SEI Investments (SEIC)

Updated October 27th, 2019 by Josh Arnold

Key Metrics

Current Price:	$60	**5 Year CAGR Estimate:**	7.4%	**Volatility Percentile:**	50.2%
Fair Value Price:	$55	**5 Year Growth Estimate:**	8.0%	**Momentum Percentile:**	52.9%
% Fair Value:	108%	**5 Year Valuation Multiple Estimate:**	-1.5%	**Growth Percentile:**	80.3%
Dividend Yield:	1.1%	**5 Year Price Target**	$81	**Valuation Percentile:**	50.4%
Dividend Risk Score:	A	**Retirement Suitability Score:**	B	**Total Return Percentile:**	50.2%

Overview & Current Events

SEI Investments was founded in 1968 and over the last 51 years, has grown into a market capitalization of $9 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 $650 billion in assets under administration. The company should produce $1.7 billion in revenue this year.

SEI reported Q3 earnings on 10/23/2019 and results met expectations. Revenue was up about 2% to $416 million year-over-year, while net income rose 3% on a dollar basis, and 8% on a per-share basis.

The Private Banks segment saw revenue decline fractionally to $117 million, but expenses fell -5%, leading to a tripling of operating profit year-over-year. Investment Advisors revenue was flat at $103 million, and a -3% decline in expenses meant that operating profit gained 5% against the year-ago period. Institutional Investors revenue was off -4%, but an -8% decline in operating expenses saw operating profits roughly flat from last year. Finally, Investment Managers revenue soared 11%, while expenses were up 10%, leading to a 12% operating profit gain. This, by far, was SEI's strongest segment in Q3.

Average assets under administration rose 16% year-over-year to $654 billion, while average assets under management saw a 2% gain year-over-year. The company pointed out it continues to see strong new business growth, which it reckons will be worth $33 million in annualized revenue just from Q3 alone.

With earnings-per-share coming in at $0.86 against $0.80 in the year-go period, we're reiterating our expectation of $3.25 for this year.

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	***$3.25***	***$4.78***
DPS	$0.17	$0.20	$0.27	$0.31	$0.42	$0.46	$0.50	$0.54	$0.58	$0.63	***$0.66***	***$0.97***
Shares[1]	190	186	177	172	169	167	164	159	157	154	***150***	***138***

Since 2012, SEI has managed to double its earnings and looking forward, we believe that strong growth can continue. SEI has seen higher earnings-per-share in each year since 2011. We are forecasting 8% earnings-per-share growth over the next five years, implying a slowdown from historical growth levels, and our prior estimate of 10%. 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, although revenue has been somewhat weak in the first half of this year. 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

[1] Share count in millions

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	***18.3***	***17.0***
Avg. Yld.	1.0%	1.0%	1.3%	1.5%	1.4%	1.3%	1.0%	1.2%	1.0%	1.0%	***1.1%***	***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 -1.5% headwind to the valuation in the coming years. 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%	***20%***	***20%***

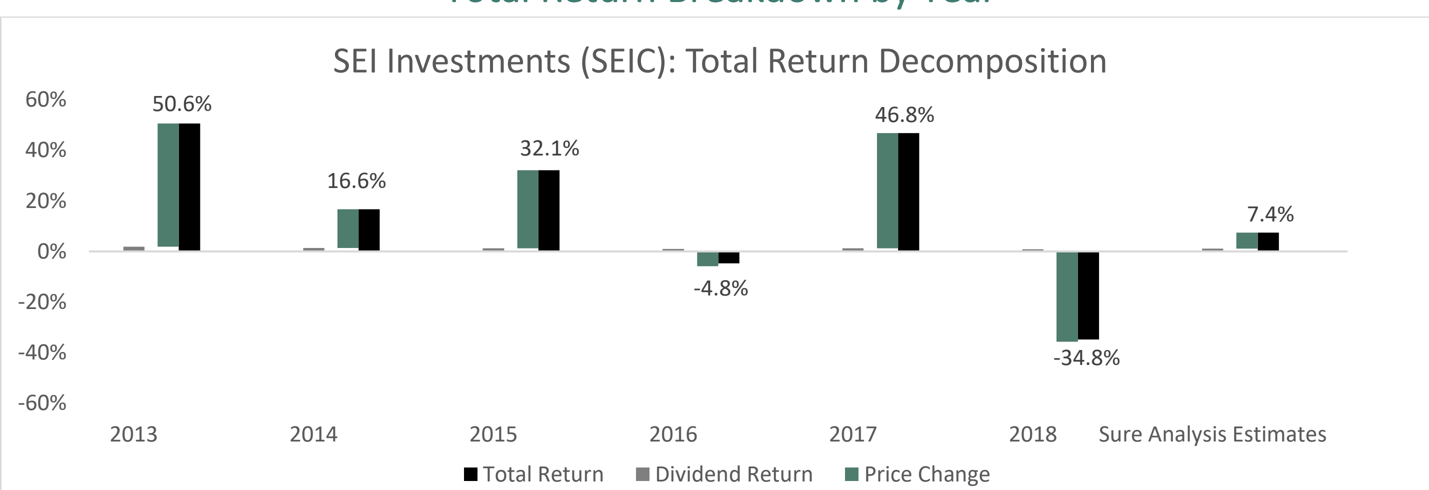
The payout ratio is very low as earnings-per-share expansion has far outpaced dividend growth in recent years, something we think will continue. There may come a time when the dividend is a significant source of returns, but SEI is understandably focused on growth today.

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 7.4% total annual returns going forward, comprised of the small current yield, a minor headwind from the valuation, and 8% 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. After Q3, we're reiterating SEI at a hold rating. We still see it as having an attractive long-term growth runway, but the valuation is in excess of our estimated of fair value.

Total Return Breakdown by Year



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.