



Broadridge Financial Solutions (BR)

Updated November 3rd, 2022 by Quinn Mohammed

Key Metrics

Current Price:	\$132	5 Year CAGR Estimate:	14.2%	Market Cap:	\$16 B
Fair Value Price:	\$161	5 Year Growth Estimate:	8.0%	Ex-Dividend Date¹:	12/14/2022
% Fair Value:	82%	5 Year Valuation Multiple Estimate:	4.1%	Payment Date¹:	01/05/2022
Dividend Yield:	2.2%	5 Year Price Target	\$236	Years of Dividend Growth:	16
Dividend Risk Score:	B	Retirement Suitability Score:	C	Rating:	Buy

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 trades under the ticker symbol BR on the NYSE. BR is headquartered in New, New York and trades at a market capitalization of \$16 billion. The company generates about \$5 billion in annual revenues.

On August 12th, 2022, Broadridge increased the dividend by 13% to \$2.90 per share annually, marking 16 years of consecutive increases.

Broadridge Financial Solutions reported first quarter 2023 results on November 2nd, 2022. Total revenues for the quarter grew 8% to \$1.28 billion. Recurring revenue grew 7% year-over-year to 806 million from \$750 million. Recurring revenue makes up 63% of total revenues in the first quarter. Adjusted EPS decreased by 21% YoY to \$0.84 per share.

Leadership provided FY 2023 guidance and estimates roughly 7.5% in recurring revenue growth, a 50 bps increase to adjusted operating income margin, and for adjusted EPS growth of between 7% to 11%.

Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
EPS	\$1.69	\$2.12	\$2.32	\$2.53	\$2.70	\$4.19	\$4.66	\$5.03	\$5.66	\$6.46	\$6.99	\$10.27
DPS	\$0.72	\$0.84	\$1.08	\$1.20	\$1.32	\$1.46	\$1.94	\$2.16	\$2.23	\$2.65	\$2.90	\$4.67
Shares²	119	120	118	118	117	116	114.3	115.1	117.8	118.5	119.0	120.0

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 16% in the last nine years, and 19% in the

¹ Estimated date

² In millions

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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 8% over the next five years.

Valuation Analysis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Now	2028
Avg. P/E	14	16.8	20.4	22.4	25.3	22.4	24.4	23.9	27.8	23.1	18.8	23.0
Avg. Yld.	3.0%	2.4%	2.3%	2.1%	1.9%	1.6%	1.7%	1.8%	1.4%	1.7%	2.2%	2.0%

We see fair value for this stock at 23.0 times earnings and today, shares trade for 18.8 times estimated earnings, below the 5-year average PE of 24.3. The 5-year average PE ratio has grown from the 10-year average PE of 22.0 as earnings have accelerated. We estimate a tailwind to total returns annually as the valuation expands over time. We forecast the dividend will grow only slighter stronger than earnings and thus there would not be much change to the yield.

