Raymond James Financial, Inc.

Company Profile

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COMPANY OVERVIEW

Raymond James Financial (RJF) is a financial services group engaged in the provision of a range of financial services including underwriting, distribution, trading and brokerage of equity and debt securities, mutual funds and sale of other investment products. The group primarily operates in the US and Europe. It is headquartered in St Petersburg, Florida and employs about 7,200 people.

The group recorded revenues of $2,916.7 million during the financial year ended September 2010 (FY2010), an increase of 14.6% over 2009 (FY2009). The operating profit of the group was $356.1 million during FY2010, an increase of 50.7% over FY2009. The net profit was $228.3 million in FY2010, an increase of 49.4% over FY2009.

KEY FACTS

Head Office	Raymond James Financial, Inc. 880 Carillon Parkway St. Petersburg FL 33716 USA
Phone	1 727 567 1000
Fax	1 800 248 8863
Web Address	http://www.rjf.com
Revenue / turnover (USD Mn)	2,916.7
Financial Year End	September
Employees	7,200
New York Ticker	RJF

SWOT ANALYSIS

Raymond James Financial (RJF) is a holding company engaged in the provision of a range of financial services including underwriting, distribution, trading and brokerage of equity and debt securities, and the sale of mutual funds and other investment products. RJF is the largest full service brokerage in Florida and also one of the largest retail brokerage firms in North America. Raymond James Bank (RJB) has been a major contributor to RJF's profitability. However, increasing competition could affect the profitability of RJF.

Strengths	**Weaknesses**
Strong brokerage business in North America providing scale advantages Flexible cost base with independent contractor model Conservative financial profile with good liquidity and capital	Overdependence on the US market RJF's profitability linked to equity market dynamics
Opportunities	**Threats**
Acquisition of Howe Barnes Hoefer & Arnett, Inc could boost fees from WMS Demand for retirement products could boost AUM revenues Improving domestic economic prospects	Intense competition likely to keep margins under pressure Regulatory compliance costs may rise

Strengths

Strong brokerage business in North America providing scale advantages

Raymond James Financial's (RJF) principal subsidiary, Raymond James & Associates, Inc (RJA), is the largest full service brokerage (self-clearing broker-dealer) engaged in most aspects of securities distribution, trading, investment banking and asset management) and investment firm headquartered in the state of Florida and one of the largest retail brokerage firms in North America. More than 5,090 financial advisors are affiliated with the company as traditional employees, independent contractors, independent registered investment advisors, or employees in local banks or credit unions. RJA's Financial Advisors work in a traditional branch setting supported by local management and administrative staffs. The number of Financial Advisors per office ranges from one to 30. The number of financial advisors, and their skill set are expected to help RJF continue to increase its size profitably.

Flexible cost base with independent contractor model

RJF has demonstrated its flexible cost base over the years. During equity bull market phase, the company focuses on expanding revenues by aggressive recruitment of financial advisors, while during bear phases the company focuses on containing its costs. The number of financial advisors per office ranges from one to 30 at RJA while it ranges from one to 53 at Raymond James Financial Services (RJFS). RJF has significant flexibility to manage its cost base at RJFS as this subsidiary flows independent contractor model. RJF's flexible cost base allows it to manage its financial performance well both in good and bad times.

Conservative financial profile with good liquidity and capital

RJF's financial profile is relatively conservative with good liquidity and capital. The company's long term debt to total assets ratio (2.35%), and long term debt to equity ratio (18.22%), are favorable than the ratios at Ameriprise Financial, Inc (5.99%, and 73.21% respectively) and TD Ameritrade Holding Corporation (8.98%, and 35.08%). The company's liquidity position is also good. As of September 30, 2010, RJF had four committed domestic financing facilities available for borrowing in the aggregate amount of $360 million. In addition to the $287 million cash balance at the parent company on September 30, 2010, the company has various potential sources of liquidity such as liquidity available from subsidiaries, and a significant number of life insurance policies owned by the company. At the end of September 2010, RJF's equity capital increased to $2,708.2 million, compared to $2,403.2 million at end September 2009. Moreover, the principal subsidiaries of RJF maintained significant excess net capital (over and above the regulatory requirement). Conservative financial profile with good liquidity and capital enables the company to withstand adverse market developments and also seize market opportunities.

Weaknesses

Overdependence on the US market

Despite improved international revenues, the group still derives a majority of its revenues from its domestic US market. In FY2009, RJF derived around 89% of its total revenues from the US. This reflects the overdependence of the company on the US market. As a result, RJF is susceptible to a downturn in demand for its products from the US. Moreover, due overdependence on the US the company misses out attractive growth opportunities in the emerging markets like Latin America, Europe and Asia Pacific.

