

Victory Capital Holdings, Inc.

4Q23E: Accretive capital deployments & improving flows support 50% total return

Reiterate Rating: BUY | PO: 55.00 USD | Price: 34.90 USD

Net outflows improving & op margin holds strong

VCTR reported better than consensus adj. EPS of \$1.15 (consensus \$1.11, BofA est. \$1.16) and net outflows of \$1.1B which improved q/q (vs. \$1.7B in 2Q23). LT net outflows were driven by redemptions across US equities and fixed income although global/non-US equity, solutions, and Alts inflowed in the quarter. While we estimate net outflows again in 1Q24, we look for VCTR's flow trajectory to continue improving and inflect positive by 2H24 driven by fixed income flows (our industry rebalancings thesis) combined with better flows overall across the business (including in small/mid-cap equities, Alts, solutions). Additionally, VCTR completed \$158M of share repurchases in 2023 and we expect buyback activity to continue alongside a potential large M&A transaction in 2024—both of which would be EPS accretive.

Increasing EPS & PO; \$55 PO implies 50% total return

We raised our 2024/25/26 EPS estimates to \$5.26/\$5.95/\$6.82 from \$5.16/\$5.76/\$6.82 mostly due to a lower share count and we also slightly improved our organic growth forecasts. Our PO increases to \$55 from \$52 and is still derived from an 8.0x multiple on our 2026 EPS estimate and implies 50% total return potential.

Reiterate Buy rating: EPS accretive capital deployments

VCTR has refocused its M&A effort on strategic targets which will enhance organic growth but offer EPS accretion too. We believe this effort could have a positive impact on the company's valuation, with the VCTR stock trading at a discount to peers and we estimate both EPS growth and valuation expansion as key drivers of alpha for shareholders. Additionally, VCTR's overall investment performance is strong which should support positive flows over the long-term. Risks: (1) Declining fee rate due to organic mix shift; (2) Elevated financial leverage (due to M&A); (3) Secondary stock sales from private equity owners (Crestview, Reverence Capital); (4) Finding the next acquisition candidates given its refocus into secular growth verticals (highly competitive verticals); (5) Key person risks.

Estimates (Dec) (US\$)	2022A	2023A	2024E	2025E	2026E
EPS	4.58	4.51	5.26	5.95	6.82
GAAP EPS	3.81	3.13	3.90	4.52	5.29
EPS Change (YoY)	-5.0%	-1.5%	16.6%	13.1%	14.6%
Consensus EPS (Bloomberg)			4.87	5.47	NA
DPS	1.07	1.30	1.36	1.42	1.50
Valuation (Dec)					
P/E	7.6x	7.7x	6.6x	5.9x	5.1x
GAAP P/E	9.2x	11.2x	8.9x	7.7x	6.6x
Dividend Yield	3.1%	3.7%	3.9%	4.1%	4.3%

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09 February 2024

Equity

Key Changes

(US\$)	Previous	Current
Price Obj.	52.00	55.00
2024E Rev (m)	878.7	889.5
2025E Rev (m)	931.2	946.6
2026E Rev (m)	996.5	1,017.3
2024E EPS	5.16	5.26
2025E EPS	5.76	5.95
2026E EPS	6.44	6.82
2024E DPS	1.41	1.36

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Stock Data

Price	34.90 USD
Price Objective	55.00 USD
Date Established	9-Feb-2024
Investment Opinion	B-1-7
52-Week Range	27.73 USD -35.49 USD
Mkt Val / Shares Out (mn)	2,303 USD / 66.0
Free Float	63.1%
Average Daily Value	11.51 USD
BofA Ticker / Exchange	VCTR / NAS
Bloomberg / Reuters	VCTR US / VCTR.OQ
ROE (2024E)	28.9%
ESGMeter™	Medium

ESGMeter is not indicative of a company's future stock price performance and is not an investment recommendation or rating. ESGMeter is independent of BofA Global Research's equity investment rating, volatility risk rating, income rating, and price

iQprofileSM Victory Capital Holdings, Inc.

