Invesco Ltd. (IVZ)

Updated May 6th, 2019 by Jonathan Weber

Key Metrics

Current Price:	$22	**5 Year CAGR Estimate:**	13.9%	**Volatility Percentile:**	74.1%
Fair Value Price:	$26	**5 Year Growth Estimate:**	5.0%	**Momentum Percentile:**	11.5%
% Fair Value:	85%	**5 Year Valuation Multiple Estimate:**	3.2%	**Growth Percentile:**	35.9%
Dividend Yield:	5.7%	**5 Year Price Target**	$33	**Valuation Percentile:**	84.7%
Dividend Risk Score:	C	**Retirement Suitability Score:**	A	**Total Return Percentile:**	88.8%

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 $8.8 billion. The company is headquartered in Atlanta, GA.

Invesco Ltd. reported its first quarter earnings results on April 25. The company was able to generate revenues of $887 million during the first quarter, which was down 7.4% compared to the prior year's period. Invesco's revenue decline was based on a decline in the company's average assets under management, which totaled $933 billion during the first quarter. This was 2% less than the company's average assets under management during the first quarter of the previous fiscal year. The steep equity market decline at the end of 2018 still weighed on Invesco's average AuM during the quarter, even though equity markets rose relatively consistently during those three months. This, combined with net inflows of $3.5 billion, allowed Invesco to report a higher ending AuM number for the first quarter, compared to the average AuM number. At the end of March, Invesco's AuM totaled $955 billion, up 2% year over year.

Invesco generated earnings-per-share of $0.56 during the first quarter, which was down 16% from the previous year's first quarter. A combination of lower revenues and lower margins was responsible for that. Invesco raised its dividend by 3.3%, to $0.31 per share per quarter, during April.

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	***$1.24***	***$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 did not grow much. The market turmoil during Q4 led to assets under management declines, but AuM started to recover during the first quarter. 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 quickly as they did in the past. Due to the factors mentioned above, we believe that a long-term growth rate of 5% is realistic.

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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	***9.4***	***11.0***
Avg. Yld.	2.3%	2.1%	2.2%	2.7%	2.7%	2.6%	2.9%	3.8%	3.4%	7.0%	***5.7%***	***4.6%***

Invesco's shares trade at nine and a half times this year's earnings right now, which is a low valuation compared to how Invesco's shares were trading in the past. Shares were trading at a mid-teens price to earnings multiple throughout most of the last ten years, but we believe that multiple expansion towards that level is unlikely going forward. The fact that Invesco's earnings-per-share growth rate will be lower during the coming years compared to how quickly 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%	***53.0%***	***47.8%***

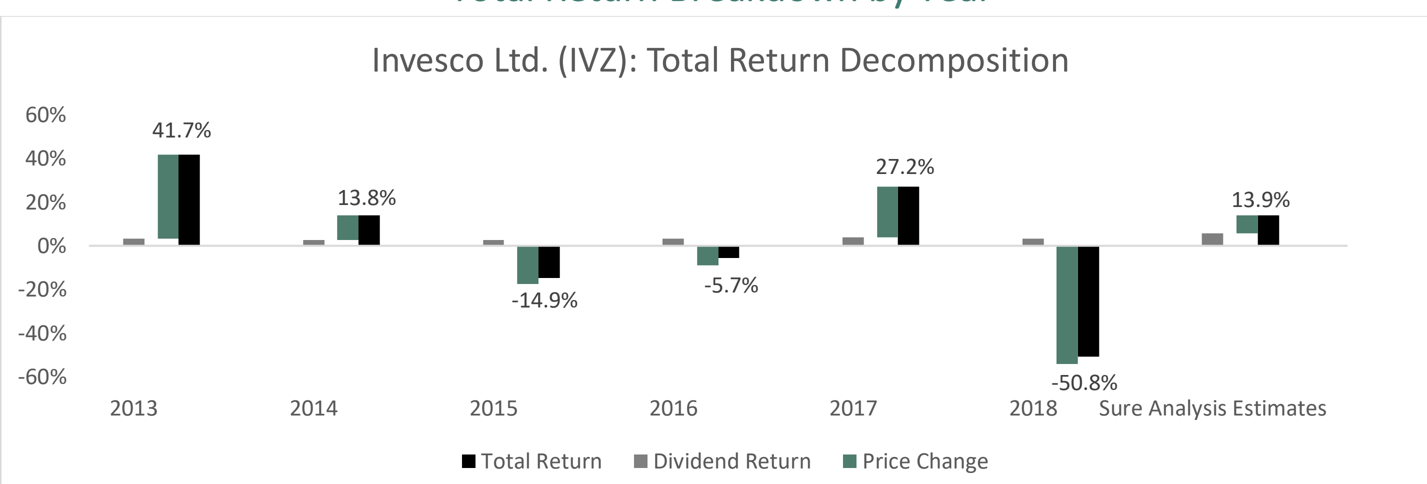
Invesco's dividend payout ratio peaked in the mid-50s in 2009 and 2016, and will likely be close to that level during 2019 as well. This is not an overly high payout ratio, though, and the fact that Invesco did not have any problems financing its dividend during the last financial crisis makes us believe 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 rating, 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's first quarter results were substantially better than those from Q4 of 2018, as net flows were positive and as Invesco's assets under management recovered solidly. Invesco's profitability was still lower than during the previous year's quarter, though. Invesco's shares are not as cheap as they were three months ago, but they continue to trade at a sizeable discount to our fair value estimate. Coupled with a high dividend yield, this allows for strong forecasted total returns, which is why we continue to rate Invesco a buy.

