Invesco Ltd. (IVZ)

Updated April 25th, 2020 by Jonathan Weber

Key Metrics

Current Price:	$8	**5 Year CAGR Estimate:**	26.0%	**Market Cap:**	$3.6B
Fair Value Price:	$20	**5 Year Growth Estimate:**	2.0%	**Ex-Dividend Date:**	05/08/20
% Fair Value:	40%	**5 Year Valuation Multiple Estimate:**	20.1%	**Dividend Payment Date:**	06/03/20
Dividend Yield:	7.8%	**5 Year Price Target**	$22	**Years Of Dividend Growth:**	-
Dividend Risk Score:	D	**Retirement Suitability Score:**	B	**Last Dividend Increase:**	-

Overview & Current Events

Invesco Ltd. is an investment management firm with assets under management of approximately $1.1 trillion. The company serves retail, institutional, and wealth management customers around the world. Invesco was founded in 1935, and the company is headquartered in Atlanta, GA.

Invesco Ltd. reported its first quarter earnings results on April 23. The company was able to generate revenues of $1.15 billion during the quarter, which was up 29.6% compared to the prior year's period. Invesco's revenue increase was primarily based on an increase in the company's assets under management, 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 $2 billion during the quarter, which offset some of the growth that stemmed from the OF acquisition. Declining global markets also were a headwind for the company's AuM.

Invesco generated earnings-per-share of $0.34 during the first quarter, which was down by a huge 47% year-over-year. Earnings-per-share declined mainly due to the negative impact of the coronavirus crisis, which hurt Invesco's assets under management, adjusted for the Oppenheimer Funds acquisition. Invesco decided to reduce its dividend payment by half, to $0.155 per share per quarter, to be prudent with capital during this crisis.

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	***$1.80***	***$2.76***
DPS	$0.43	$0.48	$0.64	$0.85	$0.98	$1.06	$1.12	$1.15	$1.19	$1.23	***$0.62***	***$0.70***
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. 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. 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. 2020 will further be negatively impacted by the impact that the coronavirus had on global equity markets, although we do not believe that this impact will last. Rather, we see a reversal back to pre-crisis profits eventually. We use this to determine total return estimates.

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[1] In Millions

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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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	***3.2***	***8.0***
Avg. Yld.	2.1%	2.2%	2.7%	2.7%	2.6%	2.9%	3.8%	3.4%	7.0%	6.9%	***7.8%***	***3.2%***

Invesco's shares trade at just over 3 times earnings power 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%	***34.4%***	***25.4%***

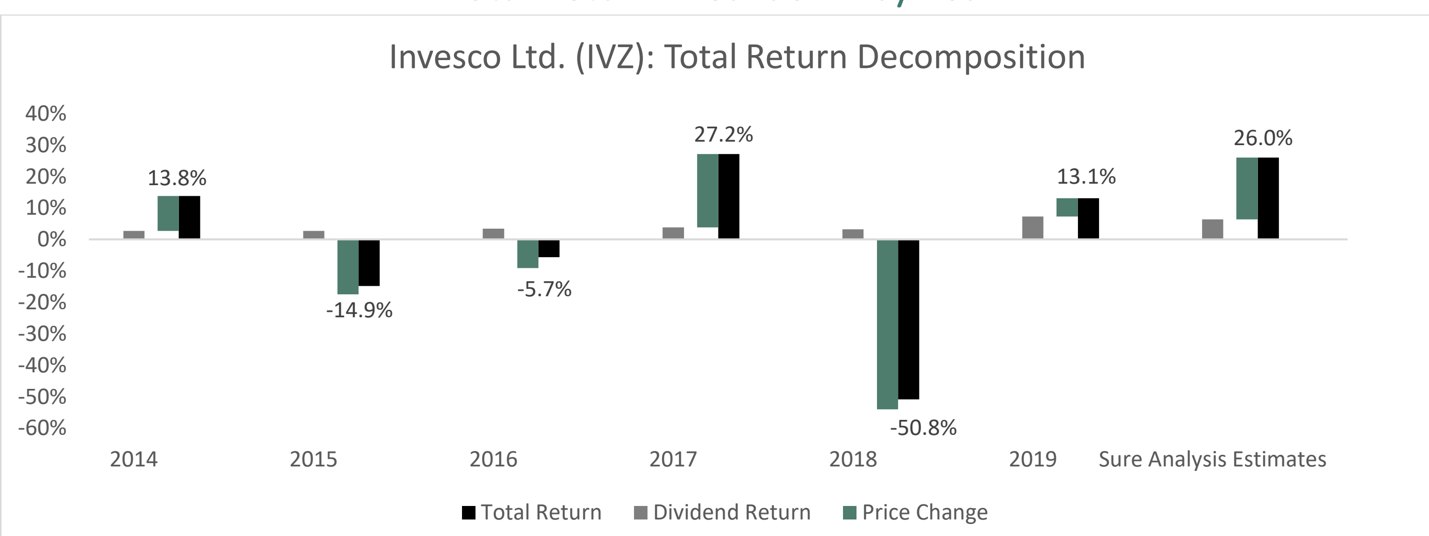
Invesco's dividend payout ratio peaked in the mid-50s in 2009 and 2016. Without a dividend cut, the payout ratio would have increased to a high level during 2020, but the 50% cut means that Invesco should be able to easily cover this year's payments. We do not think that there is a high risk for another dividend cut.

