NOVA SCHOOL OF BUSINESS & ECONOMICS

MASTERS IN FINANCE

Raymond James Financial Inc.

Midmarket Investment Banking

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Equity Research Report

4th of January 2019

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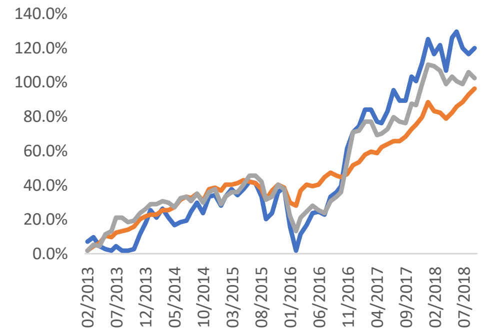
Attractive Value Given Resilient Growth Outlook; Initiate with Buy

- **Resilient Macroeconomic Outlook -** Stronger earnings outlook due to current FED policy and strong brokerage service demand boost both interest and non-interest income on journey to realize continued growth opportunities. Net income growth, as well as the ROE, are estimated to further increase YoY up until FY2022 and FY2023 respectively. On a next twelve months basis the ROE is expected to rise from 13.3% to 15.8%.
- **EPS Rebound** - Our current FY2019E/FY2020E EPS estimates of $7.34/$8.36 improved slightly from our prior estimates of $7.30/$7.90 reflecting continuously strong core results. Despite the recent 4Q18 earnings shortfall RJF proved that the results miss was mostly due to non-core items.
- **Valuation Methodology** - We revised our twelve months forward target price estimate for RJF from $96.00 to $102.12, providing a 37.2% upside from its last close of $74.41 (as of 01/01/2019) Hence, this is reiterating our Buy rating on the stock, given its attractive risk/reward profile assuming our macroeconomic outlook holds. Our target price is based on the weighted sum of four valuation methodologies.
- **Key Risks** – Business risks remain consistent being reputational risk, risks arising from changes in macroeconomic conditions, regulatory risk, and credit risk.

Recommendation:	**BUY**
Vs Previous Recommendation	*BUY*
Price Target FY2019:	**$102.12**
Vs Prevoius Price Target	*$96.00*
Price (as of 01-Jan- 19)	**$74.41**

Reuters: RJF.N Bloomberg: RJF:US

52-week range ($)	69.11-102.17
Market Cap ($bn)	10,011
Outstanding Share (m)	145.642



Source: S&P Capital IQ

(Values in $ thousands)	2018A	2019F	2020F
NII	840.5	1,030.7	1,099.3
Non-Interest Income	6,434	7,127	7,677
Net Income	850.9	1,074.5	1,224.4
EPS	5.88	7.34	8.36
Total Asset	37,413	39,402	40,124
Total Liabilities	30,961	32,644	32,990
ROE	13.3%	15.8%	17.1%
ROA	2.3%	2.7%	3.0%

Source: Company Data and Analysis

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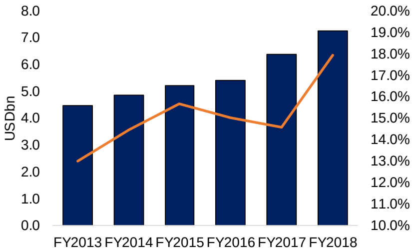
Company Description

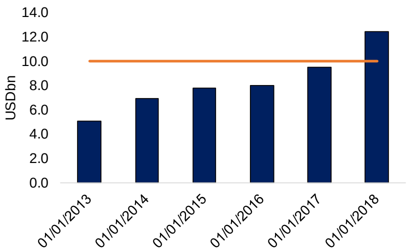
Group Overview

Figure 1: Net Revenue vs Pretax Profit Margin



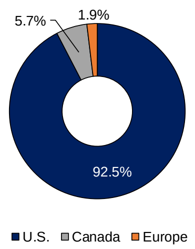
Source: Company Data

Figure 2: RJF Market Capitalization, Beginning of Year



Source: S&P Capital IQ

Figure 2: Net Revenue Geographic Breakdown



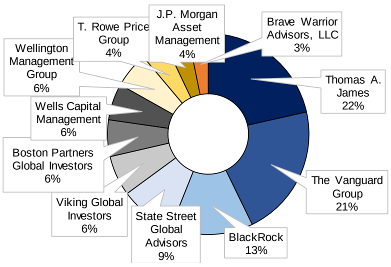
Source: Company Data

Raymond James Financial Inc. (RJF) is a leading American independent midmarket investment bank headquartered in St. Petersburg, Florida. Founded by Bob James in 1962 the company has since grown to become one of the largest non-Wall-Street-based financial institutions in the country. Its people centric “clients first” approach emphasizing on integrity and a conservative risk management stance has allowed the bank to distinguish itself from its peers and therefore regularly outperform its competitors. As a result, for more than five decades Raymond James has enjoyed a stable and continuous growth enabling it to transform into the financial power house that it is today. On July 1st 1983, after a 14-year delay, the firm filed for its initial public offering (IPO) at the NASDAQ Stock Market and was later listed under the ticker symbol “RJF” at the New York Stock Exchange (NYSE) in 1986. Since its IPO the company has reported more than 120 consecutive quarters of constant profitability and its stock has appreciated by more than 80.0x in value. Particularly, its recent history has shown that Raymond James is capable of competing alongside larger rivals within the dense U.S. banking sector. In 2017, for instance, the company was first listed on the S&P 500 Index and its market capitalization surpassed the $10bn mark.

Driven by both organic growth and acquisitions, the primary contractor broker/dealer company soon expanded its service portfolio into affiliated business areas allowing it to become a full-service investment bank. In addition, to vertical expansion the firm also broadened its geographic coverage through acquisitions in Canada and Europe. Today, the company still generates the majority of its revenue within the United States but the share of its international operations continue to grow year over year.

Shareholder Structure

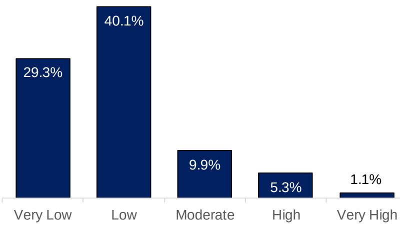
Figure 3: Largest Shareholdings



Source: S&P Capital IQ

Like with most blue-chip stocks the portion of institutional ownership prevails in Raymond James' shareholding structure (80.0% on average in S&P 500 companies). Respectively, more than 78.1% of shares are held by institutional investors, such as mutual funds, hedge funds or pension funds. The company's largest institutional shareholders include, for example, The Vanguard Group with a stake of 9.8%, Blackrock with a stake of 6.1%, and State Street Global Advisors with a stake of 4.1%. The cumulative ownership stake of RJF's ten largest institutional shareholders amounts to circa 36.0% (ex. family-owned shares) or $3.8bn. In addition, the contemporary composition of shareholdings can be considered relatively stable given that approximately 80.0% of its institutional holdings are categorized as "Very Low" to "Moderate" in terms of portfolio turnover and less than 2% are classified as "Very High". Moreover, approximately 9.8% of RJF stock remains family-owned by the founder's son, former long-term CEO (1970-2010) and current Chairman Emeritus Thomas Alan James. Lastly, the remaining shares of approximately 12.0% are held by individual private investors and are considered free float. Notably, while Vanguard's and Thomas James' stake come close, no single shareholder currently is in possession of a qualified holding (>10.0%) in RJF stock.

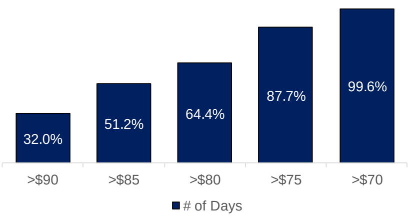
Figure 4: Turnover Category Analysis



Source: S&P Capital IQ

Q4 Earnings Miss

Figure 6: Share Price Analysis

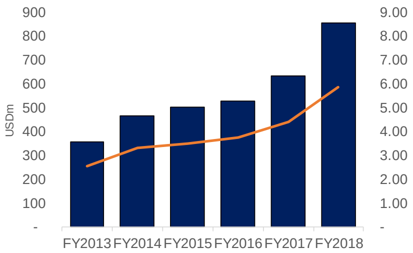


Source: S&P Capital IQ

Following Raymond James' most recent fourth quarter earnings announcement the company's stock price dropped from $86.36 (as of 21/10/2018) to $72.85 (as of 29/10/2018) in a matter of days representing a loss of 15.64%. The drop was caused as Earnings per Share (EPS) fell short of analyst expectations and marked one of the company's largest earnings miss in recent history. Over the past two years (with a total of 699 trading days) approximately 88.0% of the time

RJF's stock price was trading above $75.0/share. Hence, with the stock price falling to levels the company had last seen in mid-2017 this evoked widespread concerns about putting a stop to the recent growth momentum the company had come to enjoy over the past 18 months. Furthermore, this outlook was particularly dire as the company had been regularly outperforming estimates and delivering double digit annual returns to its shareholders. Ever since the announcement the stock has momentarily regained some of its lost value, however on an annual basis (as of 01/01/2019) the company's 2018 stock market return of -16.7% is still considerably negative.

