



Franklin Resources (BEN)

Updated November 13th, 2024 by Quinn Mohammed

Key Metrics

Current Price:	\$21	5 Year CAGR Estimate:	9.3%	Market Cap:	\$11 B
Fair Value Price:	\$22	5 Year Growth Estimate:	4.0%	Ex-Dividend Date¹:	01/02/25
% Fair Value:	99%	5 Year Valuation Multiple Estimate:	0.3%	Dividend Payment Date¹:	01/13/25
Dividend Yield:	5.8%	5 Year Price Target	\$26	Years Of Dividend Growth:	44
Dividend Risk Score:	C	Retirement Suitability Score:	A	Rating:	Hold

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 30th, 2024, assets under management (AUM) totaled \$1.679 trillion for the \$11 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 12th, 2023, Franklin Resources announced a \$0.31 quarterly dividend, marking a 3.3% year-over-year increase and the company's 44th consecutive year of increasing its payment.

On November 4th, 2024, Franklin Resources reported fourth quarter 2024 results for the period ending September 30th, 2024. Total assets under management equaled \$1.679 trillion, up \$32 billion sequentially, as a result of \$63.5 billion of net market change, distributions, and other, partly offset by 31.3 billion of long-term net outflows and \$0.2 billion of cash management net outflows.

For the quarter, operating revenue totaled \$2.211 billion, up 11% year-over-year. On an adjusted basis, net income equaled \$315 million or \$0.59 per share, a 30% decline from \$0.84 in Q3 2023. During Q4, Franklin repurchased 4.9 million shares of stock for \$102.4 million. Franklin ended the quarter with \$5.6 billion in cash and investments.

Growth on a Per-Share Basis

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2030
EPS	\$3.29	\$2.94	\$3.01	\$3.38	\$2.62	\$2.61	\$3.74	\$3.63	\$2.39	\$2.60	\$2.41	\$2.93
DPS	\$0.57	\$0.69	\$0.78	\$0.89	\$1.01	\$1.07	\$1.11	\$1.16	\$1.20	\$1.24	\$1.24	\$1.51
Shares²	604	570	555	519	499	492	491	488	490	516	515	505

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. It also closed its acquisition of Putnam Investments on January 1, 2024. At the time, Putnam had \$148 billion in AUM, which has since grown 21% to \$180 billion. 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 4.0% annual growth over the intermediate term off our FY 2025 EPS estimate of \$2.41.

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	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	Now	2030
Avg. P/E	15.4	12.4	13.7	11.1	12.6	8.1	7.9	8.9	14.1	13.6	8.9	9.0
Avg. Yld.	1.1%	1.9%	1.9%	2.4%	3.2%	5.0%	3.9%	4.2%	4.5%	5.1%	5.8%	5.7%

Over the past decade shares of Franklin Resources have traded with an average P/E ratio of 11.8 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 at 8.9 times estimated earnings, this implies a marginal valuation tailwind.

The dividend is also worth mentioning. Not only is the 5.8% 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	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2030
Payout	17%	23%	26%	26%	39%	41%	30%	32%	33%	33%	51%	51%

