



T. Rowe Price Group Inc. (TROW)

Updated October 31st, 2023, by Nathan Parsh

Key Metrics

Current Price:	\$90	5 Year CAGR Estimate:	10.3%	Market Cap:	\$20 B
Fair Value Price:	\$103	5 Year Growth Estimate:	3.0%	Ex-Dividend Date¹:	12/14/23
% Fair Value:	88%	5 Year Valuation Multiple Estimate:	2.7%	Dividend Payment Date¹:	12/29/23
Dividend Yield:	5.4%	5 Year Price Target	\$112	Years Of Dividend Growth:	37
Dividend Risk Score:	B	Retirement Suitability Score:	A	Rating:	Buy

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 \$20 billion and had assets under management of ~\$1.35 trillion as of September 30th, 2023.

On February 7th, 2023, T. Rowe Price declared a \$1.22 quarterly dividend, representing a 1.7% increase and marking the company's 37th year of increasing its payout.

On October 27th, 2023, T. Rowe Price reported third quarter results for the period ending September 30th, 2023. For the quarter, revenue grew 5.0% to \$1.67 billion, beating estimates by \$20 million. Adjusted earnings-per-share of \$2.17 compared to \$1.86 in the prior year, which was \$0.40 higher than expected.

During the quarter, assets under management (AUM) declined 3.8% to \$1.347 trillion. Market depreciation of \$22.5 billion and net client outflows of \$19.7 billion in the equity category more than offset small improvements in net cash flows elsewhere. Operating expenses of \$1.089 billion was a 7.5% increase year-over-year, but were higher by just 1.2% from the second quarter of 2023.

We expect T. Rowe Price to earn \$7.34 in 2023, compared to \$6.91, \$6.77, and \$7.25 previously.

Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
EPS	\$3.90	\$4.55	\$4.63	\$4.84	\$6.13	\$7.01	\$8.07	\$9.58	\$12.75	\$8.02	\$7.34	\$8.51
DPS	\$1.52	\$1.76	\$2.08	\$2.16	\$2.28	\$2.80	\$3.04	\$3.60	\$4.32	\$4.80	\$4.88	\$6.10
Shares²	262	261	250	245	245	238	235	231	229	225	225	200

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.

¹ Estimated date.

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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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	12.3	14.0
Avg. Yld.	2.0%	2.2%	2.7%	3.0%	2.8%	2.6%	2.8%	2.8%	2.3%	4.4%	5.4%	5.1%

Shares of T. Rowe have decreased \$37, or 29.1%, since our July 29th, 2023 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 below this level, we forecast a slight valuation tailwind. Multiple expansion could increase annual returns by 2.7% 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%	72%

