



Invesco Ltd. (IVZ)

Updated November 8th, 2022 by Jonathan Weber

Key Metrics

Current Price:	\$17	5 Year CAGR Estimate:	5.5%	Market Cap:	\$8B
Fair Value Price:	\$17	5 Year Growth Estimate:	2.0%	Ex-Dividend Date:	11/09/22
% Fair Value:	103%	5 Year Valuation Multiple Estimate:	-0.6%	Dividend Payment Date:	12/02/22
Dividend Yield:	4.4%	5 Year Price Target	\$18	Years Of Dividend Growth:	1
Dividend Risk Score:	D	Retirement Suitability Score:	D	Rating:	Hold

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 25. The company was able to generate revenues of \$1.1 billion during the quarter, which was down 17% compared to the prior year's period. Invesco's assets under management did decline by 5% as well during the quarter, ending at \$1.32 trillion, which can be explained by the struggling equity markets during that period as this hurts the value of the assets that Invesco manages. Invesco suffered from some outflows during the quarter, at \$7.7 billion, which was slightly worse compared to the previous quarter. Invesco managed to generate an operating margin of 33% during the quarter, down from 35% previously.

Invesco generated earnings-per-share of \$0.34 during the third quarter, which was below the previous quarter's level. Earnings-per-share were down by 56% versus the previous year's quarter, as margin compression and lower revenues hurt its profitability meaningfully. Invesco generated very strong results in 2021, but current forecasts see Invesco earning way less this year. Profits will also come in well below the level seen before the pandemic, in 2017-2019.

Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
EPS	\$1.49	\$2.10	\$2.51	\$2.26	\$2.06	\$2.75	\$2.43	\$2.55	\$1.94	\$3.09	\$1.65	\$1.82
DPS	\$0.64	\$0.85	\$0.98	\$1.06	\$1.12	\$1.15	\$1.19	\$1.23	\$0.79	\$0.67	\$0.75	\$0.85
Shares¹	441	433	429	418	404	414	410	459	463	461	455	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

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	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Now	2027
Avg. P/E	16.0	15.0	14.9	16.2	14.4	12.2	7.0	7.1	8.7	7.6	10.3	10.0
Avg. Yld.	2.7%	2.7%	2.6%	2.9%	3.8%	3.4%	7.0%	6.9%	4.6%	2.9%	4.4%	4.7%

Invesco's shares trade at just above 10 times our earnings-per-share estimate for 2022 right now, which is an inexpensive valuation compared to how Invesco's shares were trading in 2012 to 2017. Shares were trading at a mid-teens price-to-earnings multiple throughout those 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, leads us to believe that a future fair price to earnings multiple for Invesco will be below the teens range seen in the past. Shares trade close to that fair value estimate today.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	43.0%	40.5%	39.0%	46.9%	54.4%	41.8%	49.0%	48.2%	40.2%	21.7%	45.5%	46.6%

