

Broadridge Financial (BR)

\$119.57 (As of 05/19/20)

Price Target (6-12 Months): **\$127.00**

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: C

Growth: C

Momentum: B

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. 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. These headwinds are negatively impacting the stock that has declined over the past year.

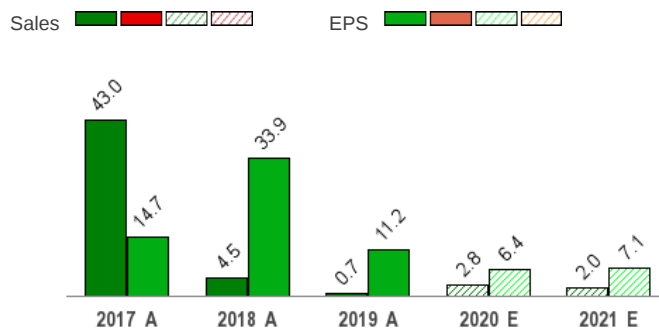
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$136.99 - \$81.90
20 Day Average Volume (sh)	735,339
Market Cap	\$13.7 B
YTD Price Change	-3.2%
Beta	0.90
Dividend / Div Yld	\$2.16 / 1.8%
Industry	<u>Outsourcing</u>
Zacks Industry Rank	Bottom 13% (220 out of 254)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	-4.0%
Last Sales Surprise	0.2%
EPS F1 Est- 4 week change	-1.0%
Expected Report Date	08/06/2020
Earnings ESP	-0.4%

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	980 E	1,004 E	1,275 E	1,350 E	4,575 E
2020	949 A	969 A	1,250 A	1,318 E	4,484 E
2019	973 A	953 A	1,225 A	1,211 A	4,362 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$0.75 E	\$0.81 E	\$1.77 E	\$2.04 E	\$5.31 E
2020	\$0.68 A	\$0.53 A	\$1.67 A	\$2.08 E	\$4.96 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	26.0
P/E F1	24.1
PEG F1	2.4
P/S TTM	3.1

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 05/19/2020. The reports text is as of 05/20/2020.

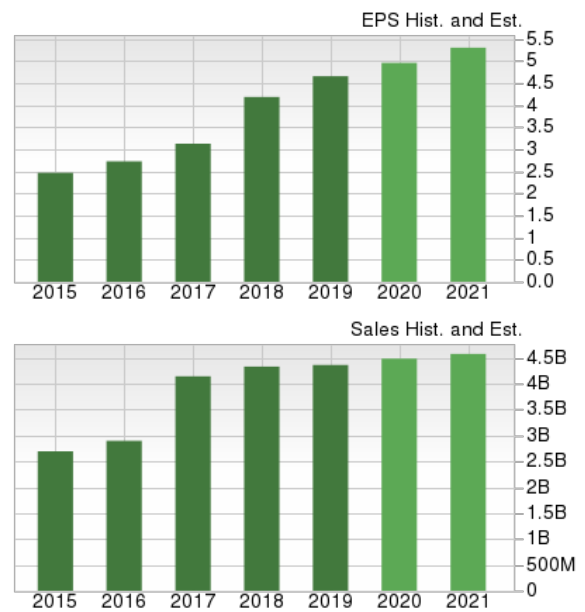
Overview

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.
- ▲ Broadridge 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**. On Mar 2, 2020, Broadridge completed the acquisition of FundsLibrary — a leader in fund document and data dissemination in the European market — from Hargreaves Lansdown. The buyout will amplify Broadridge's pan-European regulatory communications and digital data platform, supporting the lifecycle of fund data, documents, and regulatory reporting for the investment industry. 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.

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 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 debt-to-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 Lags Q3 Earnings Estimates, Revenues Beat

Broadridge Financial Solutions reported mixed third-quarter fiscal 2020 results. While earnings missed the Zacks Consensus Estimate, revenues beat the same.

Adjusted earnings of \$1.67 per share missed the consensus estimate by 4% but improved 5% year over year. Total revenues of \$1.25 billion marginally beat the consensus mark and were up 2% year over year. The company generated closed sales of \$44 million in the quarter, up 20% year over year.

Quarter Ending **03/2020**

Report Date	May 08, 2020
Sales Surprise	0.21%
EPS Surprise	-4.02%
Quarterly EPS	1.67
Annual EPS (TTM)	4.60

Revenues by Segment

Revenues in the Investor Communication Solutions segment declined 3% from the year-ago quarter level to \$980 million.

The segment's recurring fee revenues were up 2% to \$529 million driven by net new business and acquisitions. Internal growth was negatively impacted by a shift of proxy communications into the fourth quarter as a result of the coronavirus pandemic. Event-driven fee revenues plummeted 43% to \$39 million on lower mutual fund proxy activity and equity proxy contests. Distribution revenues decreased 1% to \$412 million on lower event-driven activity.

Global Technology and Operations segment recurring fee revenues came in at \$305 million, up 23% year over year. This improvement was driven by acquisitions and organic growth. Higher trading volumes resulting from the pandemic-related market uncertainty benefited the segment's internal growth.

Operating Results

Adjusted operating income of \$262 million improved 3% year over year. Adjusted operating income margin increased to 21% from 20.9% in the prior-year quarter.

Balance Sheet and Cash Flow

Broadridge exited the fiscal third quarter with cash and cash equivalents of \$4.2 million compared with the \$234 million witnessed at the end of the prior quarter. Long-term debt was \$1.68 billion compared with the \$1.45 billion recorded at the end of the previous quarter.

The company generated \$144.1 million of cash in operating activities and capex was \$16.9 million in the quarter. Broadridge paid out \$62 million in dividends in the reported quarter.

