



Raymond James Financial (RJF)

Updated January 30th, 2023, by Patrick Neuwirth

Key Metrics

Current Price:	\$112	5 Year CAGR Estimate:	11.0%	Market Cap:	\$23 B
Fair Value Price:	\$120	5 Year Growth Estimate:	8.0%	Ex-Dividend Date¹:	04/03/23
% Fair Value:	93%	5 Year Valuation Multiple Estimate:	1.4%	Dividend Payment Date¹:	04/18/23
Dividend Yield:	1.5%	5 Year Price Target	\$176	Years Of Dividend Growth:	11
Dividend Risk Score:	A	Retirement Suitability Score:	C	Rating:	Buy

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 January 25th, 2023, Raymond James Financial released its first quarter fiscal 2023 results for the period ending December 31st, 2022. For the quarter the company reported net income of \$507 million which represents a 14% increase compared with a quarterly net income of \$446 million in the same quarter previous year. Reported earnings per diluted share for the same periods were \$2.30 and \$2.10, an increase of 10% year-over-year. Quarterly net revenues of \$2.78 billion were flat compared to the prior year's fiscal first quarter and down 2% over the preceding quarter.

The results were largely driven by higher short-term interest rates, a rise in loan demand, and net interest income. In the reported quarter, RJ Bank reported a surge of 178% from the prior year in net revenues. In addition, the Private Client Group reported a 12% growth in net revenues. Past years' acquisitions supported the company's financials to some extent. Furthermore, expenses declined during the quarter. Weak investment banking results due to intensified geopolitical and macroeconomic uncertainties impacted the Capital Markets segment's results (-52% year-over-year). Raymond James Financial has \$1.11 trillion in client assets under administration, Private Client Group assets in fee-based accounts of \$633 billion, and financial assets under management of \$186 billion. As of December 31st, 2022, total capital ratio was 21.5% compared with 27% as of December 31st, 2021. Tier 1 capital ratio was 20.3% compared with 25.9% as of December 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	\$9.60	\$14.11
DPS	\$0.37	\$0.43	\$0.48	\$0.53	\$0.59	\$0.73	\$0.91	\$0.99	\$1.04	\$1.36	\$1.68	\$3.10
Shares²	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 17.4% 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 11 consecutive years. Over the last five years, the average annual dividend growth rate is almost 13%. In December 2022, the company increased its quarterly dividend by 23.5% from \$0.34 to \$0.42 per share. In market downturns, the company's management strives to maintain its most recent dividend, if feasible³. During the reported quarter, RJF repurchased 1.29 million shares for \$138 million. As of January 25th, 2023, approximately \$1.4 billion remained under the buyback authorization.

¹ Estimated date

² In millions.

³ Analyst & Investor Day - May 25, 2022

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	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	11.6	12.5
Avg. Yld.	1.9%	1.3%	1.3%	1.5%	1.2%	1.2%	1.7%	1.9%	1.3%	1.3%	1.5%	1.8%

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 11.6 We are using 12.5 times earnings as a fair value baseline, implying the potential for a valuation tailwind. The company's dividend yield is currently 1.5% which is just above 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%	18%	22%

