



Franklin Resources (BEN)

Updated February 3rd, 2021 by Eli Inkrot

Key Metrics

Current Price:	\$26	5 Year CAGR Estimate:	8.0%	Market Cap:	\$12 B
Fair Value Price:	\$26	5 Year Growth Estimate:	4.0%	Ex-Dividend Date¹:	03/30/21
% Fair Value:	99%	5 Year Valuation Multiple Estimate:	0.1%	Dividend Payment Date¹:	04/13/21
Dividend Yield:	4.3%	5 Year Price Target	\$32	Years Of Dividend Growth:	41
Dividend Risk Score:	A	Retirement Suitability Score:	A	Last Dividend Increase:	3.7%

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 December 31st, 2020, assets under management (AUM) totaled \$1.498 trillion for the \$12 billion market cap company.

On February 18th, 2020 Franklin Resources announced that it had entered into a definitive agreement to acquire Legg Mason (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 17th, 2020 Franklin Resources announced that all of the conditions of the merger had been satisfied and the transaction closed on July 31st, 2020.

On December 15th, 2020 Franklin Resources announced a \$0.28 quarterly dividend, marking a 3.7% year-over-year increase and the company's 41st consecutive year of increasing its payment.

On February 2nd, 2021 Franklin Resources reported Q1 fiscal year 2021 results for the period ending December 31st, 2020. (Franklin Resource's fiscal year ends September 30th.) Total assets under management equaled \$1.498 trillion, a 6% increase from last quarter, driven by \$93.8 billion in market gains, partially offset by \$10.2 billion of cash management outflows and \$4.5 billion of long-term net outflows.

For the quarter, Operating Revenue totaled \$1.995 billion. This figure represented 0.138% of average AUM or ~55 basis points on an annualized basis. On an adjusted basis net income equaled \$373.4 million or \$0.73 per share compared to \$338.3 million or \$0.67 per share in Q1 2020.

Growth on a Per-Share Basis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
EPS	\$2.89	\$2.99	\$3.37	\$3.79	\$3.29	\$2.94	\$3.01	\$3.38	\$2.62	\$2.61	\$2.60	\$3.16
DPS	\$0.33	\$0.36	\$0.39	\$0.46	\$0.57	\$0.69	\$0.78	\$0.89	\$1.01	\$1.08	\$1.12	\$1.36
Shares²	653	637	631	623	604	570	555	519	499	492	480	460

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 balance sheet flexibility was showcased with the takeover of Legg Mason in an all-cash deal. While this does not change

¹ Estimate

² In millions.

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the company's long-term problem, there are opportunities available in the way of synergies and complementary product offerings. We have increased our 2021 forecast slightly and still expect 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	9.9	10.0
Avg. Yld.	0.8%	1.0%	0.8%	0.8%	1.1%	1.9%	1.9%	2.4%	3.2%	5.0%	4.3%	4.3%

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

The dividend is also worth mentioning. Not only is the 4.3% 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%

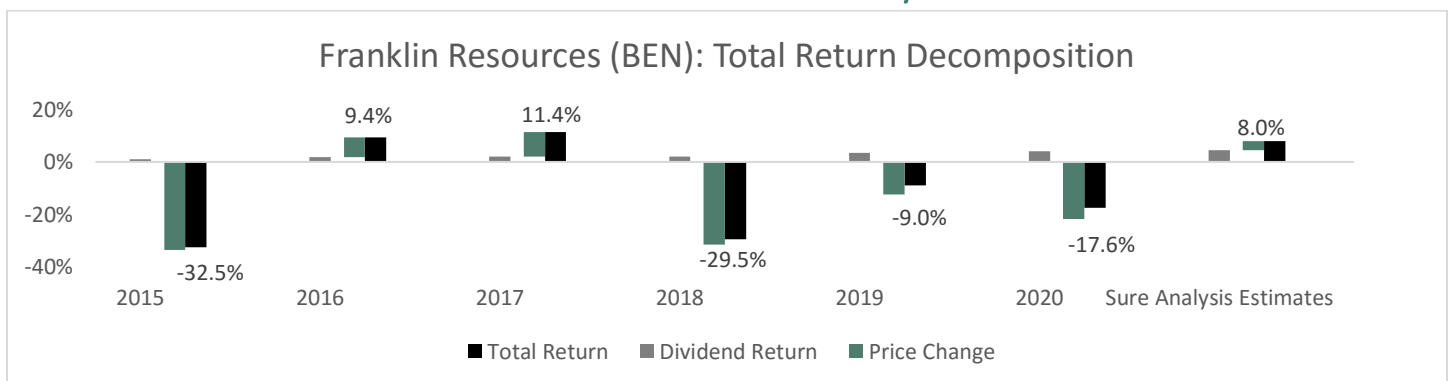
Franklin Resources' funds have performed well over the long-term, but we do not believe the company has a meaningful competitive advantage in its field. Indeed, Franklin Resources needs to adapt to the trend towards low-cost passive ETF's to remain competitive. Unless a novel solution is found, this 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 up 29% 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 8.0% per annum, stemming from 4% growth and a 4.3% dividend yield. With the challenges facing the business and a much higher valuation as of late, shares earn a hold rating.

Total Return Breakdown by Year



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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	129
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)	918
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	20220
Cash & Equivalents	5199	4491	6323	7596	8368	8483	8750	6911	5958	3958
Accounts Receivable	773	850	1039	950	838	794	1002	848	839	1201
Goodwill & Int. Ass.	2148	2142	2359	2326	2257	2211	2228	2333	---	9415
Total Liabilities	4653	4991	4705	4145	3840	3571	4598	4176	2995	9247
Accounts Payable	266	242	274	238	232	233	292	227	3908	794
Long-Term Debt	2201	2777	2295	2149	2155	2083	1098	729	304	4350
Shareholder's Equity	8525	9201	10073	11584	11841	11936	12620	9899	748	10110
D/E Ratio	0.26	0.30	0.23	0.19	0.18	0.17	0.09	0.07	0.08	0.43

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%	4.6%
Return on Equity	23.7%	21.8%	22.3%	22.0%	17.4%	14.5%	13.8%	6.8%	12.1%	8.0%
ROIC	19.2%	16.2%	16.9%	17.4%	14.0%	11.8%	11.8%	6.1%	10.7%	6.0%
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)	1.9

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

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