RJF's profitability linked to equity market dynamics

RJF's business divisions' profitability is highly correlated equity market dynamics, as its investments and asset mix have relatively higher exposure to equity markets. The company has eight business segments: Private Client Group (PCG); Capital Markets; Asset Management; RJBank; Emerging Markets; Stock Loan/Borrow; Proprietary Capital and certain corporate activities combined in the 'Other' segment. PCG division's commission and fees are generated through its direct and indirect exposure (mutual funds) to equities. Nearly 70% of Capital Markets division's commission and fees were generated from equity markets. Overall, the company's broker-dealer subsidiaries, primarily RJA, trade tax exempt and taxable debt obligations and act as an active market maker in approximately 678 listed and over-the-counter equity securities. Thus the company’s profitability is linked to equity market cycles.

Opportunities

Acquisition of Howe Barnes Hoefer & Arnett, Inc could boost fees from WMS

RJF announced in April 2011 that it completed the acquisition of Howe Barnes Hoefer & Arnett, Inc, (HBHA) which was announced in December 2010. HBHA is one of the nation’s leading middle-market full-service brokerage firms focusing on depository institutions, providing its clients with equity research, sales, trading, and investment banking services. In addition to its equity capital market activities, the company provides private wealth management solutions for over 4,500 clients totaling over $1.9 billion in assets under management. In addition to expanding RJF's wealth management services (WMS), HBHA, which specializes in servicing community banks and thrifts, should strengthen RJF's financial institutions presence within capital markets.

Demand for retirement products could boost AUM revenues

The demand for pension and retirement products in the US could increase in the short to medium term. With the aging of the baby boomer generation, the demand for pension and retirement products is witnessing a surge in many countries. According to the US Census Bureau, by 2030 the number of Americans aged 65 and older will more than double to 71 million, comprising approximately 20% of the US population. At September 30, 2010, the company had around $30 billion in net assets under management (AUM), including $15.6 billion managed by Eagle Asset Management, Inc. Given the potential of the retirement and pension market, RJF could see growth in its assets under management in the future.

Improving domestic economic prospects

Although the world economy is still suffering from the repercussions of the 2008-2009 financial crisis and resultant recession, as exemplified by recent aftershocks in Greece, Ireland, Portugal and Spain, the US recovery, led by corporate earnings and the stock market, continues. Estimates for GDP growth in 2011 and 2012 are being raised to the 3% range by some economists, which would create sufficient job growth to absorb new additions to the workforce, as well as begin to reduce unemployment slowly. Improving domestic economic prospects could drive up equity trading volumes, and also demand for other financial products.

Threats

Intense competition likely to keep margins under pressure

There are nearly 700 financial firms from around the world that compete in the US market to provide investment management services to fund investors. Nearly 60% of US fund and trust sponsors are independent fund advisers, and these sponsors manage more than half of investment company assets. Banks, insurance companies, securities broker-dealers, and non-US fund advisers are other types of sponsors in the US marketplace. Historically, low barriers to entry have attracted a large number of investment company sponsors to the fund marketplace in the US, and active competition among these sponsors has led to squeeze on margins (front-end and back end loads charged by mutual fund companies). These low barriers to entry led to a rapid increase in the number of fund sponsors in the 1980s and 1990s. However, this trend has reversed itself since 2000. About 387 fund advisers left the fund business from 2000 through 2009; at the same time, about 265 new firms entered. So, the competition in the industry continues to be intense and dynamic. As a result, margins are expected to be under pressure for investment funds.

Regulatory compliance costs may rise

The financial services industry in the US is subject to extensive regulation under federal and state laws. In 2010, the US government enacted financial services reform legislation known as the Dodd-Frank Wall Street Reform & Consumer Protection Act (Dodd-Frank Act). Under the new legislation, as a holding company of RJ Bank, RJF will become subject to the oversight of the Board of Governors of the Federal Reserve System (FRB). This change in RJF's regulator will become effective in mid-2011. Additionally, RJF's US broker-dealer subsidiaries are required by federal law to belong to Securities Investors Protection Corporation (SIPC). When the SIPC fund falls below a certain amount, members are required to pay annual assessments to replenish the reserves. In anticipation of inadequate SIPC fund levels during the current economic environment, certain of RJF's domestic broker-dealer subsidiaries will be required to pay 0.25% of net operating revenues, as defined by SIPC, as a special assessment. During fiscal year 2010, $3.1 million was incurred to satisfy this special assessment. SIPC assessment fund could increase in future. Regulatory compliance costs may rise in the coming years.