

Raymond James (RJF)

\$97.61 (As of 02/21/20)

Price Target (6-12 Months): **\$103.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 06/25/19)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

4-Sell

Zacks Style Scores:

VGM:B

Value: C

Growth: B

Momentum: B

Summary

Shares of Raymond James have outperformed the industry over the past year. The company has an impressive earnings surprise history, having outpaced the Zacks Consensus Estimate in two of the trailing four quarters. Its first-quarter fiscal 2020 (ended December) results reflect a rise in revenues. The company's efforts to expand through acquisitions and global diversification are expected to keep driving the top line. Further, given a solid liquidity position, the company is expected to continue enhancing shareholder value through efficient capital deployment. However, high dependence on capital markets to generate investment banking revenues is a concern. This will likely have an adverse impact on overall revenue growth. Additionally, continuously mounting operating expenses due to higher compensation costs are expected to hurt the bottom line.

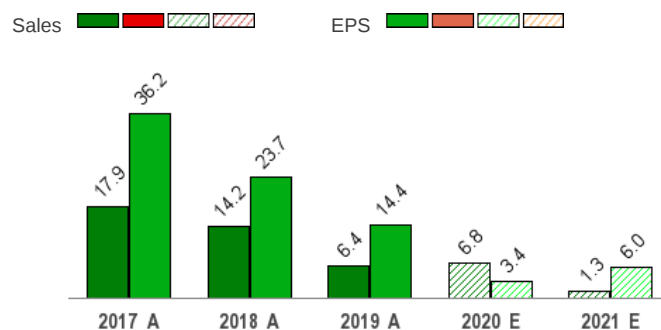
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$102.45 - \$72.94
20 Day Average Volume (sh)	854,301
Market Cap	\$13.6 B
YTD Price Change	9.1%
Beta	1.50
Dividend / Div Yld	\$1.48 / 1.5%
Industry	Financial - Investment Bank
Zacks Industry Rank	Top 31% (80 out of 255)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	-0.5%
Last Sales Surprise	NA
EPS F1 Est- 4 week change	-4.7%
Expected Report Date	NA
Earnings ESP	0.0%
P/E TTM	13.0
P/E F1	12.8
PEG F1	NA
P/S TTM	1.7

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021					8,379 E
2020	2,009 A				8,269 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	\$1.99 E	\$1.92 E	\$1.91 E	\$2.04 E	\$8.11 E
2020	\$1.89 A	\$1.92 E	\$1.86 E	\$1.91 E	\$7.65 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 02/21/2020. The reports text is as of 02/24/2020.

Overview

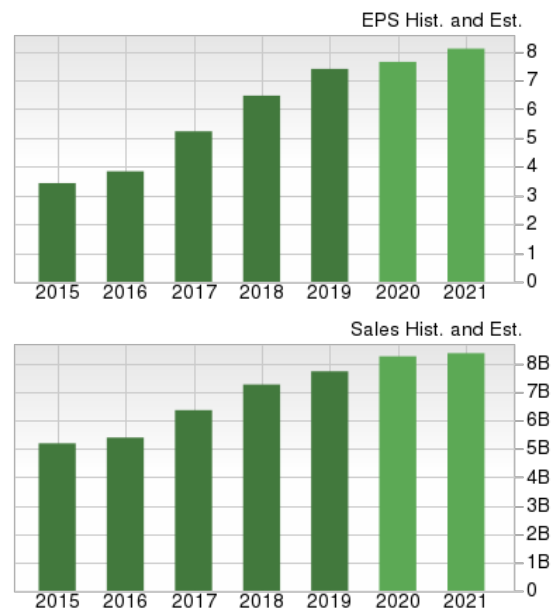
Established in 1962, Raymond James Financial Inc. is a diversified company based in St. Petersburg, FL. The company along with its subsidiaries – Raymond James & Associates Inc. (RJ&A), Raymond James Financial Services Inc. (RJFS), Raymond James Financial Services Advisors Inc. (RJFSA), Raymond James 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 trend continuing in the first quarter 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 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 Dec 31, 2019, \$739 million worth of shares were left to be repurchased. 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.
- ▲ Further, Raymond James' trailing 12-month return on equity (ROE) reflects its growth potential. The company's ROE of 16.15% compares favorably with the industry average of 11.77%.

