SEI Investments (SEIC)

Updated April 30h, 2019 by Josh Arnold

Key Metrics

Current Price:	$54	**5 Year CAGR Estimate:**	8.1%	**Volatility Percentile:**	47.2%
Fair Value Price:	$47	**5 Year Growth Estimate:**	10.0%	**Momentum Percentile:**	16.8%
% Fair Value:	117%	**5 Year Valuation Multiple Estimate:**	-3.1%	**Growth Percentile:**	91.7%
Dividend Yield:	1.2%	**5 Year Price Target**	$75	**Valuation Percentile:**	31.1%
Dividend Risk Score:	B	**Retirement Suitability Score:**	D	**Total Return Percentile:**	48.9%

Overview & Current Events

SEI Investments was founded in 1968 and over the last 51 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. SEI has more than $300 billion in assets under management and almost $600 billion in assets under administration. The company should produce $1.6 billion in revenue once again this year.

SEI reported Q1 earnings on 4/24/19 and results were largely in line with expectations. Total revenue was down 1%, but reflected varying conditions in the company's diverse lines of business. Private Banks, the company's largest segment, saw its revenue decline by 3%. Investment Advisors saw its revenue fall 4%, while Institutional Investors revenue declined 6%. However, the company's second-largest segment, Investment Advisors, saw an 8% boost to its top line. Finally, New Investments produced a 60% gain in the top line, although the segment is just a small fraction of total revenue.

On the bottom line, SEI saw expenses increase 1% on an operating basis, and corporate overhead costs increased 34%. This caused operating earnings to decline significantly, ceding 11%, while earnings-per-share fell 15%, declining from 86 cents to 73 cents year-over-year. Part of the decline in earnings was due to a higher tax rate.

Average assets under management fell 4% in Q1, but average assets under administration rose 12%. The company also saw slightly reduced performance fees from its asset base in Q1. SEI repurchased 1.7 million shares of its own stock in Q1 for a total consideration of $88.8 million.

We are reiterating our earnings-per-share estimate for 2019 at $3.10, which is virtually in line with 2018. The relatively weak Q1 performance was expected given the performance of the equity markets to end 2018, and we expect that SEI will perform much better for the rest of the year. The immense operating leverage the company has works both ways, and so long as revenue rises for the remainder of 2019, earnings should recover nicely.

Growth on a Per-Share Basis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
EPS	$0.94	$1.22	$1.11	$1.18	$1.64	$1.85	$1.96	$2.03	$2.42	$3.14	***$3.10***	***$4.99***
DPS	$0.17	$0.20	$0.27	$0.31	$0.42	$0.46	$0.50	$0.54	$0.58	$0.63	***$0.66***	***$0.90***
Shares	190	186	177	172	169	167	164	159	157	154	***151***	***138***

Since 2012, SEI has managed to double its earnings and looking forward that record of growth is set to continue. SEI has seen higher earnings-per-share in each year since 2011, although that streak is in danger in 2019. We are forecasting 10% earnings-per-share growth over the next five years, implying a slowdown from historical growth levels. 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 seeing margin expansion with its higher revenue, Q1 results notwithstanding. The key is revenue growth as SEI invests heavily in its future.

SEI's dividend growth has been decent in recent years but it is not an income stock at this point. 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 is not going to change anytime soon. Indeed, the payout ratio remains very low and given how much SEI invests in its platform on a regular basis, we expect the ratio to remain fairly constant moving forward.

Valuation Analysis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	Now	2024
Avg. P/E	17.3	17.1	18.1	17.4	18.4	19.0	24.4	22.6	22.3	20.3	***17.6***	***15.0***
Avg. Yld.	1.0%	1.0%	1.3%	1.5%	1.4%	1.3%	1.0%	1.2%	1.0%	1.0%	***1.2%***	***1.2%***

SEI's price-to-earnings multiple has come off of its recent highs, however, we still see it as trading in excess of fair value. Thus, we are forecasting a 3.1% headwind to the valuation in the coming years. The yield has moved higher as a result of the recent selloff, but we expect it will stay in the low-1% range 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.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
Payout	12%	17%	24%	11%	33%	12%	23%	24%	25%	20%	***21%***	***18%***

