PANMURE GORDON

1 March 2005

UK Equity Research

INITIATION OF COVERAGE

Key Data

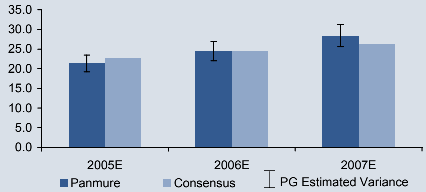
Price	356p
Price Target	460p
Market Cap	£2,884m
FT All Share	2,504
Sector	Financials
Stock codes	AVZ.L / AVZ LN
Next Event	Q1 results - 26 April
Gearing	21%

Absolute & relative performance

— Absolute — Relative to FT All Share

***Source** Datastream*

Panmure EPS forecasts rel to consensus



***Source** Reuters, Lazard*

AMVESCAP

BUY

Getting INVESCO for free

AMVESCAP's conglomerate structure has resulted in a group valuation well below the sum of its AIM and INVESCO parts. Management changes could provide an opportunity for value release through restructuring.

- AMVESCAP's shares been described as a call option on US equity markets, despite the fact that 45% of its AUM are invested in non-equity assets and that more than a third are invested in non-US securities.
- Despite its diversity by asset class, geography, client type and product, AMVESCAP's shares have tracked the performance of more dedicated US mutual fund managers, underperforming more diversified international management group's in the process.
- The UK domicile and London listing have hindered the expansion of the group's US ownership, whilst the scale and complexity of the group's North American businesses have deterred some UK/European investors. This has resulted in a rating discount to both US and UK-quoted peers.
- We see potential for the release of value through demerging the groups AIM division – the US and Canadian mutual fund businesses. Valuing the group's AIM and INVESCO units independently indicates considerable upside potential. We initiate coverage with a Buy recommendation and a 460p 12-month price target.

Year end	Revenue £m	PBTA £m	EPS (p)	P/E (x)	EV/EBITDA (%)	Yield (%)
2004	1,158	270	21.7	16.4	10.1	2.1
2005E	1,223	267	21.3	16.7	10.3	3.2
2006E	1,328	306	24.5	14.5	9.4	3.2
2007E	1,471	355	28.4	12.5	8.4	3.2

***Source** Company Data, Lazard*

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INVESTMENT CASE

Although AMVESCAP is one of the world's largest and most diversified asset managers, its conglomerate structure has resulted in a group valuation that does not fully reflect the value of its parts.

Undervalued. AMVESCAP's shares do not reflect the group's true value for the following reasons:

- The higher visibility of the group's US retail activities – in terms of investment performance and fund flows – has "crowded out" the significance and scale of the group's institutional, fixed income, and international businesses;
- The higher profitability of AMVESCAP's more mature North American units overshadows the revenues and longer-term growth potential of currently low margin businesses in Continental Europe and Asia;
- The UK domicile, London listing and 50%-plus UK shareholder base sits uncomfortably with the company's US centre of gravity, and has resulted in AMVESCAP trading at a discount to US-quoted asset managers.

Not just a "warrant on Wall Street". AMVESCAP's shares have tracked the US equity market in general, AIM's growth style equity funds more specifically, and the shares of the relatively dedicated US mutual fund managers Janus in particular. AMVESCAP's shares have underperformed more diversified asset managers such as Franklin Resources and Schroders, despite the fact that the US retail business accounted for only 25% of end-2004 assets under management and less than half of the group's operating profits.

Restructuring potential. Forthcoming management changes provide an opportunity to release value since, according to our analysis, both the AIM and INVESCO units within AMVESCAP would be valued more highly if they were separately listed entities in the US and UK respectively. The timing for such a demerger looks good, with AIM's US retail funds showing improved performance, whilst forthcoming management changes could be a catalyst for a change in strategic direction.

Buy recommendation. Independently valuing the AIM and INVESCO units within the group, we estimate a central case fair value of 458p per share. In an alternative scenario, factoring in improved margins in the INVESCO Europe/Asia division, this rises to 555p, which highlights the operational leverage within the group's international businesses. We therefore initiate coverage with a Buy recommendation and a 12-month price target of 460p.

CATALYSTS

- **AMVESCAP is hosting a conference call and presentation to discuss the transition to IFRS on Wednesday, 2 March. Option expensing could be a significant issue.**
- **The group's first quarter results will be announced on 26 April.**
- **The AGM is scheduled for 28 April. We expect news on Charles Brady's successor as group CEO.**

RISKS

The principal risks to our positive stance on AMVESCAP are its generic asset management company exposures: earnings exposure to asset prices, particularly equity markets, and the effects of relative and absolute investment performance on net new business flows.

- **Markets**. AMVESCAP's primary external sensitivity is the impact of a reduction in asset prices on its assets under management (AUM), since the majority of its revenues are annual management fees linked to the value of AUM.
- **Investment performance**. AMVESCAP's fund flows are closely correlated with investment performance. Poor performance from the group's US mutual fund businesses from 2000-2003 has been the main reason behind net redemptions from these units in recent years.
- **Currency**. Reporting in Sterling with the majority of its income currently earned in the US, AMVESCAP's earnings have significant exchange rate exposure, although this is partially hedged by the interest cost of the group's US dollar-denominated debt.
- **Management succession**. Chairman and CEO Charles Brady has been the central figure within AMVESCAP's management, founding the group in the late 1970s and pioneering its global growth strategy. The company has announced that, despite the quality of its internal candidates, it would be in the group's best interests to appoint an external candidate. The announcement of a successor for Brady could therefore take longer than previously expected.
- **IFRS**. AMVESCAP will adopt International Financial Reporting for its 2005 financial year, which will involve the fair value expensing of management and staff option grants. This could materially reduce reported earnings, although it should not have a significant impact on the fundamental value of the group. AMVESCAP will brief analysts and investors on the impact of IFRS on Wednesday 2 March.
- **Regulatory risk**. On 8 October last year, AMVESCAP announced it had reached final settlements with the Attorneys General of New York and Colorado, the Secretary of State of Georgia and the US SEC, regarding its civil enforcement actions and investigations related to market timing. However, AMVESCAP is subject to a number of ongoing regulatory inquiries and civil lawsuits which could result in additional regulatory actions and/or civil lawsuits.

OUR CENTRAL CASE

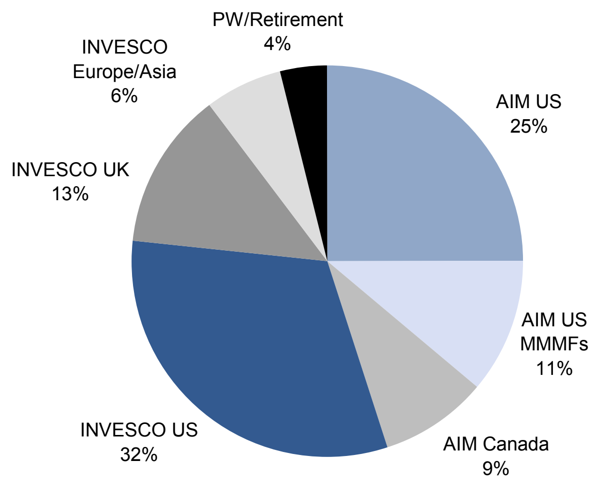
AMVESCAP is one of the world's largest quoted independent fund managers with around £200bn of assets under management, and is well diversified by asset class, investment style, and geography. Forthcoming management changes could provide an opportunity to release value through restructuring.

