

EATON VANCE CORP
Form 8-K
May 22, 2013

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 8-K

CURRENT REPORT

Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

Date of Report (Date of earliest event reported): May 22, 2013

EATON VANCE CORP.

(Exact name of registrant as specified in its charter)

Maryland

1 8100

04-2718215

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(State or other jurisdiction

(Commission File Number)

(IRS Employer Identification No.)

of incorporation)

Two International Place, Boston, Massachusetts

02110

(Address of principal executive offices)

(Zip Code)

Registrant's telephone number, including area code: (617) 482-8260

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions (*see* General Instruction A.2. below):

Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)

Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)

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Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act

(17 CFR 240.14d-2(b))

Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act

(17 CFR 240.13e-4(c))

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INFORMATION INCLUDED IN THE REPORT

Item 2.02.

Results of Operations and Financial Condition

Registrant has reported its results of operations for the three and six months ended April 30, 2013, as described in Registrant's news release dated May 22, 2013, a copy of which is furnished herewith as Exhibit 99.1 and incorporated herein by reference.

Item 9.01.

Financial Statements and Exhibits

Exhibit No.

Document

99.1

Press release issued by the Registrant dated May 22, 2013.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this Report to be signed on its behalf by the undersigned hereunto duly authorized.

EATON VANCE CORP.

(Registrant)

Date:

May 22, 2013

/s/ Laurie G. Hylton

Laurie G. Hylton, Chief Financial Officer &

Chief Accounting Officer

EXHIBIT INDEX

Each exhibit is listed in this index according to the number assigned to it in the exhibit table set forth in Item 601 of Regulation S-K. The following exhibit is filed as part of this Report:

Exhibit No.

Description

99.1

Copy of Registrant's news release dated May 22, 2013.

News Release

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Daniel C. Cataldo 617.672.8952

Eaton Vance Corp.

Report for the Three and Six Month Periods Ended April 30, 2013

Boston, MA, May 22, 2013 – Eaton Vance Corp. (NYSE: EV) today reported adjusted earnings per diluted share⁽¹⁾ of \$0.52 for the second quarter of fiscal 2013, an increase of 16 percent over the \$0.45 of adjusted earnings per diluted share in the second quarter of fiscal 2012 and an increase of 4 percent from the \$0.50 of adjusted earnings per diluted share in the first quarter 2013.

As determined under U.S. generally accepted accounting principles (GAAP), the Company earned \$0.50 in the second quarter of fiscal 2013, \$0.44 in the second quarter of fiscal 2012 and \$0.38 in the first quarter of fiscal 2013. Adjusted earnings differed from GAAP earnings due to adjustments in connection with increases in the estimated redemption value of non-controlling interests in affiliates redeemable at other than fair value, which reduced GAAP earnings by \$0.01, \$0.01 and \$0.09 per diluted share in the second quarter of fiscal 2013, the second quarter of fiscal 2012 and the first quarter of fiscal 2013, respectively. In the second quarter of fiscal 2013, adjusted earnings also differed from GAAP earnings due to the closed-end fund structuring fees recognized in connection with the \$205 million initial public offering of Eaton Vance Municipal Income Term Trust during the quarter, which reduced GAAP earnings per diluted share by \$0.01. In the first quarter of fiscal 2013, adjusted earnings per diluted share also differed from GAAP earnings per diluted share due to the application of the two-class method of computing earnings per share in connection with the special dividend declared in the first quarter of fiscal 2013, which reduced GAAP earnings per diluted share by \$0.03.

Adjusted earnings per diluted share were \$1.01 in the six months ended April 30, 2013 compared to \$0.92 in the six months ended April 30, 2012. The Company's GAAP earnings per diluted share were \$0.89 and \$0.84, respectively, for the compared semi-annual periods.

