



Franklin Resources (BEN)

Updated January 31st, 2023 by Quinn Mohammed

Key Metrics

Current Price:	\$31	5 Year CAGR Estimate:	1.7%	Market Cap:	\$16 B
Fair Value Price:	\$21	5 Year Growth Estimate:	5.0%	Ex-Dividend Date¹:	03/30/23
% Fair Value:	147%	5 Year Valuation Multiple Estimate:	-7.4%	Dividend Payment Date¹:	04/14/23
Dividend Yield:	3.8%	5 Year Price Target	\$27	Years Of Dividend Growth:	43
Dividend Risk Score:	A	Retirement Suitability Score:	A	Rating:	Sell

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, 2023, assets under management (AUM) totaled \$1.388 trillion for the \$16 billion market cap company.

On July 31st, 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 13th, 2022, Franklin Resources announced a \$0.30 quarterly dividend, marking a 3.4% year-over-year increase and the company's 43rd consecutive year of increasing its payment.

On January 30th, 2023, Franklin Resources reported first quarter 2023 results for the period ending December 31st, 2022. (Franklin Resources' fiscal year ends September 30th.) Total assets under management equaled \$1.388 trillion, up \$90.3 billion compared to last quarter, as a result of \$48.8 billion of net market charge, distributions and other, a \$34.9 billion increase due to the acquisition of Alcentra Holdings, and \$17.5 billion of cash management net inflows.

For the quarter, operating revenue totaled \$1.967 billion, up 1% year-over-year. On an adjusted basis, net income equaled \$262.4 million or \$0.51 per share compared to \$553.6 million or \$1.08 per share in Q4 2021. During Q1, Franklin repurchased 0.5 million shares of stock for \$14 million. Franklin ended the quarter with \$5.6 billion of cash and investments.

Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
EPS	\$3.37	\$3.79	\$3.29	\$2.94	\$3.01	\$3.38	\$2.62	\$2.61	\$3.74	\$3.63	\$2.37	\$3.02
DPS	\$0.39	\$0.46	\$0.57	\$0.69	\$0.78	\$0.89	\$1.01	\$1.07	\$1.11	\$1.16	\$1.20	\$1.47
Shares²	631	623	604	570	555	519	499	492	491	488	480.0	470.0

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. 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 has been acquiring alternative AUM through purchases such as Legg Mason, Lexington Partners, and Alcentra. 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 5% annual growth over the intermediate term off the low base for FY 2023, which is negatively impacted by a declining market and net outflows.

¹ Estimate

² 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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Valuation Analysis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Now	2028
Avg. P/E	14	14.4	15.4	12.4	13.7	11.1	12.6	8.1	7.9	8.9	13.2	9.0
Avg. Yld.	0.80%	0.80%	1.10%	1.90%	1.90%	2.40%	3.20%	5.00%	3.90%	4.20%	3.8%	5.4%

Over the past decade shares of Franklin Resources have traded with an average P/E ratio of 12 times earnings. We are using 9.0 times earnings as our baseline, as asset managers are facing substantial headwinds in the way of falling asset management fees. With shares trading above 13 times estimated earnings, this implies a valuation headwind.

The dividend is also worth mentioning. Not only is the 3.8% 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 acquisitions.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	12%	12%	17%	23%	26%	26%	39%	41%	30%	32%	51%	48%

