

Janus Henderson Group

4Q23E: Forecast 10-12% EPS growth aided by op leverage & cap mgmt

Reiterate Rating: NEUTRAL | PO: 38.00 USD | Price: 30.05 USD

Core profit and organic growth beat

JHG reported better-than-expected 4Q23 adj. earnings of \$0.82 vs. \$0.55 consensus & \$0.59 BofAe (estimate small beat x-pfees, non-op and tax rate) and net flows of -\$3.1B (vs. -\$5.5B BofAe). Net redemptions were driven by equity, multi-asset and Alts, partially offset by inflows into fixed income. While we estimate outflows will continue in JHG's active equity business, we look for its bond flows (led by active fixed income ETFs) to accelerate further (vs. +\$7B in 2023) driven by our forecast for significant rebalancings into fixed income. On the income statement, we estimate 6-7% revenue growth in 2024/25 enhanced further by operating leverage (60-80bps y/y) and capital management (\$100-150M of buybacks per year) to drive 10-12% EPS growth. There could be additional upside from two positive catalysts: (1) private markets M&A; and (2) insurance IM agreement.

Raising EPS and PO; Forecast 30% total return

We increase our 2024/2025/2026 EPS estimates to \$2.88/\$3.22/\$3.55 from \$2.61/\$2.98/\$3.31, due mainly to a higher op margin estimate (new expense guidance) and buybacks as well as slightly higher organic growth. Our PO rises to \$38 from \$35 and is derived from a 10x multiple on our 2026 EPS plus \$2 given JHG's excess capital position. Our PO implies 30% total return potential.

Reiterate Neutral: Multiple levers to improve stock price

We believe JHG can improve the productivity of its global distribution effort, scale its multiple high performing smaller-sized strategies, form a partnership with an insurance company and pursue organic/inorganic growth opportunities to fill in product gaps in secular growth verticals. We also think the divestment of its consistently outflowing quant business (INTECH) and an improving market backdrop in 2024 will benefit its organic growth. While we forecast continued net outflows, we believe the company has multiple levers to pull to improve earnings in 2024. Additionally, JHG's activist shareholder's agenda could eventually result in JHG being considered an acquisition candidate for a larger financial services firm looking to strengthen its asset management business globally.

Estimates (Dec) (US\$)	2022A	2023A	2024E	2025E	2026E
EPS	2.59	2.63	2.88	3.22	3.55
GAAP EPS	22.51	22.66	25.20	27.55	29.94
EPS Change (YoY)	-39.5%	1.5%	9.5%	11.8%	10.2%
Consensus EPS (Bloomberg)			2.49	2.65	2.63
DPS	1.56	1.56	1.56	1.56	1.56
Valuation (Dec)					
P/E	11.6x	11.4x	10.4x	9.3x	8.5x
GAAP P/E	1.3x	1.3x	1.2x	1.1x	1.0x
Dividend Yield	5.2%	5.2%	5.2%	5.2%	5.2%

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Refer to important disclosures on page 6 to 8. Analyst Certification on page 4. Price Objective Basis/Risk on page 4.

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01 February 2024

Equity

Key Changes

(US\$)	Previous	Current
Price Obj.	35.00	38.00
2024E Rev (m)	5,208.0	5,248.2
2025E Rev (m)	5,583.6	5,594.1
2026E Rev (m)	5,928.2	5,923.7
2024E EPS	2.61	2.88
2025E EPS	2.98	3.22
2026E EPS	3.31	3.55

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Stock Data

Price	30.05 USD
Price Objective	38.00 USD
Date Established	1-Feb-2024
Investment Opinion	B-2-7
52-Week Range	22.18 USD -31.30 USD
Mrkt Val / Shares Out (mn)	4,978 USD / 165.7
Free Float	80.1%
Average Daily Value	23.72 USD
BofA Ticker / Exchange	JHG / NYS
Bloomberg / Reuters	JHG US / JHG.N
ROE (2024E)	10.5%
ESGMeter™	High

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iQprofileSM Janus Henderson Group

Income Statement Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Total Revenue	4,919	4,862	5,248	5,594	5,924
% Change	-23.2%	-1.2%	7.9%	6.6%	5.9%
Investment Advisory Fees	1,606	1,535	1,668	1,776	1,878
Compensation & Benefits	(595)	(588)	(636)	(670)	(704)
% Change	-14.2%	-1.2%	8.2%	5.5%	5.0%
Non-Compensation Expenses	(534)	(550)	(550)	(578)	(609)
Net Income to Ordinary Shareholders	3,647	3,639	3,940	4,209	4,462
Adjusted Net Income (Operating)	420	423	450	492	529
% Change	-41.8%	0.7%	6.4%	9.4%	7.6%
Adjusted EBITDA (Operating)	4,423	4,276	4,689	5,027	5,342
Cash EPS	NA	NA	NA	NA	NA
% Change	NA	NA	NA	NA	NA

Performance Metrics (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Operating Margin	77.1%	76.6%	77.4%	77.7%	77.8%
Pre-Tax Profit Margin	74.7%	78.1%	78.7%	78.9%	79.0%
Net Profit Margin	8.5%	8.7%	8.6%	8.8%	8.9%
Comp Expense/Revenue	12.1%	12.1%	12.1%	12.0%	11.9%
Non-Comp Expense / Revenue	10.9%	11.3%	10.5%	10.3%	10.3%
Net Revenue Growth	-23.2%	-1.2%	7.9%	6.6%	5.9%
Operating Expense Growth	-9.8%	0.8%	4.2%	5.4%	5.2%