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:

- ▼ A large part of Raymond James' revenues comes from investment banking operations, which is dependent on the overall performance of capital markets. Though the underwriting and advisory businesses have performed well in the past, several geopolitical concerns make us apprehensive. Thus, the performance of the business depends on market developments and client volumes.
- ▼ 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 first-quarter 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 outperformed the industry over the past six months. However, the company's fiscal 2020 earnings estimates have moved 5.6% lower over the past 60 days. Also, the stock is overvalued as compared with the broader industry. Its current price-to-cash flow and price-earnings (F1) ratios are above the respective industry averages. Therefore, given the concerns and downward estimate revisions, the stock has limited upside potential.

Volatile nature of investment banking operation makes us apprehensive about the company's future performance. Also, mounting operating expenses is a near-term concern and will hurt bottom-line.

Last Earnings Report

Raymond James Q1 Earnings Miss, Revenues Increase Y/Y

Raymond James reported first-quarter fiscal 2020 (ended Dec 31) earnings of \$1.89 per share, missing the Zacks Consensus Estimate by a penny. However, on a year-over-year basis, the bottom line increased 11.8%.

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

Net income (GAAP basis) was \$268 million, up 7.6% from the prior-year quarter.

Revenues Up & Costs Rise

Net revenues amounted to \$2 billion, growing 4% year over year. The rise was largely driven by increase in asset management and related administrative fees.

Segment wise, in the reported quarter, RJ Bank registered an increase of 6.4% in net revenues. Capital Markets witnessed a rise of 5.9% in the top line, and Private Client Group recorded 4.3% growth. Further, Asset Management witnessed a 5.8% jump. However, Others recorded negative net revenues of \$8 million.

Non-interest expenses were up 3.2% year over year to \$1.7 billion. The increase was due to rise in almost all cost components.

As of Dec 31, 2019, client assets under administration grew 23.5% from the prior-year quarter to \$896 billion. Further, financial assets under management were \$151.7 billion, up 19.9% from the prior-year quarter.

Strong Balance Sheet & Capital Ratios

As of Dec 31, 2019, Raymond James reported total assets of \$40.2 billion, up 3.4% sequentially. Total equity increased 4% from the prior quarter to \$6.8 billion.

Book value per share was \$49.26, up from \$43.69 as of Dec 31, 2018.

As of Dec 31, 2019, total capital ratio came in at 25.7%, increasing from 24.7% on Dec 31, 2018. Also, Tier 1 capital ratio was 24.8% compared with 23.6% as of December 2018 end.

Return on equity (annualized basis) was 16.0% at the end of the reported quarter compared with 15.9% in the prior-year quarter.

Share Repurchase Update

During the fiscal first quarter, Raymond James repurchased 126,000 shares for a total value of \$11.3 million.

Outlook

Compensation ratio is anticipated to be 67.5% in fiscal 2020 on a rise in financial advisor compensation and the reset of payroll taxes at the beginning of each calendar year. The ratio shows a rise from the prior guidance of 66.5%.

Given the loan loss benefit and with no major recognition events or conferences during the quarter, the company expects non-compensation expenses of nearly \$1.3 billion in fiscal 2020.

Pre-tax margin is anticipated at around 17% for fiscal 2020.

Net interest margin in the second quarter fiscal 2020 is expected to remain flat sequentially.

Given one less day and rise in financial AUM, the company expects asset management fees to grow 7-8% in the second quarter of fiscal 2020 on a sequential basis.

Quarter Ending **12/2019**

Report Date	Jan 22, 2020
Sales Surprise	NA
EPS Surprise	-0.53%
Quarterly EPS	1.89
Annual EPS (TTM)	7.50

Recent News

Dividend Update

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

Valuation

Raymond James' shares are up 16.8% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Finance sector are up 7.6% and 7.9% over the past year, respectively.

The S&P 500 index is up 18.5% in the past year.

The stock is currently trading at 12.47X forward 12 months earnings, which compares to 11.51X for the Zacks sub-industry, 14.89X for the Zacks sector and 19.09X for the S&P 500 index.

