



# Broadridge Financial Solutions (BR)

Updated May 19<sup>th</sup>, 2021 by Quinn Mohammed

## Key Metrics

|                             |       |                                            |       |                                  |            |
|-----------------------------|-------|--------------------------------------------|-------|----------------------------------|------------|
| <b>Current Price:</b>       | \$133 | <b>5 Year CAGR Estimate:</b>               | 12.5% | <b>Market Cap:</b>               | \$18.5B    |
| <b>Fair Value Price:</b>    | \$139 | <b>5 Year Growth Estimate:</b>             | 10.0% | <b>Ex-Dividend Date:</b>         | 06/14/2021 |
| <b>% Fair Value:</b>        | 95%   | <b>5 Year Valuation Multiple Estimate:</b> | 0.9%  | <b>Payment Date:</b>             | 07/02/2021 |
| <b>Dividend Yield:</b>      | 1.7%  | <b>5 Year Price Target</b>                 | \$223 | <b>Years of Dividend Growth:</b> | 13         |
| <b>Dividend Risk Score:</b> | B     | <b>Retirement Suitability Score:</b>       | D     | <b>Last Dividend Increase:</b>   | 6.6%       |

## Overview & Current Events

Broadridge Financial Solutions, Inc. provides investor communications services and technology-related solutions to the financial services industry. Broadridge was spun off from Automatic Data Processing, Inc. (NYSE: ADP) in 2007, where it had been the brokerage service division of ADP since 1962. Broadridge processes millions of trades a day involving trillions of dollars, provides investor communications which reach 75% of North American households, and also manage shareholder voting in 120 countries. Broadridge has also expanded into blockchain solutions and has secured a blockchain patent for proxy processing and repurchase agreements. The company serves clients across the globe, but the majority of customers are in the U.S., Canada, and the U.K. Broadridge trades under the ticker symbol BR on the NYSE. BR is headquartered in New, New York and trades at a market capitalization of \$18.5 billion. The company generates about \$5 billion in annual revenues.

Broadridge Financial Solutions reported third quarter 2021 earnings on May 4<sup>th</sup>, and total revenues grew 11% to \$1.39 billion. Recurring fee revenues grew 8% year-over-year to \$900 million from \$835 million. Recurring fee revenues make up 65% of total revenues in the first quarter. Diluted EPS fell 2% to \$1.40 but have risen 23% so far in fiscal 2021. Adjusted EPS grew 5% to \$1.76. In the past nine months, adjusted EPS grew 20% to \$2.88.

Considering the strong results evidenced in the last nine months, management has opted to raise top- and bottom-line growth guidance for the fiscal year 2021. We now estimate recurring revenue growth of 8-10% and adjusted EPS growth of 11-13%.

Subsequent to the third quarter, the corporation completed the acquisition of Itiviti Holding AB for \$2.5 billion, which will strengthen Broadridge's Capital Markets franchise and extend its capabilities across the entire trade lifecycle. Itiviti is a provider of trading and connectivity technology to the capital markets industry. Additionally, the acquisition expands Broadridge's scale outside of North America so that it can better serve global clients.

## Growth on a Per-Share Basis

| Year                      | 2011   | 2012   | 2013   | 2014   | 2015   | 2016   | 2017   | 2018   | 2019   | 2020   | 2021          | 2026          |
|---------------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|---------------|---------------|
| <b>EPS</b>                | \$1.34 | \$0.98 | \$1.69 | \$2.12 | \$2.32 | \$2.53 | \$2.70 | \$4.19 | \$4.66 | \$5.03 | <b>\$5.55</b> | <b>\$8.94</b> |
| <b>DPS</b>                | \$0.60 | \$0.64 | \$0.72 | \$0.84 | \$1.08 | \$1.20 | \$1.32 | \$1.46 | \$1.94 | \$2.16 | <b>\$2.30</b> | <b>\$3.70</b> |
| <b>Shares<sup>1</sup></b> | 123.7  | 124.8  | 119    | 120    | 118    | 118    | 117    | 116    | 114.3  | 115.1  | <b>116.0</b>  | <b>117.0</b>  |

Recent results are powered by long-term trends that we expect to continue on in the near term, of increased digitization, mutualization and the democratization of investing, as more and more people enter into the world of financial markets. Investments in the company's products (such as VSM offering) and technology platforms (such as Wealth and Global Post-Trade Management) should further fuel growth and increase customer retention. Additionally, acquisitions such as the recent acquisition of Itiviti, will allow the corporation to increase the value they can offer to clients and expand their geographic reach.