MORE THAN MUTUAL FUNDS

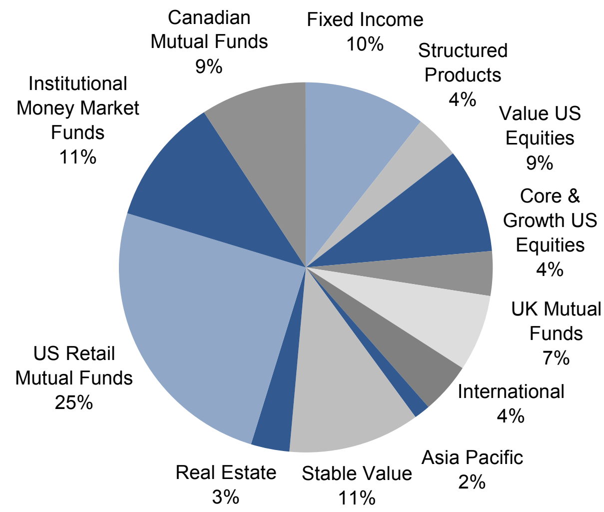
Global, and diversified by asset class, product and client type

AMVESCAP is a global fund management company, offering exposure to all of the world's major savings markets, virtually all of the asset classes, products and investment styles, and most of the distribution channels.

End-2004 AUM by division (reported)



End-2004 AUM by product/asset class (estimated)



***Source** Company, Lazard*

We highlight the following:

- US and Canadian retail mutual funds together accounted for around 34% of end-2004 AUM;
- US institutional assets – the INVESCO US division and the AIM-branded institutional money market funds unit – accounted for around 43% of year-end AUM;
- Non-equity securities – mainly fixed income, money market funds and real estate – accounted for approximately 45% of total AUM;
- Including international money managed in the US, more than a third of end-2004 AUM was invested in non-US assets.

BUT US RETAIL DOMINATES SENTIMENT

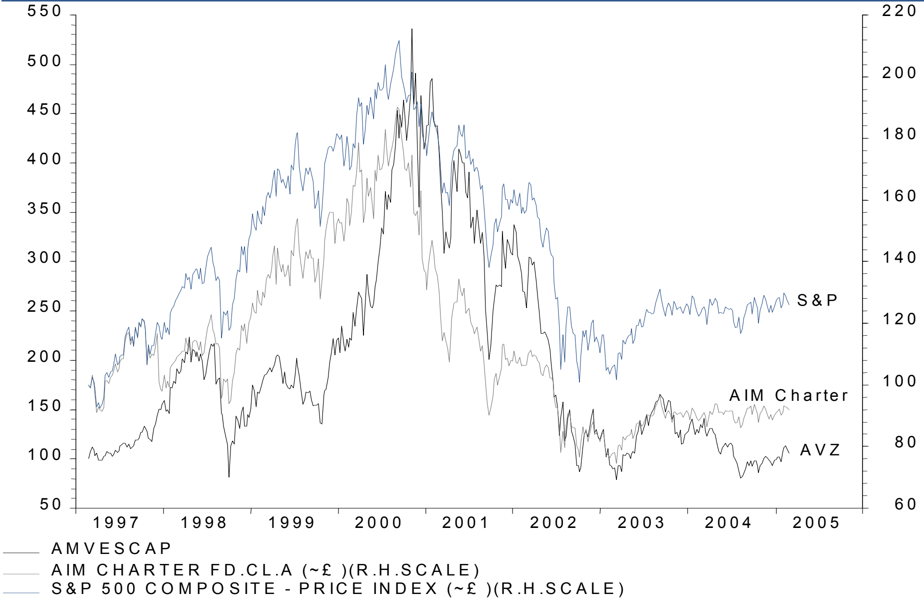
Despite its diversified asset base and product lines, and the fact that US retail mutual funds accounted for only 25% of end-December AUM, the latter continues to dominate investor sentiment and hence share price performance

AIM equity fund performance

But still viewed as a "warrant on Wall Street"

The chart below shows the high correlation between AMVESCAP's share price performance and the performance of one of AIM's flagship US equity funds since AMVESCAP acquire AIM in early 1997 (we use the AIM Charter Fund, although other flagship funds produce similar results).

AMVESCAP & US equity mutual fund performance



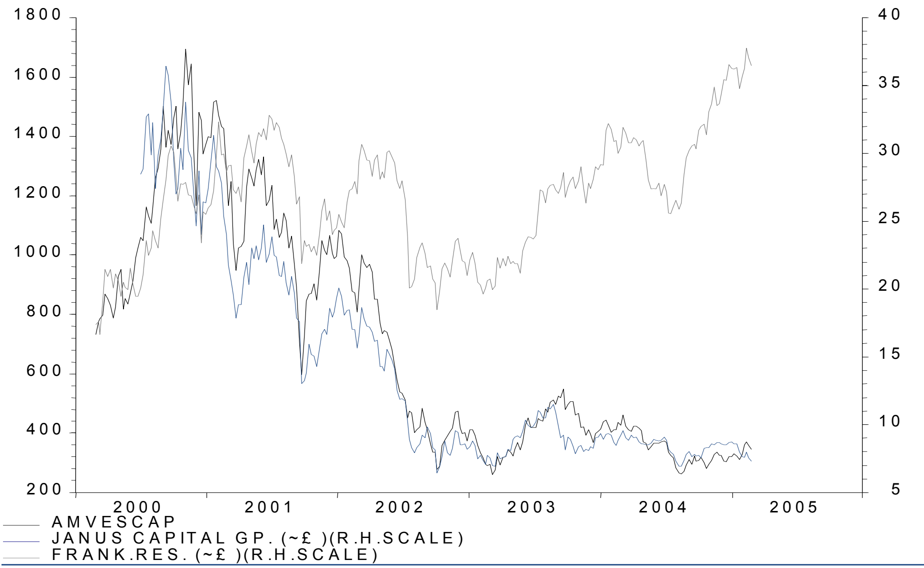
***Source** Datastream*

AMVESCAP and Janus have been "twin stocks" despite their significantly different business profiles

Tracking Janus in price terms

The chart below shows the similarity of AMVESCAP's share price with that of Janus (in Sterling terms) since Janus was demerged as an independent unit some five years ago. That the market sees AMVESCAP and Janus as "twin stocks", given that Janus is a fairly dedicated retail mutual fund manager, is further evidence that US retail dominates investor perception towards AMVESCAP. (It is worth noting how substantially Franklin Resources has outperformed both AMVESCAP and Janus over the period. One could argue that AMVESCAP's business mix – in terms of fixed income, institutional and internal – is more similar to that of Franklin to that of Janus.)