Figure 5: Net Income vs EPS



Source: Company Data

Raymond James reported fourth quarter earnings of $1.68 per share, while the analyst consensus suggested EPS of $1.81 (Non-GAAP), leaving a delta of $0.13 per share. This difference was estimated to be attributable mainly due to lower revenues ($0.03/share variance), higher expenses ($0.05/share variance), and a higher tax rate ($0.07/share variance) but was also partially offset by non-controlling interest ($0.03/share variance). Despite another year of record profit a range of non-recurring yet unfavourable factors, such as unrealized private equity losses and increased legal charges, affected the overall result. Hence, on a core basis the company actually continued to perform well throughout 2018 but still failed to appropriately reflect this in its current share price.

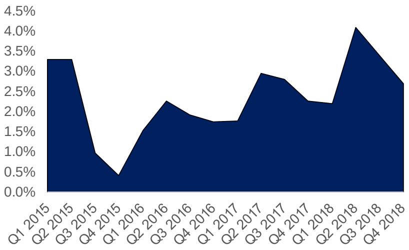
Macroeconomic Overview

Overall U.S. Economic Outlook

In 2018 the U.S. continued to show a remarkable economic growth with results being slightly above of the Federal Reserve's (FED) original forecast. With real GDP growth of more than 3.0%, temporarily even above 4.0%, and inflation contained at approximately 2.0% the United States maintains its Goldilocks environment. Backed by an almost all-time low unemployment rate the U.S. consumer continues to drive economic growth accounting for about 70.0% of the country's economic output. While real wage growth has remained relatively stable over recent periods monthly job growth sustains at 200,000-per-month-levels explaining most of the growth momentum. However, some key economic indicators have begun to show signs of slowing down, while i.e. investments in the corporate sector remain weak and trade continues to stand considerable headwinds from tariffs and other trade related barriers. In December, following the most recent Federal Open Market Committee (FOMC) meeting, the FED has cut both its long-term and short-term outlook amid signs of global economic slowdown and volatility in financial markets.

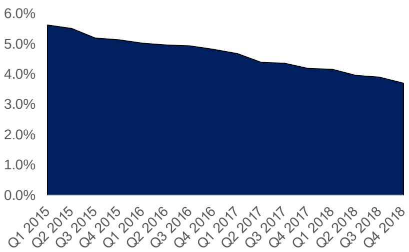
Looking ahead, we believe that the economic environment is prone to substantial adjustments, particularly in the periods following the upcoming fiscal year. While the general growth trend, although weakened, should continue throughout much of 2019 by the end of the year the implications of i.e. recently declared trade tariffs will considerably affect the prices of intermediate goods. As a result, manufacturers will have to choose between passing on the increase directly to the consumer or to reduce their output, which will both put downward pressure on GDP growth. In addition, 2020 will be greatly minted by the uncertainty arising from the upcoming U.S. presidential elections that year, with investments being likely to be halted until concerns about future trade relations will be resolved. Also, that U.S. housing construction has started to fall and foreign economic conditions in Europe are dimming is worrisome. Lastly, the previously anticipated increase in government spending and the absence of an attractive tax policy stimulus further suggests the emergence of a tightening economic cycle. In summary, we believe that the American

Figure 7: Annualized Quarterly U.S. Real GDP Change



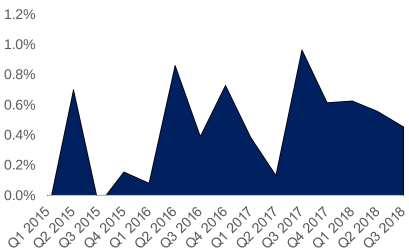
Source: FRED

Figure 9: U.S. Unemployment Rate, Quarterly



Source: FRED

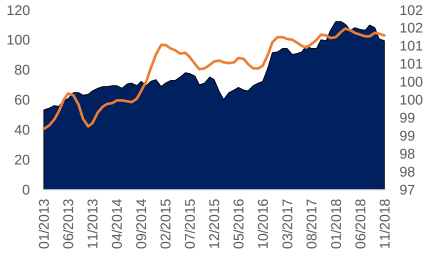
Figure 8: Consumer Price Index, Quarterly



Source: FRED

economy is currently in good shape but runs a high risk of being put into turmoil and faced with uncertainty as a direct result of policy making.

Figure 10: BKX Index vs CCI, Monthly

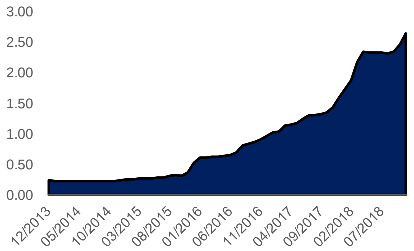


Source: S&P Capital IQ, FRED

The American Financial Sector

The performance of the U.S. banking industry has historically been closely tied to the state of the country's overall economy. In econometrics this phenomenon is explained by the causality of both the supply-leading and demand-following nature of Financial Sector Development (FSD) and aggregate economic output. Therefore, we examined the movements of the KBW Bank Index (BKX) and the Consumer Confidence Index (CCI). The BKX is the U.S. benchmark index for bank stock performance tracking 24 financial institutions representing large U.S. national money centers, regional banks and thrift organizations. Whereas, the CCI reflects the degree of confidence the consumer holds on the current and future state of the economy, weighted at 40% and 60% respectively, expressed through their saving and spending activities. As shown in figure 10, when economic conditions improve the overall confidence about the future improves. Specifically, when the economy is strong this tends to be reflected in the country's fiscal policy making by raising interest rates, which positively affects the returns of conventional banking stocks.

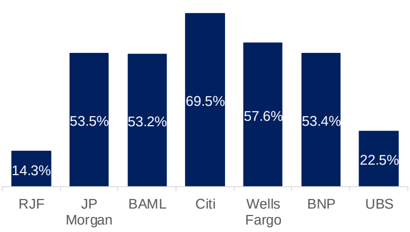
Figure 11: 3-Month LIBOR



Source: FRED

Over the course of the last three years continuous rate hikes have shaped the domestic fiscal landscape (FFR) in the U.S., as well as internationally (LIBOR). We believe that there is sufficient evidence that the FED will continue to raise their interest rates throughout most of FY2019 and maintain those levels until the economy should show signs of a recession. Naturally, this would suggest that bank stocks should expect periods of future share price appreciation, however this might not be the case for Raymond James. As figure 12 shows RJF net interest income (NII) as a percentage of total revenue is at 14.3%

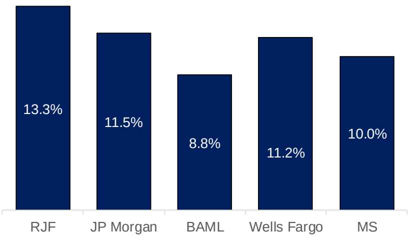
Figure 12: NII as % of Total Revenue



Source: S&P Capital IQ

(FY2018A) well below that of other key players within the industry (average >50.0%). Hence, as interest income accounts for a substantially smaller portion of the total revenues RJF's stock should be considerably less sensitive to interest rate changes than some of its peers.

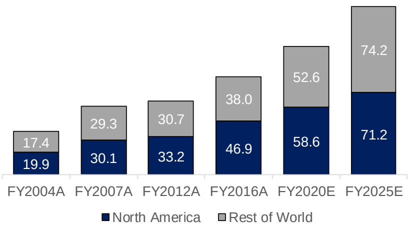
Figure 13: Average Return on Equity, LTM



Source: S&P Capital IQ

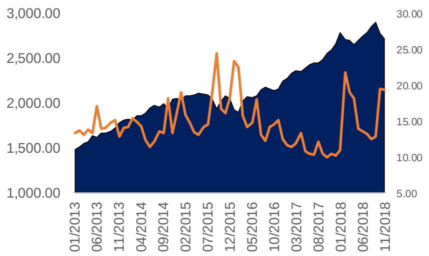
1Taking this into consideration when examining the Return on Equity (ROE) of a selected set of large U.S. banks, as shown in figure 13, it becomes apparent that RJF is situated on the upper bound of the profitability range. However, it might also suggest that Raymond James should be more accurately valued as a brokerage firm, given that approximately 70.0% (see RJF: Core Operations p. 11) of its revenue originates from such activities. According to the empirical research by Professor A. Damodaran from the New York University large brokerage firms, like Charles Schwab (18.0% ROE) or TD Ameritrade (23.3% ROE), naturally have a higher ROE than banks thereby implying a higher valuation multiple. In general, the brokerage industry has a lower beta than banking and is hence less sensitive to market fluctuations. For example, in the wake of the recent financial crisis, large U.S. brokerage houses suffered considerably smaller price falls than their Wall Street counterparts. Lastly, we believe that while banking, like the general U.S. economy, is likely to experience further but slowing growth in the years to come client Assets Under Management (AuM) in both the brokerage and asset management industry are expected to almost double by 2025.

