

Equities

26 January 2012 | 11 pages

Invesco Ltd (IVZ)

Alert: 4Q11 Initial Read – Solid At The Core; Flow Momentum Improving; Retain Buy

- **4Q in-line** — \$0.42 adjusted EPS \$0.01 ahead of us & \$0.02 > “Street”. Relative to us, beat is non-operating income as 23% tax rate (vs. 26%-E) mostly offset by unusual G&A - \$717M net revenues 2% > forecast on higher performance fees and RE transactions but fully offset by higher compensation and resulting in 35.8% adjusted operating margin vs. our 37.8% forecast – though believe YE + elevated PF and transactions blunted underlying profitability trends.
- **AUM known; flow picture generally improving; solid lead indicators** — \$625B 12/31 AUM already reported + 4.5% Q/Q. \$5.6B net LT inflows nearly 2x our forecast and ~4% annualized growth. Overage reflects: 1) better passive growth \$5.8B vs. \$4.4B-E and 27% growth rate, though plumped by lower fee volumes; and, 2) flatter than forecast active LT attrition – or \$200M vs. our \$1.4B net loss assumption. Encouragingly, flows were positive across Retail, Institutional and HNWI and across asset classes. By geography, volume in the U.S. – critical catalyst in our view (70% 12/31/AUM) - accelerated on rising institutional and stabilizing retail (including below average redemptions); Europe attrition eased albeit UK net flows flattened. Quick scan of 4Q supplement suggests generally solid lead indicators albeit adverse AUM mix likely to temper fee rate into 1Q12 before rebounding into 2H12.
- **Active capital deployment** — Management cut debt \$105M Q/Q and repurchased \$104M of stock at weighted average price \$19.35 in 4Q. We expect further clarification around FCF into 2012 to be an added catalyst on top of clearly improving flow trends.
- **Remains a top pick** — No change to Buy rating; will review 2012-14 adjusted EPS estimates post 9 am call (866-803-2143) with modest upward bias given 1QTD markets, we believe. Our 12-month target remains \$25. While IVZ off to solid start YTD, we expect further relative catch up to lower quality platforms that are likely to report less robust 4Q/go forward trends. The 4% annualized LT growth exceeded the 3% growth put up by BLK, but like BLK, all the growth is in passive areas. Still, IVZ’s institutional business is accelerating versus more uneven trends at BLK, which should allow for further upward revaluation for IVZ, in our view. Maintain IVZ/WDR pair trade.

Companies mentioned: (WDR.N; US\$29.21; 2); (BLK.N; US\$188.24; 2)

Company Update

Buy	1
Price (25 Jan 12)	US\$22.16
Target price	US\$25.00
Expected share price return	12.8%
Expected dividend yield	2.3%
Expected total return	15.1%
Market Cap	US\$9,994M

Price Performance (RIC: IVZ.N, BB: IVZ US)



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See Appendix A-1 for Analyst Certification, Important Disclosures and non-US research analyst disclosures.

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Figure 1. 4Q11 In-Line; Flow Picture Generally Improving

	3Q11	4Q11 actual	4Q11 CIRA est.	Act vs Est	% Variance
Adjusted Revenues:					
Investment management fee	804.1	770.8	787.0	-16.2	-2.1%
Service & Distribution	189.1	181.1	202.1	-21.0	-10.4%
Performance fees	3.0	24.0	12.5	11.5	92.0%
Other	26.7	44.9	27.7	17.2	62.1%
less: Third-party distribution, service,	316.8	304.0	329.6	-25.6	-7.8%
Net Revenues	706.1	716.8	699.6	17.2	2.5%
Adjusted Expense:					
Employee compensation	306.3	312.3	287.8	24.5	8.5%
Marketing	24.4	22.1	23.1	-1.0	-4.3%
Property, office, technology	62.8	61.9	63.8	-1.9	-3.0%
General & administrative	56.9	64.2	60.2	4.0	6.6%
Total Adjusted operating expense	450.4	460.5	434.9	25.6	5.9%
Adjusted operating income	255.7	256.3	264.7	-8.4	-3.2%
Adjusted operating margin	36.2%	35.8%	37.8%	-2.1%	N/A
Adjusted other income/(expense)					
Equity in earnings of unconsolidated	3.0	-1.1	1.5	-2.6	-173.3%
Interest & dividend income	4.5	6.2	3.4	2.8	81.9%
Interest expense	15.3	14.3	15.3	-1.0	-6.8%
Other gains and losses, net	0.3	-0.1	-0.9	0.8	89.0%
Total other income/(expense)	-7.5	-9.3	-11.4	2.1	18.1%
Adjusted income before taxes	248.2	247.0	253.4	-6.4	-2.5%
Adjusted income tax provision	55.9	56.5	65.9	-9.4	-14.2%
Adjusted tax rate	22.5%	22.9%	26.0%	-3.1%	N/A
Adjusted net income before NCI	192.3	190.5	187.5	3.0	N/A
less: adjusted NI attributable to NCI	0.0	0.0	0.0	0.0	N/A
Adjusted net income to common	192.3	190.5	187.5	3.0	N/A
GAAP EPS (FD)	0.36	0.44	0.39	0.05	12.8%
Adjusted EPS (FD)	0.42	0.42	0.41	0.01	2.4%

