Invesco Ltd. (IVZ)

Updated October 26th, 2018 by Jonathan Weber

Key Metrics

Current Price:	$21	**5 Year CAGR Estimate:**	21.2%	**Volatility Percentile:**	67.1%
Fair Value Price:	$33	**5 Year Growth Estimate:**	6.0%	**Momentum Percentile:**	2.6%
% Fair Value:	64%	**5 Year Valuation Multiple Estimate:**	9.6%	**Growth Percentile:**	47.4%
Dividend Yield:	5.6%	**5 Year Price Target**	$45	**Valuation Percentile:**	94.6%
Dividend Risk Score:	C	**Retirement Suitability Score:**	B	**Total Return Percentile:**	95.1%

Overview & Current Events

Invesco is an investment management firm with assets under management of approximately $970 billion. The company serves retail, institutional, and wealth management around the world. Invesco was founded in 1935 and trades with a market capitalization of $8.9 billion. The company is headquartered in Atlanta, GA.

Invesco announced its third quarter earnings results on October 18. The company recorded revenues of $1.34 billion, unchanged from the prior year's quarter. Invesco's earnings-per-share totaled $0.66 during Q3, a decrease from $0.71 during last year's second quarter. Assets under management grew at an attractive rate of 11% year over year, but margin pressures were responsible for stagnant revenues. During October, Invesco announced (10/18/18) that it will acquire Oppenheimer Funds for 81.9 million shares of stock (worth approximately $1.7 billion) and $4 billion in perpetual non-cumulative preferred shares with a fixed rate of 5.9%. On top of that, Invesco announced a new $1.2 billion share repurchase program, which will partially offset the dilution associated with the transaction.

Growth on a Per-Share Basis

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2023
EPS	$1.21	$0.76	$1.01	$1.57	$1.49	$2.10	$2.51	$2.26	$2.06	$2.75	***$2.80***	***$3.75***
DPS	$0.52	$0.41	$0.43	$0.48	$0.64	$0.85	$0.98	$1.06	$1.12	$1.15	***$1.20***	***$2.00***
Shares	427	431	460	446	441	433	429	418	404	407	***390***	***355***

Invesco has compounded its adjusted earnings-per-share at a rate of 9.6% per year since 2008. Through assets under management growth Invesco should be able to grow its revenues over the coming years. Adding in operating leverage, as proportional costs are not overly high, should allow for a low-to-mid single digits profit growth rate over the coming years.

The acquisition of Oppenheimer Funds from MassMutual that was announced during October will boost Invesco's AuM base and revenues substantially. Through share buybacks Invesco can drive its earnings-per-share growth further. As shares are trading at a relatively inexpensive valuation these share repurchases will be quite accretive for shareholders. Invesco's new $1.2 billion share repurchase program will allow the company to reduce its share count significantly over the coming years. Pressures from ETF companies such as Blackrock will be a headwind for Invesco, which is why the 9.6% earnings-per-share growth rate will not be sustainable. The company should nevertheless be able to generate a mid-single-digits earnings-per-share growth rate going forward.

Invesco has increased its dividend every year since 2009. The payout has grown at an attractive pace of 7.1% over the last five years. The last dividend increase, a 3% hike, was announced at the beginning of 2018. Before 2009 Invesco's dividend growth was less reliable, the payout had been moving up and down with each passing year.

Valuation Analysis

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	Now	2023
Avg. P/E	18.4	23.4	20.5	14.0	16.0	15.0	14.9	16.2	14.4	12.2	***7.6***	***12.0***
Avg. Yld.	2.3%	2.3%	2.1%	2.2%	2.7%	2.7%	2.6%	2.9%	3.8%	3.4%	***5.6%***	***3.5%***

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Invesco trades at a quite low valuation of just 7.6 times this year's earnings right now. This represents a steep discount compared to how the company's shares were valued in the past. Due to the pressures that the entire asset management industry is experiencing we believe that a fair valuation is in the low double digits, somewhat lower than the median earnings multiple of 14 over the last decade. Invesco's shares nevertheless have a lot of upside potential, and at the same time investors get a high dividend yield that will boost Invesco's total returns further.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2023
Debt/A	32.4%	30.1%	54.2%	52.8%	48.3%	53.4%	54.6%	64.7%	69.3%	71.0%	***70.0%***	***50.0%***
Int. Cov.	18.5	7.7	3.3	3.6	4.0	25.1	24.5	21.0	16.0	18.7	***16.0***	***16.0***
Payout	43.0%	53.9%	42.6%	30.6%	43.0%	40.5%	39.0%	46.9%	54.4%	41.8%	***42.9%***	***53.3%***
Std. Dev.	58.2%	50.0%	34.1%	36.1%	25.3%	20.5%	18.2%	19.1%	32.4%	19.9%	***22.0%***	***22.0%***

