

Broadridge Financial (BR)

\$119.81 (As of 02/11/20)

Price Target (6-12 Months): **\$135.00**

Long Term: 6-12 Months

Zacks Recommendation:
Neutral

(Since: 02/08/19)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

4-Sell

Zacks Style Scores:

VGM: C

Value: C

Growth: B

Momentum: C

Summary

Broadridge reported lower-than-expected second-quarter fiscal 2020 results. It has a strong business model, backed by higher recurring fee revenues. It has diversified products and services to support top line growth. The company is executing well on its growth strategy in governance, capital markets and wealth management. These tailwinds are positively impacting the stock that has outperformed the industry in the past year. Rising demand for technology solutions has enabled the company to increase investments in digital, AI, cloud and blockchain particularly via acquisitions. The company has been consistently rewarding its shareholders. However, the company continues to grapple with client concentration. Its customer communications business remains weak. Stiff competition affects the company's ability to increase market share and profitability.

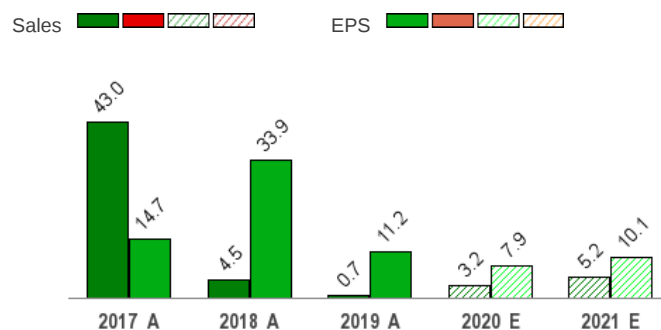
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$136.99 - \$97.37
20 Day Average Volume (sh)	737,576
Market Cap	\$13.8 B
YTD Price Change	-3.0%
Beta	0.70
Dividend / Div Yld	\$2.16 / 1.8%
Industry	<u>Outsourcing</u>
Zacks Industry Rank	Bottom 23% (196 out of 254)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	-30.3%
Last Sales Surprise	-2.6%
EPS F1 Est- 4 week change	-1.4%
Expected Report Date	05/05/2020
Earnings ESP	0.0%

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	1,015 E	1,046 E	1,352 E	1,358 E	4,732 E
2020	949 A	969 A	1,283 E	1,300 E	4,500 E
2019	973 A	953 A	1,225 A	1,211 A	4,362 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$0.76 E	\$0.84 E	\$1.91 E	\$2.07 E	\$5.54 E
2020	\$0.68 A	\$0.53 A	\$1.85 E	\$1.98 E	\$5.03 E
2019	\$0.79 A	\$0.56 A	\$1.59 A	\$1.72 A	\$4.66 A

*Quarterly figures may not add up to annual.

P/E TTM	26.5
P/E F1	23.8
PEG F1	2.4
P/S TTM	3.2

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 02/11/2020. The reports text is as of 02/12/2020.

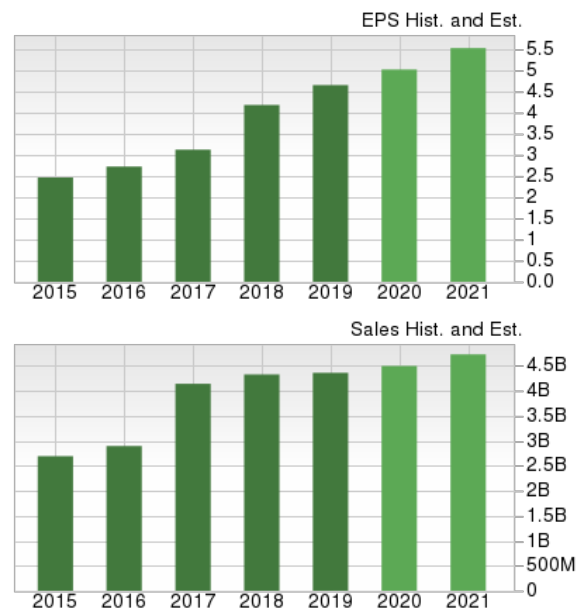
Overview

Based in Lake Success, NY, Broadridge is a global financial technology company that offers investor communications and technology-driven solutions to banks, broker-dealers, asset managers and corporate issuers. The company is a leading producer and distributor of a variety of documents, widely used in the financial industry including proxies, annual reports, prospectuses and trade confirmations.

