

Franklin Resources

F1Q24E: Expect improved flows in '24 but low normalized growth

Reiterate Rating: UNDERPERFORM | PO: 25.00 USD | Price: 27.51 USD

Net flows could inflect positively in F2H24

BEN generated LT net outflows of \$5B in F1Q24 (-\$16B excluding reinvested distributions), largely driven by \$8B of net outflows in its fixed income business (primarily Western Core and Core Plus). We look for flows to improve in 2024, mostly driven by our forecast for sizable rebalancings into fixed income and the \$25B (two-thirds into fixed income) of reallocations from its new strategic partnership with Great-West. However, improvements in BEN's fixed income net flows could be offset by outflows in its traditional active equity products. Additionally, the forward flow trajectory of its Alts business could slow post two flagship fundraises. In conclusion, we look for net flows to improve and turn slightly positive in F2H24.

Refining EPS estimates and increasing PO

We revised our F2Q24/24/25/26 EPS estimates to \$0.60/\$2.57/\$2.90/\$3.04 from \$0.61/\$2.49/\$2.86/\$2.91 due to increased management fee revenues, lower tax rate, and increased share buybacks, although we reduce our op margin estimate given new expense guidance on the call. We increase our PO to \$25 from \$23 and is based on an unchanged 8x multiple on our 2026 calendar year EPS. Our PO implies -7% total return potential.

Maintain U/P: Bond reallocations should lift net flows

While we are positive on BEN's expansion into secular growth verticals (private markets) and its distribution scale advantage, we are also somewhat cautious on BEN's net flow trajectory given its softer overall investment performance and large traditional/active businesses, which are facing competitive pressures from low-cost passive. Additionally, while BEN has significant excess capital it can deploy into acquisitions, most acquisition candidates would require a valuation that is well above BEN's current stock multiple. Despite these issues, we estimate BEN's net flows will improve in 2024.

Estimates (Sep) (US\$)	2022A	2023A	2024E	2025E	2026E
EPS	3.63	2.60	2.57	2.90	3.04
EPS Change (YoY)	-2.9%	-28.4%	-1.2%	12.8%	4.8%
Consensus EPS (Bloomberg)			2.51	2.89	3.22
DPS	1.16	1.20	1.24	1.28	1.32
Valuation (Sep)					
P/E	7.6x	10.6x	10.7x	9.5x	9.0x
Dividend Yield	4.2%	4.4%	4.5%	4.7%	4.8%

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29 January 2024

Equity

Key Changes

(US\$)	Previous	Current
Price Obj.	23.00	25.00
2024E Rev (m)	11,827.2	12,746.0
2025E Rev (m)	12,395.0	13,574.7
2026E Rev (m)	12,683.2	13,953.3
2024E EPS	2.49	2.57
2025E EPS	2.86	2.90
2026E EPS	2.91	3.04

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Stock Data

Price	27.51 USD
Price Objective	25.00 USD
Date Established	29-Jan-2024
Investment Opinion	B-3-7
52-Week Range	21.88 USD - 34.37 USD
Mrkt Val / Shares Out (mn)	13,632 USD / 495.5
Free Float	57.5%
Average Daily Value	98.13 USD
BofA Ticker / Exchange	BEN / NYS
Bloomberg / Reuters	BEN US / BEN.N
ROE (2024E)	9.2%
ESGMeter™	High

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iQprofileSM Franklin Resources

Income Statement Data (Sep)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Total Revenue	12,190	11,633	12,746	13,575	13,953
% Change	0.3%	-4.6%	9.6%	6.5%	2.8%
Investment Advisory Fees	5,717	5,529	6,081	6,481	6,669
Compensation & Benefits	(2,927)	(3,032)	(3,282)	(3,390)	(3,449)
% Change	7.1%	3.6%	8.3%	3.3%	1.7%
Non-Compensation Expenses	(6,940)	(6,777)	(7,627)	(8,071)	(8,317)
Net Income to Ordinary Shareholders	1,777	1,275	1,305	1,470	1,523
Adjusted Net Income (Operating)	1,776	1,276	1,303	1,469	1,521
% Change	-3.2%	-28.2%	2.1%	12.7%	3.5%
Adjusted EBITDA (Operating)	2,217	1,311	1,320	1,621	1,717
Cash EPS	NA	NA	NA	NA	NA
% Change	NA	NA	NA	NA	NA

