

Raymond James (RJF)

\$75.49 (As of 08/07/20)

Price Target (6-12 Months): **\$78.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 07/21/20)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

4-Sell

Zacks Style Scores:

VGM:A

Value: C

Growth: B

Momentum: A

Summary

Shares of Raymond James have underperformed the industry so far this year. The company's earnings surpassed the Zacks Consensus Estimate in three of the trailing four quarters. Its third-quarter fiscal 2020 (ended Jun 30) results were aided by a rise in assets balance, partly offset by higher costs. The company's efforts to expand through acquisitions and its global diversification efforts are expected to keep driving the top line. Given a solid balance sheet and liquidity position, it is expected to continue enhancing shareholder value through efficient capital deployments. However, the company's dependence on the volatile nature of the capital markets to generate investment banking revenues makes us apprehensive about its prospects. Elevated expenses mainly due to higher compensation costs will likely hurt the bottom line to an extent.

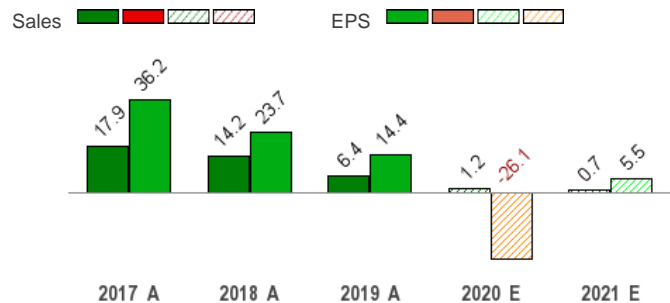
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$102.45 - \$54.21
20 Day Average Volume (sh)	664,024
Market Cap	\$10.2 B
YTD Price Change	-16.4%
Beta	1.36
Dividend / Div Yld	\$1.48 / 2.0%
Industry	Financial - Investment Bank
Zacks Industry Rank	Top 26% (65 out of 252)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	33.7%
Last Sales Surprise	-1.0%
EPS F1 Est- 4 week change	18.9%
Expected Report Date	NA
Earnings ESP	0.0%
P/E TTM	11.8
P/E F1	13.8
PEG F1	NA
P/S TTM	1.3

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	1,938 E	1,938 E	1,993 E	2,063 E	7,886 E
2020	2,009 A	2,068 A	1,834 A	1,943 E	7,831 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	\$1.37 E	\$1.38 E	\$1.47 E	\$1.57 E	\$5.77 E
2020	\$1.89 A	\$1.20 A	\$1.23 A	\$1.15 E	\$5.47 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 08/07/2020. The reports text is as of 08/10/2020.

Overview

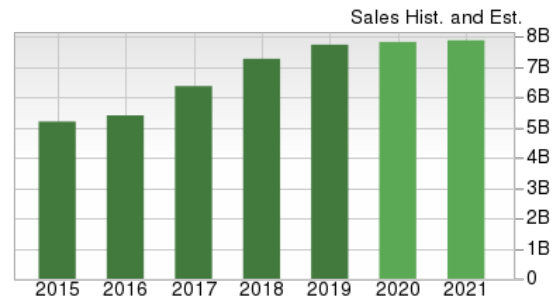
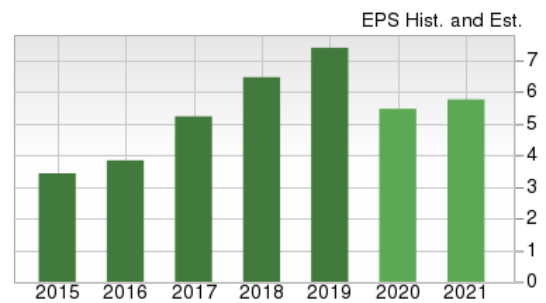
Established in 1962, Raymond James Financial Inc. is a diversified company based in St. Petersburg, FL. The company along with its subsidiaries – Raymond James & Associates Inc. (RJ&A), Raymond James Financial Services Inc. (RJFS), Raymond James Financial Services Advisors Inc. (RJFSA), Raymond James Ltd. (RJ Ltd.), Eagle Asset Management Inc. (Eagle) and Raymond James Bank N.A. (RJ Bank) – provides financial services mainly in the United States 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 nine 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 Jun 30, 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.
- ▲ Shares of Raymond James have underperformed the industry so far this year. However, the company's fiscal 2020 earnings estimates have moved 10.5% upward over the past 30 days. Also, the stock seems undervalued currently. Its current price/book and price/earnings (F1) ratios are below their respective industry averages. Therefore, given the strength in fundamentals and positive estimate revisions, the stock has upside potential left.

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 nine 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 nine 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.
- ▼ Raymond James' trailing 12-month return on equity (ROE) undercuts its growth potential. The company's ROE of 13.15% compares unfavorably with 14.39% for the S&P 500, highlighting that it is less efficient in using shareholder funds.

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 Q3 Earnings Beat, Revenues Decline Y/Y

Raymond James' third-quarter fiscal 2020 (ended Jun 30) earnings of \$1.23 per share comfortably surpassed the Zacks Consensus Estimate of 92 cents. However, on a year-over-year basis, the bottom line decreased 32%.

