SEI Investments (SEIC)

Updated October 30th, 2020 by Josh Arnold

Key Metrics

Current Price:	$50	**5 Year CAGR Estimate:**	9.4%	**Market Cap:**	$7.2 B
Fair Value Price:	$50	**5 Year Growth Estimate:**	8.0%	**Ex-Dividend Date:**	12/11/20[1]
% Fair Value:	99%	**5 Year Valuation Multiple Estimate:**	0.2%	**Dividend Payment Date:**	12/23/20[2]
Dividend Yield:	1.4%	**5 Year Price Target**	$74	**Years Of Dividend Growth:**	29
Dividend Risk Score:	A	**Retirement Suitability Score:**	C	**Last Dividend Increase:**	6.1%

Overview & Current Events

SEI Investments was founded in 1968 and over the last 50+ years has grown into a market capitalization of $7.2 billion. SEI is a global provider of investment processing, investment management, and investment operations solutions for financial institutions and advisors. SEI has nearly $250 billion in assets under management and over $700 billion in assets under administration. The company should produce about $1.7 billion in revenue this year.

SEI reported third quarter earnings on October 21st, with revenue coming in ahead of expectations, but profits coming in a bit light against consensus. Total revenue was up 2% year-over-year to $425 million, as most segments were around flat. Private Banks revenue was up 2% to $115 million, Investment Advisors revenue was flat at $103 million, Institutional Investors revenue was down -1% at $80 million, and Investment Managers revenue soared 10% higher to $124 million, making that segment the largest by revenue for the first time.

Operating expenses were up 6% year-over-year, while corporate overhead expenses rose 11%, combining to create an 8% headwind to operating income against the year-ago period. Diluted earnings-per-share came to $0.75 in Q3, down from $0.86 in the comparable period last year. We currently estimate earnings-per-share at $2.95 for this year.

The company also increased its share repurchase program in late October, adding $250 million to the $42 million that was previously outstanding.

Growth on a Per-Share Basis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
EPS	$1.22	$1.11	$1.18	$1.64	$1.85	$1.96	$2.03	$2.42	$3.14	$3.24	***$2.95***	***$4.33***
DPS	$0.20	$0.27	$0.31	$0.42	$0.46	$0.50	$0.54	$0.58	$0.63	$0.68	***$0.70***	***$1.03***
Shares[3]	186	177	172	169	167	164	159	157	159	154	***152***	***145***

Since 2013, 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, although that streak is almost certain to end in 2020. We are forecasting 8% earnings-per-share growth over the next five years as the low base of earnings from 2020 should provide better growth rates moving forward. We see SEI achieving this result through continued revenue expansion as more customers adopt its SEI Wealth Platform, and assets under management and advisement continue to grow. We see mid-single-digit revenue growth as the primary driver of earnings going forward. SEI also buys back stock at low single-digit rates (the company recently boosted its authorization by another $250 million) and is 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 it is not an income stock at this point. We see 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, in addition to share repurchases, we expect the payout ratio to remain fairly constant.

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[1] Estimated date
[2] Estimated date
[3] Share count in millions

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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Valuation Analysis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Now	2025
Avg. P/E	17.1	18.1	17.4	18.4	19.0	24.4	22.6	22.3	20.3	15.8	***16.9***	***17.0***
Avg. Yld.	1.0%	1.3%	1.5%	1.4%	1.3%	1.0%	1.2%	1.0%	1.0%	1.2%	***1.4%***	***1.4%***

SEI's price-to-earnings multiple has come off of its recent highs, and it is now trading almost exactly in line with our estimate of fair value at 17 times earnings. Thus, we are forecasting essentially no impact on returns from 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. This is not a stock one owns for the yield or dividend growth prospects.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
Payout	17%	24%	11%	33%	12%	23%	24%	25%	20%	21%	***24%***	***24%***

