SEI Investments (SEIC)

Updated October 24th, 2021, by Josh Arnold

Key Metrics

Current Price:	$64	**5 Year CAGR Estimate:**	7.1%	**Market Cap:**	$9 B
Fair Value Price:	$64	**5 Year Growth Estimate:**	6.0%	**Ex-Dividend Date:**	12/11/21[1]
% Fair Value:	100%	**5 Year Valuation Multiple Estimate:**	-0.1%	**Dividend Payment Date:**	12/23/21
Dividend Yield:	1.2%	**5 Year Price Target**	$85	**Years Of Dividend Growth:**	30
Dividend Risk Score:	A	**Retirement Suitability Score:**	C	**Last Dividend Increase:**	5.7%

Overview & Current Events

SEI Investments was founded in 1968 and over the last 50+ 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 about $300 billion in assets under management and about $855 billion in assets under administration. The company should produce about $1.9 billion in revenue this year.

SEI reported third quarter earnings on October 20th, 2021, and results were marginally better than expected for both revenue and earnings. Revenue from asset management, administration, and distribution fees increased from higher assets under management and administration, which increased due to market appreciation and positive cash flows, from both new and existing clients. Average AUM was up $117 billion year-over-year to $856 billion, a gain of 16%.

Total revenue was $485 million, a 14% gain year-over-year, and very slightly ahead of estimates. SEIC reported higher operational expenses due to increased direct costs related to higher revenues, as well as increased personnel costs from organic growth and competitive labor markets.

The company repurchased two million common shares for a total consideration of $120 million during the third quarter. Cash flow from operations was $169 million, or $1.12 per share, and free cash flow was $145 million. Operating margin was flat year-over-year at 27% of revenue.

We expect $3.75 in earnings-per-share for this year following essentially in-line results for the third quarter.

Growth on a Per-Share Basis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
EPS	$1.11	$1.18	$1.64	$1.85	$1.96	$2.03	$2.42	$3.14	$3.24	$3.00	***$3.75***	***$5.02***
DPS	$0.27	$0.31	$0.42	$0.46	$0.50	$0.54	$0.58	$0.63	$0.68	$0.72	***$0.74***	***$1.09***
Shares[2]	177	172	169	167	164	159	157	159	154	146	***140***	***130***

From 2013 to 2019, SEI managed to double its earnings and looking forward, we believe that strong growth can continue. SEI saw higher earnings-per-share in each year since 2011, until the COVID-impacted 2020. We are forecasting 6% earnings-per-share growth over the next five years as 2021 should provide decent growth rates moving forward. We see SEI achieving this result through continued revenue expansion as more customers adopt its SEI Wealth Platform, and its relatively newer IT services, as well as assets under management and advisement growth. 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 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 a high-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.

[1] Estimated date

[2] Share count in millions

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Valuation Analysis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Now	2026
Avg. P/E	18.1	17.4	18.4	19.0	24.4	22.6	22.3	20.3	15.8	18.3	***17.1***	***17.0***
Avg. Yld.	1.3%	1.5%	1.4%	1.3%	1.0%	1.2%	1.0%	1.0%	1.2%	1.3%	***1.2%***	***1.3%***

SEI's price-to-earnings multiple has come down slightly since our last report, and it is now trading at 17.1 times this year's earnings, which is close to our estimate of fair value at 17 times earnings. 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.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
Payout	24%	11%	33%	12%	23%	24%	25%	20%	21%	24%	***20%***	***22%***

