

Invesco Ltd. (IVZ)

\$10.70 (As of 08/13/20)

Price Target (6-12 Months): **\$11.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 08/13/20)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:B

Value: A

Growth: D

Momentum: C

Summary

Shares of Invesco have outperformed the industry over the past three months. The company's earnings surpassed the Zacks Consensus Estimate in only one of the trailing four quarters. Its second-quarter 2020 results reflected solid assets under management (AUM) balance. The company's initiatives to capitalize on investors' demand for different investment strategies, a steady increase in inflows and synergies from opportunistic acquisitions are expected to continue supporting financials in the upcoming quarters. Further, its strong global presence and diversification efforts bode well for the future. However, substantially high debt level and curtailed capital deployments are major near-term concerns for the company. Also, mounting expenses, given inorganic growth efforts and investment in franchise, are likely to hurt bottom line.

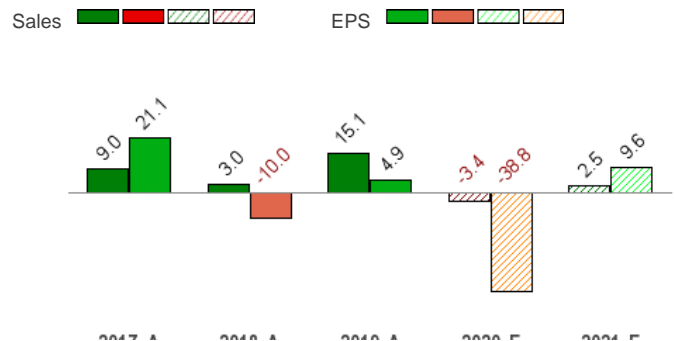
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$19.01 - \$6.38
20 Day Average Volume (sh)	5,387,363
Market Cap	\$4.9 B
YTD Price Change	-40.5%
Beta	1.42
Dividend / Div Yld	\$0.62 / 5.8%
Industry	Financial - Investment Management
Zacks Industry Rank	Top 21% (53 out of 252)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	-16.7%
Last Sales Surprise	-4.6%
EPS F1 Est- 4 week change	-2.5%
Expected Report Date	10/28/2020
Earnings ESP	1.1%
P/E TTM	5.3
P/E F1	6.9
PEG F1	0.9
P/S TTM	0.8

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	1,554 E	1,606 E	1,644 E	1,668 E	6,057 E
2020	1,599 A	1,419 A	1,506 E	1,514 E	5,909 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	\$0.39 E	\$0.44 E	\$0.44 E	\$0.44 E	\$1.71 E
2020	\$0.34 A	\$0.35 A	\$0.43 E	\$0.43 E	\$1.56 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 08/13/2020. The reports text is as of 08/14/2020.

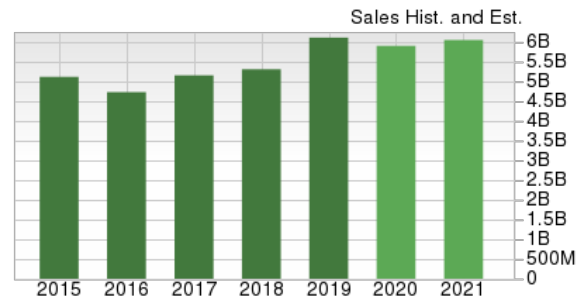
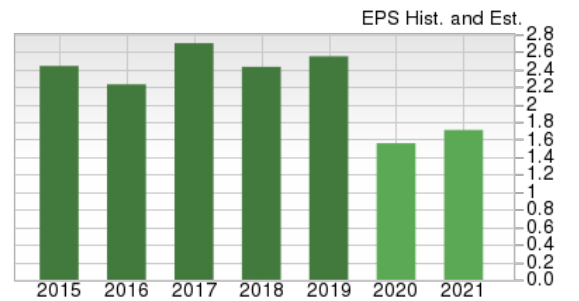
Overview

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 Jun 30, 2020, Invesco had offices in more than 20 countries and AUM worth \$1,145.2 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 \$788.4 billion in assets as of Jun 30, 2020.
- **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 \$356.8 billion as of Jun 30, 2020.



