



# Franklin Resources (BEN)

Updated January 31<sup>st</sup>, 2019 by Jonathan Weber

## Key Metrics

<b>Current Price:</b>	\$29	<b>5 Year CAGR Estimate:</b>	8.4%	<b>Volatility Percentile:</b>	51.1%
<b>Fair Value Price:</b>	\$31	<b>5 Year Growth Estimate:</b>	3.8%	<b>Momentum Percentile:</b>	16.4%
<b>% Fair Value:</b>	94%	<b>5 Year Valuation Multiple Estimate:</b>	1.0%	<b>Growth Percentile:</b>	21.5%
<b>Dividend Yield:</b>	3.6%	<b>5 Year Price Target</b>	\$37	<b>Valuation Percentile:</b>	57.6%
<b>Dividend Risk Score:</b>	A	<b>Retirement Suitability Score:</b>	A	<b>Total Return Percentile:</b>	41.5%

## Overview & Current Events

Franklin Resources is an asset manager with a long and successful history. The company offers investment management and related services to its customers. Franklin Resources, which is headquartered in San Mateo, CA, was founded in 1947. Franklin Resources currently trades with a market capitalization \$14.9 billion.

Franklin Resources has reported its first quarter (fiscal 2019) earnings results on January 30. The company generated revenues of \$1.41 billion during Q1, which represents a decline of 13% compared to the prior year's quarter. This steep revenue drop was based on a hefty decline in Franklin Resources' assets under management compared to the prior year's period. Average assets under management totaled \$683 billion during the first quarter of fiscal 2019, which represents a noticeable decrease versus average assets under management of \$753 billion during the prior year's period. Ending assets under management were even worse. Those totaled \$650 billion at the end of the most recent quarter. The decline in Franklin Resources' assets under management can be explained by a combination of net outflows and net market change. Negative net flows are an item Franklin Resources has faced for several quarters in a row, but the market losses during the most recent quarter were unusually high during the equity market rout towards the end of calendar year 2018. It seems likely that market losses will not be such a big factor going forward, which should help stabilize the assets under management trend.

Franklin Resources generated earnings-per-share of \$0.54 during the first quarter, which was 39% less than the company's earnings-per-share during the prior year's period. The combination of lower revenues and negative operating leverage has hurt the company's profitability substantially.

## Growth on a Per-Share Basis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
<b>EPS</b>	\$1.30	\$2.12	\$2.89	\$2.99	\$3.37	\$3.79	\$3.29	\$2.94	\$3.01	\$3.37	<b>\$2.55</b>	<b>\$3.07</b>
<b>DPS</b>	\$0.28	\$0.29	\$0.33	\$0.36	\$0.39	\$0.46	\$0.57	\$0.69	\$0.78	\$0.95	<b>\$1.00</b>	<b>\$1.30</b>
<b>Shares</b>	688	672	653	637	631	623	604	570	555	522	<b>510</b>	<b>485</b>

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 on top of that, and earnings-per-share peaked 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 a majority of the company's funds beat their peer group average. During the most recent quarter, which was quite rough for global equity markets, 63% of Franklin's funds outperformed their peer group. Investors nevertheless drew money from Franklin Resources' funds, most likely due to becoming more wary about equity investments in general. It is unlikely that the conditions during the most recent quarter will persist, but the rise of ETF investing nevertheless is a problem for Franklin Resources. The lower assets under management base at the beginning of the current fiscal year will result in relatively weak profits during the current fiscal year. When we assume that equity markets will not continue to decline in the long run, which would be positive for Franklin Resources' assets under

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management, the company should be able to generate some growth going forward, with share repurchases being another factor for rising earnings-per-share throughout the next couple of 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	11.4	12.0
Avg. Yld.	1.2%	0.8%	0.8%	1.0%	0.8%	0.8%	1.1%	1.9%	1.9%	3.0	3.6%	3.4%

Franklin Resources trades at eleven and a half times this year's forecasted net profits, which is a relatively low valuation compared to how shares were valued in the past. Franklin Resources' weak assets under management performance and the ETF headwinds make us believe that Franklin Resources should not be trading at a mid-teens ratio, which is the long-term median. We see a fair valuation at a 12 times earnings multiple, which is relatively on par with the current level.

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

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
Payout	21.5%	13.7%	11.4%	12.0%	11.6%	12.1%	17.3%	23.5%	25.9%	27.3%	39.2%	42.3%

