

T. Rowe Price Group (TROW)

\$108.20 (As of 05/06/20)

Price Target (6-12 Months): **\$114.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 03/09/20)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

4-Sell

Zacks Style Scores:

VGM:C

Value: D

Growth: C

Momentum: B

Summary

Shares of T. Rowe Price have outperformed the industry, over the past six months. The company has an impressive earnings surprise history, beating the Zacks Consensus Estimate in all the trailing four quarters. The first-quarter 2020 results reflected higher revenues, escalating expenses and lower AUM. T. Rowe Price'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 is a key strength, as reflected by its revenue growth story. Additionally, the company remains debt free with sufficient liquidity. However, rising expenses and regulatory pressure across the investment-management industry are key concerns. Notably, management expects 2020 non-GAAP operating expenses to be up 1-4%.

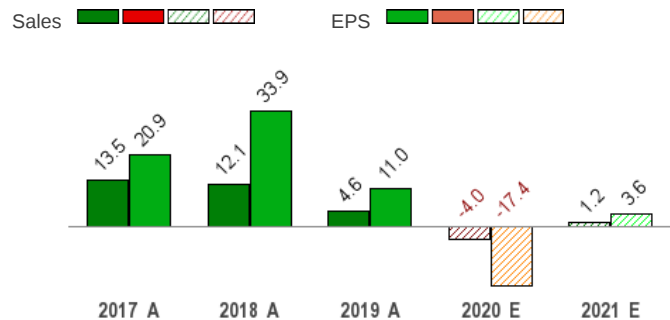
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$139.82 - \$82.51
20 Day Average Volume (sh)	1,284,125
Market Cap	\$24.6 B
YTD Price Change	-11.2%
Beta	1.16
Dividend / Div Yld	\$3.60 / 3.3%
Industry	Financial - Investment Management
Zacks Industry Rank	Bottom 21% (200 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	1.1%
Last Sales Surprise	2.7%
EPS F1 Est- 4 week change	-12.5%
Expected Report Date	07/22/2020
Earnings ESP	0.0%
P/E TTM	13.4
P/E F1	16.2
PEG F1	1.8
P/S TTM	4.3

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021					5,457 E
2020	1,463 A	1,282 E	1,329 E	1,341 E	5,391 E
2019	1,327 A	1,395 A	1,427 A	1,469 A	5,618 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$1.58 E	\$1.73 E	\$1.80 E	\$1.74 E	\$6.91 E
2020	\$1.87 A	\$1.61 E	\$1.66 E	\$1.57 E	\$6.67 E
2019	\$1.87 A	\$2.03 A	\$2.13 A	\$2.03 A	\$8.07 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 05/06/2020. The reports text is as of 05/07/2020.

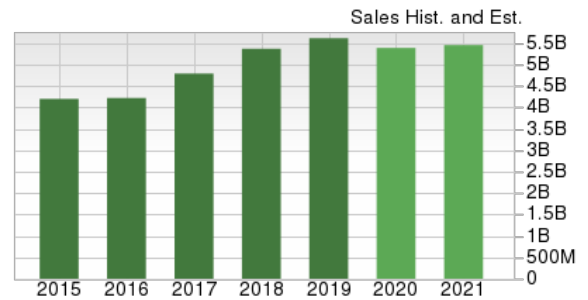
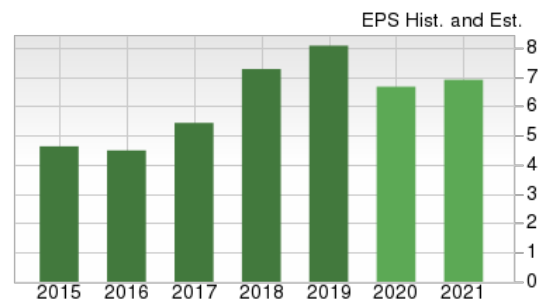
Overview

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 earn fees for managing the investment portfolios that are computed using the value of AUM. As of Mar 31, 2020, non-U.S. investment advisory clients accounted for about 7.4% of the AUM.
- The Administrative Services 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 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 7.5% improvement at a CAGR, over the last five years (2015-2019), with the increasing trend continuing in first-quarter 2020. 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 Mar 31, 2020, 60% of the T. Rowe Price mutual funds throughout the share classes outperformed the comparable Lipper averages on a total return basis, while 72% outperformed for the five-year period. In addition, T. Rowe Price stock, bond, and blended asset funds that ended the first quarter, with an overall rating of four or five stars from Morningstar, account for 76% 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 29.22% compared favorably with the industry's 11.65%.
- ▲ T. Rowe Price remains debt free with substantial liquidity that includes cash and sponsored portfolio investment holdings of about \$5 billion, as of Mar 31, 2020. 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 2020, the company hiked its quarterly common stock dividend by 18.4% to 90 cents per share, marking T. Rowe Price's 34th 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.

