



# T. Rowe Price Group Inc. (TROW)

Updated January 27<sup>th</sup>, 2023, by Nathan Parsh

## Key Metrics

<b>Current Price:</b>	\$114	<b>5 Year CAGR Estimate:</b>	4.9%	<b>Market Cap:</b>	\$25 B
<b>Fair Value Price:</b>	\$102	<b>5 Year Growth Estimate:</b>	3.0%	<b>Ex-Dividend Date<sup>1</sup>:</b>	03/14/23
<b>% Fair Value:</b>	112%	<b>5 Year Valuation Multiple Estimate:</b>	-2.3%	<b>Dividend Payment Date<sup>1</sup>:</b>	03/30/23
<b>Dividend Yield:</b>	4.2%	<b>5 Year Price Target</b>	\$118	<b>Years Of Dividend Growth:</b>	36
<b>Dividend Risk Score:</b>	B	<b>Retirement Suitability Score:</b>	A	<b>Rating:</b>	Hold

## Overview & Current Events

T. Rowe Price Group, founded in 1937 and headquartered in Baltimore, MD, is one of the largest publicly traded asset managers. The company provides a broad array of mutual funds, sub-advisory services, and separate account management for individual and institutional investors, retirement plans and financial intermediaries. T. Rowe Price has a market capitalization of \$25 billion and had assets under management of \$1.27 trillion as of December 31<sup>st</sup>, 2022.

On February 8<sup>th</sup>, 2022, T. Rowe Price declared a \$1.20 quarterly dividend, representing a 11.1% increase and marking the company's 36<sup>th</sup> year of increasing its payout.

On January 26<sup>th</sup>, 2023, T. Rowe Price announced fourth quarter and full year results for the period ending December 31<sup>st</sup>, 2022. For the quarter, revenue fell 22.4% to \$1.52 billion, which was \$10 million less than expected. Adjusted earnings-per-share of \$1.74 compared to \$3.17 in the prior year, but was \$0.03 above estimates. For the year, revenue fell 15.4% to \$6.5 billion while adjusted earnings-per-share of \$8.02 compared to \$12.75 in 2021.

During the quarter, assets under management (AUM) declined 12.6% to \$1.27 trillion. This decline was due to net client outflows of \$17.1 billion, net distributions not reinvested of \$2.5 billion, client transfers of \$2.1 billion, and market depreciation. Operating expenses increased 15.6% year-over-year and 25.4% sequentially to \$1.3 billion.

We expect T. Rowe Price to earn \$7.25 per share in 2023.

## Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
<b>EPS</b>	\$3.90	\$4.55	\$4.63	\$4.84	\$6.13	\$7.01	\$8.07	\$9.58	\$12.75	\$8.02	<b>\$7.25</b>	<b>\$8.40</b>
<b>DPS</b>	\$1.52	\$1.76	\$2.08	\$2.16	\$2.28	\$2.80	\$3.04	\$3.60	\$4.32	\$4.80	<b>\$4.80</b>	<b>\$6.00</b>
<b>Shares<sup>2</sup></b>	262	261	250	245	245	238	235	231	229	225	<b>225</b>	<b>200</b>

T. Rowe Price's earnings, as well as its dividends, have grown substantially over the last decade. While earnings did drop during the last financial crisis, the overall record has been quite good. Since 2013 the company has grown earnings-per-share by an average compound rate of 8.3% per annum. Moreover, the company performed well in 2020.

Asset managers like T. Rowe have low variable costs. As a result, higher revenues, driven primarily by increasing assets under management, allow for margin expansion and attractive earnings growth rates. Assets under management grow in two basic ways: increased contributions and higher underlying asset values. While asset values are finicky, the trend is upward over the long-term. On the contribution side, T. Rowe Price's strong past performance is a key selling point and could attract customers going forward. In addition, T. Rowe has another growth lever in the way of share repurchases.

