Invesco Ltd. (IVZ)

Updated January 30th, 2019 by Jonathan Weber

Key Metrics

Current Price:	$19	**5 Year CAGR Estimate:**	17.6%	**Volatility Percentile:**	71.1%
Fair Value Price:	$26	**5 Year Growth Estimate:**	5.0%	**Momentum Percentile:**	1.8%
% Fair Value:	73%	**5 Year Valuation Multiple Estimate:**	6.3%	**Growth Percentile:**	32.5%
Dividend Yield:	6.3%	**5 Year Price Target**	$33	**Valuation Percentile:**	90.1%
Dividend Risk Score:	C	**Retirement Suitability Score:**	A	**Total Return Percentile:**	93.7%

Overview & Current Events

Invesco Ltd. 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 $7.8 billion. The company is headquartered in Atlanta, GA.

Invesco Ltd. reported its fourth quarter and full year earnings results on January 30. The company was able to generate revenues of $919 million during the fourth quarter, which represents a relatively steep decline of 8.1% compared to the prior year's period. Invesco's revenue decline was based on a decline in the company's assets under management, which totaled $924 billion at the end of the fourth quarter. This was 6.2% less than the company's assets under management at the end of the third quarter of 2018, and 0.7% less than assets under management at the end of fiscal 2017. The decline in the company's assets under management can be explained by a combination of net market losses due to the equity market sell-off that took place in late 2018, and net outflows that totaled $20 billion during the fourth quarter. Outflows were most likely impacted by the sell-off during late 2018.

Invesco generated earnings-per-share of $0.44 during the fourth quarter, which was a whopping 40% less than Invesco's earnings-per-share during the previous year's quarter. The tremendous hit to the company's bottom line was the result of lower revenues and a contraction in the company's margins.

Growth on a Per-Share Basis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
EPS	$0.76	$1.01	$1.57	$1.49	$2.10	$2.51	$2.26	$2.06	$2.75	$2.43	***$2.34***	***$2.99***
DPS	$0.41	$0.43	$0.48	$0.64	$0.85	$0.98	$1.06	$1.12	$1.15	$1.19	***$1.23***	***$1.43***
Shares	431	460	446	441	433	429	418	404	414	410	***400***	***370***

Invesco has compounded its adjusted earnings-per-share at a rate of 9.6% per year since 2008. Growth slowed down starting in 2014, though. Invesco's earnings-per-share have not risen considerably since.

Through assets under management growth Invesco was able to grow its revenues in the past, but more recently assets under management have stopped growing. The market turmoil during Q4 has led to assets under management declines, although it is unlikely that the same will happen in the future as well. The acquisition of Oppenheimer Funds from MassMutual that was announced during October will boost Invesco's AuM base and revenues substantially. Invesco forecasts that the acquisition of Oppenheimer Funds will close during the second quarter of 2019. Invesco has set a target of cost synergies of $475 million following the acquisition. If the company hits this target, this could significantly grow the company's margins, which would be a positive for Invesco's profitability. 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, as this is equal to 15% of the company's current market capitalization. Pressures from ETF companies such as Blackrock will be a headwind for Invesco, as Invesco's assets under management will not grow as fast as they did in the past. This is why the 9.6% earnings-per-share growth rate will not be sustainable in the long run, we believe. The company should nevertheless be able to generate a mid-single-digits earnings-per-share growth rate going forward, with buybacks being a key growth driver.

Valuation Analysis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	Now	2024
Avg. P/E	23.4	20.5	14.0	16.0	15.0	14.9	16.2	14.4	12.2	7.0	***8.1***	***11.0***
Avg. Yld.	2.3%	2.1%	2.2%	2.7%	2.7%	2.6%	2.9%	3.8%	3.4%	7.0%	***6.3%***	***4.6%***

Invesco's shares trade at roughly 8 times this year's earnings right now, which is one of the lowest valuations shares have traded at during the last decade. Shares were trading at a mid-teens price to earnings multiple throughout most of the last ten years, but we believe that it is unlikely that Invesco's shares will trade at such a valuation during the coming years. The fact that Invesco's earnings-per-share growth rate will be lower during the coming years compared to how fast the company grew in the past, coupled with the fact that Invesco is under pressure from ETF providers, leads us to believe that a fair price to earnings multiple for Invesco's shares is in the low double digits region.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
Payout	53.9%	42.6%	30.6%	43.0%	40.5%	39.0%	46.9%	54.4%	41.8%	49.0%	***52.6%***	***47.8%***

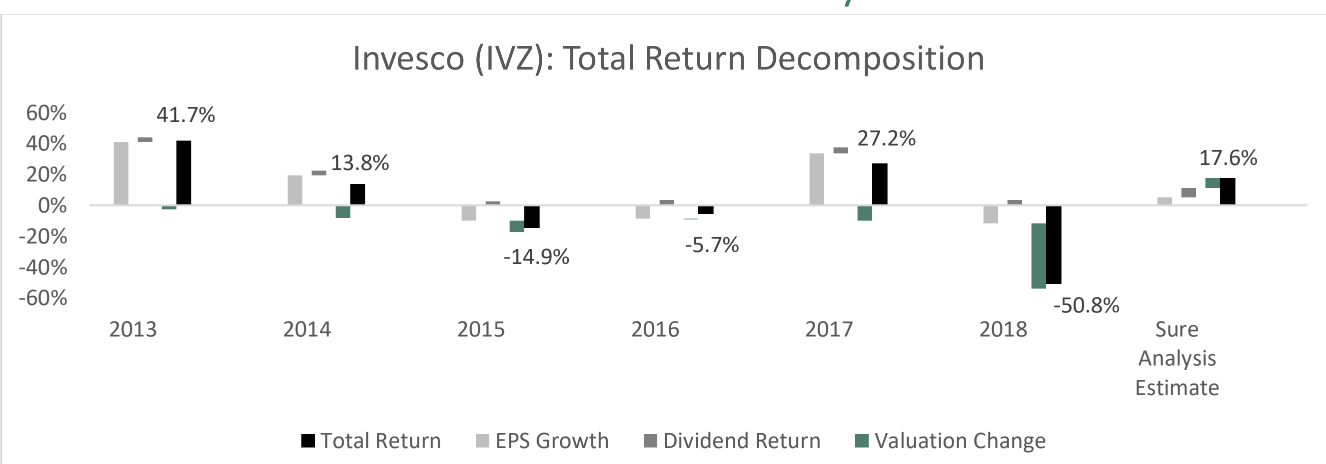
Invesco's dividend payout ratio has peaked in the mid-50s in 2009 and 2016, and will likely be close to that level during 2019 as well. This is not an overly high payout ratio, though, and the fact that Invesco did not have any problems to finance its dividend during the last financial crisis makes us believe that Invesco's dividend is relatively safe.

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 rating 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 provides a competitive advantage versus peers.

Final Thoughts & Recommendation

Invesco did not have a successful fourth quarter, but the company should still be able to grow its earnings-per-share during the coming years. When we add in the potential for multiple expansion and the relatively high dividend yield, Invesco could produce compelling total returns. We rate Invesco a buy for those that are not afraid of the ETF risk.

Total Return Breakdown by Year



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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.