	3Q11	4Q11 actual	4Q11 CIRA est.	Act vs Est	% Variance
AUM:					
Total Assets Under Mgmt (\$mm)	598,400	625,300	625,300	0	0.0%
% Change Q/Q	-8.5%	4.5%	4.5%	0.0%	N/A
Average Assets Under Mgmt (\$mm)	632,700	621,700	621,750	-50	0.0%
Net Flows (\$M)	2,200	6,000	3,375	2,625	77.8%
Ann'l Organic Growth (Loss) Rate	1.3%	4.0%	2.3%	1.8%	N/A
LT Flows (\$M)	2,900	5,600	2,975	2,625	88.3%
Ann'l Organic Growth (Loss) Rate	2.0%	4.3%	2.3%	2.0%	88.3%

Source: Company reports, Citi Investment Research and Analysis

Invesco Ltd

Valuation

We value the shares of Invesco using the target P/E method. Our \$25 12-month price target is derived by applying a 14x target P/E to our 2012 adjusted EPS estimate. The 14x target P/E is below historical GAAP median of 16x but 10% sector premium.

Risks

The three central risks to our 12-month price target reflect below average markets, outsized FX swings, and deal integration risks, the combination of which could reduce our EPS estimates and temper upward P/E multiple revaluation.

Additionally, if the impact from any of the following factors proves to be greater than we expect, the stock price may have difficulty reaching our target price. If market conditions improve faster than anticipated, the stock price may outperform our target.

Financial market risk — Changes in markets have a direct impact on AUM and investment advisory and services fees.

Performance risk — An inability to meet relevant investment benchmarks could result in clients withdrawing assets and in prospective clients choosing to invest with competitors. This could also result in lower investment management fees, which could result in a decline in revenue.

Redemption risk — Investors can redeem their investments without notice. A significant increase in redemption rates could have a material adverse effect on revenues, financial condition, results of operations and business prospects.

Integration risk — The upcoming VanKampen integration could pose operating risks.

Waddell & Reed Financial, Inc

Valuation

We value the shares of Waddell & Reed using the Target P/E method. Our \$29 12-month price target is derived by applying a 13x target multiple to our 2012 EPS estimate. The 13x multiple is below WDR's historical multiple (16x FTM P/E).

Risks

Risk reflects: 1) fund concentration; 2) uneven fundamentals around flagship funds; and, 3) outsized US-centric platform.

Additionally, if the impact from any of the following factors proves to be greater than we expect, the stock price may have difficulty reaching our target price. If market conditions improve faster than anticipated, the stock price may outperform our target.

Financial market risk — Changes in markets have a direct impact on AUM and investment advisory and services fees.

Performance risk — An inability to meet relevant investment benchmarks could result in clients withdrawing assets and in prospective clients choosing to invest with competitors. This could also result in lower investment management fees, which could result in a decline in revenue.

Redemption risk — Investors can redeem their investments without notice. A significant increase in redemption rates could have a material adverse effect on revenues, financial condition, results of operations and business prospects.

BlackRock Inc

Valuation

We value the shares of BlackRock using the Target P/E method. Our \$193 12-month target price is derived by applying a 15x target P/E multiple to our 2012 adjusted EPS estimate. The 15x target P/E is below the company's historical average but premium to industry average.

Risks

If the impact from any of the following factors proves to be greater than we expect, the stock price may have difficulty reaching our target price. If market conditions improve faster than anticipated, the stock price may outperform our target. Other risks include:

Financial market risk — Changes in markets have a direct impact on AUM and investment advisory and services fees.