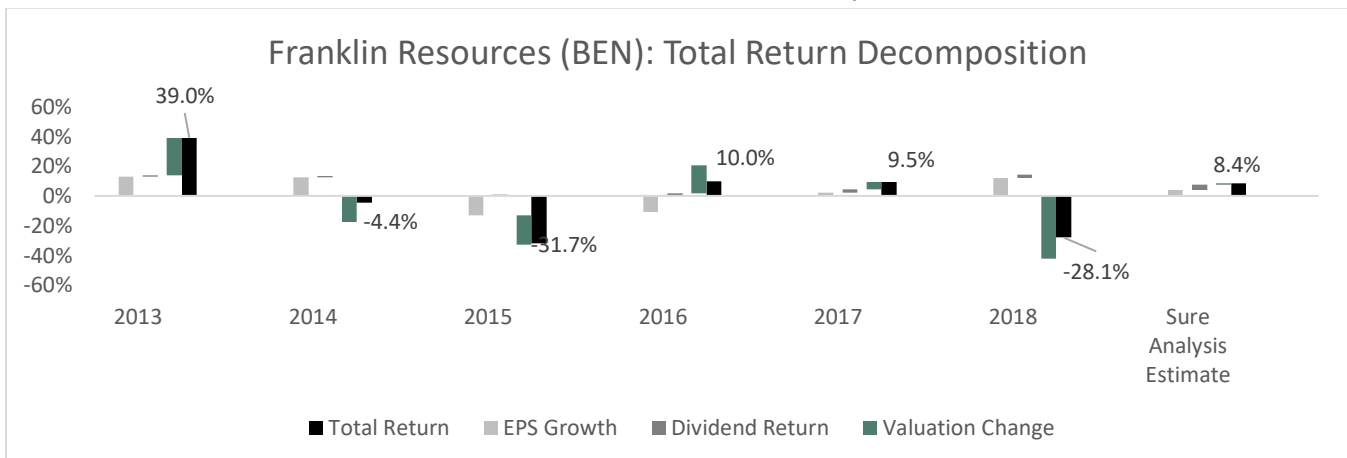
Franklin Resources' dividend payout ratio has never been especially high, but the company has increased the portion of its profits that are paid out to investors steadily over the last couple of years. During the last financial crisis Franklin Resources did not have any problems to maintain its dividend, and we believe that the dividend is safe going forward.

Franklin Resources funds performed well over a longer time frame, which is a competitive advantage, even though the performance was not outstanding during every single year. During the most recent quarter the majority of Franklin Resources' assets under management outperformed their peers again. The fact that Franklin Resources does not own any meaningful ETF business is a headwind for the company, as its competitors are better positioned in this growth market. Franklin Resources remained highly profitable during the last financial crisis.

## Final Thoughts & Recommendation

Franklin Resources is a classic asset manager. The most recent quarter was not great at all, and it looks like 2019 will not be a very strong year for the company. Franklin Resources should be able to grow from a lower base, though, and the company offers an above-average dividend yield with a dividend payout ratio that is not high at all. We rate Franklin Resources a hold at the current level, as we believe that there are more attractive asset managers available today.

## Total Return Breakdown by Year



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## Income Statement Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
<b>Revenue</b>	4194	5853	7140	7101	7985	8491	7949	6618	6392	6319
<b>Gross Profit</b>	2842	3570	3196	3106	3558	3935	3733	3047	2928	2889
<b>Gross Margin</b>	67.8%	61.0%	44.8%	43.7%	44.6%	46.3%	47.0%	46.0%	45.8%	45.7%
<b>SG&amp;A Exp.</b>	1349	1316	363	408	446	498	481	474	444	526
<b>D&amp;A Exp.</b>	181	267	88	82	94	95	97	87	80	76
<b>Operating Profit</b>	1203	2089	2660	2515	2921	3221	3028	2366	2264	2119
<b>Operating Margin</b>	28.7%	35.7%	37.3%	35.4%	36.6%	37.9%	38.1%	35.7%	35.4%	33.5%
<b>Net Profit</b>	897	1446	1924	1931	2150	2384	2035	1727	1697	764
<b>Net Margin</b>	21.4%	24.7%	26.9%	27.2%	26.9%	28.1%	25.6%	26.1%	26.5%	12.1%
<b>Free Cash Flow</b>	597	1594	1490	988	1974	2085	2183	1630	1061	2123
<b>Income Tax</b>	384	618	803	763	856	998	924	742	759	1473

## Balance Sheet Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
<b>Total Assets</b>	9468	10708	13776	14752	15390	16357	16336	16099	17534	14384
<b>Cash &amp; Equivalents</b>	2983	3985	5199	4491	6323	7596	8368	8483	8750	6911
<b>Accounts Receivable</b>	N/A	N/A	773	850	1039	950	838	794	1002	848
<b>Goodwill &amp; Int. Ass.</b>	2005	2007	2148	2142	2359	2326	2257	2211	2228	2333
<b>Total Liabilities</b>	1769	2958	4653	4991	4705	4145	3840	3571	4598	4176
<b>Accounts Payable</b>	394	547	266	242	274	238	232	233	292	227
<b>Long-Term Debt</b>	64	980	2201	2777	2295	2149	2155	2083	1098	729
<b>Shareholder's Equity</b>	7632	7727	8525	9201	10073	11584	11841	11936	12620	9899
<b>D/E Ratio</b>	0.01	0.13	0.26	0.30	0.23	0.19	0.18	0.17	0.09	0.07

## Profitability & Per Share Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
<b>Return on Assets</b>	9.6%	14.3%	15.7%	13.5%	14.3%	15.0%	12.5%	10.6%	10.1%	4.8%
<b>Return on Equity</b>	12.2%	18.8%	23.7%	21.8%	22.3%	22.0%	17.4%	14.5%	13.8%	6.8%
<b>ROIC</b>	11.9%	17.5%	19.2%	16.2%	16.9%	17.4%	14.0%	11.8%	11.8%	6.1%
<b>Shares Out.</b>	688	672	653	637	631	623	604	570	555	522
<b>Revenue/Share</b>	6.04	8.58	10.72	11.04	12.59	13.58	12.93	11.34	11.43	11.75
<b>FCF/Share</b>	0.86	2.34	2.24	1.54	3.11	3.33	3.55	2.79	1.90	3.95

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

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