

## Invesco Ltd. (IVZ)

**\$12.47** (As of 03/10/20)

Price Target (6-12 Months): **\$14.00**

Long Term: 6-12 Months

**Zacks Recommendation:**

**Neutral**

(Since: 03/09/20)

Prior Recommendation: Outperform

Short Term: 1-3 Months

**Zacks Rank:** (1-5)

**3-Hold**

Zacks Style Scores:

VGM:C

Value: A

Growth: C

Momentum: F

## Summary

Shares of Invesco have underperformed the industry in the past year. The company has an impressive earnings surprise history. Its earnings have outpaced the Zacks Consensus Estimate in three of the trailing four quarters. Solid assets under management (AUM) balance and globally diversified presence are expected to continue driving revenue growth in the quarters ahead. The company's efforts to capitalize on investors' demand for passive and alternative investment strategies will likely fuel growth. Synergies from acquisitions (including the OppenheimerFunds buyout) are expected to continue to support profits. However, continuously increasing operating expenses (compensation, marketing and acquisition-related costs) will likely hurt the bottom line to an extent. Also, the presence of high debt levels remains a major near-term concern.

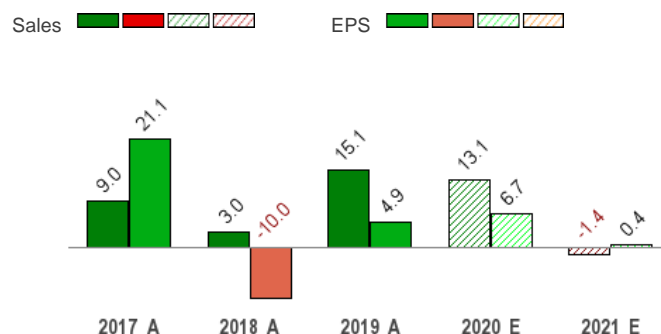
## Price, Consensus & Surprise



## Data Overview

52 Week High-Low	\$22.18 - \$11.31
20 Day Average Volume (sh)	6,150,061
Market Cap	\$5.7 B
YTD Price Change	-30.7%
Beta	1.53
Dividend / Div Yld	\$1.24 / 9.9%
Industry	<a href="#">Financial - Investment Management</a>
Zacks Industry Rank	Top 13% (33 out of 253)

## Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	-8.6%
Last Sales Surprise	-0.2%
EPS F1 Est- 4 week change	-1.1%
Expected Report Date	04/23/2020
Earnings ESP	-3.6%
P/E TTM	4.9
P/E F1	4.6
PEG F1	0.6
P/S TTM	0.9

## Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021					6,822 E
2020	1,769 E	1,785 E	1,804 E	1,811 E	6,918 E
2019	1,215 A	1,439 A	1,721 A	1,743 A	6,117 A

## EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$0.65 E	\$0.69 E	\$0.73 E	\$0.71 E	\$2.73 E
2020	\$0.65 E	\$0.67 E	\$0.69 E	\$0.70 E	\$2.72 E
2019	\$0.56 A	\$0.65 A	\$0.70 A	\$0.64 A	\$2.55 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 03/10/2020. The reports text is as of 03/11/2020.

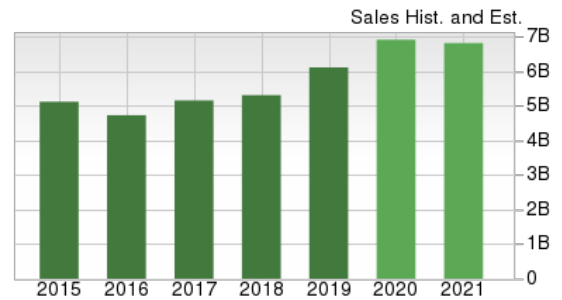
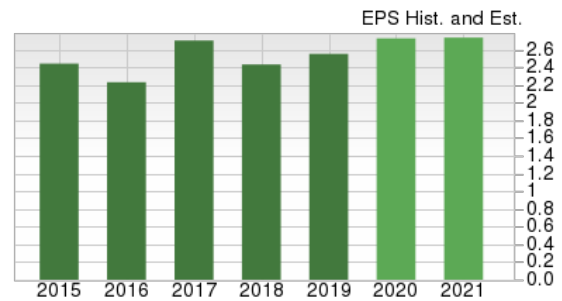
## Overview

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 inceptioned in 1935. As of Dec 31, 2019, Invesco had offices in more than 20 countries and AUM worth \$1,226.2 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 \$878.2 billion in assets as of Dec 31, 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 \$348 billion as of Dec 31, 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.