Net inflows of \$6.6 billion into long-term funds and separate accounts in the second quarter of fiscal 2013 compare to net inflows of \$0.6 billion in the second quarter of fiscal 2012 and \$5.4 billion in the first quarter of fiscal 2013. As shown in Attachment 5, the sharp improvement in net flow results year-over-year reflects strong net inflows into floating-rate income and alternative mandates and improved equity net flows. The Company's annualized internal growth rate (net inflows into long-term assets divided by beginning of period long-term assets managed) was 11 percent in the second quarter of fiscal 2013 and 12 percent for the six months ended April 30, 2013.

(1)

Although the Company reports its financial results in accordance with GAAP, management believes that certain non-GAAP financial measures, while not a substitute for GAAP financial measures, may be effective indicators of the Company's performance over time. Adjusted net income and adjusted earnings per diluted share reflect the add back of adjustments in connection with changes in the estimated redemption value of non-controlling interests in our affiliates redeemable at other than fair value (non-controlling interest value adjustments), closed-end structuring fees and other items management deems non-recurring or non-operating, such as special dividends. See reconciliation provided in Attachment 2 for more information on adjusting items.

"Strong net flows and favorable market action propelled Eaton Vance to solid growth in our second fiscal quarter" said Thomas E. Faust Jr., Chairman and Chief Executive Officer. "Higher managed assets across a range of investment categories position the Company for continued progress."

Consolidated assets under management were \$260.3 billion on April 30, 2013. This represents an increase of 32 percent over the \$197.5 billion of managed assets on April 30, 2012 and an increase of 5 percent from the \$247.8 billion of managed assets on January 31, 2013. The year over year increase in ending assets under management reflects the \$34.8 billion of managed assets gained in the December 2012 acquisition of the former Clifton Investment Management Company (Clifton) by subsidiary Parametric Portfolio Associates LLC (Parametric), twelve-month net inflows of \$12.7 billion and market price appreciation of \$15.4 billion. The sequential increase in ending assets under management reflects net inflows of \$6.6 billion and market price appreciation of \$5.9 billion.

Average consolidated assets under management were \$253.5 billion in the second quarter of fiscal 2013, up 30 percent from \$195.6 billion in the second quarter of fiscal 2012 and up 17 percent from \$216.2 billion in the first quarter of fiscal 2013.

Attachments 5 and 6 summarize the Company's assets under management and asset flows by investment mandate and investment vehicle. Attachment 7 summarizes the Company's assets under management by investment affiliate.

As shown in Attachment 6, consolidated gross sales and other inflows were \$24.7 billion in the second quarter of fiscal 2013, up 87 percent from \$13.2 billion in the second quarter of fiscal 2012 and up 27 percent from \$19.4 billion in the first quarter of fiscal 2013. Gross redemptions and other outflows were \$18.0 billion in the second quarter of fiscal 2013, up 42 percent from \$12.7 billion in the second quarter of fiscal 2012 and up 28 percent from \$14.1 billion in the first quarter of fiscal 2013.

As of April 30, 2013, 49 percent-owned affiliate Hexavest, Inc. (Hexavest) managed \$15.3 billion of client assets, an increase of 5 percent from the \$14.5 billion of managed assets on January 31, 2013. Net outflows from Hexavest-managed funds and separate accounts were \$0.3 billion in the second quarter of fiscal 2013 compared to net inflows of \$1.9 billion in the first quarter of fiscal 2013. Hexavest net inflows have totaled \$2.4 billion since Eaton Vance acquired its interest on August 6, 2012. Attachment 9 summarizes assets under management and asset flow information for Hexavest. Other than Eaton Vance-sponsored funds for which Hexavest is advisor or sub-advisor, the managed assets of Hexavest are not included in Eaton Vance consolidated totals.

