

Invesco Ltd. (IVZ)

\$8.09 (As of 05/26/20)

Price Target (6-12 Months): **\$6.00**

Long Term: 6-12 Months

Zacks Recommendation: Underperform

(Since: 04/09/20)

Prior Recommendation: Neutral

Short Term: 1-3 Months

Zacks Rank: (1-5)

5-Strong Sell

Zacks Style Scores:

VGM:D

Value: C

Growth: F

Momentum: B

Summary

Shares of Invesco have underperformed the industry in the past year. Its earnings have outpaced the Zacks Consensus Estimate in two of the trailing four quarters. Its first-quarter 2020 results reflected higher net outflows due to increased market volatility. Increasing outflows are expected to result in a decline in assets under management (AUM) balance. Therefore, the company's revenues will likely be under pressure in the near term. While its efforts to capitalize on investors' demand for different investment strategies and synergies from acquisitions will support growth, continuously increasing operating expenses will likely hurt the bottom line to an extent. The presence of high debt levels remains a near-term concern. Its efforts to enhance liquidity by slashing dividends and suspending buybacks are negatives for retail investors.

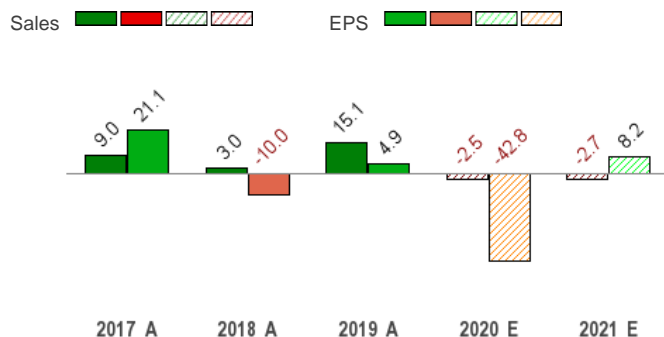
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$21.10 - \$6.38
20 Day Average Volume (sh)	7,520,463
Market Cap	\$3.7 B
YTD Price Change	-55.0%
Beta	1.48
Dividend / Div Yld	\$0.62 / 7.7%
Industry	Financial - Investment Management
Zacks Industry Rank	Bottom 36% (163 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	-39.3%
Last Sales Surprise	-6.3%
EPS F1 Est- 4 week change	-12.9%
Expected Report Date	07/23/2020
Earnings ESP	-5.6%

P/E TTM	3.5
P/E F1	5.5
PEG F1	0.7
P/S TTM	0.6

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021					5,800 E
2020	1,599 A	1,436 E	1,441 E	1,444 E	5,962 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	\$0.36 E	\$0.39 E	\$0.42 E	\$0.43 E	\$1.58 E
2020	\$0.34 A	\$0.36 E	\$0.38 E	\$0.39 E	\$1.46 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 05/26/2020. The reports text is as of 05/27/2020.

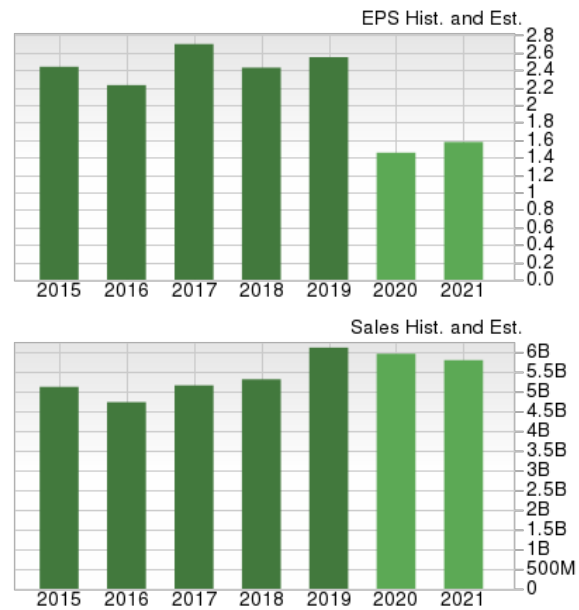
Overview

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 Mar 31, 2020, Invesco had offices in more than 20 countries and AUM worth \$1,053.4 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 \$702.5 billion in assets as of Mar 31, 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 \$350.9 billion as of Mar 31, 2020.