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## Reasons To Buy:

- ▲ Invesco's top-line growth looks impressive. Net revenues witnessed a six-year (2014-2019) CAGR of 4.1%. 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 opportunistic acquisitions, the company's revenues will continue to improve in the quarters ahead.
- ▲ Invesco's AUM has been witnessing consistent improvement. Though total AUM declined in 2018 owing to significant market volatility, the same witnessed a CAGR of 9.1% over the last six years (2014-2019). The acquisition of OppenheimerFunds resulted in a 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 24.2% and 15.1%, respectively, of total AUM as of Dec 31, 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. In October 2018, the company announced an additional \$1.2 billion share buyback program and is on track to repurchase the remaining \$227 million by the first quarter of 2021. Driven by a strong balance-sheet position and consistently improving earnings, Invesco will likely keep enhancing 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 Dec 31, 2019, the company's client AUM from outside the United States constituted 28.3% 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.
- ▲ 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 A.

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.

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## Reasons To Sell:

- ▼ Invesco's operating expenses have increased at a four-year CAGR of 14% (2016-2019). 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 Dec 31, 2019, Invesco's long-term debt amounted to \$2.1 billion (nearly 5.3% 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 on Invesco's balance sheet are subject to annual impairment reviews. As of Dec 31, 2019, goodwill and net intangible assets remained at considerably high levels, totaling \$15.9 billion (accounting for 40.3% 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 12.00% compares unfavorably with ROE of 16.74% for the S&P 500. This indicates that the company is less efficient in using shareholders' funds.
- ▼ Shares of Invesco have underperformed the industry over the past six months. Also, the company's 2020 earnings estimates have been revised 1.4% lower over the past 30 days. Hence, given the concerns and negative estimate revisions, the price performance is not expected to improve in the near term.

Rising costs resulting from higher compensation and marketing expenses, and acquisitions will likely impede bottom-line growth. Presence of high levels of debt remains a major near-term concern.

## Last Earnings Report

### Invesco Q4 Earnings Miss Estimates on Higher Expenses

Invesco reported fourth-quarter 2019 adjusted earnings of 64 cents per share, missing the Zacks Consensus Estimate of 70 cents. However, the bottom line surged 45.5% from the prior-year quarter.

Results reflect a rise in AUM balance and higher revenues, driven by the OppenheimerFunds buyout. However, increase in operating expenses and net outflows were the major headwinds.

On a GAAP basis, net income attributable to common shareholders came in at \$179.8 million or 39 cents per share, up from \$114.2 million or 28 cents per share a year ago.

The company's 2019 adjusted earnings totaled \$2.55 per share, lagging the consensus estimate of \$2.61, but growing 4.9% year over year. On a GAAP basis, net income attributable to common shareholders came in at \$564.7 million or \$1.28 per share, down from \$882.8 million or \$2.14 per share in 2018.

### Revenues & Expenses Rise

GAAP operating revenues in the quarter were \$1.74 billion, increasing 38.8% year over year. However, the figure missed the Zacks Consensus Estimate of \$1.75 billion. Adjusted net revenues jumped 37.9% to \$1.27 billion.

In 2019, GAAP operating revenues were \$6.12 billion, up 15.1% year over year and beat the Zacks Consensus Estimate of \$6.06 billion. Adjusted net revenues jumped 15.6% to \$4.42 billion.

Adjusted operating expenses were \$762.3 million, up 23.1% from the prior-year quarter.

Adjusted operating margin was 39.9% compared with 32.6% a year ago.

### AUM Improves

As of Dec 31, 2019, AUM was \$1.27 billion, surging 38.1% year over year. Average AUM for the fourth quarter totaled \$1.20 billion, up 29.9%. AUM growth was mainly driven by the closure of the deal to acquire OppenheimerFunds in May 2019 and strong equity markets performance.

Further, the December quarter witnessed long-term net outflows of \$14 billion.

### Share Repurchase Update

During the fourth quarter, Invesco repurchased shares worth \$11 million.

As of 2019 end, the company repurchased \$973 million worth of shares since announcing \$1.2 billion buyback authorization in October 2018.

### Outlook

The company expects 2020 quarterly expense run rate of \$755 million. For full-year 2020, operating expenses are expected to be \$3.02 billion.

