# Raymond James Financial (RJF)

*Updated October 30th, 2022, by Patrick Neuwirth*

## Key Metrics

| | | | | | |
|---|---|---|---|---|---|
| **Current Price:** | $119 | **5 Year CAGR Estimate:** | 8.6% | **Market Cap:** | $25 B |
| **Fair Value Price:** | $116 | **5 Year Growth Estimate:** | 8.0% | **Ex-Dividend Date[1]:** | 01/04/23 |
| **% Fair Value:** | 103% | **5 Year Valuation Multiple Estimate:** | -0.6% | **Dividend Payment Date[1]:** | 01/18/23 |
| **Dividend Yield:** | 1.1% | **5 Year Price Target** | $170 | **Years Of Dividend Growth:** | 10 |
| **Dividend Risk Score:** | A | **Retirement Suitability Score:** | C | **Rating:** | Hold |

## Overview & Current Events

Raymond James Financial (RJF) is a financial holding company whose major operations include wealth management, investment banking, asset management, and commercial banking. Approximately 90% of the company's revenue is from the U.S. and 67% of fiscal 2022 revenue is from the company's wealth management segment. Other segments are capital markets (16% of revenues), asset management (8%), and RJ Bank (9%). The company has more than 15,000 employees and supports more than 8,700 independent contractor financial advisors across the United States, Canada, and the United Kingdom. The company was founded in 1962 and is headquartered in St. Petersburg, Florida.

On October 26th, 2022, Raymond James Financial released its fourth quarter fiscal 2022 results (ended September30th). For the quarter the company reported net income of $437 million which represents a 2% increase compared with a quarterly net income of $429 million in the same quarter of 2021. Reported earnings per diluted share for the same periods were $2.08 and $2.12, a decrease of 2% year-over-year.

Quarterly net revenues of $2.83 billion were up 5% compared to the prior year's fiscal fourth quarter and 4% over the preceding quarter. The results are largely driven by higher short-term interest rates, a rise in loan demand, and net interest income. In fiscal 2022, net revenues rose 13% to $11 billion and annual adjusted net income available to common shareholders were $1.62 billion, or $7.49 per diluted share. Raymond James Financial has $1.09 trillion in client assets under administration, Private Client Group assets in fee-based accounts of $586 billion, and financial assets under management of $174 billion. As of September 30th, 2022, total capital ratio was 20.5% compared with 26.2% as of September 30th, 2021. Tier 1 capital ratio was 19.2% compared with 25% as of September 2021-end.

## Growth on a Per-Share Basis

| Year | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2028 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **EPS** | $1.72 | $2.21 | $2.29 | $2.43 | $3.39 | $4.31 | $4.93 | $4.07 | $7.05 | $7.49 | ***$9.25*** | ***$13.59*** |
| **DPS** | $0.37 | $0.43 | $0.48 | $0.53 | $0.59 | $0.73 | $0.91 | $0.99 | $1.04 | $1.36 | ***$1.36*** | ***$2.51*** |
| **Shares[2]** | 207 | 209 | 212 | 214 | 212 | 216 | 218 | 207 | 205 | 215 | ***210*** | ***200*** |

The company has grown earnings by 18% per year over the past nine years and 16.5% over the past five years. We expect earnings to increase by 8% per year for the next five years. The company has been able to increase its yearly dividend payout for 10 consecutive years. Over the last five years, the average annual dividend growth rate is almost 13%. In December 2021, the company increased its quarterly dividend by 30.8% from $0.26 to $0.34 per share. In market downturns, the company's management strives to maintain its most recent dividend, if feasible[3]. Since fiscal year 2016, the company returned $2.4 billion to shareholders through dividends and share repurchases. During the reported quarter, RJF repurchased 0.6 million shares for $62 million.

