

## Evercore Inc. (EVR: US Equity)

### Personnel Expansion and Organic Growth in Investment Management Wing

☑ Stock Rating	☉ Industry View	☉ Price Target
BUY	Attractive	\$110.15

I propose a long position in Evercore Inc. (EVR) with a BUY at market price and a 1-year target price of \$110. The relationship heavy industry of boutique Investment Banking heavily relies on the ability for the firm to continue to win bids for deals, and to achieve organic growth in profitability in their prominent business divisions. Evercore's IBD and Investment Management divisions are elite-boutique level and continue to demonstrate competitiveness alongside bulge-bracket firms like Goldman Sachs, Morgan Stanley, and J.P. Morgan.

### Growth across major business segments and drivers for future cash flows

Evercore hired 10 new Senior Managing Directors in 2018, continuing expansion within the United States and Europe. Through this, they have also enhanced their profile and competitive position within the Industrials and Consumer/Retail segments through these new hires. They have also begun to launch their real estate capital advisory team and expand their equity research capabilities. EVR has also maintained its long-term growth strategy of hiring from within, and reported promotion of six internal candidates to Senior Managing Director in their Advisory business in 2018. By hiring and promoting the best talent, expanding into new markets, and focusing on segments where they can increase capabilities, return on invested capital can provided increased future cash flows to the firm.

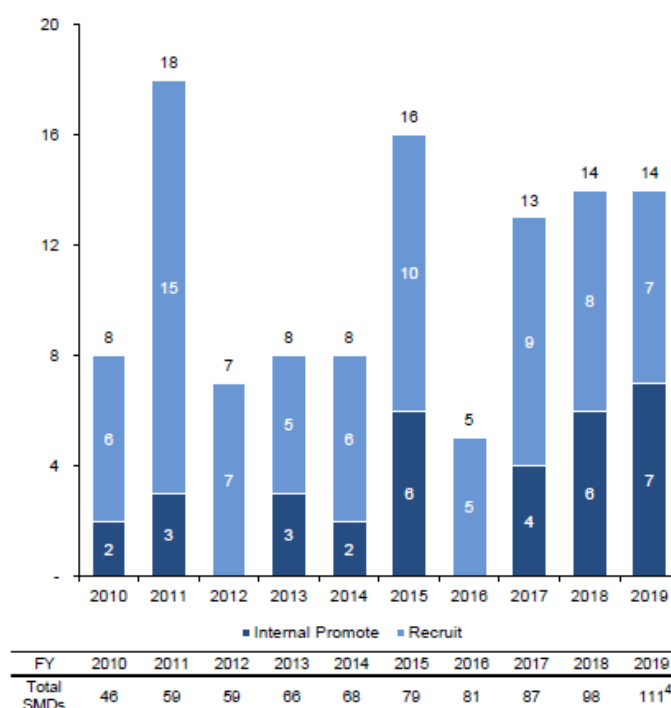
#### Industry Analysis:

Relief in global macroeconomic concerns and geopolitical tensions have helped to increase industry outlooks for the future, which is a positive signal for the equity market and institutional/secondary market investing. "Stocks are at a median 19.8% higher over the past six months, even as 2019-2020 estimates have fallen" (Bloomberg Intelligence).

This is a positive signal for the transactional banks like Evercore, because as the market continues to rebound from the decrease in FY18, there is prevalent opportunity for growth and investment.



Advisory SMD Headcount<sup>3</sup> Growth



### Growth Drivers and Catalysts:

As mentioned in the introductory paragraph, EVR expects an abundance of growth through their focus on recruiting experienced Managing Directors with ties to all aspects of the industry, as well as screening an increased number of internal candidates for the position. According to their Investor Relations, there were 7 internally promoted Senior Managing Directors in January, 2019, and statistically, 30% of all Senior Managing Directors are directly promoted internally. They have noticed that external and internal promotes have similar levels of productivity within the firm, which means that they are able to; integrate new members of a team quickly if they are new to the firm, recognized the hard work and accumulated experience of internal promotes, and also have a cognizant HR team that is able to recognize these factors.

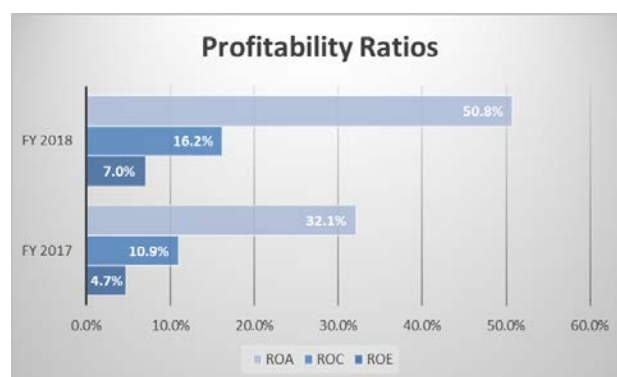
As demonstrated below, significant coverage expansion opportunities are available for internal and external promotes.