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 Sell:

- ▼ Invesco's operating expenses have increased at a four-year (2016-2019) CAGR of 14%, with the trend continuing in first-quarter 2020. 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.
- ▼ Invesco has been actively involved in capital deployment activities. Since 2009, it has been increasing its 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% and doesn't foresee additional share buybacks this year on the assumption of continuation of the current unfavorable operating backdrop.
- ▼ As of Mar 31, 2020, Invesco's long-term debt amounted to \$2.6 billion (nearly 7% of total assets). Moreover, the company's total debt to total capital of more than 38% at the end of the first quarter of 2020 is higher than the industry average of 26.59%. Further, its times-interest-earned ratio, which currently stands at 7.43, declined sequentially in first-quarter 2020 and is also below the industry average of 7.74. This shows that the company has relatively higher credit risk. In fact, its high debt obligation, if combined with unfavorable economic and industry conditions, increases the likelihood of a default, and can drag the company to a relatively disadvantageous position if economic situation worsens.
- ▼ The goodwill and intangible assets on Invesco's balance sheet are subject to annual impairment reviews. As of Mar 31, 2020, goodwill and net intangible assets remained at considerably high levels, totaling \$15.9 billion (accounting for 42.9% 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 11.04% compares unfavorably with ROE of 12.36% for the industry and 16.29% for the S&P 500. This indicates that the company is less efficient in using shareholders' funds.
- ▼ Shares of Invesco have underperformed the industry so far this year. Also, the company's 2020 earnings estimates have been revised marginally downward over the past 30 days. Hence, given the concerns and downward 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. Also, presence of high levels of debt remains a major near-term concern.

Risks

- Invesco's top-line growth looks impressive. Net revenues witnessed a six-year (2014-2019) CAGR of 4.1%, with momentum continuing in the first quarter of 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, 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 and in first-quarter 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 that were 23.4% and 15.4%, respectively, of total AUM as of Mar 31, 2020.
 - Apart from a strong presence in the United States, Invesco maintains a solid foothold in Europe, Canada and the Asia-Pacific. As of Mar 31, 2020, the company's client AUM from outside the United States constituted 28.2% 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 compared with the broader industry. Its current price-to-book and price-to-earnings (F1) ratios are lower than the respective industry averages.
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Last Earnings Report

Invesco Misses on Q1 Earnings, Revenues & AUM Rise

Invesco reported first-quarter 2020 adjusted earnings of 34 cents per share, missing the Zacks Consensus Estimate of 56 cents. Also, the bottom line declined 39.3% from the prior-year quarter.

Increase in operating expenses and net outflows were the major headwinds amid coronavirus scare. Yet, a rise in AUM balance and higher revenues — driven by the OppenheimerFunds buyout — were the supporting factors.

On a GAAP basis, net income attributable to common shareholders came in at \$81.5 million or 18 cents per share, down from \$177.7 million or 44 cents per share a year ago.

Revenues & Expenses Rise

GAAP operating revenues in the quarter were \$1.60 billion, increasing 31.6% year over year. However, the figure missed the Zacks Consensus Estimate of \$1.71 billion. Adjusted net revenues jumped 29.2% from the prior-year quarter to \$1.15 billion.

Adjusted operating expenses were \$733.1 million, up 21.6% from the prior-year quarter.

Adjusted operating margin was 36.0% compared with 32.0% a year ago.