[1] Estimated date
[2] In millions.
[3] Analyst & Investor Day - May 25,2022

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## Valuation Analysis

| Year | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | Now | 2028 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Avg. P/E** | 16.4 | 15.2 | 16.4 | 14.3 | 14.7 | 14.1 | 11.1 | 12.8 | 10.9 | 13.0 | ***12.9*** | ***12.5*** |
| **Avg. Yld.** | 1.9% | 1.3% | 1.3% | 1.5% | 1.2% | 1.2% | 1.7% | 1.9% | 1.3% | 1.3% | ***1.1%*** | ***1.5%*** |

During the past decade shares of Raymond James Financial have traded with an average price-to-earnings ratio of about 13.9 times earnings and today, it stands at 12.9 We are using 12.5 times earnings as a fair value baseline, implying the potential for a valuation headwind. The company's dividend yield is currently 1.1% which is just below the average yield over the past decade of 1.4%.

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

| Year | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | Now | 2028 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Payout** | 22% | 19% | 21% | 22% | 17% | 17% | 18% | 24% | 15% | 18% | ***15%*** | ***18%*** |

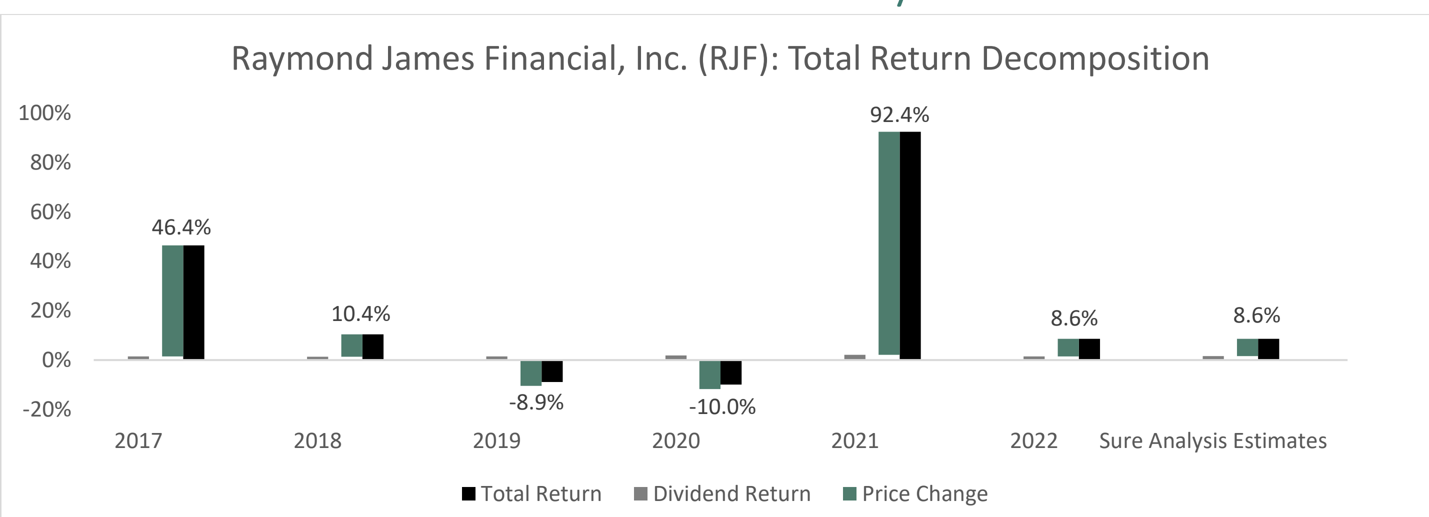
During the past five years, the company's dividend payout ratio has averaged around 18%. Raymond James Financial 's dividend is comfortably covered by earnings. Given the expected earnings growth, there is room for the dividend to continue to grow at least at the same pace and keep the payout ratio around the same levels which is safe. Management is targeting a 20% to 30% dividend payout ratio.

Raymond James' revenue and earnings held up well despite the current bear market and previous recessions. The company has an impressive streak of 137 consecutive quarters of profitability and strong credit ratings (A-/Stable Outlook (Fitch)). The company has diverse and complementary businesses and the ability to leverage different services across revenue segments. Its strategy is to be the "Premier Alternative" to Wall Street. The company has established a track record for growing efficiently through acquisitions in recent years. In June, Raymond James Financial completed its $1.1 billion acquisition of TriState Capital Holdings Inc. We expect the company to use its free cash flow to continue its M&A activities in the coming years but at a slower pace.

