Invesco Ltd. (IVZ)

Updated November 5th, 2021 by Jonathan Weber

Key Metrics

Current Price:	$26	**5 Year CAGR Estimate:**	7.2%	**Market Cap:**	$12 B
Fair Value Price:	$30	**5 Year Growth Estimate:**	2.0%	**Ex-Dividend Date:**	11/10/21
% Fair Value:	87%	**5 Year Valuation Multiple Estimate:**	2.9%	**Dividend Payment Date:**	12/02/21
Dividend Yield:	2.6%	**5 Year Price Target**	$33	**Years Of Dividend Growth:**	1
Dividend Risk Score:	C	**Retirement Suitability Score:**	D	**Last Dividend Increase:**	9.7%

Overview & Current Events

Invesco Ltd. is an investment management firm with assets under management of approximately $1.4 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 third quarter earnings results on October 26. The company was able to generate revenues of $1.3 billion during the quarter, which was up 22% compared to the prior year's period. Invesco's assets under management continued to climb during the quarter, ending at $1.53 trillion, up 0.2% from the end of the previous quarter, which was not as strong as the growth recorded during previous quarters. Invesco did relatively well in terms of net flows, which stood at a positive $13 billion for the quarter, although that was lower than during the previous quarter as well. Invesco managed to generate a pretty attractive operating margin of slightly above 42% during the quarter.

Invesco generated earnings-per-share of $0.77 during the third quarter, which beat the analyst consensus estimate. Earnings-per-share were up by 45% versus the previous year's quarter, thanks to the positive impact of higher assets under management and the recovery from the equity market selloff that impacted results during the previous year. Invesco is forecasted to generate way higher profits in 2021 compared to 2020 thanks to equity market tailwinds.

Growth on a Per-Share Basis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
EPS	$1.57	$1.49	$2.10	$2.51	$2.26	$2.06	$2.75	$2.43	$2.55	$1.94	***$3.00***	***$3.31***
DPS	$0.48	$0.64	$0.85	$0.98	$1.06	$1.12	$1.15	$1.19	$1.23	$0.78	***$0.68***	***$0.77***
Shares[1]	446	441	433	429	418	404	414	410	459	463	***460***	***430***

Invesco has compounded its adjusted earnings-per-share at a rate 9% per year between 2008 and 2019. Growth started to stall in 2014, however, 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 during some quarters, due to rising competition. The OF acquisition has boosted Invesco's assets under management, 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+ annual tailwind to its earnings-per-share, which is why the earnings outlook for the current year is quite solid, despite some industry headwinds such as margin compression.

Through share buybacks, Invesco can positively impact its earnings-per-share growth as well. Invesco's current $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 in the long run, which is substantially lower than the historic growth rate.

[1] In Millions

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Valuation Analysis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Now	2026
Avg. P/E	14.0	16.0	15.0	14.9	16.2	14.4	12.2	7.0	7.1	8.7	***8.7***	***10.0***
Avg. Yld.	2.2%	2.7%	2.7%	2.6%	2.9%	3.8%	3.4%	7.0%	6.9%	4.6%	***2.6%***	***2.3%***

Invesco's shares trade at close to 9 times our earnings-per-share estimate for 2021 right now, which is an inexpensive valuation compared to how Invesco's shares were trading in the past. Shares were trading at a mid-teens price-to-earnings multiple throughout much 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 pressure from ETF providers, leads us to believe that a future fair price to earnings multiple for Invesco will be below the teens range seen in the past.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
Payout	30.6%	43.0%	40.5%	39.0%	46.9%	54.4%	41.8%	49.0%	48.2%	40.2%	***22.7%***	***23.2%***

