



# Franklin Resources (BEN)

Updated October 27<sup>th</sup>, 2020 by Eli Inkrot

## Key Metrics

<b>Current Price:</b>	\$20	<b>5 Year CAGR Estimate:</b>	13.1%	<b>Market Cap:</b>	\$9 B
<b>Fair Value Price:</b>	\$25	<b>5 Year Growth Estimate:</b>	4.0%	<b>Ex-Dividend Date<sup>1</sup>:</b>	12/30/20
<b>% Fair Value:</b>	79%	<b>5 Year Valuation Multiple Estimate:</b>	4.8%	<b>Dividend Payment Date<sup>1</sup>:</b>	01/10/21
<b>Dividend Yield:</b>	5.5%	<b>5 Year Price Target</b>	\$30	<b>Years Of Dividend Growth:</b>	40
<b>Dividend Risk Score:</b>	A	<b>Retirement Suitability Score:</b>	A	<b>Last Dividend Increase:</b>	3.8%

## Overview & Current Events

Franklin Resources, founded in 1947 and headquartered in San Mateo, CA, is a global asset manager with a long and successful history. The company offers investment management (which makes up the bulk of fees the company collects) and related services to its customers, including sales, distribution, and shareholder servicing. As of September 30<sup>th</sup>, 2020, assets under management (AUM) totaled \$1.42 trillion for the \$9 billion market cap company.

On February 18<sup>th</sup>, 2020 Franklin Resources announced that it had entered into a definitive agreement to acquire Legg Mason (ticker: LM) for \$4.5 billion in cash, to go along with the assumption of \$2 billion in debt. When announced, the deal would create a combined \$1.5 trillion asset manager. On July 17<sup>th</sup>, 2020 Franklin Resources announced that all of the conditions of the merger had been satisfied and the transaction closed on July 31<sup>st</sup>, 2020.

On October 27<sup>th</sup>, 2020 Franklin Resources reported Q4 and full year fiscal 2020 results for the period ending September 30<sup>th</sup>, 2020. Total assets under management equaled \$1.419 trillion, a 105% increase from last quarter, driven by a \$797.4 billion gain from the Legg Mason acquisition, a positive \$22.4 billion change net market value and -\$23.7 billion of net outflows. Negative net flows are an item Franklin Resources has faced for several quarters in a row.

For the quarter, Operating Revenue totaled \$1.705 billion. This figure represented 0.14% of average AUM or ~56 basis points on an annualized basis. On an adjusted basis net income equaled \$291 million or \$0.56 per share versus \$358.4 million or \$0.71 per share.

For the year, Franklin Resources generated Operating Revenue of \$5.57 billion compared to \$5.67 billion in fiscal year 2019. This figure represented 0.67% of average AUM for the year. Adjusted net income totaled \$1.311 billion or \$2.61 per share versus \$1.331 billion or \$2.62 per share prior.

## Growth on a Per-Share Basis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
<b>EPS</b>	\$2.89	\$2.99	\$3.37	\$3.79	\$3.29	\$2.94	\$3.01	\$3.38	\$2.62	\$2.61	<b>\$2.50</b>	<b>\$3.04</b>
<b>DPS</b>	\$0.33	\$0.36	\$0.39	\$0.46	\$0.57	\$0.69	\$0.78	\$0.89	\$1.01	\$1.07	<b>\$1.08</b>	<b>\$1.31</b>
<b>Shares<sup>2</sup></b>	653	637	631	623	604	570	555	519	499	492	<b>480</b>	<b>460</b>

During the 2007 - 2018 period, Franklin Resources grew earnings-per-share by a compound rate of 3.3% per annum. The biggest growth segment in the asset management industry is ETFs, which have much lower expense ratios than actively managed funds. Franklin's actively managed funds have performed well, which serves as an advantage versus other active asset managers; however, low-cost passive funds are the true competition. The "race to the bottom" as it relates to fees, is good for investors but not asset managers. We expect assets under management to stabilize somewhat as rising asset prices offset net outflows. However, if Franklin Resources has to keep lowering its management fees, stable AUM will still lead to declining net income, all else equal.

