Broadridge Financial Solutions (BR)

Updated August 13th, 2021 by Quinn Mohammed

Key Metrics

Current Price:	$175	**5 Year CAGR Estimate:**	9.4%	**Market Cap:**	$20.3 B
Fair Value Price:	$160	**5 Year Growth Estimate:**	10.0%	**Ex-Dividend Date:**	09/14/2021
% Fair Value:	110%	**5 Year Valuation Multiple Estimate:**	-1.8%	**Payment Date:**	10/05/2021
Dividend Yield:	1.5%	**5 Year Price Target**	$257	**Years of Dividend Growth:**	13
Dividend Risk Score:	B	**Retirement Suitability Score:**	C	**Last Dividend Increase:**	11%

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 traders under the ticker symbol BR on the NYSE. BR is headquartered in New, New York and trades at a market capitalization of $20.3 billion. The company generates about $5 billion in annual revenues.

Broadridge Financial Solutions reported fourth quarter and fiscal 2021 results on August 12th. Total revenues for the quarter grew 12% to $1.53 billion. Recurring fee revenues grew 15% year-over-year to $1.07 billion from $930 million. Recurring fee revenues make up 70% of total revenues in the fourth quarter. Adjusted EPS rose 2% year-over-year to $2.19 per share. For the full fiscal 2021 year, BR generated revenues of $5 billion, a 10% increase from 2020. Recurring fee revenues made up 67% of total revenue in 2021. The corporation generated adjusted EPS of $5.66 for the full year, a 13% gain from the prior year. Additionally, an 11% increase to the annual dividend was announced, to $2.56 per share.

Considering the strong results evidenced in the last twelve months, management has provided fiscal year 2022 financial guidance. Leadership estimates roughly 13.5% in recurring revenue growth, a 19% adjusted operating income margin, and for adjusted EPS growth of between 11% and 15%.

During the fourth quarter, the corporation completed the acquisition of Itiviti Holding AB for $2.6 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	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
EPS	$0.98	$1.69	$2.12	$2.32	$2.53	$2.70	$4.19	$4.66	$5.03	$5.66	***$6.39***	***$10.29***
DPS	$0.64	$0.72	$0.84	$1.08	$1.20	$1.32	$1.46	$1.94	$2.16	$2.23	***$2.56***	***$4.12***
Shares[1]	124.8	119	120	118	118	117	116	114.3	115.1	115.1	***116.0***	***117.0***

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,

[1] In millions

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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.

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 21.5% in the last nine years, and 17.5% 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	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Now	2027
Avg. P/E	22.8	14	16.8	20.4	22.4	25.3	22.4	24.4	23.9	27.8	**27.4**	**25.0**
Avg. Yld.	2.9%	3.0%	2.4%	2.3%	2.1%	1.9%	1.6%	1.7%	1.8%	1.4%	**1.5%**	**1.6%**

We see fair value for this stock at 25.0 times earnings and today, shares trade for 27.4 times estimated earnings, above the 5-year average PE of 24.8. The PE has grown from the 10-year average PE of 22.0 as earnings accelerate. We therefore see a 1.8% headwind to total returns annually as the valuation drops 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

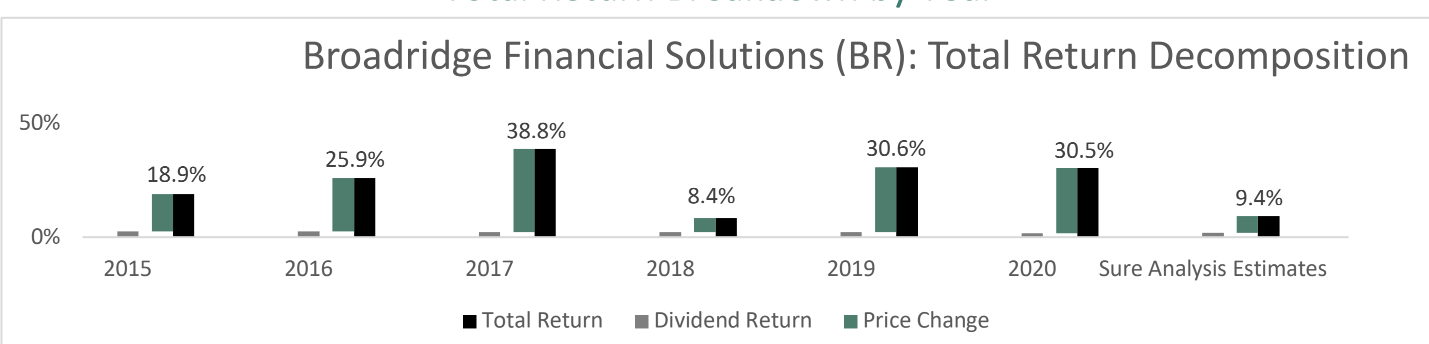
Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	65%	43%	40%	47%	47%	49%	35%	42%	43%	39%	***40%***	***40%***

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 40% 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 9.4% in the near-term. We like the defensive nature of the business, however the company is trading at 110% of our estimated fair value, for no margin of safety. Total returns of 9.4% are strong, and 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.