Performance risk — An inability to meet relevant investment benchmarks could result in clients withdrawing assets and in prospective clients choosing to invest with competitors. This could also result in lower investment management fees, which could result in a decline in revenue.

Redemption risk — Investors can redeem their investments without notice. A significant increase in redemption rates could have a material adverse effect on revenues, financial condition, results of operations and business prospects.

Integration risk — That said, management has an impeccable track record, merging in increasingly sizable State Research and Merrill Lynch Investment Managers platforms. BGI integration will run over two years.

Appendix A-1

Analyst Certification

The research analyst(s) primarily responsible for the preparation and content of this research report are named in bold text in the author block at the front of the product except for those sections where an analyst's name appears in bold alongside content which is attributable to that analyst. Each of these analyst(s) certify, with respect to the section(s) of the report for which they are responsible, that the views expressed therein accurately reflect their personal views about each issuer and security referenced and were prepared in an independent manner, including with respect to Citigroup Global Markets Inc and its affiliates. No part of the research analyst's compensation was, is, or will be, directly or indirectly, related to the specific recommendation(s) or view(s) expressed by that research analyst in this report.

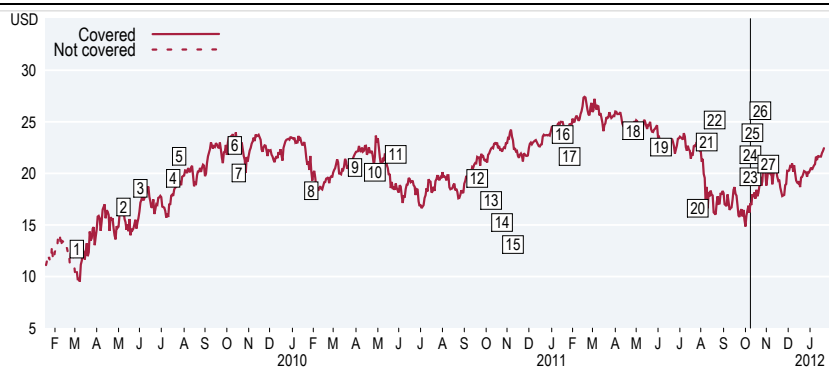
IMPORTANT DISCLOSURES

Invesco Ltd (IVZ)

Ratings and Target Price History Fundamental Research

Analyst: William R Katz

Covered since March 31 2010



Date	Rating	Target Price	Closing Price
1 4-Mar-09	*2H	*11.00	10.48
2 8-May-09	2H	*16.00	16.74
3 2-Jun-09	*1M	*20.00	17.17
4 17-Jul-09	1M	*21.00	17.82
5 27-Jul-09	1M	*22.00	19.28
6 13-Oct-09	1M	*27.00	22.71
7 19-Oct-09	1M	*30.00	23.12
8 28-Jan-10	1M	*27.00	20.21
9 31-Mar-10	1M	*26.00	21.91

* Indicates change

Date	Rating	Target Price	Closing Price
10 28-Apr-10	1M	*27.00	21.61
11 27-May-10	1M	*25.00	19.02
12 20-Sep-10	1M	*26.00	21.60
13 8-Oct-10	1M	*27.00	22.41
14 25-Oct-10	1M	*28.00	22.11
15 9-Nov-10	1M	*26.50	23.20
16 18-Jan-11	*2M	26.50	24.98
17 27-Jan-11	2M	*27.00	24.83
18 27-Apr-11	2M	*25.50	24.82

Date	Rating	Target Price	Closing Price
19 6-Jun-11	2M	*24.50	22.55
20 27-Jul-11	2M	*24.00	22.26
21 9-Aug-11	2M	*18.50	18.69
22 19-Aug-11	2M	*17.00	16.11
23 8-Oct-11	Stock rating system changed		
24 8-Oct-11	*2	17.00	16.20
25 12-Oct-11	*1	*21.00	17.98
26 24-Oct-11	1	*23.00	19.67
27 3-Nov-11	1	*25.00	20.45

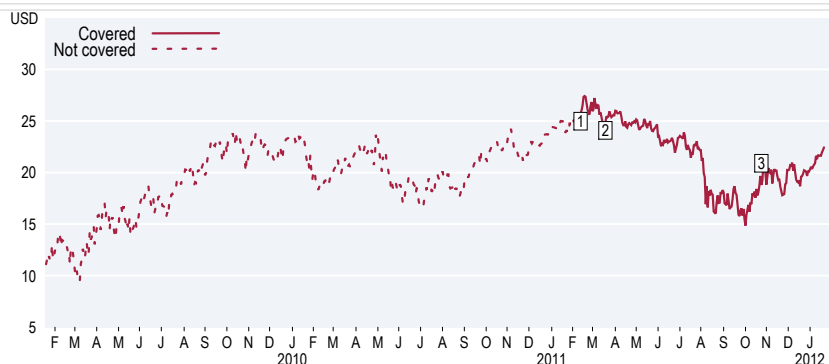
Rating/target price changes above reflect Eastern Standard Time

