SEI Investments (SEIC)

Updated October 24th, 2018 by Josh Arnold

Key Metrics

Current Price:	$53	**5 Year CAGR Estimate:**	14.2%	**Volatility Percentile:**	68.9%
Fair Value Price:	$61	**5 Year Growth Estimate:**	10.0%	**Momentum Percentile:**	17.7%
% Fair Value:	86%	**5 Year Valuation Multiple Estimate:**	3.1%	**Growth Percentile:**	88.4%
Dividend Yield:	1.1%	**5 Year Price Target**	$98	**Valuation Percentile:**	70.5%
Dividend Risk Score:	D	**Retirement Suitability Score:**	D	**Total Return Percentile:**	79.6%

Overview & Current Events

SEI Investments was founded in 1968 and over the last 50 years, has grown into a market capitalization of $8.3 billion. SEI is a global provider of investment processing, investment management, and investment operations solutions for financial institutions and advisors. The company should produce $1.6 billion in revenue this year.

SEI reported Q3 earnings on 10/23/18 and results were strong. Revenue was up 6% in a continuation of solid results thus far in 2018. Strength came from the Investment Advisors business as that segment's revenue rose 9% and operating income gained 13%. Total expenses rose 4% companywide and a lower tax rate helped drive diluted earnings-per-share up 27% year-over-year. Management continues to invest in future growth and was upbeat about the company's prospects. We've maintained our estimate of $3.15 in earnings-per-share for 2018 after Q3 results.

Growth on a Per-Share Basis

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2023
EPS	$1.22	$0.94	$1.22	$1.11	$1.18	$1.64	$1.85	$1.96	$2.03	$2.42	***$3.15***	***$5.05***
DPS	$0.16	$0.17	$0.20	$0.27	$0.31	$0.42	$0.46	$0.50	$0.54	$0.58	***$0.60***	***$0.82***
Shares	191	190	186	177	172	169	167	164	159	157	***154***	***144***

Since 2012 SEI has managed to double its earnings and looking forward, that stellar record of growth is set to continue. SEI has seen higher earnings-per-share in each year since 2011 and growth has been significant in that time, averaging more than 14% annually. We are forecasting 10% earnings-per-share growth over the next five years, implying a slowdown, but certainly not as a result of deteriorating fundamentals. We see SEI achieving these results through continued revenue expansion as more customers adopt its SEI Wealth Platform, and assets under management and advisement continue to grow. We see mid- to high single digit revenue growth as the primary driver of earnings going forward. SEI also buys back stock at low single digit rates and is also seeing margin expansion with its higher revenue. The key is revenue growth as SEI invests heavily in its future.

SEI's dividend growth has been decent in recent years but the huge run the stock has seen means the yield will not become a significant source of shareholder returns. We see moderate dividend growth going forward but keep in mind that investors own SEI for the earnings growth potential, not for the yield, and that isn't going to change anytime soon.

Valuation Analysis

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	Now	2023
Avg. P/E	18.3	17.3	17.1	18.1	17.4	18.4	19.0	24.4	22.6	22.3	***16.7***	***19.5***
Avg. Yld.	0.7%	1.0%	1.0%	1.3%	1.5%	1.4%	1.3%	1.0%	1.2%	1.0%	***1.1%***	***0.8%***

SEI's price-to-earnings multiple has understandably moved higher in recent years as its growth has taken off. However, a recent selloff has the valuation back under fair value and thus, we are forecasting a 3.1% tailwind to the valuation in the coming years. The yield has moved higher as a result of the recent selloff, and we therefore expect it to fall back to 0.8% over time. The dividend is not a priority for SEI as it continues to spend cash on its products and services to fuel future growth. Indeed, this is not a stock one owns for the yield or dividend growth prospects.

Disclosure: This analyst has no position in the security discussed in this research report, and no plans to initiate one in the next 72 hours.

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Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2023
GP/A	61.4%	55.9%	84.2%	51.9%	50.4%	52.5%	53.9%	54.2%	54.5%	55.0%	***55.0%***	***55.5%***
Debt/A	43%	41%	24%	21%	21%	20%	19%	19%	20%	20%	***20%***	***20%***
Int. Cov.	-	-	-	-	-	-	-	-	-	-	**-**	**-**
Payout	9%	12%	17%	24%	11%	33%	12%	23%	24%	25%	***19%***	***16%***
Std. Dev.	70.6%	45.4%	26.4%	37.5%	22.3%	18.9%	19.0%	22.0%	31.9%	14.6%	***22.0%***	***31.0%***