In 2010, Invesco completed the Van Kampen/Morgan Stanley deal. In 2013, the company 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 top-line growth looks impressive. Net revenues witnessed a six-year (2014-2019) CAGR of 4.1%, with the momentum continuing in first-half 2020. 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, solid retail channel, and synergies from opportunistic acquisitions, revenues will continue to improve in the quarters ahead.
- ▲ Invesco's AUM has been witnessing consistent improvement. Though total AUM declined in 2018 and the first six months of 2020 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. The company has been capitalizing on growing demand for passive products and alternate asset classes, which were 24.6% and 14.6%, respectively, of total AUM on Jun 30, 2020.
- ▲ Apart from a strong presence in the United States, Invesco maintains a solid foothold in Europe, Canada and the Asia-Pacific. As of Jun 30, 2020, the company's client AUM outside the United States constituted 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.
- ▲ Further, Invesco seems undervalued than the broader industry. Its current price-to-book and price-to-earnings (F1) ratios are lower than the respective industry averages. Also, the stock has a Value Score of A.

Invesco's robust AUM balance, diverse product offerings and widening global presence are expected to support top-line growth. Also, synergies from acquisitions will continue to aid profitability.

Reasons To Sell:

- ▼ Invesco's operating expenses have increased at a four-year (2016-2019) CAGR of 14%, with the trend continuing in first two quarters of 2020. Rise in compensation costs 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 inorganic growth efforts and investment in franchise.
- ▼ Invesco has been actively involved in capital deployment activities. Since 2009, the company has increased quarterly dividend annually, with the latest announcement in April 2019. Also, the company has a share repurchase plan in place. However, as the company is focused on improving financial strength and improving liquidity, it slashed quarterly dividend by 50% in April 2020 and doesn't foresee additional share buybacks this year on the assumption of continuation of the current unfavorable operating backdrop.
- ▼ As of Jun 30, 2020, Invesco had total debt of \$8.7 billion, which was significantly higher than cash and cash equivalents balance of \$1.3 billion. Further, its times-interest-earned ratio — which was 7.6 at second quarter-end — has been declining over the last few quarters. Such high debt levels can put the company in a relatively disadvantageous position if the economic situation worsens.
- ▼ The goodwill and intangible assets on Invesco's balance sheet are subject to annual impairment reviews. As of Jun 30, 2020, goodwill and net intangible assets remained at considerably high levels, totaling \$15.9 billion (accounting for 44.8% 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.
- ▼ Shares of Invesco have underperformed the industry so far this year. Also, the company's earnings estimates for 2020 have moved 2.5% downward over the past 30 days. Hence, given the concerns and lack of positive estimate revisions, the stock has limited upside potential.

Rising costs resulting from higher compensation expenses and acquisitions will likely impede bottom-line growth. Presence of high levels of debt and curtailment of capital deployments are concerns.

Last Earnings Report

Invesco Misses on Q2 Earnings as Revenues & AUM Fall

Invesco reported second-quarter 2020 adjusted earnings of 35 cents per share, missing the Zacks Consensus Estimate of 42 cents. Also, the bottom line declined 46.2% from the prior-year quarter.

Increase in operating expenses, lower revenues and net outflows were the major undermining factors amid coronavirus scare. Yet, a strong liquidity position was a tailwind.

On a GAAP basis, net income attributable to common shareholders came in at \$40.5 million or 9 cents per share compared with \$40.1 million or 9 cents per share a year ago.

Quarter Ending 06/2020

Report Date	Jul 28, 2020
Sales Surprise	-4.64%
EPS Surprise	-16.67%
Quarterly EPS	0.35
Annual EPS (TTM)	2.03

Revenues Down, Expenses Rise

GAAP operating revenues were \$1.42 billion, which decreased 1.4% year over year. Also, the figure missed the Zacks Consensus Estimate of \$1.49 billion.