AMVESCAP and US-quoted peers



***Source** Datastream*

But not in rating terms

A comparison of AMVESCAP's prospective PERs with those of Janus (both based on consensus estimates) reveals a substantial valuation discount. Based on our forecasts, which are for above consensus earnings growth in 2007, the AMVESCAP 2007 discount is even more noticeable (12.5x versus 15.7x for Janus).

Rating comparison – Janus & AMVESCAP

Year to December	2005E	2006E	2007E
Janus			
Consensus EPS ($)	0.556	0.690	0.900
PER (x)	25.2	20.3	15.6
AMVESCAP			
Consensus EPS (p)	22.8	24.4	26.3
PER (x)	15.6	14.6	13.5

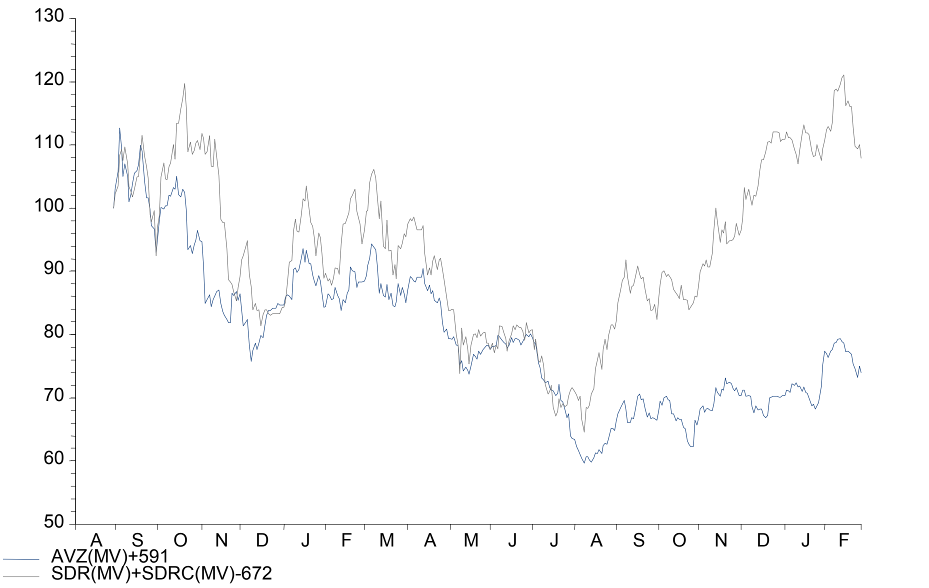
***Source** Reuters*

AMVESCAP has underperformed other internationally diversified managers such as Franklin Resources and Schroders

And lagging behind international peers

Despite having broadly similar international (retail and institutional) exposures as Schroders, the value of AMVESCAP's asset management enterprise has lagged the recovery in Schroders, as shown below.

AMVESCAP and Schroders – enterprise value performance comparison



***Source** Datastream*

AMVESCAP has therefore not only underperformed the diversified US asset managers, but also an asset management unit within Schroders that bears similarities to the group's INVESCO businesses.

WHY THE US RETAIL FOCUS?

There are reasons for the market's tunnel vision…

There are a number of reasons why the market tends to focus on US retail at the expense of AMVESCAP's other activities.

Low international profitability

Group profits are dominated by the more mature North American businesses…

The main North American businesses – AIM US retail, AIM US money market funds, AIM Canada and INVESCO US – are significantly more profitable than the non-North American or "international" businesses and hence dominate the group's profits:

- The four North American units accounted for 69% of 2004 revenues, but 92% of divisional operating profit;

- Although US retail accounted for only 25% of the group's end-2004 AUM, it contributed around 35% of 2004 revenues and close to 45% of profit.
- INVESCO UK and INVESCO Europe/Asia, together delivered operating profits of less than £25m (before any allocation from the £38.2m of central costs) from £266m of revenues, a return on revenues of only 9%, as compared with 35% for the combined North American businesses.

AUM, revenues and operating profit by division

Year to Dec 2004	AUM ($bn)	Mix (%)	Revenues (£m)	Mix (%)	Op profit (£m)	Mix (%)	Margin (%)
AIM US retail*	95.9	25	418.1	36	150.9	45	36
AIM US MMMFs*	41.7	11	25.0	2	15.0	4	60
AIM Canada	34.6	9	174.4	15	96.6	29	55
INVESCO US	121.0	32	187.2	16	47.1	14	25
INVESCO UK	49.6	13	188.1	16	23.8	7	13
INVESCO Europe/Asia	24.1	6	77.8	7	0.8	0	1
PW/Retirement	15.2	4	87.8	8	2.5	1	3
	382.1	100	1158.5	100	336.8	100	29
Corporate/central					-38.2		
					298.7		

Revenue and operating profit breakdown at AIM US estimated* **Source Company, Lazard

…due to the high fixed costs that come with the group's international footprint

Low profitability outside North America is partly the result of high fixed costs. While AMVESCAP's international footprint is impressive – major centres in London, Henley-on-Thames, Dublin, Paris, Frankfurt, Hong Kong, Tokyo, Taipei, Singapore and Sydney, plus at least a dozen additional offices elsewhere in Europe, Latin America, mainland China and the rest of Australasia – the cost of maintaining this infrastructure is high and basically fixed, and hence difficult to flex in response to fluctuating revenues.

UK domicile and London listing

AMVESCAP's UK domicile, London listing and 50%-plus UK shareholder base sit uneasily alongside the group's US centre of gravity

AMVESCAP's UK domicile and London primary listing is almost an accident of history. Prior to the Robert Maxwell/Mirror Group Pension Fund scandal in the late 1980s the INVESCO businesses were a relatively small part of the UK asset management company MIM Britannia. Then running INVESCO Capital Management in Atlanta, AMVESCAP's current CEO Charles Brady was called upon to step up into MIM Britannia to keep the business intact. For his efforts (which saw a recovery in the company's market value from £130m in September 1992 to over £700m at end 1996, prior to the acquisition of AIM), Brady had "inherited" a UK resident company, a London listing., and a predominantly UK shareholder register. Currently, more than 50% of the shares are held in the UK, around 6% in Europe, with around a third in the US (a significant proportion of which is still held by existing or past AIM management and employees).

The incongruity of the domicile, listing and UK register with a US resident senior management team has hindered AMVESCAP in a number of ways, most noticeably in relation to valuation, relative to US peers (and particularly so following the acquisition of AIM in 1997 which further shifted the group's centre of gravity towards the US).

OPPORTUNITY TO RELEASE VALUE?

An external CEO appointment could crystallise restructuring to release value

AMVESCAP is currently in the process of seeking a successor to current CEO Charles Brady, who will step down from this position, probably later this year. It was announced recently that following the evaluation of potential internal candidates, the group's Board thinks it will be in the best interest of the company to appoint an external candidate. New senior management could bring new thinking as regards the group's ongoing structure.

Options for releasing value could include:

Shifting to the US sounds good but is impractical

Re-domicile and list in the US? In theory, this would seem the most sensible option. In reality, however, it would probably involve finding new US buyers for the majority of the stock owned by UK institutions, and hence not really practical.

