

SEI Investments Co. (SEIC)

\$68.08 (As of 02/07/20)

Price Target (6-12 Months): **\$72.00**

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:C

Value: C

Growth: C

Momentum: C

Summary

Shares of SEI Investments have outperformed the industry in the past year. Its earnings have surpassed the Zacks Consensus Estimate in two of the trailing four quarters. Its fourth-quarter 2019 results were hurt by higher expenses, offset by growth in revenues. The company's solid assets under management (AUM) balance, global presence, diversified product offerings and rising demand for SEI Wealth Platform (SWP) are expected to continue to drive financials. Its enhanced capital deployment activities will continue to reward shareholders. While the company's technological investments will aid the top line in the future, it leads to a rise in operating expenses. Higher costs will, in turn, hurt the bottom line to an extent. Moreover, the company's increasing dependence on fee-based income is a concern and will likely dampen financials.

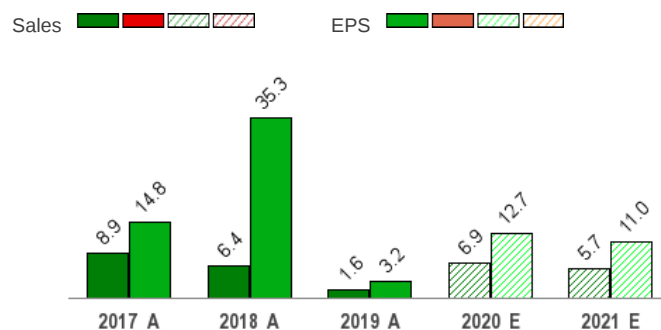
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$69.30 - \$49.18
20 Day Average Volume (sh)	633,105
Market Cap	\$10.2 B
YTD Price Change	4.0%
Beta	1.33
Dividend / Div Yld	\$0.70 / 1.0%
Industry	Financial - Investment Management
Zacks Industry Rank	Top 7% (17 out of 254)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	-2.3%
Last Sales Surprise	0.2%
EPS F1 Est- 4 week change	-0.5%
Expected Report Date	NA
Earnings ESP	0.0%
P/E TTM	21.0
P/E F1	18.7
PEG F1	1.6
P/S TTM	6.2

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	457 E	464 E	471 E	478 E	1,865 E
2020	433 E	438 E	443 E	450 E	1,764 E
2019	401 A	410 A	416 A	423 A	1,650 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$0.97 E	\$0.99 E	\$1.05 E	\$1.05 E	\$4.05 E
2020	\$0.88 E	\$0.89 E	\$0.94 E	\$0.94 E	\$3.65 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 02/07/2020. The reports text is as of 02/10/2020.

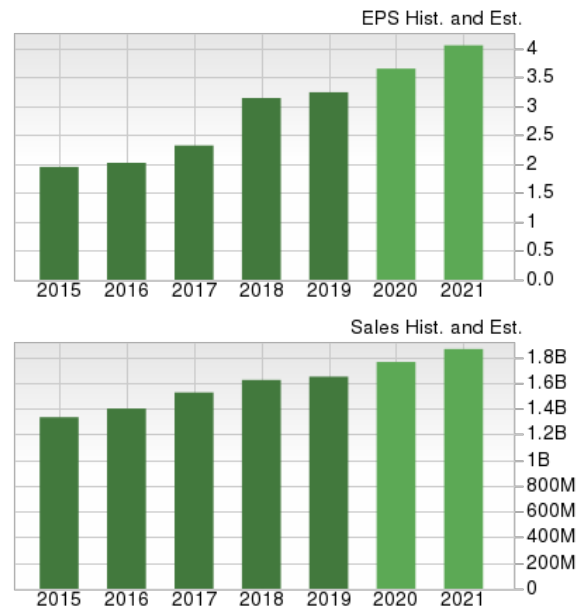
Overview

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 \$1 trillion in hedge funds, private equity, mutual funds and pooled or separately managed assets as Dec 31, 2019. Total AUM included \$107.5 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%. Further, solid assets balance will support the top line. The company registered a rising trend in its total AUM over the last four years (2016-2019) at a CAGR of 7.5%, amid tough asset gathering backdrop in the latter half of 2018. 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 year-over-year decline in 2019, it witnessed a CAGR of 1.7% over the last four years (ended 2019). 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, LSV's contribution to the company's income has been improving despite a tough operating backdrop in the later part of 2018. 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 Dec 31, 2019, nearly \$117.8 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 in the past year. The company's current-year earnings estimates have moved 2.2% upward in the past 60 days. Given the strong fundamentals and positive estimate revisions, the impressive price performance is expected to continue.