Figure 14: Assets Under Management USDbn



Source: PwC Report

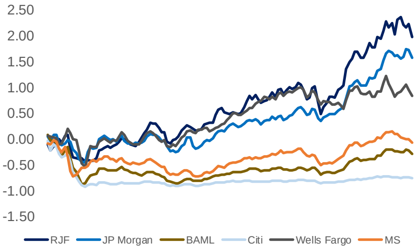
Figure 15: S&P 500 vs VIX, Monthly



Source: S&P Capital IQ

Furthermore, a bank's profitability is influenced by the levels of volatility within the market determining requirements for the risk mitigation, as well as affecting the returns of financial instruments particularly spreads within the fixed income segment. Therefore, we examined the CBOE Volatility Index (VIX), which tracks the 30-day implied volatility of the S&P 500 based on out-of-the-money options. The VIX usually (80.0% of the time) moves in opposite direction of the S&P 500 indicating that when stock valuations are high volatility should be low. As shown in figure 15, throughout 2017 financial markets in the US have been experiencing historically low levels of volatility, which on the one hand allowed the S&P 500 to appreciate considerably but on the other hand caused financial firms, such as RJF, to suffer weaker results in their fixed income departments. We believe that this trends is due to be reversed in the upcoming 24 months when volatility will return to the market, as it already has to some extent in 2018 as indicated in the most recent data.

Figure 16: Cumulative Stock Returns 2008 - 2018

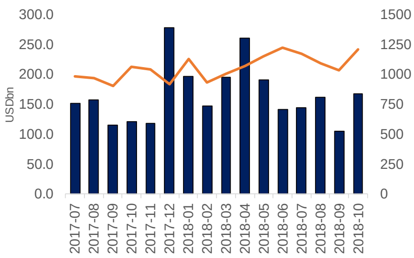


Source: S&P Capital IQ

Ten years after the height of the financial crisis U.S. bank stocks have recaptured most of its value and in some cases even surpassed pre-2008 levels. Particularly, over the past three years, backed by strong economic growth, U.S. banks have performed exceptionally well, as indicated by figure 16. In our view, it is not certain that all of the above shown firms will be able to continue this trend. However, given RJF's stainless reputation and predominance in the more stable brokerage sector we believe that the company is well equipped to challenge higher levels of uncertainty in the future.

Investment Banking Deal Making

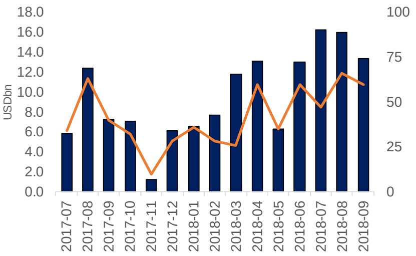
Figure 17: M&A Activity, Monthly



Source: FactSet

According to Bloomberg, 2018 has been the most active year on record for merger and acquisition (M&A) deal making both in the U.S. and globally. The American M&A market has reached new record heights, as shown in figure 17, amounting to an aggregate deal value of more than $2.1tn (12-months ended as of 31/10/2018). Likewise, global deal making only for the third time in history exceeded the $4tn mark with announcement totalling $4.3tn this year. The M&A landscape was particularly impacted by the high amount of megadeals, such as the T-Mobile Sprint merger ($50.3bn) or Comcast's acquisition of Sky ($42.2bn). Additionally, private equity continues to play a bigger role year over year (YoY) as the asset class gets larger and becomes more versatile. However, while aggregate deal values and volumes are growing research has previously found that fees have come to deteriorate. Nevertheless, we believe that with financial sponsors still awaiting to invest more than $1tn and more than $2tn on the balance sheets of S&P 500 companies M&A activity will continue to be strong in the years to come.

Figure 18: IPO Activity, Quarterly

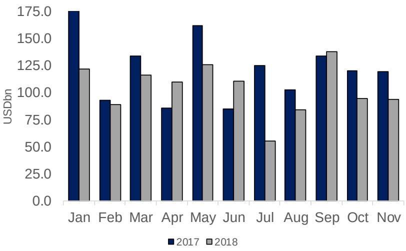


Source: PwC Report

Similarly, as figure 18 shows, initial public offering activity has been the highest since 2014 both in terms of volume and funds raised. Backed by high company valuations and strong post-IPO price performance investors are willing to further invest in equity underwritings. Technology companies persist to dominate the IPO landscape also in 2018 with 40.0% of the top 10 deals coming from private equity or venture capital-backed startups. In our believe this trend will continue in the short-term but once market correction will drive down valuations and subsequently lower stock returns Equity Capital Markets (ECM) activity will slow down in the long-term.

Contrarily to M&A and ECM deal making Debt Capital Markets (DCM) have experienced a significant downturn in 2018. U.S. investment grade debt declined for the first time since 2008, while high yield corporate debt was down by almost 26.0% (9-months ending as of 30/09/2018). On a global level, DCM activity, as well as fees, declined by 7.0% and 12.0% respectively compared to the previous year. We believe that this downturn is mostly caused by the reappearance of rising interest rates, which increases the effective cost of financing resulting in postponed financing decisions. In our view, the DCM market will continue to struggle until either the need for financing in the economy increases dramatically due to, for example, an overall economic downturn or interest rates and the expected levels of volatility will allow for attractive spreads.

Figure 19: U.S. Investment Grade Bond Issuances, Monthly

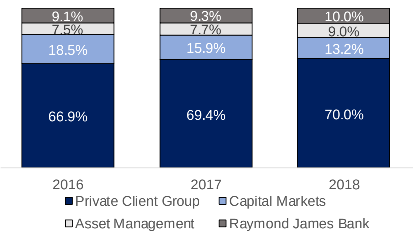


Source: PwC Report

RJF: Core Operations

Overview

Figure 20: Net Revenues Breakdown

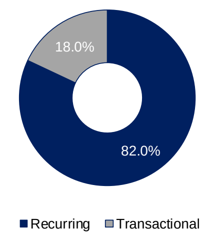


Source: PwC Report

The Raymond James Financial Group consists of four major segments. Namely, the Private Client Group, Capital Markets, Asset Management Services, and the Raymond James Bank respectively by size. Everything else that has not been consolidated within the aforementioned segments is either accounted for as “Other“ or falls into “Intersegment Eliminations”. The previous section discussed the macroeconomic foundation and frameworks, which we will build on in this section in order to derive our forecast and growth metrics for the valuation of RJF (see Valuation p.20). Additionally, it should be noted that RJF considers net revenue, being total revenue less interest expense, as its true topline. Hence the following section has also been prepared on a net revenue basis.

Private Client Group

Figure 21: Recurring vs Transactional Revenues



Source: Company Data

The Private Client Group (PCG) is the firm’s brokerage service business and largest organizational unit both in terms of employees and sales accounting for approximately 46.0% of the company’s workforce and 70.0% of the group’s net revenues. The PCG operates in the U.S. and Canada and provides financial planning, as well as security transaction services. The unit conducts business through either their branch office system or through their network of affiliated independent financial advisors. Its scope of activities include the sale, as well as the borrowing and lending, of equities, mutual funds, fixed income, and insurance products for which it charges commissions and fees. As illustrated by figure 21, revenues in this segment can be either recurring or transactional in nature. Recurring revenues originate from fee-based accounts, such as asset-based fees, trailing commissions from mutual funds or annuity insurance products. Whereas, transactional revenues like sales commissions depend on the respective number of transactions. Additionally, net interest revenue is generated by providing margin loans to clients less the interest paid on client cash balances.