Income Statement Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Total Revenue	855	821	889	947	1,017
% Change	-4.0%	-4.0%	8.3%	6.4%	7.5%
Investment Advisory Fees	NA	NA	NA	NA	NA
Compensation & Benefits	(238)	(221)	(235)	(252)	(273)
% Change	1.4%	-7.2%	6.4%	7.0%	8.5%
Non-Compensation Expenses	(217)	(272)	(262)	(268)	(277)
Net Income to Ordinary Shareholders	276	213	252	276	304
Adjusted Net Income (Operating)	331	308	340	363	392
% Change	-7.3%	-7.0%	10.4%	6.9%	7.9%
Adjusted EBITDA (Operating)	424	418	454	488	529
Cash EPS	NA	NA	NA	NA	NA
% Change	NA	NA	NA	NA	NA

Performance Metrics (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Operating Margin	46.7%	40.0%	44.2%	45.1%	45.9%
Pre-Tax Profit Margin	40.9%	33.6%	37.5%	38.6%	39.6%
Net Profit Margin	38.7%	37.5%	38.2%	38.4%	38.5%
Comp Expense/Revenue	27.9%	26.9%	26.4%	26.6%	26.8%
Non-Comp Expense / Revenue	25.4%	33.1%	29.4%	28.3%	27.2%
Net Revenue Growth	-4.0%	-4.0%	8.3%	6.4%	7.5%
Operating Expense Growth	-11.8%	8.1%	0.8%	4.6%	5.8%

Asset Management Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Assets Under Management (\$bn)	154.4	168.3	176.5	189.9	205.1
% Change	-15.9%	9.0%	4.9%	7.6%	8.0%
% Equity	NA	NA	NA	NA	NA
% Fixed Income	17.1%	14.5%	14.3%	14.5%	14.4%
% Money Mkt / Other	1.9%	1.8%	1.8%	1.6%	1.4%
Net New Flows (\$bn)	-2,731.0	-6,567.0	-1,236.1	1,564.5	2,389.7
Organic Growth	-1.5%	-4.3%	-0.7%	0.9%	1.3%
Organic Growth ex-Money Market	-1.4%	-4.1%	-0.6%	1.1%	1.4%
Advisory Fees / Avg. AUM	0.405%	0.405%	0.406%	0.405%	0.405%

Balance Sheet Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Total Assets	2,568	2,568	2,568	2,568	2,568
Total Shareholders' Equity	1,175	1,175	1,175	1,175	1,175
Tangible Shareholders' Equity	NA	NA	NA	NA	NA
BVPS (Stated Equity)	NA	NA	NA	NA	NA
ROE (Stated Equity)	31.5%	26.2%	28.9%	30.9%	33.4%
Cash & Investments	NA	NA	NA	NA	NA
Net Cash & Investments Per Share	NA	NA	NA	NA	NA

Company Sector

Asset Management

Company Description

Victory Capital is a diversified global investment firm that operates multiple independent investment boutiques that leverage common resources in the center including distribution. Specifically, the asset manager seeks to combine the benefits of boutique investment companies with the scale advantages of a fully integrated, centralized and operating platform. VCTR ended 2023 with \$168B in AuM spread across 12 different investment franchises.

Investment Rationale

VCTR has refocused its M&A effort on strategic targets which will enhance organic growth, but might offer lower EPS accretion. We believe this effort could have a positive impact on the company's valuation, with the VCTR stock trading at a wide discount to peers. Additionally, VCTR's overall investment performance is significantly stronger than peers and should support positive flows over the long-term.

Quarterly Earnings Estimates

	2023	2024
Q1	1.08A	1.21E
Q2	1.11A	1.30E
Q3	1.18A	1.36E
Q4	1.15A	1.39E

Additional details

Expect net outflows in 1Q24 but positive inflection by 2H24

VCTR's net flows in 4Q23 were -\$1.1B which improved q/q (vs. -\$1.7B in 3Q) despite negative seasonality (total 2023 LT net flows = -\$6.2B). Net outflows were primarily driven by outflows in VCTR's US active equity and fixed income businesses partially offset by inflows into global/non-US equity, solutions, and Alts. While we do expect net outflows again in 1Q24, we forecast continued improvement through 2024 and a positive inflection by 2H24, if not earlier, led by significant improvement in total bond flows (our bond rebalancings thesis) combined with better flows in VCTR's small/mid-sized equity strategies (RS Global, Trivalent), Alts, and solutions. We estimate for VCTR's ann. organic growth to improve to -0.6% in 2024 (vs. -4.1% in 2023) and trend positively through 2025.