AUM Improves

As of Mar 31, 2020, AUM was \$1.05 billion, increasing 10.3% year over year. Average AUM in the first quarter totaled \$1.18 billion, up 26.1% from the year-ago quarter. AUM growth was mainly driven by the closure of the deal to acquire OppenheimerFunds in May 2019, partially offset by long-term net outflows of \$19.1 billion.

Share Repurchase Update

During the first quarter, Invesco didn't repurchase any shares.

Outlook

Management expects revenues to remain under pressure in the near term, similar to first-quarter 2020, as outflows continue to hurt AUM balance.

The company now expects quarterly operating expenses to be around \$675 million for the remainder of 2020 (down from prior guidance of \$755 million), mainly owing to decline in compensation as well as G&A and marketing costs.

Quarter Ending **03/2020**

Report Date	Apr 23, 2020
Sales Surprise	-6.26%
EPS Surprise	-39.29%
Quarterly EPS	0.34
Annual EPS (TTM)	2.33

Recent News

Invesco's April AUM Improves on Favorable Market & Inflows - May 11, 2020

Invesco announced its AUM for April 2020. The company's preliminary month-end AUM of \$1,118.6 billion represents a 6.2% increase from the previous month.

The rise was driven by favorable market returns, which led to an increase in AUM by \$63 billion. Further, FX increased AUM by \$2.1 billion.

It reported net inflows of \$0.4 billion, driven by a \$5.8-billion increase in money market AUM and net long-term inflows of \$1.6 billion in the institutional business. Overall net long-term outflows were \$4.9 billion and non-management fee earnings outflows were \$0.6 billion.

Invesco's preliminary average total AUM for the quarter through February was \$1,084.4 billion and preliminary average active AUM totaled \$829.1 billion.

At the end of the reported month, the company's Equity AUM increased 11% from the prior month to \$510.1 billion. Balanced AUM for April was \$57.6 billion, up 5.7% sequentially.

Also, Alternatives AUM grew almost 3% from the prior month to \$167 billion. Further, Money Market AUM rose 5.6% from the prior month to \$124.1 billion. Fixed Income AUM of \$259.8 billion remained stable from the previous month.

Dividend Update

On Apr 23, Invesco declared a quarterly dividend of 15.5 cents per share, representing a cut of 50% from the prior payout. The dividend will be paid out on Jun 3 to shareholders of record as of May 11.

Valuation

Invesco's shares are down 55% in the year-to-date period and 59.8% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Finance sector are down 13.2% and 26.4% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and the sector are down 12.6% and 18.7%, respectively.

The S&P 500 index is down 8.1% in the year-to-date period but up 5.3% in the past year.

The stock is currently trading at 5.38X forward 12 months earnings, which compares to 13.03X for the Zacks sub-industry, 15.34X for the Zacks sector and 21.49X for the S&P 500 index.

Over the past five years, the stock has traded as high as 14.32X and as low as 3.24X, with a 5-year median of 10.90X. Our Underperform recommendation indicates that the stock will perform worse than the market. Our \$6 price target reflects 4.00X 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	5.38	13.03	15.34	21.49
	5-Year High	14.32	14.35	16.18	21.49
	5-Year Low	3.24	9.83	11.58	15.23
	5-Year Median	10.9	12.37	13.94	17.49
P/B	Current	0.37	1.78	2.12	4.04
	5-Year High	1.96	2.18	2.9	4.56
	5-Year Low	0.31	0.96	1.71	2.83
	5-Year Median	1.46	1.73	2.53	3.65
P/S F12M	Current	0.63	3.44	5.81	3.33
	5-Year High	3.13	3.67	6.7	3.44
	5-Year Low	0.5	2.29	4.99	2.53
	5-Year Median	2.3	2.97	6.05	3.01

As of 05/26/2020

Industry Analysis Zacks Industry Rank: Bottom 36% (163 out of 253)