Quarter Ending **12/2019**

Report Date	Jan 29, 2020
Sales Surprise	-0.18%
EPS Surprise	-8.57%
Quarterly EPS	0.64
Annual EPS (TTM)	2.55

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## Recent News

### Invesco February AUM Declines on Unfavorable Market & Outflows - Mar 10, 2020

Invesco announced its AUM for February 2020. The company's preliminary month-end AUM of \$1,159.4 billion represents a decline of 4.9% from the previous month.

The decline was due to unfavorable market returns, net long-term outflows and net outflows in money market AUM, partly offset by net inflows in non-management fee earning AUM and reinvested distributions. Also, unfavorable foreign-exchange movement resulted in a fall in the monthly AUM by \$3.9 billion.

Invesco's preliminary average total AUM for the quarter through February was \$1,228.9 billion, while preliminary average active AUM totaled \$925 billion.

At the end of the reported month, the company's Equity AUM decreased 8.3% from the prior month to \$537.8 billion. Balanced AUM for February was \$62.5 billion, down 6.6% sequentially.

Also, Alternatives AUM fell 3.8% from the prior month to \$177.4 billion. Further, Money Market AUM declined 2.1% from the prior month to \$91.5 billion. However, Fixed Income AUM of \$290.2 billion increased marginally from the previous month.

### Invesco January AUM Down on Outflows & Negative FX Effects - Feb 12, 2020

Invesco has announced its AUM for January 2020. The company's preliminary month-end AUM of \$1,218.7 billion down 0.6% from the prior month.

This decline was due to unfavorable market returns, net outflows in non-management fee earning AUM, and long-term AUM net outflows, which were partially offset by net inflows in money market AUM and reinvested distributions. Also, unfavorable foreign-exchange movement resulted in a fall in the month's AUM by \$1.1 billion.

Invesco's preliminary average total AUM for January was \$1,235.5 billion, while preliminary average active AUM totaled \$933.3 billion.

At the end of the reported month, the company's Equity AUM decreased 2.1% from the prior month to \$586.5 billion. Balanced AUM for January was \$66.5 billion, down 0.6% sequentially.

Also, Alternatives AUM fell marginally to \$184.4 billion. However, Fixed Income AUM of \$287.4 billion increased 1.4% from the previous month. Further, Money Market AUM rose 2.3% from the prior month to \$93.5 billion.

### Dividend Update

On Jan 29, Invesco declared a quarterly dividend of 31 cents per share. The dividend was paid out on Mar 2 to shareholders of record as of Feb 13.

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## Valuation

Invesco's shares are down 34.3% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Finance sector are down 20.8% and 14.1% over the past year, respectively.

The S&P 500 index is down 2.6% in the past year.

The stock is currently trading at 4.58X forward 12 months earnings, which compares to 9.43X for the Zacks sub-industry, 11.81X for the Zacks sector and 15.75X for the S&P 500 index.

Over the past five years, the stock has traded as high as 15.26X and as low as 4.25X, with a 5-year median of 11.36X. Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$14 price target reflects 5.15X forward earnings.

The table below shows summary valuation data for IVZ

Valuation Multiples - IVZ				
Stock	Sub-Industry	Sector	S&P 500	
IVZ	Asset Management	Financial Services	15.75	

P/E F12M	Current	4.58	9.43	11.81	15.75
	5-Year High	15.26	14.39	16.21	19.34
	5-Year Low	4.25	9.43	11.81	15.18
	5-Year Median	11.36	12.33	13.97	17.42
P/B TTM	Current	0.55	1.62	2.23	3.69
	5-Year High	2.03	2.23	2.89	4.56
	5-Year Low	0.51	0.97	1.83	2.85
	5-Year Median	1.51	1.75	2.52	3.63
P/S F12M	Current	0.82	3.72	5.99	2.91
	5-Year High	3.31	3.72	6.64	3.44
	5-Year Low	0.76	2.31	5.39	2.54
	5-Year Median	2.37	3.01	6.04	3

As of 03/10/2020

## Industry Analysis Zacks Industry Rank: Top 13% (33 out of 253)



## Top Peers

AllianceBernstein Holding L.P. (AB)	Outperform
KKR & Co. Inc. (KKR)	Outperform
Legg Mason, Inc. (LM)	Outperform
Apollo Global Management, LLC (APO)	Neutral
Franklin Resources, Inc. (BEN)	Neutral
Blackstone Group Inc/The (BX)	Neutral
SCHRODERS PLC (SHNWF)	Neutral
T. Rowe Price Group, Inc. (TROW)	Neutral