PCG sales are generally driven by the total number of client Assets Under Administration (AuA), which given that each financial advisor can only handle a certain number of accounts is respectively determined by the total number of advisors. As previously specified, Raymond James offers two primary affiliation options, in-house advisors (branch employees) and independent financial advisors, which balance approximately 40:60 in terms of the total workforce. Table 1 provides an overview of the key metrics that drive the PCG segment:

Table 1: PCG Growth Metrics

	FY2013A	FY2014A	FY2015A	FY2016A	FY2017A	FY2018A
Assets Under Administration ($bn)	402.6	450.6	453.3	574.1	659.5	755.7
YoY Growth	-	*11.9%*	*0.6%*	*26.6%*	*14.9%*	*14.6%*
Net Revenue per $ Under Management ($ pc)	0.0073	0.0073	0.0077	0.0063	0.0067	0.0067
YoY Growth	-	*(0.0%)*	*6.7%*	*(18.6%)*	*6.4%*	*0.5%*
Number of Financial Advisors	6,197	6,265	6,596	7,146	7,346	7,813
YoY Growth	-	*1.1%*	*5.3%*	*8.3%*	*2.8%*	*6.4%*
Average Assets per Financial Advisor ($m)	65.0	71.9	68.7	80.3	89.8	96.7
YoY Growth	-	*10.7%*	*(4.4%)*	*16.9%*	*11.7%*	*7.7%*
In-House Advisors	2,619	2,634	2,738	3,098	3,041	3,167
YoY Growth	-	*0.6%*	*3.9%*	*13.1%*	*(1.8%)*	*4.1%*
% of Total Employees	*42.3%*	*42.0%*	*41.5%*	*43.4%*	*41.4%*	*40.5%*
Independent Financial Advisors	3,578	3,631	3,858	4,048	4,305	4,646
YoY Growth	-	*1.5%*	*6.3%*	*4.9%*	*6.3%*	*7.9%*
% of Total Employees	*57.7%*	*58.0%*	*58.5%*	*56.6%*	*58.6%*	*59.5%*

Source: Company Reports and Analyst Estimates

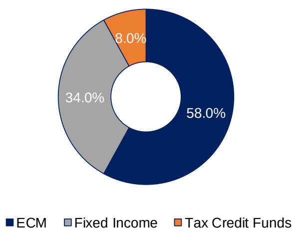
Growth in the PCG segment is principally steered by two factors the amount of revenue generated per $ under administration and total number of AuA. Given the people driven nature of the PCG the segment's AuA comprise the total number of advisors and the average $ of AuA per advisor. Lastly, the total number of advisors is determined by three different components i) the number of new branch locations opened, ii) the number of acquired branch locations and iii) the number of newly formed partnerships with independent advisors.

Since FY2013, the Private Client Group has experienced continuous double-digit growth with a five-year CAGR of 11.8% and a relatively stable pretax profit margin between 8.0% - 11.0%. According to the company this growth was mainly fuelled by strong financial advisor recruiting and high levels of employee retention. In addition, the results were boosted by RJF's acquisition of Canadian investment manager 3Macs and the private client division of the Baltimore-based investment bank Alex. Brown. Lastly, Raymond James, up until recently, had to deal with some legal litigation related issues (Jay Peak Matter), which all have been permanently settled and hence will no longer affect future results.

In our view, as the demand for brokerage services grows in line with the overall economy, Raymond James is likely to further expand its PCG segment in the years to come. We believe that it would be unrealistic for RJF to increase service fees or consolidate advisor accounts hence making advisor recruiting and further acquisitions the main pillars of continued growth. Additionally, we also estimated that the company will have to add-on additional advisors in order to compensate for upcoming periods of weaker profitability (see net revenue / $AuA). In summary, we believe that the PCG, although slower than in recent years, will continue to grow at a CAGR of 4.8% up until FY2023.

Capital Markets

Figure 22: Segment Net Revenues

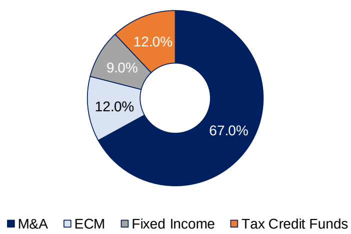


Source: Company Data

The Capital Markets (CM) segment is RJF's second largest organizational unit and encompasses the firm's investment banking, trading, research, and syndication (Tax credit funds) operations. It currently accounts for approximately 13.2% of total net revenues (vs. 18.5% in 2016) and is mainly active in the U.S., Canada and Europe. The business unit is made up of three main divisions equity capital markets, which also includes mergers and acquisitions advisory, fixed income, which includes debt capital markets and tax credit funds. Its main activities are the sale of equity and fixed income products, debt and equity financing, M&A advisory services, equity research, derivatives trading, and the syndication of investments in real estate projects that qualify for tax credits.

Capital markets revenues are typically driven by overall market and deal making activity, as well as the firm's ability to identify and promote attractive investment opportunities. RJF does not clearly define growth drivers for this segment making future estimates difficult to predict. Generally, with both an increasing transaction volume and average ticket size M&A advisory services, as figure 23 shows, remain RJF's strongest pillar behind investment banking growth. While equity underwritings and the research department, the latter due to MiFID II regulation, have recently come under pressure to perform accordingly.

Figure 23: Investment Banking Revenues



Source: Company Data

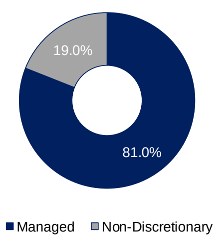
In addition, the fixed income desk has continued to deliver inferior results due to lower client trading volumes caused by low levels of volatility and a flattening yield curve. Despite, Raymond James' effort to further expand investment banking activities in Europe with a CAGR of below 1.0% the capital markets segment has been experiencing a deteriorating performance over the course of the past few years.

In our view, results in the Capital Markets division should improve in the upcoming years growing at a CAGR of up to 7.0% until FY2023. FY2018 has been a historically strong year for investment banking and according to recent research (79% of surveyed dealmakers believe that the number of deals is due to further increase) is likely to continue in this fashion. Additionally, with more money than ever in the middle market Raymond James is well positioned to further benefit from this development. Hence, we believe that despite weak performance in the underwriting and research department the ECM results will slowly rise in the years to come. Fixed income, on the other hand, should improve when a higher degree of volatility returns to financial markets (estimated 2020), while the tax credit funds segment is estimated to remain relatively stable.

Asset Management Services

Raymond James's Asset Management Services division (AMS) is Raymond James third largest segment currently accounting for approximately 9.0% of the group's net revenue. It provides investment advisory and asset management services to individual and institutional investors, as well as sponsors a series of mutual funds. The AMS, illustrated in figure 24, offers both managed and non-discretionary asset-based programs for which it earns investment advisory and related administrative fees. Additionally, the AMS also earns administrative fees for certain asset-based programs (RJ Trust) offered to PCG clients, which are not directly managed by the AMS. Decisions for managed programs are made in-house, by third-party portfolio managers or through an investment committee. For non-discretionary programs the decision-making authority lies with the customer and RJF solely provides administrative support, such as trade execution, record-keeping, and periodic investor reporting.

Figure 24: Financial Assets Under Management by Objective



Source: Company Data

Revenues are generally determined by the balance of financial Assets Under Management (AuM) in the respective program. Managed programs, due to scope of services provided, hereby earn higher fees than non-discretionary accounts. Approximately, 80.0% of all investment advisory revenue is earned from managed program accounts. Table 2 provides an overview of the key metrics that drive the AMS segment:

Table 2: AMS Growth Metrics

	FY2013A	FY2014A	FY2015A	FY2016A	FY2017A	FY2018A
Assets Under Management ($bn)	128.4	154.0	163.6	205.6	264.3	352.8
YoY Growth	-	*20.0%*	*6.2%*	*25.7%*	*28.6%*	*33.5%*
Managed Programs AuM ($bn)	60.8	69.4	69.1	81.7	101.8	146.6
YoY Growth	-	*14.1%*	*(0.4%)*	*18.3%*	*24.5%*	*44.0%*
% of AuM	*47.3%*	*45.0%*	*42.2%*	*39.8%*	*38.5%*	*41.6%*
Net Inflows ($bn)	10.4	3.9	2.8	6.3	9.9	36.3
Net Market Appreciation ($bn)	6.2	4.7	(2.2)	6.3	10.2	8.5
Non-Discretionary AuM ($bn)	64.7	81.3	91.0	119.3	157.0	200.1
YoY Growth	-	*25.7%*	*11.9%*	*31.1%*	*31.6%*	*27.5%*
% of AuM	*50.4%*	*52.8%*	*55.6%*	*58.0%*	*59.4%*	*56.7%*
RJ Trust AuM ($bn)	2.9	3.4	3.5	4.6	5.5	6.1
YoY Growth	-	*16.0%*	*4.0%*	*30.0%*	*20.5%*	*10.0%*
% of AuM	*2.3%*	*2.2%*	*2.1%*	*2.2%*	*2.1%*	*1.7%*
Managed Programs	19bp	17bp	17bp	13bp	12bp	13bp
Non-Discretionary Programs	-	4bp	4bp	4bp	3bp	3bp
RJ Trust Fees	4bp	3bp	3bp	3bp	3bp	2bp

Source: Company Reports and Analyst Estimates

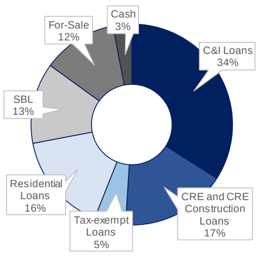
Growth in the AMS segment is predominantly steered by the total financial AuM and the margins (bp) the company earns on each $ of assets in the respective program. The total number of AuM depends on three factors i) the organic inflow of new client assets, ii) the inorganic inflow of new client assets through acquisitions, iii) and the net market appreciation / depreciation in asset values. Whereas, the profitability margin is mainly determined by the level of fees that RJF charges its customers.