Over the past five years, the stock has traded as high as 17.28X and as low as 9.08X, with a 5-year median of 13.34X. Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$103 price target reflects 13.15X 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	12.47	11.51	14.89	19.09
	5-Year High	17.28	15.3	16.21	19.34
	5-Year Low	9.08	6.05	12.01	15.18
	5-Year Median	13.34	11.42	14.15	17.47
P/B TTM	Current	1.97	2.26	2.84	4.83
	5-Year High	2.47	3	2.89	4.9
	5-Year Low	1.18	1.47	1.83	2.85
	5-Year Median	1.85	2.21	2.51	3.62
P/S F12M	Current	1.64	4.12	6.55	3.51
	5-Year High	1.96	4.53	6.65	3.61
	5-Year Low	0.99	2.8	5.39	2.54
	5-Year Median	1.52	3.63	6.04	3

As of 02/21/2020

Industry Analysis Zacks Industry Rank: Top 31% (80 out of 255)



Top Peers

LPL Financial Holdings Inc. (LPLA)	Outperform
TD Ameritrade Holding Corporation (AMTD)	Neutral
E*TRADE Financial Corporation (ETFC)	Neutral
Nomura Holdings Inc ADR (NMR)	Neutral
Raymond James Financial, Inc. (RJF)	Neutral
The Charles Schwab Corporation (SCHW)	Neutral
GAIN Capital Holdings, Inc. (GCAP)	Underperform
Virtu Financial, Inc. (VIRT)	Underperform

Industry Comparison Industry: Financial - Investment Bank				Industry Peers		
	RJF Neutral	X Industry	S&P 500	AMTD Neutral	LPLA Outperform	NMR Neutral
VGM Score	B	-	-	D	A	A
Market Cap	13.60 B	656.38 M	24.03 B	26.26 B	7.67 B	16.62 B
# of Analysts	2	2.5	13	7	4	2
Dividend Yield	1.52%	0.00%	1.76%	2.55%	1.05%	4.66%
Value Score	C	-	-	C	A	B
Cash/Price	0.52	0.34	0.04	0.41	0.20	12.74
EV/EBITDA	5.18	5.28	14.08	5.60	10.07	-6.85
PEG Ratio	NA	1.47	2.08	1.15	0.85	0.12
Price/Book (P/B)	1.97	2.11	3.29	3.00	7.52	0.65
Price/Cash Flow (P/CF)	11.58	9.75	13.42	10.35	12.95	NA
P/E (F1)	12.27	11.83	19.00	15.90	12.70	5.95
Price/Sales (P/S)	1.68	1.58	2.64	4.53	1.36	0.96
Earnings Yield	7.83%	8.50%	5.26%	6.30%	7.87%	16.80%
Debt/Equity	0.40	0.40	0.70	0.41	2.56	5.93
Cash Flow (\$/share)	8.43	3.02	7.03	4.69	7.32	-0.12
Growth Score	B	-	-	F	A	A
Hist. EPS Growth (3-5 yrs)	22.28%	14.18%	10.84%	29.83%	33.37%	0.62%
Proj. EPS Growth (F1/F0)	3.31%	15.23%	7.09%	-26.01%	4.04%	411.11%
Curr. Cash Flow Growth	13.40%	15.37%	6.72%	17.86%	57.32%	-114.42%
Hist. Cash Flow Growth (3-5 yrs)	17.54%	13.89%	8.25%	21.50%	13.61%	NA
Current Ratio	1.10	1.33	1.22	1.11	1.33	1.01
Debt/Capital	28.53%	28.05%	42.37%	28.90%	71.92%	85.57%
Net Margin	13.03%	11.13%	11.56%	34.26%	9.95%	13.47%
Return on Equity	16.15%	11.77%	16.80%	24.24%	59.60%	9.28%
Sales/Assets	0.21	0.22	0.55	0.14	1.02	0.04
Proj. Sales Growth (F1/F0)	6.83%	3.93%	3.90%	-14.42%	7.80%	-14.73%
Momentum Score	B	-	-	A	B	B
Daily Price Chg	-3.60%	-0.81%	-0.83%	-4.78%	-4.00%	-1.38%
1 Week Price Chg	5.21%	0.47%	1.65%	0.47%	0.18%	-0.59%
4 Week Price Chg	6.98%	0.00%	-0.37%	-4.20%	-2.26%	-4.40%
12 Week Price Chg	7.88%	1.07%	3.74%	-6.88%	2.97%	-1.38%
52 Week Price Chg	17.73%	-0.88%	14.14%	-13.56%	23.69%	25.00%
20 Day Average Volume	854,301	55,624	1,992,841	3,620,648	542,900	126,734
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	1.13%	0.00%	0.00%
(F1) EPS Est 4 week change	-4.74%	0.00%	-0.02%	1.86%	0.44%	42.37%
(F1) EPS Est 12 week change	-5.03%	0.42%	-0.17%	1.97%	3.93%	42.37%
(Q1) EPS Est Mthly Chg	-3.03%	-1.07%	-0.48%	4.28%	-0.70%	NA

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	B
VGM Score	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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