

Raymond James (RJF)

\$62.51 (As of 05/06/20)

Price Target (6-12 Months): **\$66.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 06/25/19)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:A

Value: B

Growth: C

Momentum: A

Summary

Shares of Raymond James have underperformed the industry so far this year. The company's earnings have surpassed the Zacks Consensus Estimate in two and met in one of the trailing four quarters. Its second-quarter fiscal 2020 (ended Mar 31) results benefited from an increase in revenues, partly offset by higher expenses. The company's efforts to expand through acquisitions and global diversification efforts are expected to keep driving the top line. Also, given a solid balance sheet and liquidity position, it is expected to continue enhancing shareholder value through efficient capital deployments. However, its dependence on the volatile nature of the capital markets to generate investment banking revenues makes us apprehensive. Additionally, continuously mounting expenses due to higher compensation costs will likely hurt the bottom line.

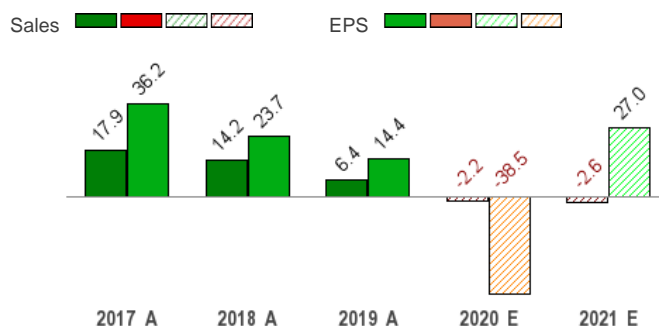
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$102.45 - \$54.21
20 Day Average Volume (sh)	1,067,995
Market Cap	\$8.7 B
YTD Price Change	-30.1%
Beta	1.37
Dividend / Div Yld	\$1.48 / 2.4%
Industry	Financial - Investment Bank
Zacks Industry Rank	Bottom 42% (147 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	34.8%
Last Sales Surprise	NA
EPS F1 Est- 4 week change	-40.1%
Expected Report Date	07/22/2020
Earnings ESP	0.0%
P/E TTM	9.1
P/E F1	13.7
PEG F1	NA
P/S TTM	1.1

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021					7,375 E
2020	2,009 A	2,068 A			7,572 E
2019	1,931 A	1,859 A	1,927 A	2,023 A	7,740 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$1.46 E	\$1.42 E	\$1.38 E	\$1.53 E	\$5.78 E
2020	\$1.89 A	\$1.20 A	\$0.57 E	\$0.87 E	\$4.55 E
2019	\$1.79 A	\$1.81 A	\$1.80 A	\$2.00 A	\$7.40 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 05/06/2020. The reports text is as of 05/07/2020.

Overview

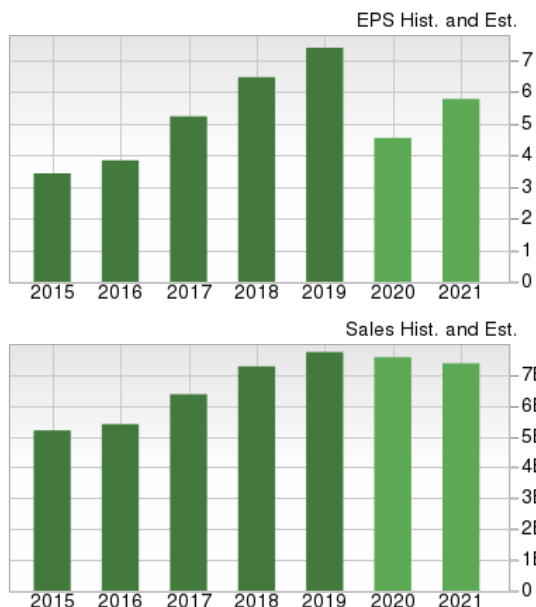
Established in 1962, Raymond James Financial Inc. is a diversified company based in St. Petersburg, FL. The company along with its subsidiaries – Raymond James & Associates Inc. (RJ&A), Raymond James Financial Services Inc. (RJFS), Raymond James Financial Services Advisors Inc. (RJFSA), Raymond James Ltd. (RJ Ltd.), Eagle Asset Management Inc. (Eagle) and Raymond James Bank N.A. (RJ Bank) – it provides financial services mainly in the U.S. and Canada.