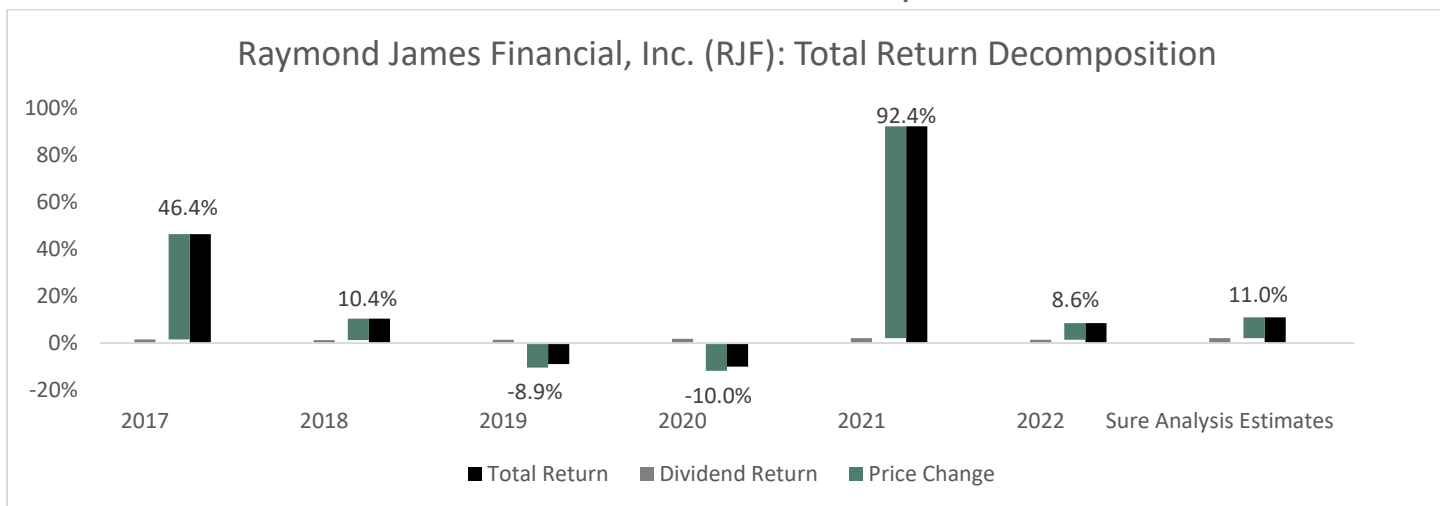
During the past five years, the company's dividend payout ratio has averaged around 18%. Raymond James Financial's dividend is comfortably covered by earnings. Given the expected earnings growth, there is room for the dividend to continue to grow at least at the same pace and keep the payout ratio around 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 138 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 1.5%. The company should be able to grow client assets under management, organically and via acquisitions. We estimate total return potential of 11.0% per year for the next five years based on an 8% earnings-per-share growth, the dividend yield, and a valuation tailwind. Shares earn a buy rating.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Revenue	4,408	4,769	5,101	5,345	6,292	7,182	7,646	7,889	9,630	10,850
SG&A Exp.	3,436	3,705	3,951	4,053	4,680	5,328	5,654	5,992	7,123	8,021
D&A Exp.	66	64	68	72	84	99	112	119	134	145
Net Profit	367	480	502	529	636	857	1,034	818	1,403	1,509
Net Margin	8.3%	10.1%	9.8%	9.9%	10.1%	11.9%	13.5%	10.4%	14.6%	13.9%
Free Cash Flow	587	447	825	(695)	(315)	750	439	3,930	6,551	(19)
Income Tax	197	268	296	271	289	454	341	234	388	513

Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Total Assets	23,186	23,326	26,468	31,487	34,883	37,413	38,830	47,482	61,891	80,950
Cash & Equivalents	2,723	2,350	2,808	1,650	3,670	3,500	3,957	5,390	7,201	6,178
Acc. Receivable	1,983	2,127	2,185	2,715	2,767	3,343	2,671	2,435	2,831	2,934
Goodwill & Int.	361	354	377	503	493	639	611	600	882	1,931
Total Liabilities	19,188	18,892	21,682	26,424	29,190	30,961	32,187	40,306	53,588	71,520
Accounts Payable	6,683	4,936	5,564	6,751	5,585	5,831	4,361	6,792	13,991	11,450
Long-Term Debt	1,342	1,890	1,867	2,289	3,063	2,449	2,444	2,933	2,895	3,329
Total Equity	3,663	4,141	4,522	4,917	5,582	6,368	6,581	7,114	8,245	9,338
LTD/E Ratio	0.37	0.46	0.41	0.47	0.55	0.38	0.37	0.41	0.35	0.34

Profitability & Per Share Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Return on Assets	1.7%	2.1%	2.0%	1.8%	1.9%	2.4%	2.7%	1.9%	2.6%	2.1%
Return on Equity	10.6%	12.3%	11.6%	11.2%	12.1%	14.3%	16.0%	11.9%	18.3%	17.2%
ROIC	7.0%	8.2%	7.7%	7.6%	7.9%	9.7%	11.5%	8.5%	13.2%	12.6%
Shares Out.	209	212	214	212	216	218	207	205	206	215
Revenue/Share	20.91	22.14	23.30	24.66	28.61	32.18	35.40	37.51	45.60	50.40
FCF/Share	2.78	2.08	3.77	(3.21)	(1.43)	3.36	2.03	18.69	31.02	(0.09)

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

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