Invesco Ltd. (IVZ)

Updated February 5th, 2024 by Jonathan Weber

Key Metrics

Current Price:	$16	**5 Year CAGR Estimate:**	7.6%	**Market Cap:**	$7 B
Fair Value Price:	$17	**5 Year Growth Estimate:**	2.0%	**Ex-Dividend Date:**	02/09/24
% Fair Value:	94%	**5 Year Valuation Multiple Estimate:**	1.2%	**Dividend Payment Date:**	03/04/24
Dividend Yield:	5.0%	**5 Year Price Target**	$19	**Years Of Dividend Growth:**	2
Dividend Risk Score:	D	**Retirement Suitability Score:**	C	**Rating:**	Hold

Overview & Current Events

Invesco Ltd. is an investment management firm with assets under management of approximately $1.5 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 fourth quarter earnings results on January 24. The company was able to generate revenues of $1.05 billion during the quarter, which was down 11% compared to the prior year's period. Invesco's assets under management did grow by 7% over the last quarter, ending at $1.59 trillion, which can be explained by the market's strong performance during the fourth quarter, which increased the value of the assets that Invesco manages. Invesco suffered from some outflows during the quarter, at $7.2 billion, which was worse compared to the previous quarter. Invesco managed to generate an operating margin of 26% during the quarter, which was down sequentially.

Invesco generated earnings-per-share of $0.47 during the fourth quarter, which was above the previous quarter's level. Earnings-per-share were up by a strong 21% versus the previous year's quarter, which was better than expected by most analysts. Invesco generated very strong results in 2021, but 2022 and 2023 were weaker years for the company. Profits will improve again this year, however, based on current estimates.

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
EPS	$2.51	$2.26	$2.06	$2.75	$2.43	$2.55	$1.94	$3.09	$1.68	$1.51	***$1.70***	***$1.88***
DPS	$0.98	$1.06	$1.12	$1.15	$1.19	$1.23	$0.79	$0.67	$0.75	$0.80	***$0.80***	***$0.91***
Shares[1]	429	418	404	414	410	459	463	461	455	450	***440***	***400***

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	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Now	2029
Avg. P/E	14.9	16.2	14.4	12.2	7.0	7.1	8.7	7.6	10.7	11.9	***9.4***	***10.0***
Avg. Yld.	2.6%	2.9%	3.8%	3.4%	7.0%	6.9%	4.6%	2.9%	4.2%	4.4%	***5.0%***	***4.8%***

Invesco's shares trade at just 9-10 times our earnings-per-share estimate for 2024 right now, which is an inexpensive valuation compared to how Invesco's shares were trading through 2017. Shares were trading at a mid-teens price-to-earnings multiple for a long time, 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 well below the teens range seen prior to 2018. Shares trade slightly below our fair value estimate today.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	39.0%	46.9%	54.4%	41.8%	49.0%	48.2%	40.2%	21.7%	44.6%	53.0%	***47.1%***	***48.2%***

