

## Broadridge Financial (BR)

**\$139.12** (As of 08/12/20)

Price Target (6-12 Months): **\$147.00**

Long Term: 6-12 Months

**Zacks Recommendation:**

**Neutral**

(Since: 02/10/19)

Prior Recommendation: Underperform

Short Term: 1-3 Months

**Zacks Rank:** (1-5)

**3-Hold**

Zacks Style Scores:

VGM: C

Value: D

Growth: B

Momentum: C

### Summary

Broadridge has a strong business model, backed by higher recurring fee revenues. The company has supplemented internal growth with strategic acquisitions. 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. 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. Partly due to these positives, the stock has outperformed its industry in the past year. 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.

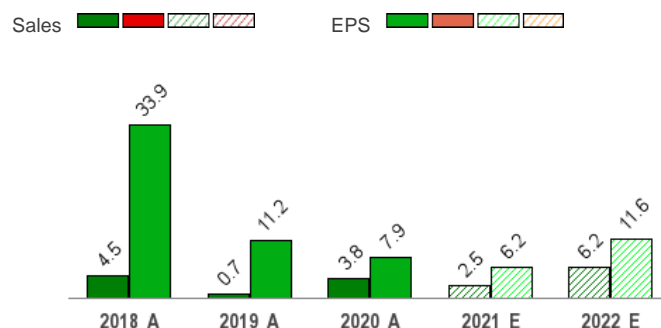
### Price, Consensus & Surprise



### Data Overview

52 Week High-Low	<b>\$144.50 - \$81.90</b>
20 Day Average Volume (sh)	<b>540,727</b>
Market Cap	<b>\$16.0 B</b>
YTD Price Change	<b>12.6%</b>
Beta	<b>0.88</b>
Dividend / Div Yld	<b>\$2.16 / 1.6%</b>
Industry	<b><u>Outsourcing</u></b>
Zacks Industry Rank	<b>Top 32% (82 out of 253)</b>

### Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	<b>2.4%</b>
Last Sales Surprise	<b>2.7%</b>
EPS F1 Est- 4 week change	<b>1.8%</b>
Expected Report Date	<b>11/04/2020</b>
Earnings ESP	<b>0.0%</b>
P/E TTM	<b>27.7</b>
P/E F1	<b>26.1</b>
PEG F1	<b>2.6</b>
P/S TTM	<b>3.5</b>

### Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2022	1,054 E	1,080 E	1,363 E	1,434 E	4,931 E
2021	986 E	1,008 E	1,282 E	1,368 E	4,643 E
2020	949 A	969 A	1,250 A	1,362 A	4,529 A

### EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2022	\$0.89 E	\$0.91 E	\$1.92 E	\$2.27 E	\$5.96 E
2021	\$0.65 E	\$0.79 E	\$1.74 E	\$2.16 E	\$5.34 E
2020	\$0.68 A	\$0.53 A	\$1.67 A	\$2.15 A	\$5.03 A

\*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 08/12/2020. The reports text is as of 08/13/2020.

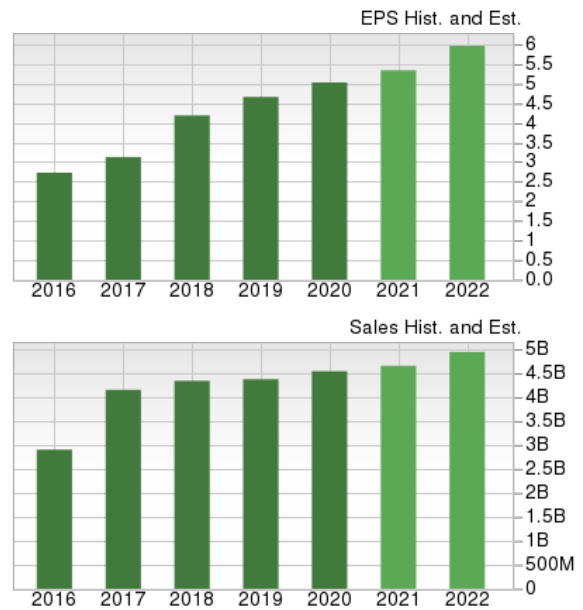
## Overview

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** (77% of FY20 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** (23% of FY20 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.