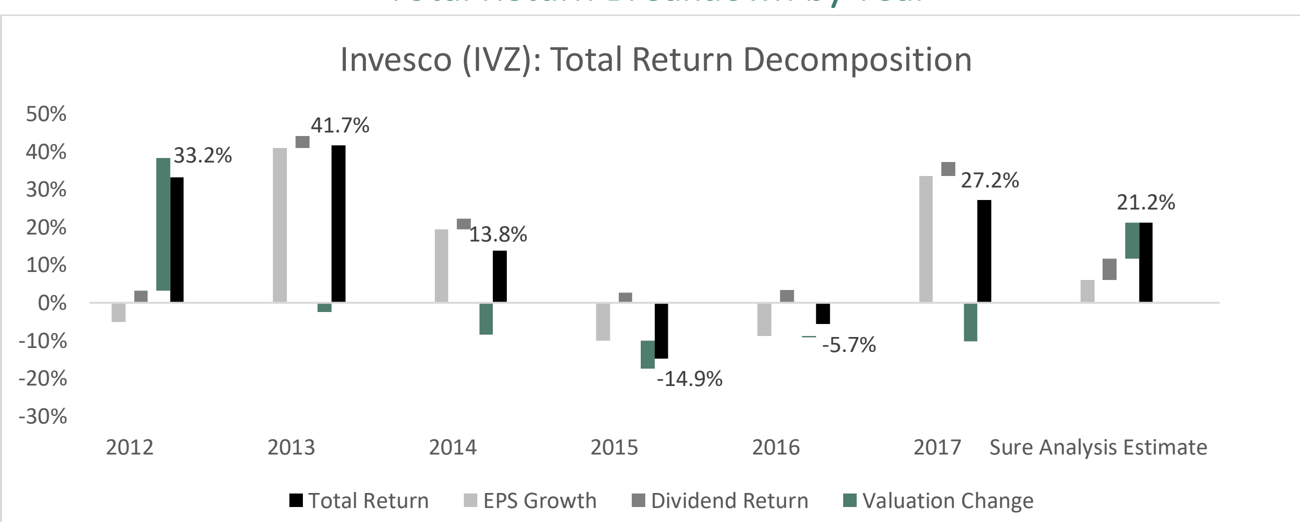
Invesco's balance sheet has taken on more and more debt over the last decade. We expect Invesco will deleverage over the next several years, as rising interest rates make such a move opportune. Invesco's interest coverage ratio is still quite high. Debt levels should not problematic. Invesco's dividend payout ratio of well below 50% makes the high-yielding dividend quite safe. Increases in the payout ratio will allow for ongoing dividend growth over the coming years.

Shares of Invesco have been volatile in the past, especially during times when the broad market has moved downwards. Qualitatively, Invesco's brand and strong financial position provide it with a durable advantage in the highly competitive asset management industry. The company has a credit ratings of A2 from Moody's. The strong credit ratings, coupled with a compelling performance of Invesco's assets (two thirds perform better than the respective peer group), allow the asset management firm to uphold a positive reputation, which helps to retain and grow its client base.

Final Thoughts & Recommendation

Invesco's shares have declined substantially over the last couple of months, even though the valuation had been relatively low already. The market worries about margin pressures in the asset management industry. This will be a headwind, but through its acquisitions of Oppenheimer Funds and Guggenheim Investment's ETF business Invesco is positioning itself for the future. Even a muted earnings-per-share growth rate could lead to outsized total returns here, thanks to a high dividend and a low valuation. Shares are a buy for those that are not afraid of industry headwinds.

Total Return Breakdown by Year



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Disclosure: This analyst has no position in the security discussed in this research report, and no plans to initiate one in the next 72 hours.

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Income Statement Metrics

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Revenue	3307.6	2627.3	3487.7	3982.3	4050.4	4644.6	5147.1	5122.9	4734.4	5160.3
Gross Profit	N/A	N/A	1319	1522.2	1514.2	1826.1	2121.9	2147.5	1948.4	2136.4
Gross Margin	N/A	N/A	37.8%	38.2%	37.4%	39.3%	41.2%	41.9%	41.2%	41.4%
SG&A Exp.	2559.8	2143	670	610.7	663.4	702.7	845	789.1	772	859.3
D&A Exp.	67.6	77.6	96.7	117.4	95	88.4	89.4	93.6	101.2	116.8
Operating Profit	747.8	484.3	595.6	911.5	850.8	1123.4	1276.9	1358.4	1176.4	1277.1
Op. Margin	22.6%	18.4%	17.1%	22.9%	21.0%	24.2%	24.8%	26.5%	24.8%	24.7%
Net Profit	481.7	322.5	465.7	729.7	677.1	940.3	988.1	968.1	854.2	1127.3
Net Margin	14.6%	12.3%	13.4%	18.3%	16.7%	20.2%	19.2%	18.9%	18.0%	21.8%
Free Cash Flow	441.4	323.2	289.6	857.8	720	692	1067.2	1003.9	23.6	1259
Income Tax	236	148.2	197	280	261.4	336.9	390.6	398	338.3	268.2

Balance Sheet Metrics

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Total Assets	9757	10910	20444	19347	17492	19271	20450	25073	25734	31669
Cash & Equivalents	585	790	1377	1110	1123	1915	1918	2215	2070	2518
Accounts Receivable	239	289	584	523	534	559	707	702	650	754
Goodwill & Int. Ass.	6110	6607	8317	8231	8336	8131	7826	7530	7529	8149
Total Liabilities	3161	3289	11083	10209	8443	10293	11330	16378	18123	22713
Accounts Payable	1129	148	303	273	288	335	344	303	274	320
Long-Term Debt	1159	746	7181	6798	5085	5806	6726	7510	6506	6876
Shareholder's Equity	5690	6913	8265	8119	8317	8393	8326	7885	7504	8696
D/E Ratio	0.20	0.11	0.87	0.84	0.61	0.69	0.81	0.95	0.87	0.79

Profitability & Per Share Metrics

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Return on Assets	4.2%	3.1%	3.0%	3.7%	3.7%	5.1%	5.0%	4.3%	3.4%	3.9%
Return on Equity	7.8%	5.1%	6.1%	8.9%	8.2%	11.3%	11.8%	11.9%	11.1%	13.9%
ROIC	5.8%	4.0%	3.7%	4.5%	4.5%	6.5%	6.5%	6.0%	5.6%	7.5%
Shares Out.	427	431	460	446	441	433	429	418	404	407
Revenue/Share	8.31	6.20	7.53	8.57	8.93	10.72	12.16	12.24	11.75	12.98
FCF/Share	1.11	0.76	0.63	1.85	1.59	1.60	2.52	2.40	0.06	3.17

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.