The results benefited from robust Capital Markets segment performance and a rise in assets balance. Also, the company's balance sheet position was strong in the quarter. However, higher operating expenses and fall in revenues acted as undermining factors.

Net income was \$172 million, down 34% from the prior-year quarter.

Revenues Down, Costs Rise

Net revenues amounted to \$1.83 billion, decreasing 5% year over year. The fall was largely due to lower account and service fees, as well as interest income. The top line also lagged the Zacks Consensus Estimate of \$1.85 billion.

Segment wise, for the reported quarter, *RJ Bank* registered a decline of 17% from the prior year in net revenues. Both *Private Client Group* and *Asset Management* recorded an 8% fall in revenues from the prior-year quarter. Further, *Others* recorded negative net revenues of \$20 million. However, *Capital Markets*' top line jumped 29% from the year-ago quarter.

Non-interest expenses were up 3% year over year to \$1.63 billion. The increase was due to higher communications and information processing, professional fees, as well as bank loan loss provision.

As of Jun 30, 2020, client assets under administration were \$876.9 billion, up 6% from the end of the prior-year quarter. Financial assets under management were \$145.4 billion, up 2% from the prior-year quarter.

Strong Balance Sheet & Capital Ratios

As of Jun 30, 2020, Raymond James reported total assets of \$44.7 billion, down 10% sequentially. Total equity increased 2% from the first quarter to \$7 billion.

Book value per share was \$50.84, up from \$46.54 as of Jun 30, 2019.

As of Jun 30, 2020, total capital ratio was 26%, up from 25.2% as of the Jun 30, 2019 level. Tier 1 capital ratio was 24.8% compared with 24.2% as of June 2019-end.

Return on equity (annualized basis) was 10.0% at the end of the reported quarter compared with 16.1% in the comparable prior-year period.

Outlook

The PCG segment is expected to benefit starting fiscal fourth quarter 2020 with a 16% sequential increase of assets in fee based accounts.

In the Asset Management segment, results are expected to be positively impacted by higher financial assets under management given the equity markets continue to remain resilient.

Based on the current LIBOR rate, the company expects Raymond James Bank's net interest margin to decline to 2.1-2.2% over the next two quarters.

Average yields are anticipated to remain close to 30 basis points in the near term.

Quarter Ending 06/2020

Report Date	Jul 29, 2020
Sales Surprise	-1.03%
EPS Surprise	33.70%
Quarterly EPS	1.23
Annual EPS (TTM)	6.32

Recent News

Dividend Update

On May 20, Raymond James declared a quarterly cash dividend of 37 cents per share. The dividend was paid out on Jul 15, to shareholders of record as of Jul 1.

Valuation

Raymond James' shares are down 16.4% in the year-to-date period but up 0.3% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Finance sector are down 10.7% and 16% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry is up 8.2% while the sector is down 6.7%.

The S&P 500 index is up 4.1% in the year-to-date period and 16.6% in the past year.

The stock is currently trading at 13.07X forward 12 months earnings, which compares to 11.74X for the Zacks sub-industry, 16.67X for the Zacks sector and 22.81X 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 12.80X. Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$78 price target reflects 13.64X 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	13.07	11.74	16.67	22.81
	5-Year High	17.28	15.31	16.67	22.81
	5-Year Low	7.14	6.02	11.59	15.25
	5-Year Median	12.8	11.48	14.21	17.55
P/TB TTM	Current	1.67	2.04	3.43	15.12
	5-Year High	2.84	3.35	4	15.12
	5-Year Low	1.24	1.4	2.01	5.96
	5-Year Median	2.09	2.37	3.48	9.56
P/S F12M	Current	1.3	3.5	6.05	3.67
	5-Year High	1.96	4.54	6.66	3.67
	5-Year Low	0.92	2.76	4.97	2.53
	5-Year Median	1.51	3.53	6.06	3.04

As of 08/07/2020

Industry Analysis Zacks Industry Rank: Top 26% (65 out of 252)



Top Peers

Company (Ticker)	Rec	Rank
TD Ameritrade Holding Corporation (AMTD)	Outperform	1
ETRADE Financial Corporation (ETFC)	Neutral	2
LPL Financial Holdings Inc. (LPLA)	Neutral	3
Nomura Holdings Inc ADR (NMR)	Neutral	2
Raymond James Financial, Inc. (RJF)	Neutral	4
The Charles Schwab Corporation (SCHW)	Neutral	3
Virtu Financial, Inc. (VIRT)	Neutral	3

