Jan 03, 2020

SEI Investments Co. (SEIC)

$65.80 (As of 01/02/20)

Price Target (6-12 Months): **$70.00**

Long Term: 6-12 Months	**Zacks Recommendation:** (Since: 06/10/19) Prior Recommendation: Outperform	**Neutral**
Short Term: 1-3 Months	**Zacks Rank:** (1-5)	**3-Hold**
	Zacks Style Scores:	VGM:C
	Value: D | Growth: C | Momentum: B	

Summary

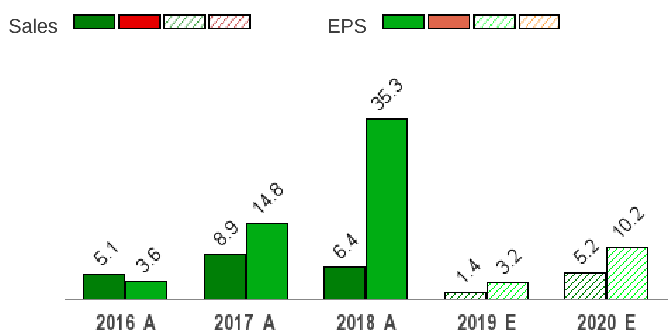
Shares of SEI Investments have outperformed the industry over the past six months. The company has a decent earnings surprise history. Its earnings surpassed the Zacks Consensus Estimate in two and matched in one of the trailing four quarters. Solid assets under management (AUM) balance, global presence and diversified product offerings are expected to continue to aid financials, going forward. Further, technological innovations and rising demand for SEI Wealth Platform (SWP) are expected to keep boosting the company's top-line performance. However, persistently mounting operating expenses, mainly due to continuous technology upgrades, are expected to hamper bottom-line growth to some extent. Additionally, the company's increasing dependence on fee-based income remains a matter of concern as it will likely hamper financials in the near term.

Price, Consensus & Surprise

Data Overview

52 Week High-Low	**$67.14 - $44.47**
20 Day Average Volume (sh)	**560,319**
Market Cap	**$9.9 B**
YTD Price Change	**0.5%**
Beta	**1.31**
Dividend / Div Yld	**$0.70 / 1.1%**
Industry	**Financial - Investment Management**
Zacks Industry Rank	**Top 36% (92 out of 253)**
Last EPS Surprise	**3.6%**
Last Sales Surprise	**0.1%**
EPS F1 Est- 4 week change	**0.0%**
Expected Report Date	**01/29/2020**
Earnings ESP	**0.0%**
P/E TTM	**21.0**
P/E F1	**18.4**
PEG F1	**1.5**
P/S TTM	**6.1**

Sales and EPS Growth Rates (Y/Y %)



Sales Estimates (millions of $)

	Q1	Q2	Q3	Q4	Annual*
2020	423 E	429 E	435 E	444 E	1,732 E
2019	401 A	410 A	416 A	419 E	1,646 E
2018	406 A	405 A	409 A	405 A	1,624 A

EPS Estimates

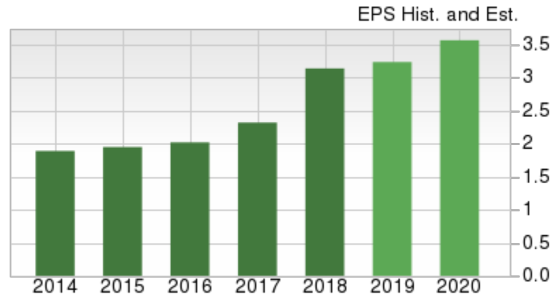
	Q1	Q2	Q3	Q4	Annual*
2020	$0.86 E	$0.87 E	$0.92 E	$0.92 E	$3.57 E
2019	$0.73 A	$0.82 A	$0.86 A	$0.84 A	$3.24 E
2018	$0.86 A	$0.75 A	$0.80 A	$0.73 A	$3.14 A

*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 01/02/2020. The reports text is as of 01/03/2020.