Invesco Ltd (IVZ)

Ratings and Target Price History Best Ideas Research Relative Call (3 Month)

Analyst: William R Katz

Covered since March 31 2010



Date	Rating	Target Price	Closing Price
1 11-Feb-11	*ADD MP	-	25.75

* Indicates change

Date	Rating	Target Price	Closing Price
2 18-Mar-11	*REM MP	-	24.85

Date	Rating	Target Price	Closing Price
3 25-Oct-11	*ADD MP	-	18.80

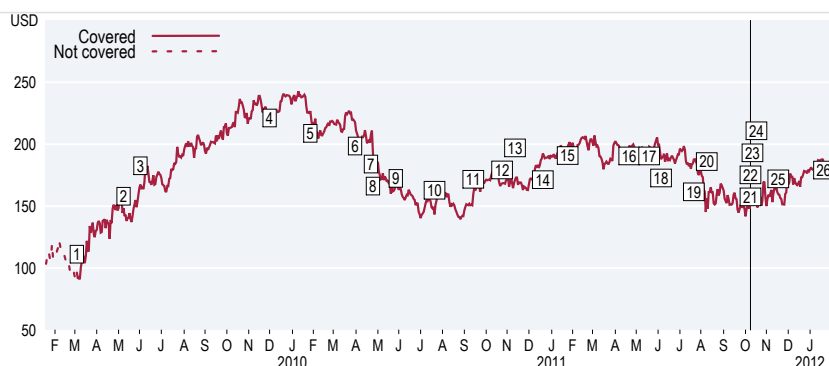
Rating/target price changes above reflect Eastern Standard Time

BlackRock Inc (BLK)

Ratings and Target Price History

Fundamental Research

Analyst: William R Katz
Covered since March 31 2010



	Date	Rating	Target Price	Closing Price
1	4-Mar-09	1M	*120.00	96.34
2	8-May-09	1M	*165.00	148.35
3	2-Jun-09	1M	*190.00	167.45
4	1-Dec-09	1M	*265.00	226.74
5	27-Jan-10	1M	*269.00	226.77
6	31-Mar-10	*3M	*190.00	217.76
7	22-Apr-10	*2M	*198.00	207.79
8	26-Apr-10	2M	*200.00	192.95
9	27-May-10	2M	*175.00	172.39

* Indicates change

	Date	Rating	Target Price	Closing Price
10	21-Jul-10	2M	*165.00	143.33
11	14-Sep-10	2M	*175.00	159.55
12	25-Oct-10	2M	*180.00	168.39
13	11-Nov-10	*1M	*210.00	171.20
14	21-Dec-10	1M	*225.00	192.51
15	25-Jan-11	1M	*240.00	198.01
16	21-Apr-11	1M	*250.00	198.88
17	19-May-11	1M	*265.00	198.10
18	6-Jun-11	1M	*255.00	187.85

	Date	Rating	Target Price	Closing Price
19	21-Jul-11	1M	*250.00	187.72
20	9-Aug-11	1M	*225.00	156.54
21	8-Oct-11	Stock rating system changed		
22	8-Oct-11	*1	225.00	147.78
23	12-Oct-11	1	*190.00	156.00
24	18-Oct-11	1	*180.00	156.30
25	17-Nov-11	1	*190.00	159.60
26	20-Jan-12	*2	*193.00	182.82

Rating/target price changes above reflect Eastern Standard Time

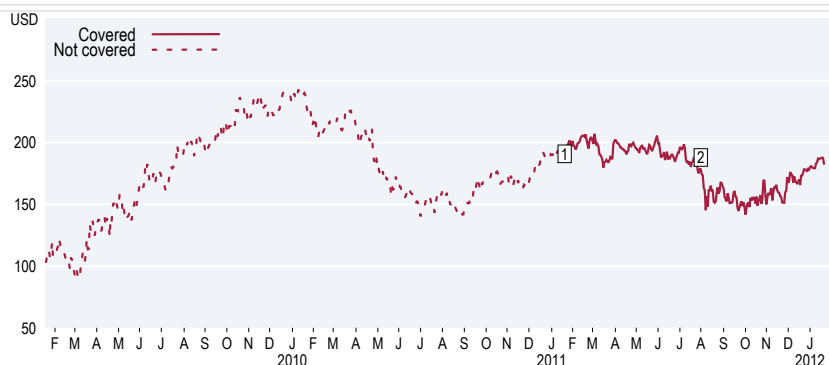
BlackRock Inc (BLK)