Since FY2013, the Asset Management Services division has been RJF's fastest growing segment with a five-year CAGR of 17.4% and a, still improving, profit margin of roughly 36.0%. While sales margins have remained relatively stable over the past few years the results were mainly driven by a robust equity market performance, as well as strong M&A activity. Hereby, Raymond James made two notable acquisitions to boost AuM; Alex. Brown in 2017 and the Scout Group in 2018. Lastly, organic client asset inflow has continued to lift results even further.

In line with what has been discussed in the Macroeconomic Overview (see The American Financial Sector p.7), we believe that the asset management industry is expected to experience higher growth than their banking peers over the upcoming years. While some analysts estimate the aggregate number of AuM in the market to double until FY2025 we have taken a slightly more conservative stance. In our view, while total AuM will continue to grow, margins will weaken in the long run as competition for client dollars intensifies and shifts towards lower pricing structures will become inevitable. Furthermore, as volatility levels will rise in the future stock returns will drop, which will subsequently halt the organic inflow of new client assets. Hence, we believe that Raymond James is likely to boost future growth through additional M&A (one medium-to-large acquisition assumed in FY2021) while increasingly competing on fee-structures. Thereby, RJF will be able to continue its AMS growth story with an estimated five-year CAGR of 3.1%.

Raymond James Bank

Figure 25: RJB Asset Breakdown



Source: Company Data

The Raymond James Bank (RJB) is RJF's smallest but also most profitable segment accounting for only 10.0% of total net revenues but with a pretax income margin of 67.7% (FY2018). The RJB mainly deals in corporate (commercial and industrial (C&I), commercial real estate (CRE), and CRE construction), securities-based (SBL), tax-exempt and residential loans. In addition, it also administers corporate loan syndication, active participations, and provides Federal Deposit Insurance Corporation (FDIC) insured deposit accounts to their broker-dealer clients (PCG) and the general public. The bank earns interest income on their underwritten loans and investment portfolio and has to pay interest on clients' deposits and its borrowings. It operates mainly through their branch location in St. Petersburg, Florida or through the offices of affiliated broker-dealer partners in the U.S. and Canada.

RJB's assets, as shown in figure 25, comprise a broad loans and investment portfolio. Hereby, corporate and tax-exempt loans account for approximately 67.0% of the bank's total scope of loans. The bank also originates or purchases residential mortgage loan for investments or the sale on the secondary market. The company's, available-for-sale, investment portfolio includes agency mortgage-backed securities (MBS), and collateralized mortgage obligations (CMOs). On the liability side, RJB primary liabilities originate from the deposits (cash balances) in its PCG client accounts. RJB loan interest income is generally driven by the market interest rates and the total number of loans in the economy. Table 3 provides an overview of the key metrics that drive loan interest income:

Table 3: RJB Growth Metrics

	FY2013A	FY2014A	FY2015A	FY2016A	FY2017A	FY2018A
Net Interest Margin	3.3%	3.0%	3.1%	3.0%	3.1%	3.2%
Average Loan Balance:						
Loans held for sale	155,901	107,898	107,255	150,305	159,384	125,970
C&I loans	5,143,624	5,800,710	6,677,117	7,171,402	7,340,052	7,618,949
CRE construction loans	63,168	93,955	118,626	169,101	129,073	165,780
CRE loans	1,083,826	1,466,585	1,728,324	2,297,224	2,831,870	3,231,369
Tax-exempt loans	-	44,150	301,767	617,701	891,922	1,146,493
Residential mortgage loans	1,713,837	1,753,683	1,927,105	2,217,789	2,803,464	3,447,710
SBL	444,657	781,738	1,269,337	1,713,243	2,123,189	2,689,612
Agency MBS and CMOs	501,598	424,955	337,744	432,626	1,462,938	2,429,718
Cash	1,109,857	979,978	611,375	884,556	859,020	956,567
FHLB stock	85,811	95,806	111,891	186,589	157,395	138,635
Average Yield:						
Loans held for sale	2.3%	2.5%	2.5%	3.0%	3.2%	4.0%
C&I loans	4.3%	3.7%	3.7%	3.8%	3.8%	4.3%
CRE construction loans	5.7%	5.4%	4.3%	5.0%	4.8%	5.2%
CRE loans	3.7%	3.1%	3.1%	3.0%	3.6%	4.1%
Tax-exempt loans	-	3.3%	2.9%	2.7%	2.6%	2.6%
Residential mortgage loans	3.1%	2.9%	2.9%	2.9%	3.0%	3.2%
SBL	3.0%	2.8%	2.8%	3.0%	3.4%	4.1%
Agency MBS and CMOs	1.4%	1.4%	1.4%	1.6%	1.8%	2.0%
Cash	0.3%	0.3%	0.2%	0.5%	0.9%	1.6%
FHLB stock	2.6%	3.2%	3.3%	2.0%	2.6%	4.3%

Source: Company Reports and Analyst Estimates

Growth in the RJB segment is predominantly steered by the average balance of interest-bearing assets and the average yield of the respective asset. Hereby, the average balance of interest-bearing assets increases mainly due to increases in the total number of loans.

Whereas, the average assets yields depend on the overall market interest rates.

Since FY2013, the Raymond James Bank has been RJF's second fastest growing segment with a five-year CAGR of 15.9%. This can mainly be attributed to the trends in the currently favourable interest rate environment, as well as the growth driven demand for financing in the U.S. economy. While this improves sales the positive effects are partially offset by the bank's increased cost of funds. Overall RJB's net interest margin (NIM) has constantly increased over the past three years and with 3.2% accounts for almost the entire NIM of the bank on a consolidated group level (RJF total 3.8%; U.S. average also 3.8%).

In line with what has been discussed in the Macroeconomic Overview (see Overall US Economic Outlook p.5), we believe that interest rates hikes are likely to continue throughout most of FY2019 and then remain constant until expected to decrease at the end of FY2022. This will certainly boost the bank's asset yields but will also be counterbalanced by an estimated decreasing average asset balance due to the implied higher cost of financing. All in all, we believe that the bank's RJB segment will continue to prosper growing at an estimated rate of 2.6% year over year until FY2023.

Other Income and Balance Sheet Considerations

In addition, to the segments mentioned above RJF consolidates items, such as its private equity activities, certain corporate overhead costs, losses on the extinguishment of debt and M&A integration costs in its "Other" segment. Returns or losses, as well as margins in this segment tend to be extremely volatile and difficult to predict. Going forward we have tried to hold both revenue and costs as constant as possible.

With regard, to the consolidated balance sheet of the Raymond James Group both the asset and liability side follow the general trends discussed in the Macroeconomic Overview section. Naturally, they are in line with our operating assumptions for each segment reflecting periods of growth by larger assets and respective liability balances, as well as economic downturn through lower balances. For a more detailed look of the year over year changes in assets and liabilities examine table 5 in the Valuation section.

Valuation

Overview

Our target price estimate was based on two different types of valuation analysis i) the intrinsic valuation and ii) the relative valuation approach. Our final price estimate was then derived from the weighted sum of our four valuation models. Namely, the Flow-to-Equity (FTE) Model, the Dividend Discount Model (DDM), and two peer-based regression models. Furthermore, all assumptions drawn for forming our valuation opinion were made with no distinction between national and international operations, which given that more than 95.0% of RJF's net income comes from domestic activities seems reasonable. In addition, we assumed a constant cost of capital throughout all the years of our valuation period.

