FRANKLIN TEMPLETON

# FRANKLIN RESOURCES, INC.

**Executive Earnings Commentary**
**Third Quarter Results**
**July 28, 2020**

## Highlights

**Jenny Johnson**
President
Chief Executive Officer

**Greg Johnson**
Executive Chairman

**Matthew Nicholls**
Executive Vice President
Chief Financial Officer

- Franklin Templeton's work-from-home contingency response to COVID-19 continues to function very well and business operations and client services remain fully functional as we prioritize the safety and well-being of our global workforce.
- Flow trends continued to improve across all investment objectives, driven by a 32% decrease in long-term redemptions versus the prior quarter. Flows into U.S. equity and fixed income strategies turned positive and eight of our twenty largest funds generated positive net flows year-to-date.
- Despite the partial rebound in assets under management and the normalization of flows this quarter, financial results were still impacted by the sharp decline in assets under management in March. Notwithstanding increased compensation expense this quarter, our other expenses continue to decline, and we remain on track to achieve previous guidance of a 5% to 7% decrease in expenses on a non-GAAP basis.
- Legg Mason transaction related efficiencies are on track for our $300 million gross synergy target, and we now anticipate realizing a significant portion of these savings sooner than expected.
- In May, we closed the acquisition of Pennsylvania Trust, broadening our ultra-high-net-worth business under Fiduciary Trust, as well as the acquisition of AdvisorEngine, an important part of our digital distribution strategy to advance our value proposition for the advisor community.



### Conference Call Details:

Access to the teleconference at 11:00 AM Eastern will be available via webcast at investors.franklinresources.com or by dialing (833) 350-1245 in the U.S. and Canada or (236) 712-2205 internationally. A replay of the teleconference can also be accessed by calling (800) 585-8367 in the U.S. and Canada or (416) 621-4642 internationally using access code 7469684, after 2:00 p.m. Eastern Time on July 28, 2020 through August 4, 2020, or via the webcast at investors.franklinresources.com. Analysts and investors are encouraged to review the Company's recent filings with the U.S. Securities and Exchange Commission for additional information.

### Forward-Looking Statements and Non-GAAP Financial Information

This commentary contains forward-looking statements that involve a number of known and unknown risks, uncertainties and other important factors. You should see the discussion on page 19 for important information concerning such matters. This commentary also contains non-GAAP financial measures. For the reconciliations from U.S. GAAP to non-GAAP measures, you should see the appendix to this commentary and the "Supplemental Non-GAAP Financial Measures" section of the earnings release.

# Legg Mason Acquisition Update

On July 17, 2020, we announced that all conditions to the closing of our acquisition of Legg Mason were satisfied and the transaction is expected to close on July 31, 2020, earlier than previously expected. Senior appointments in our corporate functions and global distribution groups have been announced and integration planning is progressing smoothly, with teams working around the world to ensure readiness to close at the end of this week.

Realizing identified gross synergies include headcount reductions of approximately 8% of our combined workforce while minimizing disruption to the firm. It is important to note that these synergies are limited to holding company functions and centralized distribution and do not involve any Franklin Templeton investment teams or the specialist investment managers that were part of Legg Mason (including distribution).

We are specifically removing overlapping, duplicative areas rapidly while protecting core business activities and thoroughly analyzing areas where more detailed knowledge transfer and longer transitions are prudent.

65% of corporate function run-rate expense reductions are expected on day one, whereas global distribution rationalization will proceed in multiple waves to protect business activity and ensure compliance with local labor regulations. Our combined sales organization reductions will be limited to 15% or less and we expect strong continuity and stability in our client facing functions.

As we stated at the time of announcement, we plan to reinvest a portion of these expense savings in the business but are taking a more conservative approach than previously-discussed by reinvesting approximately 10% of the savings per annum that should yield approximately $270 million of net expense synergies. This is in addition to Franklin's and Legg Mason's previously-announced standalone expense reductions.