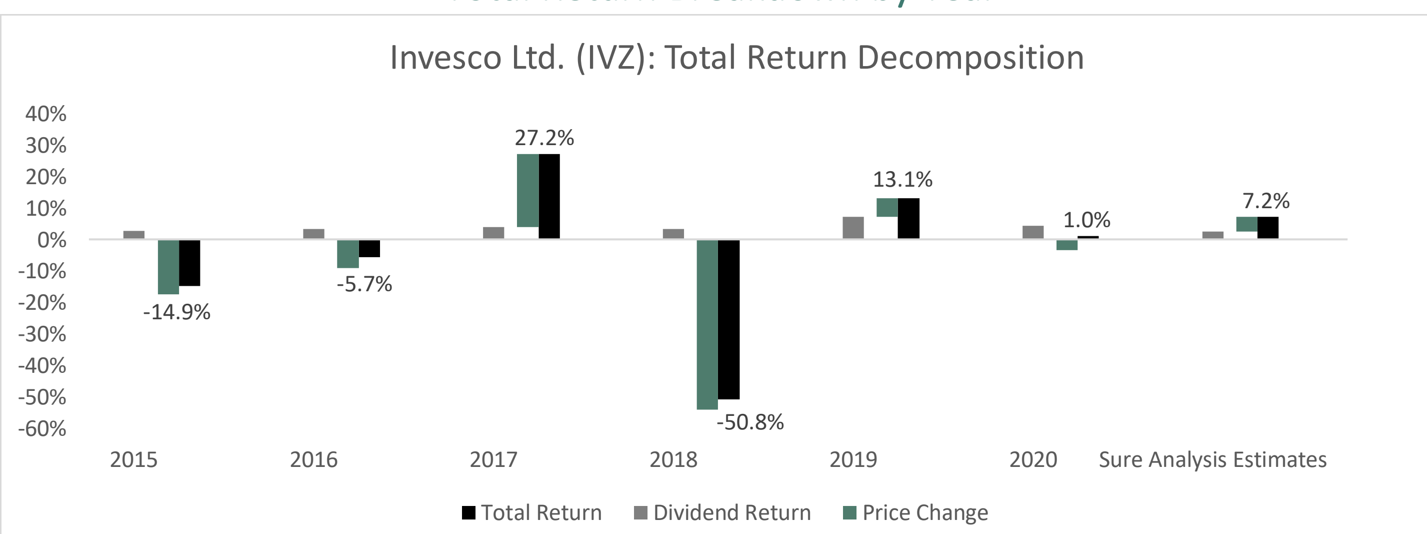
Invesco's dividend payout ratio peaked in the mid-50s in 2009 and 2016. Without a dividend cut, the payout ratio would have increased to a high level during 2020, but the 50% cut during the pandemic means that Invesco should be able to easily cover its dividend payments going forward. We do not think 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. Invesco's strong credit rating, coupled with a compelling performance of Invesco's assets (two-thirds of AuM performed better than the respective peer group in the past), allow the asset management firm to uphold a positive reputation, which provides a competitive advantage versus peers.

Final Thoughts & Recommendation

Invesco's profits during 2020 were down meaningfully versus 2019, but Invesco remained profitable. We believe that earnings-per-share will recover meaningfully and that they will likely hit a new record this year, as equity markets have performed well so far this year, which benefits Invesco's AuM growth. Invesco's shares are not expensive, and the total return outlook is solid according to our estimates. We thus rate Invesco a hold at current prices.

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	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Revenue	3,982	4,050	4,645	5,147	5,123	4,734	5,160	5,314	6,117	6,146
Gross Profit	2,802	2,822	3,315	3,753	3,727	3,365	3,661	3,820	4,408	4,338
Gross Margin	70.4%	69.7%	71.4%	72.9%	72.8%	71.1%	70.9%	71.9%	72.1%	70.6%
SG&A Exp.	1,890	1,972	2,192	2,476	2,369	2,144	2,280	2,478	2,927	3,024
D&A Exp.	117	95	88	89	94	101	117	142	178	
Operating Profit	912	851	1,123	1,277	1,358	1,221	1,381	1,342	1,481	1,314
Op. Margin	22.9%	21.0%	24.2%	24.8%	26.5%	25.8%	26.8%	25.2%	24.2%	21.4%
Net Profit	730	677	940	988	968	854	1,127	883	688	762
Net Margin	18.3%	16.7%	20.2%	19.2%	18.9%	18.0%	21.8%	16.6%	11.3%	12.4%
Free Cash Flow	858	720	692	1,067	1,004	506	1,046	726	992	1,230
Income Tax	280	261	337	391	398	338	268	255	235	262

Balance Sheet Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Total Assets	19,347	17,492	19,271	20,450	25,073	25,734	31,669	30,978	39,420	36,504
Cash & Equivalents	1,110	1,123	1,915	1,918	2,215	2,070	2,518	1,805	1,701	1,710
Acc. Receivable	523	534	559	707	702	650	754	715	1,029	
Goodwill & Int.	8,231	8,336	8,131	7,826	7,530	7,529	8,149	9,333	15,868	16,222
Total Liabilities	10,209	8,443	10,293	11,330	16,378	18,123	22,713	22,042	25,102	21,483
Accounts Payable	273	288	335	344	303	274	320	284	415	
Long-Term Debt	6,798	5,085	5,806	6,726	7,510	6,506	6,876	7,635	8,315	8,797
Total Equity	8,119	8,317	8,393	8,326	7,885	7,504	8,696	8,579	9,852	14,362
D/E Ratio	0.84	0.61	0.69	0.81	0.95	0.87	0.79	0.89	0.60	0.61

Profitability & Per Share Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Return on Assets	3.7%	3.7%	5.1%	5.0%	4.3%	3.4%	3.9%	2.8%	2.0%	2.0%
Return on Equity	8.9%	8.2%	11.3%	11.8%	11.9%	11.1%	13.9%	10.2%	7.5%	6.3%
ROIC	4.5%	4.5%	6.5%	6.5%	6.0%	5.6%	7.5%	5.4%	3.5%	3.3%
Shares Out.	446	441	433	429	418	404	414	410	459	463
Revenue/Share	8.57	8.93	10.72	12.16	12.24	11.75	12.59	12.88	13.89	13.29
FCF/Share	1.85	1.59	1.60	2.52	2.40	1.26	2.55	1.76	2.25	2.66

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