



Broadridge Financial Solutions (BR)

Updated February 4th, 2024 by Quinn Mohammed

Key Metrics

Current Price:	\$201	5 Year CAGR Estimate:	6.2%	Market Cap:	\$24 B
Fair Value Price:	\$170	5 Year Growth Estimate:	8.0%	Ex-Dividend Date¹:	03/14/2024
% Fair Value:	118%	5 Year Valuation Multiple Estimate:	-3.3%	Payment Date¹:	04/05/2024
Dividend Yield:	1.6%	5 Year Price Target	\$250	Years of Dividend Growth:	17
Dividend Risk Score:	B	Retirement Suitability Score:	C	Rating:	Hold

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 York and trades at a market capitalization of \$24 billion. The company generates about \$5 billion in annual revenues.

On August 8th, 2023, Broadridge increased its dividend by 10.3% to \$3.20 per share annually, marking 17 years of consecutive increases.

Broadridge Financial Solutions reported second quarter 2024 results on February 1st, 2024. Total revenues for the quarter grew 9% to \$1.41 billion. Recurring revenue grew 7% year-over-year to \$899 million from \$840 million. Recurring revenue made up 64% of total revenues in the second quarter. Adjusted EPS increased by 1% YoY to \$0.92 per share.

Leadership reaffirmed FY 2024 guidance and estimates roughly 7.5% in recurring revenue growth, a 20% adjusted operating income margin, and for adjusted EPS growth of between 8% to 12%.

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
EPS	\$2.12	\$2.32	\$2.53	\$2.70	\$4.19	\$4.66	\$5.03	\$5.66	\$6.46	\$7.01	\$7.73	\$11.36
DPS	\$1.08	\$1.20	\$1.32	\$1.46	\$1.94	\$2.16	\$2.30	\$2.56	\$2.65	\$2.90	\$3.20	\$5.15
Shares²	120	118	118	117	116	114.3	115.1	117.8	118.5	118.5	119.1	125.0

Recent results are driven by long-term trends that we expect to continue over the intermediate term, such as increased digitization, mutualization and the democratization of investing, as more people enter the world of financial markets. Investments in the company's products and technology platforms (such as Wealth and Global Post-Trade Management) should further fuel growth and improve customer retention. Additionally, acquisitions such as the recent acquisition of Itiviti, will allow the corporation to increase the value it can offer to clients and expand its geographic reach.

The company just completed its three-year growth objectives for FY20 – FY23 and delivered on or above its goals, which saw recurring revenue growth of 11%, adjusted operating income margin expansion of +77 basis points per year, and adjusted earnings per share growth of 12%. Broadridge has increased earnings-per-share on average by 14% in the last nine years, and 11% in the past five. Based on the impressive earnings growth that Broadridge has accomplished,

¹ Estimated date

² In millions

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combined with their solid growth strategies, we forecast it could increase its earnings-per-share by 8% annually over the next five years.

Valuation Analysis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Now	2029
Avg. P/E	16.8	20.4	22.4	25.3	22.4	24.4	23.9	27.8	23.1	21.6	26.0	22.0
Avg. Yld.	2.4%	2.3%	2.1%	1.9%	1.6%	1.7%	1.8%	1.4%	1.7%	1.8%	1.6%	2.1%

We peg fair value for this stock at 22.0 times earnings and today shares trade for 26.0 times estimated earnings, which implies the potential for a valuation headwind. Broadridge's average 5-year and 10-year PE ratio stand at 24.1 and 22.8, as the company has produced solid earnings growth. We forecast the dividend will grow at a higher rate than earnings, but the yield will remain around the 2% mark.