AMVESCAP's global footprint and diversified business mix make it an attractive acquisition opportunity

Sale to a corporate buyer? AMVESCAP's federal structure, geographic footprint and diversity of asset classes and business lines should make it an attractive acquisition target for a larger financial group. Arguably, the US mutual fund business could be seen as a poison pill to such a proposition, given the potential for additional regulatory actions and/or civil lawsuits.

Demerging AIM with a US listing would attract US investors and isolate the value within INVESCO

Demerge AIM? The semi-autonomous nature of AMVESCAP's AIM and INVESCO divisions, and the absence of centralised investment management, dealing or back office platforms, suggests that the demerger of the AIM-branded US and Canadian mutual fund businesses could be reasonably straightforward. Potential benefits of demerging AIM could include:

- In creating a Janus-like business, resident and listed in the US, demerger could release the value currently locked up in the implied valuation discount being afforded to these businesses relative to their US peers;
- Since AMVESCAP is significantly underowned in the US, there could be considerable institutional appetite for a US-listed, US$-denominated AIM spin-off.
- The remaining INVESCO branded businesses – the US institutional, private wealth and retirement units, and the UK and Europe/Asia divisions – would have greater visibility and whose value should, as a result, reflect their substantial revenues and longer-term profit potential.

More than hypothetical

Ring-fencing INVESCO from additional mutual fund regulatory action would be a significant positive

There are good reasons to believe why management might consider splitting the group in two:

- AIM US's investment performance has picked up and its improving three-year record should feed through into improved sales/reduced redemptions during the current year and in 2006. The combination of growth equities (US) and value equities (Canada) – and the potential to cross-sell expertise – should make the AIM/Trimark combine an attractive independent proposition in the US market.
- Demerging AIM would prevent further reputational damage/contamination across the INVESCO division as a result of last year's market-timing investigations and regulatory action at AIM (and render INVESCO a more attractive acquisition target?).

AIM & INVESCO BUSINESSES

For analytical purposes, we divide central costs equally between the divisions but leave the debt with AIM

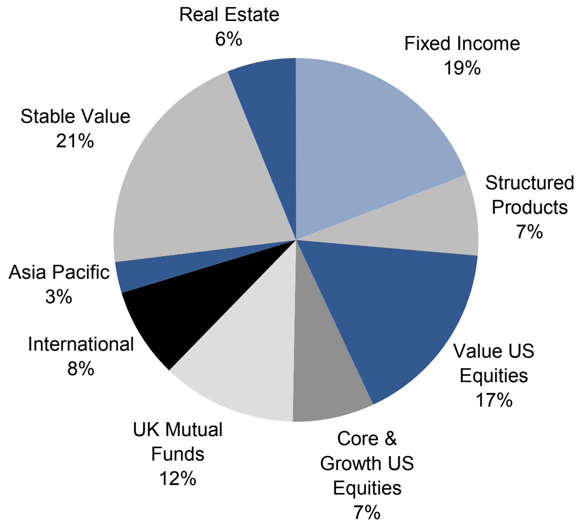
In the following, we examine the two businesses that would result from demerger. In doing so, we have made the following assumptions about group net debt and corporate/central costs.

- We have allocated all of the group's net debt to AIM, on the grounds that these are currently the highly cash generative units within the group and hence most suited to servicing and retiring debt.
- We split central costs (we forecast £46m in 2005) equally between the two businesses.

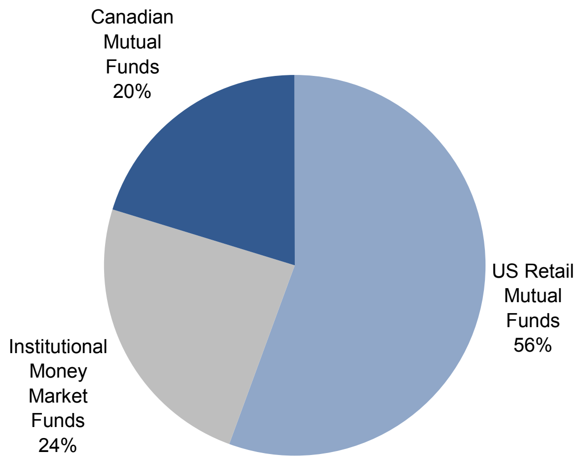
Including real estate and stable value, the INVESCO business would be ~50% equities, ~50% fixed income/other non-equity securities. The AIM business would be – as it currently is – a mix of mainly growth equity US retail mutual funds, mainly value equity Canadian retail funds, and institutional money market funds.

The AUM profile of the two businesses would be as follows.

INVESCO AUM ($bn)



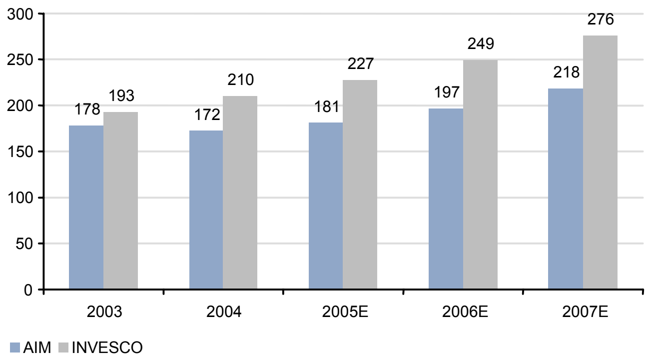
AIM (US & Canada) AUM ($bn)



Source *Company, Lazard*

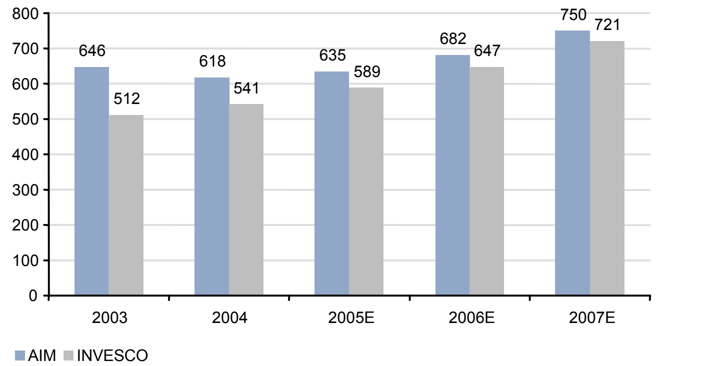
In terms of the AUM and revenues, the two businesses would be similarly sized, as shown below.

Assets under management ($bn)



Source *Company, Lazard*

Revenues (£m)



Source *Company, Lazard*

A BASIS FOR VALUATION

Provides a basis for a "break-up" sum-of-the-two-parts approaches to valuation

The division of AMVESCAP into AIM and INVESCO businesses provides the basis for approach to valuing AMVESCAP.

- Applying US and UK peer group earnings multiples to the two businesses implies significant upside. Our base case sum-of-the-parts suggests a current fair value of around 460p per share.
- Our central case valuation of the INVESCO division, £1,040m, assumes revenue growth of 10% per annum from the division over the three years to 2007, but little operating margin expansion (from 10.2% in 2004 to 11.4% in 2007).
- In an alternative scenario, we assume an improvement in the INVESCO operating margin to 20% by 2007. This produces a valuation of the INVESCO division of £1,822m and an alternative fair value for AMVESCAP of 555p per share.

