Broadridge Financial Solutions (BR)

Updated February 7th, 2021 by Quinn Mohammed

Key Metrics

Current Price:	$149	**5 Year CAGR Estimate:**	12.0%	**Market Cap:**	$17.5 B
Fair Value Price:	$160	**5 Year Growth Estimate:**	9.0%	**Ex-Dividend Date:**	03/11/2021
% Fair Value:	94%	**5 Year Valuation Multiple Estimate:**	1.3%	**Payment Date:**	04/04/2022
Dividend Yield:	1.7%	**5 Year Price Target**	$246	**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 $17.5 billion. The company generates about $5 billion in annual revenues.

Broadridge Financial Solutions reported second quarter fiscal 2022 results on February 1st. Total revenues for the quarter grew 19% to $1.3 billion. Recurring fee revenues grew 19% year-over-year to $798 million from $673 million. Recurring fee revenues make up 63% of total revenues in the second quarter. Adjusted EPS rose 12% YoY to $0.82 per share.

Considering the strong results evidenced in the trailing six months, management has reaffirmed most of the fiscal year 2022 financial guidance. Leadership estimates roughly 13.5% in recurring revenue growth, an 18.5% (down from 19% in the prior report) adjusted operating income margin, and for adjusted EPS growth of between 11% and 15%.

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***	***$9.83***
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, 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 9% over the next five years.

[1] 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	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	**23.4**	**25.0**
Avg. Yld.	2.9%	3.0%	2.4%	2.3%	2.1%	1.9%	1.6%	1.7%	1.8%	1.4%	**1.7%**	**1.7%**

We see fair value for this stock at 25.0 times earnings and today, shares trade for 23.4 times estimated earnings, below 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 1.3% tailwind to total returns annually as the valuation grows 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

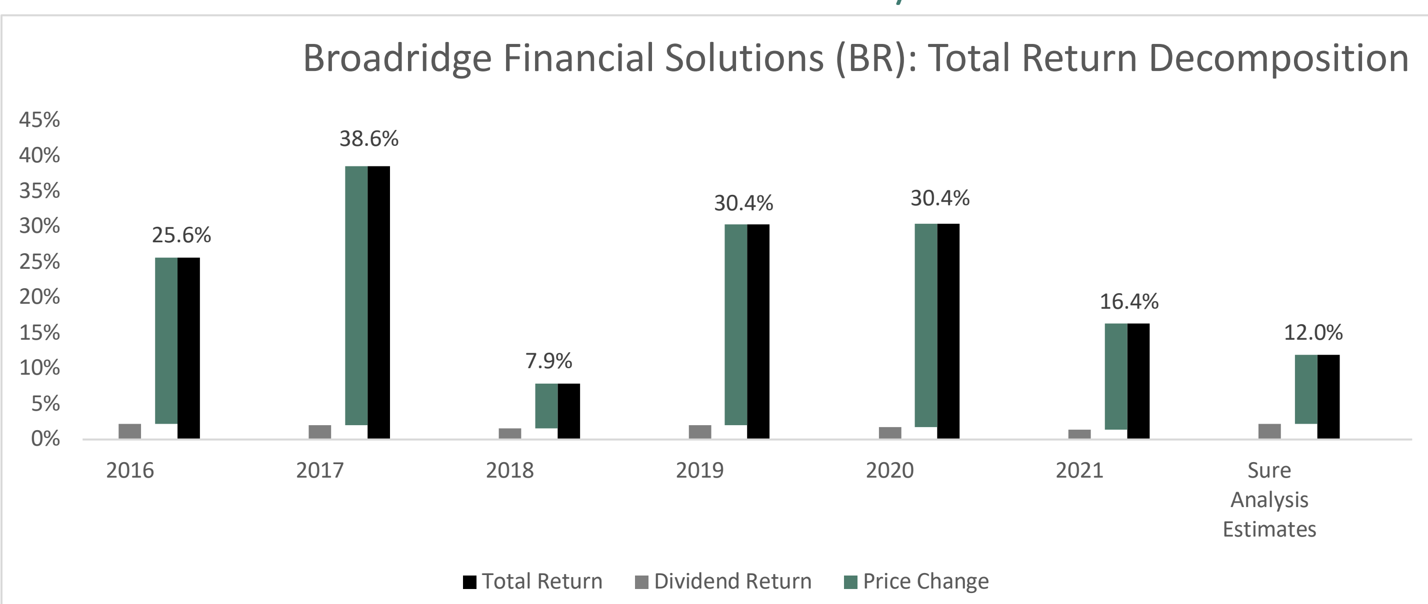
Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	65%	43%	40%	47%	47%	49%	35%	42%	43%	39%	***40%***	***42%***

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 12% in the medium-term. We like the defensive nature of the business, and the company is trading at 94% of our estimated fair value, for a minor margin of safety. Annualized total returns of 12% 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	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Revenue	2304	2431	2558	2694	2897	4143	4330	4362	4529	4994
Gross Profit	588	663	797	866	921	1035	1163	1230	1264	1423
Gross Margin	25.5%	27.3%	31.1%	32.1%	31.8%	25.0%	26.8%	28.2%	27.9%	28.5%
SG&A Exp.	300	324	378	399	421	501	565	578	639	744
D&A Exp.	73	69	69	75	84	141	164	173	197	221
Operating Profit	289	339	418	467	500	534	598	653	625	679
Operating Margin	12.5%	14.0%	16.3%	17.3%	17.3%	12.9%	13.8%	15.0%	13.8%	13.6%
Net Profit	124	212	263	287	308	327	428	482	463	548
Net Margin	5.4%	8.7%	10.3%	10.7%	10.6%	7.9%	9.9%	11.1%	10.2%	11.0%
Free Cash Flow	238	220	334	365	362	312	556	544	500	539
Income Tax	76	111	133	152	161	161	133	125	117	149

Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Total Assets	1988	2018	2192	2368	2873	3150	3305	3881	4890	8120
Cash & Equivalents	321	266	348	324	728	271	264	273	477	275
Accounts Receivable	371	442	425	445	453	590	615	664	711	820
Goodwill & Int. Ass.	923.3	899	986	1166	1210	1646	1749	2056	2258	5145
Total Liabilities	1137	1202	1230	1440	1827	2146	2210	2753	3543	6311
Accounts Payable	102	143	116	116	133	167	156	134	152	249
Long-Term Debt	524	525	524	689	1016	1102	1053	1470	1788	3888
Shareholder's Equity	851	816	962	928	1046	1004	1094	1128	1347	1809
D/E Ratio	0.62	0.64	0.55	0.74	0.97	1.10	0.96	1.30	1.33	2.15

Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Return on Assets	6.4%	10.6%	12.5%	12.6%	11.7%	10.9%	13.3%	13.4%	10.5%	8.4%
Return on Equity	15.0%	25.5%	29.6%	30.4%	31.2%	31.9%	40.8%	43.4%	37.4%	34.7%
ROIC	9.2%	15.6%	18.6%	18.5%	16.7%	15.7%	20.1%	20.3%	16.1%	12.4%
Shares Out.	124.8	119	120	118	118	117	116	114.3	115.1	115.1
Revenue/Share	18.07	19.38	20.61	21.73	23.82	34.29	35.96	36.72	38.71	42.39
FCF/Share	1.86	1.75	2.69	2.95	2.98	2.58	4.62	4.58	4.27	4.58

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