**$300 MILLION OF EXPECTED GROSS SYNERGY REALIZATIONS**

- **25%** in the first 60 days
- **50%** by 2020 calendar year end
- **85%** within one year of close

**OTHER EXPENSE VALUE CAPTURE**

- **~$500 million** cash tax benefit over next seven to ten years: 50% likely realized by end of 2023
- **~$20 - $25 million** estimated annual savings by refinancing select aspects of our capital structure starting in 2021

**EXECUTION COSTS**

- **~$200 million**, or approximately 40% less than estimated at announcement
- Benefited from closing earlier than planned and other efficiencies in the execution plan

Significant work is underway to enable the combined organizations to distribute investment strategies from both Franklin Templeton and Legg Mason as soon as possible following close. On a combined basis we expect to have approximately forty 4- and 5-star rated funds, international growth opportunities, an alternatives business that will exceed $120 billion as a combined firm, SMA leadership in the U.S., and our investments in digital wealth that all position us to purse important institutional and retail growth opportunities

Our strong combination of complementary investment expertise, global scale, and lack of client and product overlap makes us better together. Clients have been broadly supportive as well, given our focus on stability and continuity combined with investment for the future. Thus far there have been virtually no redemptions to date as a specific result of the transaction.

Our first presentation of consolidated financials will be for the quarter and fiscal year ended September 30.

# Investment Performance

## Peer Group Comparison[1, 2]

| as of June 30, 2020 | % of AUM in Top Two Peer Group Quartiles 1-Year | 3-Year | 5-Year | 10-Year |
|---|---|---|---|---|
| **Equity** | | | | |
| Global/International | 40% | 25% | 25% | 30% |
| United States | 40% | 59% | 80% | 48% |
| Total Equity | 40% | 43% | 53% | 39% |
| **Multi-Asset/Balanced** | 13% | 18% | 18% | 17% |
| **Fixed Income** | | | | |
| Tax-free | 89% | 48% | 48% | 50% |
| Taxable | | | | |
| Global/International | 15% | 19% | 21% | 59% |
| United States | 31% | 25% | 8% | 4% |
| Total Fixed Income | 43% | 29% | 28% | 46% |

Growth outperformed value by the widest margin on record over the past two quarters, and our performance continues to reflect this dynamic. Global equity markets rallied substantially through April and May, supported by global government and central bank intervention, and continued to rally through June as economies reopened and improving economic data appeared to bolster optimism that the worst of the economic shocks were behind us. However, sharp resurgences in COVID-19 cases in several regions prompted governments to return to shutdown policies, and we believe this is a time for disciplined investment and patience in a market that has become increasingly sentiment driven.

On an asset weighted basis, certain large strategies weighed on results; however growth strategies continue to have strong performance and have attracted record flows as a result. Franklin Dynatech Fund, now our third largest U.S. equity fund, ranked in the top quintile for all periods shown above, and some U.S equity sector strategies delivered outstanding performance across these same periods, including Franklin Utilities and Franklin Technology funds.

Some of our portfolios underperformed during this period as they continue to be positioned conservatively, ready to take advantage of the further volatility our investment teams predict over the coming year as the economic implications of the virus become clearer. The percent of assets in the top two quartiles for our global equity strategies declined over the one-year period this quarter as a result, and while our global macro portfolios performed extremely well in the initial market downturn, such performance advantage has reduced as markets have strongly rebounded.

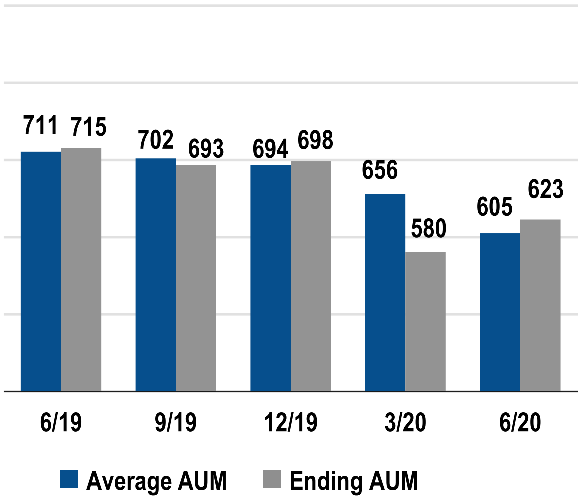
1. Assets under management ("AUM") measured in the 1-year peer group rankings represents 84% of our total AUM as of June 30, 2020.

2. The peer group rankings are sourced from Lipper, a Thomson Reuters Company, Morningstar, eVestment, and various international third party providers in each fund's market and were based on an absolute ranking of returns. 

