



ANALYST QUICK NOTES

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Invesco Ltd. (NYSE: IVZ: BUY)

Target Price: \$36

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Investment Thesis

- Invesco recently announced February AUM:
 - Total assets of \$836.8 billion were up 1.4% sequentially from January (13.5% from February 2016).
 - Long-term net inflows and positive market returns offset adverse FX and lower money market funds.
 - Equity AUM benefited from growth in Powershares QQQ.
 - Fixed income AUM was up despite lower bond prices.
- AUM is leveraged toward equities at 45%, while bonds are 24%:
 - Strong post-election equity performance bodes well for first-half AUM comparisons.
 - Shift to higher-margin equity products should help profitability going forward.
- Product development efforts have ramped up:
 - In early March, PowerShares Canada launched two new income products:
 - S&P 500 High Dividend Low Volatility Index ETF (UHD).
 - S&P Global ex. Canada High Dividend Low Volatility Index ETF (GHD).
 - In late February, launched four multi-asset ETFs (Multi-Asset Allocation Portfolios):
 - Actively managed ETFs have targeted allocations of 50% -80% fixed income ETFs, 20%-50% equity ETFs, and 10%-25% international equity and bond ETFs.
- IVZ on target for >\$30 million 2017 costs savings from optimization program:
 - Together with revenue improvement, this should lead to improvement in operating margin to 40% in 2017 from 39% in 2016.
- Weak EPS performance in 2016 (down 8%) expected to rebound to mid-teens growth in 2017:
 - Weak equity environment in first half 2016.
 - Absence of mid-year Brexit shock.
 - Revenue leverage from stronger operating margins following optimization.
 - Easing of strong dollar versus pound and euro.
 - 3.2% AUM growth in 2016. Looking for 6% in 2017.

- Argus is at \$2.60 EPS for 2017, versus \$2.40 consensus:
 - Believe consensus will improve to reflect higher equity AUM to start 2017.
 - Shares currently 12.1-times our 2017 estimate:
 - Discount to typical 15-16x for asset managers.
 - Discount to 18x 2017 estimate for BlackRock (BLK), which has slightly better margins (42% vs. 39% for IVZ).
 - Our target price of \$36 is 13.8x our 2017 estimate.
 - Asset managers are a less-expensive play in Financials following post-election bank rally.
 - Yield of 3.5% also attractive.
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