A counterpoint to this notion is that Franklin Resources had a solid balance sheet, allowing the company to repurchase significant blocks of stock and work towards a solution in the changing asset management industry. Most recently this

<sup>1</sup> Estimate

<sup>2</sup> In millions.

Disclosure: This analyst is long the security discussed in this research report.



# Franklin Resources (BEN)

Updated October 27<sup>th</sup>, 2020 by Eli Inkrot

balance sheet flexibility was showcased with the takeover of Legg Mason in an all-cash deal. While this does not change the company's long-term problem, there are opportunities available in the way of synergies and complementary product offerings. We are forecasting \$2.50 earnings-per-share and 4% intermediate-term growth.

## Valuation Analysis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Now	2026
Avg. P/E	13.9	12.3	14.0	14.4	15.4	12.4	13.7	11.1	12.6	8.1	7.9	10.0
Avg. Yld.	0.8%	1.0%	0.8%	0.8%	1.1%	1.9%	1.9%	2.4%	3.2%	5.0%	5.5%	4.3%

Over the past decade shares of Franklin Resources have traded with an average P/E ratio of 12 to 13 times earnings. We are using 10 times earnings as our beginning baseline, as asset managers are facing substantial headwinds in the way of falling asset management fees. With shares trading near 8 times earnings, this implies a valuation tailwind.

The dividend is also worth mentioning. Not only is the 5.5% starting yield well covered, Franklin Resources also has a tendency to periodically pay out a special dividend. While we have not included this in our forecast, investors could receive a yield in excess of the stated payout, although the company must first digest its Legg Mason merger.

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

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
Payout	11%	12%	12%	12%	17%	23%	26%	26%	39%	41%	43%	43%

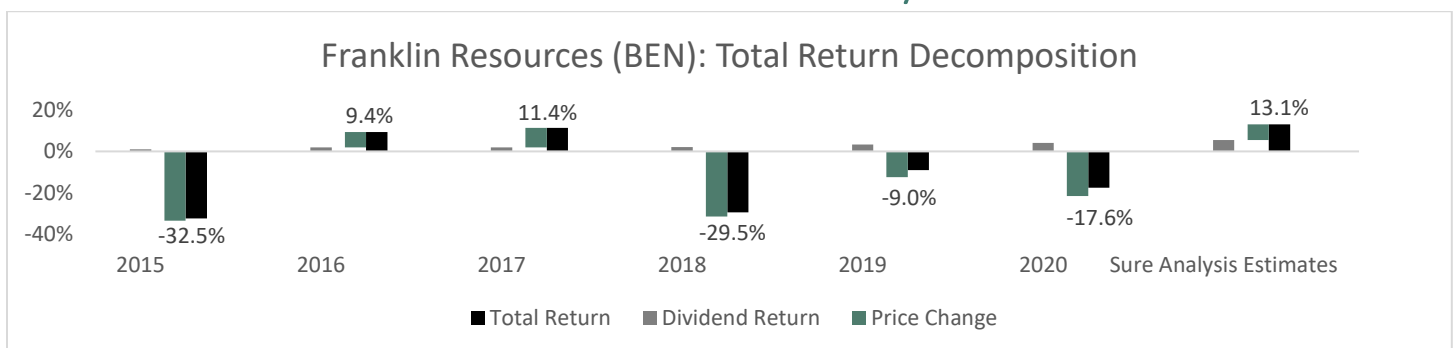
Franklin Resources' funds have performed well over the long-term, but we do not believe the company has a meaningful competitive advantage in its field. Indeed, Franklin Resources needs to adapt to the trend towards low-cost passive ETF's to remain competitive. Unless a novel solution is found, this could mean declining profits in the years to come.

The dividend payout ratio has never been especially high, which has allowed the company to retire a meaningful number of shares and pay the occasional special dividend. Lately the payout ratio has inched upward toward the 40% mark, but this payment is still well covered. Franklin Resources had perhaps one of the best balance sheets in our coverage universe prior to the Legg Mason acquisition, which required \$4.5 billion cash and assumed \$2 billion in debt.