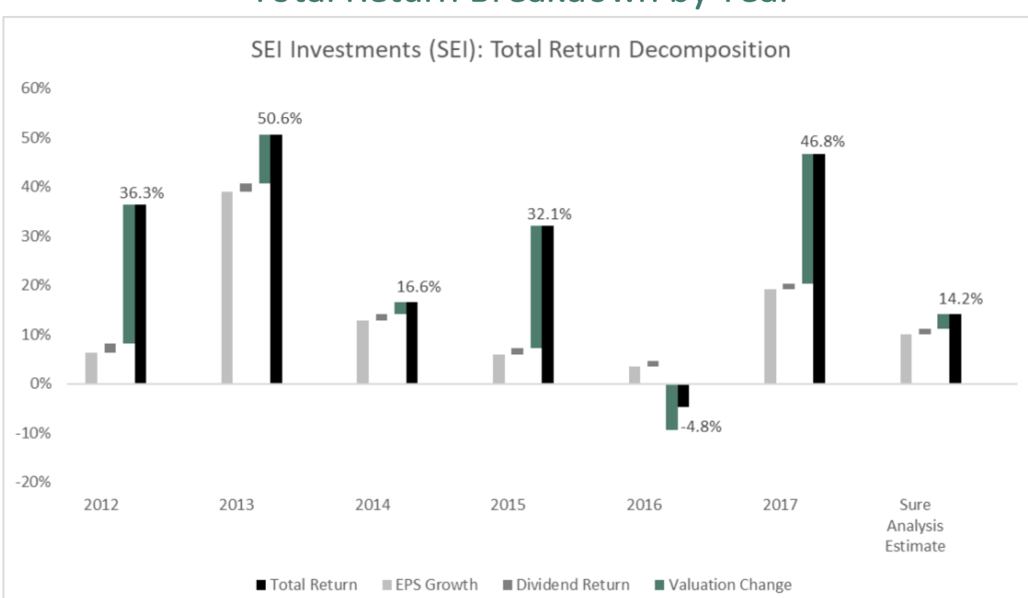
SEI's quality metrics have been remarkably steady for a company that has transformed itself into a growth machine in recent years. Its gross margins have steadily trekked higher but appear to have reached a plateau for now; we do not see gross margin expansion as an earnings driver for the foreseeable future. SEI has basically no debt to speak of, so its balance sheet is in excellent shape and interest coverage is not a concern. SEI has the financial firepower to develop its platform and chase growth without fear of overworking its balance sheet. The payout ratio is very low as earnings-per-share expansion has far outpaced dividend growth in recent years, something we think will continue. There may come a time when the dividend is a significant source of returns but SEI is understandably focused on growth today.

SEI's competitive advantage is in its platform and services, which allow it to drive efficiencies and lower risk for its clients. That does not make it immune from economic downturns, however, as the Great Recession dinged revenue and earnings meaningfully. Given the industry SEI serves, it is reasonable to expect material weakness during the next recession, so that is something investors should take into account.

Final Thoughts & Recommendation

Overall, SEI looks like an undervalued stock with lots of growth potential. We are forecasting 14.2% in total annual returns going forward, comprised of the 1.1% current yield, a 3.1% tailwind from the valuation and 10% earnings-per-share growth. That would make SEI attractive for those seeking growth at a reasonable price or for value investors. SEI may become an income stock in the future, but it is still very much in its growth stage, so that is a long way off. We rate SEI a buy after the recent selloff as our growth outlook is unchanged, but the valuation has improved meaningfully.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Revenue	1248	1061	901	930	993	1126	1266	1334	1402	1527
Gross Profit	766	593	477	483	501	591	683	722	763	840
Gross Margin	61.4%	55.9%	52.9%	51.9%	50.4%	52.5%	53.9%	54.2%	54.5%	55.0%
SG&A Exp.	223	163	213	230	233	285	269	298	316	367
D&A Exp.	47	66	46	49	56	57	61	67	72	76
Operating Profit	496	364	218	204	212	248	353	358	376	397
Operating Margin	39.8%	34.3%	24.1%	21.9%	21.3%	22.1%	27.9%	26.8%	26.8%	26.0%
Net Profit	139	174	232	205	207	288	319	332	334	404
Net Margin	11.2%	16.4%	25.7%	22.0%	20.8%	25.6%	25.2%	24.9%	23.8%	26.5%
Free Cash Flow	206	282	177	204	203	295	311	334	352	373
Income Tax	87	90	136	112	121	147	171	169	175	153

Balance Sheet Metrics

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Total Assets	1342	1534	1377	1295	1310	1439	1543	1589	1637	1853
Cash & Equivalents	417	591	496	421	452	578	667	680	696	744
Accounts Receivable			35	64	78	84	97	95	110	133
Goodwill & Int. Ass.	346	346	294	309	307	313	309	291	296	392
Total Liabilities	463	502	320	253	252	283	295	299	334	377
Accounts Payable	12	3	5	2	11	16	11	5	6	5
Long-Term Debt	32	254	95	0	0	0	0	0	0	30
Shareholder's Equity	769	910	1042	1025	1038	1156	1248	1290	1303	1477
D/E Ratio	0.04	0.28	0.09	0.00	0.00	0.00	0.00	0.00	0.00	0.02

Profitability & Per Share Metrics

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Return on Assets	10.7%	12.1%	15.9%	15.3%	15.9%	21.0%	21.4%	21.2%	20.7%	23.2%
Return on Equity	18.3%	20.8%	23.7%	19.8%	20.0%	26.3%	26.5%	26.1%	25.7%	29.1%
ROIC	15.0%	15.9%	19.0%	18.7%	19.7%	26.0%	26.5%	26.1%	25.7%	28.8%
Shares Out.	191	190	186	177	172	169	167	164	159	157
Revenue/Share	6.39	5.53	4.73	5.05	5.64	6.41	7.34	7.87	8.52	9.41
FCF/Share	1.06	1.47	0.93	1.11	1.16	1.68	1.80	1.97	2.14	2.30

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.