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## 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 2020, 2019 and 2018 came in at \$4.53 billion, \$4.36 billion and \$4.33 billion, respectively, representing year-over-year growth of approximately 4%, 1% and 5%, 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.
- ▲ Broadridge company is executing well on a number of **strategic priorities**. Firstly, Broadridge remains focused on improving its financial performance. In 2020, it delivered 10% recurring revenue growth, 40 basis points of margin expansion and 8% adjusted EPS growth, all in line with its guidance. For 2021, Broadridge expects 2-6% recurring revenue growth, around 100 basis points of margin expansion and 4% to 10% 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 February 2020, Broadridge completed the acquisition of FundsLibrary which will amplify its pan-European regulatory communications and digital data platform, supporting the lifecycle of fund data, documents, and regulatory reporting for the investment industry. The 2019 buyout of ClearStructure Financial Technology should expand its asset management technology suite across private debt markets and that of Fi360 should favor its Investor Communication Solutions segment. Another acquisition, RPM Technologies will strengthen Broadridge's Canadian wealth management business. In our opinion, 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. This might have positively impacted the company's share price which has gained 10.7% over the past year, outperforming the 10.3% decline of the industry.

Broadridge has a strong business model, backed by higher recurring fee revenues.

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## 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 2020, 2019 and 2018, Broadridge generated approximately 20%, 22% and 21% of total revenues, respectively, from its top five customers. The largest single client accounted for approximately 6% total revenues each in fiscal 2020, 2018 and 2019. 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 has a **debt-laden balance sheet**. Total debt at the end of third-quarter fiscal 2020 was \$2.08 billion, more than \$1.85 billion at the end of the prior quarter. The total debt to total capital ratio of 0.63 is higher than the industry's 0.39 and the previous quarter's 0.62. An increase in debt to capitalization ratio indicates higher risk of insolvency in challenging times. Further, the company's cash and cash equivalent of \$402 million at the end of the third-quarter fiscal 2020 was well below this debt level, underscoring that the company doesn't have enough cash to meet this debt burden. The cash level, however, can meet the short-term debt of \$400 million.

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

## Last Earnings Report

### Broadridge Surpasses Q4 Earnings and Revenues Estimates

Broadridge Financial Solutions reported strong fourth-quarter fiscal 2020 results beating the Zacks Consensus Estimate on both counts.

Adjusted earnings of \$2.15 per share beat the consensus estimate by 2.4% and improved 25% year over year. Total revenues of \$1.36 billion beat the consensus mark by 2.7% and were up 12% year over year. The company generated closed sales of \$112 million in the quarter, up 55% year over year.

Quarter Ending 06/2020

Report Date	Aug 11, 2020
Sales Surprise	2.66%
EPS Surprise	2.38%
Quarterly EPS	2.15
Annual EPS (TTM)	5.03

### Revenues by Segment

Revenues in the Investor Communication Solutions segment declined 12% from the year-ago quarter level to \$1.1 billion.

Global Technology and Operations segment's recurring fee revenues came in at \$314 million, up 19% year over year. This improvement was driven by acquisitions and organic growth. Higher trading volumes resulting from market volatility and onboarding of new sales benefited the segment's internal growth.

### Operating Results

Adjusted operating income of \$335 million improved 25% year over year. Adjusted operating income margin increased to 24.6% from 22.1% in the prior-year quarter.

### Balance Sheet and Cash Flow

Broadridge exited the quarter with cash and cash equivalents of \$476.6 million compared with the \$402.1 million witnessed at the end of the prior quarter. Long-term debt was \$1.4 billion compared with the \$1.7 billion recorded at the end of the previous quarter.

The company generated \$442.6 million of cash in operating activities and capex was \$14.2 million in the quarter. Broadridge paid out \$62 million in dividends in the reported quarter.