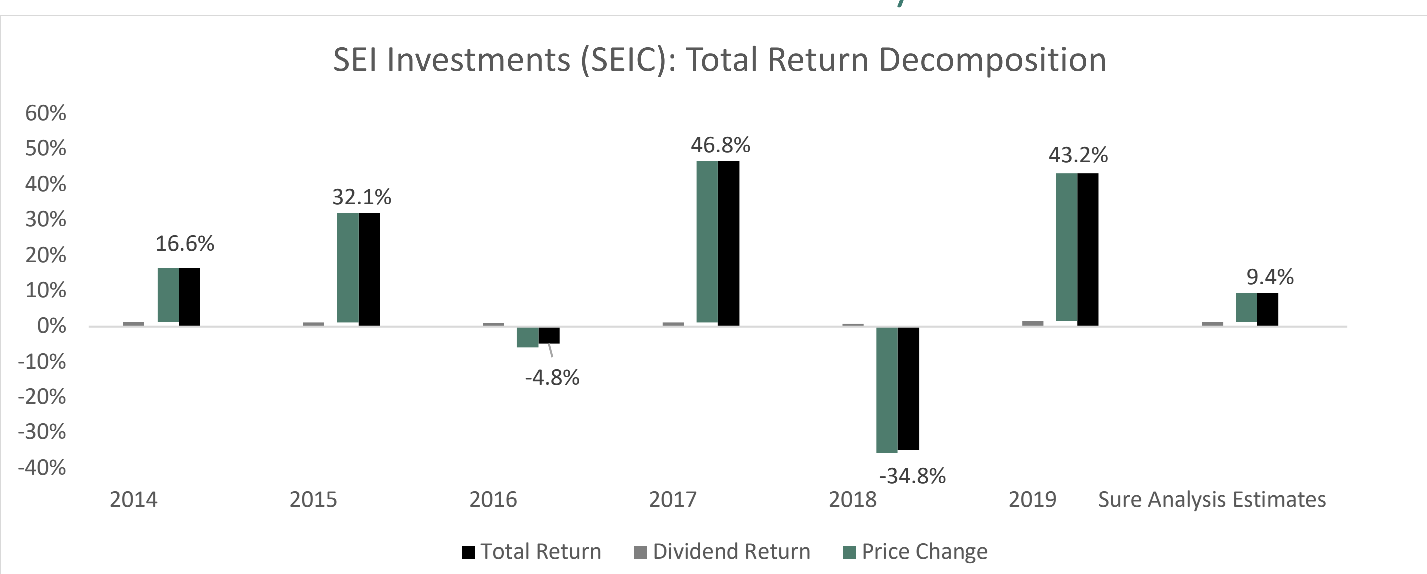
The payout ratio is very low as earnings-per-share expansion has far outpaced dividend growth in recent years, something we think will continue. There may come a time when the dividend is a significant source of returns, but SEI is understandably focused on growth today.

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 a recession, so that is something investors should take into account. Indeed, we've accounted for that in our updated 2020 estimates.

Final Thoughts & Recommendation

Overall, SEI looks like a fairly valued stock with lots of growth potential. We are forecasting 9.4% 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 results, we're upgrading SEI to buy from hold. The lower valuation has increased the attractiveness of owning this growth stock.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Revenue	901	930	993	1126	1266	1334	1402	1527	1624	1,650
Gross Profit	477	483	501	591	683	722	763	840	900	921
Gross Margin	52.9%	51.9%	50.4%	52.5%	53.9%	54.2%	54.5%	55.0%	55.4%	55.8%
SG&A Exp.	213	230	233	285	269	298	316	367	380	379
D&A Exp.	46	49	56	57	61	67	72	76	78	81
Operating Profit	218	204	212	248	353	358	376	397	442	460
Operating Margin	24.1%	21.9%	21.3%	22.1%	27.9%	26.8%	26.8%	26.0%	27.2%	27.9%
Net Profit	232	205	207	288	319	332	334	404	506	501
Net Margin	25.7%	22.0%	20.8%	25.6%	25.2%	24.9%	23.8%	26.5%	31.1%	30.4%
Free Cash Flow	177	204	203	295	311	334	352	373	515	468
Income Tax	136	112	121	147	171	169	175	153	108	130

Balance Sheet Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Total Assets	1377	1295	1310	1439	1543	1589	1637	1853	1972	2151
Cash & Equivalents	496	421	452	578	667	680	696	744	755	841
Accounts Receivable	35	64	78	84	97	95	110	133	126	395
Goodwill & Int. Ass.	294	309	307	313	309	291	296	392	406	389
Total Liabilities	320	253	252	283	295	299	334	377	379	413
Accounts Payable	5	2	11	16	11	5	6	5	11	4
Long-Term Debt	95	0	0	0	0	0	0	30	0	0
Shareholder's Equity	1042	1025	1038	1156	1248	1290	1303	1477	1593	1739
D/E Ratio	0.09	0.00	0.00	0.00	0.00	0.00	0.00	0.02	0.00	0.00

Profitability & Per Share Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Return on Assets	15.9%	15.3%	15.9%	21.0%	21.4%	21.2%	20.7%	23.2%	26.5%	24.3%
Return on Equity	23.7%	19.8%	20.0%	26.3%	26.5%	26.1%	25.7%	29.1%	33.0%	30.1%
ROIC	19.0%	18.7%	19.7%	26.0%	26.5%	26.1%	25.7%	28.8%	32.6%	30.1%
Shares Out.	186	177	172	169	167	164	159	157	159	154
Revenue/Share	4.73	5.05	5.64	6.41	7.34	7.87	8.52	9.41	10.07	10.65
FCF/Share	0.93	1.11	1.16	1.68	1.80	1.97	2.14	2.30	3.19	3.02

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