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	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Revenue	2627	3488	3982	4050	4645	5147	5123	4734	5160	5314
Gross Profit	N/A	1319	1522	1514	1826	2122	2148	1958	2174	2212
Gross Margin	N/A	37.8%	38.2%	37.4%	39.3%	41.2%	41.9%	41.4%	42.1%	41.6%
SG&A Exp.	2143	670	611	663	703	845	789	736	793	870
D&A Exp.	78	97	117	95	88	89	94	101	117	142
Operating Profit	484	596	912	851	1123	1277	1358	1221	1381	1342
Op. Margin	18.4%	17.1%	22.9%	21.0%	24.2%	24.8%	26.5%	25.8%	26.8%	25.2%
Net Profit	323	466	730	677	940	988	968	854	1127	883
Net Margin	12.3%	13.4%	18.3%	16.7%	20.2%	19.2%	18.9%	18.0%	21.8%	16.6%
Free Cash Flow	323	290	858	720	692	1067	1004	506	1046	726
Income Tax	148	197	280	261	337	391	398	338	268	255

Balance Sheet Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Total Assets	10910	20444	19347	17492	19271	20450	25073	25734	31669	30978
Cash & Equivalents	790	1377	1110	1123	1915	1918	2215	2070	2518	1805
Acc. Receivable	289	584	523	534	559	707	702	650	754	715
Goodwill & Int.	6607	8317	8231	8336	8131	7826	7530	7529	8149	9333
Total Liabilities	3289	11083	10209	8443	10293	11330	16378	18123	22713	22042
Accounts Payable	148	303	273	288	335	344	303	274	320	284
Long-Term Debt	746	7181	6798	5085	5806	6726	7510	6506	6876	7635
Total Equity	6913	8265	8119	8317	8393	8326	7885	7504	8696	8579
D/E Ratio	0.11	0.87	0.84	0.61	0.69	0.81	0.95	0.87	0.79	0.89

Profitability & Per Share Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Return on Assets	3.1%	3.0%	3.7%	3.7%	5.1%	5.0%	4.3%	3.4%	3.9%	2.8%
Return on Equity	5.1%	6.1%	8.9%	8.2%	11.3%	11.8%	11.9%	11.1%	13.9%	10.2%
ROIC	4.0%	3.7%	4.5%	4.5%	6.5%	6.5%	6.0%	5.6%	7.5%	5.4%
Shares Out.	431	460	446	441	433	429	418	404	414	410
Revenue/Share	6.20	7.53	8.57	8.93	10.72	12.16	12.24	11.75	12.98	13.29
FCF/Share	0.76	0.63	1.85	1.59	1.60	2.52	2.40	1.26	2.63	1.82

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