



ANALYST QUICK NOTES

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Invesco Ltd. (NYSE: IVZ: BUY)

Target Price: \$36

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Investment Thesis

- Scheduled to release 4Q EPS on Thursday, Jan. 26:
 - Our \$0.62 4Q estimate stems from expected 3.3% growth in average assets from 4Q15.
 - Consensus is \$0.58. IVZ beat by \$0.02 in 2Q but missed by \$0.01 in 3Q.
- Shares had a difficult calendar 2016 (down 10%) on weak first-half equity environment, FX headwind, Brexit shock and U.K. exposure concerns:
 - About 21% of 2015 net revenues derived in U.K., 14% in continental Europe.
 - Shares have rebounded sharply from \$23 lows in June.
- AUM is leveraged toward equities at 45%, while bonds 25%:
 - Strong post-election equity performance bodes well for AUM base moving into 2017.
 - Shift to higher-margin equity products should help profitability going forward.
- IVZ on target for <\$30 million 2017 costs savings from optimization program:
 - Together with revenue improvement should lead to improvement in operating margin to 40% from 39% in 2016.
- Weak 2016 EPS (likely down 7% from 2015) expected to rebound to mid-teens growth in 2017:
 - Absence of Brexit shock.
 - Leverage from stronger operating margin following optimization.
 - Easing of strong dollar versus Pound and Euro.
 - 3% AUM growth in 2016 accelerates to 5% in 2017 as FX headwind abates.
- Argus is at \$2.66 EPS for 2017, versus \$2.48 consensus:
 - Believe consensus will improve to reflect higher equity AUM to start 2017.

- Shares currently 11.5-times our 2017 estimate:
 - Discount to typical 15-16-times for asset managers.
 - Discount to 15-times 2017 estimate for BlackRock (BLK), which has slightly better margins (42% vs. 39% for IVZ).
 - Target of \$36 is 13.5-times our 2017 estimate.
 - Asset managers have lagged banks and represent opportunity for those looking for a less-expensive Financial play.
 - Safe yield near 4% also attractive.
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