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. 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 79.2% of total revenues 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.
- ▼ Further, SEI Investments 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.

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 Lags on Q4 Earnings as Expenses Rise

SEI Investments' fourth-quarter 2019 earnings of 84 cents per share lagged the Zacks Consensus Estimate of 86 cents. However, the figure reflects a rise of 15.1% from the prior-year quarter.

Results were hurt by a rise in expenses. However, growth in revenues and AUM were tailwinds.

Net income was \$128.7 million, up 10.9% from the year-ago quarter.

For 2019, earnings per share were \$3.24, which lagged the Zacks Consensus Estimate of \$3.26.

However, the figure reflects growth of 3.2% from the previous year. Net income for the year was \$501.4 million, down marginally from that reported in 2018.

Quarter Ending **12/2019**

Report Date	Jan 29, 2020
Sales Surprise	0.18%
EPS Surprise	-2.33%
Quarterly EPS	0.84
Annual EPS (TTM)	3.25

Revenues & AUM Improve, Expenses Rise

Total quarterly revenues were \$423.2 million, up 4.5% year over year. The rise reflected higher asset management, administration and distribution fees. Moreover, the reported figure surpassed the Zacks Consensus Estimate of \$422.5 million.

For 2019, total revenues were \$1.65 billion, up 1.6% year over year. The rise reflected higher asset management, administration and distribution fees. The reported figure was in line with the Zacks Consensus Estimate.

Total quarterly expenses were \$307.1 million, up 1.7% year over year. The rise was due to an increase in almost all components of expenses, except for software royalties and other information processing costs; compensation, benefits and other personnel expenses; and depreciation costs.

Operating income increased 12.8% year over year to \$116.1 million.

As of Dec 31, 2019, AUM was \$352 billion, reflecting a rise of 14.6% from the prior-year quarter. Client assets under administration (AUA) were \$683.3 billion, up 19.4% year over year. Note that client AUA does not include \$13.1 billion related to Funds of Funds assets that were reported on Dec 31, 2019.

Share Repurchase

In the reported quarter, SEI Investments bought back 1.3 million shares for \$81.2 million.

Outlook

In 2020, management expects capital expenditures within capitalized software to be \$45 million and nearly \$25 million of it will likely be 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 on Jan 8, 2020 to shareholders of record as of Dec 27.

Valuation

SEI Investments' shares are up 37% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Finance sector are up 11% and 10.3% over the past year, respectively.

The S&P 500 index is up 21.9% in the past year.

The stock is currently trading at 18.44X forward 12 months earnings, which compares to 12.81X for the Zacks sub-industry, 14.87X for the Zacks sector and 19.13X 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 \$72 price target reflects 19.51X 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	18.44	12.81	14.87	19.13
	5-Year High	31.04	14.39	16.21	19.34
	5-Year Low	13.12	9.85	12.01	15.18
	5-Year Median	21.04	12.47	14.07	17.46
P/TB TTM	Current	6.36	3.63	3.29	12.73
	5-Year High	9.1	3.83	3.98	12.8
	5-Year Low	4.42	1.65	2.44	6.03
	5-Year Median	6.19	3.06	3.46	9.11
P/S F12M	Current	5.76	3.57	6.53	3.53
	5-Year High	7.58	3.66	6.61	3.53
	5-Year Low	3.97	2.32	5.39	2.54
	5-Year Median	5.42	3.01	6.04	3

As of 02/07/2020

Industry Analysis Zacks Industry Rank: Top 7% (17 out of 254)