The company classifies its operations into the following two reportable segments: **Investor Communication Solutions** and **Global Technology and Operations**.

Investor Communication Solutions (80% of FY19 total revenues) offers Bank/Broker-Dealer Investor Communication, Customer Communication, Advisor, Corporate Issuer, and Mutual Fund and Retirement Solutions. Major portion of the business involves processing and distribution of proxy materials to investors in equity securities and mutual funds, and facilitation of related vote processing. Multi-channel customer communication solutions are offered to companies in the financial services, insurance, consumer finance, retail banking, healthcare, telecommunications, utilities, and other service industries. Corporate issuer solutions include Internet and telephone proxy voting, electronic delivery of proxy and other disclosure materials, and householding of communications to stockholders at the same address. Advisor solutions include critical data, technology products and marketing services offered to financial advisors. Mutual fund and retirement solutions encompass regulatory, marketing and transactional communications solutions, data and analytics solutions, and mutual fund processing services.

Global Technology and Operations (20% of FY19 total revenues)- The company's Global Technology and Operations segment offers middle- and back-office securities processing solutions including desktop productivity tools, data aggregation, portfolio management, order capture and execution, performance reporting, trade confirmation, margin, cash management, clearance and settlement, reconciliation, securities financing and collateral optimization, asset servicing, reference data management, compliance and regulatory reporting, and accounting. It also offers international securities processing and managed services.



Reasons To Buy:

- ▲ We believe that Broadridge has a **strong business model**. The company generates recurring revenues and a good percentage of its business comes from recurring fee revenues, which include contributions from net new business, internal growth and acquisition-related synergies. Notably, revenues for fiscal 2019, 2018 and 2017 came in at \$4.36 billion, \$4.33 billion and \$4.14 billion, respectively, representing year-over-year growth of approximately 1%, 5% and 43%, respectively. Revenue growth is an important metric for any company as it is a vital part of growth projections and instrumental in strategic decision-making. Also, revenue growth is essential for justifying the fixed and variable expenses incurred to operate a business. Broadridge's diversified products and services coupled with strategic acquisitions have boosted top-line growth. Higher revenues will expand margins and increase profitability in the long run.
- ▲ Shares of Broadridge have gained 20.5% in the past year. This momentum is expected to continue going forward as the company is executing well on a number of **strategic priorities**. Firstly, Broadridge remains focused on improving its financial performance. In 2019, it delivered 6% recurring revenue growth, 110 basis points of margin expansion and 11% adjusted EPS growth, all in line or above its guidance. For 2020, Broadridge expects 8-10% recurring revenue growth, around 100 basis points of margin expansion and 8% to 12% adjusted EPS growth. Secondly, the company is executing well on its growth strategy in governance, capital markets and wealth management. On the governance front, it is building next generation of regulatory communications and expanding services across the entire network it serves. The recent acquisition of TD Ameritrade's retirement plan custody trust assets should strengthen Broadridge's mutual fund and retirement business and enhance its position as one of the leading providers of custodial and sub-custodial solutions. In capital markets, Broadridge continues to onboard new clients to its new GPTM global platform. The company has strong backlog and good visibility in terms of client addition. Further, it has strengthened its wealth management business through acquisitions of Rockall and RPM. Lastly, the company is strengthening its client-focus culture and investing in technologies (digital, AI, cloud and blockchain). These, supported by leadership from existing as well as recently hired senior managers, are expected to enhance the value of its core product offerings going forward.
- ▲ Broadridge has supplemented internal growth with **strategic acquisitions**. In November 2019, the company completed the purchase of ClearStructure Financial Technology to expand its asset management technology suite across private debt markets and FI360 to favor its Investor Communication Solutions segment. In June 2019, the company completed acquisition RPM Technologies. This acquisition will lead to the addition of RPM Technologies' state-of-the-art platforms and blue-chip client roster to Broadridge's Canadian wealth management business. Together, they are expected to better serve their respective clients with next-generation technology and new capabilities. The buyout is expected to expand Broadridge Canada's addressable market by adding enhanced mutual fund and deposit manufacturing capabilities and providing a solution set for the retail banking sector. Broadridge has also completed acquisition of retirement plan custody and trust assets from TD Ameritrade Trust Company, a subsidiary of TD Ameritrade Holding Company. The acquisition should strengthen Broadridge's mutual fund and retirement business and enhance its position as one of the leading providers of custodial and sub-custodial solutions. It is part of Broadridge's efforts to expand Matrix Financial Solutions, the company's subsidiary, through which it offers mutual fund trade processing services. It will bring additional features like directed trustee, custody, mutual fund and ETF trading services offerings to this subsidiary. Further, the buyout will expand Broadridge's offerings for the growing qualified and non-qualified retirement plan services market and help it provide enhanced support to brokers, financial advisors, record keepers, banks, and third-party administrators. All these should open up ample client acquisition and retention opportunities for Broadridge. Additionally, the company has completed the acquisition of Rockall and certain private fund regulatory reporting capabilities from PivotData and Sol Hedge in 2019. In 2018, the company acquired MackayWilliams LLP, FundAssist Limited and ActivePath. In our opinion, all these acquisitions will help Broadridge to evolve as one of the leading financial and outsourcing services providers with an expanded product portfolio and customer reach.
- ▲ We are impressed with Broadridge's endeavors in **rewarding its shareholders** through share repurchases and dividend payments. In fiscal 2019, the company returned \$466.2 million to shareholders through a combination of \$211.2 million in dividends and \$255 million via share repurchase. In fiscal 2018, Broadridge returned \$391 million through a combination of dividend payment of \$165.8 million and share repurchases worth \$225 million. In fiscal 2017, Broadridge repurchased shares worth \$282 million and paid \$152.2 million in dividends. Such moves indicate the company's commitment to create value for shareholders and underline its confidence in its business. They not only instill investors' confidence but also positively impact earnings per share.
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Broadridge has a strong business model, backed by higher recurring fee revenues.

