



# DSR STOCK CARD

10/21/2020

## EATON VANCE (EV)

### Business Model

Eaton Vance provides asset-management and investment advisory services to institutional and individual investors. The firm specializes in tax-managed equity and fixed-income investments and is the third-largest issuer of closed-end funds. Investment advisory services are primarily provided to high-net-worth clients, institutional separate accounts, and retail managed accounts, with most products distributed through financial intermediaries in the advisory channel. The company had \$507 billion in assets under management.

### The Company in a Nutshell

- EV is one of the largest domestic investment managers, but it is still small compared to BlackRock.
- About 40% of its AUM is managed by Eaton Vance Management and 50% by Parametric Associates.
- The company AUM is fairly diversified across equity (26%), fixed income (18%), floating-rate bank loan (10%), money market (3%) and implementation services (25%), exposure management (18%) platforms.

### Investment Thesis

There is a plague going around asset managers since mid-2018 and EV didn't avoid it. The market is concerned about the place for classic investment firms where low-cost index investing (ETFs) is taking more space in investor's portfolios... and among regulations. Many countries add restrictions to financial advisors insisting on choosing the best performing product at the best price for their clients. Nonetheless, EV has proven its ability to offer high-quality products to its clients year after year. Its ability to develop investment products aimed at specific strategies or investor's needs may save them. In the meantime, the dividend is safe. EV stock price surged as Morgan Stanley (MS) agreed to acquire EV in a cash and stock deal with an equity value of about \$7B. This looks like a payday for investors.

## VALUATION

Dividend Growth Rate Years 1-10: 6%

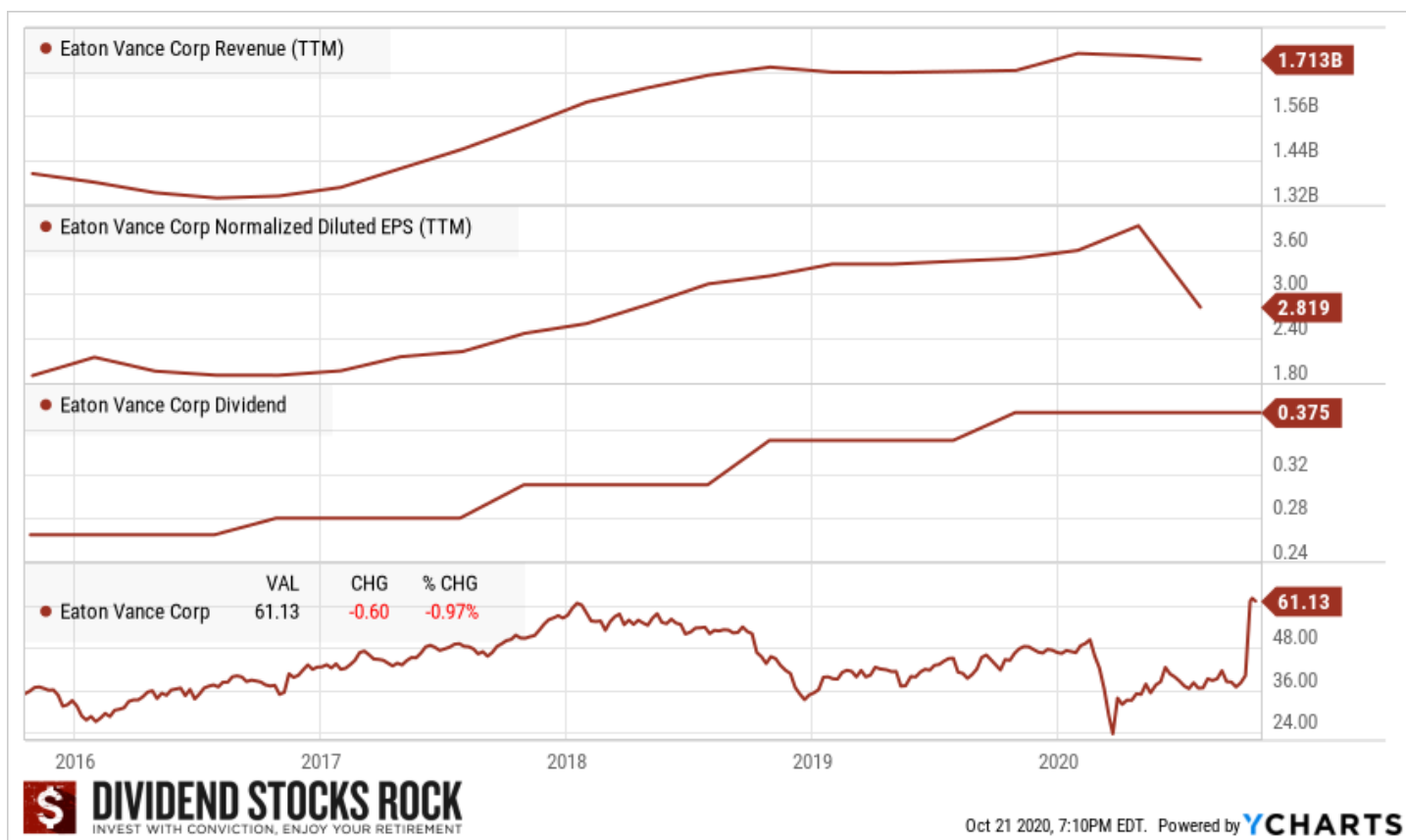
Terminal Dividend Growth Rate: 5%

	Discount Rate (Horizontal)		
Margin of Safety	9.00%	10.00%	11.00%
20% Premium	\$51.23	\$40.86	\$33.96
10% Premium	\$46.96	\$37.46	\$31.13
Intrinsic Value	\$42.69	<b>\$34.05</b>	\$28.30
10% Discount	\$38.42	\$30.65	\$25.47
20% Discount	\$34.15	\$27.24	\$22.64



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## Potential Risks

EV is facing a structural shift in the asset managing business. There is no indication that EV is taking the ETF shift through a major transaction. Therefore, EV's strategy seems to focus on what they do best; manage the investment in a more classic manner. Since the bulk of its AUM is invested through mutual funds companies and other institutional managers, this money is not likely going anywhere anytime soon. EVs will continue to print money for a while, but all companies must evolve if they want to survive. If you have a chance to sell through the MS deal, you might want to take it.

## Dividend Growth Perspective

Eaton Vance has been increasing its dividend yearly since 1981. This makes EV part of the elite group of dividend champions. EV presents an interesting dividend profile with consistent high-single-digit dividend increase year after year. EV's payout is safe considering its payout ratio and its ability to generate cash flow. Shareholders can expect a steady mid-single-digit dividend growth rate going forward.