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 hurt by the coronavirus impact on global markets. Invesco will most likely remain profitable during 2020, but there will still be a visible downturn in profits compared to 2019. We believe that ultimately, profits should recover once this crisis has passed. In this scenario, Invesco could generate highly attractive total returns over the coming years, but this is not guaranteed, thus there are some risks. We rate shares a buy.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Revenue	3,488	3,982	4,050	4,645	5,147	5,123	4,734	5,160	5,314	6,117
Gross Profit	2,373	2,802	2,822	3,315	3,753	3,727	3,365	3,661	3,820	4,408
Gross Margin	68.0%	70.4%	69.7%	71.4%	72.9%	72.8%	71.1%	70.9%	71.9%	72.1%
SG&A Exp.	1,633	1,890	1,972	2,192	2,476	2,369	2,144	2,280	2,478	2,927
D&A Exp.	97	117	95	88	89	94	101	117	142	178
Operating Profit	740	912	851	1,123	1,277	1,358	1,221	1,381	1,342	1,481
Op. Margin	21.2%	22.9%	21.0%	24.2%	24.8%	26.5%	25.8%	26.8%	25.2%	24.2%
Net Profit	466	730	677	940	988	968	854	1,127	883	688
Net Margin	13.4%	18.3%	16.7%	20.2%	19.2%	18.9%	18.0%	21.8%	16.6%	11.3%
Free Cash Flow	290	858	720	692	1,067	1,004	506	1,046	726	992
Income Tax	197	280	261	337	391	398	338	268	255	235

Balance Sheet Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Total Assets	20444	19347	17492	19271	20450	25073	25734	31669	30978	39420
Cash & Equivalents	1377	1110	1123	1915	1918	2215	2070	2518	1805	1701
Acc. Receivable	584	523	534	559	707	702	650	754	715	1029
Goodwill & Int.	8317	8231	8336	8131	7826	7530	7529	8149	9333	15868
Total Liabilities	11083	10209	8443	10293	11330	16378	18123	22713	22042	25102
Accounts Payable	303	273	288	335	344	303	274	320	284	415
Long-Term Debt	7181	6798	5085	5806	6726	7510	6506	6876	7635	8315
Total Equity	8265	8119	8317	8393	8326	7885	7504	8696	8579	9852
D/E Ratio	0.87	0.84	0.61	0.69	0.81	0.95	0.87	0.79	0.89	0.60

Profitability & Per Share Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Return on Assets	3.0%	3.7%	3.7%	5.1%	5.0%	4.3%	3.4%	3.9%	2.8%	2.0%
Return on Equity	6.1%	8.9%	8.2%	11.3%	11.8%	11.9%	11.1%	13.9%	10.2%	7.5%
ROIC	3.7%	4.5%	4.5%	6.5%	6.5%	6.0%	5.6%	7.5%	5.4%	3.5%
Shares Out.	460	446	441	433	429	418	404	414	410	459
Revenue/Share	7.53	8.57	8.93	10.72	12.16	12.24	11.75	12.59	12.88	13.89
FCF/Share	0.63	1.85	1.59	1.60	2.52	2.40	1.26	2.55	1.76	2.25

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