

T. Rowe Price Group (TROW)

\$124.75 (As of 01/03/20)

Price Target (6-12 Months): **\$131.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 09/09/19)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

2-Buy

Zacks Style Scores:

VGM:B

Value: C

Growth: B

Momentum: B

Summary

Shares of T. Rowe Price have outperformed the industry, over the past six months. Earnings estimates have been revised upward, prior to the fourth-quarter earnings release. Further, the company has a decent earnings surprise history, beating the Zacks Consensus Estimate in three of the trailing four quarters. The company's planned strategic initiatives, including investment in technology and advisory services, strengthening distribution platform, introduction of products, will likely stoke long-term growth. Further, organic growth remains a key strength, as reflected by its revenue growth story. Also, the company remains debt free with sufficient liquidity. However, rising costs and the regulatory pressure across the investment-management industry are key concerns. Notably, management expects 2019 non-GAAP operating expenses to be up 4-5%.

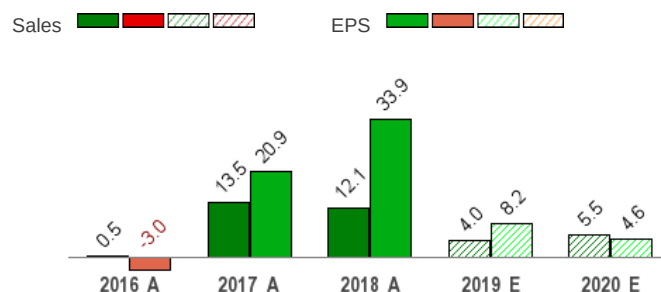
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$126.16 - \$86.61
20 Day Average Volume (sh)	806,514
Market Cap	\$29.2 B
YTD Price Change	2.4%
Beta	1.05
Dividend / Div Yld	\$3.04 / 2.4%
Industry	Financial - Investment Management
Zacks Industry Rank	Top 34% (85 out of 252)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	7.6%
Last Sales Surprise	-0.7%
EPS F1 Est- 4 week change	2.1%
Expected Report Date	01/29/2020
Earnings ESP	1.7%
P/E TTM	16.8
P/E F1	15.2
PEG F1	1.7
P/S TTM	5.3

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2020	1,422 E	1,435 E	1,461 E	1,471 E	5,894 E
2019	1,327 A	1,395 A	1,427 A	1,428 E	5,587 E
2018	1,328 A	1,345 A	1,395 A	1,305 A	5,373 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2020	\$1.99 E	\$2.08 E	\$2.16 E	\$2.12 E	\$8.23 E
2019	\$1.87 A	\$2.03 A	\$2.13 A	\$1.87 E	\$7.87 E
2018	\$1.77 A	\$1.77 A	\$2.30 A	\$1.41 A	\$7.27 A

*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 01/03/2020. The reports text is as of 01/06/2020.

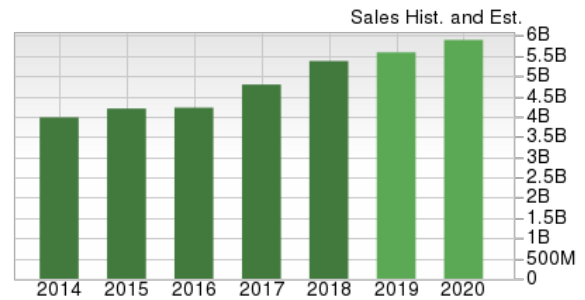
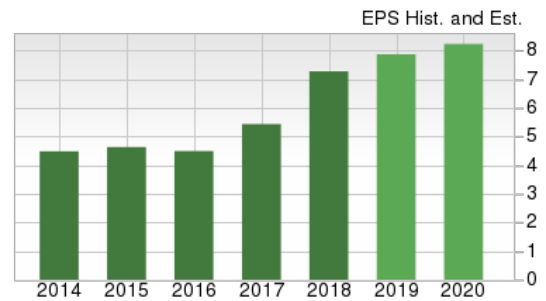
Overview

Founded in 1937 and headquartered in Baltimore, T. Rowe Price Group Inc. is a global investment management organization that provides a broad array of mutual funds, sub-advisory services and separate account management for individual and institutional investors, retirement plans and financial intermediaries. Through its subsidiaries, the company manages separate client-focused equity, fixed income and balanced portfolios along with mutual funds. Its client base includes individual investors, defined contribution retirement plans, institutional investors and third-party distributors, among others. The company operates worldwide from the U.S., England, Argentina, Australia, Hong Kong, Japan and Singapore.