Raymond James operates its businesses through the following segments:

- **The Private Client Group (PCG)** segment (constitutes 69% of net revenues for fiscal 2019) offers a broad range of investments and services through the branch office systems of RJ&A, RJFS, RJFSA, RJ Ltd. and Raymond James Investment Services Limited (RJIS), a UK-based joint venture (JV).
- **The Capital Markets** segment (13%) mainly offers equity and fixed income products and services, with institutional sales commissions accounting for a large portion of its revenues.
- **The Asset Management** segment (8%) includes the operations of Eagle, the Eagle Family of Funds (Eagle Funds), and asset management operations of RJ&A (AMS), Raymond James Trust along with other fee-based programs and provides services to individual investment portfolios and mutual funds.
- **The RJ Bank** (10%) provides corporate, residential and consumer loans as well as FDIC insured deposit accounts to Raymond James' broker-dealer subsidiaries and the general public.

The Other segment consists of principal capital and private equity activities as well as various corporate overhead costs, which include interest expense on senior debt, acquisition and integration related expenses as well as losses associated with the securities repurchased.

The company's fiscal year ends on Sep 30.



Reasons To Buy:

- ▲ In an intensely competitive environment, most of Raymond James' businesses are performing relatively well. The PCG segment remains one of the best performers. Total revenues for the segment have been witnessing a CAGR of 14% over the last four fiscal years (2016-2019), with the trend continuing in the first six months of fiscal 2020. The acquisition of U.S. Private Client Services unit of Deutsche Asset & Wealth Management in 2016 added a significant amount of client assets to the segment's balance sheet, thereby further supporting its performance.
- ▲ Given a strong liquidity position, Raymond James has accomplished several strategic deals over the past few years. In 2019, the company acquired Silver Line Advisors and 100% stake in ClariVest Asset Management. Also, the company has expanded into Europe and Canada with the help of opportunistic acquisitions. These deals poise Raymond James well for future growth. Management looks forward to growing inorganically "as soon as an economy recovers and markets stabilize" with an aim to further strengthen PCG and Asset Management segments.
- ▲ We remain encouraged by Raymond James' steady capital deployment activities. The company has a track record of regularly raising dividends over the last decade. The last dividend hike of 9% was announced in November 2019. The company also has a share repurchase authorization in place. As of Mar 31, 2020, \$537 million worth of shares were left to be repurchased. In mid-March, the company announced suspension of its share buyback plan in response to the COVID-19 outbreak despite having strong liquidity position. Given its robust capital position and lower dividend payout ratio compared to peers, the company is expected to sustain its capital deployment activities, thereby continuing to enhance shareholder value.
- ▲ Also, Raymond James seems undervalued as compared with the industry average. Its price/book and price/cash flow ratios are below the industry average. Further, stock has a Value Score of B.

Inorganic expansion initiatives, strong balance sheet and global reach will aid Raymond James' revenues in the quarters ahead. Further, the company's capital deployment plans are impressive.

Reasons To Sell:

- ▼ Raymond James' investment banking revenues are majorly dependent on the performance of the capital markets, which remains volatile. Though underwriting and advisory businesses performed well in the past, the trend has reversed of late, owing to the coronavirus-induced crisis. In the first six months of fiscal 2020, the company's investment banking revenues declined on a year-over-year basis. Moreover, its dependence on investment banking revenues makes us apprehensive, since the performance of the business depends on market developments, client volumes and several geopolitical concerns.
- ▼ Rising operating expenses remain a major challenge for Raymond James. Non-interest expenses have witnessed a CAGR of 11.5% over the 2016-2019 period, with the trend continuing in the first six months of fiscal 2020. Steadily rising compensation costs and higher bank loan loss provision are the primary reasons driving expenses. Also, regulatory changes and a highly competitive environment will likely lead to a further rise in expenses.
- ▼ Shares of Raymond James have underperformed the industry so far this year. Also, the company's fiscal 2020 earnings estimates have moved 40.1% lower over the past 30 days. Therefore, given the concerns and downward estimate revisions, the stock has limited upside potential.

The volatile nature of investment banking operation makes us apprehensive about the company's future performance. Moreover, mounting operating expenses are expected to hurt the bottom line.

Last Earnings Report

Raymond James Q2 Earnings Beat, Revenues Increase Y/Y

Raymond James' second-quarter fiscal 2020 (ended Mar 31) earnings of \$1.20 per share surpassed the Zacks Consensus Estimate of 89 cents. However, on a year-over-year basis, the bottom line decreased 33.7%.

Results benefited from an increase in revenues. Moreover, the company's balance sheet position was strong in the quarter. However, higher operating expenses acted as an undermining factor.