Top Peers

Company (Ticker)	Rec	Rank
AllianceBernstein Holding L.P. (AB)	Neutral	4
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
KKRCo. Inc. (KKR)	Neutral	3
SCHRODERS PLC (SHNWF)	Neutral	3
T. Rowe Price Group, Inc. (TROW)	Neutral	3

Industry Comparison Industry: Financial - Investment Management				Industry Peers		
	IVZ	X Industry	S&P 500	BEN	BX	TROW
Zacks Recommendation (Long Term)	Underperform	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	5	-	-	3	3	3
VGM Score	D	-	-	B	B	B
Market Cap	3.71 B	721.97 M	21.18 B	9.39 B	37.65 B	27.32 B
# of Analysts	7	3	14	4	7	7
Dividend Yield	7.66%	2.77%	2.03%	5.70%	2.78%	3.00%
Value Score	C	-	-	A	D	B
Cash/Price	0.37	0.22	0.06	0.68	0.07	0.06
EV/EBITDA	11.86	6.16	12.37	2.52	11.34	8.32
PEG Ratio	0.71	1.54	2.88	NA	14.02	1.90
Price/Book (P/B)	0.37	1.29	2.90	0.87	3.29	4.25
Price/Cash Flow (P/CF)	2.57	8.17	11.55	6.54	22.69	12.95
P/E (F1)	5.71	10.65	21.24	8.17	27.48	17.64
Price/Sales (P/S)	0.57	1.79	2.24	1.65	5.13	4.75
Earnings Yield	18.05%	9.39%	4.57%	12.24%	3.65%	5.67%
Debt/Equity	0.88	0.21	0.76	0.12	0.97	0.03
Cash Flow (\$/share)	3.14	1.75	6.96	2.90	2.48	9.27
Growth Score	F	-	-	F	A	C
Hist. EPS Growth (3-5 yrs)	0.57%	6.99%	10.87%	-3.81%	4.45%	15.50%
Proj. EPS Growth (F1/F0)	-42.91%	-10.75%	-10.31%	-7.94%	-11.44%	-15.67%
Curr. Cash Flow Growth	24.49%	-4.05%	5.46%	-22.73%	2.05%	10.14%
Hist. Cash Flow Growth (3-5 yrs)	3.83%	3.50%	8.55%	-10.94%	-18.15%	10.60%
Current Ratio	1.71	2.18	1.29	3.90	1.36	4.55
Debt/Capital	39.06%	26.59%	44.54%	12.39%	49.27%	15.09%
Net Margin	8.12%	9.76%	10.59%	17.29%	27.93%	33.86%
Return on Equity	11.04%	12.36%	16.29%	12.36%	14.62%	29.22%
Sales/Assets	0.17	0.36	0.55	0.39	0.23	0.63
Proj. Sales Growth (F1/F0)	-2.55%	0.00%	-2.34%	-11.03%	-7.04%	-4.05%
Momentum Score	B	-	-	B	B	A
Daily Price Chg	11.28%	2.87%	2.82%	5.98%	4.19%	4.31%
1 Week Price Chg	8.51%	5.38%	4.99%	0.73%	5.64%	1.39%
4 Week Price Chg	-4.94%	5.30%	3.55%	8.97%	9.36%	5.41%
12 Week Price Chg	-43.39%	-13.89%	-4.95%	-18.94%	0.21%	-2.79%
52 Week Price Chg	-59.77%	-19.58%	-3.04%	-41.97%	40.95%	17.76%
20 Day Average Volume	7,520,463	163,780	2,429,758	4,689,589	4,353,654	1,245,897
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	-12.91%	0.00%	-2.27%	19.79%	0.28%	4.27%
(F1) EPS Est 12 week change	-47.18%	-23.51%	-16.39%	-9.73%	-32.90%	-23.51%
(Q1) EPS Est Mthly Chg	-13.42%	0.00%	-4.03%	8.60%	-9.55%	6.96%

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	C
Growth Score	F
Momentum Score	B
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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