

## SEI Investments Co. (SEIC)

**\$51.12** (As of 07/28/20)

Price Target (6-12 Months): **\$59.00**

Long Term: 6-12 Months

**Zacks Recommendation:** **Outperform**

(Since: 07/10/20)

Prior Recommendation: Neutral

Short Term: 1-3 Months

**Zacks Rank:** (1-5)

**2-Buy**

Zacks Style Scores:

VGM:C

Value: C

Growth: D

Momentum: A

## Summary

Shares of SEI Investments have underperformed the industry so far this year. Its earnings surpassed the Zacks Consensus Estimate in one and lagged in three of the trailing four quarters. In second-quarter 2020, the company recorded lower revenues and higher costs. While elevated expenses and increasing dependence on fee-based income are key concerns, SEI Investments' technological investments are expected to aid top-line growth in the quarters ahead. Its solid assets under management (AUM) balance, global presence and diversified product offerings are expected to continue driving financials. Rising demand for the SEI Wealth Platform ("SWP") across several financial institutions will likely support profits. Given a solid capital position, the company will continue to enhance shareholder value through efficient capital deployments.

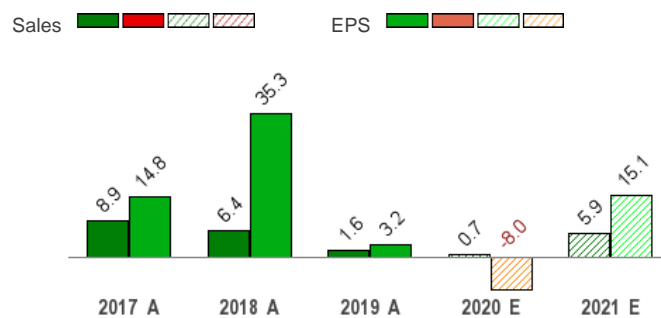
## Price, Consensus & Surprise



## Data Overview

52 Week High-Low	\$69.61 - \$35.41
20 Day Average Volume (sh)	505,957
Market Cap	\$7.6 B
YTD Price Change	-21.9%
Beta	1.31
Dividend / Div Yld	\$0.70 / 1.4%
Industry	<a href="#">Financial - Investment Management</a>
Zacks Industry Rank	Top 16% (41 out of 253)

## Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	-1.5%
Last Sales Surprise	-0.6%
EPS F1 Est- 4 week change	7.8%
Expected Report Date	10/28/2020
Earnings ESP	0.0%
P/E TTM	16.5
P/E F1	17.2
PEG F1	1.4
P/S TTM	4.6

## Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	433 E	438 E	444 E	450 E	1,759 E
2020	415 A	401 A	419 E	426 E	1,661 E
2019	401 A	410 A	416 A	423 A	1,650 A

## EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$0.82 E	\$0.84 E	\$0.89 E	\$0.88 E	\$3.43 E
2020	\$0.72 A	\$0.68 A	\$0.79 E	\$0.79 E	\$2.98 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 07/28/2020. The reports text is as of 07/29/2020.

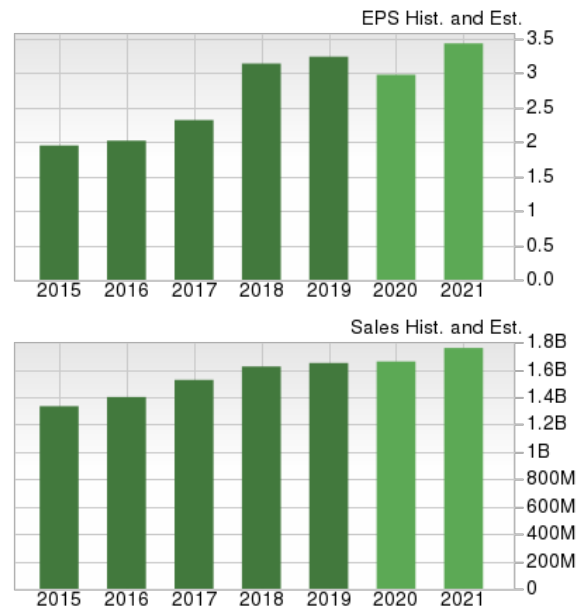
## Overview

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 Jun 30, 2020. Total AUM included \$81.1 billion managed by its affiliate, LSV Asset Management (LSV).