Industry Comparison Industry: Financial - Investment Bank				Industry Peers		
	RJF	X Industry	S&P 500	AMTD	LPLA	NMR
Zacks Recommendation (Long Term)	Neutral	-	-	Outperform	Neutral	Neutral
Zacks Rank (Short Term)	4	-	-	1	3	2
VGM Score	A	-	-	A	C	F
Market Cap	10.25 B	717.05 M	23.30 B	19.93 B	6.73 B	15.21 B
# of Analysts	2	2	14	7	4	2
Dividend Yield	1.98%	0.00%	1.76%	3.37%	1.18%	1.58%
Value Score	C	-	-	B	B	D
Cash/Price	1.58	0.67	0.07	1.08	0.28	11.88
EV/EBITDA	-0.83	1.86	13.32	0.83	7.33	-0.38
PEG Ratio	NA	1.14	2.94	NA	NA	0.12
Price/Book (P/B)	1.52	1.70	3.19	2.08	6.08	0.58
Price/Cash Flow (P/CF)	8.87	8.90	12.51	7.85	8.90	5.90
P/E (F1)	13.80	13.74	22.02	10.31	14.13	6.07
Price/Sales (P/S)	1.26	1.42	2.53	3.37	1.18	0.84
Earnings Yield	7.31%	7.24%	4.37%	9.69%	7.07%	16.46%
Debt/Equity	0.49	0.38	0.77	0.39	2.35	5.83
Cash Flow (\$/share)	8.43	2.30	6.94	4.69	9.56	0.83
Growth Score	B	-	-	B	C	F
Hist. EPS Growth (3-5 yrs)	20.42%	20.42%	10.46%	30.77%	39.33%	8.82%
Proj. EPS Growth (F1/F0)	-26.08%	-13.56%	-6.80%	-13.46%	-16.12%	-28.32%
Curr. Cash Flow Growth	13.40%	-0.49%	5.39%	17.86%	21.74%	-769.69%
Hist. Cash Flow Growth (3-5 yrs)	17.54%	12.22%	8.55%	21.50%	18.26%	-0.28%
Current Ratio	1.06	1.27	1.33	1.14	1.29	1.01
Debt/Capital	32.97%	26.02%	44.50%	28.08%	70.11%	85.37%
Net Margin	10.75%	9.74%	10.13%	32.88%	9.06%	15.61%
Return on Equity	13.15%	13.87%	14.39%	22.51%	54.13%	10.97%
Sales/Assets	0.19	0.26	0.51	0.12	0.96	0.04
Proj. Sales Growth (F1/F0)	1.18%	0.00%	-1.51%	-4.45%	1.18%	-29.37%
Momentum Score	A	-	-	C	F	D
Daily Price Chg	3.93%	0.51%	0.90%	2.76%	2.85%	-0.40%
1 Week Price Chg	-3.66%	0.00%	0.14%	-4.98%	4.04%	3.08%
4 Week Price Chg	13.99%	2.34%	8.95%	0.63%	14.77%	7.19%
12 Week Price Chg	20.57%	13.34%	18.90%	7.03%	38.25%	29.47%
52 Week Price Chg	-3.01%	-5.83%	1.18%	-20.31%	11.53%	34.43%
20 Day Average Volume	664,024	67,082	2,057,775	2,525,928	640,341	154,855
(F1) EPS Est 1 week change	3.01%	0.00%	0.00%	0.00%	-0.33%	0.00%
(F1) EPS Est 4 week change	18.91%	17.02%	1.36%	17.02%	-1.47%	12.50%
(F1) EPS Est 12 week change	20.22%	23.68%	1.57%	23.68%	3.17%	67.01%
(Q1) EPS Est Mthly Chg	24.46%	3.33%	0.54%	33.92%	-4.56%	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	C
Growth Score	B
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.

Disclosures

This report contains independent commentary to be used for informational purposes only. The analysts contributing to this report do not hold any shares of this stock. The analysts contributing to this report do not serve on the board of the company that issued this stock. The EPS and revenue forecasts are the Zacks Consensus estimates, unless indicated otherwise on the reports first page. Additionally, the analysts contributing to this report certify that the views expressed herein accurately reflect the analysts personal views as to the subject securities and issuers. ZIR certifies that no part of the analysts compensation was, is, or will be, directly or indirectly, related to the specific recommendation or views expressed by the analyst in the report.

Additional information on the securities mentioned in this report is available upon request. This report is based on data obtained from sources we believe to be reliable, but is not guaranteed as to accuracy and does not purport to be complete. Any opinions expressed herein are subject to change.

ZIR is not an investment advisor and the report should not be construed as advice designed to meet the particular investment needs of any investor. Prior to making any investment decision, you are advised to consult with your broker, investment advisor, or other appropriate tax or financial professional to determine the suitability of any investment. This report and others like it are published regularly and not in response to episodic market activity or events affecting the securities industry.

This report is not to be construed as an offer or the solicitation of an offer to buy or sell the securities herein mentioned. ZIR or its officers, employees or customers may have a position long or short in the securities mentioned and buy or sell the securities from time to time. ZIR is not a broker-dealer. ZIR may enter into arms-length agreements with broker-dealers to provide this research to their clients. Zacks and its staff are not involved in investment banking activities for the stock issuer covered in this report.

ZIR uses the following rating system for the securities it covers. **Outperform-** ZIR expects that the subject company will outperform the broader U.S. equities markets over the next six to twelve months. **Neutral-** ZIR expects that the company will perform in line with the broader U.S. equities markets over the next six to twelve months. **Underperform-** ZIR expects the company will underperform the broader U.S. equities markets over the next six to twelve months.

No part of this report can be reprinted, republished or transmitted electronically without the prior written authorization of ZIR.