AIM & INVESCO DEMERGED

AIM (US & Canada) (£m)

Year to December	2003	2004	2005E	2006E	2007E
Revenue	646.5	617.5	634.6	681.6	749.8
Operating expenses	-378.3	-355.0	-377.9	-404.7	-444.8
Share of central costs	-12.5	-19.1	-23.0	-24.2	-25.4
Operating profit	255.6	243.4	233.7	252.8	279.7
Net interest	-40.5	-28.8	-24.2	-15.1	-6.7
Core PBT	**215.1**	**214.6**	**209.4**	**237.7**	**272.9**
Opening AUM ($bn)	146.6	179.8	172.2	181.0	196.6
Investment return	23.9	10.0	13.8	14.5	15.7
Net flow	-5.4	-11.7	-5.0	1.2	5.9
Other	12.2	-5.9	0.0	0.0	0.0
Closing AUM	**178.1**	**172.2**	**181.0**	**196.6**	**218.3**
Average AUM ($bn)	164.6	171.7	176.6	188.8	207.5
£:$ rate	1.78	1.92	1.90	1.90	1.90
Closing AUM (£bn)	**100.0**	**89.7**	**95.3**	**103.5**	**114.9**
Average AUM	96.1	92.2	93.0	99.4	109.2
Revenue/Avg AUM (%)	0.67	0.67	0.68	0.69	0.69
Expenses/Avg AUM (%)	-0.39	-0.39	-0.41	-0.41	-0.41
Operating profit/Avg AUM (%)	0.27	0.26	0.25	0.25	0.26
Operating profit margin (%)	**39.5**	**39.4**	**36.8**	**37.1**	**37.3**

Source *Company, Lazard*

INVESCO (£m)

Year to December)	2003	2004	2005E	2006E	2007E
Revenue	511.6	540.9	588.6	646.8	720.7
Operating expenses	-443.9	-466.6	-508.5	-554.4	-613.3
Share of central costs	-12.5	-19.1	-23.0	-24.2	-25.4
Operating profit	55.2	55.3	57.1	68.2	82.1
Net interest	0.0	0.0	0.0	0.0	0.0
Core PBT	**55.2**	**55.3**	**57.1**	**68.2**	**82.1**
Opening AUM ($bn)	186.0	190.8	209.9	227.2	249.1
Investment return	21.5	16.0	16.8	18.2	19.9
Net flow	-5.2	-7.8	0.5	3.8	6.9
Other	-9.0	10.9	0.0	0.0	0.0
Closing AUM	**192.5**	**209.9**	**227.2**	**249.1**	**276.0**
Average AUM ($bn)	176.2	199.6	218.5	238.2	262.6
£:$ rate	1.78	1.92	1.90	1.90	1.90
Closing AUM (£bn)	**108.2**	**109.3**	**119.6**	**131.1**	**145.3**
Average AUM	108.3	110.1	115.0	125.3	138.2
Revenue/Avg AUM (%)	0.47	0.49	0.51	0.52	0.52
Expenses/Avg AUM (%)	-0.41	-0.42	-0.44	-0.44	-0.44
Operating profit/Avg AUM (%)	0.05	0.05	0.05	0.05	0.06
Operating profit margin (%)	**10.8**	**10.2**	**9.7**	**10.5**	**11.4**

Source *Company, Lazard*

ANALYSIS OF FORECASTS

Our key assumptions are 8% per annum US$ investment returns, a constant £:$1.90 exchange rate, some recovery in net new business flows in 2006, and modest operating margins outside of the US.

We model AMVESCAP on a divisional basis, the key drivers being investment return and net new business (which drive AUM growth), and revenue and cost margins in relation to average AUM (which drive operating margins). Our group forecasts overlay the sum of the divisions with a corporate/central cost forecast and the projected net interest cost of group net debt.

AIM US. We assume an 8% p.a. investment return in each of the years 2005 to 2007. For 2005, we assume a further $6bn of net outflows due to poor historic investment performance and some continuing negative sentiment following last year's mutual fund market timing regulatory action. For 2007 we assume zero net flows and for 2007, net inflows of $4.6bn, 3% of 2007 opening AUM. We assume a 60bps revenue return on average assets (which reflects reduced mutual fund fees from 2005 onwards) and operating expenses equal to 39bps, giving an operating margin of 35%.

AIM Canada. We again assume 8% p.a. investment returns, with net inflows each year equal to 3% of opening AUM. We assume a 100bps revenue margin and costs at 47bps giving a 53% margin on revenues.

INVESCO US. Offsetting an 8% investment return assumption, we factor in additional outflows of $2bn from the division this year, followed by zero net flows in 2006 and inflows equal to 2% of opening assets in 2007. We apply a 29bps return on assets, and costs equal to 22bps, giving an operating profit margin of 22%.

INVESCO UK & Europe/Asia. Our forecasts for the UK factor in strong organic growth, with net new flows equal to 5% of opening AUM in each of the years 2005-2007. This drives 12%-13% revenue growth in 2006 and 2007, and operating margin expansion from last year's 13% to 16% by 2007. For Europe/Asia, we assume investment returns only, with no net inflows throughout the forecast period, and only modest operating margin improvement (from 1% last year to 6% by 2007).

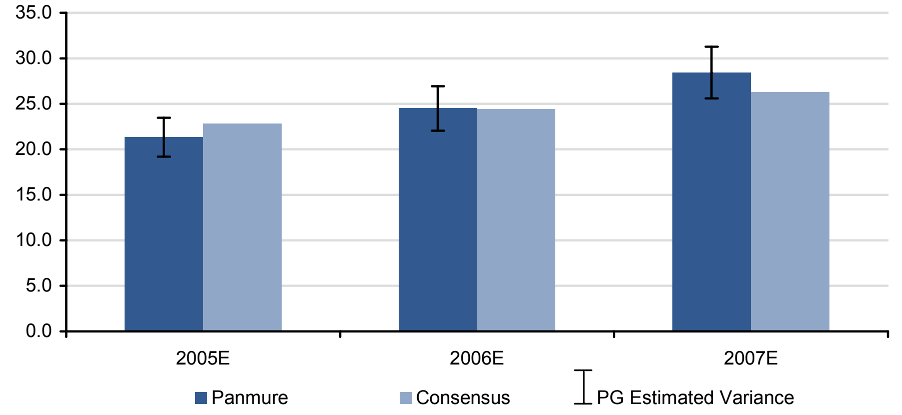
Private Wealth/Retirement. Despite revenues forecast to reach £121m by 2007, we forecast only modest profits from this division, with a contribution to group operating profits of £5m (less than 2% of the group total) in 2007.

Central items. We factor in higher central costs this year, at £46m (£38m last year), partly to reflect higher regulatory and compliance costs. Our operating profit, capital expenditure, tax and dividend assumptions imply substantial cash generation, and hence we forecast a substantial reduction in net debt over the 2005-2007 period (from (£591 at end 2004 to £44m by end 2007). This assumes no share repurchase or acquisitions.

Further details of our forecasts are set out in The Numbers section below.