Flow-to-Equity Method

The Flow-to-Equity (FTE) or Free Cash Flow to Equity model (FCFE) is a discounted cash flow valuation approach, which measures how much net cash a company can return to its shareholders. Given the particular nature of the banking business, where debt may be viewed as operational and financial, we consider the FTE Method as the most appropriate to value Raymond James' operations and is hence our primary valuation methodology. After we estimated the FCFE we discounted by the company's leveraged cost of equity (CoE), which was obtained from a risk-free rate of 2.79% (10-year U.S. Treasury Bonds) and an equity market premium of 7.0% (S&P 500 returns). The corresponding beta was calculated by regressing RJF stock and S&P 500 returns over the past five years. As shown in table 4, with a beta of 1.36 Raymond James is slightly more sensitive to market fluctuations than most of its bulge bracket peers but is still considerably lower than some similar boutique players.

Table 4: 5Y Bank Betas

JP Morgan Bulge Bracket	BAML Bulge Bracket	Citi Bulge Bracket	Wells Fargo Bulge Bracket	Morgan Stanley Bulge Bracket	Stifel Boutique	Raymond James Boutique	Evercore Boutique	Lazard Boutique
1.11	1.29	1.45	0.98	1.26	1.85	1.36	1.76	1.79

Source: Company Data

We believe that our cost of equity calculation of 8.5% is in a reasonable range of Damodaran's overall investment banking and brokerage CoE estimate of 8.7%. On a next twelve month (NTM) basis the FTE model yielded an equity market value of approximately $15.1bn implying a per share price of $103.88. The table below summarizes the key metrics from our FTE analysis:

Table 5: FTE Metrics

	FY2018A	FY2019P	FY2020P	FY2021P	FY2022P	FY2023P
FTE	97,701	762,959	841,922	989,344	1,055,780	1,199,781
Net Change in Assets	2,529,468	1,988,685	722,091	(424,418)	(2,168,048)	(2,673,284)
Net Change in Liabilities	1,770,473	1,682,953	346,154	(772,968)	(2,466,805)	(2,776,041)
Market Value of Equity	14,451,816	15,128,842	15,741,061	16,264,704	16,772,241	17,184,560
Implied Share Price	99.23	103.88	108.08	111.68	115.16	117.99
Return on Equity	13.3%	15.8%	17.1%	17.9%	17.4%	16.5%

Source: Company Analysis

Naturally, as table 6 shows, the implied share price is sensitive to the inputs of the aforementioned leveraged cost of equity and the cash flow's perpetuity growth rate, which at 1.5% has been conservatively assumed below the FED's long-term GDP growth estimate of 1.9%. Hereby, when comparing both the best and worst case scenarios share price values can range from $191.15 - $88.71. However, in our view either of these scenarios is deemed very unlikely and could only occur in conjunction with extraordinary circumstances. All in all, our FTE analysis showed that, given our assumptions, RJF will be able to considerably improve their operational results over the upcoming five years yielding both a higher future share price, as well as return on equity.

Table 6: FTE Sensitivity Table

FTE Model		Cost of Equity										
		5.00%	5.50%	6.00%	6.50%	7.00%	**7.50%**	8.00%	8.50%	9.00%	9.50%	10.00%
Terminal FTE Growth Rate (Terminal Value Calculated Using the Gordon Growth Method)	1.10%	$ 191.15	$ 169.09	$ 151.53	$ 137.23	$ 125.36	**$ 115.34**	$ 106.78	$ 99.38	$ 92.92	$ 87.23	$ 82.18
	1.20%	$ 195.72	$ 172.62	$ 154.33	$ 139.50	$ 127.22	**$ 116.90**	$ 108.10	$ 100.51	$ 93.90	$ 88.08	$ 82.93
	1.30%	$ 200.53	$ 176.31	$ 157.24	$ 141.85	$ 129.16	**$ 118.52**	$ 109.47	$ 101.68	$ 94.91	$ 88.96	$ 83.70
	1.40%	$ 205.61	$ 180.18	$ 160.29	$ 144.29	$ 131.16	**$ 120.19**	$ 110.88	$ 102.88	$ 95.94	$ 89.86	$ 84.48
	1.50%	**$ 210.99**	**$ 184.25**	**$ 163.46**	**$ 146.84**	**$ 133.24**	**$ 121.91**	**$ 112.33**	**$ 104.11**	**$ 97.00**	**$ 90.78**	**$ 85.29**
	1.60%	$ 216.67	$ 188.53	$ 166.79	$ 149.48	$ 135.39	**$ 123.69**	$ 113.82	$ 105.38	$ 98.09	$ 91.72	$ 86.11
	1.70%	$ 222.70	$ 193.03	$ 170.26	$ 152.24	$ 137.63	**$ 125.53**	$ 115.36	$ 106.69	$ 99.21	$ 92.69	$ 86.96
	1.80%	$ 229.11	$ 197.78	$ 173.90	$ 155.12	$ 139.95	**$ 127.44**	$ 116.96	$ 108.04	$ 100.36	$ 93.68	$ 87.82
	1.90%	$ 235.93	$ 202.78	$ 177.72	$ 158.12	$ 142.36	**$ 129.42**	$ 118.60	$ 109.42	$ 101.54	$ 94.70	$ 88.71

Source: Company Analysis

Dividend Discount Model

The Dividend Discount Model (DDM) is an additional valuation methodology based on the notion that when the sum of all future dividends are discounted back to present values this makes a good estimate of the current market value of a firm. This method naturally yields lower cash flows as the DDM takes out the cash from the FCFE when deriving the dividend payments. In order to contain the impact of this limitation and boost comparability we used Damodaran's approach of assuming an adjusted lower equity risk premium for the calculation of the leverage cost of equity of the DDM. Given by the average of Damodaran's estimates over the past five years the FCFE to DDM market risk premium discount should be around roughly 42.0% of the initial value. Going with this approach it returned an equity market premium of 2.95% (compared to 7.0% in the FTE model), yielding an equity market value of roughly $15.5bn or an implied share price of $106.13. The sensitivity output for the DDM calculations is shown in table 7 below:

Table 7: DDM Sensitivity Table

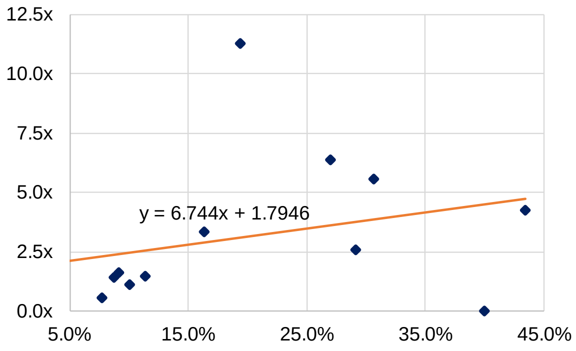
DDM Model	Cost of Equity										
Terminal FTE Growth Rate (Terminal Value Calculated Using the Gordon Growth Method)	2.50%	2.60%	2.70%	2.80%	2.90%	**3.00%**	3.10%	3.20%	3.30%	3.40%	3.50%
1.30%	$ 134.10	$ 123.79	$ 114.95	$ 107.29	$ 100.58	**$ 94.62**	$ 89.41	$ 84.71	$ 80.47	$ 76.64	$ 73.16
1.35%	$ 139.73	$ 128.55	$ 119.03	$ 110.83	$ 103.68	**$ 97.35**	$ 91.83	$ 86.87	$ 82.42	$ 78.40	$ 74.75
1.40%	$ 145.87	$ 133.72	$ 123.43	$ 114.62	$ 106.98	**$ 100.25**	$ 94.40	$ 89.15	$ 84.46	$ 80.24	$ 76.42
1.45%	$ 152.59	$ 139.33	$ 128.18	$ 118.69	$ 110.51	**$ 103.33**	$ 97.12	$ 91.57	$ 86.62	$ 82.18	$ 78.18
1.50%	**$ 159.99**	**$ 145.45**	**$ 133.33**	**$ 123.08**	**$ 114.29**	**$ 106.62**	**$ 100.01**	**$ 94.13**	**$ 88.90**	**$ 84.22**	**$ 80.01**
1.55%	$ 168.16	$ 152.15	$ 138.92	$ 127.81	$ 118.35	**$ 110.13**	$ 103.08	$ 96.84	$ 91.31	$ 86.38	$ 81.95
1.60%	$ 177.24	$ 159.52	$ 145.03	$ 132.95	$ 122.72	**$ 113.90**	$ 106.37	$ 99.72	$ 93.86	$ 88.65	$ 83.98
1.65%	$ 187.39	$ 167.67	$ 151.71	$ 138.52	$ 127.45	**$ 117.94**	$ 109.88	$ 102.79	$ 96.56	$ 91.05	$ 86.13
1.70%	$ 198.81	$ 176.73	$ 159.06	$ 144.61	$ 132.56	**$ 122.30**	$ 113.63	$ 106.06	$ 99.44	$ 93.59	$ 88.40