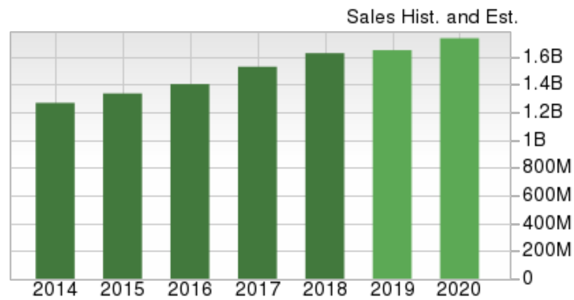
Overview

SEI Investments Co. – founded in 1968 – is headquartered in Oaks, PA. This asset management company is a leading provider of wealth management business solutions in the financial services industry. The company offers investment processing, management and operations solutions globally.



The company operates through the following five business segments:

- **Private Banks** (constituting 30% of revenues in 2018) provide investment processing and investment management programs to banks and trust institutions across the globe, with independent wealth advisers in U.K. and financial advisors in Canada.



- **Investment Advisors** segment (24%) provides investment management programs to wealthy investors through a network of independently registered investment advisors, financial planners and other investment professionals in the U.S.

- **Institutional Investors** segment (20%) offers investment management programs and administrative outsourcing solutions to retirement plan sponsors, hospitals and non-profit organizations worldwide.

- **Investment Managers** segment (25%) provides investment operations and outsourcing solutions to investment managers, fund companies and banking institutions located in the U.S., and to investment managers of alternative asset classes and private equity funds across both registered and partnership structures worldwide.

- **Investments in New Businesses** segment (1%) provides investment management programs to ultra-high-net-worth families residing in the U.S. through the SEI Wealth Network and carries out other research and development activities.

SEI Investments administered $1,002 billion in hedge funds, private equity, mutual funds and pooled or separately managed assets as Sep 30, 2019. Total AUM included $100.3 billion managed by its affiliate, LSV Asset Management (LSV).

Reasons To Buy:

Rising demand for SWP, solid assets balance, SEI Investments' partnership interest in LSV Asset Management, diversified product offerings and global presence will aid growth in the quarters ahead.

- SEI Investments has been witnessing consistent improvement in revenues for the last several years. Over the last five years (2014-2018), the company's revenues witnessed a CAGR of 6.4%. Further, solid assets balance will support the top line. The company registered a rising trend in its total AUM over the last three years (2016-2018) at a CAGR of 8.5%, amid tough asset gathering backdrop in the back half of 2018. Both revenues and AUM improved in the first nine months of 2019. Further, the company's diversified product and revenue mix, strong global presence and strong assets balance reflect improving prospects.

- Technology is the backbone of SEI Investments' businesses. The company's primary business platform — Investment Processing — delivers its outsourced software and processing services through TRUST 3000 and SWP. Revenues generated by these two are recognized under information processing and software servicing fees. While the same recorded a slight decline in first nine months of 2019, it witnessed a CAGR of 8.6% over the last three years (ended 2018). Demand for SWP is on the rise, as big banks have signed up to utilize the platform for their respective business expansions. Constant innovation in software will help SEI Investments win new clients and aid top-line growth.

- SEI Investments' partnership interest in LSV Asset Management has been supporting its bottom line. The contribution of LSV to the company's pre-tax income remained more than 25% in the last few years. Notably, despite tough operating backdrop in the later part of 2018, LSV's contribution to the company's income improved. Going forward, the company will continue to benefit from strong performance of LSV driven by decent asset inflows.

- Moreover, SEI Investments continues to impress with its enhanced capital deployment activities. In December 2019, the company hiked its semi-annual dividend by 6.1%. In July 2019, it authorized an increase in its share repurchase plan by an additional $250 million. As of Sep 30, 2019, nearly $199 million worth of share buyback authorization remained. Given the robust capital position along with debt/equity and dividend payout ratios lower than its peers, the company is expected to sustain its capital deployment activities thereby continuing to enhance shareholder value.

- Shares of SEI Investments have outperformed the industry over the past three months. The company's 2019 earnings estimates have moved marginally upward over the past 60 days. Given the strong fundamentals and positive estimate revisions, the impressive price performance is expected to continue.

Reasons To Sell:

- Continuously rising expenses remain a major cause of concern for SEI Investments. Expenses witnessed a CAGR of 6.7% over the last five years (2014-2018), with the uptrend continuing in first nine months of 2019. The rise was mainly due to an increase in compensation costs, and data processing and computer-related expenses. As the company's operations are mainly technology driven, costs related to the same are expected to continue rising, given the upgrading of proprietary software and development of new ones. Thus, overall operating expenses are expected to remain elevated.

