

## Raymond James Financial

# 1Q24E: Mixed results; Capital markets rebound offset by lingering sorting

Reiterate Rating: BUY | PO: 135.00 USD | Price: 112.53 USD

## EPS beat driven by rebound in capital markets activity

RJF reported better than expected adjusted EPS (\$2.40 vs. \$2.34 BofAe / \$2.24 cons) driven by a rebound in capital markets activity, specifically fixed income trading which benefitted from depository institution portfolio repositioning as well as better than expected expense control (non-comp -\$90M q/q). We forecast capital markets activity to continue to ramp through 2024 and beyond, aided by a pickup in investment banking activity which acts as a source of revenue that is negatively correlated with rates. RJF also reported strong NNA growth (+7.2% annualized) with management observing a strong pipeline across all channels while continuing to focus on high quality and productive advisors.

## Partially mitigated by continuation in compressing NIM

These positive results were partially mitigated by a continuation in client cash sorting dynamics despite a seasonal cash build with management noting deposits had declined \$1.5B qtd as clients paid advisory fees and redeployed liquidity built up from portfolio rebalancing and distributions. This weighed on combined NII and third-party bank fee income which declined -2% q/q while management guided to an expected additional -5% decline next quarter.

## Lowering EPS & PO driven by sorting activity

We revise our 2Q24/2025/2026 EPS estimates to \$2.47/\$10.39/\$12.29 from \$2.51/\$11.12/\$12.83 due to further NIM compression from additional client cash sorting which was partially mitigated by a pickup in capital markets activity. Our PO falls to \$135 (previously \$141) which is derived from an 11x multiple on our 2026 EPS estimate. 11x is on the low-end of its historical 10-17x range given the high-rate environment.

## Reiterate Buy: Robust NNA + multiple ways to outperform

RJF operates a high-growth well diversified business model building its platform around its wealth management segment. We believe RJF is attractively priced and well-positioned to: (1) maintain strong organic growth driven by the “breakaway broker” theme; (2) continue benefitting from higher rates as sorting slows and it can restart its migration of capital from third-party contracts into its bank; and (3) take advantage of stabilizing markets in both its asset management and capital markets segments.

Estimates (Sep) (US\$)	2021A	2022A	2023E	2024E	2025E
EPS	7.06	7.50	8.33	9.68	10.39
GAAP EPS	6.64	6.99	7.98	9.25	9.92
EPS Change (YoY)	73.2%	6.2%	11.0%	16.3%	7.4%
Consensus EPS (Bloomberg)			8.49	9.45	9.86
DPS	0	0	0	0	0
Valuation (Sep)					
P/E	15.9x	15.0x	13.5x	11.6x	10.8x
GAAP P/E	16.9x	16.1x	14.1x	12.2x	11.3x

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24 January 2024

### Equity

#### Key Changes

(US\$)	Previous	Current
Price Obj.	141.00	135.00
2024E Rev (m)	12,872.8	12,715.0
2025E Rev (m)	14,273.0	14,047.9
2024E EPS	9.91	9.68
2025E EPS	11.12	10.39

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### Stock Data

Price	112.53 USD
Price Objective	135.00 USD
Date Established	24-Jan-2024
Investment Opinion	B-1-9
52-Week Range	82.00 USD -120.73 USD
Mkt Val / Shares Out (mn)	23,614 USD / 209.8
Free Float	90.0%
Average Daily Value	121.43 USD
BofA Ticker / Exchange	RJF / NYS
Bloomberg / Reuters	RJF US / RJF.N
ROE (2023E)	0%
ESGMeter™	Medium

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NNA = net new assets  
NIM = net interest revenue  
CM = capital markets  
AM = asset management  
NII = net interest income  
AuC = assets under custody  
PO = price objective  
ESP = enhanced savings program  
QTD = quarter to date