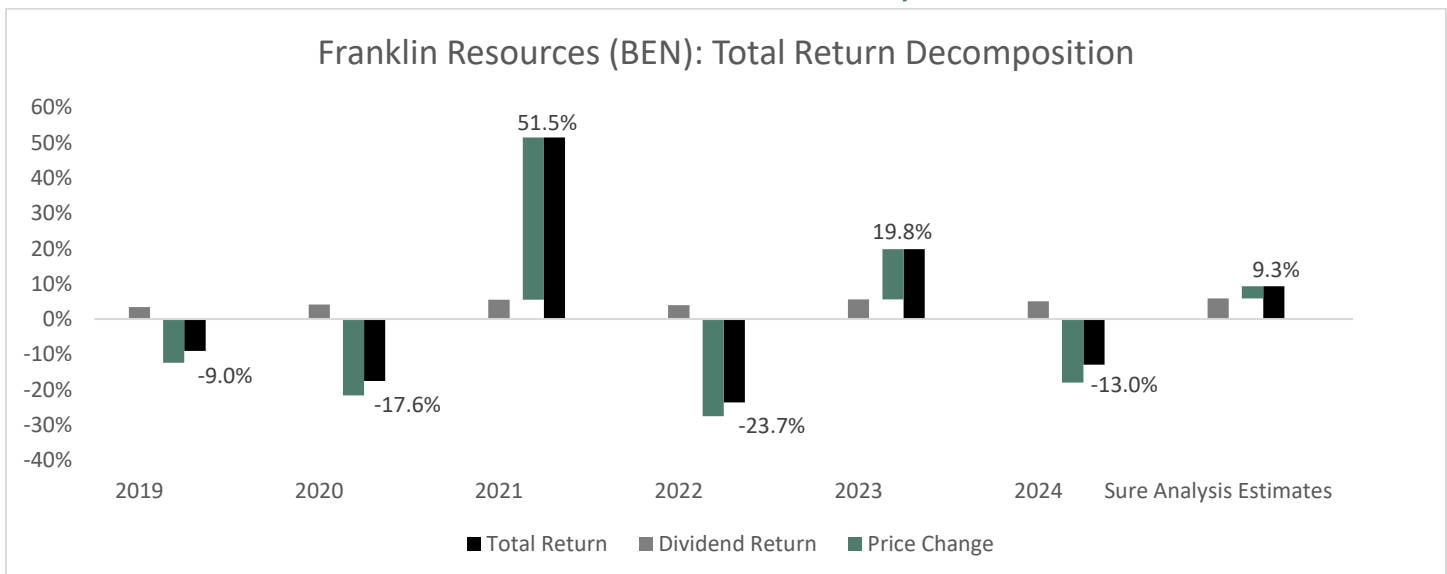
Franklin Resources' funds have performed well over the long term, but we do not believe the company has a meaningful competitive advantage in its field. Indeed, Franklin Resources needs to adapt to the trend towards low-cost passive ETFs to remain competitive. Unless a novel solution is found, this could 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.

Final Thoughts & Recommendation

Shares of BEN have cratered 28% year-to-date, which compares unfavorably to the broader market, which has increased by 26%. 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 9.3% per annum, stemming from 4.0% EPS growth, a 5.8% dividend yield, and 0.3% P/E multiple expansion. BEN maintains its hold rating.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Revenue	7949	6618	6392	6319	5775	5567	8426	8275	7849	8478
Gross Profit	3733	3047	2928	2889	2370	1990	3348	3340	2742	6791
Gross Margin	47.0%	46.0%	45.8%	45.7%	41.0%	35.7%	39.7%	40.4%	34.9%	80.1%
SG&A Exp.	481	474	444	526	813	887	1241	1284	794	4675
D&A Exp.	97	87	80	76	93	129	311	---	445	455
Operating Profit	3028	2366	2264	2119	1557	1049	1875	1774	1102	1158
Operating Margin	38.1%	35.7%	35.4%	33.5%	27.0%	18.8%	22.3%	21.4%	14.0%	13.7%
Net Profit	2035	1727	1697	764	1196	799	1831	1291	883	465
Net Margin	25.6%	26.1%	26.5%	12.1%	20.7%	14.4%	21.7%	15.6%	11.2%	5.5%
Free Cash Flow	2183	1630	1061	2123	(32)	918	1166	---	990	794
Income Tax	924	742	759	1473	442	231	350	396	312	215

Balance Sheet Metrics

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Total Assets	16336	16099	17534	14384	14532	20220	24170	---	30120	32460
Cash & Equivalents	8368	8483	8750	6911	5958	3958	4647	---	4402	4409
Accounts Receivable	838	794	1002	848	839	1201	1428	---	1348	1479
Goodwill & Int. Ass.	2257	2211	2228	2333	---	9415	9168	---	10910	11010
Total Liabilities	3840	3571	4598	4176	2995	9247	12360	---	16550	17900
Accounts Payable	232	233	292	227	3908	794	1037	---	880	1413
Long-Term Debt	2155	2083	1098	729	304	4350	7070	0	11280	12120
Shareholder's Equity	11841	11936	12620	9899	748	10110	11220	---	11920	12510
D/E Ratio	0.18	0.17	0.09	0.07	0.08	0.43	0.63	---	0.95	0.97

Profitability & Per Share Metrics

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Return on Assets	12.5%	10.6%	10.1%	4.8%	8.3%	4.6%	8.0%	---	3.0%	1.5%
Return on Equity	17.4%	14.5%	13.8%	6.8%	12.1%	8.0%	17.2%	---	7.6%	3.3%
ROIC	14.0%	11.8%	11.8%	6.1%	10.7%	6.0%	10.3%	---	3.7%	1.8%
Shares Out.	604	570	555	522	499	492	491	489	491	510
Revenue/Share	12.93	11.34	11.43	11.75	11.45	11.30	17.17	16.91	15.99	16.61
FCF/Share	3.55	2.79	1.90	3.95	(0.06)	1.9	2.38	---	2.02	1.56

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

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