



# T. Rowe Price Group (TROW)

Updated October 25<sup>th</sup>, 2018 by Jonathan Weber

## Key Metrics

<b>Current Price:</b>	\$95	<b>5 Year CAGR Estimate:</b>	15.7%	<b>Volatility Percentile:</b>	50.5%
<b>Fair Value Price:</b>	\$129	<b>5 Year Growth Estimate:</b>	6.5%	<b>Momentum Percentile:</b>	53.4%
<b>% Fair Value:</b>	74%	<b>5 Year Valuation Multiple Estimate:</b>	6.2%	<b>Growth Percentile:</b>	58.3%
<b>Dividend Yield:</b>	3.0%	<b>5 Year Price Target</b>	\$176	<b>Valuation Percentile:</b>	86.0%
<b>Dividend Risk Score:</b>	A	<b>Retirement Suitability Score:</b>	B	<b>Total Return Percentile:</b>	85.1%

## Overview & Current Events

T. Rowe Price Group is one of the largest publicly-traded asset managers. The company has a market capitalization of \$23 billion and assets under management of more than \$1 trillion, as of the end of September 2018. T. Rowe price Group was founded in 1937 and is headquartered in Baltimore, MD.

T. Rowe Price Group reported its third quarter results on October 25. The company produced revenues of \$1.39 billion during Q3, an increase of 12.1% compared to the previous year's quarter. Operating leverage and the impact of a lower tax rate allowed T. Rowe Price Group to grow its earnings-per-share by a very attractive rate of 37% year over year. The company earned \$1.99 per share during Q3. Average assets under management grew by 15.6% year over year, and by 3.5% compared to the second quarter of fiscal 2018. Assets under management growth is the most important factor for rising revenues at T. Rowe. We have increased our estimates for the current year based on Q3's strong results.

## Growth on a Per-Share Basis

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2023
<b>EPS</b>	\$1.82	\$1.65	\$2.53	\$2.92	\$3.36	\$3.90	\$4.55	\$4.63	\$4.84	\$5.65	<b>\$7.15</b>	<b>\$9.79</b>
<b>DPS</b>	\$0.96	\$1.00	\$1.08	\$1.24	\$1.36	\$1.52	\$1.76	\$2.08	\$2.16	\$2.28	<b>\$2.80</b>	<b>\$3.85</b>
<b>Shares</b>	257	259	259	253	257	262	261	250	245	245	<b>241</b>	<b>230</b>

T. Rowe's earnings, as well as its dividends, have grown substantially over the last decade. During the last financial crisis, T. Rowe's earnings declined slightly, but the company remained highly profitable. Most of the other financial corporations were impacted to a larger degree than T. Rowe Price Group during the financial crisis.

Asset managers like T. Rowe have low variable costs. Because of this, higher revenues, driven primarily by increasing assets under management, allow for margin expansion and attractive earnings growth rates. Most of T. Rowe's funds perform significantly better than other funds. More than 80% of T. Rowe's funds outperformed the respective Lipper average over the last three, five and ten years. This strong performance of T. Rowe's funds is a key selling point and should attract customers going forward. T. Rowe should therefore be able to get inflows from new investors, and the company will also benefit from rising share prices, as this leads to increasing assets under management as well.

The advance of ETFs, where other asset managers such as Blackrock are much better positioned, will lead to somewhat lower growth rates for T. Rowe Price Group going forward, but the company should still be able to increase its profits substantially through 2023. The tremendous earnings growth rate during 2018 will not be sustainable in the long run.

T. Rowe Price Group has regularly increased its dividend. Its most recent dividend increase was a 23% hike.

## Valuation Analysis

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	Now	2023
<b>Avg. P/E</b>	27.6	24.2	20.8	20.2	18.5	19.3	17.9	16.7	14.7	13.1	<b>13.3</b>	<b>18.0</b>
<b>Avg. Yld.</b>	2.4%	2.5%	2.1%	2.1%	2.2%	2.0%	2.2%	2.7%	3.0%	2.8%	<b>3.0%</b>	<b>2.6%</b>

T. Rowe Price Group has been valued at a relatively high valuation about ten years ago, but price to earnings multiple has declined over the following years. Right now shares are valued at 13.3 times this year's earnings, which is a relatively

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low valuation compared to how shares used to be valued. T. Rowe's multiples could expand significantly over the coming years. The company offers a dividend yield of 3.0% right here, which is about one and a half times the broad market's dividend yield. In combination with a high dividend growth rate this is attractive for income seekers.

## Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2023
<b>GP/A</b>	71.3%	55.1%	60.7%	72.9%	66.7%	64.2%	65.4%	76.1%	62.9%	59.1%	<b>63.0%</b>	<b>65.0%</b>
<b>Debt/A</b>	11.7%	10.2%	9.5%	9.3%	8.6%	4.3%	4.4%	6.7%	19.6%	22.7%	<b>23.0%</b>	<b>24.0%</b>
<b>Payout</b>	52.7%	60.6%	42.7%	42.5%	40.5%	39.0%	38.7%	44.9%	44.6%	40.4%	<b>39.2%</b>	<b>39.3%</b>
<b>Std. Dev.</b>	76.4%	64.7%	31.3%	41.7%	21.2%	20.0%	17.5%	19.0%	22.5%	17.2%	<b>18.0%</b>	<b>21.0%</b>

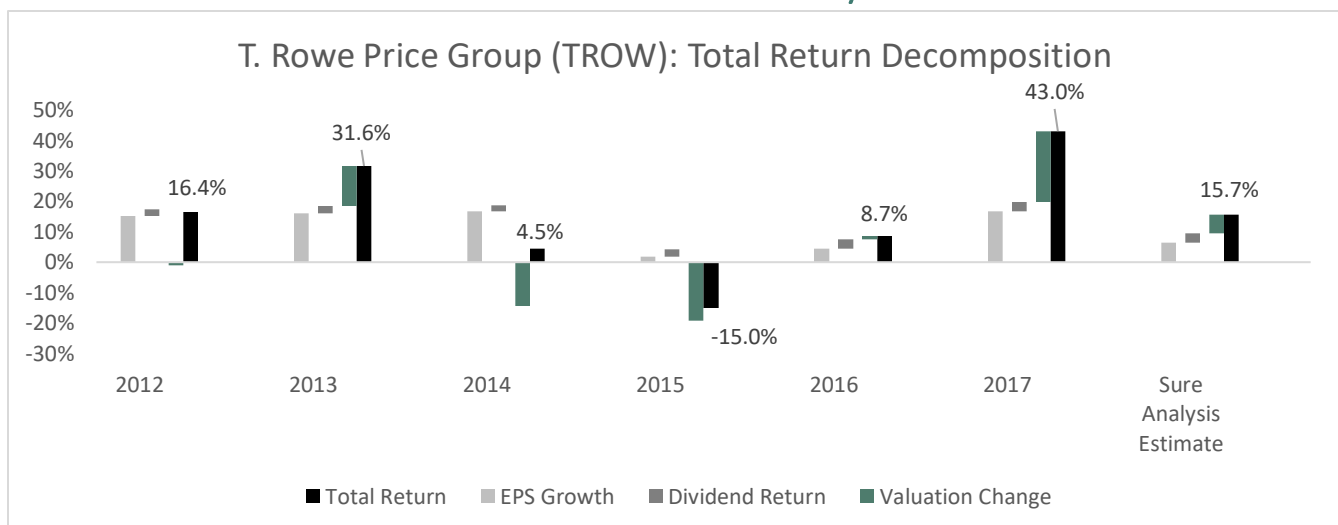
T. Rowe Price Group operates an asset-light business, which shows in the high gross profit to asset ratio. Since T. Rowe does not require much in the way of total assets, the company doesn't need a lot of debt to finance its operations, either. The result is a low debt to asset ratio. Due to the fact that T. Rowe's cash balance is substantially bigger than its total liabilities, the company earns more interest income than it pays in interest expenses. This means T. Rowe may actually benefit from interest rate increases.