Ratings and Target Price History

Best Ideas Research

Relative Call (3 Month)

Analyst: William R Katz
Covered since March 31 2010



	Date	Rating	Target Price	Closing Price
1	20-Jan-11	*ADD MP	-	190.87

* Indicates change

	Date	Rating	Target Price	Closing Price
2	1-Aug-11	*REM MP	-	178.36

Rating/target price changes above reflect Eastern Standard Time

Waddell & Reed Financial, Inc (WDR)

Ratings and Target Price History

Fundamental Research

Analyst: William R Katz
Covered since March 31 2010



	Date	Rating	Target Price	Closing Price
1	4-Mar-09	*2H	*14.00	13.48
2	8-May-09	2H	*23.00	25.32
3	17-Jul-09	2H	*25.00	24.60
4	28-Jul-09	2H	*27.00	26.93
5	13-Oct-09	2H	*30.00	28.49
6	28-Jan-10	2H	*34.00	31.41
7	31-Mar-10	*1M	*42.00	36.04
8	27-May-10	*2H	*32.00	28.43
9	8-Jul-10	2H	*27.00	23.90

* Indicates change

	Date	Rating	Target Price	Closing Price
10	28-Jul-10	2H	*26.00	23.76
11	13-Sep-10	2H	*28.00	26.79
12	26-Oct-10	*2M	*30.00	28.34
13	21-Dec-10	2M	*35.00	35.64
14	18-Jan-11	2M	*40.00	36.83
15	11-Feb-11	*1M	*44.00	40.08
16	18-Feb-11	1M	*47.00	42.06
17	26-Apr-11	1M	*48.00	39.64
18	6-Jun-11	1M	*45.00	35.17

	Date	Rating	Target Price	Closing Price
19	9-Aug-11	1M	*40.00	31.11
20	19-Aug-11	1M	*36.00	27.13
21	8-Oct-11	Stock rating system changed		
22	8-Oct-11	*1	36.00	24.26
23	12-Oct-11	1	*30.00	25.00
24	25-Oct-11	*2	*27.00	25.21
25	3-Nov-11	2	*29.00	29.13

Rating/target price changes above reflect Eastern Standard Time

Waddell & Reed Financial, Inc (WDR)

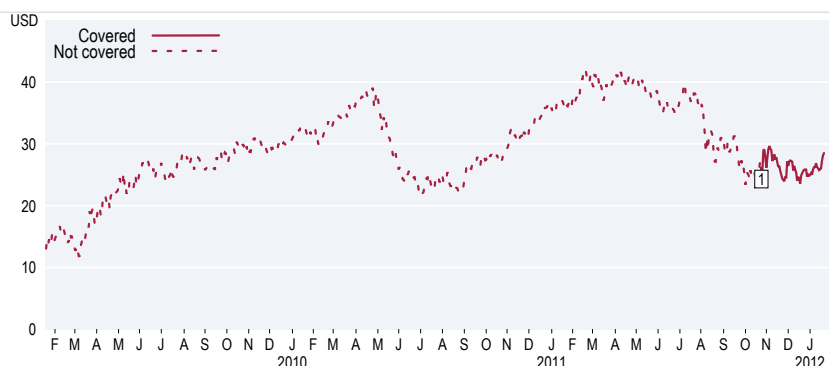
Ratings and Target Price History

Best Ideas Research

Relative Call (3 Month)

Analyst: William R Katz

Covered since March 31 2010



Date	Rating	Target Price	Closing Price
1 25-Oct-11	*ADD LP	-	25.21

* Indicates change

Rating/target price changes above reflect Eastern Standard Time

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Data current as of 31 Dec 2011

	12 Month Rating			Relative Rating		
	Buy	Hold	Sell	Buy	Hold	Sell
Citi Investment Research & Analysis Global Fundamental Coverage	57%	34%	9%	10%	79%	10%
% of companies in each rating category that are investment banking clients	45%	41%	40%	49%	43%	41%

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