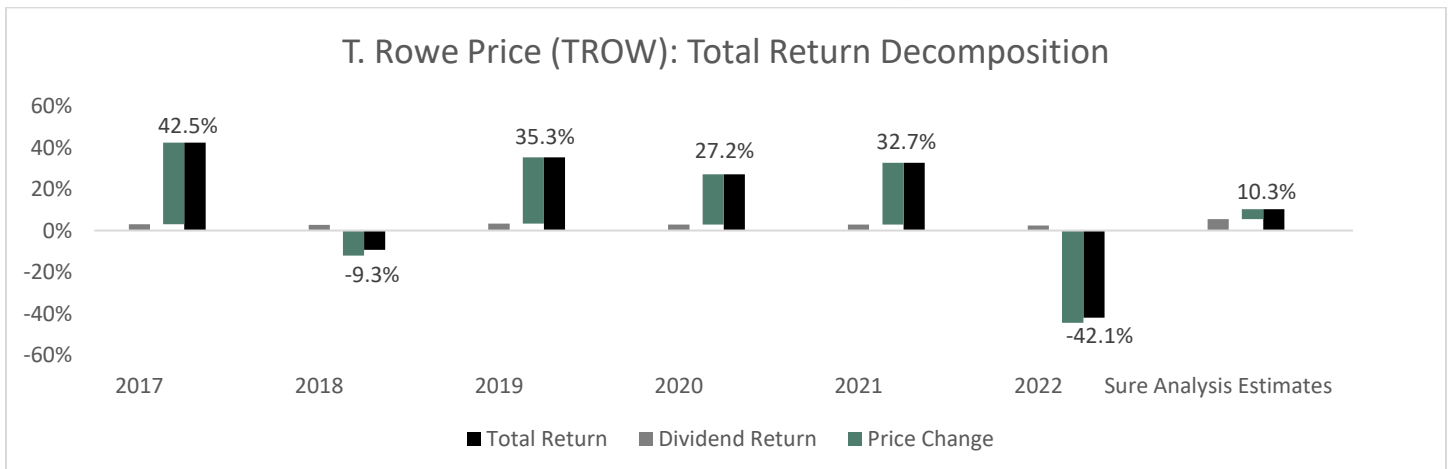
While T. Rowe has put together a solid record, asset managers do not tend to have a large competitive advantage. Fund performance and general customer stickiness help – once you invest with a company you tend to stay invested, and the benefits of switching are unknown. However, the “race to the bottom” 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 10.3% annually through 2028, up from our prior estimate of 2.0%. This forecast stems from a 3% earnings growth rate, a starting yield of 5.4%, and a low single-digit contribution from multiple expansion. T. Rowe Price has been a great business, with strong operating metrics for many years. Market volatility remains an issue, but expenses were up just slightly sequentially. In addition, the focus on lower fees continues to be a headwind for the industry as a whole. Shares now earn a buy rating due to projected returns.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Revenue	3484	3982	4201	4285	4855	5373	5618	6207	7672	6488
Gross Profit	2210	2509	2606	2418	2781	3126	3233	3590	4679	3566
Gross Margin	63.4%	63.0%	62.0%	56.4%	57.3%	58.2%	57.5%	57.8%	61.0%	55.0%
SG&A Exp.	223	220	239	618	723	780	846	845	969	1070
D&A Exp.	91	112	126	133	144	160	---	---	205	646
Operating Profit	1637	1891	1899	1800	2059	2346	2387	2746	3710	2496
Operating Margin	47.0%	47.5%	45.2%	42.0%	42.4%	43.7%	42.5%	44.2%	48.4%	38.5%
Net Profit	1048	1230	1223	1215	1498	1838	2131	2373	3083	1558
Net Margin	30.1%	30.9%	29.1%	28.4%	30.9%	34.2%	37.9%	38.2%	40.2%	24.0%
Free Cash Flow	1127	1218	1379	22	43	1451	---	---	3213	2122
Income Tax	653	774	779	707	924	616	678	719	896	499

Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Total Assets	5033	5644	5107	6225	7535	7689	9330	10660	12509	11643
Cash & Equivalents	1398	1506	1172	1205	1903	1425	1782	2152	1523	1756
Accounts Receivable	399	443	446	455	565	550	647	863	1058	749
Goodwill & Int. Ass.	666	666	666	666	666	666	666	666	3607	3273
Total Liabilities	215	249	345	1216	1711	1565	2228	2952	2255	1956
Accounts Payable	104	143	171	181	216	229	---	---	431	407
Long-Term Debt	0	0	0	0	0	0	0	0	-	-
Shareholder's Equity	4818	5395	4762	5009	5824	6124	7102	7707	9023	8840
LTD/E Ratio	0	0	0	0	0	0	---	---	-	-

Profitability & Per Share Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Return on Assets	22.7%	23.0%	22.8%	21.4%	21.8%	24.1%	25.0%	23.7%	26.6%	12.9%
Return on Equity	24.2%	24.1%	24.1%	24.9%	27.7%	30.8%	32.2%	32.0%	36.9%	17.4%
ROIC	24.2%	24.1%	24.1%	24.9%	27.7%	30.8%	32.2%	32%	31.6%	15.6%
Shares Out.	262	261	250	245	245	238	235	231	228	225
Revenue/Share	13.08	14.89	16.10	17.12	19.81	21.76	23.55	26.85	33.53	28.57
FCF/Share	4.23	4.55	5.29	0.09	0.18	5.88	25.0%	---	14.04	9.34

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

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