Asset Management Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Assets Under Management (\$bn)	287.3	334.9	355.0	379.0	401.9
% Change	-33.5%	16.6%	6.0%	6.8%	6.0%
% Equity	59.6%	61.5%	60.2%	59.2%	58.9%
% Fixed Income	20.8%	21.3%	23.8%	25.5%	26.3%
% Money Mkt / Other	19.6%	17.1%	16.0%	15.3%	14.8%
Net New Flows (\$bn)	-36.5	-0.7	-1.7	-0.1	-2.7
Organic Growth	-8.4%	-0.2%	-0.5%	0%	-0.7%
Organic Growth ex-Money Market	NA	NA	NA	NA	NA
Advisory Fees / Avg. AUM	0.488%	0.489%	0.485%	0.483%	0.481%

Balance Sheet Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Total Assets	6,000	6,105	6,223	6,366	6,532
Total Shareholders' Equity	4,122	4,227	4,345	4,488	4,654
Tangible Shareholders' Equity	491	596	713	856	1,022
BVPS (Stated Equity)	25.44	26.33	27.79	29.38	31.23
ROE (Stated Equity)	9.6%	10.1%	10.5%	11.1%	11.6%
Cash & Investments	1,183	1,288	1,406	1,549	1,715
Net Cash & Investments Per Share	7.30	8.02	8.99	10.14	11.51

Company Sector

Asset Management

Company Description

Janus Henderson is a globally diversified asset manager with more than \$310B in assets under management spread across different asset classes, strategies, geographies and client types. Headquartered in London, UK, the company employs more than 2,000 individuals in 25 offices worldwide. It was formed in 2017 upon the merger between Janus Capital and Henderson Group. JHG is dual-listed on the New York Stock Exchange and Australian Securities Exchange.

Investment Rationale

While we are cautious on JHG's near-term net flow trajectory, we do believe the company has multiple organic and inorganic levers to pull to improve earnings, and these are not fully captured in sellside EPS estimates. Additionally, motivations from JHG's activist shareholder could eventually make JHG an acquisition target for a larger financial services firm looking to strengthen its asset management business globally.

Quarterly Earnings Estimates

	2023	2024
Q1	0.55A	0.64E
Q2	0.62A	0.69E
Q3	0.64A	0.70E
Q4	0.82A	0.84E

Additional details

Active bond ETFs boosting fixed income net flow trajectory

JHG's active ETF suite generated net inflows of \$6B in 2023 and AuM (assets under management) more-than doubled to \$12B. JHG now ranks as the fourth-largest active fixed income ETF provider in the US and its fixed income AuM totals around \$72B (21% of its total AuM). Fixed income net flows accelerated in 4Q23 (+\$1.7B vs. +\$0.9B in 3Q23) and JHG's fixed income organic growth (inclusive of lumpy institutional wins in 1H23) was roughly 12% for 2023. While JHG's softer overall fixed income investment performance may limit its inflows (only 42/33/59% of AuM in the top half of peer group), our forecast for sizable reallocations into fixed income starting in 2024 should support JHG's improving bond flow trajectory, and its active fixed income ETFs should continue to gain share. Specifically, we estimate JHG's fixed income flows could reach around +\$10B in 2024, which would help to offset expected outflows in its large active equity business, although we estimate for its FY2024 organic growth rate will remain negative (-0.5% est. vs. -0.2% in 2023).

2024 total expense growth tracking better-than-expected with new guidance

JHG's 2023 y/y adjusted expense growth was roughly 1%, with comp growth slightly negative and non-comp growth of 2.5% (below the company's prior guide of mid-single-digit growth). The company provided new expense guidance for 2024 today and expects its full year adj. comp ratio to be between 43% and 45% and for adj. non-comp growth of mid- to high-single digits. Accordingly, we now estimate around 4% y/y adjusted expense growth compared to our previous estimate of 7% in 2024 as JHG continues to prioritize expense management while reinvesting its cost savings for growth. While lower markets should drive down JHG's operating margin in 1Q24, we look for positive operating leverage through 2024/25 given the expense management focus.

LT growth opportunity in insurance channel + potential strategic partnership

JHG's insurance channel saw positive momentum in 2023 and insurance constitutes a large portion of its fixed income and institutional businesses. Additionally, JHG has prior experience in forming strategic partnerships with third-party insurance companies, as it has a strategic alliance with Dai-ichi, although that relationship is not as close as it once was. Given that the insurance channel remains an attractive growth opportunity for JHG, we believe the company could look to form a strategic partnership in that field to help enhance its long-term growth. Additionally, JHG could improve its relationship with Dai-ichi further and leverage that partnership to expand its Asia business further.



Price objective basis & risk

Janus Henderson Group (JHG)

Our PO for JHG is \$38 and is derived from a price to earnings method. We apply a 10.0x multiple on our 2026E EPS plus \$2 (given JHG's excess capital position) to obtain our PO. 10.0x is consistent with the company's five year average and is in-line with its traditional/active peer group. However, we note that the JHG stock has a premium to other outflowing traditional firms due to the takeout potential and other positive factors relating to its activist shareholder.

Downside risks: (1) potential for net redemptions given traditional/active heavy business mix and cyclical headwinds, (2) lack of negative sentiment due to concerns related to the activist and (3) elevated valuation relative to other outflowing traditional asset managers. Upside risks: (1) takeout, (2) accretive M&A and (3) buybacks.

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

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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
	Apollo Global Management	APO	APO 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
	Janus Henderson Group	JHG	JHG US	Craig Siegenthaler, CFA
	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

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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Disclosures

Important Disclosures

Janus Henderson (JHG) Price Chart



B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark grey shading indicates the security is restricted with the opinion suspended. Medium grey shading indicates the security is under review with the opinion withdrawn. Light grey shading indicates the security is not covered. Chart is current as of a date no more than one trading day prior to the date of the report.

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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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster ^{R2}
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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