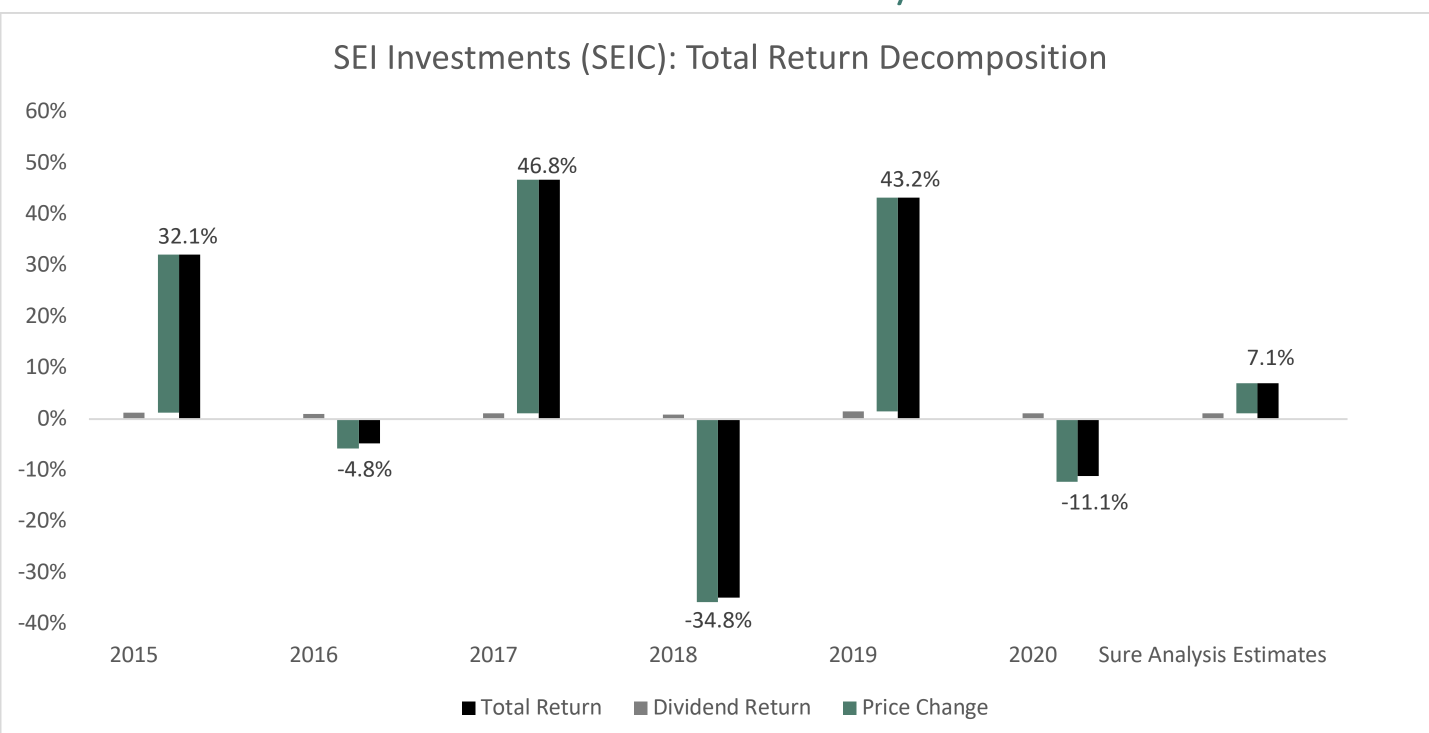
The payout ratio is very low as earnings-per-share expansion has outpaced dividend growth in recent years. There may come a time when the dividend is a significant source of returns, but SEI is understandably focused on growth today.

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 consider.

Final Thoughts & Recommendation

Overall, SEI looks like a fairly valued stock with growth potential. We are forecasting 7.1% total annual returns going forward, comprised of the small current yield and 6% 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. We're reiterating SEI at a hold rating.

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	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Revenue	930	993	1126	1266	1334	1402	1527	1624	1,650	1,684
Gross Profit	483	501	591	683	722	763	840	900	921	946
Gross Margin	51.9%	50.4%	52.5%	53.9%	54.2%	54.5%	55.0%	55.4%	55.8%	56.2%
SG&A Exp.	230	233	285	269	298	316	367	380	379	416
D&A Exp.	49	56	57	61	67	72	76	78	81	---
Operating Profit	204	212	248	353	358	376	397	442	460	446
Operating Margin	21.9%	21.3%	22.1%	27.9%	26.8%	26.8%	26.0%	27.2%	27.9%	26.5%
Net Profit	205	207	288	319	332	334	404	506	501	447
Net Margin	22.0%	20.8%	25.6%	25.2%	24.9%	23.8%	26.5%	31.1%	30.4%	26.6%
Free Cash Flow	204	203	295	311	334	352	373	515	468	---
Income Tax	112	121	147	171	169	175	153	108	130	121

Balance Sheet Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Total Assets	1295	1310	1439	1543	1589	1637	1853	1972	2151	2,167
Cash & Equivalents	421	452	578	667	680	696	744	755	841	785
Accounts Receivable	64	78	84	97	95	110	133	126	140	440
Goodwill & Int. Ass.	309	307	313	309	291	296	392	406	389	360
Total Liabilities	253	252	283	295	299	334	377	379	413	427
Accounts Payable	2	11	16	11	5	6	5	11	4	8
Long-Term Debt	0	0	0	0	0	0	30	0	0	---
Shareholder's Equity	1025	1038	1156	1248	1290	1303	1477	1593	1739	1,740
D/E Ratio	0.00	0.00	0.00	0.00	0.00	0.00	0.02	0.00	0.00	---

Profitability & Per Share Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Return on Assets	15.3%	15.9%	21.0%	21.4%	21.2%	20.7%	23.2%	26.5%	24.3%	20.7%
Return on Equity	19.8%	20.0%	26.3%	26.5%	26.1%	25.7%	29.1%	33.0%	30.1%	25.7%
ROIC	18.7%	19.7%	26.0%	26.5%	26.1%	25.7%	28.8%	32.6%	30.1%	25.7%
Shares Out.	177	172	169	167	164	159	157	159	154	146
Revenue/Share	5.05	5.64	6.41	7.34	7.87	8.52	9.41	10.07	10.65	11.30
FCF/Share	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.