Persistently rising expenses and increased exposure to fee-based revenues remain major concerns for SEI Investments. Further, a stretched valuation indicates limited upside potential for the stock.

- Asset management, administration and distribution fees are the major revenue-generators for SEI Investments. These comprised 79.1% of total revenues at the end of first nine months of 2019, 78.2% in 2018, 77.4% in 2017, 76.5% in 2016, 75.7% in 2015 and 75% in 2014. The increasing dependence on fee-based revenues could adversely affect the company's financials in the near term as fluctuations in markets and foreign exchange translations and/or regulatory changes may hamper its AUM growth.

- Further, SEI Investments seems overvalued compared with the broader industry. Its current price/book and price/earnings (F1) ratios are above the respective industry averages.

Last Earnings Report

SEI Investments Beats on Q3 Earnings, Revenues Grow

Quarter Ending	09/2019
Report Date	Oct 23, 2019
Sales Surprise	0.06%
EPS Surprise	3.61%
Quarterly EPS	0.86
Annual EPS (TTM)	3.14

SEI Investments' third-quarter 2019 earnings of 86 cents per share surpassed the Zacks Consensus Estimate of 83 cents. The figure reflects a rise of 7.5% from the prior-year quarter.

Results were primarily driven by growth in revenues and lower expenses. However, a decline in assets under management (AUM) was a headwind.

Net income was $132.2 million, up from $128.3 million recorded in the year-ago quarter.

Revenues Improve, Expenses & AUM Decline

Total revenues were $416.3 million, up 1.9% year over year. The rise reflected higher asset management, administration and distribution fees. Moreover, the reported figure marginally surpassed the Zacks Consensus Estimate of $416 million.

Total expenses were $295.6 million, down marginally year over year. The contraction was led by a fall in almost all components of expenses, except for compensation, benefits and other personnel expenses, data processing and computer-related expenses, depreciation costs, and amortization expenses.

Operating income increased 7.3% year over year to $120.6 million.

As of Sep 30, 2019, AUM was $334.7 billion, reflecting a decline of nearly 1.3% from the prior-year quarter. Client assets under administration (AUA) were $662 billion, up 15% year over year. Note that client AUA does not include $12.4 billion related to Funds of Funds assets that were reported on Sep 30, 2019.

Share Repurchase

In the reported quarter, SEI Investments bought back 1.4 million shares for $81.4 million.

Outlook

For the fourth quarter, management expects capital expenditures (excluding capitalized software) to be $15 million and about half will likely be related to the facility expansion. For 2020, capital expenditures are anticipated to be nearly $40 million, with almost 50% of it will be related to the facility expansion.

The company expects effective tax rate for the fourth quarter to be around 21%.

Recent News

Dividend Update

On Dec 10, 2019, SEI Investments announced a regular semi-annual dividend of 35 cents per share, representing a hike of 6.1%. The dividend will be paid on Jan 8, 2020 to shareholders of record as of Dec 27.

Valuation

SEI Investments' shares are up 43% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Finance sector are up 12% and 20.3% over the past year, respectively.

The S&P 500 index is up 30.7% in the past year.

The stock is currently trading at 20.32X forward 12 months earnings, which compares to 12.42X for the Zacks sub-industry, 14.92X for the Zacks sector and 19.07X for the S&P 500 index.

Over the past five years, the stock has traded as high as 31.04X and as low as 13.12X, with a 5-year median of 21.04X. Our Neutral recommendation indicates that the stock will perform in line with the market. Our $70 price target reflects 21.60X forward earnings.