### Fiscal 2021 Guidance

Broadridge expects revenue growth in the range of 0-4%. It anticipates recurring revenue growth of 2-6%. Adjusted EPS growth is expected to be 4% to 10%. Adjusted operating income margin is estimated to be up by around 100 basis points. Closed sales are anticipated to be between \$190 million and \$235 million.

## Recent News

On **Jul 9, 2020**, Broadridge announced that Jim Young, Chief Financial Officer, will be stepping down from his role. Mr. Young will continue as CFO through the release of the company's fourth quarter fiscal year 2020 earnings and will leave Broadridge on Aug 31, 2020. Matt Connor, will serve as an interim CFO until a permanent successor is named.

On **Jun 17, 2020**, Broadridge announced that its new AI-driven corporate bond trading platform, LTX has traded for first time. Broadridge has partnered with Jim Toffey, founder of Tradeweb Markets, to generate LTX, which combines powerful artificial intelligence (AI) with a new digital execution protocol which allows broker-dealers improve market liquidity, efficiency and execution for their buy-side customers.

On **May 5, 2020**, Broadridge announced that its board of directors has declared a quarterly cash dividend of 54 cents per share. The dividend will be paid on Jul 2, 2020 to stockholders of record at the close of business on Jun 12, 2020.

## Valuation

Broadridge shares are up 12.6% in the year-to-date period and 10.7% over the trailing 12-month period. Stocks in the Zacks sub-industry are down 13.3% while those in the Zacks Business Services sector are up 1.7% in the year-to-date period. Over the past year, the Zacks sub-industry is down 10.3% but the sector is up 6.9%.

The S&P 500 index is up 3.3% in the year-to-date period and 19.1% in the past year.

The stock is currently trading at 25.6X price to forward 12 months' earnings, which compares to 21.94X for the Zacks sub-industry, 29.94X for the Zacks sector and 22.6X for the S&P 500 index.

Over the past five years, the stock has traded as high as 29.07X and as low as 15.72X, with a 5-year median of 21.52X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$147.00 price target reflects 27.05X 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	25.6	21.94	29.94	22.6
	5-Year High	29.07	23.66	29.94	22.62
	5-Year Low	15.72	17.32	18.68	15.25
	5-Year Median	21.52	22.13	20.96	17.58
P/S F 12M	Current	3.44	2.63	4.18	3.65
	5-Year High	3.55	3	4.18	3.65
	5-Year Low	1.7	2.26	3.07	2.53
	5-Year Median	2.47	2.63	3.6	3.05
P/B TTM	Current	13.28	7.28	4.78	4.64
	5-Year High	14.84	9.09	6.72	4.68
	5-Year Low	6.25	5.34	3.28	2.83
	5-Year Median	9.95	7.42	5.22	3.74

As of 08/12/2020

## Industry Analysis Zacks Industry Rank: Top 32% (82 out of 253)



## Top Peers

Company (Ticker)	Rec	Rank
Euronet Worldwide, Inc. (EEFT)	Outperform	3
Alliance Data Systems Corporation (ADS)	Neutral	4
Equifax, Inc. (EFX)	Neutral	3
Fiserv, Inc. (FISV)	Neutral	3
Global Payments Inc. (GPN)	Neutral	3
Paychex, Inc. (PAYX)	Neutral	3
Workday, Inc. (WDAY)	Neutral	3
The Western Union Company (WU)	Neutral	3