# Assets Under Management and Flows

## Simple Monthly Average vs. End of Period

(In US$ billions, for the three months ended)



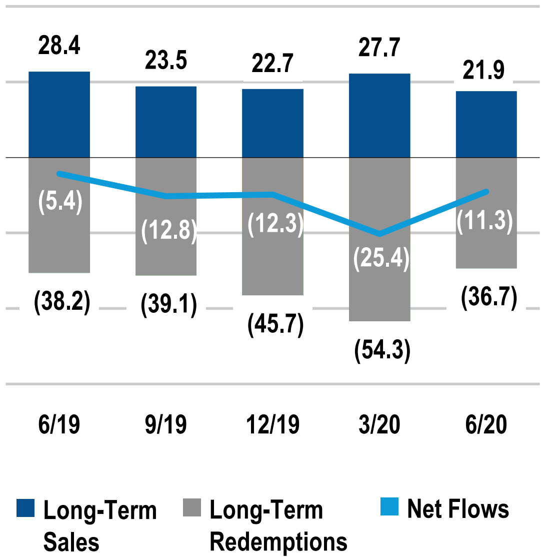

Ending assets under management rebounded to $623 billion and industry flows normalized this quarter following unprecedented market declines in March. Market appreciation of approximately $50 billion drove the improvement in ending assets under management, recapturing roughly half of the $98 billion decrease in the second quarter. Average assets under management declined 8% and were $605 billion.

Total net outflows for the quarter were $11 billion as long-term redemptions decreased to the lowest level in a year.

While several large strategies produced strong flows this year through June, many funds that have strong performance are not yet significant flow drivers for our firm. Nevertheless, net outflows improved for the fourth consecutive month, excluding March, and flows also improved fiscal year-to-date in 13 different sales regions globally compared to the prior fiscal year-to-date period.

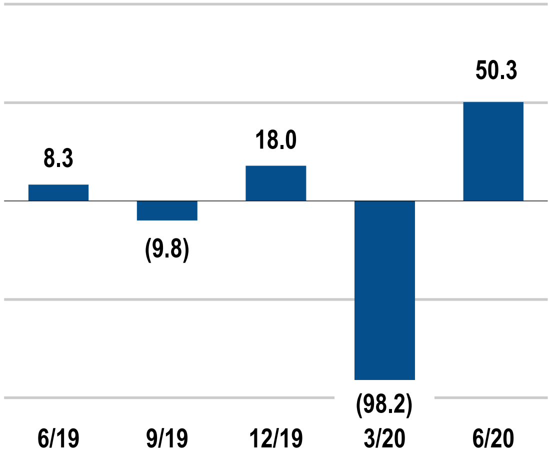
## Long-Term Flows

(In US$ billions, for the three months ended)




## Net Market Change, Distributions and Other

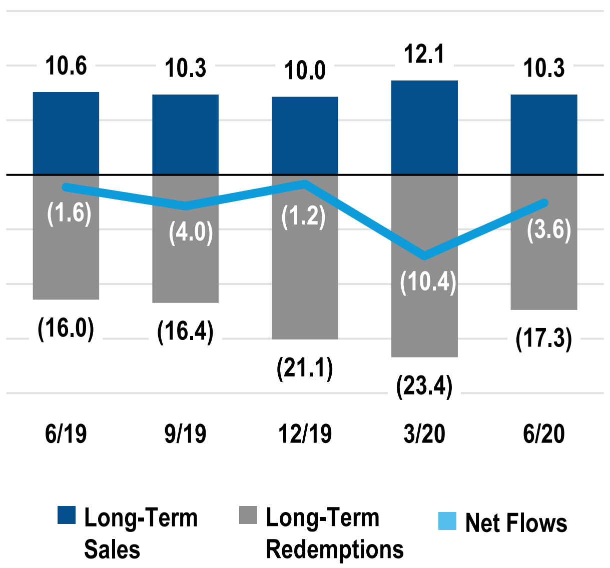
(In US$ billions, for the three months ended)