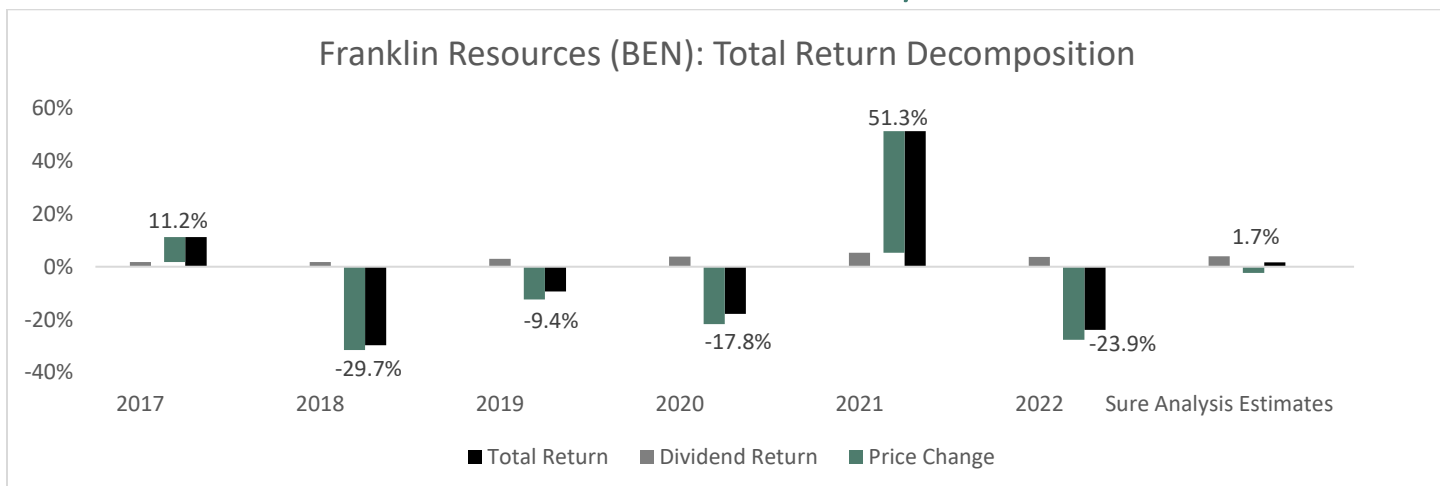
Franklin Resources' funds have performed well over the long-term, but we do not believe the company has a meaningful competitive advantage in its field. Indeed, Franklin Resources needs to adapt to the trend towards low-cost passive ETFs to remain competitive. Unless a novel solution is found, this could 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 15% year-to-date, which compares favorably to the broader market. 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 1.7% per annum, stemming from 5% growth, a 3.8% dividend yield, and a valuation headwind. We are downgrading shares from hold to sell as a result of a higher share price.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Revenue	7985	8491	7949	6618	6392	6319	5775	5567	8426	8275
Gross Profit	3558	3935	3733	3047	2928	2889	2370	1990	3348	3340
Gross Margin	44.6%	46.3%	47.0%	46.0%	45.8%	45.7%	41.0%	35.7%	39.7%	40.4%
SG&A Exp.	446	498	481	474	444	526	813	887	1241	1284
D&A Exp.	94	95	97	87	80	76	93	129	311	---
Operating Profit	2921	3221	3028	2366	2264	2119	1557	1049	1875	1774
Operating Margin	36.6%	37.9%	38.1%	35.7%	35.4%	33.5%	27.0%	18.8%	22.3%	21.4%
Net Profit	2150	2384	2035	1727	1697	764	1196	799	1831	1291
Net Margin	26.9%	28.1%	25.6%	26.1%	26.5%	12.1%	20.7%	14.4%	21.7%	15.6%
Free Cash Flow	1974	2085	2183	1630	1061	2123	(32)	918	1166	---
Income Tax	856	998	924	742	759	1473	442	231	350	396

Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Total Assets	15390	16357	16336	16099	17534	14384	14532	20220	24170	---
Cash & Equivalents	6323	7596	8368	8483	8750	6911	5958	3958	4647	---
Accounts Receivable	1039	950	838	794	1002	848	839	1201	1428	---
Goodwill & Int. Ass.	2359	2326	2257	2211	2228	2333	---	9415	9168	---
Total Liabilities	4705	4145	3840	3571	4598	4176	2995	9247	12360	---
Accounts Payable	274	238	232	233	292	227	3908	794	1037	---
Long-Term Debt	2295	2149	2155	2083	1098	729	304	4350	7070	0
Shareholder's Equity	10073	11584	11841	11936	12620	9899	748	10110	11220	---
D/E Ratio	0.23	0.19	0.18	0.17	0.09	0.07	0.08	0.43	0.63	---

Profitability & Per Share Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Return on Assets	14.3%	15.0%	12.5%	10.6%	10.1%	4.8%	8.3%	4.6%	8.0%	---
Return on Equity	22.3%	22.0%	17.4%	14.5%	13.8%	6.8%	12.1%	8.0%	17.2%	---
ROIC	16.9%	17.4%	14.0%	11.8%	11.8%	6.1%	10.7%	6.0%	10.3%	---
Shares Out.	631	623	604	570	555	522	499	492	491	489
Revenue/Share	12.59	13.58	12.93	11.34	11.43	11.75	11.45	11.30	17.17	16.91
FCF/Share	3.11	3.33	3.55	2.79	1.90	3.95	(0.06)	1.9	2.38	---

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

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