Following are the components of the net revenue:

- The Investment Advisory Services (accounted for 90% of 2018 net revenue) earn fees for managing the investment portfolios that are computed using the value of AUM. As of Sep 30, 2019, non-U.S. investment advisory clients accounted for about 6.5% of the AUM..
- The Administrative Services (7%) provides advisory-related administrative services to price funds through its subsidiaries. Overall, it provides mutual fund transfer agency and shareholder services, mutual fund accounting services and participant accounting, plan administration and transfer agent services. Additionally, the company provides trustee services and other non-discretionary advisory planning services to fund shareholders and potential investors.
- The Distribution and Servicing fees (3%) represents servicing fees earned from 12b-1 plans of the Advisor, R, and VIP II classes of sponsored mutual funds.

In May 2017, T. Rowe Price, in order to provide additional high yield investment opportunity to its clients and to further strengthen its global fixed income franchise, has acquired a new fund from Henderson Global Investors.



Reasons To Buy:

- ▲ Organic growth remains a key strength at T. Rowe Price, as reflected by its revenue growth story. Net revenues demonstrated a 7.8% improvement at a CAGR, over the last five years (2014-2018), with the increasing trend continuing in the first nine months of 2019. Additionally, the company remains focused on fortifying business through several planned initiatives largely tied with launching new investment strategies and vehicles, enhancing client engagement capabilities in each distribution channels, strengthening distribution channel in U.S., EMEA, and Asia Pacific and improving its technology platform and derive long-term cost efficiencies.
- ▲ Although the global financial crisis has led to a decline in growth metrics, T. Rowe Price has been able to sustain positive earnings throughout the critical period as it benefits from its diverse business model. The earnings continue to get helped by strong brand, consistent investment track record and strong business volumes. Going forward, the mix shift toward international growth funds is also expected to help increase both revenue and investment management margin of the company. Notably, for the three-year period ended Sep 30, 2019, 68% of the T. Rowe Price mutual funds throughout the share classes outperformed the comparable Lipper averages on a total return basis, while 75% outperformed for the five-year period. In addition, T. Rowe Price stock, bond, and blended asset funds that ended third-quarter 2019, with an overall rating of four or five stars from Morningstar, account for 84.7% of the AUM in the firm's rated funds.
- ▲ T. Rowe Price's trailing 12-month return on equity (ROE) reflects its superiority in terms of utilizing shareholders' fund. The company's ROE of 28.84% compared favorably with the industry's 12.34%.
- ▲ T. Rowe Price remains debt free with substantial liquidity that includes cash and sponsored portfolio investment holdings of about \$5.6 billion, as of Sep 30, 2019. This has aided in strengthening the company's capital leverage and generating a return on earnings that is substantially higher than the industry average. These growth drivers also pave the way for an industry-leading dividend yield, thereby creating ample investor confidence and scope for investment and growth opportunities in the future.
- ▲ T. Rowe Price consistently enhances shareholders' value through strong capital-deployment activities. In February 2019, the company hiked its quarterly common stock dividend by 8.6% to 76 cents per share, marking T. Rowe Price's 33rd consecutive annual dividend increase, reflecting the company's commitment to return value to shareholders with its strong cash-generation capabilities. Further, its board of directors increased the common share repurchase authorization by 10 million shares, bringing the total authorization to about 22.4 million shares. Therefore, with debt-free position, these capital-deployment activities seem sustainable for the long term.
- ▲ Shares of T. Rowe Price have outperformed the industry, over the past six months. Further, the company's 2019 earnings estimates have been revised slightly upward, over the last 30 days. Therefore, given the solid fundamentals and positive estimates revision, the stock has upside potential.

Organic growth, steady capital deployment activities and diverse business model remain key strengths. Further, planned strategies and debt-free position should accelerate its business performance.

