SEI Investments (SEIC)

Updated January 31st, 2022, by Josh Arnold

Key Metrics

Current Price:	$58	**5 Year CAGR Estimate:**	11.0%	**Market Cap:**	$8 B
Fair Value Price:	$69	**5 Year Growth Estimate:**	6.0%	**Ex-Dividend Date:**	03/11/22[1]
% Fair Value:	84%	**5 Year Valuation Multiple Estimate:**	3.6%	**Dividend Payment Date:**	03/23/22
Dividend Yield:	1.4%	**5 Year Price Target**	$93	**Years Of Dividend Growth:**	31
Dividend Risk Score:	A	**Retirement Suitability Score:**	B	**Last Dividend Increase:**	8.1%

Overview & Current Events

SEI Investments was founded in 1968 and over the last 50+ years has grown into a market capitalization of $8 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 nearly $900 billion in assets under administration. The company should produce about $2 billion in revenue this year.

SEI reported fourth quarter and full-year earnings on January 26th, 2022, and results were better than expected on both the top and bottom lines. Earnings-per-share came to $1.03 for the quarter, which was six cents better than expected. On revenue, SEI beat by $14 million with a 13% year-over-year gain to $502 million. Revenue gains were broad-based, with each major segment producing strong growth. Gains were headed by Investment Managers, which saw a $25 million increase in revenue year-over-year. Average assets under administration increased $105 billion, or 13%, to $884 billion in Q4. Average assets under management, excluding LSV, was up 16% to $301 billion.

Operating income came to $143 million, up from $124 million in the year-ago period. Private Banks operating margin more than doubled, from 4% of revenue to 9%, year-over-year. Investment Advisors operating margin was 49%, which was slightly lower than the 52% it produced in the comparable period a year ago. Institutional Managers operating margin was 48%, down from 55%. Investment Managers operating margin rose from 38% to 41%.

Operating expenses were $358 million, up sharply from $320 million in the prior year Q4. We forecast $3.85 in earnings-per-share for this year as the company continues to benefit from rising asset prices, as well as good sales momentum. We note margins are a significant wildcard at the moment, as evidenced again by Q4 results.

SEI boosted its dividend by 8.1% to $0.40 on a semi-annual basis, it's 31st consecutive annual dividend increase.

Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
EPS	$1.18	$1.64	$1.85	$1.96	$2.03	$2.42	$3.14	$3.24	$3.00	$3.81	***$3.85***	***$5.15***
DPS	$0.31	$0.42	$0.46	$0.50	$0.54	$0.58	$0.63	$0.68	$0.72	$0.77	***$0.80***	***$1.18***
Shares[2]	172	169	167	164	159	157	159	154	146	138	***130***	***115***

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

[1] Estimated date

[2] Share count in millions

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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.

Valuation Analysis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Now	2027
Avg. P/E	17.4	18.4	19.0	24.4	22.6	22.3	20.3	15.8	18.3	16.0	***15.1***	***18.0***
Avg. Yld.	1.5%	1.4%	1.3%	1.0%	1.2%	1.0%	1.0%	1.2%	1.3%	1.3%	***1.4%***	***1.3%***

SEI's price-to-earnings multiple has come down sharply since our last report, and it is now trading at 15.1 times this year's earnings, which is well under our estimate of fair value at 18 times earnings. We therefore see a tailwind to total returns due to valuation expansion. 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	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	11%	33%	12%	23%	24%	25%	20%	21%	24%	20%	***21%***	***23%***