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 are a major concern for T. Rowe Price. Though expenses declined in first-quarter 2020, the figure escalated at a five-year (2015-2019) CAGR of 8.8%. Moreover, the company incurs significant expenditures to attract new investment advisory clients and additional investments from existing clients. Notably, management projects 2020 non-GAAP operating expenses to be up 1-4%..
- ▼ Investment advisory fees are the biggest source of revenue for T. Rowe Price, comprising about 91% 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.
- ▼ Shares of T. Rowe Price have outperformed the industry, over the past six months. Despite the favorable trend, the company's 2020 earnings estimates have been revised 12.5% downward, over the last 30 days. Also, 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. Therefore, given the above concerns and lack of positive estimates revision, the stock has limited upside potential.

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 Q1 Earnings Beat, Revenues Up

T. Rowe Price has reported first-quarter 2020 adjusted earnings per share of \$1.87, which outpaced the Zacks Consensus Estimate of \$1.85. The reported figure was in line with the year-ago quarter.

Results were driven by higher revenues on the back of an upsurge in investment advisory fees. However, escalating expenses were an undermining factor. Also, AUM declined year over year.

Including certain non-recurring items, net income was \$343.1 million or \$1.41 per share compared with the \$512.6 million or \$2.09 per share recorded in the prior-year quarter.

Quarter Ending 03/2020

Report Date	Apr 28, 2020
Sales Surprise	2.67%
EPS Surprise	1.08%
Quarterly EPS	1.87
Annual EPS (TTM)	8.06

Revenues Improve, Expenses Flare Up

Net revenues in the first quarter increased 10.2% to \$1.46 billion from the year-ago quarter. The upswing primarily resulted from higher investment advisory fees along with elevated administrative, distribution and servicing fees. The net revenue figure outpaced the Zacks Consensus Estimate of \$1.42 billion.

Investment advisory fees climbed 11.2% year over year to \$1.3 billion. Also, administrative, distribution and servicing fees escalated 1.3% year over year to \$134.8 million.

Investment advisory revenues earned from T. Rowe Price mutual funds distributed in the United States were up 9.4% year over year to \$876.2 million. Investment advisory revenues earned from other investment portfolios managed by the company increased 19.4% from the prior-year quarter to \$451.6 million.

Total adjusted operating expenses flared up 8.1% year over year to \$817.9 million in the reported quarter. Rise in headcount, continued investments, and elevated bonus and stock-based compensation expenses mainly resulted in the upsurge. Including certain one-time items, expenses were \$755.4 million, down 5%.

As of Mar 31, 2020, T. Rowe Price employed 7,471 associates, around 1.4% higher than the last year.

Assets Decline, Liquidity Position Strong

As of Mar 31, 2020, total AUM declined 16.4% sequentially to \$1.01 trillion. During the March-end quarter, net market depreciation and losses were \$191.9 billion, while net cash outflow was \$6 billion after client transfers. Moreover, AUM slumped 6.7% year over year.

T. Rowe Price remains debt-free with substantial liquidity, including cash and sponsored portfolio investment holdings of about \$5 billion as of Mar 31, 2020, which enable the company to keep on investing.

Capital-Deployment Activity

During the reported quarter, T. Rowe Price repurchased 8.3 million shares of its common stock for \$887 million at an average cost of \$106.43.

For 2020, the company projects capital expenditure of \$230 million, comprising three-fourth for technology development.

Outlook

T. Rowe Price projects full-year 2020 non-GAAP operating expense growth of 1-4%, down from 6-9%. This guidance reflects continued investments in the business and technology, cost optimization efforts and concluding part of the phased implementation of making payments to all third-party investment research at a moderate pace.

Recent News

Dividend Update

On Feb 12, T. Rowe Price's board of directors announced an increased quarterly common stock dividend of 90 cents per share, up 18.4%. The new dividend was paid on Mar 30, to shareholders of record as of Mar 16, 2020.

Valuation

T. Rowe Price's shares are down 11.2% in the year-to-date period but up 5% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Finance sector are down 18.5% and 28.1% in the year-to-date period. Over the past year, the Zacks sub-industry and sector are down 21% and 22.4%, respectively.

The S&P 500 Index is down 11.5% in the year-to-date period and 1.3% in the past year.

The stock is currently trading at 16.03X forward 12 months earnings, which compares to 12.41X for the Zacks sub-industry, 14.69X for the Zacks sector and 20.52X for the S&P 500 Index.