T. Rowe's strong relative performance of its funds drives investors to purchase the company's funds, or continue holding them. Superior research leads to better returns versus peers, which makes up a good portion of T. Rowe's favorable competitive position. During the last financial crisis shares of T. Rowe were sold off along with the shares of more or less every other financial corporation, but unlike many banks & insurers, T. Rowe remained highly profitable. In the long run, investors have seen very compelling returns if they held shares of the company through the last financial crisis. The combination of these factors makes T. Rowe a relatively safe investment.

## Final Thoughts & Recommendation

T. Rowe Price Group is an asset manager that has been growing at a highly compelling pace. Its funds perform better than those of most of its peers, which is why customers tend to stick with T. Rowe. The rise of ETFs could lead to somewhat lower growth rates for T. Rowe going forward, though. Through a combination of solid earnings growth, an above-average dividend yield, and a valuation that allows for considerable multiple expansion T. Rowe could still deliver compelling total returns going forward. We rate T. Rowe Price Group a buy at current prices.

## Total Return Breakdown by Year



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## Income Statement Metrics

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
<b>Revenue</b>	2116	1867	2364	2747	3023	3484	3982	4201	4223	4793
<b>Gross Profit</b>	2015	1765	1461	1703	1879	2210	2509	2606	2587	2981
<b>Gross Margin</b>	95.2%	94.5%	61.8%	62.0%	62.2%	63.4%	63.0%	62.0%	61.3%	62.2%
<b>SG&amp;A Exp.</b>	920	847	87	91	89	87	76	80	80	92
<b>D&amp;A Exp.</b>	62	66	63	72	81	91	112	126	133	144
<b>Operating Profit</b>	849	702	1034	1227	1364	1637	1891	1899	1733	2109
<b>Operating Margin</b>	40.1%	37.6%	43.7%	44.7%	45.1%	47.0%	47.5%	45.2%	41.0%	44.0%
<b>Net Profit</b>	491	434	672	773	884	1048	1230	1223	1215	1498
<b>Net Margin</b>	23.2%	23.2%	28.4%	28.1%	29.2%	30.1%	30.9%	29.1%	28.8%	31.2%
<b>Free Cash Flow</b>	598	402	615	866	826	1127	1218	1379	22	43
<b>Income Tax</b>	305	255	398	477	552	653	774	779	707	924

## Balance Sheet Metrics

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
<b>Total Assets</b>	2819	3210	3642	3770	4203	5033	5644	5107	6225	7535
<b>Cash &amp; Equivalents</b>	619	743	813	898	879	1398	1506	1172	1205	1903
<b>Accounts Receivable</b>	177	246	308	305	354	399	443	446	455	557
<b>Goodwill &amp; Int. Ass.</b>	666	666	666	666	666	666	666	666	666	666
<b>Total Liabilities</b>	331	328	346	350	357	215	249	345	1216	1710
<b>Accounts Payable</b>	87	80	79	83	90	104	143	171	181	216
<b>Long-Term Debt</b>	0	0	0	0	0	0	0	0	0	0
<b>Shareholder's Equity</b>	2489	2882	3297	3421	3846	4818	5395	4762	5009	5824
<b>D/E Ratio</b>	0	0	0	0	0	0	0	0	0	0

## Profitability & Per Share Metrics

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
<b>Return on Assets</b>	16.4%	14.4%	19.6%	20.9%	22.2%	22.7%	23.0%	22.8%	21.4%	21.8%
<b>Return on Equity</b>	18.6%	16.1%	21.8%	23.0%	24.3%	24.2%	24.1%	24.1%	24.9%	27.7%
<b>ROIC</b>	18.6%	16.1%	21.8%	23.0%	24.3%	24.2%	24.1%	24.1%	24.9%	27.7%
<b>Shares Out.</b>	257	259	259	253	257	262	261	250	245	245
<b>Revenue/Share</b>	7.84	7.12	8.92	10.43	11.58	13.08	14.89	16.10	16.87	19.56
<b>FCF/Share</b>	2.21	1.53	2.32	3.29	3.16	4.23	4.55	5.29	0.09	0.18

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

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