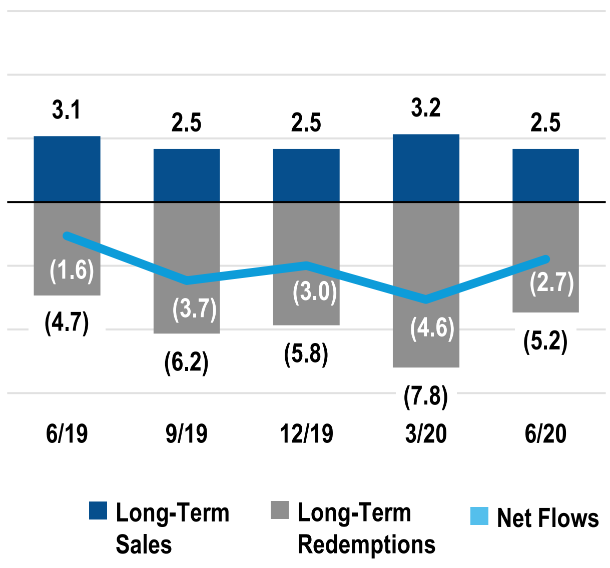
## Long-Term Flows: Unites States[1]

(In US$ billions, for the three months ended)

### Retail




### Institutional




In the U.S., a decline in redemptions outpaced a decline in sales in both the retail and institutional channels. Demand was strong in our retail U.S. equity and tax-free fixed income strategies in particular, and net outflows from our largest flagship strategies, Templeton Global Bond Fund and Franklin Income Fund, improved versus the prior quarter due to lower redemptions.

We continued to make progress on our strategic initiatives including our model portfolios, which are now live at over a dozen firms. Our ETF assets under management also nearly doubled over the past year to approximately $8 billion.

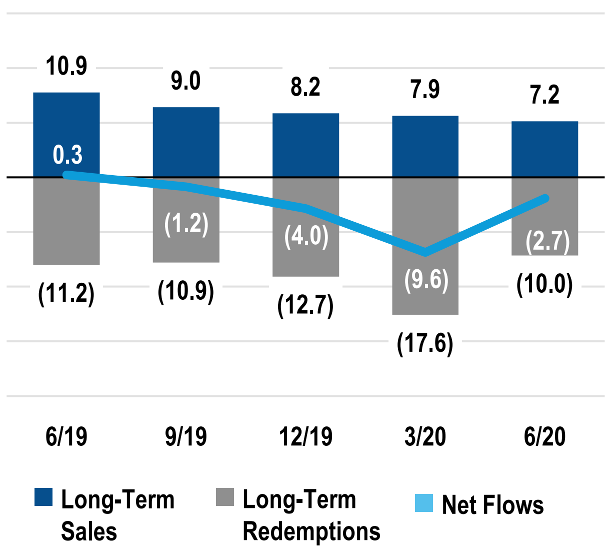
Institutional redemptions in the U.S. were $5 billion, the lowest in three quarters, and sales remained stable.

1. Graphs do not include high-net-worth client flows.

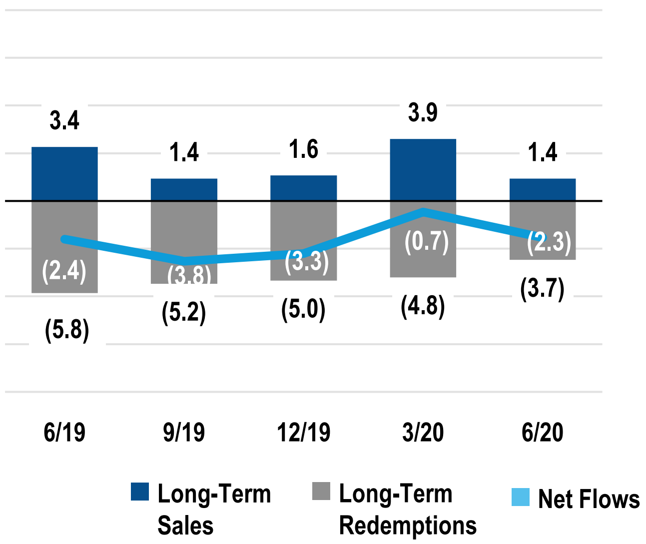
## Long-Term Flows: International[1]

(In US$ billions, for the three months ended)

### Retail




### Institutional




Redemptions in our international business declined 39% this quarter to their lowest level in a decade driven by global fixed income and emerging markets equity strategies. Sales were almost $9 billion; we experienced slightly higher sales in the previous quarter due primarily to large institutional wins that funded last quarter.