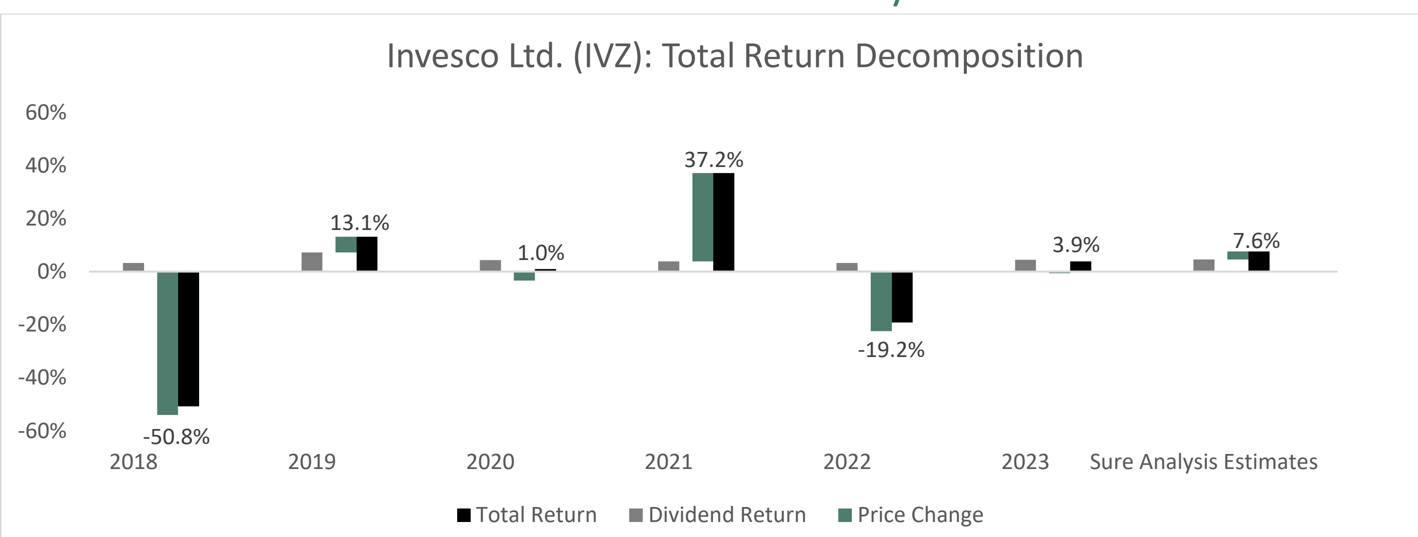
Invesco's dividend payout ratio peaked in the mid-50s in 2009 and 2016. Without a dividend cut, the payout ratio would have increased to a high level during 2020, but the 50% cut during the pandemic means that Invesco should be able to easily cover its dividend payments going forward. We do not think 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 had a great 2021, but since then, things got worse and profits fell for two years in a row. While we believe that earnings-per-share will increase this year, profits will most likely remain well below peak levels seen a couple of years ago. Invesco's shares trade slightly below our fair value estimate and the total return outlook is solid but not outstanding, which is why we 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	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Revenue	5,147	5,123	4,734	5,160	5,314	6,117	6,146	6,895	6,049	5,716
Gross Profit	2,122	2,148	1,958	2,174	2,212	2,515	2,390	2,834	2,438	2,005
Gross Margin	41.2%	41.9%	41.4%	42.1%	41.6%	41.1%	38.9%	41.1%	40.3%	35.1%
SG&A Exp.	509	477	409	429	459	540	564	523	495	554
D&A Exp.	89	94	101	117	142	178	204	205	195	
Operating Profit	1,277	1,358	1,221	1,381	1,342	1,429	1,251	1,722	1,339	(394)
Op. Margin	24.8%	26.5%	25.8%	26.8%	25.2%	23.4%	20.4%	25.0%	22.1%	-6.9%
Net Profit	988	968	854	1,127	883	688	762	1,630	921	(97)
Net Margin	19.2%	18.9%	18.0%	21.8%	16.6%	11.3%	12.4%	23.6%	15.2%	-1.7%
Free Cash Flow	1,067	1,004	506	1,046	726	992	1,115	969	510	1,301
Income Tax	391	398	338	268	255	235	262	531	322	(70)

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets	20,450	25,073	25,734	31,669	30,978	39,420	36,504	32,686	29,757	28,934
Cash & Equivalents	1,918	2,215	2,070	2,518	1,805	1,701	1,710	2,147	1,434	1,932
Acc. Receivable	707	702	650	754	715	1,029	917	1,318	1,006	
Goodwill & Int.	7,826	7,530	7,529	8,149	9,333	15,868	16,222	16,111	15,699	14,540
Total Liabilities	11,330	16,378	18,123	22,713	22,042	25,102	21,695	16,518	13,913	13,018
Accounts Payable	344	303	274	320	284	415	349	39	60	
Long-Term Debt	6,726	7,510	6,506	6,876	7,635	8,315	8,797	9,421	8,078	8,611
Total Equity	8,326	7,885	7,504	8,696	8,579	9,852	10,351	11,485	11,203	14,598
LTD/E Ratio	0.81	0.95	0.87	0.79	0.89	0.60	0.61	0.61	0.53	0.59

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets	5.0%	4.3%	3.4%	3.9%	2.8%	2.0%	2.0%	4.7%	2.9%	-0.3%
Return on Equity	11.8%	11.9%	11.1%	13.9%	10.2%	7.5%	7.5%	14.9%	8.1%	-0.8%
ROIC	6.5%	6.0%	5.6%	7.5%	5.4%	3.5%	3.3%	6.6%	3.7%	-0.4%
Shares Out.	429	418	404	414	410	459	463	461	455	450
Revenue/Share	12.16	12.24	11.75	12.59	12.88	13.89	13.29	14.81	13.16	12.53
FCF/Share	2.52	2.40	1.26	2.55	1.76	2.25	2.41	2.08	1.11	2.85

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