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## 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 the first half of 2020. Robust asset balance is expected to keep supporting the top line amid the current crisis. While total AUM declined in the first six months of 2020, 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. 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 half 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 Jun 30, 2020, SEI Investments had total debt worth \$43.5 million, significantly lower than the cash and cash equivalents balance of \$761.4 million. Moreover, total debt declined 4.8% in second-quarter 2020 on a sequential basis. Further, as of July 23, 2020, the company had \$288.4 million available under its credit facility. Thus, given its sufficient cash balance, the company 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 improved despite a tough operating backdrop in the later part of 2018. While earnings from LSV declined in the first half of 2020 due to lower AUM from negative cash flows, SEI Investments is expected to continue to benefit from 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 Jun 30, 2020, the company had \$150.6 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.
- ▲ Shares of SEI Investments have underperformed the industry so far this year. However, the company's current-year earnings estimates have been revised 8% upward over the past 30 days. Given the strength in fundamentals and positive estimate revisions, the price performance is expected to improve in the near term.

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.

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## Risks

- 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 six months of 2020 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 the first half of 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.
  - 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.
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## Last Earnings Report

### SEI Investments Q2 Earnings Lag Estimates, AUM Declines

SEI Investments' second-quarter 2020 earnings of 68 cents per share lagged the Zacks Consensus Estimate of 69 cents. Moreover, the figure reflects a decline of 17.1% from the prior-year quarter.

Results were primarily hurt by a rise in expenses and lower revenues. Moreover, a decline in AUM was a headwind.

Net income was \$101.1 million, down 20.1% from the year-ago quarter.

### Revenues & AUM Decline, Expenses Rise

Total revenues were \$400.6 million, down 2.2% year over year. The fall reflected a decline in both components of revenues. Moreover, the reported figure lagged the Zacks Consensus Estimate of \$403.2 million.

Total expenses were \$300.3 million, up 3.8% year over year. The rise was due to an increase in stock-based compensation costs, consulting, outsourcing and professional fees, data processing and computer-related costs, amortization expenses, and depreciation costs.

Operating income declined 16.5% year over year to \$100.3 million.

As of Jun 30, 2020, AUM was \$317.8 billion, reflecting a decline of 5.2% from the prior-year quarter. Client assets under administration (AUA) were \$692.5 billion, up 9.8% year over year. Note that client AUA does not include \$11.3 billion related to Funds of Funds assets that were reported on Jun 30, 2020.

### Share Repurchases

In the reported quarter, SEI Investments bought back 1.6 million shares for \$89.5 million.

### Outlook

In 2020, management expects remaining capital expenditure, excluding capitalized software, of \$16 million, which includes \$9 million related to the facility expansion.

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**Quarter Ending** **06/2020**

Report Date	Jul 22, 2020
Sales Surprise	-0.62%
EPS Surprise	-1.45%
Quarterly EPS	0.68
Annual EPS (TTM)	3.10

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## Recent News

### Dividend Update

On Jun 3, 2020, SEI Investments announced a dividend of 35 cents per share. The dividend was paid on Jun 23, 2020 to shareholders of record as of Jun 15.

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## Valuation

SEI Investments' shares are down 21.9% in the year-to-date period and 15.3% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Finance sector are down 1.8% and 18.4% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry is up 0.8%, while the sector is down 13.7%.

The S&P 500 index is up 0.8% in the year-to-date period and 8.1% in the past year.

The stock is currently trading at 15.91X forward 12 months earnings, which compares to 13.14X for the Zacks sub-industry, 16.34X for the Zacks sector and 22.61X 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 20.57X. Our Outperform recommendation indicates that the stock will perform better than the market. Our \$59 price target reflects 18.38X 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	15.91	13.14	16.34	22.61
	5-Year High	31.04	14.35	16.34	22.61
	5-Year Low	10.79	9.75	11.59	15.25
	5-Year Median	20.57	12.35	14.16	17.52
P/B	Current	4.43	2.06	2.38	4.43
	5-Year High	8.29	2.2	2.91	4.56
	5-Year Low	3.16	0.96	1.72	2.83
	5-Year Median	5.9	1.75	2.53	3.71
P/S F12M	Current	4.41	3.79	6.04	3.57
	5-Year High	7.58	3.79	6.66	3.57
	5-Year Low	3.22	2.3	4.96	2.53
	5-Year Median	5.34	2.98	6.06	3.02