## Final Thoughts & Recommendation

Raymond James Financial is a well-established capital markets company with a solid earnings track record and a dividend yield of 1.1%. The company should be able to grow client assets under management, organically and via acquisitions. We estimate total return potential of 8.6% per year for the next five years based on an 8% earnings-per-share growth, the dividend, and a valuation headwind. The shares earn 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 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 |
|---|---|---|---|---|---|---|---|---|---|---|
| Revenue | 3,738 | 4,408 | 4,769 | 5,101 | 5,345 | 6,292 | 7,182 | 7,646 | 7,889 | 9,630 |
| SG&A Exp. | 2,935 | 3,436 | 3,705 | 3,951 | 4,053 | 4,680 | 5,328 | 5,654 | 5,992 | 7,123 |
| D&A Exp. | 51 | 66 | 64 | 68 | 72 | 84 | 99 | 112 | 119 | 134 |
| Net Profit | 296 | 367 | 480 | 502 | 529 | 636 | 857 | 1,034 | 818 | 1,403 |
| Net Margin | 7.9% | 8.3% | 10.1% | 9.8% | 9.9% | 10.1% | 11.9% | 13.5% | 10.4% | 14.6% |
| Free Cash Flow | 314 | 587 | 447 | 825 | (695) | (315) | 750 | 439 | 3,930 | 6,551 |
| Income Tax | 176 | 197 | 268 | 296 | 271 | 289 | 454 | 341 | 234 | 388 |

## Balance Sheet Metrics

| Year | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 |
|---|---|---|---|---|---|---|---|---|---|---|
| Total Assets | 21,160 | 23,186 | 23,326 | 26,468 | 31,487 | 34,883 | 37,413 | 38,830 | 47,482 | 61,891 |
| Cash & Equivalents | 2,144 | 2,723 | 2,350 | 2,808 | 1,650 | 3,670 | 3,500 | 3,957 | 5,390 | 7,201 |
| Acc. Receivable | 2,067 | 1,983 | 2,127 | 2,185 | 2,715 | 2,767 | 3,343 | 2,671 | 2,435 | 2,831 |
| Goodwill & Int. | 361 | 361 | 354 | 377 | 503 | 493 | 639 | 611 | 600 | 882 |
| Total Liabilities | 17,480 | 19,188 | 18,892 | 21,682 | 26,424 | 29,190 | 30,961 | 32,187 | 40,306 | 53,588 |
| Accounts Payable | 5,317 | 6,683 | 4,936 | 5,564 | 6,751 | 5,585 | 5,831 | 4,361 | 6,792 | 13,991 |
| Long-Term Debt | 1,411 | 1,342 | 1,890 | 1,867 | 2,289 | 3,063 | 2,449 | 2,444 | 2,933 | 2,895 |
| Total Equity | 3,269 | 3,663 | 4,141 | 4,522 | 4,917 | 5,582 | 6,368 | 6,581 | 7,114 | 8,245 |
| LTD/E Ratio | 0.43 | 0.37 | 0.46 | 0.41 | 0.47 | 0.55 | 0.38 | 0.37 | 0.41 | 0.35 |

## Profitability & Per Share Metrics

| Year | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 |
|---|---|---|---|---|---|---|---|---|---|---|
| Return on Assets | 1.5% | 1.7% | 2.1% | 2.0% | 1.8% | 1.9% | 2.4% | 2.7% | 1.9% | 2.6% |
| Return on Equity | 10.1% | 10.6% | 12.3% | 11.6% | 11.2% | 12.1% | 14.3% | 16.0% | 11.9% | 18.3% |
| ROIC | 6.8% | 7.0% | 8.2% | 7.7% | 7.6% | 7.9% | 9.7% | 11.5% | 8.5% | 13.2% |
| Shares Out. | 207 | 209 | 212 | 214 | 212 | 216 | 218 | 207 | 205 | 206 |
| Revenue/Share | 18.91 | 20.91 | 22.14 | 23.30 | 24.66 | 28.61 | 32.18 | 35.40 | 37.51 | 45.60 |
| FCF/Share | 1.59 | 2.78 | 2.08 | 3.77 | (3.21) | (1.43) | 3.36 | 2.03 | 18.69 | 31.02 |

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