<sup>1</sup> In millions

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The company has their own three-year growth objectives for FY20 – FY23, which would see recurring revenue growth of 7 – 9%, an adjusted operating income margin expansion of 50+ basis points per year, and adjusted earnings per share growth of 8 – 12%. Broadridge has grown earnings per share on average by 15.8% in the last nine years, and 16.7% in the past five. Based on the impressive earnings growth that Broadridge has accomplished, combined with their solid growth strategies, we estimate that they could grow earnings at 10% over the next five years.

## Valuation Analysis

| Year      | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | Now  | 2026 |
|-----------|------|------|------|------|------|------|------|------|------|------|------|------|
| Avg. P/E  | 16.4 | 22.8 | 14.0 | 16.8 | 20.4 | 22.4 | 25.3 | 22.4 | 24.4 | 23.9 | 23.9 | 25.0 |
| Avg. Yld. | 2.7% | 2.9% | 3.0% | 2.4% | 2.3% | 2.1% | 1.9% | 1.6% | 1.7% | 1.8% | 1.7% | 1.7% |

We see fair value for this stock at 25.0 times earnings and today, shares trade for 23.9 times estimated earnings, about in-line with the 5-year average PE of 23.7. The PE has grown from the 10-year average PE of 20.9 as earnings accelerate. We therefore see a minor 0.9% tailwind to total returns annually as the valuation rises over time. We forecast the dividend will grow in-line with earnings and thus there would not be much change to the yield.

## Safety, Quality, Competitive Advantage, & Recession Resiliency

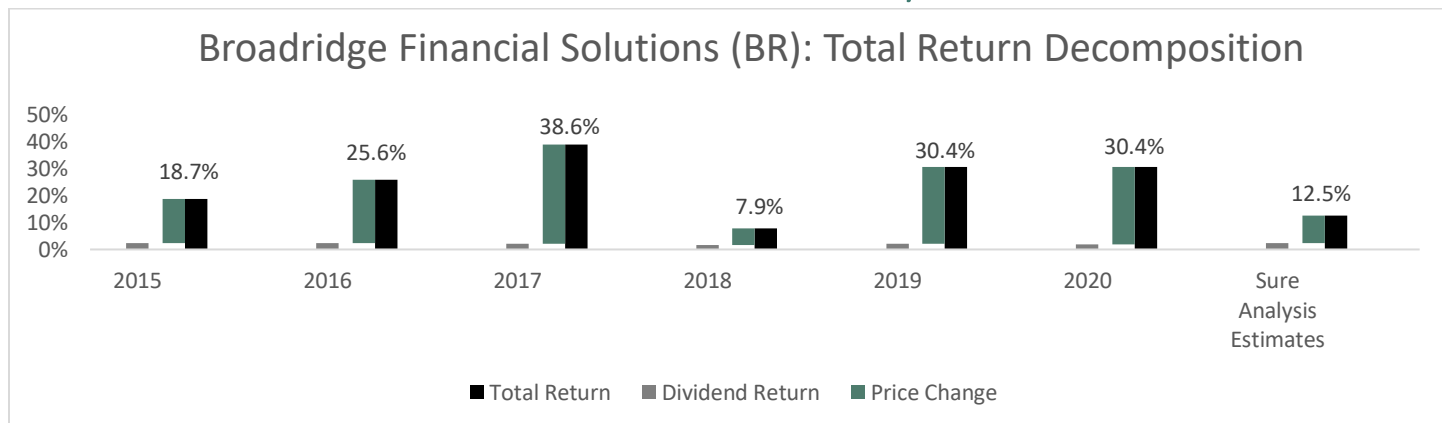
| Year   | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2026 |
|--------|------|------|------|------|------|------|------|------|------|------|------|------|
| Payout | 45%  | 65%  | 43%  | 40%  | 47%  | 47%  | 49%  | 35%  | 42%  | 43%  | 41%  | 41%  |

Broadridge doesn't possess a stand-out competitive advantage, but its unique combination of people, industry knowledge and solution expertise make them a valuable partner in financial technology services. In fact, BR believes that partnering with them would be a competitive advantage for their clients as they can drive business transformation and achieve business value. The company's payout ratio of 41% is quite safe, especially considering that the majority of revenues are recurring. Broadridge was spun off into its own entity just as the great financial crisis began to hit, so we can't compare it to prior results, but earnings remained positive throughout the recession, and the dividend was increased the entire time, since inception.

## Final Thoughts & Recommendation

We see strong growth ahead of Broadridge and estimate total returns of 12.5% in the near-term. We like the defensive nature of the business, however the company is trading at 95% of our estimated fair value, for a thin margin of safety. Total returns of 12.5% are particularly good, and we the bulk of this should come from growth. We rate BR a Buy for the growth and dividend growth investor, but the yield may be lacking for income investors.