Our base case forecast is 6% below consensus for the current year, in line for 2006 and 8% above consensus for 2008; Best case assumes markets 5% higher, worst case assumes markets 5% lower.

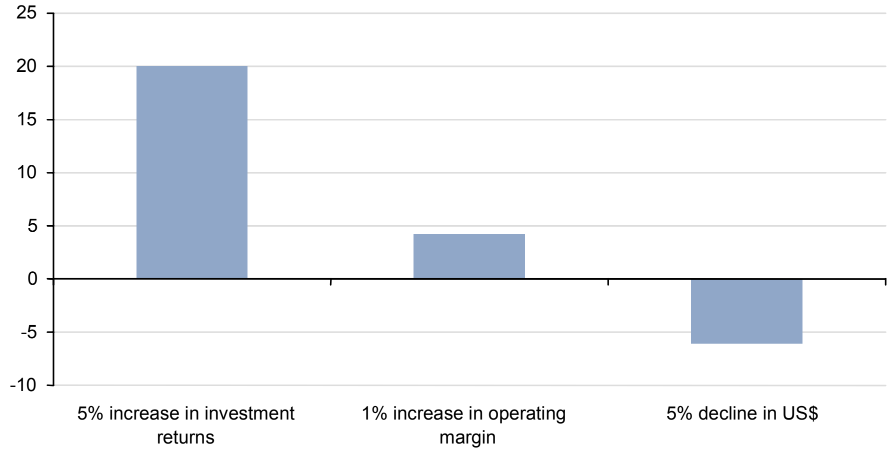
Panmure Gordon relative to consensus forecasts (EPS)



Source *Reuters, Lazard*

Investment returns and operating profit margins are key sensitivities. As a Sterling reporter with substantial US$ earnings, AMVESCAP's earnings are sensitive to currency movements.

Sensitivities for Panmure Gordon 2005E forecasts



Source *Lazard*

VALUATION

Our central case sum-of-the-parts values AIM at ~330p per share. Hence at current market levels, INVESCO comes virtually for free.

Valuations based on a sum of the AIM and INVESCO parts suggests significant upside, partly through the re-rating of these two units in comparison to quoted proxies, but also through high operational leverage in the international INVESCO businesses.

In valuing AMVESCAP we first consider a sum of two parts based on the demerger scenario considered earlier in this note. We then look at an alternative scenario based on a better INVESCO profit margin. This highlights potential valuation upside due to high operational leverage within INVESCO's Europe/Asia division.

Forecasts assumptions – central case and INVESCO alternative

Year to December	2004	2005E	2006E	2007E	05E04	06E05	07E06
AIM							
Revenue	617.5	634.6	681.6	749.8	3	7	10
PBT	214.6	209.4	237.7	272.9	-2	13	15
PBT margin (%)	35	33	35	36			
INVESCO (central case)							
Revenue	540.9	588.6	646.8	720.7	9	10	11
PBT	55.3	57.1	68.2	82.1	3	20	20
PBT margin (%)	10	10	11	11			
INVESCO (alternative)							
Revenue	540.9	588.6	646.8	720.7	9	10	11
PBT	55.3	76.5	103.5	144.1	38	35	39
PBT margin (%)	10	13	16	20			

Source *Lazard*

SUM OF THE PARTS

Sum of the parts – central case (£m)

Year to Dec 2007E	PBT	Tax rate (%)	Tax	PAT	P/E	Val £m	Val p	% Val
AIM	272.9	38	-102.4	171.0	15.7	2667.1	329.3	72
INVESCO	82.1	30	-24.6	57.8	18.0	1040.2	128.4	28
Total	355.1	36	-127.0	228.8	16.2	3707.3	457.7	100

Source *Lazard*

Our central case valuation is based upon our 2007 forecasts for the group, which assume little margin recovery in the INVESCO businesses. We have also made the following assumptions:

- We use a 38% tax rate for the AIM US and Canadian mutual fund businesses, based broadly on tax rates for US-quoted asset managers, and a standard 30% rate for the INVESCO businesses. The blended result, 36%, is close to the group's actual tax rate of 35% in 2004, and our forecast rate for the group in 2007.
- We value the AIM businesses on a 15.7x 2007E PER, based on the current market rating on Janus. We value the INVESCO businesses on 18.0x 2007E PER, based on our estimate of the EV/NOPAT valuation currently being afforded to Schroders' asset management division.

These assumptions and our forecasts imply a current fair value of around 460p per AMVESCAP share, which represents 21.6x 2005E AMVESCAP earnings, and 18.8x 2006E. For comparison, Janus currently trades on 25.3x 2005E and 20.4x 2006E.

Our central case valuation is based on conservative margin assumptions at INVESCO. Recovery in the INVESCO margin to 20% by 2007 implies a further £1 upside.

Alternative INVESCO scenario

The INVESCO businesses earned revenues of £541m and operating profits of £55m in 2004, as compared with around £480m and £80m for Schroders (asset management unit). The latter currently has an enterprise value of a little over £1.5bn, as compared with our INVESCO fair value estimate of just over £1.0bn.

Low profit margins at INVESCO leave considerable scope for streamlining to improve profitability (as Schroders has demonstrated over the past two or three years). The table below highlights what would happen to our sum-of-the-parts valuation, were we to factor in recovery in the division's PBT margin to 20% by 2007.

Sum of the parts – alternative INVESCO margin outlook (£m)

	PBT	Tax (%)	Tax	PAT	PER	Val £m	Val p	% Val
AIM US & Canada	272.9	38	-102.4	171.0	15.6	2667.1	329.3	59
INVESCO	144.1	30	-43.2	101.2	18.0	1821.7	224.9	41
	417.1	35	-145.6	272.2	16.5	4488.8	554.2	100

Source *Lazard*

Discounted cash flow valuation

As an alternative to sum-of-the-parts, we set out a DCF valuation for the group below. This suggests a fair value for the asset management enterprise of 530p per share, which after net debt, gives an estimate of fair market value of 457p per share.

AMVESCAP – DCF valuation

Steady state AUM growth	8%												
Steady state RoAUM	0.100%												
Discount rate	9%												
Terminal multiple	11.1												
	2005	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**Terminal**
Average AUM	208.0	224.7	247.4	267.2	288.6	311.6	336.6	363.5	392.6	424.0	457.9	494.5	534.1	534
Asset growth	3%	8%	10%	8%	8%	8%	8%	8%	8%	8%	8%	8%	8%	
Operating profit	290.8	321.0	361.8											
less tax	-101.8	-112.4	-126.6											
NOPAT	189.0	208.7	235.2	267.2	288.6	311.6	336.6	363.5	392.6	424.0	457.9	494.5	534.1	5934.5
less working capital														
Free cash flow	189.0	208.7	235.2	267.2	288.6	311.6	336.6	363.5	392.6	424.0	457.9	494.5	534.1	
FCF RORWA	0.091%	0.093%	0.095%	0.100%	0.100%	0.100%	0.100%	0.100%	0.100%	0.100%	0.100%	0.100%	0.100%	
		1	2	3	4	5	6	7	8	9	10	11	12	13
Discount factor		1.09	1.19	1.30	1.41	1.54	1.68	1.83	1.99	2.17	2.37	2.58	2.81	3.07
PV (free cash flow)		191	198	206	204	203	201	199	197	195	193	192	190	1936
NPV (free cash flow)	4305													
NPV (free cash flow) / share	530													