Safety, Quality, Competitive Advantage, & Recession Resiliency

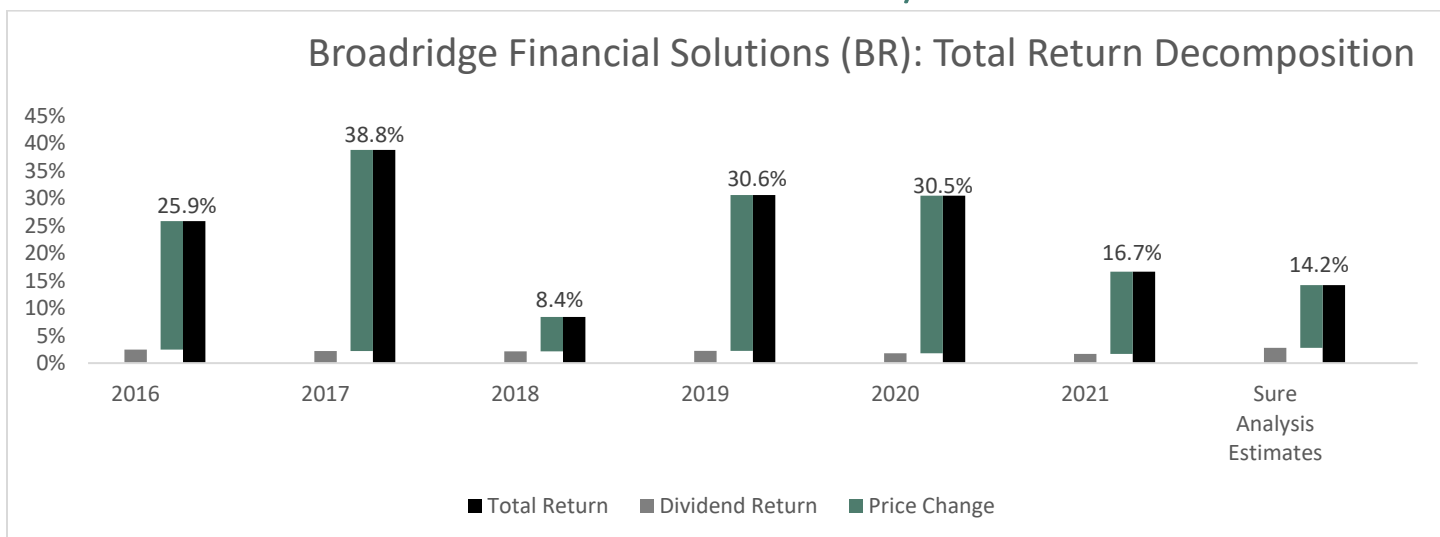
Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	43%	40%	47%	47%	49%	35%	42%	43%	39%	41%	41%	435%

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 41% 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 for Broadridge and estimate annualized total returns of 14.2% in the intermediate term. We like the defensive nature of the business, and the company is trading at 82% of our estimated fair value. Annualized total returns of 14.2% are excellent, and the bulk of this should come from growth. We rate Broadridge as 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	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Revenue	2431	2558	2694	2897	4143	4330	4362	4529	4994	5709
Gross Profit	663	797	866	921	1035	1163	1230	1264	1423	1592
Gross Margin	27.3%	31.1%	32.1%	31.8%	25.0%	26.8%	28.2%	27.9%	28.5%	27.9%
SG&A Exp.	324	378	399	421	501	565	578	639	744	832
D&A Exp.	69	69	75	84	141	164	173	197	221	333
Operating Profit	339	418	467	500	534	598	653	625	679	760
Operating Margin	14.0%	16.3%	17.3%	17.3%	12.9%	13.8%	15.0%	13.8%	13.6%	13.3%
Net Profit	212	263	287	308	327	428	482	463	548	539
Net Margin	8.7%	10.3%	10.7%	10.6%	7.9%	9.9%	11.1%	10.2%	11.0%	9.4%
Free Cash Flow	220	334	365	362	312	556	544	500	539	370
Income Tax	111	133	152	161	161	133	125	117	149	133

Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Total Assets	2018	2192	2368	2873	3150	3305	3881	4890	8120	8169
Cash & Equivalents	266	348	324	728	271	264	273	477	275	225
Accounts Receivable	442	425	445	453	590	615	664	711	820	947
Goodwill & Int. Ass.	899	986	1166	1210	1646	1749	2056	2258	5145	4562
Total Liabilities	1202	1230	1440	1827	2146	2210	2753	3543	6311	6250
Accounts Payable	143	116	116	133	167	156	134	152	249	245
Long-Term Debt	525	524	689	1016	1102	1053	1470	1788	3888	3793
Shareholder's Equity	816	962	928	1046	1004	1094	1128	1347	1809	1919
D/E Ratio	0.64	0.55	0.74	0.97	1.10	0.96	1.30	1.33	2.15	1.98

Profitability & Per Share Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Return on Assets	10.6%	12.5%	12.6%	11.7%	10.9%	13.3%	13.4%	10.5%	8.4%	6.6%
Return on Equity	25.5%	29.6%	30.4%	31.2%	31.9%	40.8%	43.4%	37.4%	34.7%	28.9%
ROIC	15.6%	18.6%	18.5%	16.7%	15.7%	20.1%	20.3%	16.1%	12.4%	9.5%
Shares Out.	119	120	118	118	117	116	114.3	115.1	115.1	118.5
Revenue/Share	19.38	20.61	21.73	23.82	34.29	35.96	36.72	38.71	42.39	48.18
FCF/Share	1.75	2.69	2.95	2.98	2.58	4.62	4.58	4.27	4.58	3.13

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

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