# iQprofile<sup>SM</sup> Raymond James Financial

## Income Statement Data (Sep)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Total Revenue	9,760	11,003	11,619	12,715	14,048
% Change	22.2%	12.7%	5.6%	9.4%	10.5%
Investment Advisory Fees	NA	NA	NA	NA	NA
Compensation & Benefits	NA	NA	NA	NA	NA
% Change	NA	NA	NA	NA	NA
Non-Compensation Expenses	NA	NA	NA	NA	NA
Net Income to Ordinary Shareholders	1,403	1,505	1,733	1,972	2,096
Adjusted Net Income (Operating)	1,492	1,615	1,807	2,064	2,196
% Change	73.9%	8.2%	11.9%	14.2%	6.4%
Adjusted EBITDA (Operating)	NA	NA	NA	NA	NA
Cash EPS	6.82	7.17	8.18	9.49	10.19
% Change	NA	NA	NA	NA	NA

## Performance Metrics (Sep)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Operating Margin	18.4%	18.4%	19.6%	20.0%	19.4%
Pre-Tax Profit Margin	18.4%	18.4%	19.6%	20.0%	19.4%
Net Profit Margin	15.3%	14.7%	15.6%	16.2%	15.6%
Comp Expense/Revenue	0%	0%	0%	0%	0%
Non-Comp Expense / Revenue	0%	0%	0%	0%	0%
Net Revenue Growth	22.2%	12.7%	5.6%	9.4%	10.5%
Operating Expense Growth	14.9%	12.7%	4.0%	8.9%	11.4%

## Asset Management Data (Sep)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Assets Under Management (\$bn)	NA	NA	NA	NA	NA
% Change	NA	NA	NA	NA	NA
% Equity	NA	NA	NA	NA	NA
% Fixed Income	NA	NA	NA	NA	NA
% Money Mkt / Other	NA	NA	NA	NA	NA
Net New Flows (\$bn)	NA	NA	NA	NA	NA
Organic Growth	NA	NA	NA	NA	NA
Organic Growth ex-Money Market	NA	NA	NA	NA	NA
Advisory Fees / Avg. AUM	NA	NA	NA	NA	NA

## Balance Sheet Data (Sep)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Total Assets	61,891	80,951	78,360	80,611	90,067
Total Shareholders' Equity	8,303	9,432	10,187	11,388	12,673
Tangible Shareholders' Equity	NA	NA	NA	NA	NA
BVPS (Stated Equity)	NA	NA	NA	NA	NA
ROE (Stated Equity)	NM	NM	NM	NM	NM
Cash & Investments	NA	NA	NA	NA	NA
Net Cash & Investments Per Share	NA	NA	NA	NA	NA

## Company Sector

Securities Broker/Dealer

## Company Description

Raymond James Financial is a diversified financial services company with four segments providing brokerage, capital markets, asset management, and banking products and services to individuals, corporations, and municipalities. The firm operates predominately in the United States and to a lesser extent in Canada, the United Kingdom, and other parts of Europe. RJF was established in 1962 and has been public since 1983 under the ticker RJF. RJF's brokerage segment (PCG)

## Investment Rationale

RJF operates a high-growth well diversified business model and has continued to expand its offerings to advisors and clients. We believe RJF is well-positioned to benefit from higher interest rates as well as a turnaround in markets including higher beta levels and less uncertainty given its diversified model.

## Quarterly Earnings Estimates

	2022	2023
Q1	2.18A	2.29A
Q2	1.60A	2.03A
Q3	1.61A	1.85E
Q4	2.08A	2.13E

## Additional information

### Expect sorting to linger but at decelerating pace

We expect sorting to persist at a decelerated pace although expect heightened levels this quarter as seasonal cash buildups reverse. Historically, December cash balances swell driven by portfolio rebalancing activities and distributions which are generally redeployed in the subsequent quarter in tandem with further pressure from the payment of RIA advisory fees. Management noted that total deposits had already declined \$1.5B quarter-to-date primarily due to quarterly fee billings of \$1.5B. While we forecast client cash levels as a % of total AuC declining for an additional 2 quarters, we expect an inflection in nominal cash levels by 2H24 as balances near transactional floors and strong NNA growth helps to partially offset outflows.