As of 07/28/2020

## Industry Analysis Zacks Industry Rank: Top 16% (41 out of 253)



## Top Peers

Company (Ticker)	Rec	Rank
Franklin Resources, Inc. (BEN)	Outperform	1
Invesco Ltd. (IVZ)	Outperform	1
Legg Mason, Inc. (LM)	Outperform	2
T. Rowe Price Group, Inc. (TROW)	Outperform	1
BlackRock, Inc. (BLK)	Neutral	3
Eaton Vance Corporation (EV)	Neutral	3
Hamilton Lane Inc. (HLNE)	Neutral	3
WaddellReed Financial, Inc. (WDR)	Neutral	2

Industry Comparison Industry: Financial - Investment Management				Industry Peers		
	SEIC	X Industry	S&P 500	BEN	IVZ	TROW
Zacks Recommendation (Long Term)	Outperform	-	-	Outperform	Outperform	Outperform
Zacks Rank (Short Term)	2	-	-	1	1	1
VGM Score	C	-	-	C	F	C
Market Cap	7.56 B	792.47 M	22.47 B	10.18 B	4.76 B	30.48 B
# of Analysts	4	3	14	1	7	7
Dividend Yield	1.37%	2.26%	1.84%	5.25%	5.98%	2.69%
Value Score	C	-	-	A	C	C
Cash/Price	0.10	0.18	0.07	0.59	0.26	0.05
EV/EBITDA	9.59	6.52	13.04	2.95	12.67	9.33
PEG Ratio	1.43	1.57	2.97	NA	1.09	2.27
Price/Book (P/B)	4.43	1.58	3.11	0.95	0.48	4.74
Price/Cash Flow (P/CF)	13.19	8.43	12.07	7.09	3.30	14.45
P/E (F1)	17.15	10.71	21.52	10.76	6.50	16.61
Price/Sales (P/S)	4.57	1.84	2.35	1.89	0.73	5.30
Earnings Yield	5.83%	9.29%	4.34%	9.29%	15.33%	6.02%
Debt/Equity	0.02	0.20	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	D
Hist. EPS Growth (3-5 yrs)	14.53%	8.17%	10.85%	-3.81%	0.57%	15.50%
Proj. EPS Growth (F1/F0)	-8.10%	-7.30%	-7.56%	-24.21%	-37.48%	-0.11%
Curr. Cash Flow Growth	-0.22%	-4.05%	5.47%	-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	5.22	2.31	1.31	3.90	1.71	4.55
Debt/Capital	2.02%	24.73%	44.41%	12.39%	39.06%	15.09%
Net Margin	28.47%	8.86%	10.44%	19.04%	8.15%	33.86%
Return on Equity	27.38%	12.47%	15.10%	12.47%	9.90%	29.22%
Sales/Assets	0.80	0.35	0.54	0.37	0.17	0.63
Proj. Sales Growth (F1/F0)	0.67%	0.00%	-1.97%	-11.93%	-5.17%	5.59%
Momentum Score	A	-	-	B	C	C
Daily Price Chg	-3.66%	-0.37%	-0.80%	-2.19%	-3.17%	-0.20%
1 Week Price Chg	-7.31%	0.00%	0.37%	-2.14%	-0.48%	0.15%
4 Week Price Chg	-7.02%	0.17%	3.64%	-1.96%	-3.62%	8.45%
12 Week Price Chg	3.02%	13.60%	11.56%	14.48%	31.93%	22.12%
52 Week Price Chg	-15.38%	-17.02%	-3.92%	-39.23%	-46.46%	16.10%
20 Day Average Volume	505,957	97,251	1,867,919	3,063,279	5,525,284	985,052
(F1) EPS Est 1 week change	-0.42%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	7.78%	0.24%	0.21%	1.25%	6.29%	12.14%
(F1) EPS Est 12 week change	7.78%	4.07%	-1.29%	25.82%	8.24%	20.60%
(Q1) EPS Est Mthly Chg	12.41%	1.63%	0.09%	5.13%	5.05%	14.21%

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## 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.

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### 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	A
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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