



# Franklin Resources (BEN)

Updated November 7th, 2021, by Eli Inkrot

## Key Metrics

<b>Current Price:</b>	\$36	<b>5 Year CAGR Estimate:</b>	5.3%	<b>Market Cap:</b>	\$18 B
<b>Fair Value Price:</b>	\$33	<b>5 Year Growth Estimate:</b>	4.0%	<b>Ex-Dividend Date<sup>1</sup>:</b>	12/30/21
<b>% Fair Value:</b>	109%	<b>5 Year Valuation Multiple Estimate:</b>	-1.7%	<b>Dividend Payment Date<sup>1</sup>:</b>	01/15/21
<b>Dividend Yield:</b>	3.1%	<b>5 Year Price Target</b>	\$40	<b>Years Of Dividend Growth:</b>	41
<b>Dividend Risk Score:</b>	A	<b>Retirement Suitability Score:</b>	A	<b>Last Dividend Increase:</b>	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 September 30<sup>th</sup>, 2021, assets under management (AUM) totaled \$1.53 trillion for the \$18 billion market cap company.

On July 31<sup>st</sup>, 2020, Franklin Resources acquired Legg Mason (previous ticker LM) for \$4.5 billion in cash, to go along with the assumption of \$2 billion in debt.

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

On November 1<sup>st</sup>, 2021, Franklin Resources reported Q4 and fiscal year 2021 results for the period ending September 30<sup>th</sup>, 2021. Total assets under management equaled \$1.53 trillion, down -\$22 billion compared to last quarter, as a result of -\$11.7 billion in net market change and -\$9.9 billion in long-term net outflows, among other items.

For the quarter, operating revenue totaled \$2.181 billion. This represents 0.14% of average AUM or ~56 basis points annualized. On an adjusted basis, net income equaled \$644.6 million or \$1.26 per share compared to \$493.7 million or \$0.96 per share in Q4 2020.

For the year, operating revenue totaled \$8.43 billion, representing 0.56% of average AUM (56 basis points). Adjusted net income equaled \$1.915 billion or \$3.74 per share compared to \$1.311 billion or \$2.61 per share in 2020.

## Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
<b>EPS</b>	\$2.99	\$3.37	\$3.79	\$3.29	\$2.94	\$3.01	\$3.38	\$2.62	\$2.61	\$3.74	<b>\$3.30</b>	<b>\$4.01</b>
<b>DPS</b>	\$0.36	\$0.39	\$0.46	\$0.57	\$0.69	\$0.78	\$0.89	\$1.01	\$1.07	\$1.11	<b>\$1.12</b>	<b>\$1.36</b>
<b>Shares<sup>2</sup></b>	637	631	623	604	570	555	519	499	492	491	<b>490</b>	<b>470</b>

During the 2007 - 2018 period, Franklin Resources grew earnings-per-share by a compound rate of 3.3% per annum. 2019 and 2020 were down years, but the company got back on track in fiscal 2021. 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 must 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 recently acquired 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 expect 4% annual growth over the intermediate term.

<sup>1</sup> Estimate

<sup>2</sup> In millions.

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



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## Valuation Analysis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Now	2027
Avg. P/E	12.3	14.0	14.4	15.4	12.4	13.7	11.1	12.6	8.1	8.0	10.9	10.0
Avg. Yld.	1.0%	0.8%	0.8%	1.1%	1.9%	1.9%	2.4%	3.2%	5.0%	3.7%	3.1%	3.4%

Over the past decade shares of Franklin Resources have traded with an average P/E ratio of 12 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 11 times estimated earnings, this implies a valuation headwind.

The dividend is also worth mentioning. Not only is the 3.1% starting yield well covered, but 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	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	12%	12%	12%	17%	23%	26%	26%	39%	41%	30%	34%	34%

