Franklin Resources (BEN)

Updated May 9th, 2019 by Jonathan Weber

Key Metrics

Current Price:	$33	**5 Year CAGR Estimate:**	5.5%	**Volatility Percentile:**	44.1%
Fair Value Price:	$31	**5 Year Growth Estimate:**	3.8%	**Momentum Percentile:**	49.3%
% Fair Value:	106%	**5 Year Valuation Multiple Estimate:**	-1.4%	**Growth Percentile:**	22.5%
Dividend Yield:	3.1%	**5 Year Price Target**	$37	**Valuation Percentile:**	36.8%
Dividend Risk Score:	A	**Retirement Suitability Score:**	A	**Total Return Percentile:**	22.7%

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 $17.2 billion.

Franklin Resources reported its second quarter (fiscal 2019) earnings results on April 26. The company generated revenues of $1.43 billion during Q2, which represents a decline of 12% 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 $689 billion during the second quarter of fiscal 2019, which represents a noticeable decrease versus average assets under management of $752 billion during the prior year's period. Ending assets under management were better, though, at $712 billion, mainly thanks to the ongoing recovery of equity markets during the first three months of calendar year 2019. 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, which totaled $6.3 billion during the most recent quarter. This was an improvement versus even bigger outflows in recent quarters.

Franklin Resources generated earnings-per-share of $0.72 during the second quarter, which was 8% 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, but share repurchases were a tailwind for earnings-per-share.

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	***$2.55***	***$3.07***
DPS	$0.28	$0.29	$0.33	$0.36	$0.39	$0.46	$0.57	$0.69	$0.78	$0.95	***$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 on top of that, and earnings-per-share peaked in 2014.

The biggest growth segment in the asset management industry is 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. This serves as an advantage versus other asset managers, as this means it is more likely that investors will choose to invest through Franklin Resources.

Investors nevertheless withdrew 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 quarters will persist, but the rise of ETF investing nevertheless is a problem for Franklin Resources. The lower assets under management base during H1 of the current fiscal year will result in relatively weak profits during 2019. We assume that equity markets will not continue to decline in the long run, which would be positive for Franklin Resources' assets under 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.

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.

Franklin Resources (BEN)

Updated May 9th, 2019 by Jonathan Weber

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	***12.9***	***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%***	***3.4%***

Franklin Resources trades at roughly 13 times this year's forecasted net profits, which is not a high 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 slightly below 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%***

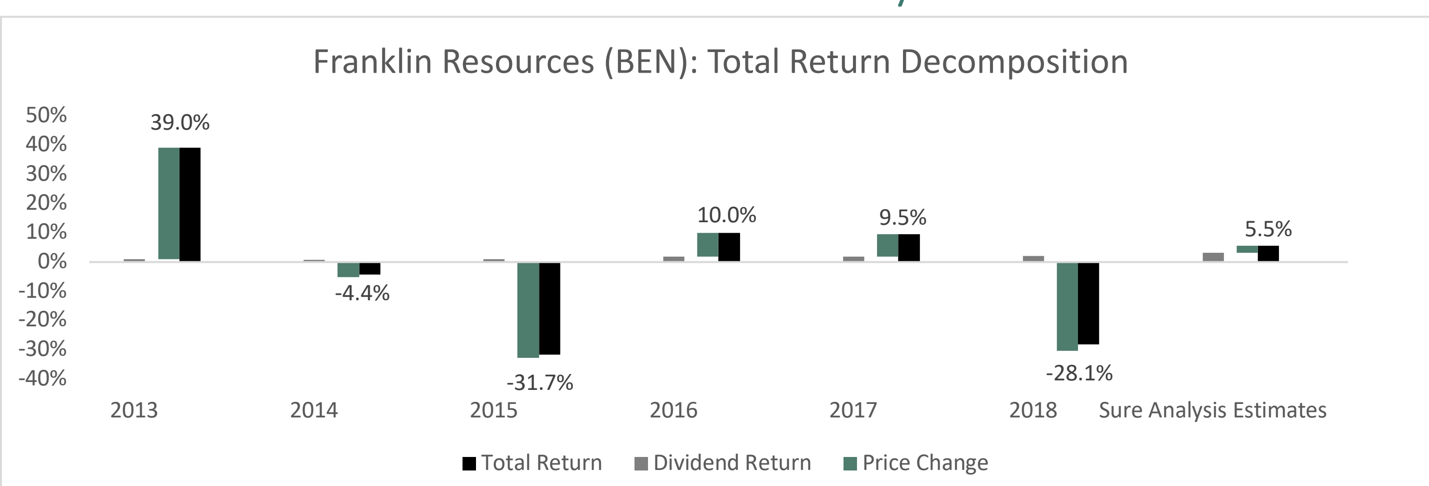
Franklin Resources' dividend payout ratio has never been especially high, but the company has increased the portion of its profits that are paid out to investors steadily over the last couple of years. During the last financial crisis, Franklin Resources did not have any problems maintaining its dividend, 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. Even during the equity market turmoil during the last two quarters, the majority of Franklin Resources' funds outperformed their peers. 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, which is why we believe that the company's stock is not overly vulnerable to recessions.

Final Thoughts & Recommendation

Franklin Resources is a classic asset manager that has to battle the rise of ETF investing, which has been responsible for customers moving money from actively managed funds to ETFs of competitors. 2019 looks like it will be a down year, but Franklin Resources should be able to grow from a lower base, and the company offers an above-average dividend yield with a dividend payout ratio that is not high. Due to the fact that shares are trading above our fair value estimate, which is a headwind for total returns, we rate Franklin Resources a sell at the current price.

Total Return Breakdown by Year



[Click here to rate and review this research report. Your feedback is important to us.]

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.

Franklin Resources (BEN)

Updated May 9th, 2019 by Jonathan Weber

Income Statement Metrics

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

Balance Sheet Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Total Assets	9468	10708	13776	14752	15390	16357	16336	16099	17534	14384
Cash & Equivalents	2983	3985	5199	4491	6323	7596	8368	8483	8750	6911
Accounts Receivable	N/A	N/A	773	850	1039	950	838	794	1002	848
Goodwill & Int. Ass.	2005	2007	2148	2142	2359	2326	2257	2211	2228	2333
Total Liabilities	1769	2958	4653	4991	4705	4145	3840	3571	4598	4176
Accounts Payable	394	547	266	242	274	238	232	233	292	227
Long-Term Debt	64	980	2201	2777	2295	2149	2155	2083	1098	729
Shareholder's Equity	7632	7727	8525	9201	10073	11584	11841	11936	12620	9899
D/E Ratio	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
Return on Assets	9.6%	14.3%	15.7%	13.5%	14.3%	15.0%	12.5%	10.6%	10.1%	4.8%
Return on Equity	12.2%	18.8%	23.7%	21.8%	22.3%	22.0%	17.4%	14.5%	13.8%	6.8%
ROIC	11.9%	17.5%	19.2%	16.2%	16.9%	17.4%	14.0%	11.8%	11.8%	6.1%
Shares Out.	688	672	653	637	631	623	604	570	555	522
Revenue/Share	6.04	8.58	10.72	11.04	12.59	13.58	12.93	11.34	11.43	11.75
FCF/Share	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.