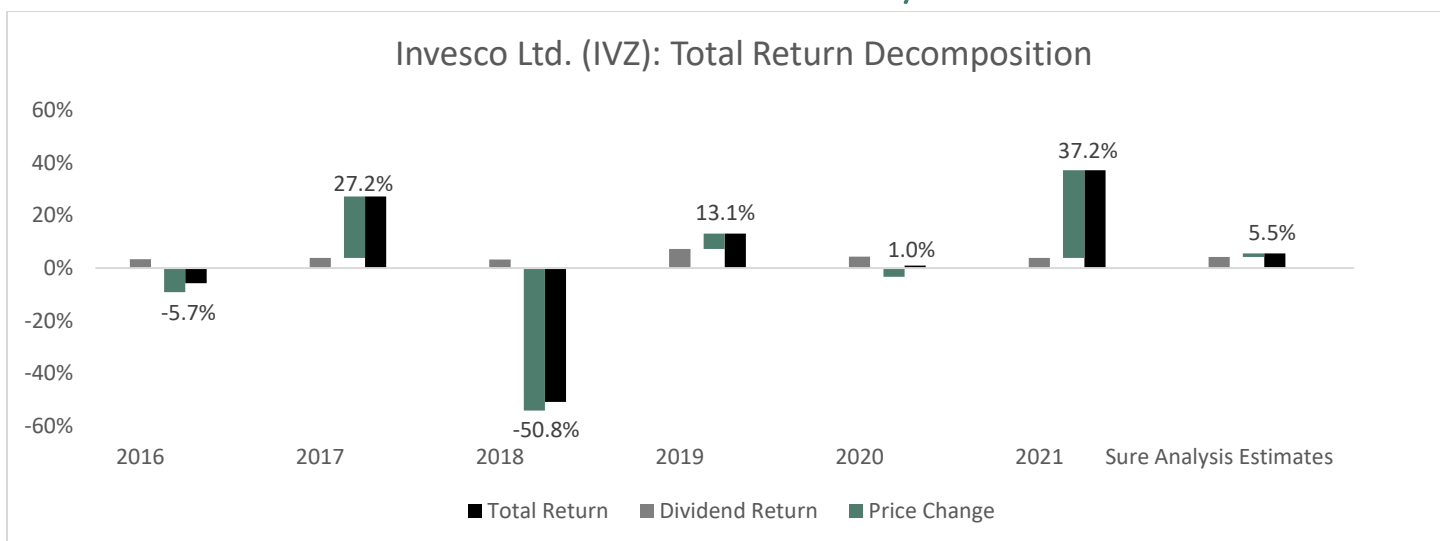
Invesco's dividend payout ratio peaked in the mid-50s in 2009 and 2016. Without a dividend cut, the payout ratio would have increased to a high level during 2020, but the 50% cut during the pandemic means that Invesco should be able to easily cover its dividend payments going forward. We do not think 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 recovery to higher levels of profitability in 2021 was very strong, but it looks like 2022 will be a way weaker year again, due to the recent equity market struggles. We believe that earnings-per-share will drop this year, but that Invesco should be able to generate some earnings-per-share growth in the long run. Invesco's shares trade close to fair value and the total return outlook is solid, but not great. We thus rate Invesco a hold at current prices.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Revenue	4,050	4,645	5,147	5,123	4,734	5,160	5,314	6,117	6,146	6,895
Gross Profit	2,822	3,315	3,753	3,727	3,365	3,661	3,820	4,408	4,338	4,983
Gross Margin	69.7%	71.4%	72.9%	72.8%	71.1%	70.9%	71.9%	72.1%	70.6%	72.3%
SG&A Exp.	1,972	2,192	2,476	2,369	2,144	2,280	2,478	2,927	3,024	3,198
D&A Exp.	95	88	89	94	101	117	142	178	204	205
Operating Profit	851	1,123	1,277	1,358	1,221	1,381	1,342	1,429	1,251	1,722
Op. Margin	21.0%	24.2%	24.8%	26.5%	25.8%	26.8%	25.2%	23.4%	20.4%	25.0%
Net Profit	677	940	988	968	854	1,127	883	688	762	1,630
Net Margin	16.7%	20.2%	19.2%	18.9%	18.0%	21.8%	16.6%	11.3%	12.4%	23.6%
Free Cash Flow	720	692	1,067	1,004	506	1,046	726	992	1,115	969
Income Tax	261	337	391	398	338	268	255	235	262	531

Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Total Assets	17,492	19,271	20,450	25,073	25,734	31,669	30,978	39,420	36,504	32,686
Cash & Equivalents	1,123	1,915	1,918	2,215	2,070	2,518	1,805	1,701	1,710	2,147
Acc. Receivable	534	559	707	702	650	754	715	1,029	917	1,318
Goodwill & Int.	8,336	8,131	7,826	7,530	7,529	8,149	9,333	15,868	16,222	16,111
Total Liabilities	8,443	10,293	11,330	16,378	18,123	22,713	22,042	25,102	21,695	16,518
Accounts Payable	288	335	344	303	274	320	284	415	349	313
Long-Term Debt	5,085	5,806	6,726	7,510	6,506	6,876	7,635	8,315	8,797	9,421
Total Equity	8,317	8,393	8,326	7,885	7,504	8,696	8,579	9,852	10,351	11,485
LTD/E Ratio	0.61	0.69	0.81	0.95	0.87	0.79	0.89	0.60	0.61	0.61

Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Return on Assets	3.7%	5.1%	5.0%	4.3%	3.4%	3.9%	2.8%	2.0%	2.0%	4.7%
Return on Equity	8.2%	11.3%	11.8%	11.9%	11.1%	13.9%	10.2%	7.5%	7.5%	14.9%
ROIC	4.5%	6.5%	6.5%	6.0%	5.6%	7.5%	5.4%	3.5%	3.3%	6.6%
Shares Out.	441	433	429	418	404	414	410	459	463	461
Revenue/Share	8.93	10.72	12.16	12.24	11.75	12.59	12.88	13.89	13.29	14.81
FCF/Share	1.59	1.60	2.52	2.40	1.26	2.55	1.76	2.25	2.41	2.08

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

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