



Franklin Resources (BEN)

Updated October 27th, 2018 by Jonathan Weber

Key Metrics

Current Price:	\$29	5 Year CAGR Estimate:	14.6%	Volatility Percentile:	58.7%
Fair Value Price:	\$42	5 Year Growth Estimate:	3.8%	Momentum Percentile:	9.5%
% Fair Value:	69%	5 Year Valuation Multiple Estimate:	7.7%	Growth Percentile:	19.7%
Dividend Yield:	3.1%	5 Year Price Target	\$51	Valuation Percentile:	90.9%
Dividend Risk Score:	A	Retirement Suitability Score:	A	Total Return Percentile:	78.9%

Overview & Current Events

Franklin Resources is an asset manager with a long and successful history. The company, which is headquartered in San Mateo, CA, was founded in 1947 and is currently valued at \$15.5 billion.

Franklin Resources has reported its fourth quarter earnings results on October 25. The company recorded revenues of \$1.53 billion during the quarter, a decrease of 5.6% year over year. The revenue decline was based on a combination of slightly lower average assets under management (down 1% year over year), and a slightly lower average fee. Due to a margin decline Franklin Resources had to report a somewhat steeper cut in its operating income (down 14% year over year), but lower taxes and a lower share count allowed the company to grow its earnings-per-share by 26% year over year. Earnings-per-share rose to \$0.96 during the fourth quarter.

During fiscal 2018 Franklin Resources has grown its earnings-per-share from \$3.01 to \$3.37, which represents a solid growth rate of 12%. Without tax law changes Franklin Resources' results would not have been this strong, though.

In October Franklin Resources has announced that it would acquire alternative credit manager Benefit Street for an undisclosed sum. Benefit Street manages assets of \$26 billion.

Growth on a Per-Share Basis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
EPS	\$1.30	\$2.12	\$2.89	\$2.99	\$3.37	\$3.79	\$3.29	\$2.94	\$3.01	\$3.37	\$3.50	\$4.22
DPS	\$0.28	\$0.29	\$0.33	\$0.36	\$0.39	\$0.46	\$0.57	\$0.69	\$0.78	\$0.92	\$1.00	\$1.30
Shares	688	672	653	637	631	623	604	570	555	522	510	485

Overall, Franklin Resources grew its earnings-per-share by 4.3% annually over the last decade, which is not a particularly high growth rate. Profits fluctuated wildly, though, with earnings-per-share peaking in 2014.

The biggest growth segment in the asset management industry are ETFs, which have much lower expense ratios, on average, than actively managed funds. Franklin's actively managed funds have been performing well over the last decade, as 76% of the company's funds beat their peer group average, but the performance over the last year was not especially strong -- just 13% of Franklin's funds outperformed their peer group. That rather weak performance over the last year, coupled with the rise of passive investing via ETFs, will be a headwind going forward, and likely is a reason for the net outflows Franklin Resources has been experiencing lately. If Franklin Resources' funds can get back to their past performance levels, net flows might get positive again, but for now AUM growth depends on asset appreciation.

Franklin Resources' dividend was increased steadily over the last decade, partially due to an increase in the company's dividend payout ratio. The dividend payout ratio is still relatively low, though, at roughly 30%, which means that there is ample room for further dividend increases in coming years.

Valuation Analysis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	Now	2024
Avg. P/E	17.3	16.4	13.9	12.3	14.0	14.4	15.4	12.4	13.7	8.7	8.3	12.0
Avg. Yld.	1.2%	0.8%	0.8%	1.0%	0.8%	0.8%	1.1%	1.9%	1.9%	3.0	3.1%	2.3%

Disclosure: This analyst has no position in the security discussed in this research report, and no plans to initiate one in the next 72 hours.



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Franklin Resources' valuation has declined considerably over the last couple of years, as margin pressures in the asset management industry, coupled with worries about the rise of ETFs, have made the market worry about the outlook for Franklin Resources and its peers. It is likely that the valuation of Franklin Resources' shares will not expand to the mid-teens in the foreseeable future, but our fair value estimate is substantially higher than the current valuation.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
Debt/A	19.4%	27.9%	38.0%	37.6%	34.6%	29.2%	27.5%	25.8%	28.1%	34.2%	33.0%	31.0%
Int. Cov.	-	580	101	1597	78	90	107	190	-	-	-	-
Payout	21.5%	13.7%	11.4%	12.0%	11.6%	12.1%	17.3%	23.5%	25.9%	27.3%	28.6%	30.8%
Std. Dev.	54.2%	30.6%	39.3%	22.3%	22.6%	19.8%	21.9%	31.3%	16.9%	18.2%	19.0%	21.0%

Debt levels relative to all assets are low, and interest coverage is extraordinary. Due to the fact that a significant amount of the assets Franklin Resources holds consist of cash (and equivalents), the company generates a meaningful amount of interest and investment income. In some years, such as in 2018, that interest income is higher than the company's interest expenses, thus there is no net interest expense at all.