Reasons To Sell:

- ▼ Broadridge faces significant **competition** from the likes of DST Systems Inc. The company's Investor Communication Solutions business competes with companies that provide investor communication and corporate governance solutions including transfer agents who handle communication services to registered (non-beneficial) securities holders, proxy advisory firms, proxy solicitation firms and other proxy services providers. It faces competitive threats from numerous firms in the compiling, printing and distribution of transaction confirmations, account statements and other customer communications. The Global Technology and Operations business principally competes with brokerage firms that perform their trade processing in-house and with numerous other outsourcing vendors. We believe that strong competition could negatively affect Broadridge's ability to maintain or increase its market share and profitability.
- ▼ Broadridge continues to acquire a large number of companies. While this improves revenue opportunities, business mix and profitability, it also adds to **costs and integration risks**. Moreover, frequent acquisitions are a distraction for management, which could impact organic growth, going forward.
- ▼ **Customer/Client concentration** is a major risk for Broadridge. During fiscal 2019, 2018 and 2017, Broadridge generated approximately 22%, 21% and 20% of total revenues, respectively, from its top five customers. The largest single client accounted for approximately 6% total revenues each in fiscal 2018, 2017 and 2016. These clients work with numerous business segments. Therefore, the loss of a single client due to merger or consolidation, financial difficulties or bankruptcy, or the termination or non-renewal of contracts affects the operating performance significantly. Therefore, the company is always under pressure to improve and maintain client or customer relations.
- ▼ Broadridge's **balance sheet is highly leveraged**. As of Dec 31, 2019, long-term debt was \$1.45 billion while cash and cash equivalents were \$234 million. Such a cash position implies that Broadridge needs to generate adequate amount of operating cash flow to service its debt. High debt may limit the company's future expansion and worsen its risk profile.

Stiff competition, acquisition related expenses and integration risks, client concentration and high debt weigh on Broadridge's prospects.

Last Earnings Report

Broadridge Misses on Q2 Earnings and Revenue Estimates

Broadridge Financial Solutions reported dismal second-quarter fiscal 2020 results that missed the Zacks Consensus Estimate on both earnings and revenues.

Adjusted earnings of 53 cents per share missed the consensus estimate by 30% and were down 5% year over year. Total revenues of \$969 million lagged the consensus mark by 3% but were up 2% year over year. The company generated closed sales of \$45 million in the quarter, down 57% year over year.

