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A Strong Operator With an Overlooked Asset

by David Englander

WHEN THE STOCK MARKET catches cold, SEI Investments, which designs software to manage middle- and back-office functions for asset managers, catches pneumonia—yesterday's big rebound notwithstanding. Like asset managers, [SEI](#) (ticker: SEIC) generates its revenue based on customers' assets under management. The company also manages money, overseeing \$112 billion in assets.

Since the market began its fall at the beginning of July, SEI's stock has declined 31%, or nearly triple the broad market's decline. That gives investors an opportunity to buy in cheap. The shares, which closed yesterday at \$15.47, could double over the next two years, as the company rolls out a new and more robust platform and stock prices recover. The stock yields 1.6%.

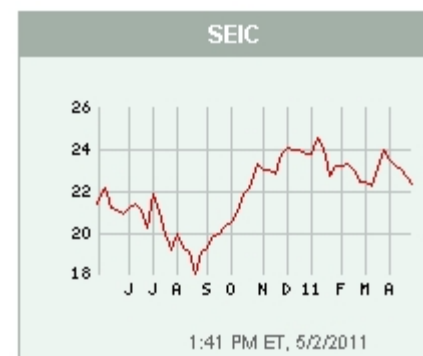
Founded in 1968, SEI is a major player in the investment processing business—managing fund accounting, transaction processing, investment advisory and compliance services to private banks, investment providers and institutional money managers. Among its customers: HSBC, Allianz Global Investors and SunTrust Banks.

Investment processing is a sticky business. Because asset managers rely on these services to manage day-to-day operations, switching to a new provider can be very costly. SEI signs customers into long-term contracts. Operating profit margins for investment processing, which comprised 63% of revenue last year, are well above 30%.

SEI generates the remainder of its revenue from asset management fees, as well as transaction-based and trade execution fees. This year analysts expect SEI to earn \$216 million, or \$1.14, down 7% from 2010, on revenue of \$955 million. EPS are expected to rebound 16% next year, to \$1.32.

At a Glance

SEI Investments



1:41 PM ET, 5/2/2011

Price:	\$15.47
52-Week Range:	\$24.88 - \$13.73
Market Value:	\$2.8 billion
Est 2011 Revenue:	\$955 million

Four years ago, on the cusp of the global banking collapse, SEI rolled out a new and more robust software system, known as Global Wealth Platform, to handle back office operations for private banks and independent wealth advisors in the U.K. Adoption has been slow, owing to the weak global economy.

Making matters worse, as the company readies GWP for its core U.S. clients it will continue to incur substantial costs. (So far it has pumped nearly \$400 million into software development for the new platform.) Those expenses are likely to stay high over the next few quarters, pinching profitability. But as its large base of U.S. customers begin adopting the platform, which management expects to launch by the end of the year, profitability will rise.

SEI also owns a 43% minority interest in LSV Asset Management, a value-oriented quantitative asset manager with \$60 billion under management. SEI's stake in LSV, which contributed \$30 million to earnings in the most recent quarter, is often overlooked, according to Jeffrey Bronchick, chief investment officer of Cove Street Capital.

He thinks the LSV stake is worth as much as \$768 million. Add that to the \$438 million in cash and investments on SEI's balance sheet, and the company's enterprise value (market value minus cash and investments) is just \$1.6 billion, compared with a market value of \$2.8 billion.

Bronchick, who owns the shares, notes that when you factor the LSV stake in, SEI trades at an enterprise value/earnings before interest and taxes multiple of 5.9. (Not including LSV, the EV/Ebit multiple is 9.3.) He thinks the stock should trade at more like 12 times EBIT—or double its current quote.

Management is focused on the long term; SEI is still run by its founder, Al West, who owns a 13% stake in the company. So it isn't likely to look for a quick hit from monetizing its LSV stake. Over time, however, patient investors will be rewarded.

Est 2011 Net Income:	\$216 million
Est 2011 EPS:	\$1.14
Est 2012 EPS:	\$1.32
Est 2012 PE:	12
Dividend Yield:	1.6%

Data as of 10/10/11

Visit [Company Research](#) for more on [SEI](#).

Source: FactSet

Top Ten Investors: SEI Investments (SEIC)

Investor Name	Pos	Pos Chg	% O/S	Filing Date
West (Alfred P Jr)	24,293,508	-86,300	13.31	9/28/11
Wellington Management	16,544,892	-758,176	9.06	6/30/11
Columbia Wanger Asset Management	8,285,000	5,000	4.54	6/30/11
Vanguard Group	6,922,583	626,680	3.79	6/30/11
BlackRock Institutional Trust	6,711,376	-198,279	3.68	6/30/11
Highbridge Capital Management	6,557,720	-200,250	3.59	6/30/11
Parnassus Investments	5,205,000	1,942,500	2.85	6/30/11
Royce & Associates	5,095,883	457,100	2.79	6/30/11
RCM Capital Management	4,523,790	1,079,924	2.48	6/30/11
State Street Global Advisors	4,171,696	-301,991	2.28	6/30/11

Source: FactSet

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