Guidance

Broadridge reduced its fiscal-year 2020 guidance for adjusted EPS to 5-7% from the 8-12% expected previously. The company expects revenue growth at the lower end of the previously-guided range of 3% to 6%.

Broadridge continues to anticipate recurring fee revenue growth 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.

Recent News

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.

On **Mar 2, 2020**, Broadridge announced that it has completed the acquisition of FundsLibrary — a leader in fund document and data dissemination in the European market — from Hargreaves Lansdown.

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.

Valuation

Broadridge shares are down 3.3% in the year-to-date period and 3.5% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Business Services sector are down 20.5% and 8.4% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and sector are down 18.9% and 3.9%, respectively.

The S&P 500 index is down 8.2% in the year-to-date period but up 3% in the past year.

The stock is currently trading at 22.7X price to forward 12 months' earnings, which compares to 20.24X for the Zacks sub-industry, 28.14X for the Zacks sector and 21.51X 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 21.16X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$127.00 price target reflects 24.11X 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	22.7	20.24	28.14	21.51
	5-Year High	29.07	23.73	28.14	21.51
	5-Year Low	15.72	17.37	18.68	15.23
	5-Year Median	21.16	22.19	20.69	17.49
P/S F 12M	Current	3.01	2.39	3.84	3.34
	5-Year High	3.55	2.92	3.94	3.44
	5-Year Low	1.7	2.2	3.05	2.53
	5-Year Median	2.42	2.53	3.57	3.01
P/B TTM	Current	11.42	6.38	3.96	4.03
	5-Year High	14.84	8.78	6.69	4.56
	5-Year Low	6.25	5.16	3.19	2.83
	5-Year Median	9.51	7.2	5.18	3.65

As of 05/19/2020

Industry Analysis Zacks Industry Rank: Bottom 13% (220 out of 254)



Top Peers

Company (Ticker)	Rec	Rank
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	2
The Western Union Company (WU)	Neutral	3
Alliance Data Systems Corporation (ADS)	Underperform	5
Euronet Worldwide, Inc. (EFTT)	Underperform	5

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	-	-	F	B	B
Market Cap	13.73 B	729.40 M	19.91 B	17.75 B	23.53 B	7.71 B
# of Analysts	3	2	14	11	12	8
Dividend Yield	1.81%	0.00%	2.14%	1.07%	3.78%	4.80%
Value Score	C	-	-	F	C	A
Cash/Price	0.03	0.23	0.07	0.02	0.04	0.14
EV/EBITDA	16.51	6.32	12.09	1,305.18	13.22	5.61
PEG Ratio	2.47	1.92	2.68	13.44	2.72	0.44
Price/Book (P/B)	11.41	2.49	2.75	7.30	8.53	NA
Price/Cash Flow (P/CF)	17.07	6.81	10.68	17.31	16.38	7.84
P/E (F1)	24.69	20.86	19.96	32.80	21.75	11.24
Price/Sales (P/S)	3.14	0.57	2.01	4.90	5.73	1.50
Earnings Yield	4.15%	4.79%	4.83%	3.05%	4.60%	8.90%
Debt/Equity	1.40	0.37	0.76	1.44	0.33	-20.51
Cash Flow (\$/share)	7.01	3.07	7.01	8.45	4.01	2.39
Growth Score	C	-	-	F	B	C
Hist. EPS Growth (3-5 yrs)	17.34%	10.93%	10.87%	5.44%	10.95%	2.47%
Proj. EPS Growth (F1/F0)	6.51%	-2.22%	-10.48%	-20.67%	6.19%	-3.54%
Curr. Cash Flow Growth	13.62%	11.69%	5.51%	0.48%	10.82%	-11.92%
Hist. Cash Flow Growth (3-5 yrs)	16.67%	11.90%	8.55%	8.37%	12.37%	-2.25%
Current Ratio	1.08	1.28	1.28	1.00	1.19	0.91
Debt/Capital	58.28%	28.54%	44.46%	59.06%	24.63%	NA
Net Margin	9.50%	0.78%	10.59%	7.45%	26.98%	20.64%
Return on Equity	46.99%	10.26%	16.27%	27.87%	41.68%	-1,692.22%
Sales/Assets	1.01	0.99	0.55	0.48	0.46	0.59
Proj. Sales Growth (F1/F0)	2.81%	0.00%	-2.49%	-2.13%	8.15%	-11.52%
Momentum Score	B	-	-	C	B	B
Daily Price Chg	0.11%	-1.25%	-1.38%	0.08%	-1.10%	-3.30%
1 Week Price Chg	-1.08%	-8.79%	-4.56%	-3.32%	-5.48%	-6.82%
4 Week Price Chg	11.37%	1.64%	6.08%	12.44%	2.47%	0.37%
12 Week Price Chg	6.33%	-21.54%	-13.96%	-3.93%	-21.54%	-22.03%
52 Week Price Chg	-3.49%	-30.61%	-7.85%	19.08%	-24.69%	-3.35%
20 Day Average Volume	735,339	351,354	2,586,392	883,756	2,496,828	7,203,057
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	-0.24%	0.00%
(F1) EPS Est 4 week change	-1.03%	-10.63%	-4.62%	-14.96%	-0.27%	-6.97%
(F1) EPS Est 12 week change	-1.33%	-28.85%	-16.58%	-21.99%	-3.16%	-16.09%
(Q1) EPS Est Mthly Chg	0.97%	-22.51%	-10.10%	-33.41%	-0.29%	-15.22%

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.

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	C
Momentum Score	B
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.

Disclosures

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