### Potential for NIM expansion subsequent cash sorting floor

As of 12/31/23, RJF has allocated \$17.8B of client cash sweep deposits to third-party banks, strategically setting them up with a large funding cushion and liquidity to utilize subsequent client cash sorting dynamics and when attractive loan growth opportunities resurface. While we expect an additional two quarters of declining cash balances excluding ESP, we ultimately expect upside potential following cash balances reaching their transactional cash floor levels, an inflection in deposit growth, and ultimately RJF's ability to migrate balances from lower yielding segments to its higher yielding bank. While its third-party bank deposits currently have a 3.61% net yield, RJF can earn +7% gross new money yields in its bank which will further expand its NIM in tandem with the opportunity for the reinvestment of its maturing securities portfolio and new investment from deposit growth from net new assets. In the case of rate cuts, RJF also has the ability to reprice the majority of its liabilities quickly which will provide further downside protection with the forward curve now predicting 5-6 cuts through 2024. We believe these are qualities that markets are not fully appreciating.

### Capital markets prepared for turnaround post rate-cuts

Capital markets returned to profitability this quarter showing signs of green shoots and offering a positive source of earnings that is negatively correlated to rates. While the positive results were driven by a rebound in brokerage revenues (+40% q/q), we expect investment banking activity to continue experiencing a gradual recovery over 2024 and beyond as companies grapple with the higher rate environment and volatility subsides and could be further accelerated in the case of additional rate cuts which would spur activity. This is in tandem with deferred comp amortization currently elevating compensation expenses which could further alleviate expense pressures as it winds down over subsequent quarters.



## Price objective basis & risk

### Raymond James Financial (RJF)

Our \$135 PO is based on 11x EPS multiple on our 2026 EPS estimate. Given that RJF operates four different business lines that offer different qualities (growth, volatility, capital), we derive our price objective using a sum-of-the-parts framework accounting for peers in wealth management (15x), traditional asset management (9x), capital markets (7x), and traditional banking (9x). This multiple is at the bottom of its 5Y historical range (11-20x), given a conservative stance on market conditions.

Downside risks are (1) breakaway broker theme threatening organic growth (2) cash sorting (3) challenging market backdrop for active management and capital markets.

## Analyst Certification

I, Mark McLaughlin, CFA, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

### US - Brokers, Asset Managers, & Exchanges Coverage Cluster

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	Ameriprise Financial	AMP	AMP US	Craig Siegenthaler, CFA
	Ares Management Corp	ARES	ARES US	Craig Siegenthaler, CFA
	BlackRock, Inc.	BLK	BLK US	Craig Siegenthaler, CFA
	Blackstone	BX	BX US	Craig Siegenthaler, CFA
	Blue Owl Capital	OWL	OWL US	Craig Siegenthaler, CFA
	Cboe Global Markets	CBOE	CBOE US	Craig Siegenthaler, CFA
	Interactive Brokers	IBKR	IBKR US	Craig Siegenthaler, CFA
	Intercontinental Exchange	ICE	ICE US	Craig Siegenthaler, CFA
	KKR & Co. Inc.	KKR	KKR US	Craig Siegenthaler, CFA
	Raymond James Financial	RJF	RJF US	Mark McLaughlin, CFA
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	Tradeweb Markets Inc.	TW	TW US	Craig Siegenthaler, CFA
	Victory Capital Holdings, Inc.	VCTR	VCTR US	Craig Siegenthaler, CFA
	Virtu Financial	VIRT	VIRT US	Craig Siegenthaler, CFA
<b>NEUTRAL</b>				
	Affiliated Managers Group	AMG	AMG US	Craig Siegenthaler, CFA
	Apollo Global Management	APO	APO US	Craig Siegenthaler, CFA
	Brookfield Asset Management	BAM	BAM US	Craig Siegenthaler, CFA
	CME Group Inc	CME	CME US	Craig Siegenthaler, CFA
	Invesco	IVZ	IVZ US	Craig Siegenthaler, CFA
	Janus Henderson Group	JHG	JHG US	Craig Siegenthaler, CFA
	LPL Financial Holdings	LPLA	LPLA US	Craig Siegenthaler, CFA
	Patria	PAX	PAX US	Craig Siegenthaler, CFA
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	Franklin Resources	BEN	BEN US	Craig Siegenthaler, CFA
	Nasdaq	NDAQ	NDAQ US	Craig Siegenthaler, CFA
	Robinhood Markets	HOOD	HOOD US	Craig Siegenthaler, CFA
	T. Rowe Price	TROW	TROW US	Craig Siegenthaler, CFA
	The Carlyle Group	CG	CG US	Craig Siegenthaler, CFA