Net income was \$169 million, down 35.2% from the prior-year quarter.

Revenues Improve, Costs Rise

Net revenues amounted to \$2.1 billion, growing 11.2% year over year. The rise was largely driven by an increase in asset management and related administrative fees, and brokerage revenues.

Segment wise, in the reported quarter, *RJ Bank* registered a decline of 1% in net revenues. *Capital Markets* witnessed a rise of 4.7% in the top line, and *Private Client Group* recorded 17.6% growth. Further, *Asset Management* witnessed a 13.6% jump. However, *Others* recorded negative net revenues of \$44 million.

Non-interest expenses were up 21% year over year to \$1.8 billion. The increase was due to a rise in almost all cost components, except for other expenses.

As of Mar 31, 2020, client assets under administration were \$773.9 billion, down 2.8% from the prior-year quarter end. Financial assets under management were \$128.2 billion, down 7.4% from the prior-year quarter.

Strong Balance Sheet & Capital Ratios

As of Mar 31, 2020, Raymond James reported total assets of \$49.8 billion, up 24% sequentially. Total equity declined 1% from the prior quarter to \$6.8 billion.

Book value per share was \$49.69, up from \$45.34 as of Mar 31, 2019.

As of Mar 31, 2020, total capital ratio was 25.3%, unchanged from the Mar 31, 2019 level. Tier 1 capital ratio was 24.1% compared with 24.3% as of March 2019 end.

Return on equity (annualized basis) was 9.9% at the end of the reported quarter compared with 16.7% in the prior-year quarter.

Share Repurchase Update

During the fiscal second quarter, Raymond James repurchased 2.5 million shares for \$202 million.

Outlook

Management had earlier established targets for compensation ratio being 67.5%, non-compensation expenses to be about \$325 million per quarter and pre-tax margin of 17% in 2020. Now, these are no longer valid following significant changes in the operating backdrop and near-zero interest rates. The company intends to provide new targets at its upcoming Analyst Investor Day on the assumption of some clarity on market conditions by June.

The PCG segment is expected to be negatively impacted starting fiscal third quarter 2020 with a 14% sequential decline of assets in fee based accounts.

In the Asset Management segment, results are likely to be adversely impacted by lower financial assets under management as well as the net outflows in Carillon Tower advisors.

Raymond James Bank's net interest margin is anticipated to decrease to "to somewhere around 2.5% over the next quarter or two depending on where LIBOR settles out" and lower interest rates.

Other than funding the corporate revolver draws, which slowed down significantly, the company has suspended "growing the corporate loan portfolio until we have more economic stability and clarity."

Quarter Ending **03/2020**

Report Date	Apr 29, 2020
Sales Surprise	NA
EPS Surprise	34.83%
Quarterly EPS	1.20
Annual EPS (TTM)	6.89

Recent News

Dividend Update

On Feb 21, Raymond James declared a quarterly cash dividend of 37 cents per share. The dividend was paid out on Apr 15, to shareholders of record as of Apr 1.

Valuation

Raymond James' shares are down 27.7% in the year-to-date period and 26.4% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Finance sector are down 24.6% and 28.1% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and the sector are down 19.6% and 22.6%, respectively.

The S&P 500 index is down 11.5% in the year-to-date period and 1.5% in the past year.

The stock is currently trading at 12.74X forward 12 months earnings, which compares to 11.79X for the Zacks sub-industry, 14.86X for the Zacks sector and 20.63X for the S&P 500 index.

Over the past five years, the stock has traded as high as 17.28X and as low as 7.14X, with a 5-year median of 13.05X. Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$66 price target reflects 13.44X forward earnings.

The table below shows summary valuation data for RJF

Valuation Multiples - RJF					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	12.74	11.79	14.86	20.63
	5-Year High	17.28	15.31	16.18	20.63
	5-Year Low	7.14	6.04	11.24	15.19
	5-Year Median	13.05	11.35	13.94	17.44
P/B	Current	1.26	1.6	2.07	3.8
	5-Year High	2.47	3.01	2.9	4.55
	5-Year Low	1.11	1.28	1.71	2.84
	5-Year Median	1.85	2.2	2.53	3.64
P/S F12M	Current	1.21	3.22	4.98	3.23
	5-Year High	1.96	4.53	6.7	3.44
	5-Year Low	0.92	2.75	4.98	2.54
	5-Year Median	1.52	3.55	6.06	3.01

As of 05/06/2020

Industry Analysis Zacks Industry Rank: Bottom 42% (147 out of 253)