Financial Highlights

	Three Months Ended		
	<i>(in thousands, except per share figures)</i>		
	April 30, 2013	January 31, 2013	April 30, 2012
Revenue	\$ 331,692	\$ 318,517	\$ 304,770
Expenses	223,622	217,837	205,959
Operating income	108,070	100,680	98,811
<i>Operating margin</i>	33%	32%	32%
Non-operating expense	(2,196)	(5,791)	(855)
Income taxes	(38,194)	(35,939)	(35,164)
Equity in net income (loss) of affiliates, net of tax	3,440	3,177	(22)
Net income	71,120	62,127	62,770
Net income attributable to non-controlling and other beneficial interests	(7,439)	(12,322)	(9,900)
Net income attributable to Eaton Vance Corp. shareholders	\$ 63,681	\$ 49,805	\$ 52,870
Adjusted net income attributable to Eaton Vance Corp. shareholders ⁽¹⁾	\$ 66,024	\$ 60,452	\$ 53,967
Earnings per diluted share	\$ 0.50	\$ 0.38	\$ 0.44
Adjusted earnings per diluted share ⁽¹⁾	\$ 0.52	\$ 0.50	\$ 0.45

Second Quarter Fiscal 2013 vs. Second Quarter Fiscal 2012

In the second quarter of fiscal 2013, revenue increased 9 percent to \$331.7 million from revenue of \$304.8 million in the second quarter of fiscal 2012. Investment advisory and administrative fees were up 11 percent, reflecting a 30 percent increase in average consolidated assets under management and lower average effective fee rates, primarily as a result of the full quarter impact of the Clifton acquisition. Distribution and service fees were down 2 percent on a combined basis, reflecting lower managed assets in fund share classes that are subject to distribution and service fees.

Expenses increased 9 percent to \$223.6 million in the second quarter of fiscal 2013 from \$206.0 million in the second quarter of fiscal 2012, reflecting increases in compensation, distribution, service fees, fund-related expenses and other expenses, offset by reduced amortization of deferred sales commissions. Excluding the \$3.4 million of structuring fee, incentive compensation and other expenses associated with the second quarter fiscal 2013 closed-end fund offering, operating expenses increased 7 percent from the second quarter of fiscal 2012. The increase in compensation expense reflects increases in sales- and operating income-based incentives, higher employee headcount and increases in base salaries and benefits, offset by a decrease in other compensation expense. Gross sales and other inflows, which drive

sales-based incentives, were up 87 percent year-over-year, while pre-bonus adjusted operating income, which drives operating-income based incentives, was up 9 percent over the same period. The increase in distribution expense reflects \$2.7 million in closed-end fund related structuring fees paid to distribution partners, offset by a decrease in intermediary marketing support payments to distribution partners. The increase in fund-related expenses can be attributed to an increase in expenses borne by the Company on funds for which it receives an all-in fee, as well as \$0.3 million of fund-related expenses incurred in conjunction with the closed-end fund offering mentioned above. Other

expenses increased 3 percent from the prior year, as increases in travel-related expenses, information technology and other corporate expenses were offset by decreases in professional fees and facilities-related expenses. The decrease in amortization of deferred sales commissions largely reflects changes in product mix away from fund share classes to which these expenses apply.

Operating income was up 9 percent to \$108.1 million in the second quarter of fiscal 2013 from \$98.8 million in the second quarter of fiscal 2012.

Non-operating expense was \$2.2 million in the second quarter of fiscal 2013 compared to \$0.9 million in the second quarter of fiscal 2012. The increase in non-operating expense reflects a \$4.5 million decrease in gains and other investment income recognized by the Company's consolidated collateralized loan obligation entity (CLO) offset by a \$2.2 million increase in gains and other investment income earned on the Company's investments in sponsored products.

The Company's effective tax rate, calculated as a percentage of income before income taxes and equity in net income (loss) of affiliates, was 36.1 percent in the second quarter of fiscal 2013.

Equity in net income (loss) of affiliates increased \$3.5 million from the second quarter of fiscal 2012, reflecting \$2.1 million related to the Company's interest in Hexavest and higher income from the Company's investments in sponsored products.