Reasons To Sell:

- ▼ Elevated operating expenses remain a major concern for T. Rowe Price. Expenses escalated at a five-year (2014-2018) CAGR of 9.7%, with the increasing trend continuing in the first nine months of 2019. Moreover, the company incurs significant expenditures to attract new investment advisory clients and additional investments from existing clients. Notably, management expects 2019 non-GAAP operating expenses to be up 4-5%.
 - ▼ Investment advisory fees are the biggest source of revenue for T. Rowe Price, comprising about 90% of its net revenue. The increased dependence on these could adversely affect the company's financials in the near term as the changes in AUM owing to market fluctuations and foreign exchange translations, regulatory changes or a sudden slowdown in overall business activities could hurt this revenue source.
 - ▼ The stock seems overvalued when compared with the broader industry. Its current price-to-book value and price-earnings (F1) ratios are above the respective industry averages.
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T. Rowe Price's bottom line growth continues to suffer from escalating operating costs and stretched valuation. Further, overdependence on investment advisory fees is a concern for the company.

Last Earnings Report

T. Rowe Price Q3 Earnings Beat Estimates on High AUM

T. Rowe Price reported a positive earnings surprise of 7.6% in third-quarter 2019. Adjusted earnings per share came in at \$2.13, outpacing the Zacks Consensus Estimate of \$1.98. Results also improved 7% from the year-ago figure of \$1.99.

Results were driven by higher AUM and revenues. However, escalating expenses were an undermining factor.

Including certain non-recurring items, net income came in at \$545.9 million or \$2.23 per share compared with \$583 million or \$2.30 per share recorded in the prior-year quarter.

Quarter Ending **09/2019**

Report Date	Oct 24, 2019
Sales Surprise	-0.73%
EPS Surprise	7.58%
Quarterly EPS	2.13
Annual EPS (TTM)	7.44

Revenues Up Y/Y, Expenses Flare Up

Net revenues in the third quarter increased 2.3% to \$1.43 billion from the year-ago quarter. This upside primarily resulted from higher investment advisory fees, partly offset by lower administrative, distribution and servicing fees. The net revenue figure missed the Zacks Consensus Estimate of \$1.44 billion.

Investment advisory fees climbed 3.2% year over year. However, administrative, distribution and servicing fees declined 6.1% year over year to \$123.3 million.

Investment advisory revenues earned from the T. Rowe Price mutual funds, distributed in the United States, were up 0.4% year over year to \$881 million. Investment advisory revenues earned from other investment portfolios, managed by the company, increased 9.4% from the prior-year quarter to \$422.4 million.

Total adjusted operating expenses flared up 2.8% year over year to \$765.1 million in the third quarter. Rise in compensation and related costs, technology, occupancy, and facility costs along with higher general, administrative, and other expenses resulted in this upsurge. Including certain one-time items, expenses were \$767.6 million, up 1.8%.

As of Sep 30, 2019, T. Rowe Price employed 7,262 associates, around 3.3% higher than the last year.

Strong Assets Position

As of Sep 30, 2019, total AUM climbed 3.9% year over year to \$1.13 trillion. During the July-September quarter, net market depreciation and income, came in at \$1 billion, while net cash inflow was \$2.5 billion after client transfers.

T. Rowe Price remains debt free with substantial liquidity, including cash and sponsored portfolio investment holdings of about \$5.6 billion as of Sep 30, 2019, which enable the company to keep on investing.

Capital-Deployment Activity

During third-quarter 2019, T. Rowe Price repurchased 1.6 million shares of its common stock for \$173.1 million, and invested \$148.9 million in capitalized technology and facilities using available cash balances in the first nine months of 2019.

For 2019, the company projects capital expenditures at approximately \$200 million, comprising two-third for technology development.

Outlook

T. Rowe Price has updated its full-year 2019 non-GAAP operating expense growth guidance to 4-5% from the prior range of 4-7%. This is mainly due to lower-than-planned year-to-date distribution, product-related and professional fee expenses, along with headcount growth.

Recent News

T. Rowe Price Reports 2.6% Sequential Rise in November AUM - Dec 10, 2019

T. Rowe Price has announced preliminary AUM of \$1.18 trillion for November 2019. Results reflect nearly 2.6% rise from the \$1.15 trillion recorded as of Oct 31, 2019. Client transfers from mutual funds to other portfolios, including trusts and separate accounts, were \$0.3 billion in November.