Adjusted net revenues declined 9.7% from the prior-year quarter to \$1.03 billion. The fall was mainly due to significant market volatility.

Adjusted operating expenses were \$674.6 million, up nearly 1% from the prior-year quarter.

Adjusted operating margin was 34.8%, down from 35.2% a year ago.

As of Jun 30, 2020, cash and cash equivalents were \$987.1 million, up 5% sequentially. Further, long-term debt amounted to \$2.41 billion, including the credit facility balance of \$325.6 million.

AUM Balance Declines

As of Jun 30, 2020, AUM was \$1.15 billion, which decreased 4.4% year over year. Average AUM at second quarter-end totaled \$1.12 billion, up 5.9% from the year-ago period.

The company witnessed long-term net outflows of \$14.2 billion.

Outlook

Management expects revenues to remain under pressure in the near term as outflows continue to hurt AUM balance.

The company expects quarterly operating expenses to be around \$675 million for the remainder of 2020. Marketing expenses are projected to modestly increase in the third quarter on a sequential basis.

Given the mix shift in AUM, including the impact of larger, lower fee institutional mandates, it expects a continued modest decline in net revenue yield (excluding performance fees) in the third quarter.

For the remaining quarters of 2020, effective tax rate is expected between 24% and 25%.

Recent News

Invesco July AUM Up on Favorable Markets, Net Inflows - Aug 11, 2020

Invesco announced AUM for July 2020. The company's preliminary month-end AUM of \$1,195.3 billion represents a 4.4% increase from the previous month.

The rise was driven by favorable market returns, which boosted AUM by \$38 billion. Moreover, FX increased AUM by \$7.3 billion.

Overall net long-term inflows were \$4 billion. Further, non-management fee earning net inflows were \$1.1 billion.

Invesco's preliminary average total AUM for the quarter through Jul 31 was \$1,176.6 billion and preliminary average active AUM totaled \$883.5 billion.

At the end of the reported month, the company's Equity AUM was up 5.5% from the prior month to \$575.1 billion. Balanced AUM for July was \$64.6 billion, up 6.1% sequentially.

Alternatives AUM increased 3.6% from the prior month to \$173.3 billion. Fixed Income AUM of \$270.4 billion rose 3.7% from the previous month. Moreover, Money Market AUM increased marginally from the previous month to \$111.9 billion.

Dividend Update

On Jul 28, Invesco declared a quarterly dividend of 15.5 cents per share. The dividend will be paid out on Sep 1 to shareholders of record as of Aug 14.

Valuation

Invesco's shares are down 40.5% in the year-to-date period and 29.6% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Finance sector are down 1.1% and 15.1% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry is up 15.9%, while the sector is down 3.9%.

The S&P 500 index is up 3.3% in the year-to-date period and 17.5% in the past year.

The stock is currently trading at 6.90X forward 12 months earnings, which compares to 12.86X for the Zacks sub-industry, 16.82X for the Zacks sector and 22.60X for the S&P 500 index.

Over the past five years, the stock has traded as high as 14.15X and as low as 3.24X, with a 5-year median of 10.47X. Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$11 price target reflects 7.10X 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	6.9	12.86	16.87	22.91
	5-Year High	14.15	14.38	16.87	22.91
	5-Year Low	3.24	9.73	11.59	15.25
	5-Year Median	10.47	12.46	14.26	17.58
P/B	Current	0.53	2.12	2.48	4.64
	5-Year High	1.84	2.23	2.91	4.68
	5-Year Low	0.31	0.97	1.72	2.83
	5-Year Median	1.38	1.78	2.53	3.74
P/S F12M	Current	0.87	3.98	6.22	3.7
	5-Year High	2.88	3.98	6.66	3.7
	5-Year Low	0.5	2.35	4.96	2.53
	5-Year Median	2.19	3.03	6.06	3.05

As of 08/13/2020

Industry Analysis Zacks Industry Rank: Top 21% (53 out of 252)