Net income attributable to non-controlling and other beneficial interests was \$7.4 million in the second quarter of fiscal 2013 compared to \$9.9 million in the second quarter of fiscal 2012. As shown in Attachment 3, the change reflects a decline in the net income attributable to non-controlling interest holders of the Company's consolidated CLO entity offset by an increase in net income attributable to non-controlling interest holders of the Company's consolidated funds. Included in net income attributable to non-controlling and other beneficial interests in the second quarter of fiscal 2013 and 2012 were \$0.7 million and \$1.1 million, respectively, of non-controlling interest value adjustments relating to the Company's Parametric Risk Advisors LLC (PRA) subsidiary, based on an annual April 30 enterprise value measurement.

Weighted average diluted shares outstanding increased 7.4 million shares, or 6 percent, in the second quarter of fiscal 2013 over the second quarter of fiscal 2012. The change reflects an increase in the total number of shares outstanding due to exercise of employee stock options and an increase in the dilutive effect of in-the-money options resulting from a 42 percent increase in the quarterly average share price of the Company's Non-Voting Common Stock.

Second Quarter Fiscal 2013 vs. First Quarter Fiscal 2013

In the second quarter of fiscal 2013, revenue increased 4 percent to \$331.7 million from revenue of \$318.5 million in the first quarter of fiscal 2013. Investment advisory and administrative fees were up 5 percent in the second quarter of fiscal 2013 compared to the first quarter of fiscal 2013, reflecting a 17 percent increase in average assets under management and lower average effective fee rates, primarily due to the full quarter impact of the Clifton acquisition. Performance fees contributed \$0.1 million and \$1.6 million to investment advisory and administrative fees in the second quarter of fiscal 2013 and the first quarter of fiscal 2013, respectively. Distribution and service fee revenue decreased 1 percent on a combined basis, reflecting a decrease in average managed assets in fund share classes that are subject to such fees.

Expenses increased 3 percent to \$223.6 million in the second quarter of fiscal 2013 from \$217.8 million in the first quarter of fiscal 2013, reflecting increases in compensation, distribution, service fee, fund-related and other expenses, offset by reduced amortization of deferred sales commissions. Excluding the \$3.4 million of expenses associated with the closed-end fund offering in the second quarter of fiscal 2013, operating expenses increased 1 percent from the first quarter of fiscal 2013. The increase in compensation expense reflects a full quarter of Clifton salaries and increases in sales- and operating income-based incentives, offset by decreases in the number of payroll days in the quarter, stock-based compensation and other compensation. Gross sales and

other inflows, which drive sales-based incentives, were up 27 percent in the second quarter of fiscal 2013 from the first quarter of fiscal 2013, while pre-bonus adjusted operating income, which drives operating-income based incentives, was up 6 percent over the same period. The increase in distribution expense primarily reflects \$2.7 million in closed-end fund related structuring fees paid to distribution partners, offset by a decrease in intermediary marketing support payments. Fund-related expenses increased 9 percent from the first quarter of fiscal 2013 due to higher expenses borne by the Company on funds for which it receives an all-in fee, an increase in sub-advisory fees paid and \$0.3 million of fund-related expenses incurred in conjunction with the closed-end fund offering discussed above.

Operating income was up 7 percent to \$108.1 million in the second quarter of fiscal 2013 from \$100.7 million in the first quarter of fiscal 2013.

Non-operating expense was \$2.2 million in the second quarter of fiscal 2013 compared to \$5.8 million in the first quarter of fiscal 2013. The decrease in non-operating expense is primarily attributable to a \$2.6 million increase in gains and other investment income, net recognized by the Company's consolidated CLO entity and a \$1.2 million decrease in interest expense recognized by the Company's consolidated CLO entity.

Equity in net income of affiliates increased by \$0.3 million in the second quarter of fiscal 2013 compared to the first quarter of fiscal 2013, primarily reflecting higher income on the Company's investments in sponsored products.

Equity in net income of affiliates for the second quarter of fiscal 2013 and the first quarter of fiscal 2013 includes \$2.1 million and \$2.0 million, respectively, related to Hexavest.