Safety, Quality, Competitive Advantage, & Recession Resiliency

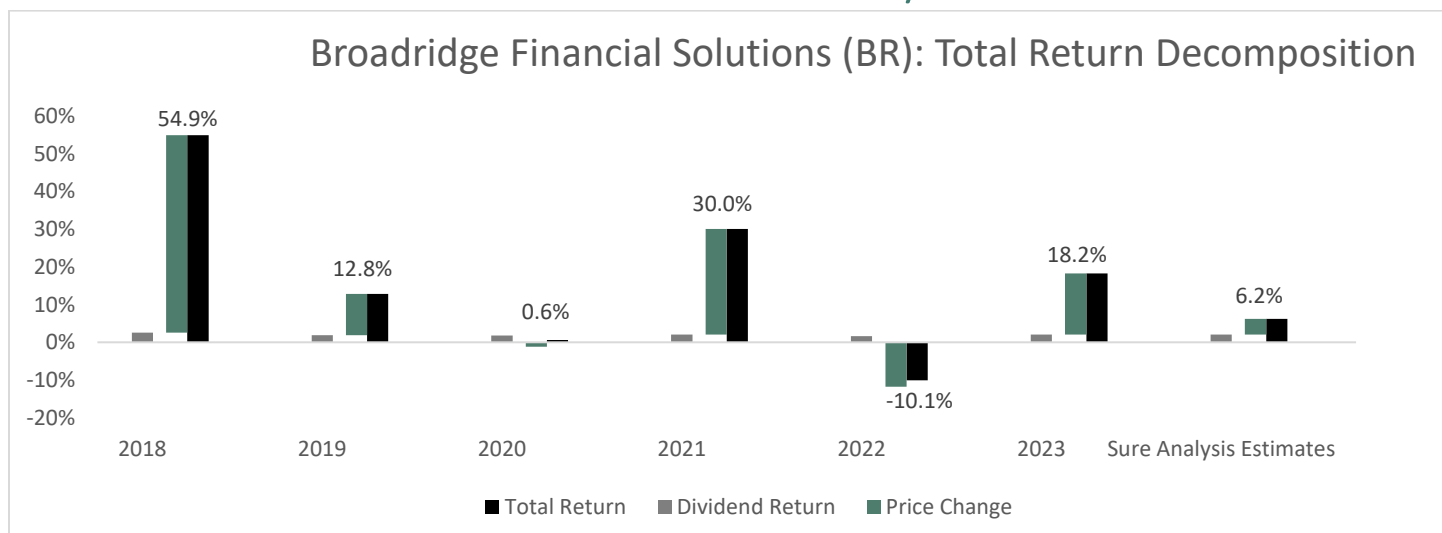
Year	2013	2014	2015	2016	2017	2018	2019	2020	2022	2023	2024	2029
Payout	51%	52%	52%	54%	46%	46%	46%	45%	41%	41%	41%	45%

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 steady growth ahead for Broadridge and estimate annualized total returns of 6.2% in the intermediate term. We like the defensive nature of the business, but the company is trading at 118% of our estimated fair value. Annualized total returns of 6.2% are fair, and the bulk of this should come from growth. We rate Broadridge as a hold 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	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Revenue	2558	2694	2897	4143	4330	4362	4529	4994	5709	6061
Gross Profit	797	866	921	1035	1163	1230	1264	1423	1592	1785
Gross Margin	31.1%	32.1%	31.8%	25.0%	26.8%	28.2%	27.9%	28.5%	27.9%	29.5%
SG&A Exp.	378	399	421	501	565	578	639	744	832	849
D&A Exp.	69	75	84	141	164	173	197	221	333	299
Operating Profit	418	467	500	534	598	653	625	679	760	936
Operating Margin	16.3%	17.3%	17.3%	12.9%	13.8%	15.0%	13.8%	13.6%	13.3%	15.4%
Net Profit	263	287	308	327	428	482	463	548	539	631
Net Margin	10.3%	10.7%	10.6%	7.9%	9.9%	11.1%	10.2%	11.0%	9.4%	10.4%
Free Cash Flow	334	365	362	312	556	544	500	539	370	748
Income Tax	133	152	161	161	133	125	117	149	133	164

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets	2192	2368	2873	3150	3305	3881	4890	8120	8169	8233
Cash & Equivalents	348	324	728	271	264	273	477	275	225	252
Accounts Receivable	425	445	453	590	615	664	711	820	947	974
Goodwill & Int. Ass.	986	1166	1210	1646	1749	2056	2258	5145	4562	4929
Total Liabilities	1230	1440	1827	2146	2210	2753	3543	6311	6250	5993
Accounts Payable	116	116	133	167	156	134	152	249	245	157
Long-Term Debt	524	689	1016	1102	1053	1470	1788	3888	3793	3413
Shareholder's Equity	962	928	1046	1004	1094	1128	1347	1809	1919	2241
D/E Ratio	0.55	0.74	0.97	1.10	0.96	1.30	1.33	2.15	1.98	1.52

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets	12.5%	12.6%	11.7%	10.9%	13.3%	13.4%	10.5%	8.4%	6.6%	7.7%
Return on Equity	29.6%	30.4%	31.2%	31.9%	40.8%	43.4%	37.4%	34.7%	28.9%	30.3%
ROIC	18.6%	18.5%	16.7%	15.7%	20.1%	20.3%	16.1%	12.4%	9.5%	11.1%
Shares Out.	120	118	118	117	116	114.3	115.1	115.1	118.5	119.0
Revenue/Share	20.61	21.73	23.82	34.29	35.96	36.72	38.71	42.39	48.18	50.93
FCF/Share	2.69	2.95	2.98	2.58	4.62	4.58	4.27	4.58	3.13	6.29

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

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