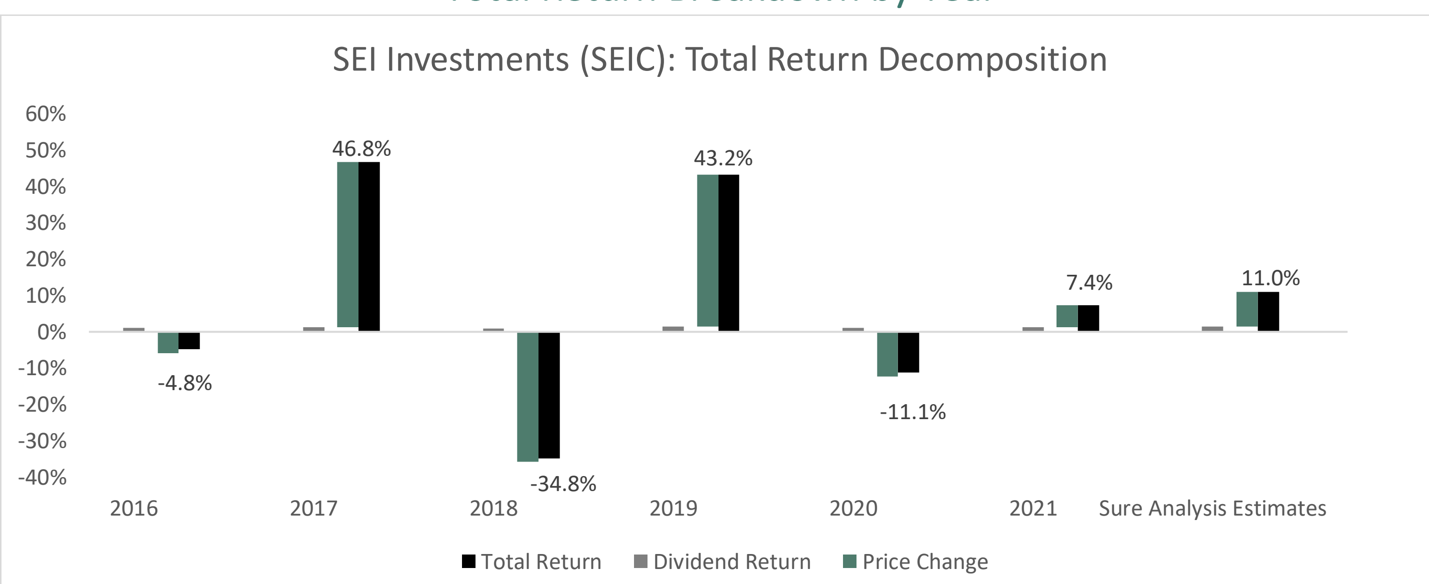
The payout ratio is very low as earnings-per-share expansion has outpaced dividend growth in recent years. There may come a time when the dividend is a significant source of returns, but SEI is understandably focused on growth today.

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 an undervalued stock with good growth potential. We are forecasting 11% total annual returns going forward, comprised of the small current yield and 6% earnings-per-share growth, in addition to a mid-single digit gain from valuation expansion. 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 upgrading SEI from hold to buy on the lower valuation.

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	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Revenue	993	1,126	1,266	1,334	1,402	1,527	1,624	1,650	1,684	1,918
Gross Profit	501	591	683	722	763	840	900	921	946	1,088
Gross Margin	50.4%	52.5%	53.9%	54.2%	54.5%	55.0%	55.4%	55.8%	56.2%	56.7%
SG&A Exp.	233	285	269	298	316	367	380	379	416	442
D&A Exp.	56	57	61	67	72	76	78	81	84	---
Operating Profit	212	248	353	358	376	397	442	460	446	553
Operating Margin	21.3%	22.1%	27.9%	26.8%	26.8%	26.0%	27.2%	27.9%	26.5%	28.8%
Net Profit	207	288	319	332	334	404	506	501	447	547
Net Margin	20.8%	25.6%	25.2%	24.9%	23.8%	26.5%	31.1%	30.4%	26.6%	28.5%
Free Cash Flow	203	295	311	334	352	373	515	468	410	---
Income Tax	121	147	171	169	175	153	108	130	121	147

Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Total Assets	1,310	1,439	1,543	1,589	1,637	1,853	1,972	2,151	2,167	2,354
Cash & Equivalents	452	578	667	680	696	744	755	841	785	825
Accounts Receivable	78	84	97	95	110	133	126	140	154	501
Goodwill & Int. Ass.	307	313	309	291	296	392	406	389	360	429
Total Liabilities	252	283	295	299	334	377	379	413	427	494
Accounts Payable	11	16	11	5	6	5	11	4	8	10
Long-Term Debt	---	---	---	---	---	30	---	---	---	40
Shareholder's Equity	1,038	1,156	1,248	1,290	1,303	1,477	1,593	1,739	1,740	1,861
LTD/E Ratio	---	---	---	---	---	0.02	---	---	---	0.02

Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Return on Assets	15.9%	21.0%	21.4%	21.2%	20.7%	23.2%	26.5%	24.3%	20.7%	24.2%
Return on Equity	20.0%	26.3%	26.5%	26.1%	25.7%	29.1%	33.0%	30.1%	25.7%	30.4%
ROIC	19.7%	26.0%	26.5%	26.1%	25.7%	28.8%	32.6%	30.1%	25.7%	30.0%
Shares Out.	172	169	167	164	159	157	159	154	146	138
Revenue/Share	5.64	6.41	7.34	7.87	8.52	9.41	10.07	10.65	11.30	13.39
FCF/Share	1.16	1.68	1.80	1.97	2.14	2.30	3.19	3.02	2.75	---

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