Net income attributable to non-controlling and other beneficial interests totaled \$7.4 million in the second quarter of fiscal 2013 and \$12.3 million in the first quarter of fiscal 2013. As shown in Attachment 3, the decrease can be primarily attributed to lower non-controlling interest value adjustments, offset by an increase in the net income associated with the non-controlling interests of the Company's consolidated CLO entity and an increase in non-controlling interests associated with the Company's consolidated funds. Included in net income attributable to non-controlling and other beneficial interests in the second quarter of fiscal 2013 and the first quarter of fiscal 2013 were \$0.7 million and \$10.6 million of non-controlling interest value adjustments relating, respectively, to PRA and Parametric based on an April 30 and December 31 enterprise value measurement, respectively.

Weighted average diluted shares outstanding increased 4.2 million shares, or 4 percent, in the second quarter of fiscal 2013 over the first quarter of fiscal 2013. The change reflects an increase in the total number of shares outstanding due to exercise of employee stock options and an increase in the dilutive effect of in-the-money options due to a 23 percent increase in the average share price of the Company's Non-Voting Common Stock over the prior quarter.

Balance Sheet Information

Cash and cash equivalents totaled \$320.1 million on April 30, 2013, with no outstanding borrowings against the Company's \$300 million credit facility. During the first six months of fiscal 2013, the Company used \$22.7 million to repurchase and retire approximately 0.7 million shares of its Non-Voting Common Stock under its repurchase authorization. Approximately 3.2 million shares of the current 8.0 million share repurchase authorization remains unused.

Conference Call Information

Eaton Vance Corp. will host a conference call and webcast at 11:00 AM EDT today to discuss the financial results for the three and six months ended April 30, 2013. To participate in the conference call, please call 877-407-0778 (domestic) or 201-689-8565 (international) and refer to Eaton Vance Corp. Second Quarter Earnings. A webcast of the conference call can also be accessed via Eaton Vance's website, www.eatonvance.com.

A replay of the call will be available for one week by calling 877-660-6853 (domestic) or 201-612-7415 (international) or by accessing Eaton Vance's website, www.eatonvance.com. Listeners to the telephone replay must enter the confirmation code 414388.

About Eaton Vance Corp.

Eaton Vance Corp. is one of the oldest investment management firms in the United States, with a history dating back to 1924. Eaton Vance and its affiliates offer individuals and institutions a broad array of investment strategies and wealth management solutions. The Company's long record of providing exemplary service, timely innovation and attractive returns through a variety of market conditions has made Eaton Vance the investment manager of choice for many of today's most discerning investors. For more information about Eaton Vance, visit www.eatonvance.com.

Forward-Looking Statements

This news release may contain statements that are not historical facts, referred to as forward-looking statements. The Company's actual future results may differ significantly from those stated in any forward-looking statements, depending on factors such as changes in securities or financial markets or general economic conditions, client sales and redemption activity, the continuation of investment advisory, administration, distribution and service contracts, and other risks discussed in the Company's filings with the Securities and Exchange Commission.

Eaton Vance Corp.
Summary of Results of Operations
(in thousands, except per share figures)

	Three Months Ended					Six Months Ended		
	April 30, 2013	January 31, 2013	April 30, 2012	Change		April 30, 2013	April 30, 2012	%
				vs. Q1 2013	vs. Q2 2012			
Revenue:								
Investment advisory and administrative fees	\$ 276,921	\$ 263,281	\$ 248,888	5 %	11 %	\$ 540,202	\$ 488,340	11 %
Distribution and underwriter fees	22,165	22,751	22,551	(3)	(2)	44,916	45,066	-
Service fees	31,132	31,130	32,065	-	(3)	62,262	64,364	(3)
Other revenue	1,474	1,355	1,266	9	16	2,829	2,606	9
Total revenue	331,692	318,517	304,770	4	9	650,209	600,376	8
Expenses:								
Compensation and related costs	110,012	108,829	97,566	1	13	218,841	194,249	13
Distribution expense	35,304	33,889	32,960	4	7	69,193	65,288	6
Service fee expense	29,211	28,264	28,088	3	4	57,475	56,761	1
Amortization of deferred sales commissions	4,752	4,783	5,533	(1)	(14)	9,535		