Performance Metrics (Sep)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Operating Margin	19.1%	15.7%	14.4%	15.6%	15.7%
Pre-Tax Profit Margin	20.5%	17.0%	15.5%	16.4%	16.5%
Net Profit Margin	14.6%	11.0%	10.2%	10.8%	10.9%
Comp Expense/Revenue	24.0%	26.1%	25.7%	25.0%	24.7%
Non-Comp Expense / Revenue	56.9%	58.3%	59.8%	59.5%	59.6%
Net Revenue Growth	0.3%	-4.6%	9.6%	6.5%	2.8%
Operating Expense Growth	1.0%	-0.6%	11.2%	5.1%	2.7%

Asset Management Data (Sep)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Assets Under Management (\$bn)	1,297.4	1,374.2	1,654.0	1,720.3	1,789.2
% Change	-15.2%	5.9%	20.4%	4.0%	4.0%
% Equity	0.3%	0.3%	33.2%	33.4%	33.9%
% Fixed Income	0.4%	0.4%	36.1%	36.4%	36.3%
% Money Mkt / Other	0%	0%	4.1%	3.8%	3.7%
Net New Flows (\$bn)	-28.6	-17.0	5.7	-7.6	-8.9
Organic Growth	0%	0%	0.4%	-0.5%	-0.5%
Organic Growth ex-Money Market	0%	0%	-0.1%	-0.3%	-0.6%
Advisory Fees / Avg. AUM	3.886%	3.941%	3.882%	3.827%	3.797%

Balance Sheet Data (Sep)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Total Assets	25,346	25,776	26,986	27,630	28,307
Total Shareholders' Equity	12,939	13,482	14,742	15,434	16,156
Tangible Shareholders' Equity	NA	NA	NA	NA	NA
BVPS (Stated Equity)	0.32	0.46	0.48	0.44	0.43
ROE (Stated Equity)	14.7%	9.7%	9.2%	9.7%	9.6%
Cash & Investments	7,045	7,476	8,686	9,330	10,007
Net Cash & Investments Per Share	NA	NA	NA	NA	NA

Company Sector

Asset Management

Company Description

Franklin Resources is a global asset manager with over \$1.4Tn in AuM, over 10,000 employees globally and presence in six continents. BEN provides investment management services to retail, institutional and high net-worth clients globally with capabilities across all asset classes including equities, fixed income, multi-asset, alternatives and money market.

Investment Rationale

Our Underperform rating is driven by investment performance, net flows and recent M&A. (1) BEN's investment performance ranks at the bottom of our asset manager coverage. (2) We believe flows will be under pressure as a result of BEN's softer investment performance, cyclical headwinds and the active-to-passive migration. (3) BEN has been active with M&A activity lately, and we believe it may be difficult to preserve the cultures of the new affiliates and retain key personnel.

Quarterly Earnings Estimates

	2023	2024
Q1	0.51A	0.65A
Q2	0.61A	0.60E
Q3	0.63A	0.64E
Q4	0.84A	0.69E

Additional details

Bond rebalancings in '24 + Great-West partnership offsets weak performance

BEN reported LT net outflows of \$5B in F1Q24, which included \$10.8B of reinvested distributions and were largely driven by accelerated fixed income net outflows (\$8.4B), which compares to -\$1.6B in F4Q23. We estimate that most of the outflows were driven by Western Core and Core-Plus and note that both funds have been underperforming. Specifically, investment performance of both Core and Core-Plus rank in the bottom quartile of the peer group on a 1/3/5-year basis, although 3-month performance has been very strong (top of peer group). Given that backdrop, we continue to forecast sizable rebalancings into fixed income to start in 2024 with 60-70% going to passive, we believe weak LT investment performance at Western will limit BEN's ability to capture this money in motion. However, BEN's rank as one of the big 3 active fixed income managers with its three large bond affiliates (Western, Brandywine, and Franklin) means that it should still benefit from the rising tide, and an improving fixed income organic growth rate should help BEN's overall net flow trajectory. Additionally, after forming a strategic partnership with Great West following the closing of the Putnam acquisition on January 1st, Great West will reallocate roughly \$25B to BEN with two-thirds (\$17B) going to fixed income in calendar year 2024. This drives our estimate for BEN's fixed income net flows to inflect positively in F2H24 and for BEN's FY2024 LT organic growth to be -0.9% (vs. -3.4% in FY2023 excluding reinvested distributions).