Top Peers

Company (Ticker)	Rec	Rank
GAIN Capital Holdings Inc (GCAP)	Outperform	1
Virtu Financial Inc (VIRT)	Outperform	1
ETRADE Financial Corporation (ETFC)	Neutral	3
Nomura Holdings Inc ADR (NMR)	Neutral	3
Raymond James Financial Inc (RJF)	Neutral	3
The Charles Schwab Corporation (SCHW)	Neutral	3
TD Ameritrade Holding Corporation (AMTD)	Underperform	3
LPL Financial Holdings Inc (LPLA)	Underperform	4

Industry Comparison Industry: Financial - Investment Bank				Industry Peers		
	RJF	X Industry	S&P 500	AMTD	LPLA	NMR
Zacks Recommendation (Long Term)	Neutral	-	-	Underperform	Underperform	Neutral
Zacks Rank (Short Term)	3	-	-	3	4	3
VGM Score	A	-	-	C	C	A
Market Cap	8.71 B	455.20 M	19.11 B	19.41 B	4.94 B	12.46 B
# of Analysts	1	2	14	7	4	2
Dividend Yield	2.37%	0.00%	2.2%	3.46%	1.60%	5.78%
Value Score	B	-	-	B	D	B
Cash/Price	0.82	0.78	0.06	1.13	0.30	16.86
EV/EBITDA	2.41	3.35	11.69	0.34	5.94	-7.47
PEG Ratio	NA	1.00	2.48	0.90	NA	0.16
Price/Book (P/B)	1.26	1.31	2.58	2.12	4.93	0.49
Price/Cash Flow (P/CF)	7.42	7.66	10.40	7.65	6.55	NA
P/E (F1)	14.44	12.78	18.81	12.41	10.73	8.31
Price/Sales (P/S)	1.05	1.05	1.97	3.33	0.86	0.72
Earnings Yield	7.28%	7.61%	4.99%	8.05%	9.33%	12.16%
Debt/Equity	0.40	0.40	0.75	0.54	2.69	5.93
Cash Flow (\$/share)	8.43	2.30	7.01	4.69	9.56	-0.12
Growth Score	C	-	-	F	C	A
Hist. EPS Growth (3-5 yrs)	21.84%	15.61%	10.87%	30.56%	36.96%	0.62%
Proj. EPS Growth (F1/F0)	-38.51%	-26.73%	-9.86%	-30.02%	-18.70%	-40.49%
Curr. Cash Flow Growth	13.40%	4.82%	5.88%	17.86%	21.74%	-114.42%
Hist. Cash Flow Growth (3-5 yrs)	17.54%	13.46%	8.55%	21.50%	18.26%	NA
Current Ratio	1.10	1.26	1.25	1.17	1.31	1.01
Debt/Capital	28.53%	29.37%	44.23%	35.07%	72.89%	85.57%
Net Margin	11.64%	10.72%	10.87%	33.18%	9.80%	13.47%
Return on Equity	14.62%	14.21%	16.36%	23.05%	59.55%	9.28%
Sales/Assets	0.21	0.29	0.55	0.13	0.99	0.04
Proj. Sales Growth (F1/F0)	-2.17%	-2.17%	-2.18%	-14.43%	-0.66%	-8.75%
Momentum Score	A	-	-	A	A	B
Daily Price Chg	-0.41%	-0.22%	-1.27%	-0.50%	0.72%	-0.98%
1 Week Price Chg	2.65%	1.40%	0.53%	3.46%	16.02%	4.58%
4 Week Price Chg	-6.14%	0.00%	0.68%	-4.63%	15.01%	-3.59%
12 Week Price Chg	-35.73%	-27.66%	-22.30%	-28.15%	-34.57%	-22.35%
52 Week Price Chg	-28.84%	-28.74%	-11.55%	-32.07%	-25.09%	10.41%
20 Day Average Volume	1,067,995	77,759	2,470,143	3,708,462	797,062	344,322
(F1) EPS Est 1 week change	8.85%	0.00%	0.00%	0.00%	10.04%	0.00%
(F1) EPS Est 4 week change	-40.05%	-12.17%	-6.52%	0.90%	-0.09%	0.00%
(F1) EPS Est 12 week change	-40.48%	-28.47%	-14.84%	-4.35%	-22.89%	-7.62%
(Q1) EPS Est Mthly Chg	-69.36%	-6.67%	-12.48%	6.22%	-3.37%	0.00%

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	B
Growth Score	C
Momentum Score	A
VGM Score	A

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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