SMD Growth Opportunities			
	Americas	Europe & Middle East	Asia
Consumer/Retail	✓	✓	✓
Energy	✓	✓	✓
Financial Services	✓	✓	✓
Healthcare	✓	✓	✓
Industrials	✓	✓	✓
Technology, Media, Telecom	✓	✓	✓
Direct Investors (Financial Sponsors, SWF and Family Offices)	✓	✓	✓

✓ Selected opportunities for adding to coverage effort  
 ✓ Significant opportunities for adding to coverage effort

### Catalysts:

Increased spending on personnel will yield higher returns and bring in larger fees for the bank through their IBD and Investment Management wing, and expansion into their Equity Research capabilities should provide for an increased bottom line for FY19, following a successful FY18.



### ROA and ROC over time:

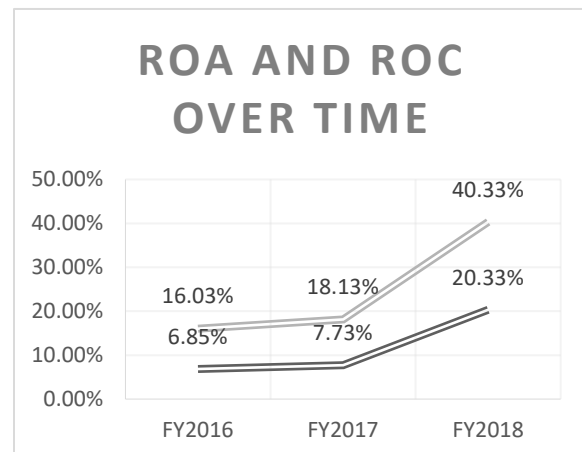
As demonstrated in the accompanying graphs, ROA and ROC metrics are continuing to grow over the last three fiscal years. This is important because if EVR is able to sustain this growth, they will eventually outpace the other investment banks and direct competitors, leading to an increase in deal flow as potential clients come to them because of their stability. The current market outlook for the Investment Banking industry has taken a few hits over the past two months, with firms such as UBS, Morgan Stanley, and J.P. Morgan all beginning their first and second rounds of job cuts.

If EVR as a firm is able to keep up these return ratios and continue to positively generate more net income over the FY19 and FY20 periods, we will see the stock price follow suit and rise as well.

The EBITDA margins for EVR have seen a large increase over the past three years, from 20.8% in FY16 to 28.3% in FY18, with the majority of the growth seen from the years 2016 to 2017. If the EBITDA margin can show another year of upward trend in FY19 with high estimates for FY20, this will also satisfy consumer sentiment and bolster future stock prices for the firm.

Net income margin for EVR has almost tripled over the past three years, growing from approximately 7% during FY16 to over 18% as of the last fiscal year. This brings a positive outlook for earnings performance for the firm in the coming fiscal years.

### Key Metrics:



Returns	FY2016	FY2017	FY2018
Return on Assets	6.85%	7.73%	20.33%
Return on Capital	16.03%	18.13%	40.33%

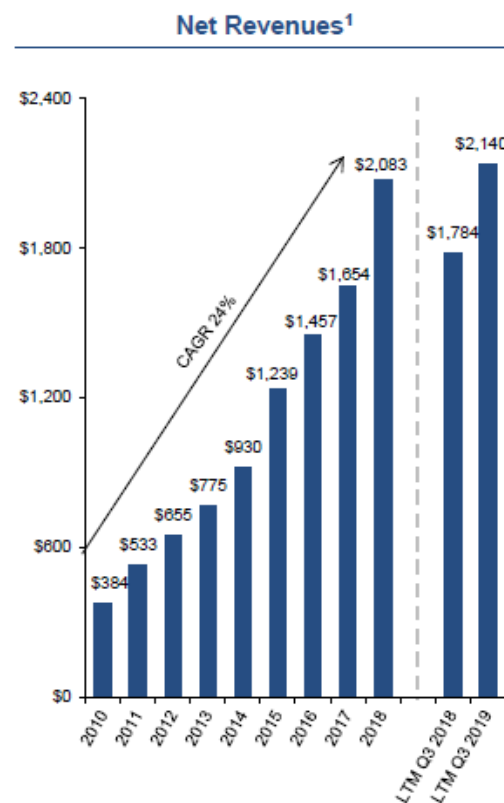


Margins	FY2016	FY2017	FY2018
EBITDA	20.81%	27.54%	28.29%
Operating	18.14%	25.16%	26.25%
Net Income	7.38%	7.28%	18.11%

### Financial Performance:

EVR's expanded footprint in the industry has allowed for continued net revenue and EPS growth over the past few fiscal years. During 2019, Evercore has advised on four of the top five largest deals announced year to date (November), leading the advising on large and complex financial restructurings, M&A activity, and capital advisory.

