SEI Investments (SEIC)

Updated January 27th, 2023, by Josh Arnold

Key Metrics

Current Price:	$62	**5 Year CAGR Estimate:**	7.7%	**Market Cap:**	$8.3 B
Fair Value Price:	$63	**5 Year Growth Estimate:**	6.0%	**Ex-Dividend Date:**	06/11/23[1]
% Fair Value:	98%	**5 Year Valuation Multiple Estimate:**	0.3%	**Dividend Payment Date:**	06/23/23
Dividend Yield:	1.4%	**5 Year Price Target**	$84	**Years Of Dividend Growth:**	32
Dividend Risk Score:	A	**Retirement Suitability Score:**	C	**Rating:**	Hold

Overview & Current Events

SEI Investments was founded in 1968 and over the last 50+ years has grown into a market capitalization of $8.3 billion. SEI is a global provider of investment processing, investment management, and investment operations solutions for financial institutions and advisors. SEI has about $400 billion in assets under management and around $900 billion in assets under administration. The company should produce about $1.9 billion in revenue this year.

SEI reported fourth quarter and full-year earnings on January 25th, 2023, and results were somewhat mixed. Earnings-per-share were 83 cents in Q4, which was four cents ahead of expectations. Revenue was down 9% to $457 million, but met expectations.

Revenue from AUM declined, primarily from lower assets under management from market depreciation during 2022. AUM, excluding LSV, declined 19% year-over-year. Revenue from information processing and software servicing fees declined from a divestiture.

Operational expenses were higher due to higher personnel costs from business growth, competitive labor markets, and the impact of inflation on wages and services. In addition, the company experienced higher costs from regulatory requirements. The company noted lower costs related to asset management revenues and lower amortization expenses.

The company repurchased 1.3 million shares in Q4 for $79.6 million, at an average price of $59.36. The company also boosted its semi-annual dividend to 43 cents per share.

We see $3.50 in earnings-per-share for this year as an initial estimate, noting that there is sizable upside to that if equity markets perform well this year.

Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
EPS	$1.64	$1.85	$1.96	$2.03	$2.42	$3.14	$3.24	$3.00	$3.81	$3.81	***$3.50***	***$4.68***
DPS	$0.42	$0.46	$0.50	$0.54	$0.58	$0.63	$0.68	$0.72	$0.77	$0.83	***$0.86***	***$1.26***
Shares[2]	169	167	164	159	157	159	154	146	138	134	***130***	***120***

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. 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, and revenue growth has slowed materially.

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

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	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Now	2028
Avg. P/E	18.4	19.0	24.4	22.6	22.3	20.3	15.8	18.3	16.0	15.3	***17.7***	***18.0***
Avg. Yld.	1.4%	1.3%	1.0%	1.2%	1.0%	1.0%	1.2%	1.3%	1.3%	1.4%	***1.4%***	***1.5%***

SEI's price-to-earnings multiple is slightly higher than our last report, and it is now trading at 17.7 times this year's earnings, which is slightly under our estimate of fair value at 18 times earnings. The stock's historical range is fairly narrow at 16 to 22 times earnings. We therefore see a fractional tailwind to total returns due to valuation expansion as the stock is fairly valued. 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, although it now yields about what the S&P 500 does.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	33%	12%	23%	24%	25%	20%	21%	24%	20%	22%	***25%***	***27%***

