

SEI Investments Co. (SEIC)

\$55.37 (As of 06/02/20)

Price Target (6-12 Months): **\$60.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 02/06/20)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:D

Value: C

Growth: D

Momentum: C

Summary

Shares of SEI Investments have underperformed the industry so far this year. Its earnings have surpassed the Zacks Consensus Estimate in only two of the trailing four quarters. In first-quarter 2020, the company recorded higher expenses and a decline in assets under management (AUM) balance. Solid AUM balance, world-wide presence and diversified product offerings will likely continue to drive the company's financials. Rising demand for SEI Wealth Platform (SWP) across several financial institutions will likely support profits. The company's enhanced capital deployments will continue to reward shareholders. While its technological investments will aid the top line in the future, it leads to a rise in expenses. Higher costs will likely hurt the bottom line. The company's increasing dependence on fee-based income remains a key concern.

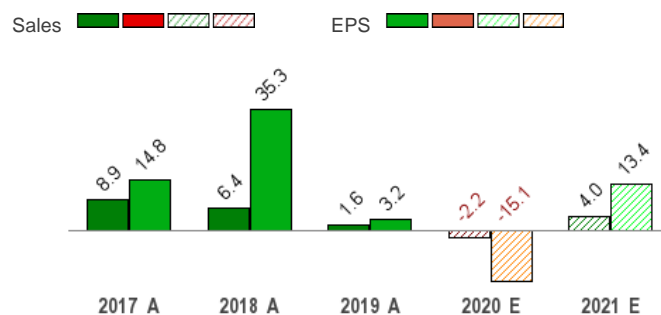
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$69.61 - \$35.41
20 Day Average Volume (sh)	755,949
Market Cap	\$8.2 B
YTD Price Change	-15.4%
Beta	1.29
Dividend / Div Yld	\$0.70 / 1.3%
Industry	Financial - Investment Management
Zacks Industry Rank	Bottom 35% (164 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	-6.5%
Last Sales Surprise	1.0%
EPS F1 Est- 4 week change	-0.5%
Expected Report Date	07/22/2020
Earnings ESP	0.0%
P/E TTM	17.1
P/E F1	20.1
PEG F1	1.7
P/S TTM	4.9

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	417 E	422 E	429 E	435 E	1,679 E
2020	415 A	392 E	400 E	404 E	1,614 E
2019	401 A	410 A	416 A	423 A	1,650 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$0.73 E	\$0.76 E	\$0.81 E	\$0.82 E	\$3.12 E
2020	\$0.72 A	\$0.63 E	\$0.70 E	\$0.70 E	\$2.75 E
2019	\$0.73 A	\$0.82 A	\$0.86 A	\$0.84 A	\$3.24 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 06/02/2020. The reports text is as of 06/03/2020.

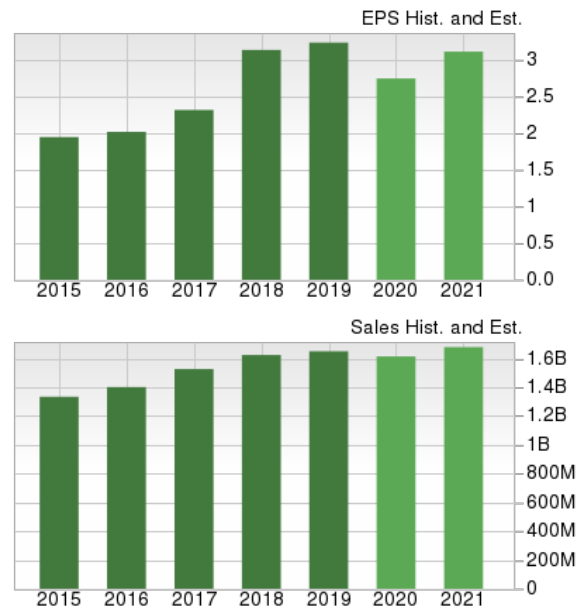
Overview

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** (contributing 28.5% to revenues in 2019) 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 (24.5%) 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 (19.5%) offers investment management programs and administrative outsourcing solutions to retirement plan sponsors, hospitals and non-profit organizations worldwide.
- **Investment Managers** segment (26.7%) 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 (0.8%) 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 \$920 billion in hedge funds, private equity, mutual funds and pooled or separately managed assets as Mar 31, 2020. Total AUM included \$70.9 billion managed by its affiliate, LSV Asset Management (LSV).