## iQmethod<sup>SM</sup> Measures Definitions

### Business Performance

Return On Capital Employed

Return On Equity

Operating Margin

Earnings Growth

Free Cash Flow

### Quality of Earnings

Cash Realization Ratio

Asset Replacement Ratio

Tax Rate

Net Debt-To-Equity Ratio

Interest Cover

### Valuation Toolkit

Price / Earnings Ratio

Price / Book Value

Dividend Yield

Free Cash Flow Yield

Enterprise Value / Sales

EV / EBITDA

### Numerator

NOPAT = (EBIT + Interest Income) × (1 – Tax Rate) + Goodwill Amortization

Net Income

Operating Profit

Expected 5 Year CAGR From Latest Actual

Cash Flow From Operations – Total Capex

### Numerator

Cash Flow From Operations

Capex

Tax Charge

Net Debt = Total Debt – Cash &amp; Equivalents

EBIT

### Numerator

Current Share Price

Current Share Price

Annualised Declared Cash Dividend

Cash Flow From Operations – Total Capex

EV = Current Share Price × Current Shares + Minority Equity + Net Debt +

Other LT Liabilities

Enterprise Value

### Denominator

Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill

Amortization

Shareholders' Equity

Sales

N/A

N/A

### Denominator

Net Income

Depreciation

Pre-Tax Income

Total Equity

Interest Expense

### Denominator

Diluted Earnings Per Share (Basis As Specified)

Shareholders' Equity / Current Basic Shares

Current Share Price

Market Cap = Current Share Price × Current Basic Shares

Sales

Basic EBIT + Depreciation + Amortization

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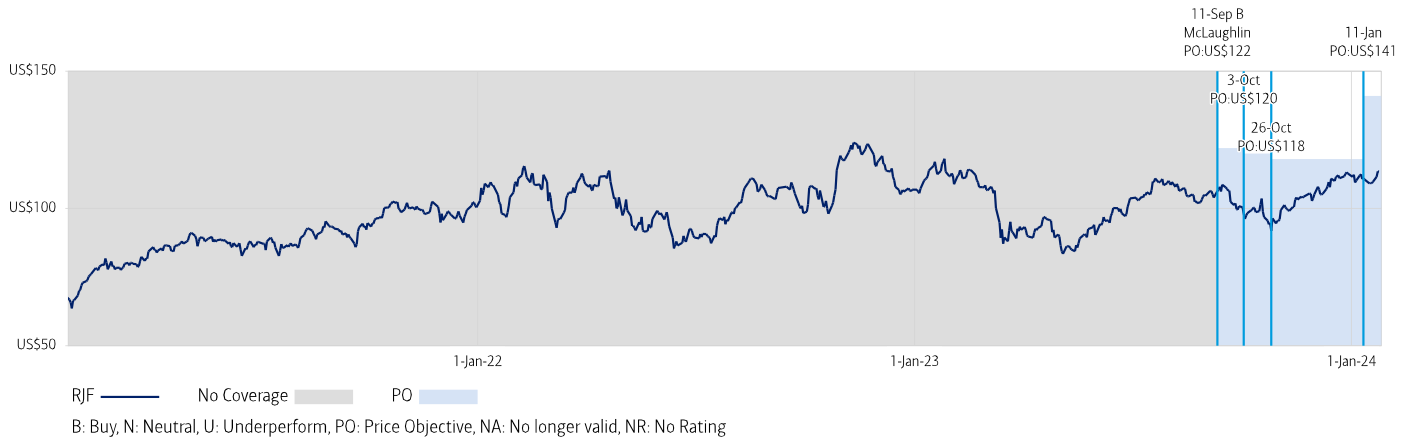
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### Raymond James (RJF) Price Chart



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### Equity Investment Rating Distribution: Financial Services Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	Count	Percent
Buy	156	53.79%	Buy	94	60.26%
Hold	72	24.83%	Hold	48	66.67%
Sell	62	21.38%	Sell	35	56.45%

### Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	Count	Percent
Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

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