Balance sheet flexibility supports strong buybacks + M&A activity in 2024

VCTR's capital allocation strategy prioritizes maintaining balance sheet flexibility and the company ended 2023 with a higher cash balance (\$124M) relative to its \$1B of total debt and \$100M undrawn revolver. VCTR's financial leverage ratio of 2.0x net debt to adj. EBITDA declined another quarter which compares to a leverage ratio of 2.1x in 3Q23 and 2.4x in 1Q23. Share repurchase activity also re-accelerated in 4Q (est. around \$60M in 4Q23 vs. \$7M in 3Q23) bringing total buybacks for 2023 to \$158M. We expect for consistent buyback activity to continue through 2024 with another M&A transaction also likely as management's commentary today around M&A and the potential for VCTR to execute a transaction in 2024 sounded more bullish. VCTR also has a strong track record in M&A having done highly accretive (Munder, RS, USAA) and strategic/growth-oriented deals (WestEnd, New Energy Capital) and we believe VCTR's efforts to diversify its business (both organically and inorganically) and broaden its product offering supports the company's organic growth outlook.



Price objective basis & risk

Victory Capital Holdings, Inc. (VCTR)

Our price objective (PO) for VCTR is \$55 and is derived from a price to earnings method. We apply an 8.0x multiple on our 26E EPS to obtain our PO. 8.0x is in-line with VCTR's 5Y average and its traditional peer group (x-BlackRock).

Downside risks to our PO are (1) migration to passive, indexing and automated investing, (2) Declining fee rate due to organic mix shift (NEC acquisition will help), (3) Elevated financial leverage (due to M&A), (4) Secondary stock sales from two private equity owners (Crestview, Reverence), (5) Finding the next acquisition candidates given its refocus into more competitive verticals, (6) Key man risks.

Analyst Certification

I, Craig Siegenthaler, CFA, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

US - Brokers, Asset Managers, & Exchanges Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
BUY				
	AllianceBernstein	AB	AB US	Craig Siegenthaler, CFA
	Ameriprise Financial	AMP	AMP US	Craig Siegenthaler, CFA
	Ares Management Corp	ARES	ARES US	Craig Siegenthaler, CFA
	BlackRock, Inc.	BLK	BLK US	Craig Siegenthaler, CFA
	Blackstone	BX	BX US	Craig Siegenthaler, CFA
	Blue Owl Capital	OWL	OWL US	Craig Siegenthaler, CFA
	Cboe Global Markets	CBOE	CBOE US	Craig Siegenthaler, CFA
	Interactive Brokers	IBKR	IBKR US	Craig Siegenthaler, CFA
	Intercontinental Exchange	ICE	ICE US	Craig Siegenthaler, CFA
	KKR & Co. Inc.	KKR	KKR US	Craig Siegenthaler, CFA
	Raymond James Financial	RJF	RJF US	Mark McLaughlin, CFA
	TPG Inc	TPG	TPG US	Craig Siegenthaler, CFA
	Tradeweb Markets Inc.	TW	TW US	Craig Siegenthaler, CFA
	Victory Capital Holdings, Inc.	VCTR	VCTR US	Craig Siegenthaler, CFA
	Virtu Financial	VIRT	VIRT US	Craig Siegenthaler, CFA
NEUTRAL				
	Affiliated Managers Group	AMG	AMG US	Craig Siegenthaler, CFA
	Apollo Global Management	APO	APO US	Craig Siegenthaler, CFA
	Brookfield Asset Management	BAM	BAM US	Craig Siegenthaler, CFA
	CME Group Inc	CME	CME US	Craig Siegenthaler, CFA
	Invesco	IVZ	IVZ US	Craig Siegenthaler, CFA
	Janus Henderson Group	JHG	JHG US	Craig Siegenthaler, CFA
	LPL Financial Holdings	LPLA	LPLA US	Craig Siegenthaler, CFA
	Patria	PAX	PAX US	Craig Siegenthaler, CFA
UNDERPERFORM				
	Charles Schwab Corp.	SCHW	SCHW US	Craig Siegenthaler, CFA
	Franklin Resources	BEN	BEN US	Craig Siegenthaler, CFA
	Nasdaq	NDAQ	NDAQ US	Craig Siegenthaler, CFA
	Robinhood Markets	HOOD	HOOD US	Craig Siegenthaler, CFA
	T. Rowe Price	TROW	TROW US	Craig Siegenthaler, CFA
	The Carlyle Group	CG	CG US	Craig Siegenthaler, CFA