Expect Alt flows trajectory to decelerate after Lexington and BSP closes

In F1Q24, BEN's alternative flows were positive (\$2.7B), driven by its three largest alternative managers (Benefit Street Partners, Clarion, and Lexington), which generated a combined total of \$3.8B in LT net inflows partially offset by outflows in liquid Alts strategies. Net inflows were supported by the closing of Lexington X on January 9th (\$22.7B) and BSP's fifth flagship private credit fund on January 24th (\$4.7B). Excluding those two raises, BEN's Alts flows would have been -\$19B over the last five quarters. While we estimate Alt flows should remain positive, the forward trajectory should decelerate following the flagship fundraise completions. Longer term, as BEN continues to build out its specialist team focused on alternative product sales in the private wealth channel by launching new products, we believe its affiliates should be able to leverage this effort to enhance sales.

Great-West partnership offers insurance channel synergies

The closing of BEN's acquisition of Putnam on January 1st expands its presence in U.S. retirement increases its defined contribution AuM (assets under management) to >\$90B (based on 04/30/23 AuM) and brings BEN's total insurance related AuM to around \$171B (current). Additionally, BEN and Great-West have formed a long-term strategic partnership and Great-West will provide an initial reallocation of \$25B within the first 12-months post-closing with roughly two-thirds into fixed income and the remaining into Alts (some equity as well). We view the strategic partnership positively as BEN can leverage Power and Great-West's retirement and insurance relationships to generate additional growth and institutional wins longer term.

Price objective basis & risk

Franklin Resources (BEN)

Our price objective (PO) for BEN is \$25 and is derived from a price to earnings method. We apply an 8x multiple to our 2026 EPS estimate to derive our PO. Our 8x multiple is in-line with the active/traditional peer group excluding BLK.

Upside risks to our PO are: (1) a future equity bull market and tighter credit spreads could improve BEN's investment performance, (2) its expanding Alts business could offset its traditional outflows and benefit its fee rate, (3) future M&A could provide EPS accretion, (4) although we view its excess capital as mostly depleted after its M&A spree, BEN's tax shield may be undervalued by markets.

Downside risks are: a deterioration in investment performance and net flows.

Analyst Certification

I, Craig Siegenthaler, CFA, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

US - Brokers, Asset Managers, & Exchanges Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
BUY				
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	Ameriprise Financial	AMP	AMP US	Craig Siegenthaler, CFA
	Ares Management Corp	ARES	ARES US	Craig Siegenthaler, CFA
	BlackRock, Inc.	BLK	BLK US	Craig Siegenthaler, CFA
	Blackstone	BX	BX US	Craig Siegenthaler, CFA
	Blue Owl Capital	OWL	OWL US	Craig Siegenthaler, CFA
	Cboe Global Markets	CBOE	CBOE US	Craig Siegenthaler, CFA
	Interactive Brokers	IBKR	IBKR US	Craig Siegenthaler, CFA
	Intercontinental Exchange	ICE	ICE US	Craig Siegenthaler, CFA
	KKR & Co. Inc.	KKR	KKR US	Craig Siegenthaler, CFA
	Raymond James Financial	RJF	RJF US	Mark McLaughlin, CFA
	TPG Inc	TPG	TPG US	Craig Siegenthaler, CFA
	Tradeweb Markets Inc.	TW	TW US	Craig Siegenthaler, CFA
	Victory Capital Holdings, Inc.	VCTR	VCTR US	Craig Siegenthaler, CFA
	Virtu Financial	VIRT	VIRT US	Craig Siegenthaler, CFA
NEUTRAL				
	Affiliated Managers Group	AMG	AMG US	Craig Siegenthaler, CFA
	Brookfield Asset Management	BAM	BAM US	Craig Siegenthaler, CFA
	CME Group Inc	CME	CME US	Craig Siegenthaler, CFA
	Invesco	IVZ	IVZ US	Craig Siegenthaler, CFA
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	LPL Financial Holdings	LPLA	LPLA US	Craig Siegenthaler, CFA
	Patria	PAX	PAX US	Craig Siegenthaler, CFA
UNDERPERFORM				
	Charles Schwab Corp.	SCHW	SCHW US	Craig Siegenthaler, CFA
	Franklin Resources	BEN	BEN US	Craig Siegenthaler, CFA
	Nasdaq	NDAQ	NDAQ US	Craig Siegenthaler, CFA
	Robinhood Markets	HOOD	HOOD US	Craig Siegenthaler, CFA
	T. Rowe Price	TROW	TROW US	Craig Siegenthaler, CFA
	The Carlyle Group	CG	CG US	Craig Siegenthaler, CFA
RSTR				
	Apollo Global Management	APO	APO US	Craig Siegenthaler, CFA