## Final Thoughts & Recommendation

Shares are more or less unchanged since our last report. Franklin Resources is a classic asset manager that has to battle the rise of low-cost investing, which has been responsible for customers moving money from actively managed funds to ETFs. The company is in an interesting situation where the core business is declining, but the financial foundation – allowing for share repurchases, solid payouts and acquisitions – has been solid. Total return potential comes in at 13.1% per annum, stemming from 4% growth, a 5.5% dividend yield and the possibility of a valuation tailwind. We acknowledge the challenges facing the business, but the valuation is compelling. Shares earn a buy rating.

## Total Return Breakdown by Year



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

Disclosure: This analyst is long the security discussed in this research report.



# Franklin Resources (BEN)

Updated October 27<sup>th</sup>, 2020 by Eli Inkrot

## Income Statement Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Revenue	7140	7101	7985	8491	7949	6618	6392	6319	5775	5567
Gross Profit	3196	3106	3558	3935	3733	3047	2928	2889	2370	1990
Gross Margin	44.8%	43.7%	44.6%	46.3%	47.0%	46.0%	45.8%	45.7%	41.0%	35.7%
SG&A Exp.	363	408	446	498	481	474	444	526	813	887
D&A Exp.	88	82	94	95	97	87	80	76	93	---
Operating Profit	2660	2515	2921	3221	3028	2366	2264	2119	1557	1049
Operating Margin	37.3%	35.4%	36.6%	37.9%	38.1%	35.7%	35.4%	33.5%	27.0%	18.8%
Net Profit	1924	1931	2150	2384	2035	1727	1697	764	1196	799
Net Margin	26.9%	27.2%	26.9%	28.1%	25.6%	26.1%	26.5%	12.1%	20.7%	14.4%
Free Cash Flow	1490	988	1974	2085	2183	1630	1061	2123	(32)	---
Income Tax	803	763	856	998	924	742	759	1473	442	231

## Balance Sheet Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Total Assets	13776	14752	15390	16357	16336	16099	17534	14384	14532	---
Cash & Equivalents	5199	4491	6323	7596	8368	8483	8750	6911	5958	---
Accounts Receivable	773	850	1039	950	838	794	1002	848	839	---
Goodwill & Int. Ass.	2148	2142	2359	2326	2257	2211	2228	2333	---	---
Total Liabilities	4653	4991	4705	4145	3840	3571	4598	4176	2995	---
Accounts Payable	266	242	274	238	232	233	292	227	3908	---
Long-Term Debt	2201	2777	2295	2149	2155	2083	1098	729	304	---
Shareholder's Equity	8525	9201	10073	11584	11841	11936	12620	9899	748	---
D/E Ratio	0.26	0.30	0.23	0.19	0.18	0.17	0.09	0.07	0.08	---

## Profitability & Per Share Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Return on Assets	15.7%	13.5%	14.3%	15.0%	12.5%	10.6%	10.1%	4.8%	8.3%	---
Return on Equity	23.7%	21.8%	22.3%	22.0%	17.4%	14.5%	13.8%	6.8%	12.1%	---
ROIC	19.2%	16.2%	16.9%	17.4%	14.0%	11.8%	11.8%	6.1%	10.7%	---
Shares Out.	653	637	631	623	604	570	555	522	499	492
Revenue/Share	10.72	11.04	12.59	13.58	12.93	11.34	11.43	11.75	11.45	11.30
FCF/Share	2.24	1.54	3.11	3.33	3.55	2.79	1.90	3.95	(0.06)	---

Notes: All figures in millions of U.S. Dollars unless per share or indicated otherwise. Fiscal 2020 numbers for the data table are not yet fully available.

### Disclaimer

Nothing presented herein is, or is intended to constitute, specific investment advice. Nothing in this research report should be construed as a recommendation to follow any investment strategy or allocation. Any forward-looking statements or forecasts are based on assumptions and actual results are expected to vary from any such statements or forecasts. No reliance should be placed on any such statements or forecasts when making any investment decision. While Sure Dividend has used reasonable efforts to obtain information from reliable sources, we make no representations or warranties as to the accuracy, reliability or completeness of third-party information presented herein. No guarantee of investment performance is being provided and no inference to the contrary should be made. There is a risk of loss from an investment in marketable securities. Past performance is not a guarantee of future performance.