With that being said there is a significant and ongoing challenge for traditional asset managers. Namely, the advance of low-cost ETFs, where other asset managers such as Blackrock or Vanguard are much better positioned. This could lead to lower growth rates for T. Rowe Price, as managers are forced to compete on price and reduce management fees.

<sup>1</sup> Estimated date.

<sup>2</sup> In millions.

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.



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Taking the company's strong history and solid financial position paired against a challenging industry, we are forecasting 3% growth over the next five years.

## Valuation Analysis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Now	2028
Avg. P/E	19.3	17.9	16.7	14.7	13.1	15.6	12.4	12.8	14.5	13.6	15.7	14.0
Avg. Yld.	2.0%	2.2%	2.7%	3.0%	2.8%	2.6%	2.8%	2.8%	2.3%	4.4%	4.2%	5.1%

Shares of T. Rowe have increased \$11, or 10.7%, since our November 4<sup>th</sup>, 2022 update. The stock has traded hands with an average P/E ratio of about 16 times earnings in the last decade. We believe 14 times earnings is a reasonable starting point, taking into consideration an excellent balance sheet paired with moderate growth potential. With shares trading above this level, we forecast a slight valuation headwind. Multiple reversion could decrease annual returns by 2.3% through 2028.

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

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	39%	39%	45%	45%	37%	40%	38%	38%	34%	60%	66%	71%

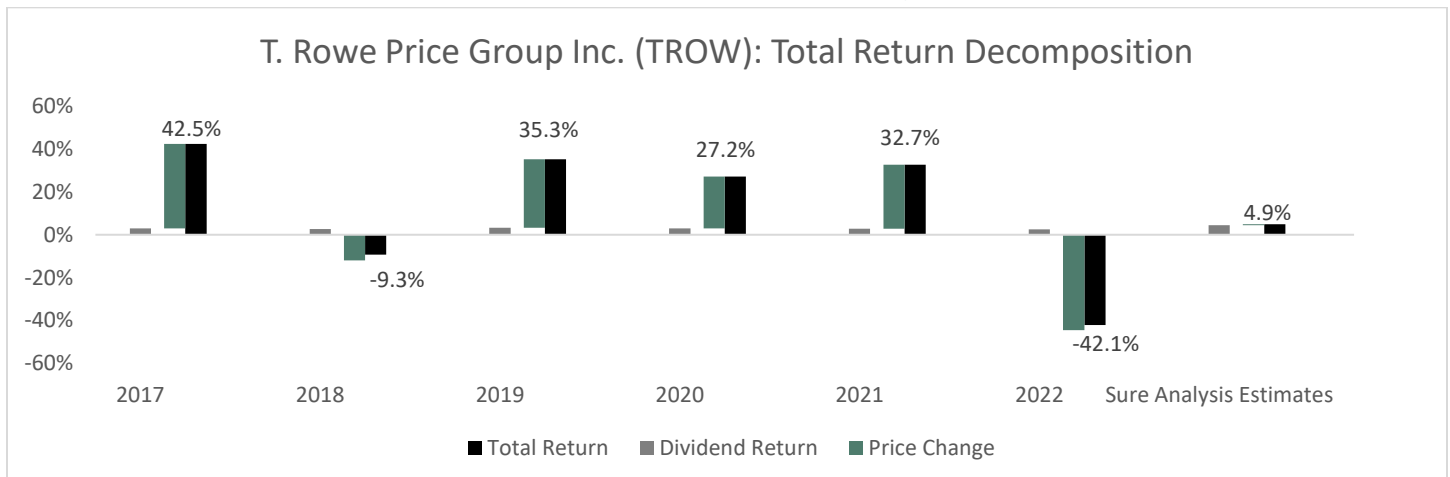
While T. Rowe has put together a solid record, asset managers do not tend to have a large competitive advantage. Fund performance and general customer stickiness help – once you invest with a company you tend to stay invested, and the benefits of switching are unknown. However, the “race to the bottom” as it relates to fees has been and will continue to be an important and ongoing challenge in the industry.