Industry Comparison Industry: Financial - Investment Management				Industry Peers		
	IVZ Neutral	X Industry	S&P 500	BEN Neutral	BX Neutral	TROW Neutral
<b>VGM Score</b>	<b>C</b>	-	-	<b>D</b>	<b>D</b>	<b>F</b>
Market Cap	5.65 B	767.50 M	20.21 B	10.01 B	34.11 B	26.62 B
# of Analysts	7	3	13	4	7	7
Dividend Yield	9.94%	2.97%	2.18%	5.36%	4.82%	2.70%
<b>Value Score</b>	<b>A</b>	-	-	<b>B</b>	<b>D</b>	<b>D</b>
Cash/Price	0.29	0.22	0.05	0.56	0.07	0.06
EV/EBITDA	12.66	6.28	12.36	2.61	10.61	8.01
PEG Ratio	0.53	0.89	1.78	0.79	0.97	1.35
Price/Book (P/B)	0.55	1.30	2.77	0.92	2.22	3.71
Price/Cash Flow (P/CF)	3.97	9.01	11.04	6.95	20.44	12.17
P/E (F1)	4.20	8.56	16.09	7.91	16.69	12.82
Price/Sales (P/S)	0.92	2.08	2.17	1.73	4.65	4.74
Earnings Yield	21.81%	11.65%	6.20%	12.66%	5.98%	7.80%
Debt/Equity	0.81	0.20	0.70	0.07	0.78	0.02
Cash Flow (\$/share)	3.14	1.94	7.01	2.90	2.48	9.27
<b>Growth Score</b>	<b>C</b>	-	-	<b>F</b>	<b>C</b>	<b>D</b>
Hist. EPS Growth (3-5 yrs)	0.64%	6.34%	10.85%	-4.47%	-0.50%	14.55%
Proj. EPS Growth (F1/F0)	6.84%	11.33%	6.14%	1.09%	31.35%	9.05%
Curr. Cash Flow Growth	24.49%	-4.05%	6.09%	-22.73%	2.05%	10.14%
Hist. Cash Flow Growth (3-5 yrs)	3.83%	3.83%	8.52%	-10.94%	-18.15%	10.60%
Current Ratio	1.62	2.30	1.24	3.58	1.07	6.78
Debt/Capital	37.79%	21.90%	42.57%	12.77%	44.14%	15.14%
Net Margin	10.20%	14.60%	11.69%	21.99%	27.93%	37.69%
Return on Equity	12.00%	13.86%	16.74%	12.76%	13.86%	29.45%
Sales/Assets	0.17	0.37	0.54	0.40	0.23	0.62
Proj. Sales Growth (F1/F0)	13.09%	1.26%	3.71%	-3.19%	30.21%	10.17%
<b>Momentum Score</b>	<b>F</b>	-	-	<b>F</b>	<b>D</b>	<b>F</b>
Daily Price Chg	7.59%	2.53%	4.87%	3.28%	7.79%	8.83%
1 Week Price Chg	-8.89%	-2.46%	-0.67%	-0.51%	0.41%	-1.07%
4 Week Price Chg	-33.99%	-20.47%	-15.65%	-19.91%	-21.38%	-18.63%
12 Week Price Chg	-31.56%	-18.08%	-13.60%	-23.21%	-7.22%	-8.32%
52 Week Price Chg	-34.27%	-16.65%	-2.27%	-37.92%	50.58%	12.31%
20 Day Average Volume	6,150,061	107,152	2,778,843	7,386,962	6,193,350	1,743,880
(F1) EPS Est 1 week change	-1.14%	0.00%	0.00%	-0.88%	-0.47%	-1.09%
(F1) EPS Est 4 week change	-1.14%	0.00%	-0.16%	-0.72%	-0.42%	-0.32%
(F1) EPS Est 12 week change	2.47%	1.41%	-0.57%	-0.49%	-0.56%	9.73%
(Q1) EPS Est Mthly Chg	-0.76%	0.00%	-0.49%	-0.49%	-4.03%	-0.79%



## 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	<b>A</b>
Growth Score	<b>C</b>
Momentum Score	<b>F</b>
VGM Score	<b>C</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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