Reasons To Buy:

- ▲ SEI Investments has been witnessing consistent improvement in revenues over the last several years. Over the last six years (2014-2019), the company's revenues witnessed a CAGR of 5.4%, with the uptrend continuing in first-quarter 2020. Robust asset growth is expected to keep supporting the top line amid the current crisis. While total AUM declined in the first quarter, the same registered a rising trend over the last four years (2016-2019), witnessing a CAGR of 7.5% amid a tough asset gathering backdrop in the second half of 2018. Hence, the company's diversified product and revenue mix, strong global presence and solid 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 year-over-year decline in 2019 and the first quarter of 2020, it witnessed a CAGR of 1.7% over the last four years (ended 2019). Constant innovation in software will help SEI Investments win new clients and aid top-line growth.
- ▲ As of Mar 31, 2020, SEI Investments had total debt worth \$45.7 million, significantly lower than the cash and cash equivalents balance of \$750 million. Moreover, the company's first-quarter 2020 total debt to total capital of 2.6% declined on a sequential basis and is below the industry average of 40.5%. This shows that the company has relatively less credit risk. In fact, given its sufficient cash balance, it is unlikely to default in payment of interest in the near term even if economic situation worsens.
- ▲ SEI Investments' partnership interest in LSV Asset Management has been supporting the bottom line. The contribution of LSV to the company's pre-tax income remained more than 25% in the last few years. Moreover, LSV's contribution to the company's income has been improving despite a tough operating backdrop in the later part of 2018. While its earnings from LSV declined in the first quarter of 2020 due to lower AUM from negative cash flows, SEI Investments is expected to continue to benefit from the strong performance of LSV, driven by decent asset inflows, going forward.
- ▲ 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 March 2020, it authorized an increase in its share repurchase plan by an additional \$250 million. As of Mar 31, 2020, the company had \$240.1 million worth of shares left to be repurchased under its existing buyback authorization. Given the company's 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.

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

Reasons To Sell:

- ▼ Continuously rising expenses will likely hurt SEI Investments' bottom line in the near term. Expenses witnessed a CAGR of 5.4% over the last six years (2014-2019). The rise was mainly due to an increase in compensation costs, and data processing and computer-related expenses. The uptrend for expenses continued in the first quarter as well. 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.
- ▼ Asset management, administration and distribution fees are the major revenue-generators for SEI Investments. These comprised 80% of total revenues in first-quarter 2020, 79.2% in 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.
- ▼ Shares of SEI Investments have underperformed the industry so far this year. The company's current-year earnings estimates have moved 16.9% lower over the past 60 days. Further, the stock seems overvalued compared with the broader industry. Its current price/book (P/B) and price/earnings (P/E) (F1) ratios are above the respective industry averages. Given the concerns and downward estimate revisions, the stock has limited upside potential.

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.

Last Earnings Report

SEI Investments Q1 Earnings Lag Estimates, AUM Declines

SEI Investments' first-quarter 2020 earnings of 72 cents per share lagged the Zacks Consensus Estimate of 77 cents. Moreover, the figure reflects a decline of 1.4% from the prior-year quarter.

Results were primarily hurt by a rise in expenses. Moreover, a decline in AUM balance was a headwind. Nevertheless, higher revenues supported results to some extent.

Net income was \$109.2 million, down 4.2% from the year-ago quarter.

Quarter Ending **03/2020**

Report Date	Apr 23, 2020
Sales Surprise	0.97%
EPS Surprise	-6.49%
Quarterly EPS	0.72
Annual EPS (TTM)	3.24

Revenues & Expenses Rise, AUM Falls

Total revenues were \$414.8 million, up 3.5% year over year. The rise reflected higher asset management, administration and distribution fees. Moreover, the reported figure surpassed the Zacks Consensus Estimate of \$410.8 million.

Total expenses were \$304.5 million, up 2.4% year over year. The rise was due to an increase in almost all components of expenses, except for facilities, supplies and other costs, and software royalties and other information processing costs.

Operating income increased 6.4% year over year to \$110.2 million.

As of Mar 31, 2020, AUM was \$283.4 billion, reflecting a decline of 14.6% from the prior-year quarter. Client assets under administration (AUA) were \$632.3 billion, up 3.8% year over year. Note that client AUA does not include \$11.5 billion related to Funds of Funds assets that were reported on Mar 31, 2020.

Share Repurchases

In the reported quarter, SEI Investments bought back 2.4 million shares for \$127.4 million.

Outlook

In 2020, management expects remaining capital expenditures excluding capitalized software of \$30 million, which includes \$15 million related to the facility expansion.

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 was paid out on Jan 8, 2020 to shareholders of record as of Dec 27.

Valuation

SEI Investments' shares are down 15.4% in the year-to-date period but up 6.5% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Finance sector are down 8.2% and 21.4% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and the sector are down 7.7% and 12.1%, respectively.

The S&P 500 index is down 5.1% in the year-to-date period but up 11.4% in the past year.

The stock is currently trading at 18.88X forward 12 months earnings, which compares to 13.51X for the Zacks sub-industry, 16.33X for the Zacks sector and 22.11X for the S&P 500 index.