iQmethodSM Measures Definitions

Business Performance

Return On Capital Employed

Return On Equity

Operating Margin

Earnings Growth

Free Cash Flow

Numerator

NOPAT = (EBIT + Interest Income) × (1 – Tax Rate) + Goodwill Amortization

Net Income

Operating Profit

Expected 5 Year CAGR From Latest Actual

Cash Flow From Operations – Total Capex

Denominator

Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill Amortization

Shareholders' Equity

Sales

N/A

N/A

Quality of Earnings

Cash Realization Ratio

Asset Replacement Ratio

Tax Rate

Net Debt-To-Equity Ratio

Interest Cover

Numerator

Cash Flow From Operations

Capex

Tax Charge

Net Debt = Total Debt – Cash & Equivalents

EBIT

Denominator

Net Income

Depreciation

Pre-Tax Income

Total Equity

Interest Expense

Valuation Toolkit

Price / Earnings Ratio

Price / Book Value

Dividend Yield

Free Cash Flow Yield

Enterprise Value / Sales

Numerator

Current Share Price

Current Share Price

Annualised Declared Cash Dividend

Cash Flow From Operations – Total Capex

EV = Current Share Price × Current Shares + Minority Equity + Net Debt +

Other LT Liabilities

Enterprise Value

Denominator

Diluted Earnings Per Share (Basis As Specified)

Shareholders' Equity / Current Basic Shares

Current Share Price

Market Cap = Current Share Price × Current Basic Shares

Sales

Basic EBIT + Depreciation + Amortization

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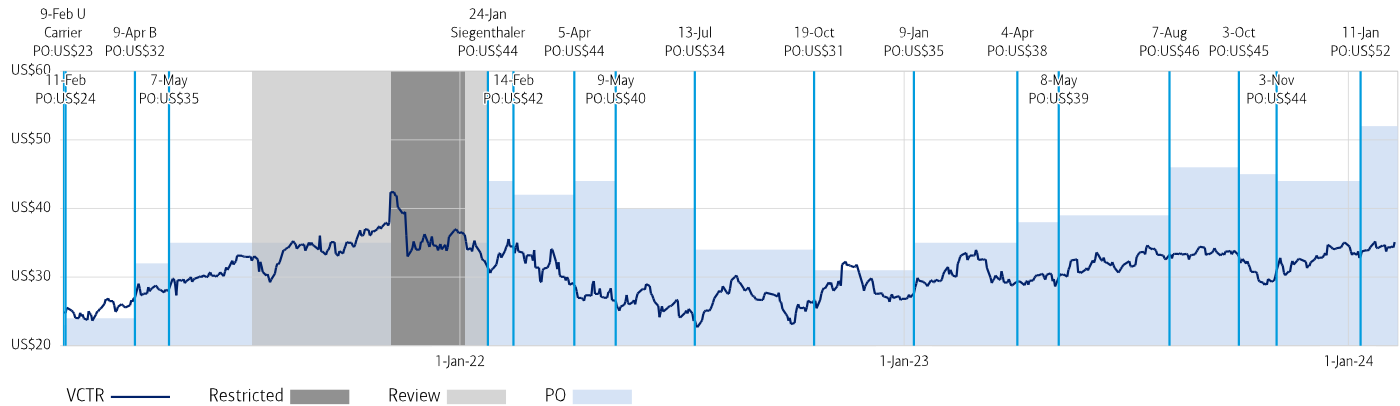
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Disclosures

Important Disclosures

Victory Capital (VCTR) Price Chart



B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark grey shading indicates the security is restricted with the opinion suspended. Medium grey shading indicates the security is under review with the opinion withdrawn. Light grey shading indicates the security is not covered. Chart is current as of a date no more than one trading day prior to the date of the report.

Equity Investment Rating Distribution: Financial Services Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	156	53.79%	Buy	94	60.26%
Hold	72	24.83%	Hold	48	66.67%
Sell	62	21.38%	Sell	35	56.45%

Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

^{R1} Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster ^{R2}
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

^{R2} Ratings dispersions may vary from time to time where BofA Global Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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