Revenues in Detail

Revenues in the Investor Communication Solutions segment declined 2% from the year-ago quarter's level to \$716 million. Global Technology and Operations segment revenues came in at \$281 million, up 14% from the year-ago quarter's figure. The improvement was driven by acquisitions and organic growth. Recurring fee revenues of \$648 million increased 7% from the year-ago quarter's level.

Operating Results

Adjusted operating income of \$94 million declined 7% year over year. Adjusted operating income margin declined to 9.7% from 10.6% in the prior-year quarter.

Balance Sheet and Cash Flow

Broadridge exited the second quarter with cash and cash equivalents of \$234 million compared with \$358.3 million at the end of the prior quarter. Long-term debt was \$1.45 billion compared with \$1.37 billion at the end of the prior quarter.

The company generated \$97.9 million of cash in operating activities and capex was \$17.5 million in the quarter. Broadridge paid out \$61.8 million in dividends in the reported quarter.

Guidance

Broadridge reiterated fiscal year 2020 guidance expecting adjusted EPS at the low end of the range.

Total revenues are expected to grow 3-6%. Recurring fee revenue growth is anticipated in the range of 8-10%. Adjusted operating income margin is estimated to be approximately 18%. Closed sales are anticipated to be between \$190 million and \$230 million. Adjusted EPS growth is expected to be toward the lower end of the 8-12% range.

Quarter Ending **12/2019**

Report Date	Jan 31, 2020
Sales Surprise	-2.59%
EPS Surprise	-30.26%
Quarterly EPS	0.53
Annual EPS (TTM)	4.52

Recent News

On **Jan 14, 2020**, Broadridge announced that it has partnered with International Business Machines to create cloud-based solutions for clients in the financial services space.

On **Nov 20, 2019**, Broadridge announced that it has acquired ClearStructure Financial Technology, a global provider of portfolio management solutions for the private debt markets.

On **Nov 4, 2019**, Broadridge announced that it has completed its previously announced acquisition of Fi360. Founded in 1999, Fi360 is a leading fiduciary-focused software, data and analytics provider.

Valuation

Broadridge shares are up 20.5% over the trailing 12-month period. The Zacks sub-industry, sector and S&P 500 index are up 15.4%, 24% and 21.4%, respectively in the same time frame.

The stock is currently trading at 22.42X price to forward 12 months' earnings, which compares to 22.88X for the Zacks sub-industry, 26.14X for the Zacks sector and 19.30X for the S&P 500 index.

Over the past five years, the stock has traded as high as 29.07X and as low as 16.9X, with a 5-year median of 21.02X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$135.00 price target reflects 25.27X price to forward 12 months' earnings.

The table below shows summary valuation data for BR

Valuation Multiples - BR					
		Stock	Sub-Industry	Sector	S&P 500
P/E F 12M	Current	22.42	22.88	26.14	19.3
	5-Year High	29.07	23.76	26.14	19.34
	5-Year Low	16.90	18.79	18.77	15.18
	5-Year Median	21.02	22.41	20.57	17.47
P/S F 12M	Current	2.96	2.97	4.16	3.56
	5-Year High	3.55	2.98	5.13	3.56
	5-Year Low	1.7	2.23	3.09	2.54
	5-Year Median	2.35	2.55	3.63	3
P/B TTM	Current	12.22	8.36	5.11	4.33
	5-Year High	14.84	8.69	6.72	4.42
	5-Year Low	6.25	5.74	4.13	2.85
	5-Year Median	9.17	7.18	5.27	3.62

As of 02/11/2020

Industry Analysis Zacks Industry Rank: Bottom 23% (196 out of 254)



Top Peers

Alliance Data Systems Corporation (ADS)	Neutral
Euronet Worldwide, Inc. (EEFT)	Neutral
Equifax, Inc. (EFX)	Neutral
Fiserv, Inc. (FISV)	Neutral
Global Payments Inc. (GPN)	Neutral
Paychex, Inc. (PAYX)	Neutral
Workday, Inc. (WDAY)	Neutral
The Western Union Company (WU)	Neutral