T. Rowe Wins Preliminary Approval for Semi-Transparent ETFs - Nov 14, 2019

T. Rowe Price has been granted permission to offer semi-transparent exchange traded funds (ETFs) by the Securities and Exchange Commission. The company had first filed for relief in 2013.

T. Rowe Price is required to undertake certain regulatory permissions until it can launch any ETFs. Also, the company is yet to decide upon the investment strategies it will make available. Notably, it will start by offering certain U.S. equity strategies.

With this semi-transparent structure, T. Rowe Price will be able to offer active strategies without the need to disclose certain information that might be harmful to the interests of fund shareholders.

T. Rowe Price Reports 1.8% Sequential Rise in October AUM - Nov 12, 2019

T. Rowe Price has announced preliminary AUM of \$1.15 trillion for October 2019. Results reflect nearly 1.8% rise from the \$1.13 trillion recorded as of Sep 30, 2019. Client transfers from mutual funds to other portfolios, including trusts and separate accounts, were \$1.1 billion in October.

Dividend Update

On Oct 30, T. Rowe Price's board of directors announced a quarterly common stock dividend of 76 cents per share. The dividend was paid on Dec 30, to shareholders of record as of Dec 16, 2019.

Valuation

T. Rowe Price's shares are up 35.8% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Finance sector are up 10.3% and 16.6% over the past year, respectively.

The S&P 500 index is up 25.7% in the past year.

The stock is currently trading at 15.18X forward 12 months earnings, which compares to 12.29X for the Zacks sub-industry, 14.79X for the Zacks sector and 18.71X for the S&P 500 index.

Over the past five years, the stock has traded as high as 19.89X and as low as 11.68X, with a 5-year median of 15.19X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$131 price target reflects 15.94X forward earnings.

The table below shows summary valuation data for TROW

Valuation Multiples - TROW					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	15.18	12.29	14.79	18.71
	5-Year High	19.89	14.33	16.21	19.34
	5-Year Low	11.68	9.81	12.01	15.17
	5-Year Median	15.19	12.43	13.98	17.44
P/TB TTM	Current	4.81	3.33	3.29	12.36
	5-Year High	6.02	3.78	3.98	12.45
	5-Year Low	3.63	1.62	2.44	6.03
	5-Year Median	4.54	3.02	3.46	9.06
P/S F12M	Current	4.94	3.54	6.53	3.47
	5-Year High	5.58	3.61	6.61	3.47
	5-Year Low	3.45	2.28	5.2	2.54
	5-Year Median	4.41	2.97	6.04	3

As of 01/03/2020

Industry Analysis Zacks Industry Rank: Top 34% (85 out of 252)



Top Peers

Ameriprise Financial, Inc. (AMP)	Neutral
Franklin Resources, Inc. (BEN)	Neutral
BlackRock, Inc. (BLK)	Neutral
Blackstone Group Inc/The (BX)	Neutral
Invesco Ltd. (IVZ)	Neutral
KKR & Co. Inc. (KKR)	Neutral
Principal Financial Group, Inc. (PFG)	Neutral
SEI Investments Company (SEIC)	Neutral