Asset Management	**£m**	**p**
Franchise (DCF, PER)	4305	530
Group surplus capital	-591	-73
TOTAL	3714	457

Source *Lazard*

THE NUMBERS

Profit & loss (£m)

Year to December	2004A	2005E	2006E	2007E
Total operating income	1158.5	1223.2	1328.4	1470.6
Operating expenses	-859.8	-932.4	-1007.3	-1108.8
Operating profit	298.7	290.8	321.0	361.8
Interest/investment income	-28.8	-24.2	-15.1	-6.7
Core PBT	269.8	266.5	305.9	355.1
Exceptional items	-249.7	0.0	0.0	0.0
Goodwill amortisation	-157.8	-153.2	-153.2	-153.2
Profit before tax	-137.7	113.3	152.7	201.9
Tax	-35.3	-93.3	-107.1	-124.3
Attributable profit	-173.3	20.0	45.7	77.6
Dividends	-61.9	-93.4	-93.4	-93.4
Other distributions	0.0	0.0	0.0	0.0
Retained profit	-235.2	-73.3	-47.7	-15.8
Per share data				
Average shares (m)	808.3	812.0	812.0	812.0
End-period shares (m)	812.0	812.0	812.0	812.0
Reported EPS	-21.4	2.5	5.6	9.6
Adjusted EPS	21.7	21.3	24.5	28.4
DPS (p)	7.5	11.5	11.5	11.5

Source *Company, Lazard*

Summary cash flows (£m)

Year to December	2004A	2005E	2006E	2007E
Operating profit	298.7	290.8	321.0	361.8
Depreciation	45.6	47.0	48.4	49.8
Gross cash flow / EBITDA	344.3	337.7	369.4	411.6
Capex	-27.6	-28.4	-29.3	-30.2
Operating cash flow	316.7	309.3	340.1	381.5
Tax	-57.2	-35.3	-93.3	-107.1
Equity cash flow	259.5	274.0	246.8	274.4
Equity dividends	-78.8	-61.9	-93.4	-93.4
Net Cash flow	180.6	212.1	153.5	181.0
Opening cash	-576.6	-590.9	-378.8	-225.4
Net cash flow	-14.3	212.1	153.5	181.0
Closing cash	-590.9	-378.8	-225.4	-44.4
Average cash	-583.8	-484.9	-302.1	-134.9
Interest yield/cost	4.9%	5.0%	5.0%	5.0%
Interest income/expense	-28.8	-24.2	-15.1	-6.7

Source *Company, Lazard*

Summary balance sheet (£m)

Year to December	2004A	2005E	2006E	2007E
Avg AUM	202.3	208.0	224.7	247.4
Assets	3908.1	3834.7	3787.0	3771.2
Assets under management	199.0	214.8	234.6	260.2
Equity	1833.4	1760.1	1712.3	1696.6
Intangible assets	2303.4	2303.4	2303.4	2303.4
Previously written off goodwill	0.0	0.0	0.0	0.0
Tangible equity	-451.9	-543.3	-591.1	-606.8

Source *Company, Lazard*

Ratios (%)

Year to December	2004A	2005E	2006E	2007E
Total income:avg AUM	0.57	0.59	0.59	0.59
Expenses:avg AUM	-0.42	-0.45	-0.45	-0.45
Cost:income ratio	-74.2	-76.2	-75.8	-75.4
ROE	9.0	9.6	11.5	13.5
ROAUM (bps)	8.7	8.3	8.8	9.3
Effective tax rate	-13.1	-35.0	-35.0	-35.0

Source *Company, Lazard*

DIVISIONS

AIM US (£m)

Year to December	2004A	2005E	2006E	2007E
Revenue	443.1	442.4	468.4	513.1
Expenses	-277.2	-287.6	-304.4	-333.5
Operating profit	165.9	154.9	163.9	179.6
Opening AUM ($bn)	151.1	137.6	142.6	154.0
Investment return	7.3	11.0	11.4	12.3
Net flow	-12.4	-6.0	0.0	4.6
Other	-8.4	0.0	0.0	0.0
Closing AUM	137.6	142.6	154.0	171.0
Average AUM ($bn)	140.6	140.1	148.3	162.5
£:$ rate	1.92	1.90	1.90	1.90
Closing AUM (£bn)	71.7	75.1	81.1	90.0
Average AUM	75.5	73.7	78.1	85.5
Revenue/Avg AUM (%)	0.59	0.60	0.60	0.60
Expenses/Avg AUM (%)	-0.37	-0.39	-0.39	-0.39
Operating profit/Avg AUM (%)	0.22	0.21	0.21	0.21
Operating profit margin (%)	37.4	35.0	35.0	35.0

AIM Canada (£m)

Year to December	2004A	2005E	2006E	2007E
Revenue	174.4	192.1	213.3	236.7
Expenses	-77.8	-90.3	-100.2	-111.3
Operating profit	96.6	101.8	113.0	125.5
Opening AUM ($bn)	28.7	34.6	38.4	42.6
Investment return	2.7	2.8	3.1	3.4
Net flow	0.7	1.0	1.2	1.3
Other	2.5	0.0	0.0	0.0
Closing AUM	34.6	38.4	42.6	47.3
Average AUM ($bn)	31.1	36.5	40.5	45.0
£:$ rate	1.92	1.90	1.90	1.90
Closing AUM (£bn)	18.0	20.2	22.4	24.9
Average AUM	16.7	19.2	21.3	23.7
Revenue/Avg AUM (%)	1.05	1.00	1.00	1.00
Expenses/Avg AUM (%)	-0.47	-0.47	-0.47	-0.47
Operating profit/Avg AUM (%)	0.58	0.53	0.53	0.53
Operating profit margin (%)	55.4	53.0	53.0	53.0

INVESCO US (£m)

Year to December	2004A	2005E	2006E	2007E
Revenue	187.2	187.3	200.7	218.9
Expenses	-140.1	-144.6	-155.0	-169.0
Operating profit	47.1	42.7	45.8	49.9
Opening AUM ($bn)	118.5	121.0	128.7	139.0
Investment return	8.1	9.7	10.3	11.1
Net flow	-6.1	-2.0	0.0	2.8
Other	0.5	0.0	0.0	0.0
Closing AUM	121.0	128.7	139.0	152.9
Average AUM ($bn)	119.9	124.8	133.8	145.9
£:$ rate	1.92	1.90	1.90	1.90
Closing AUM (£bn)	63.0	67.7	73.1	80.5
Average AUM	64.4	65.7	70.4	76.8
Revenue/Avg AUM (%)	0.29	0.29	0.29	0.29
Expenses/Avg AUM (%)	-0.22	-0.22	-0.22	-0.22
Operating profit/Avg AUM (%)	0.07	0.07	0.07	0.07
Operating profit margin (%)	25.2	22.8	22.8	22.8

Source *Company, Lazard*

INVESCO UK (£m)

