SEI Investments (SEIC)

Updated November 5th, 2023, by Josh Arnold

Key Metrics

Current Price:	$56	**5 Year CAGR Estimate:**	9.6%	**Market Cap:**	$7.4 B
Fair Value Price:	$62	**5 Year Growth Estimate:**	6.0%	**Ex-Dividend Date:**	12/11/23[1]
% Fair Value:	90%	**5 Year Valuation Multiple Estimate:**	2.1%	**Dividend Payment Date:**	01/23/24
Dividend Yield:	1.5%	**5 Year Price Target**	$83	**Years Of Dividend Growth:**	32
Dividend Risk Score:	A	**Retirement Suitability Score:**	B	**Rating:**	Hold

Overview & Current Events

SEI Investments was founded in 1968 and over the last 50+ years has grown into a market capitalization of $7.4 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 produced third quarter earnings on October 25th, 2023, and results were somewhat weak. Earnings-per-share came to 87 cents, which was in line with estimates. Revenue, however, was up just 1.2% year-over-year at $477 million, and was almost $6 million light of expectations.

Revenue from AUM/A, as well as distribution fees rose primarily from higher AUM/A, as well as increases from existing alternative investment clients. Market appreciation and positive cash flows into separately managed account programs also contributed. This was partially offset by negative cash flows from SEI fund programs due to client losses in Investment Advisors, as well as Institutional Investors.

Operating expenses declined primarily from the company's voluntary separation program cost of $57 million that was incurred in last year's Q3. That was an impact of 32 cents per share in earnings that was not repeated in this year's third quarter.

SEI repurchased 1.4 million shares for $86 million during the quarter at an average price of $61.43 per share. Cash flows from operations were $164 million, and free cash flow was $148 million. We now see $3.45 in earnings-per-share for this year after a weaker Q3 than expected.

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	***$3.45***	***$4.62***
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	***16.2***	***18.0***
Avg. Yld.	1.4%	1.3%	1.0%	1.2%	1.0%	1.0%	1.2%	1.3%	1.3%	1.4%	***1.5%***	***1.5%***

SEI's price-to-earnings multiple is higher than our last report, and it is now trading at 16.2 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 small tailwind to total returns due to valuation expansion as the stock is trading below fair value. 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, and it yields just under that of the S&P 500.

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%***

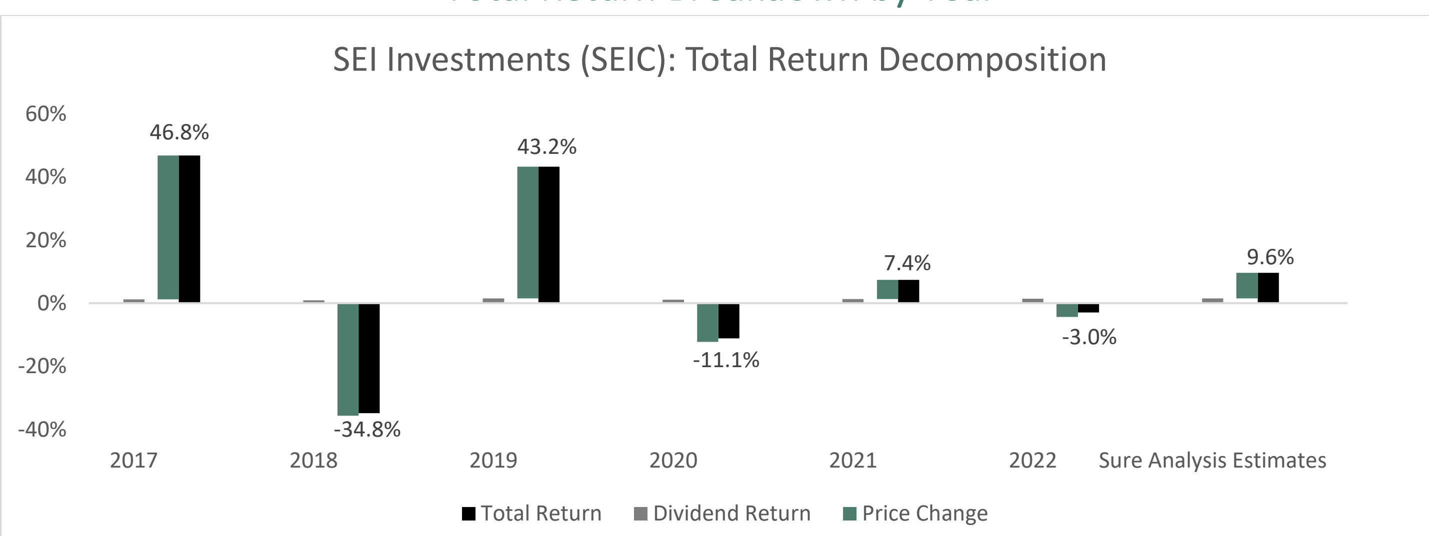
The payout ratio is very low as earnings-per-share expansion has outpaced dividend growth in recent years. There may come a time when the dividend is a significant source of returns, but SEI is understandably focused on growth today.

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 slightly undervalued stock with modest growth potential. We are forecasting 9.6% total annual returns going forward, comprised of the 1.5% 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 reiterating the stock at a hold rating after Q3 results.

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	88
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	492
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	3.58

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