Invesco Ltd. (IVZ)

Updated January 29th, 2020 by Jonathan Weber

Key Metrics

Current Price:	$18	**5 Year CAGR Estimate:**	10.5%	**Market Cap:**	$8.2B
Fair Value Price:	$21	**5 Year Growth Estimate:**	2.0%	**Ex-Dividend Date:**	02/13/20
% Fair Value:	87%	**5 Year Valuation Multiple Estimate:**	2.9%	**Dividend Payment Date:**	03/01/20
Dividend Yield:	6.9%	**5 Year Price Target**	$23	**Years Of Dividend Growth:**	11
Dividend Risk Score:	C	**Retirement Suitability Score:**	A	**Last Dividend Increase:**	3.3%

Overview & Current Events

Invesco Ltd. is an investment management firm with assets under management of approximately $1.2 trillion. The company serves retail, institutional, and wealth management around the world. Invesco was founded in 1935 and trades with a market capitalization of about $8 billion. The company is headquartered in Atlanta, GA.

Invesco Ltd. reported its fourth quarter earnings results on January 29. The company was able to generate revenues of $1.27 billion during the quarter, which was up 38.2% compared to the prior year's period. Invesco's revenue increase was primarily based on an increase in the company's assets under management, to more than $1.2 trillion, with the majority of that AuM growth stemming from the Oppenheimer Funds acquisition. Invesco had to battle with the negative impact from net outflows from its funds, as total net outflows totaled a quite large $14 billion during the quarter, which offset some of the growth that stemmed from the OF acquisition and from rising global markets.

Invesco generated earnings-per-share of $0.64 during the fourth quarter, which was up by a huge 45% year-over-year. Earnings-per-share growth was mainly based on the increase in Invesco's AuM, which drove higher revenues, but the company also benefited from synergies that were captured following the closing of the OF acquisition. Invesco also bought back some shares, but buybacks were not high enough to fully offset the share issuance from the OF acquisition.

Growth on a Per-Share Basis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
EPS	$1.01	$1.57	$1.49	$2.10	$2.51	$2.26	$2.06	$2.75	$2.43	$2.55	***$2.60***	***$2.87***
DPS	$0.43	$0.48	$0.64	$0.85	$0.98	$1.06	$1.12	$1.15	$1.19	$1.23	***$1.24***	***$1.40***
Shares[1]	460	446	441	433	429	418	404	414	410	459	***440***	***410***

Invesco has compounded its adjusted earnings-per-share at a rate of more than 9% per year since 2008. Growth started to stall in 2014, and the company has not managed to grow its profits meaningfully since then.

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, backing out the Oppenheimer Funds acquisition. Invesco had to battle with net outflows, like many of its peers. The OF acquisition has boosted Invesco's assets under management considerably, and Invesco has stated it has already captured synergies of more than $500 million on a forward basis, which should help drive the company's margins over the coming years. Invesco expects that cost synergies alone will result in a $0.60+ tailwind to its earnings-per-share in 2020, which should ease margin compression headwinds.

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 $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. We believe that the share issuance for the OF acquisition will only result in a temporary uptick in Invesco's share count that will be balanced out by buybacks over the years. ETF investing will remain a headwind, which is why we believe that growth will slow down to the low-single-digits.

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[1] In Millions

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Valuation Analysis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Now	2025
Avg. P/E	20.5	14.0	16.0	15.0	14.9	16.2	14.4	12.2	7.0	7.1	***6.9***	***8.0***
Avg. Yld.	2.1%	2.2%	2.7%	2.7%	2.6%	2.9%	3.8%	3.4%	7.0%	6.9%	***6.9%***	***6.1%***

Invesco's shares trade at less than 7 times this year's earnings right now, which is a very 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 high-single-digits range.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
Payout	42.6%	30.6%	43.0%	40.5%	39.0%	46.9%	54.4%	41.8%	49.0%	48.2%	***47.7%***	***48.9%***

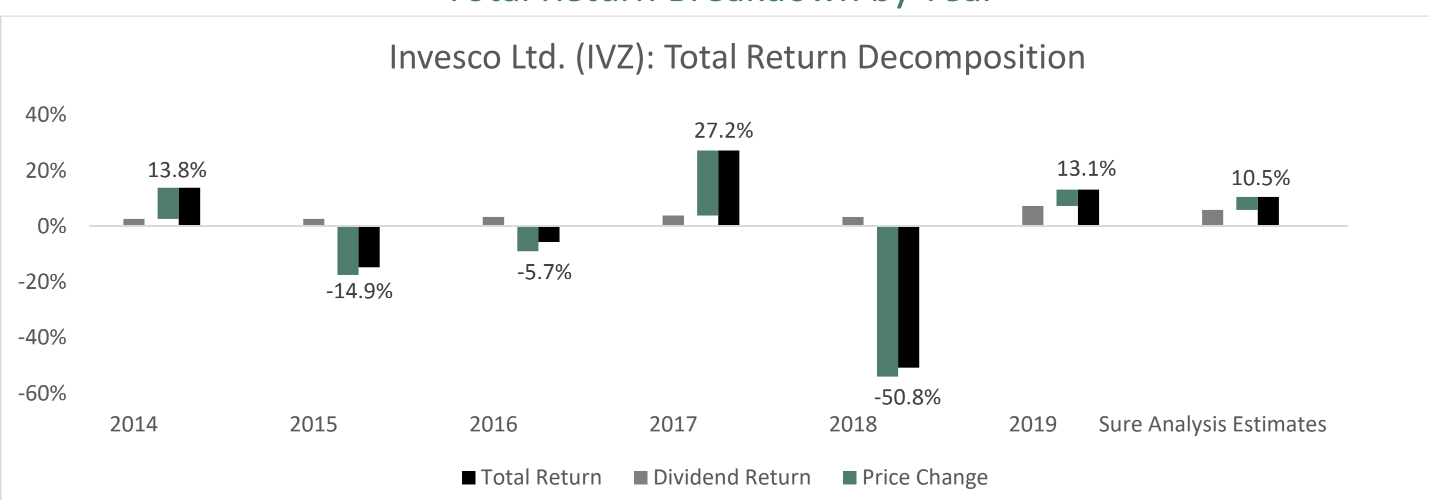
Invesco's dividend payout ratio peaked in the mid-50s in 2009 and 2016, but will most likely remain below that level going forward. This is not an overly high payout ratio, and the fact that Invesco did not have any problems financing its dividend during the last financial crisis makes us believe that 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 fourth quarter results were solid, as the synergies from the Oppenheimer Funds takeover continue to materialize, but net outflows remain a headwind for the company. The market has rewarded the better-than-expected performance. Due to headwinds from ETF providers Invesco's shares continue to trade at a very low valuation. We believe that Invesco's growth will not be strong, but shares are offering a very high dividend yield, and multiple expansion should be a tailwind as well, which is why we rate the stock a buy at current prices.

Total Return Breakdown by Year



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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.