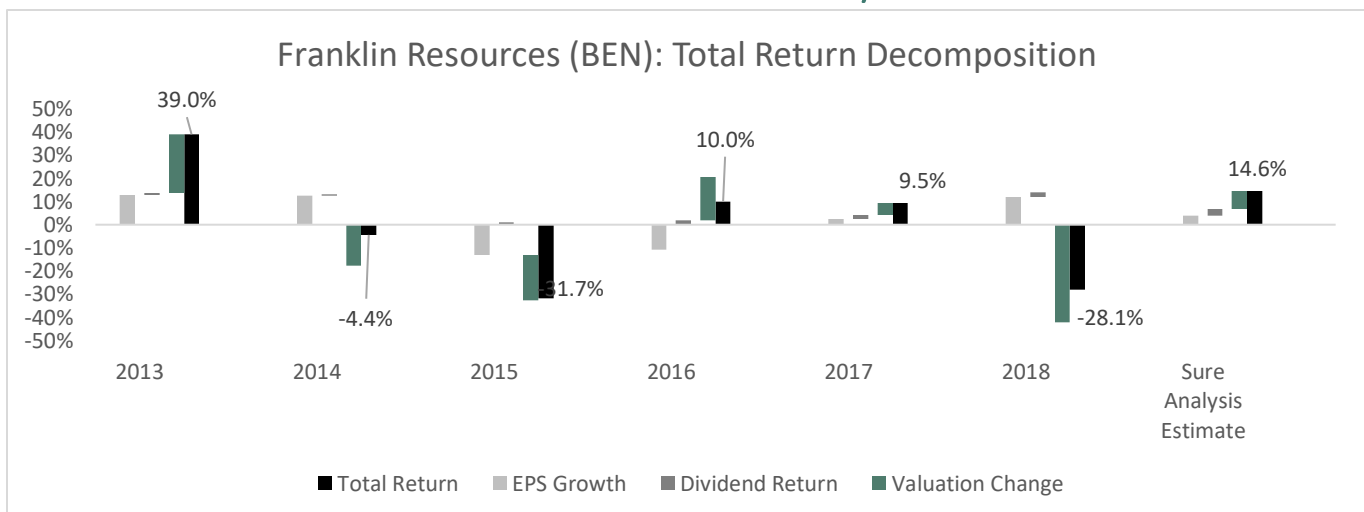
Like other financial corporations' stocks, Franklin Resources' stock was very volatile during the last financial crisis, even though the company was able to avoid any net losses. Earnings did decline by 40%, though. Relative to big banks Franklin Resources has been relatively recession resilient, but there are less cyclical companies in other industries.

Franklin Resources funds performed well over a longer time frame, which is a competitive advantage, but over the last year the performance of Franklin's funds has not been great. Investors should keep an eye on that in order to see whether Franklin Resources is losing its edge versus other asset managers.

Final Thoughts & Recommendation

Franklin Resources reported solid earnings growth during fiscal 2018, but that was primarily driven by lower tax expenses. The company's acquisition of Benefit Street bolsters its assets under management, but growth will likely be subdued going forward. Share repurchases will be a key factor for Franklin Resources' earnings-per-share growth during the coming years. Through an above-average dividend yield and some multiple expansion Franklin Resources could deliver solid total returns, which is why shares are a buy for those seeking exposure to the industry.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Revenue	6032	4194	5853	7140	7101	7985	8491	7949	6618	6392
Gross Profit	4095	2842	3570	3196	3106	3558	3935	3733	3047	2928
Gross Margin	67.9%	67.8%	61.0%	44.8%	43.7%	44.6%	46.3%	47.0%	46.0%	45.8%
SG&A Exp.	1626	1349	1316	363	408	446	498	481	474	444
D&A Exp.	215	181	267	88	82	94	95	97	87	80
Operating Profit	2099	1203	2089	2660	2515	2921	3221	3028	2366	2264
Operating Margin	34.8%	28.7%	35.7%	37.3%	35.4%	36.6%	37.9%	38.1%	35.7%	35.4%
Net Profit	1588	897	1446	1924	1931	2150	2384	2035	1727	1697
Net Margin	26.3%	21.4%	24.7%	26.9%	27.2%	26.9%	28.1%	25.6%	26.1%	26.5%
Free Cash Flow	1339	597	1594	1490	988	1974	2085	2183	1630	1061
Income Tax	648	384	618	803	763	856	998	924	742	759

Balance Sheet Metrics

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Total Assets	9177	9468	10708	13776	14752	15390	16357	16336	16099	17534
Cash & Equivalents	2315	2983	3985	5199	4491	6323	7596	8368	8483	8750
Accounts Receivable	N/A	N/A	N/A	773	850	1039	950	838	794	1002
Goodwill & Int. Ass.	2018	2005	2007	2148	2142	2359	2326	2257	2211	2228
Total Liabilities	2025	1769	2958	4653	4991	4705	4145	3840	3571	4598
Accounts Payable	520	394	547	266	242	274	238	232	233	292
Long-Term Debt	132	64	980	2201	2777	2295	2149	2155	2083	1098
Shareholder's Equity	7074	7632	7727	8525	9201	10073	11584	11841	11936	12620
D/E Ratio	0.02	0.01	0.13	0.26	0.30	0.23	0.19	0.18	0.17	0.09

Profitability & Per Share Metrics

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Return on Assets	16.6%	9.6%	14.3%	15.7%	13.5%	14.3%	15.0%	12.5%	10.6%	10.1%
Return on Equity	22.0%	12.2%	18.8%	23.7%	21.8%	22.3%	22.0%	17.4%	14.5%	13.8%
ROIC	20.8%	11.9%	17.5%	19.2%	16.2%	16.9%	17.4%	14.0%	11.8%	11.8%
Shares Out.	688	672	653	637	631	623	604	570	555	522
Revenue/Share	8.44	6.04	8.58	10.72	11.04	12.59	13.58	12.93	11.34	11.43
FCF/Share	1.87	0.86	2.34	2.24	1.54	3.11	3.33	3.55	2.79	1.90

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.

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