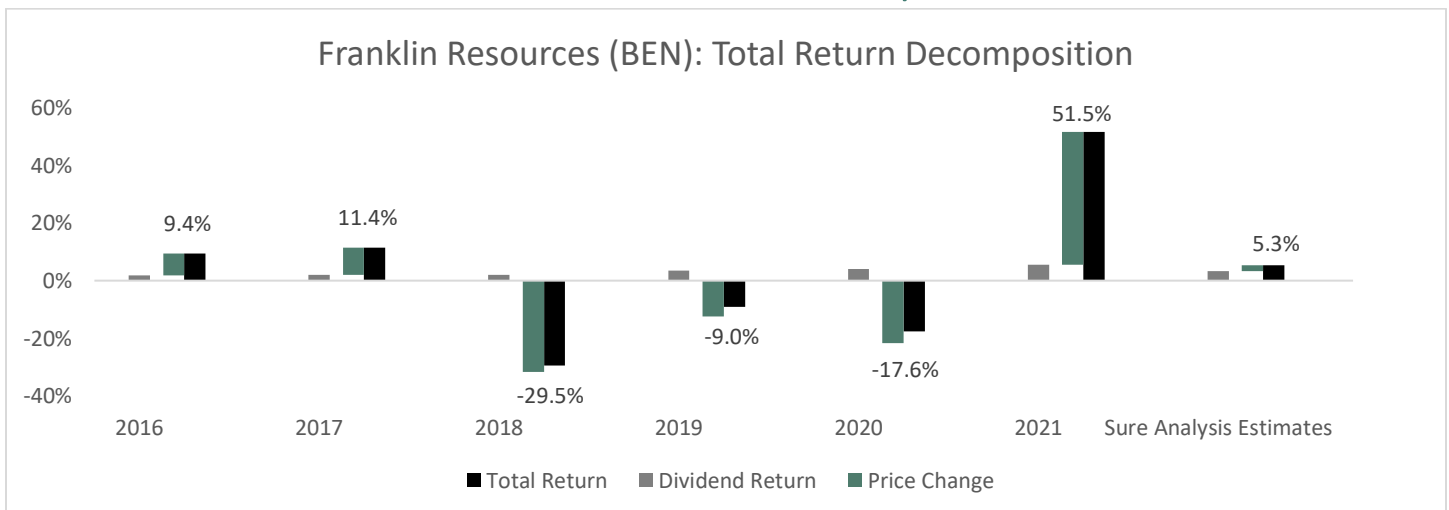
Franklin Resources' funds have performed well over the long-term, but we do not believe the company has a meaningful competitive advantage in its field. Indeed, Franklin Resources needs to adapt to the trend towards low-cost passive ETFs to remain competitive. Unless a novel solution is found, this could mean a difficult road 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, but the dividend 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 79% in the last year. Franklin Resources is a classic asset manager that must 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 5.3% per annum, stemming from 4% growth and a 3.1% dividend yield, offset by a valuation headwind. Shares earn a hold rating.

## Total Return Breakdown by Year



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## Income Statement Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
<b>Revenue</b>	7101	7985	8491	7949	6618	6392	6319	5775	5567	8426
<b>Gross Profit</b>	3106	3558	3935	3733	3047	2928	2889	2370	1990	3348
<b>Gross Margin</b>	43.7%	44.6%	46.3%	47.0%	46.0%	45.8%	45.7%	41.0%	35.7%	29.7%
<b>SG&amp;A Exp.</b>	408	446	498	481	474	444	526	813	887	1241
<b>D&amp;A Exp.</b>	82	94	95	97	87	80	76	93	129	---
<b>Operating Profit</b>	2515	2921	3221	3028	2366	2264	2119	1557	1049	1875
<b>Operating Margin</b>	35.4%	36.6%	37.9%	38.1%	35.7%	35.4%	33.5%	27.0%	18.8%	22.3%
<b>Net Profit</b>	1931	2150	2384	2035	1727	1697	764	1196	799	1831
<b>Net Margin</b>	27.2%	26.9%	28.1%	25.6%	26.1%	26.5%	12.1%	20.7%	14.4%	21.7%
<b>Free Cash Flow</b>	988	1974	2085	2183	1630	1061	2123	(32)	918	---
<b>Income Tax</b>	763	856	998	924	742	759	1473	442	231	350

## Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
<b>Total Assets</b>	14752	15390	16357	16336	16099	17534	14384	14532	20220	---
<b>Cash &amp; Equivalents</b>	4491	6323	7596	8368	8483	8750	6911	5958	3958	---
<b>Accounts Receivable</b>	850	1039	950	838	794	1002	848	839	1201	---
<b>Goodwill &amp; Int. Ass.</b>	2142	2359	2326	2257	2211	2228	2333	---	9415	---
<b>Total Liabilities</b>	4991	4705	4145	3840	3571	4598	4176	2995	9247	---
<b>Accounts Payable</b>	242	274	238	232	233	292	227	3908	794	---
<b>Long-Term Debt</b>	2777	2295	2149	2155	2083	1098	729	304	4350	0
<b>Shareholder's Equity</b>	9201	10073	11584	11841	11936	12620	9899	748	10110	---
<b>D/E Ratio</b>	0.30	0.23	0.19	0.18	0.17	0.09	0.07	0.08	0.43	---

## Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
<b>Return on Assets</b>	13.5%	14.3%	15.0%	12.5%	10.6%	10.1%	4.8%	8.3%	4.6%	---
<b>Return on Equity</b>	21.8%	22.3%	22.0%	17.4%	14.5%	13.8%	6.8%	12.1%	8.0%	---
<b>ROIC</b>	16.2%	16.9%	17.4%	14.0%	11.8%	11.8%	6.1%	10.7%	6.0%	---
<b>Shares Out.</b>	637	631	623	604	570	555	522	499	492	491
<b>Revenue/Share</b>	11.04	12.59	13.58	12.93	11.34	11.43	11.75	11.45	11.30	17.17
<b>FCF/Share</b>	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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