Over the past five years, the stock has traded as high as 19.89X and as low as 10.37X, with a 5-year median of 15.07X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$114 price target reflects 16.89X 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	16.03	12.41	14.69	20.52
	5-Year High	19.89	14.35	16.18	20.52
	5-Year Low	10.37	9.81	11.24	15.19
	5-Year Median	15.07	12.36	13.94	17.44
P/TB TTM	Current	4.44	2.57	2.38	10.76
	5-Year High	6.02	3.76	4	12.78
	5-Year Low	3.15	1.64	1.99	6.02
	5-Year Median	4.5	3.02	3.47	9.2
P/S F12M	Current	4.55	2.81	4.98	3.21
	5-Year High	5.58	3.67	6.7	3.44
	5-Year Low	3.45	2.29	4.98	2.54
	5-Year Median	4.39	2.97	6.06	3.01

As of 05/06/2020

Industry Analysis Zacks Industry Rank: Bottom 21% (200 out of 253)



Top Peers

Company (Ticker)	Rec	Rank
Ameriprise Financial Inc (AMP)	Neutral	3
BlackRock Inc (BLK)	Neutral	3
Blackstone Group IncThe (BX)	Neutral	4
KKRCo Inc (KKR)	Neutral	3
Principal Financial Group Inc (PFG)	Neutral	3
SEI Investments Company (SEIC)	Neutral	4
Franklin Resources Inc (BEN)	Underperform	4
Invesco Ltd (IVZ)	Underperform	5

Industry Comparison Industry: Financial - Investment Management				Industry Peers		
	TROW	X Industry	S&P 500	AMP	BEN	IVZ
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Underperform	Underperform
Zacks Rank (Short Term)	4	-	-	3	4	5
VGM Score	C	-	-	C	C	F
Market Cap	24.62 B	637.86 M	19.11 B	13.19 B	8.79 B	3.50 B
# of Analysts	7	3	14	3	4	7
Dividend Yield	3.33%	3.00%	2.2%	3.62%	6.09%	16.27%
Value Score	D	-	-	B	B	D
Cash/Price	0.06	0.23	0.06	0.28	0.68	0.34
EV/EBITDA	7.45	5.57	11.69	4.27	2.19	11.69
PEG Ratio	1.85	1.26	2.48	NA	NA	0.87
Price/Book (P/B)	3.83	1.31	2.58	2.45	0.82	0.35
Price/Cash Flow (P/CF)	11.67	7.52	10.40	5.92	6.12	2.42
P/E (F1)	16.72	9.38	18.81	6.83	9.84	5.17
Price/Sales (P/S)	4.28	1.64	1.97	1.03	1.55	0.54
Earnings Yield	6.16%	10.15%	4.99%	14.63%	10.15%	19.29%
Debt/Equity	0.03	0.21	0.75	0.82	0.12	0.88
Cash Flow (\$/share)	9.27	1.75	7.01	18.13	2.90	3.14
Growth Score	C	-	-	D	F	F
Hist. EPS Growth (3-5 yrs)	15.50%	6.99%	10.87%	16.07%	-3.81%	0.57%
Proj. EPS Growth (F1/F0)	-17.37%	-11.68%	-9.86%	-2.48%	-28.47%	-42.24%
Curr. Cash Flow Growth	10.14%	-4.05%	5.88%	-1.33%	-22.73%	24.49%
Hist. Cash Flow Growth (3-5 yrs)	10.60%	3.50%	8.55%	4.37%	-10.94%	3.83%
Current Ratio	4.55	2.18	1.25	0.67	3.90	1.71
Debt/Capital	15.09%	23.67%	44.23%	45.20%	12.39%	39.06%
Net Margin	33.86%	11.29%	10.87%	27.50%	17.29%	8.12%
Return on Equity	29.22%	11.65%	16.36%	40.13%	12.36%	11.04%
Sales/Assets	0.63	0.36	0.55	0.09	0.39	0.17
Proj. Sales Growth (F1/F0)	-4.05%	0.00%	-2.18%	-8.88%	-11.03%	-2.55%
Momentum Score	B	-	-	A	A	C
Daily Price Chg	-1.34%	-0.09%	-1.27%	-3.12%	-1.22%	-3.05%
1 Week Price Chg	10.07%	1.91%	0.53%	3.52%	13.25%	2.44%
4 Week Price Chg	2.55%	3.42%	0.68%	-3.95%	3.20%	-19.54%
12 Week Price Chg	-21.87%	-25.40%	-22.30%	-39.95%	-27.92%	-58.99%
52 Week Price Chg	5.06%	-30.29%	-11.55%	-25.00%	-47.62%	-64.14%
20 Day Average Volume	1,284,125	131,684	2,470,143	856,908	4,755,076	9,122,767
(F1) EPS Est 1 week change	-0.24%	0.00%	0.00%	0.00%	19.02%	0.00%
(F1) EPS Est 4 week change	-12.45%	-10.64%	-6.52%	-0.42%	-0.11%	-35.48%
(F1) EPS Est 12 week change	-24.47%	-19.90%	-14.84%	-13.97%	-10.17%	-46.55%
(Q1) EPS Est Mthly Chg	-8.01%	-10.42%	-12.48%	-0.77%	-6.38%	-33.27%

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	D
Growth Score	C
Momentum Score	B
VGM Score	C

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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