%	0.00%	0.00%	1.37%	2.80%	2.15%
(F1) EPS Est 12 week change	2.05%	0.12%	-0.53%	-4.60%	1.85%	1.62%
(Q1) EPS Est Mthly Chg	1.59%	0.00%	0.00%	0.53%	3.11%	0.80%

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	D
Momentum Score	B
VGM Score	B

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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