Over the past five years, the stock has traded as high as 31.04X and as low as 10.79X, with a 5-year median of 20.91X. Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$60 price target reflects 20.48X 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	18.88	13.51	16.33	22.11
	5-Year High	31.04	14.35	16.33	22.11
	5-Year Low	10.79	9.69	11.57	15.23
	5-Year Median	20.91	12.29	13.96	17.49
P/B	Current	4.72	1.88	2.28	4.18
	5-Year High	8.29	2.2	2.9	4.56
	5-Year Low	3.16	0.96	1.71	2.83
	5-Year Median	5.95	1.74	2.53	3.66
P/S F12M	Current	4.98	3.43	5.8	3.44
	5-Year High	7.58	3.65	6.69	3.44
	5-Year Low	3.22	2.3	4.98	2.53
	5-Year Median	5.39	2.97	6.06	3.02

As of 06/02/2020

Industry Analysis Zacks Industry Rank: Bottom 35% (164 out of 253)



Top Peers

Company (Ticker)	Rec	Rank
Franklin Resources, Inc. (BEN)	Neutral	3
BlackRock, Inc. (BLK)	Neutral	3
Eaton Vance Corporation (EV)	Neutral	3
Invesco Ltd. (IVZ)	Neutral	3
Legg Mason, Inc. (LM)	Neutral	3
T. Rowe Price Group, Inc. (TROW)	Neutral	3
WaddellReed Financial, Inc. (WDR)	Neutral	3
Hamilton Lane Inc. (HLNE)	Underperform	5

Industry Comparison Industry: Financial - Investment Management				Industry Peers		
	SEIC	X Industry	S&P 500	BEN	IVZ	TROW
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	3	-	-	3	3	3
VGM Score	D	-	-	B	C	B
Market Cap	8.19 B	734.03 M	22.11 B	9.81 B	3.84 B	27.98 B
# of Analysts	3	3	14	3	7	7
Dividend Yield	1.26%	2.67%	1.93%	5.45%	7.41%	2.93%
Value Score	C	-	-	A	B	B
Cash/Price	0.09	0.20	0.06	0.65	0.34	0.06
EV/EBITDA	10.49	6.42	12.69	2.74	11.96	8.53
PEG Ratio	1.73	1.61	2.98	NA	0.96	1.94
Price/Book (P/B)	4.72	1.30	3.07	0.91	0.39	4.35
Price/Cash Flow (P/CF)	14.29	8.06	11.86	6.83	2.66	13.26
P/E (F1)	20.81	10.16	21.79	9.98	5.72	17.97
Price/Sales (P/S)	4.92	1.84	2.29	1.73	0.59	4.86
Earnings Yield	4.97%	9.55%	4.39%	10.00%	17.44%	5.56%
Debt/Equity	0.02	0.25	0.76	0.12	0.88	0.03
Cash Flow (\$/share)	3.88	1.75	7.01	2.90	3.14	9.27
Growth Score	D	-	-	F	F	C
Hist. EPS Growth (3-5 yrs)	14.45%	6.99%	10.87%	-3.81%	0.57%	15.50%
Proj. EPS Growth (F1/F0)	-15.12%	-10.97%	-10.74%	-21.30%	-42.58%	-15.19%
Curr. Cash Flow Growth	-0.22%	-3.43%	5.48%	-22.73%	24.49%	10.14%
Hist. Cash Flow Growth (3-5 yrs)	8.52%	3.83%	8.55%	-10.94%	3.83%	10.60%
Current Ratio	5.94	2.26	1.29	3.90	1.71	4.55
Debt/Capital	2.09%	27.02%	44.75%	12.39%	39.06%	15.09%
Net Margin	29.85%	8.87%	10.59%	17.29%	8.12%	33.86%
Return on Equity	29.17%	12.55%	16.29%	12.36%	11.04%	29.22%
Sales/Assets	0.81	0.37	0.55	0.39	0.17	0.63
Proj. Sales Growth (F1/F0)	-2.16%	0.00%	-2.67%	-12.82%	-2.55%	-4.05%
Momentum Score	C	-	-	A	B	A
Daily Price Chg	1.26%	0.19%	0.99%	1.59%	1.82%	0.89%
1 Week Price Chg	5.59%	3.31%	4.60%	5.48%	9.63%	5.05%
4 Week Price Chg	11.59%	11.18%	9.15%	10.24%	6.49%	12.12%
12 Week Price Chg	0.91%	-1.74%	4.65%	-1.74%	-32.88%	9.02%
52 Week Price Chg	6.56%	-18.90%	-0.30%	-40.00%	-59.57%	19.55%
20 Day Average Volume	755,949	129,094	2,486,038	4,001,055	7,557,891	1,259,178
(F1) EPS Est 1 week change	-0.45%	0.00%	0.00%	0.72%	0.59%	0.57%
(F1) EPS Est 4 week change	-0.45%	0.96%	-0.33%	1.37%	-0.58%	2.63%
(F1) EPS Est 12 week change	-24.61%	-22.19%	-16.13%	-9.08%	-46.86%	-23.07%
(Q1) EPS Est Mthly Chg	0.13%	0.41%	-0.55%	2.76%	2.39%	1.86%

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	D
Momentum Score	C
VGM Score	D

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.