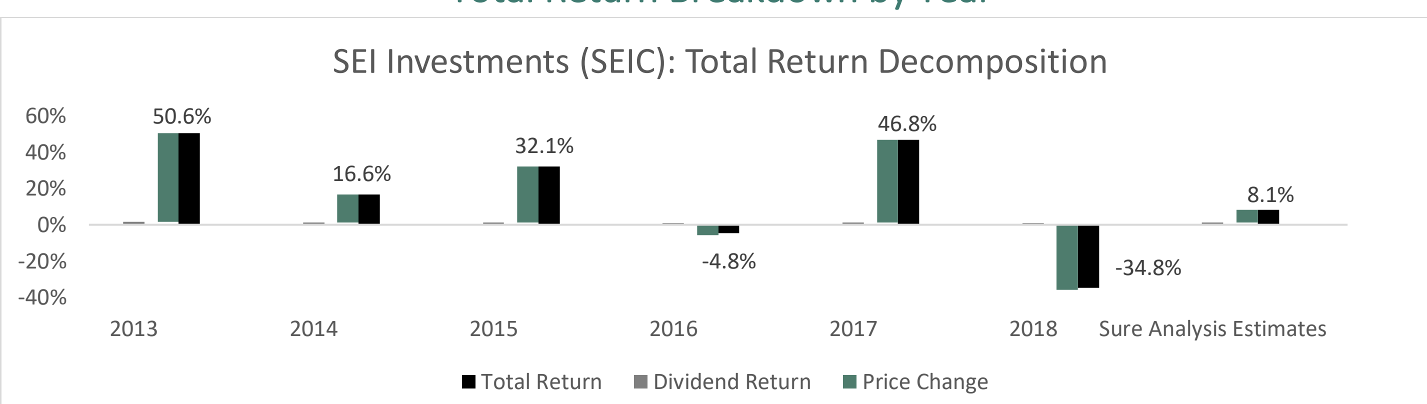
The payout ratio is very low as earnings-per-share expansion has far outpaced dividend growth in recent years, something we think will continue. There may come a time when the dividend is a significant source of returns but SEI is understandably focused on growth today.

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 a slightly overvalued stock with lots of growth potential. We are forecasting 8.1% in total annual returns going forward, comprised of the 1.2% current yield, a 3.1% headwind from the valuation and 10% earnings-per-share growth. 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. Given the rally in the stock, and resulting higher valuation, we're downgrading SEI from buy to hold. We still see it as having an attractive long-term growth runway, but the valuation is meaningfully in excess of fair value. We suggest investors wait for a lower price closer to fair value.

Total Return Breakdown by Year



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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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Income Statement Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Revenue	1061	901	930	993	1126	1266	1334	1402	1527	1624
Gross Profit	593	477	483	501	591	683	722	763	840	900
Gross Margin	55.9%	52.9%	51.9%	50.4%	52.5%	53.9%	54.2%	54.5%	55.0%	55.4%
SG&A Exp.	163	213	230	233	285	269	298	316	367	380
D&A Exp.	66	46	49	56	57	61	67	72	76	N/A
Operating Profit	364	218	204	212	248	353	358	376	397	442
Operating Margin	34.3%	24.1%	21.9%	21.3%	22.1%	27.9%	26.8%	26.8%	26.0%	27.2%
Net Profit	174	232	205	207	288	319	332	334	404	506
Net Margin	16.4%	25.7%	22.0%	20.8%	25.6%	25.2%	24.9%	23.8%	26.5%	31.1%
Free Cash Flow	282	177	204	203	295	311	334	352	373	N/A
Income Tax	90	136	112	121	147	171	169	175	153	108

Balance Sheet Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Total Assets	1534	1377	1295	1310	1439	1543	1589	1637	1853	1972
Cash & Equivalents	591	496	421	452	578	667	680	696	744	755
Accounts Receivable	N/A	35	64	78	84	97	95	110	133	366
Goodwill & Int. Ass.	346	294	309	307	313	309	291	296	392	406
Total Liabilities	502	320	253	252	283	295	299	334	377	379
Accounts Payable	3	5	2	11	16	11	5	6	5	11
Long-Term Debt	254	95	0	0	0	0	0	0	30	0
Shareholder's Equity	910	1042	1025	1038	1156	1248	1290	1303	1477	1593
D/E Ratio	0.28	0.09	0.00	0.00	0.00	0.00	0.00	0.00	0.02	0.00

Profitability & Per Share Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Return on Assets	12.1%	15.9%	15.3%	15.9%	21.0%	21.4%	21.2%	20.7%	23.2%	26.5%
Return on Equity	20.8%	23.7%	19.8%	20.0%	26.3%	26.5%	26.1%	25.7%	29.1%	33.0%
ROIC	15.9%	19.0%	18.7%	19.7%	26.0%	26.5%	26.1%	25.7%	28.8%	32.6%
Shares Out.	190	186	177	172	169	167	164	159	157	154
Revenue/Share	5.53	4.73	5.05	5.64	6.41	7.34	7.87	8.52	9.41	10.07
FCF/Share	1.47	0.93	1.11	1.16	1.68	1.80	1.97	2.14	2.30	N/A

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