Year to December	2004A	2005E	2006E	2007E
Revenue	188.1	225.2	251.3	284.0
Expenses	-164.3	-194.6	-213.6	-237.9
Operating profit	23.8	30.6	37.7	46.2
Opening AUM ($bn)	39.0	49.6	56.0	63.3
Investment return	5.6	4.0	4.5	5.1
Net flow	1.5	2.5	2.8	3.2
Other	3.5	0.0	0.0	0.0
Closing AUM	49.6	56.0	63.3	71.6
Average AUM ($bn)	43.2	52.8	59.7	67.5
£:$ rate	1.92	1.90	1.90	1.90
Closing AUM (£bn)	25.8	29.5	33.3	37.7
Average AUM	23.1	27.8	31.4	35.5
Revenue/Avg AUM (%)	0.81	0.81	0.80	0.80
Expenses/Avg AUM (%)	-0.71	-0.70	-0.68	-0.67
Operating profit/Avg AUM (%)	0.10	0.11	0.12	0.13
Operating profit margin (%)	12.7	13.6	15.0	16.3

INVESCO Europe/Asia (£m)

Year to December (£m)	2004A	2005E	2006E	2007E
Revenue	77.8	80.5	88.3	96.9
Expenses	-76.9	-77.8	-84.1	-90.8
Operating profit	0.8	2.6	4.3	6.2
Opening AUM ($bn)	23.8	24.1	26.0	28.1
Investment return	2.0	1.9	2.1	2.2
Net flow	-3.0	0.0	0.0	0.0
Other	1.3	0.0	0.0	0.0
Closing AUM	24.1	26.0	28.1	30.4
Average AUM ($bn)	24.3	25.1	27.1	29.2
£:$ rate	1.92	1.90	1.90	1.90
Closing AUM (£bn)	12.6	13.7	14.8	16.0
Average AUM	13.1	13.2	14.2	15.4
Revenue/Avg AUM (%)	0.60	0.61	0.62	0.63
Expenses/Avg AUM (%)	-0.59	-0.59	-0.59	-0.59
Operating profit/Avg AUM (%)	0.01	0.02	0.03	0.04
Operating profit margin (%)	1.1	3.3	4.8	6.3

Private Wealth/Retirement (£m)

Year to December	2004A	2005E	2006E	2007E
Revenue	87.8	95.7	106.4	120.9
Expenses	-85.3	-91.5	-101.7	-115.7
Operating profit	2.5	4.2	4.6	5.3
Opening AUM ($bn)	9.5	15.2	16.4	18.7
Investment return	0.3	1.2	1.3	1.5
Net flow	-0.2	0.0	1.0	1.0
Other	5.6	0.0	0.0	0.0
Closing AUM	15.2	16.4	18.7	21.2
Average AUM ($bn)	14.1	15.8	17.6	20.0
£:$ rate	1.92	1.90	1.90	1.90
Closing AUM (£bn)	7.9	8.6	9.9	11.2
Average AUM	7.5	8.3	9.2	10.5
Revenue/Avg AUM (%)	1.17	1.15	1.15	1.15
Expenses/Avg AUM (%)	-1.13	-1.10	-1.10	-1.10
Operating profit/Avg AUM (%)	0.03	0.05	0.05	0.05
Operating profit margin (%)	2.9	4.3	4.3	4.3

Source *Company, Lazard*

Corporate (£m)

Year to December	2004A	2005E	2006E	2007E
Expenses	-38.2	-46.0	-48.3	-50.7

AMVESCAP Group (£m)

Year to December	2004A	2005E	2006E	2007E
Revenue	1158.5	1223.2	1328.4	1470.6
Expenses	-859.8	-932.4	-1007.3	-1108.8
Operating profit	298.7	290.8	321.0	361.8
Opening AUM ($bn)	370.6	382.1	408.2	445.8
Investment return	26.0	30.6	32.7	35.7
Net flow	-19.5	-4.5	5.0	12.8
Other	5.0	0.0	0.0	0.0
Closing AUM	382.1	408.2	445.8	494.3
Average AUM ($bn)	371.3	395.1	427.0	470.1
£:$ rate	1.92	1.90	1.90	1.90
Closing AUM (£bn)	199.0	214.8	234.6	260.2
Average AUM	202.3	208.0	224.7	247.4
Revenue/Avg AUM (%)	0.573	0.588	0.59	0.59
Expenses/Avg AUM (%)	-0.425	-0.448	-0.45	-0.45
Operating profit/Avg AUM (%)	0.15	0.14	0.14	0.15
Operating profit margin (%)	25.8	23.8	24.2	24.6

Source *Company, Lazard*

Distribution of investment ratings (as of 31st December 2004)

Overall Global Distribution (Banking Client*)		
Buy	Hold	Sell
49% (34%)	39% (14%)	13% (8%)

** Indicates the percentage of each category in the Overall Distribution that were Lazard banking clients in the previous 12 months*

Rating: GUIDELINE (return targets may be modified by risk or liquidity issues)

Buy	Expected to produce a total return of 15% or better in the next 12 months
Hold	Fairly valued: total return in the next 12 months expected to be ±10%
Sell	Stock is expected to decline by 10% or more in the next 12 months

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1 March 2005

UK Equity Research

COMPANY PROFILE

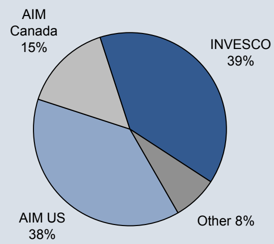
Business Profile

AMVESCAP is one of the world's largest quoted independent fund managers, with assets under management of around £200bn ($382bn). It operates in all of the world's major savings markets, virtually all of the assets classes, products and investment styles, and most of the distribution channels. It operates primarily through the AIM and INVESCO brands, and has a significant presence in both institutional and retail segments of the investment management industry in North America, Europe and Asia-Pacific.

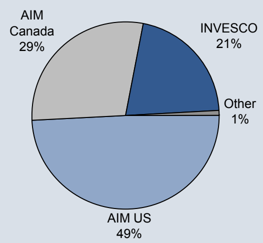
Recent News

AMVESCAP announced final results for the year to December 2004 on 1 February. Profit before tax, goodwill amortisation and exceptional items amounted to £270m, virtually unchanged on 2003. In US Dollars, underlying profits grew by 8%. Diluted cash-EPS fell by 7%, reflecting an increase in the group tax charge, from 31% to 35%. Exceptional items last year totalled £250m, the majority of which was due to settlement and other costs relating to US regulatory investigations into market timing.

Revenues by division* (%)



Profits by division* (%)



FY ending December 2004* **Source: *Company*

Major Shareholders (%)

Franklin Templeton 9.01%
State Street Advisors 6.45%
Merrill Lynch Investment Managers 5.22%

Company Information

Company	AMVESCAP
Address	30 Finsbury Square, London, EC2A 1AG
Tel no	44 20 7638 0731
Website	www.amvescap.com
Chief Executive	Charles Brady
Finance Director	James Robertson
IR Officer	Michael Perman

Financial Diary

Next Statement 2 March 2005 (IFRS)
Next Results 26 April 2005 (Q1)
Next ex dividend 30 March (final 5.0p)

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