Source: Company Analysis

Relative Valuation

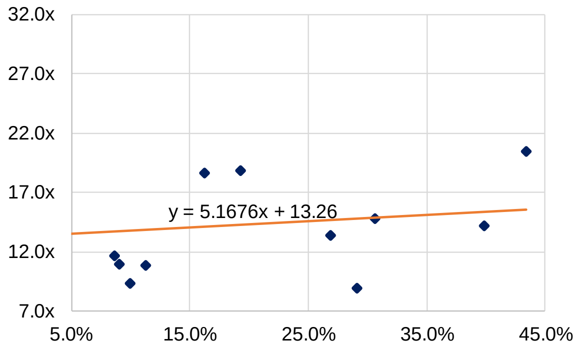
Additionally, we performed a peer-based regression analysis based on 13 selected international, U.S. and non-U.S. banking and brokerage peers. In the model we performed two regressions plotting the next twelve month (NTM) ROE against the NTM Price-to-Book Value (P/BV) and NTM Price-Earnings (P/E) multiple of each peer. From this analysis we obtained the implied target P/BV and P/E multiple Raymond James should have based on its current ROE. We can then derive an implied market value from the aforementioned metrics yielding an equity value of $15.9bn or $109.39 per share from the P/BV ratio and an equity value of $11.9bn or $82.11 per share from the P/E multiple. In both cases, given the current share price this implies an undervaluation of 32.0% and 9.4% respectively. Figure 24 and figure 25 summarize the results of our peer-based regression analysis:

Figure 24: ROE vs P/BV



Source: Company Analysis

Figure 25: ROE vs P/E

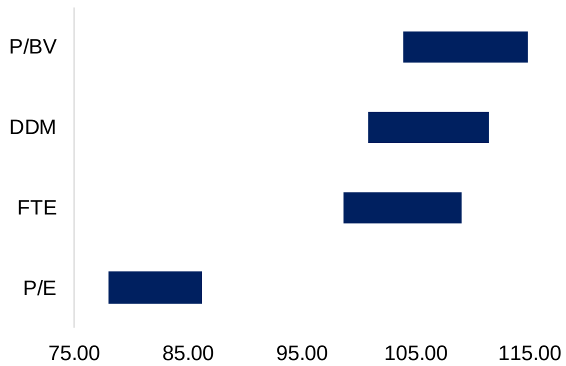


Source: Company Analysis

Valuation Summary and Recommendation

Despite the most recent earnings miss, which was mostly non-core, we are confident that Raymond James will be able to continue its growth story over the next two to three fiscal years until the overall state of the economy is expected to deteriorate. RJF is well positioned to further benefit from the ongoing economic expansion at a point where most companies have already plateaued.

Figure 26: Football Field Analysis



Source: Company Analysis

We calculated our final target price of $102.12 (NTM) as the weighted sum of the four valuation models (FTE, DDM, P/BV regression and P/E regression) that we used. Based on our assessment of model appropriateness we weighted the impact of each method at 40.0%, 30.0%, 15.0%, and 15.0% accordingly. As figure 26 shows, both our intrinsic and relative valuation models have suggested that the company at its present share price of $74.41 (as of 01/01/2019) is currently undervalued. Concludingly, our twelve months forward target price estimate compared with today's share price implies a potential expected return of 37.2% clearly suggesting a BUY recommendation for RJF stock.

Appendix

Fiscal Year Ended 30 September [in USDk]	2013 Actual	2014 Actual	2015 Actual	2016 Actual	2017 Actual	2018 Actual	2019 Forecast	2020 Forecast	2021 Forecast	2022 Forecast	2023 Forecast
Interest Income	473,319	479,199	550,840	651,092	814,775	1,059,905	1,264,250	1,357,990	1,415,310	1,366,741	1,280,305
Non-interest Income	4,131,504	4,493,237	4,766,602	4,880,978	5,723,449	6,433,843	7,126,661	7,677,371	8,186,696	8,375,684	8,316,625
Total Revenue	4,604,823	4,972,436	5,317,442	5,532,070	6,538,224	7,493,748	8,390,911	9,035,362	9,602,006	9,742,424	9,596,930
Interest Expense	119,396	111,043	113,836	127,006	167,127	219,430	233,522	258,672	288,774	321,193	362,968
Net Revenue	4,485,427	4,861,393	5,203,606	5,405,064	6,371,097	7,274,318	8,157,388	8,776,690	9,313,232	9,421,231	9,233,962
Non-interest Expense	3,948,600	4,203,357	4,453,024	4,672,874	5,557,796	6,117,821	6,600,872	7,018,473	7,392,911	7,479,628	7,355,353
Intersegment Eliminations	46,605	44,975	64,029	79,754	114,677	148,381	90,363	99,441	106,523	111,877	111,317
Total Pretax Income (Incl. noncontrolling shareholder interests)	583,432	703,011	814,611	811,944	927,978	1,304,878	1,646,880	1,857,658	2,026,844	2,053,480	1,989,926
Provision for Income Taxes	197,033	267,797	296,034	271,293	289,111	453,960	572,424	633,297	681,856	691,756	680,423
Net Income (Incl. noncontrolling shareholder interests)	386,399	435,214	518,577	540,651	638,867	850,918	1,074,455	1,224,360	1,344,987	1,361,724	1,309,502
Net Income/(Loss) Attributable to Noncontrolling Interests	29,723	- 32,097	16,438	11,301	2,632	- 5,778	5,764	6,502	7,094	7,187	6,965
Net Income attributable to Raymond James Financial	**356,676**	**467,311**	**502,139**	**529,350**	**636,235**	**856,696**	**1,068,691**	**1,217,859**	**1,337,893**	**1,354,537**	**1,302,538**