Industry Comparison Industry: Financial - Investment Management				Industry Peers		
	TROW Neutral	X Industry	S&P 500	AMP Neutral	BEN Neutral	IVZ Neutral
VGM Score	B	-	-	A	B	B
Market Cap	29.15 B	836.95 M	23.66 B	21.87 B	12.52 B	8.02 B
# of Analysts	7	3	13	1	4	7
Dividend Yield	2.44%	2.22%	1.79%	2.32%	4.30%	7.02%
Value Score	C	-	-	A	A	A
Cash/Price	0.08	0.17	0.04	0.25	0.45	0.19
EV/EBITDA	10.65	8.65	13.88	5.90	3.95	13.13
PEG Ratio	1.68	1.47	1.99	NA	1.38	0.78
Price/Book (P/B)	4.26	1.49	3.36	3.65	1.19	0.81
Price/Cash Flow (P/CF)	15.26	10.22	13.62	9.68	8.65	5.98
P/E (F1)	15.16	10.63	18.74	9.32	9.67	6.52
Price/Sales (P/S)	5.34	2.42	2.67	1.70	2.17	1.42
Earnings Yield	6.60%	9.03%	5.32%	10.72%	10.36%	15.34%
Debt/Equity	0.02	0.27	0.72	0.80	0.07	0.78
Cash Flow (\$/share)	8.17	2.01	6.94	17.26	2.90	2.96
Growth Score	B	-	-	B	D	D
Hist. EPS Growth (3-5 yrs)	13.33%	4.82%	10.56%	15.48%	-4.92%	0.27%
Proj. EPS Growth (F1/F0)	4.58%	10.06%	7.41%	10.31%	2.98%	3.89%
Curr. Cash Flow Growth	30.72%	8.96%	14.83%	11.52%	-22.73%	-6.37%
Hist. Cash Flow Growth (3-5 yrs)	11.74%	5.41%	9.00%	7.20%	-10.94%	1.83%
Current Ratio	3.60	2.20	1.23	0.83	2.96	1.57
Debt/Capital	15.44%	24.08%	42.92%	44.31%	12.33%	36.94%
Net Margin	35.28%	11.94%	11.08%	15.31%	20.71%	8.86%
Return on Equity	28.84%	12.34%	17.10%	37.50%	12.28%	10.60%
Sales/Assets	0.63	0.37	0.55	0.09	0.40	0.16
Proj. Sales Growth (F1/F0)	5.49%	6.36%	4.20%	3.99%	-1.41%	11.81%
Momentum Score	B	-	-	D	A	A
Daily Price Chg	-0.33%	-0.38%	-0.61%	-1.25%	-2.03%	-1.78%
1 Week Price Chg	0.23%	0.00%	0.13%	-0.82%	1.74%	-0.83%
4 Week Price Chg	1.42%	2.86%	2.60%	2.67%	-5.18%	6.38%
12 Week Price Chg	14.97%	4.04%	8.87%	24.71%	-5.43%	15.11%
52 Week Price Chg	40.47%	10.08%	29.34%	59.01%	-14.37%	7.55%
20 Day Average Volume	806,514	102,190	1,603,615	694,986	3,185,814	4,771,378
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	2.15%	0.00%	0.00%	0.00%	1.37%	1.88%
(F1) EPS Est 12 week change	0.76%	-0.89%	-0.57%	0.28%	-6.86%	-0.11%
(Q1) EPS Est Mthly Chg	0.80%	0.00%	0.00%	0.00%	0.53%	1.59%

Zacks Stock Rating System

We offer two rating systems that take into account investors' holding horizons: Zacks Rank and Zacks Recommendation. Each provides valuable insights into the future profitability of the stock and can be used separately or in combination with each other depending on your investment style.

Zacks Recommendation

The Zacks Recommendation aims to predict performance over the next 6 to 12 months. The foundation for the quantitatively determined Zacks Recommendation is trends in the company's estimate revisions and earnings outlook. The Zacks Recommendation is broken down into 3 Levels; Outperform, Neutral and Underperform. Unlike many Wall Street firms, we have an excellent balance between the number of Outperform and Neutral recommendations. Our team of 70 analysts are fully versed in the benefits of earnings estimate revisions and how that is harnessed through the Zacks quantitative rating system. But we have given our analysts the ability to override the Zacks Recommendation for the 1200 stocks that they follow. The reason for the analyst over-rides is that there are often factors such as valuation, industry conditions and management effectiveness that a trained investment professional can spot better than a quantitative model.

Zacks Rank

The Zacks Rank is our short-term rating system that is most effective over the one- to three-month holding horizon. The underlying driver for the quantitatively-determined Zacks Rank is the same as the Zacks Recommendation, and reflects trends in earnings estimate revisions.

Zacks Style Scores

The Zacks Style Score is as a complementary indicator to the Zacks rating system, giving investors a way to focus on the highest rated stocks that best fit their own stock picking preferences.

Academic research has proven that stocks with the best Value, Growth and Momentum characteristics outperform the market. The Zacks Style Scores rate stocks on each of these individual styles and assigns a rating of A, B, C, D and F. We also produce the VGM Score (V for Value, G for Growth and M for Momentum), which combines the weighted average of the individual Style Scores into one score. This is perfectly suited for those who want their stocks to have the best scores across the board.

Value Score	C
Growth Score	B
Momentum Score	B
VGM Score	B

As an investor, you want to buy stocks with the highest probability of success. That means buying stocks with a Zacks Recommendation of Outperform, which also has a Style Score of an A or a B.

Disclosures

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