Industry Comparison Industry: Outsourcing				Industry Peers		
	BR	X Industry	S&P 500	EFX	PAYX	WU
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	3	-	-	3	3	3
VGM Score	C	-	-	C	B	A
Market Cap	16.02 B	1.08 B	23.75 B	20.27 B	26.60 B	9.61 B
# of Analysts	3	2	14	11	12	8
Dividend Yield	1.55%	0.00%	1.68%	0.93%	3.35%	3.85%
Value Score	D	-	-	D	D	A
Cash/Price	0.03	0.20	0.07	0.07	0.04	0.12
EV/EBITDA	18.71	6.86	13.35	1,424.44	14.15	6.65
PEG Ratio	2.61	2.07	2.98	5.07	3.37	0.51
Price/Book (P/B)	11.86	3.00	3.20	7.41	9.56	NA
Price/Cash Flow (P/CF)	17.99	8.91	12.97	19.75	17.50	9.77
P/E (F1)	26.11	24.61	22.17	29.36	26.99	13.10
Price/Sales (P/S)	3.54	0.83	2.54	5.44	6.58	1.95
Earnings Yield	3.84%	3.77%	4.31%	3.40%	3.71%	7.62%
Debt/Equity	1.03	0.35	0.77	1.42	0.32	-42.04
Cash Flow (\$/share)	7.73	3.42	6.94	8.45	4.24	2.39
Growth Score	B	-	-	B	A	B
Hist. EPS Growth (3-5 yrs)	17.34%	9.94%	10.41%	4.53%	10.82%	1.96%
Proj. EPS Growth (F1/F0)	6.16%	-11.86%	-6.32%	1.13%	-8.44%	3.11%
Curr. Cash Flow Growth	9.12%	5.65%	5.22%	0.48%	5.65%	-11.92%
Hist. Cash Flow Growth (3-5 yrs)	16.67%	11.78%	8.55%	8.37%	12.12%	-2.25%
Current Ratio	0.99	1.34	1.33	1.27	1.23	0.94
Debt/Capital	50.75%	29.13%	44.59%	58.61%	24.32%	NA
Net Margin	10.21%	1.10%	10.13%	8.03%	27.18%	12.38%
Return on Equity	48.87%	11.50%	14.59%	28.46%	40.76%	-1,029.12%
Sales/Assets	0.98	0.98	0.51	0.47	0.46	0.57
Proj. Sales Growth (F1/F0)	1.55%	0.00%	-1.40%	9.10%	-3.64%	-9.34%
Momentum Score	C	-	-	B	C	C
Daily Price Chg	-2.10%	0.27%	0.67%	1.43%	0.24%	0.60%
1 Week Price Chg	0.68%	4.05%	2.30%	2.51%	2.13%	-4.16%
4 Week Price Chg	8.05%	7.37%	4.87%	1.16%	0.82%	5.60%
12 Week Price Chg	15.01%	20.46%	13.54%	11.60%	9.32%	22.16%
52 Week Price Chg	10.78%	-11.68%	6.06%	19.24%	-8.55%	12.52%
20 Day Average Volume	540,727	389,160	2,006,991	812,181	1,759,919	5,967,257
(F1) EPS Est 1 week change	0.81%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	1.76%	2.44%	1.95%	10.87%	0.00%	6.02%
(F1) EPS Est 12 week change	1.76%	2.34%	2.72%	24.42%	-3.99%	6.89%
(Q1) EPS Est Mthly Chg	-12.89%	0.00%	0.84%	19.07%	0.00%	8.64%

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## Zacks Stock Rating System

We offer two rating systems that take into account investors' holding horizons: Zacks Rank and Zacks Recommendation. Each provides valuable insights into the future profitability of the stock and can be used separately or in combination with each other depending on your investment style.

### Zacks Recommendation

The Zacks Recommendation aims to predict performance over the next 6 to 12 months. The foundation for the quantitatively determined Zacks Recommendation is trends in the company's estimate revisions and earnings outlook. The Zacks Recommendation is broken down into 3 Levels; Outperform, Neutral and Underperform. Unlike many Wall Street firms, we have an excellent balance between the number of Outperform and Neutral recommendations. Our team of 70 analysts are fully versed in the benefits of earnings estimate revisions and how that is harnessed through the Zacks quantitative rating system. But we have given our analysts the ability to override the Zacks Recommendation for the 1200 stocks that they follow. The reason for the analyst over-rides is that there are often factors such as valuation, industry conditions and management effectiveness that a trained investment professional can spot better than a quantitative model.

### Zacks Rank

The Zacks Rank is our short-term rating system that is most effective over the one- to three-month holding horizon. The underlying driver for the quantitatively-determined Zacks Rank is the same as the Zacks Recommendation, and reflects trends in earnings estimate revisions.

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### 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	<b>D</b>
Growth Score	<b>B</b>
Momentum Score	<b>C</b>
VGM Score	<b>C</b>

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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### Disclosures

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