Top Peers

Invesco Ltd. (IVZ)	Outperform
T. Rowe Price Group, Inc. (TROW)	Outperform
Franklin Resources, Inc. (BEN)	Neutral
BlackRock, Inc. (BLK)	Neutral
Eaton Vance Corporation (EV)	Neutral
Hamilton Lane Inc. (HLNE)	Neutral
Legg Mason, Inc. (LM)	Neutral
Waddell & Reed Financial, Inc. (WDR)	Neutral

Industry Comparison Industry: Financial - Investment Management				Industry Peers		
	SEIC Neutral	X Industry	S&P 500	BEN Neutral	IVZ Outperform	TROW Outperform
VGM Score	C	-	-	D	B	C
Market Cap	10.23 B	856.77 M	24.00 B	12.72 B	8.27 B	32.30 B
# of Analysts	4	3	13	5	7	7
Dividend Yield	1.03%	2.19%	1.78%	4.22%	6.81%	2.20%
Value Score	C	-	-	B	A	D
Cash/Price	0.09	0.18	0.04	0.48	0.20	0.06
EV/EBITDA	13.61	9.21	14.07	4.07	13.31	12.05
PEG Ratio	1.55	1.43	2.04	1.43	0.84	1.60
Price/Book (P/B)	5.88	1.55	3.28	1.17	0.83	4.55
Price/Cash Flow (P/CF)	17.57	10.50	13.58	8.83	6.17	16.91
P/E (F1)	18.64	10.65	18.86	9.98	6.61	15.66
Price/Sales (P/S)	6.20	2.63	2.65	2.20	1.35	5.75
Earnings Yield	5.36%	9.21%	5.30%	10.04%	15.15%	6.39%
Debt/Equity	0.02	0.27	0.71	0.07	0.78	0.02
Cash Flow (\$/share)	3.88	1.88	6.89	2.90	2.96	8.17
Growth Score	C	-	-	F	D	B
Hist. EPS Growth (3-5 yrs)	13.85%	4.82%	10.80%	-4.47%	0.64%	14.55%
Proj. EPS Growth (F1/F0)	12.58%	12.07%	7.23%	1.83%	8.07%	9.40%
Curr. Cash Flow Growth	-0.22%	-0.22%	9.51%	-22.73%	-6.37%	30.72%
Hist. Cash Flow Growth (3-5 yrs)	8.52%	4.77%	8.55%	-10.94%	1.83%	11.74%
Current Ratio	4.44	2.16	1.20	3.58	1.57	3.60
Debt/Capital	2.16%	22.82%	42.90%	12.77%	36.94%	13.63%
Net Margin	30.39%	11.12%	11.76%	21.99%	10.20%	37.69%
Return on Equity	29.88%	13.41%	16.98%	12.76%	12.17%	29.45%
Sales/Assets	0.81	0.37	0.54	0.40	0.17	0.62
Proj. Sales Growth (F1/F0)	6.90%	5.28%	4.15%	-2.42%	13.09%	10.17%
Momentum Score	C	-	-	F	B	D
Daily Price Chg	-0.92%	-0.08%	-0.64%	-1.84%	0.11%	0.34%
1 Week Price Chg	2.43%	-1.90%	-2.60%	0.16%	-4.79%	1.79%
4 Week Price Chg	3.48%	0.37%	0.72%	1.59%	1.17%	7.76%
12 Week Price Chg	8.41%	5.07%	4.69%	-5.99%	5.44%	14.33%
52 Week Price Chg	37.54%	0.00%	16.01%	-15.65%	-0.82%	47.47%
20 Day Average Volume	633,105	82,966	1,961,054	3,914,779	4,451,567	1,204,697
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	-1.84%	0.63%	0.00%
(F1) EPS Est 4 week change	-0.52%	0.54%	-0.00%	-1.31%	1.42%	6.35%
(F1) EPS Est 12 week change	2.27%	1.60%	-0.16%	0.33%	3.77%	8.46%
(Q1) EPS Est Mthly Chg	-0.38%	0.00%	0.00%	-3.06%	2.46%	4.57%

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	C
Momentum Score	C
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.

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