Fiscal Year Ended 30 September [in USDk]	2013 Actual	2014 Actual	2015 Actual	2016 Actual	2017 Actual	2018 Actual	2019 Forecast	2020 Forecast	2021 Forecast	2022 Forecast	2023 Forecast
Assets:											
Cash and Cash Equivalents	2,596,616	2,199,063	2,601,006	1,650,452	3,669,672	3,500,306	3,294,033	2,992,093	2,554,593	1,867,430	1,394,680
Cash Segregated Pursuant to Regulations	4,064,827	2,489,264	2,905,324	4,884,487	3,476,085	2,441,241	2,635,227	2,301,610	2,128,827	1,697,664	1,394,680
Securities Purchased Under Agreements to Resell	709,120	446,016	474,144	470,222	404,462	372,603	260,822	387,738	302,436	305,521	469,616
Securities Borrowed	NA	NA	NA	170,860	138,319	255,280	219,602	230,161	212,883	135,813	111,574
Financial Instruments at Fair Value:											
Trading Instruments	579,705	679,393	690,551	713,550	564,263	702,390	723,462	745,166	767,521	790,546	814,263
Available-for-Sale Securities	698,844	562,289	513,730	859,398	2,188,282	2,696,366	2,696,366	2,696,366	2,696,366	2,696,366	2,696,366
Derivative Assets	250,341	323,337	389,457	480,106	318,775	180,224	180,224	180,224	180,224	180,224	180,224
Private Equity Investments	216,391	211,666	209,088	194,634	198,779	147,158	147,158	147,158	147,158	147,158	147,158
Other Investments	248,512	215,751	248,751	326,353	220,980	202,202	202,202	202,202	202,202	202,202	202,202
Brokerage Client Receivables, net	1,983,340	2,126,804	2,185,296	2,714,782	2,766,771	3,342,534	3,810,489	4,267,747	4,694,522	5,023,139	5,224,064
Receivables from Brokers, Dealers and Clearing Organizations	NA	NA	NA	380,764	268,021	256,965	259,535	262,130	264,751	266,869	269,004
Other Receivables	NA	NA	NA	610,417	652,769	582,918	597,491	612,428	624,677	637,170	646,728
Bank Loans, net	8,821,201	10,964,299	12,988,021	15,210,735	17,006,795	19,518,100	21,079,548	21,711,934	21,711,934	20,626,338	18,563,704
Loans to Financial Advisors, net	409,080	424,928	488,760	838,721	873,272	934,420	981,141	1,030,198	1,030,198	1,009,594	959,114
Investments in Real Estate Partnerships	NA	NA	NA	116,133	111,743	107,405	107,405	107,405	107,405	107,405	107,405
Property and Equipment, net	244,416	245,401	255,875	321,457	437,374	486,274	486,274	486,274	486,274	486,274	486,274
Deferred Income Taxes, net	195,160	231,325	266,899	322,024	313,486	203,125	203,125	203,125	203,125	203,125	203,125
Goodwill and Identifiable Intangible Assets, net	361,464	354,261	376,962	503,046	493,183	639,097	639,097	639,097	639,097	639,097	639,097
Other Assets	NA	NA	NA	718,835	780,425	844,316	878,409	920,644	745,089	509,299	348,670
Total Assets	**23,186,122**	**23,325,652**	**26,468,032**	**31,486,976**	**34,883,456**	**37,412,924**	**39,401,609**	**40,123,700**	**39,699,282**	**37,531,234**	**34,857,949**
Liabilities:											
Bank Deposits	9,295,371	10,028,924	11,919,881	14,262,547	17,732,362	19,941,507	21,960,223	23,016,098	21,288,271	16,976,637	13,946,804
Securities Sold Under Agreements to Repurchase	300,933	244,495	332,536	193,229	220,942	186,205	231,766	115,883	141,684	143,101	71,552
Securities Loaned	354,377	417,383	478,573	677,761	383,953	422,785	422,785	422,785	422,785	422,785	422,785
Financial Instruments Sold but not yet Purchased, at Fair Value:	-	-	-	-	-	-	-	-	-	-	-
Trading Instruments	NA	NA	NA	320,103	221,449	235,342	311,089	327,873	337,709	347,840	358,276
Derivative Liabilities	NA	NA	NA	475,608	356,964	246,913	190,123	131,375	120,208	120,208	120,208
Brokerage Client Payables	5,942,843	3,956,104	4,671,073	6,444,671	5,411,829	5,624,810	5,515,172	5,230,690	6,322,313	8,221,654	8,687,654
Payables to Brokers, Dealers and Clearing Organizations	109,611	216,530	164,054	306,119	172,714	205,952	220,607	225,370	227,266	215,659	194,386
Accrued Compensation, Commissions and Benefits	NA	NA	NA	898,185	1,059,996	1,189,485	1,275,149	1,328,473	1,321,885	1,257,347	1,136,576
Other Payables	NA	NA	NA	556,532	567,045	458,884	551,517	636,780	682,264	692,350	683,299
Other Borrowings	84,076	696,718	703,065	608,658	1,514,012	899,059	539,435	242,746	145,648	145,648	145,648
Senior Notes Payable	1,194,508	1,149,034	1,137,570	1,680,587	1,548,839	1,549,636	1,425,665	1,311,612	1,206,683	1,206,683	1,206,683
Total Liabilities	19,187,785	18,892,396	21,681,934	26,424,000	29,190,105	30,960,578	32,643,531	32,989,685	32,216,717	29,749,911	26,973,870
Equity:											
Common Equity	3,662,924	4,141,236	4,522,031	4,916,545	5,581,713	6,368,461	6,690,498	7,062,675	7,407,740	7,703,509	7,805,238
Noncontrolling Interests	335,413	292,020	264,067	146,431	111,638	83,885	67,581	71,340	74,826	77,813	78,841
Total Equity	**3,998,337**	**4,433,256**	**4,786,098**	**5,062,976**	**5,693,351**	**6,452,346**	**6,758,078**	**7,134,015**	**7,482,565**	**7,781,322**	**7,884,079**
Total Liabilities and Equity	**23,186,122**	**23,325,652**	**26,468,032**	**31,486,976**	**34,883,456**	**37,412,924**	**39,401,609**	**40,123,700**	**39,699,282**	**37,531,234**	**34,857,949**

Table 1: PCG Growth Metrics

	FY2019P	FY2020P	FY2021P	FY2022P	FY2023P
Assets Under Administration ($bn)	835.8	903.5	971.2	1014.1	1039.3
YoY Growth	*10.6%*	*8.1%*	*7.5%*	*4.4%*	*2.5%*
Net Revenue per $ Under Management ($ pc)	0.0067	0.0066	0.0065	0.0064	0.0062
YoY Growth	*(0.6%)*	*(1.5%)*	*(1.5%)*	*(1.5%)*	*(3.1%)*
Number of Financial Advisors	8,229	8,637	9,284	9,994	10,782
YoY Growth	*5.3%*	*5.0%*	*7.5%*	*7.6%*	*7.9%*
Average Assets per Financial Advisor ($m)	101.6	104.6	104.6	101.5	96.4
YoY Growth	*5.0%*	*3.0%*	*0.0%*	*(3.0%)*	*(5.0%)*
In-House Advisors	3,258	3,368	3,488	3,618	3,768
YoY Growth	*2.9%*	*3.4%*	*3.6%*	*3.7%*	*4.1%*
% of Total Employees	*39.6%*	*39.0%*	*37.6%*	*36.2%*	*34.9%*
Independent Financial Advisors	4,971	5,269	5,796	6,376	7,014
YoY Growth	*7.0%*	*6.0%*	*10.0%*	*10.0%*	*10.0%*
% of Total Employees	*60.4%*	*61.0%*	*62.4%*	*63.8%*	*65.1%*

Source: Company Reports and Analyst Estimates

Table 2: AMS Growth Metrics

	FY2019P	FY2020P	FY2021P	FY2022P	FY2023P
Assets Under Management ($bn)	412.8	464.8	519.8	536.8	543.8
YoY Growth	*17.0%*	*12.6%*	*11.8%*	*3.3%*	*1.3%*
Managed Programs AuM ($bn)	159.6	169.6	198.6	199.6	195.6
YoY Growth	*8.9%*	*6.3%*	*17.1%*	*0.5%*	*(2.0%)*
% of AuM	*38.7%*	*36.5%*	*38.2%*	*37.2%*	*36.0%*
Net Inflows ($bn)	5.0	4.0	25.0	3.0	1.0
Net Market Appreciation ($bn)	8.0	6.0	4.0	(2.0)	(5.0)
Non-Discretionary AuM ($bn)	245.1	285.1	310.1	325.1	335.1
YoY Growth	*22.5%*	*16.3%*	*8.8%*	*4.8%*	*3.1%*
% of AuM	*59.4%*	*61.3%*	*59.7%*	*60.6%*	*61.6%*
RJ Trust AuM ($bn)	8.1	10.1	11.1	12.1	13.1
YoY Growth	*33.1%*	*24.8%*	*10.0%*	*9.0%*	*8.3%*
% of AuM	*2.0%*	*2.2%*	*2.1%*	*2.2%*	*2.4%*
Managed Programs	13bp	13bp	13bp	12bp	12bp
Non-Discretionary Programs	3bp	3bp	3bp	2bp	2bp
RJ Trust Fees	3bp	3bp	2bp	2bp	1bp

Source: Company Reports and Analyst Estimates

Table 3: RJB Growth Metrics

	FY2019P	FY2020P	FY2021P	FY2022P	FY2023P
Net Interest Margin	3.4%	3.4%	3.4%	3.3%	3.3%
Average Loan Balance:					
Loans held for sale	138,567	145,495	145,495	138,221	124,399
C&I loans	8,380,844	8,799,886	8,799,886	8,359,892	7,523,903
CRE construction loans	182,358	191,476	191,476	181,902	163,712
CRE loans	3,554,506	3,732,231	3,732,231	3,545,620	3,191,058
Tax-exempt loans	1,261,142	1,324,199	1,324,199	1,257,989	1,132,190
Residential mortgage loans	3,792,481	3,982,105	3,982,105	3,783,000	3,404,700
SBL	2,958,573	3,106,502	3,106,502	2,951,177	2,656,059
Agency MBS and CMOs	3,280,119	4,480,846	6,121,114	8,361,822	11,422,767
Cash	1,291,365	1,641,807	2,087,348	2,653,798	3,373,966
FHLB stock	187,157	194,518	202,169	210,120	218,384
Average Yield:					
Loans held for sale	4.3%	4.5%	4.5%	4.0%	4.0%
C&I loans	4.5%	4.5%	4.5%	4.3%	4.0%
CRE construction loans	5.4%	5.4%	5.4%	5.2%	4.9%
CRE loans	4.4%	4.4%	4.4%	4.1%	3.9%
Tax-exempt loans	2.8%	2.8%	2.8%	2.6%	2.3%
Residential mortgage loans	3.4%	3.4%	3.4%	3.2%	2.9%
SBL	4.4%	4.4%	4.4%	4.1%	3.9%
Agency MBS and CMOs	2.3%	2.3%	2.3%	2.0%	1.8%
Cash	1.8%	1.8%	1.8%	1.6%	1.3%
FHLB stock	4.6%	4.6%	4.6%	4.3%	4.1%

Source: Company Reports and Analyst Estimates

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Report Recommendations

Buy	Expected total return (including expected capital gains and expected dividend yield) of more than 15% over a 12-month period.
Hold	Expected total return (including expected capital gains and expected dividend yield) between 0% and 15% over a 12-month period.
Sell	Expected negative total return (including expected capital gains and expected dividend yield) over a 12-month period.

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