During the Great Recession T. Rowe posted earnings-per-share of \$2.40, \$1.82, \$1.65, and \$2.53 in the 2007 through 2010 stretch. This is instructive, as it shows both the cyclical nature in lesser times along with the ability to bounce back. The company's balance sheet is in excellent shape with zero long-term debt.

## Final Thoughts & Recommendation

T. Rowe Price is projected to return 4.9% annually through 2028, down from our prior estimate of 8.6%. This forecast stems from a 3% earnings growth rate and a starting yield of 4.2% offset by a small headwind from multiple contraction. T. Rowe Price has been a great business, with strong operating metrics for many years. Market volatility hampered the company's performance during the quarter once again. In addition, the focus on lower fees continues to be a headwind for the industry as a whole. Shares continue to earn a hold rating due to projected returns.

## 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>	3023	3484	3982	4201	4285	4855	5373	5618	6207	7672
<b>Gross Profit</b>	1879	2210	2509	2606	2418	2781	3126	3233	3590	4679
<b>Gross Margin</b>	62.2%	63.4%	63.0%	62.0%	56.4%	57.3%	58.2%	57.5%	57.8%	61.0%
<b>SG&amp;A Exp.</b>	213	223	220	239	618	723	780	846	845	969
<b>D&amp;A Exp.</b>	81	91	112	126	133	144	160	---	---	205
<b>Operating Profit</b>	1364	1637	1891	1899	1800	2059	2346	2387	2746	3710
<b>Operating Margin</b>	45.1%	47.0%	47.5%	45.2%	42.0%	42.4%	43.7%	42.5%	44.2%	48.4%
<b>Net Profit</b>	884	1048	1230	1223	1215	1498	1838	2131	2373	3083
<b>Net Margin</b>	29.2%	30.1%	30.9%	29.1%	28.4%	30.9%	34.2%	37.9%	38.2%	40.2%
<b>Free Cash Flow</b>	826	1127	1218	1379	22	43	1451	---	---	3213
<b>Income Tax</b>	552	653	774	779	707	924	616	678	719	896

## Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
<b>Total Assets</b>	4203	5033	5644	5107	6225	7535	7689	9330	10660	12509
<b>Cash &amp; Equivalents</b>	879	1398	1506	1172	1205	1903	1425	1782	2152	1523
<b>Accounts Receivable</b>	354	399	443	446	455	565	550	647	863	1058
<b>Goodwill &amp; Int. Ass.</b>	666	666	666	666	666	666	666	666	666	3607
<b>Total Liabilities</b>	357	215	249	345	1216	1711	1565	2228	2952	2255
<b>Accounts Payable</b>	90	104	143	171	181	216	229	---	---	431
<b>Long-Term Debt</b>	0	0	0	0	0	0	0	0	0	-
<b>Shareholder's Equity</b>	3846	4818	5395	4762	5009	5824	6124	7102	7707	9023
<b>LTD/E Ratio</b>	0	0	0	0	0	0	0	---	---	-

## Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
<b>Return on Assets</b>	22.2%	22.7%	23.0%	22.8%	21.4%	21.8%	24.1%	25.0%	23.7%	26.6%
<b>Return on Equity</b>	24.3%	24.2%	24.1%	24.1%	24.9%	27.7%	30.8%	32.2%	32.0%	36.9%
<b>ROIC</b>	24.3%	24.2%	24.1%	24.1%	24.9%	27.7%	30.8%	32.2%	32%	31.6%
<b>Shares Out.</b>	257	262	261	250	245	245	238	235	231	228
<b>Revenue/Share</b>	11.58	13.08	14.89	16.10	17.12	19.81	21.76	23.55	26.85	33.53
<b>FCF/Share</b>	3.16	4.23	4.55	5.29	0.09	0.18	5.88	25.0%	---	14.04

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

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