iQmethodSM Measures Definitions

Business Performance

Return On Capital Employed

Return On Equity

Operating Margin

Earnings Growth

Free Cash Flow

Numerator

NOPAT = (EBIT + Interest Income) × (1 – Tax Rate) + Goodwill Amortization

Net Income

Operating Profit

Expected 5 Year CAGR From Latest Actual

Cash Flow From Operations – Total Capex

Denominator

Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill

Amortization

Shareholders' Equity

Sales

N/A

N/A

Quality of Earnings

Cash Realization Ratio

Asset Replacement Ratio

Tax Rate

Net Debt-To-Equity Ratio

Interest Cover

Numerator

Cash Flow From Operations

Capex

Tax Charge

Net Debt = Total Debt – Cash & Equivalents

EBIT

Denominator

Net Income

Depreciation

Pre-Tax Income

Total Equity

Interest Expense

Valuation Toolkit

Price / Earnings Ratio

Price / Book Value

Dividend Yield

Free Cash Flow Yield

Enterprise Value / Sales

Numerator

Current Share Price

Current Share Price

Annualised Declared Cash Dividend

Cash Flow From Operations – Total Capex

EV = Current Share Price × Current Shares + Minority Equity + Net Debt +

Other LT Liabilities

Enterprise Value

Denominator

Diluted Earnings Per Share (Basis As Specified)

Shareholders' Equity / Current Basic Shares

Current Share Price

Market Cap = Current Share Price × Current Basic Shares

Sales

Basic EBIT + Depreciation + Amortization

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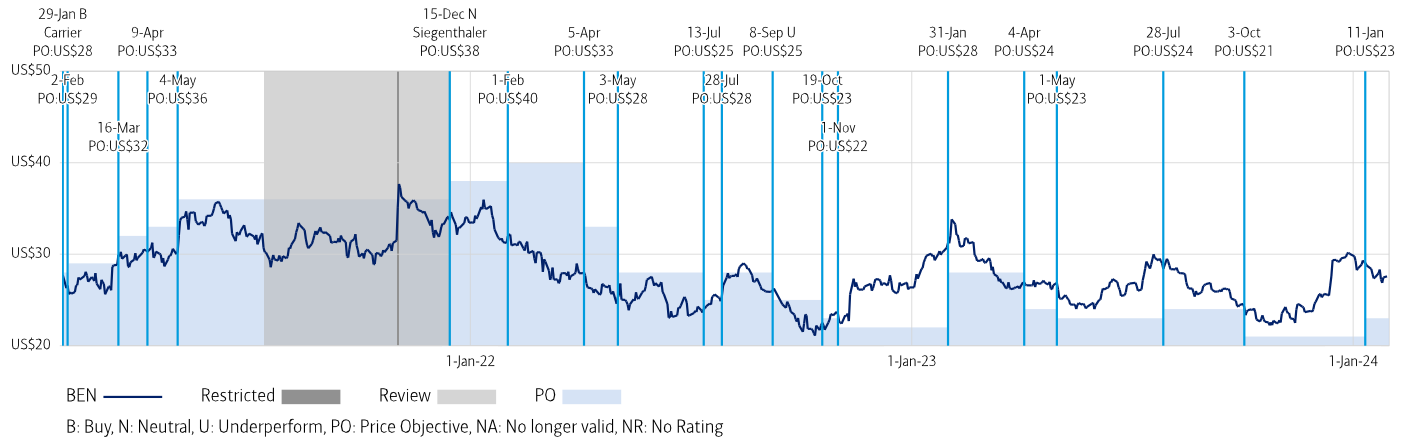
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Franklin Resources (BEN) Price Chart



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Equity Investment Rating Distribution: Financial Services Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	156	53.79%	Buy	94	60.26%
Hold	72	24.83%	Hold	48	66.67%
Sell	62	21.38%	Sell	35	56.45%

Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

^{R1} Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

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Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

^{R2} Ratings dispersions may vary from time to time where BofA Global Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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