## Total Return Breakdown by Year



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## Income Statement Metrics

| Year             | 2011  | 2012  | 2013  | 2014  | 2015  | 2016  | 2017  | 2018  | 2019  | 2020  |
|------------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| Revenue          | 2,167 | 2,304 | 2,431 | 2,558 | 2,694 | 2,897 | 4,143 | 4,330 | 4,362 | 4,529 |
| Gross Profit     | 550   | 588   | 663   | 797   | 866   | 921   | 1,035 | 1,163 | 1,230 | 1,264 |
| Gross Margin     | 25.4% | 25.5% | 27.3% | 31.1% | 32.1% | 31.8% | 25.0% | 26.8% | 28.2% | 27.9% |
| SG&A Exp.        | 270   | 300   | 324   | 378   | 399   | 421   | 501   | 565   | 578   | 639   |
| D&A Exp.         | 57    | 73    | 69    | 69    | 75    | 84    | 141   | 164   | 173   | 197   |
| Operating Profit | 280   | 289   | 339   | 418   | 467   | 500   | 534   | 598   | 653   | 625   |
| Operating Margin | 12.9% | 12.5% | 14.0% | 16.3% | 17.3% | 17.3% | 12.9% | 13.8% | 15.0% | 13.8% |
| Net Profit       | 170   | 124   | 212   | 263   | 287   | 308   | 327   | 428   | 482   | 463   |
| Net Margin       | 7.8%  | 5.4%  | 8.7%  | 10.3% | 10.7% | 10.6% | 7.9%  | 9.9%  | 11.1% | 10.2% |
| Free Cash Flow   | 167   | 238   | 220   | 334   | 365   | 362   | 312   | 556   | 544   | 500   |
| Income Tax       | 98    | 76    | 111   | 133   | 152   | 161   | 161   | 133   | 125   | 117   |

## Balance Sheet Metrics

| Year                 | 2011  | 2012  | 2013  | 2014  | 2015  | 2016  | 2017  | 2018  | 2019  | 2020  |
|----------------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| Total Assets         | 1,904 | 1,988 | 2,018 | 2,192 | 2,368 | 2,873 | 3,150 | 3,305 | 3,881 | 4,890 |
| Cash & Equivalents   | 242   | 321   | 266   | 348   | 324   | 728   | 271   | 264   | 273   | 477   |
| Accounts Receivable  | 407   | 371   | 442   | 425   | 445   | 453   | 590   | 615   | 664   | 711   |
| Inventories          | 883   | 923   | 899   | 986   | 1,166 | 1,210 | 1,646 | 1,749 | 2,056 | 2,258 |
| Goodwill & Int. Ass. | 1,107 | 1,137 | 1,202 | 1,230 | 1,440 | 1,827 | 2,146 | 2,210 | 2,753 | 3,543 |
| Total Liabilities    | 119   | 102   | 143   | 116   | 116   | 133   | 167   | 156   | 134   | 152   |
| Accounts Payable     | 524   | 524   | 525   | 524   | 689   | 1,016 | 1,102 | 1,053 | 1,470 | 1,788 |
| Long-Term Debt       | 797   | 851   | 816   | 962   | 928   | 1,046 | 1,004 | 1,094 | 1,128 | 1,347 |
| Shareholder's Equity | 0.66  | 0.62  | 0.64  | 0.55  | 0.74  | 0.97  | 1.10  | 0.96  | 1.30  | 1.33  |
| D/E Ratio            | 1,904 | 1,988 | 2,018 | 2,192 | 2,368 | 2,873 | 3,150 | 3,305 | 3,881 | 4,890 |

## Profitability & Per Share Metrics

| Year             | 2011  | 2012  | 2013  | 2014  | 2015  | 2016  | 2017  | 2018  | 2019  | 2020  |
|------------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| Return on Assets | 9.2%  | 6.4%  | 10.6% | 12.5% | 12.6% | 11.7% | 10.9% | 13.3% | 13.4% | 10.5% |
| Return on Equity | 21.1% | 15.0% | 25.5% | 29.6% | 30.4% | 31.2% | 31.9% | 40.8% | 43.4% | 37.4% |
| ROIC             | 13.8% | 9.2%  | 15.6% | 18.6% | 18.5% | 16.7% | 15.7% | 20.1% | 20.3% | 16.1% |
| Shares Out.      | 123.7 | 124.8 | 119   | 120   | 118   | 118   | 117   | 116   | 114.3 | 115.1 |
| Revenue/Share    | 16.89 | 18.07 | 19.38 | 20.61 | 21.73 | 23.82 | 34.29 | 35.96 | 36.72 | 38.71 |
| FCF/Share        | 1.30  | 1.86  | 1.75  | 2.69  | 2.95  | 2.98  | 2.58  | 4.62  | 4.58  | 4.27  |

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

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