The table below shows summary valuation data for SEIC

Valuation Multiples - SEIC

		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	20.32	12.42	14.92	19.07
	5-Year High	31.04	13.88	16.21	19.34
	5-Year Low	13.12	9.47	12.01	15.17
	5-Year Median	21.04	12.15	13.98	17.44
P/B TTM	Current	5.8	1.88	2.83	4.41
	5-Year High	8.29	2.08	2.89	4.42
	5-Year Low	4.09	0.91	1.83	2.85
	5-Year Median	5.99	1.61	2.5	3.6
P/S F12M	Current	6.01	3.25	6.56	3.46
	5-Year High	7.58	3.57	6.61	3.46
	5-Year Low	3.97	2.28	5.2	2.54
	5-Year Median	5.38	2.92	6.04	3

As of 01/03/2020

Industry Analysis **Zacks Industry Rank:** Top 36% (92 out of 253)

Top Peers

Franklin Resources, Inc. **(BEN)**	Neutral
BlackRock, Inc. **(BLK)**	Neutral
Eaton Vance Corporation **(EV)**	Neutral
Federated Investors, Inc. **(FII)**	Neutral
Hamilton Lane Inc. **(HLNE)**	Neutral
Invesco Ltd. **(IVZ)**	Neutral
Legg Mason, Inc. **(LM)**	Neutral
T. Rowe Price Group, Inc. **(TROW)**	Neutral

Industry Comparison Industry: Financial - Investment Management

Industry Peers

	SEIC Neutral	X Industry	S&P 500	BEN Neutral	IVZ Neutral	TROW Neutral
VGM Score	C	-	-	B	B	B
Market Cap	9.89 B	848.06 M	23.76 B	12.78 B	8.17 B	29.25 B
# of Analysts	3	3	13	4	7	7
Dividend Yield	1.06%	2.23%	1.78%	4.22%	6.89%	2.43%
Value Score	D	-	-	A	A	C
Cash/Price	0.08	0.17	0.04	0.45	0.19	0.08
EV/EBITDA	13.22	8.71	13.97	4.09	13.24	10.68
PEG Ratio	1.52	1.48	2.02	1.41	0.80	1.69
Price/Book (P/B)	5.80	1.54	3.38	1.21	0.82	4.28
Price/Cash Flow (P/CF)	17.54	10.23	13.70	8.83	6.09	15.31
P/E (F1)	18.20	10.74	18.83	9.87	6.64	15.22
Price/Sales (P/S)	6.06	2.37	2.68	2.21	1.45	5.36
Earnings Yield	5.43%	8.92%	5.30%	10.15%	15.06%	6.58%
Debt/Equity	0.02	0.27	0.72	0.07	0.78	0.02
Cash Flow ($/share)	3.75	2.01	6.94	2.90	2.96	8.17
Growth Score	C	-	-	D	D	B
Hist. EPS Growth (3-5 yrs)	13.16%	4.82%	10.56%	-4.92%	0.27%	13.33%
Proj. EPS Growth (F1/F0)	10.20%	10.06%	7.41%	2.98%	3.89%	4.58%
Curr. Cash Flow Growth	28.86%	8.96%	14.83%	-22.73%	-6.37%	30.72%
Hist. Cash Flow Growth (3-5 yrs)	11.96%	5.41%	9.00%	-10.94%	1.83%	11.74%
Current Ratio	5.74	2.20	1.23	2.96	1.57	3.60
Debt/Capital	2.17%	24.08%	42.92%	12.33%	36.94%	15.44%
Net Margin	29.95%	11.94%	11.08%	20.71%	8.86%	35.28%
Return on Equity	29.77%	12.34%	17.10%	12.28%	10.60%	28.84%
Sales/Assets	0.82	0.37	0.55	0.40	0.16	0.63
Proj. Sales Growth (F1/F0)	5.24%	6.36%	4.20%	-1.41%	11.81%	5.49%
Momentum Score	B	-	-	A	C	A
Daily Price Chg	0.49%	0.00%	0.33%	-1.42%	0.06%	2.72%
1 Week Price Chg	-0.48%	0.00%	0.13%	1.74%	-0.83%	0.23%
4 Week Price Chg	2.80%	3.81%	3.31%	-3.21%	8.31%	1.76%
12 Week Price Chg	12.36%	5.09%	9.70%	-3.47%	17.20%	15.34%
52 Week Price Chg	48.17%	10.64%	30.28%	-12.59%	9.49%	40.93%
20 Day Average Volume	560,319	102,190	1,603,615	3,185,814	4,771,378	806,514
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	0.00%	0.00%	0.00%	1.37%	1.88%	2.15%
(F1) EPS Est 12 week change	-0.93%	-0.89%	-0.57%	-6.86%	-0.11%	0.76%
(Q1) EPS Est Mthly Chg	0.00%	0.00%	0.00%	0.53%	1.59%	0.80%

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	D
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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