This has had an impact on the past year's net revenues, as demonstrated in the first graph on the right-hand side. EVR's net revenues have increased from \$1.78B at Q3FY18 to \$2.14B through Q3FY19. This is most likely due to the overall growth this year in the size of the deals they have done, as well as having advised on 10 of the 25 largest deals for this fiscal year (2019).

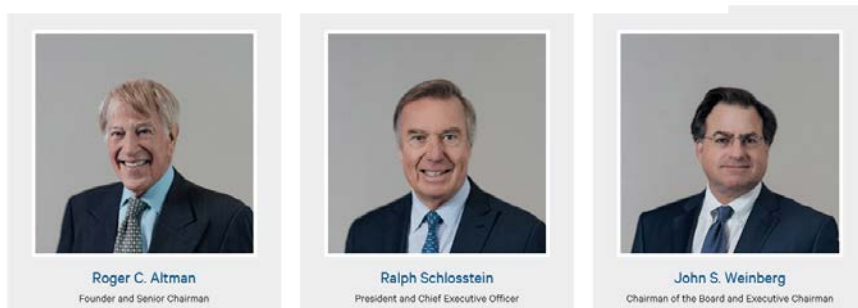
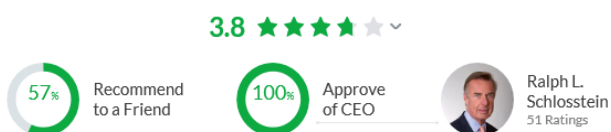


### Management:

Mr. Altman began his career at Lehman Brothers in the IBD and became a general partner in 1974. He also served as the Assistant Secretary to the US Treasury for four years. Then he became the co-head of the IBD at Lehman Brothers after that. He brings a wealth of Investment Banking knowledge, leadership, and experience to the firm which has undoubtedly resulted in a trickle-down, bringing the firm to become one of the most active, independent investment banks in the world.

Before joining Evercore, Mr. Schlosstein was the CEO of an alternative investment management firm, HighView Investment Group. He was also the president of BlackRock for almost 20 years, and was an original co-founder of the firm. He brings an abundance of leadership and IBD / capital management experience to the team, and is a key principal in the firm's continued growth.

Prior to joining Evercore, Mr. Weinberg was Vice Chairman of Goldman Sachs from 2006 to 2015 and the Co-Head of the Global IBD division from 2002 – 2005. He brings a wealth of top-down Investment Banking and management experience to the firm.



### **Valuation:**

I used a 100% DCF valuation for this model. The intrinsic value that I achieved for the stock was just shy of \$107, with a one-year target a bit above that. I believe that the best way to have valued this company was with 100% DCF because of its line of business as a boutique Investment Bank. The bank's future cash flows are directly linked to their ability to close deals and make money through (mostly) transaction fees. With the new members that they brought on board in 2018, and their internal hiring demonstrate their capability to continue to bring in business and win bids for deals throughout the next fiscal year and beyond. Profitability and return-based ratios are showing year over year growth for EVR, and coupled with the increasing margins and business development, there is opportunity for share price growth in the near future.

### **Conclusion:**

Evercore is in a great position to surpass their competitors in terms of becoming a leading boutique investment bank. They are currently stockpiling their tools for success by implementing a tried and tested strategy of internally and externally hiring new Senior Managing Directors, and providing increased coverage and growth opportunities for them. EVR is also in a market climate where some of its direct peers are starting their first and even second round of job cuts, and if EVR is able to hold on and continue to increase their margins, this will create positive consumer sentiment in the market and help to boost share price.

Strong management for the firm is also deemed positive for the company and the future outlook on their success, they are headed by three key players in history's investment banking industry, that bring an abundance of IBD and capital management experience from some of the industry's top firms.

Return and profitability ratios for EVR, paired with an industry outlook and their headcount growth across a broad range of sectors all help to boost the firm's positioning to take over as a dominant boutique investment bank, which all come together to reinforce the BUY for EVR.