Industry Comparison Industry: Outsourcing				Industry Peers		
	BR Neutral	X Industry	S&P 500	EFX Neutral	PAYX Neutral	WU Neutral
VGM Score	C	-	-	F	C	B
Market Cap	13.75 B	1.23 B	24.31 B	18.56 B	31.43 B	11.84 B
# of Analysts	3	2	13	11	11	7
Dividend Yield	1.80%	0.00%	1.78%	1.02%	2.82%	2.83%
Value Score	C	-	-	F	D	B
Cash/Price	0.02	0.11	0.04	0.01	0.02	0.12
EV/EBITDA	16.47	11.12	13.97	27.37	17.79	9.74
PEG Ratio	2.39	1.53	2.06	3.07	4.04	0.93
Price/Book (P/B)	12.22	3.50	3.24	7.25	12.23	NA
Price/Cash Flow (P/CF)	17.10	13.83	13.65	18.16	21.92	10.98
P/E (F1)	23.85	18.59	19.12	26.60	28.26	14.31
Price/Sales (P/S)	3.16	0.96	2.67	5.40	7.79	2.24
Earnings Yield	4.20%	5.39%	5.23%	3.76%	3.54%	6.98%
Debt/Equity	1.29	0.35	0.70	1.11	0.35	-164.87
Cash Flow (\$/share)	7.01	3.29	6.94	8.44	4.01	2.57
Growth Score	B	-	-	F	C	C
Hist. EPS Growth (3-5 yrs)	18.19%	11.71%	10.85%	8.15%	10.85%	3.73%
Proj. EPS Growth (F1/F0)	7.94%	12.44%	7.30%	3.29%	9.41%	14.04%
Curr. Cash Flow Growth	13.62%	9.89%	8.92%	0.23%	10.82%	-27.60%
Hist. Cash Flow Growth (3-5 yrs)	16.67%	11.79%	8.36%	9.86%	12.37%	1.43%
Current Ratio	0.90	1.24	1.22	0.57	1.17	0.96
Debt/Capital	56.29%	28.68%	42.90%	52.56%	25.87%	99.03%
Net Margin	9.68%	1.14%	11.81%	-11.13%	26.72%	20.00%
Return on Equity	45.83%	14.59%	16.98%	24.39%	41.21%	-613.03%
Sales/Assets	1.08	1.07	0.54	0.47	0.44	0.58
Proj. Sales Growth (F1/F0)	3.15%	4.60%	3.90%	5.68%	10.17%	-0.57%
Momentum Score	C	-	-	B	C	A
Daily Price Chg	1.33%	0.00%	0.65%	-0.91%	-0.78%	-0.21%
1 Week Price Chg	-1.09%	1.47%	2.47%	3.81%	2.58%	2.79%
4 Week Price Chg	-6.47%	-5.43%	1.35%	4.16%	1.36%	5.89%
12 Week Price Chg	-1.84%	-3.29%	5.63%	8.47%	2.34%	3.25%
52 Week Price Chg	20.56%	10.10%	16.19%	41.40%	17.33%	56.98%
20 Day Average Volume	737,576	134,019	1,995,746	598,509	1,266,496	5,574,850
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.21%
(F1) EPS Est 4 week change	-1.37%	0.00%	0.00%	-0.28%	0.00%	-0.23%
(F1) EPS Est 12 week change	-1.18%	-1.18%	-0.19%	-1.04%	0.01%	-0.23%
(Q1) EPS Est Mthly Chg	5.83%	0.00%	0.00%	0.00%	0.00%	0.00%

Zacks Style Scores

The Zacks Style Score is as a complementary indicator to the Zacks rating system, giving investors a way to focus on the highest rated stocks that best fit their own stock picking preferences.

Academic research has proven that stocks with the best Value, Growth and Momentum characteristics outperform the market. The Zacks Style Scores rate stocks on each of these individual styles and assigns a rating of A, B, C, D and F. We also produce the VGM Score (V for Value, G for Growth and M for Momentum), which combines the weighted average of the individual Style Scores into one score. This is perfectly suited for those who want their stocks to have the best scores across the board.

Value Score	C
Growth Score	B
Momentum Score	C
VGM Score	C

As an investor, you want to buy stocks with the highest probability of success. That means buying stocks with a Zacks Recommendation of Outperform, which also has a Style Score of an A or a B.

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