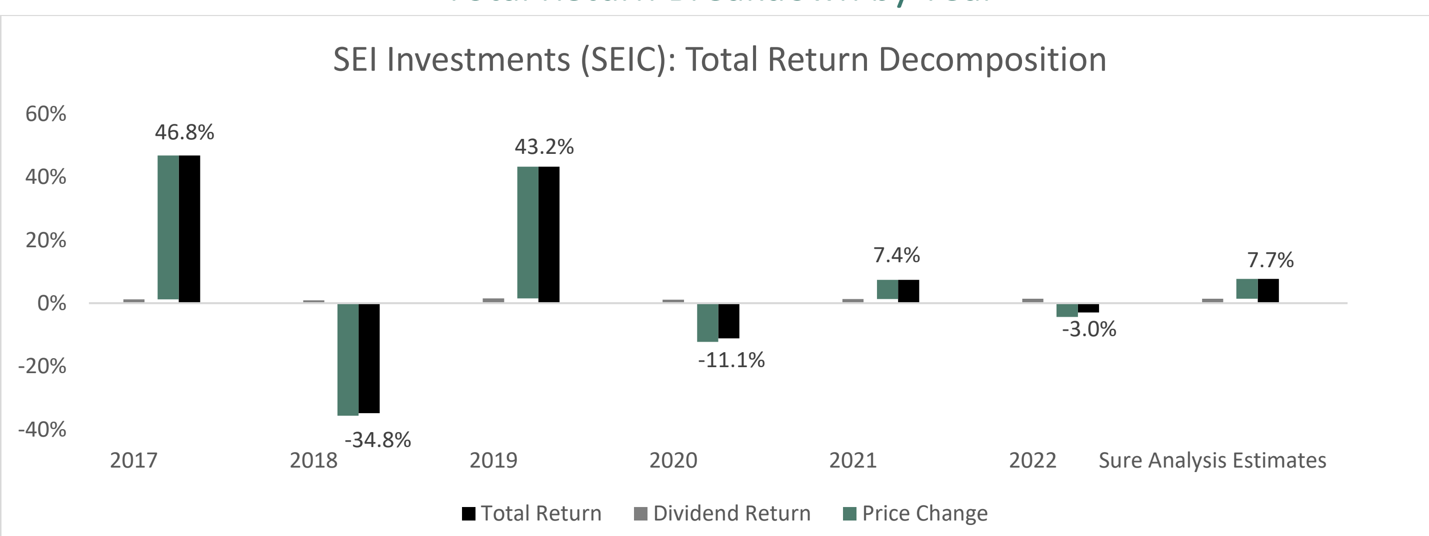
The payout ratio is very low as earnings-per-share expansion has outpaced dividend growth in recent years. There may come a time when the dividend is a significant source of returns, but SEI is understandably focused on growth today.

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 modest growth potential. We are forecasting 7.7% total annual returns going forward, comprised of the 1.4% current yield and 6% earnings-per-share growth, in addition to a small 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 moving SEI back to hold from buy due to lower projected total returns.

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	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Revenue	1,126	1,266	1,334	1,402	1,527	1,624	1,650	1,684	1,918	1,991
Gross Profit	591	683	722	763	840	900	921	946	1,088	1,045
Gross Margin	52.5%	53.9%	54.2%	54.5%	55.0%	55.4%	55.8%	56.2%	56.7%	52.5%
SG&A Exp.	285	269	298	316	367	380	379	416	442	482
D&A Exp.	57	61	67	72	76	78	81	84	93	
Operating Profit	248	353	358	376	397	442	460	446	553	476
Operating Margin	22.1%	27.9%	26.8%	26.8%	26.0%	27.2%	27.9%	26.5%	28.8%	24.2%
Net Profit	288	319	332	334	404	506	501	447	547	475
Net Margin	25.6%	25.2%	24.9%	23.8%	26.5%	31.1%	30.4%	26.6%	28.5%	23.9%
Free Cash Flow	295	311	334	352	373	515	468	410	581	
Income Tax	147	171	169	175	153	108	130	121	147	134

Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Total Assets	1,439	1,543	1,589	1,637	1,853	1,972	2,151	2,167	2,354	2,384
Cash & Equivalents	578	667	680	696	744	755	841	785	825	853
Accounts Receivable	84	97	95	110	133	126	140	154	501	519
Goodwill & Int. Ass.	313	309	291	296	392	406	389	360	429	408
Total Liabilities	283	295	299	334	377	379	413	427	494	430
Accounts Payable	16	11	5	6	5	11	4	8	10	13
Long-Term Debt	---	---	---	---	30	---	---	---	40	0
Shareholder's Equity	1,156	1,248	1,290	1,303	1,477	1,593	1,739	1,740	1,861	1,954
LTD/E Ratio	---	---	---	---	0.02	---	---	---	0.02	0

Profitability & Per Share Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Return on Assets	21.0%	21.4%	21.2%	20.7%	23.2%	26.5%	24.3%	20.7%	24.2%	20.1%
Return on Equity	26.3%	26.5%	26.1%	25.7%	29.1%	33.0%	30.1%	25.7%	30.4%	24.9%
ROIC	26.0%	26.5%	26.1%	25.7%	28.8%	32.6%	30.1%	25.7%	30.0%	24.7%
Shares Out.	169	167	164	159	157	159	154	146	138	137
Revenue/Share	6.41	7.34	7.87	8.52	9.41	10.07	10.65	11.30	13.39	14.49
FCF/Share	1.68	1.80	1.97	2.14	2.30	3.19	3.02	2.75	4.05	

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