Top Peers

Company (Ticker)	Rec	Rank
AllianceBernstein Holding L.P. (AB)	Outperform	2
KKRCo. Inc. (KKR)	Outperform	1
SCHRODERS PLC (SHNWF)	Outperform	2
T. Rowe Price Group, Inc. (TROW)	Outperform	2
Apollo Global Management, LLC (APO)	Neutral	3
Grupo Aval Acciones y Valores S.A. (AVAL)	Neutral	3
Franklin Resources, Inc. (BEN)	Neutral	3
Blackstone Group IncThe (BX)	Neutral	3

Industry Comparison Industry: Financial - Investment Management				Industry Peers		
	IVZ	X Industry	S&P 500	BEN	BX	TROW
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Outperform
Zacks Rank (Short Term)	3	-	-	3	3	2
VGM Score	B	-	-	B	C	B
Market Cap	4.91 B	936.01 M	23.58 B	10.84 B	35.69 B	31.16 B
# of Analysts	7	3	14	1	7	7
Dividend Yield	5.79%	1.78%	1.68%	4.94%	2.78%	2.62%
Value Score	A	-	-	B	D	C
Cash/Price	0.26	0.16	0.07	0.63	0.07	0.06
EV/EBITDA	12.68	6.25	13.34	2.83	10.86	9.39
PEG Ratio	0.86	1.52	2.99	NA	NA	2.06
Price/Book (P/B)	0.49	1.74	3.20	0.98	3.11	4.62
Price/Cash Flow (P/CF)	3.40	8.77	12.83	7.54	21.46	14.81
P/E (F1)	6.86	11.16	21.99	11.16	26.48	16.15
Price/Sales (P/S)	0.76	1.97	2.53	2.01	4.86	5.40
Earnings Yield	14.58%	8.95%	4.35%	8.96%	3.78%	6.19%
Debt/Equity	0.87	0.18	0.77	0.13	0.97	0.02
Cash Flow (\$/share)	3.14	1.75	6.94	2.90	2.48	9.27
Growth Score	D	-	-	D	B	B
Hist. EPS Growth (3-5 yrs)	-0.30%	8.05%	10.41%	-2.98%	8.46%	16.44%
Proj. EPS Growth (F1/F0)	-38.88%	-4.79%	-6.32%	-22.22%	-13.05%	5.35%
Curr. Cash Flow Growth	24.49%	-4.05%	5.20%	-22.73%	2.05%	10.14%
Hist. Cash Flow Growth (3-5 yrs)	3.83%	4.10%	8.55%	-10.94%	-18.15%	10.60%
Current Ratio	1.76	2.09	1.33	4.20	1.36	3.24
Debt/Capital	38.81%	24.05%	44.59%	16.00%	49.27%	15.69%
Net Margin	8.15%	9.10%	10.13%	19.04%	27.93%	35.05%
Return on Equity	9.93%	11.91%	14.51%	12.39%	14.05%	29.65%
Sales/Assets	0.17	0.34	0.51	0.36	0.23	0.63
Proj. Sales Growth (F1/F0)	-3.41%	0.00%	-1.43%	-11.93%	-8.07%	6.22%
Momentum Score	C	-	-	B	D	D
Daily Price Chg	-6.06%	-0.09%	-0.44%	-0.59%	0.61%	-0.86%
1 Week Price Chg	7.37%	2.20%	2.30%	5.99%	-1.43%	1.11%
4 Week Price Chg	-0.28%	2.57%	4.38%	2.67%	-4.01%	3.93%
12 Week Price Chg	45.58%	12.63%	13.59%	21.83%	-0.80%	19.72%
52 Week Price Chg	-29.61%	-4.05%	5.75%	-18.99%	16.32%	30.15%
20 Day Average Volume	5,387,363	91,323	1,984,154	3,908,778	2,967,687	1,065,653
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	-2.50%	0.94%	2.08%	3.83%	-1.06%	8.85%
(F1) EPS Est 12 week change	7.07%	7.14%	2.66%	9.05%	-1.82%	26.03%
(Q1) EPS Est Mthly Chg	3.17%	0.65%	0.94%	-6.25%	-1.23%	8.87%

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	C
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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