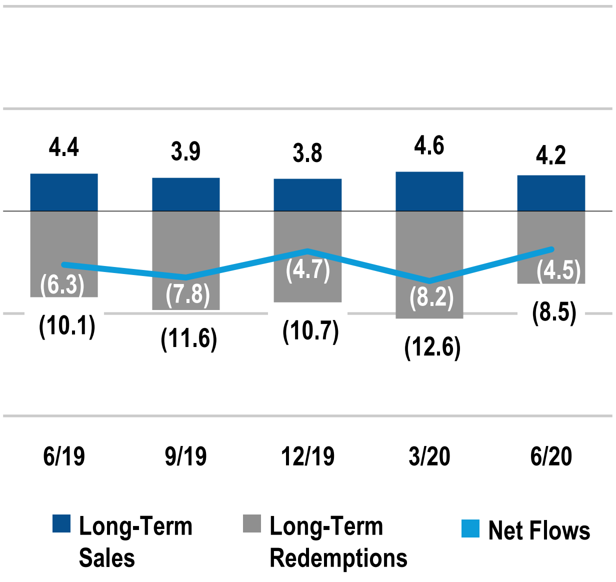
Several international products continued to increase in popularity, notably the cross-border Franklin Technology and Franklin U.S. Government Funds, which achieved their best quarters ever for flows and are ranked as top selling funds in their respective Morningstar categories.

1. Graphs do not include high-net-worth client flows.

# Flows by Investment Objective

## Global/International Equity

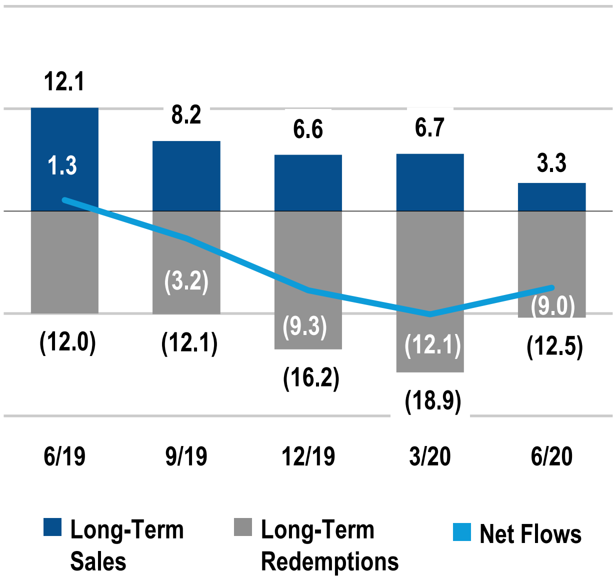
(In US$ billions, for the three months ended)




Net outflows improved notably in our global equity funds, but our value and deep value strategies continued to weigh on flows in the category. Despite periods of brief outperformance by value-oriented strategies in the quarter, MSCI World Growth outperformed its Value counterpart by 1,279 basis points in the period, sustaining headwinds for these strategies.

## Global/International Fixed Income

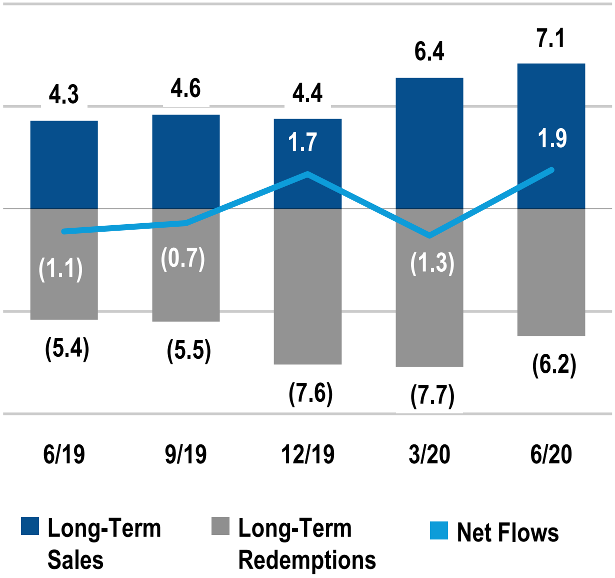
(In US$ billions, for the three months ended)




Global fixed income net outflows improved due to a $6 billion decline in redemptions. Sales decreased to just over $3 billion due to lower demand for our U.S. and cross-border Templeton Global Macro retail funds and reduced institutional activity.

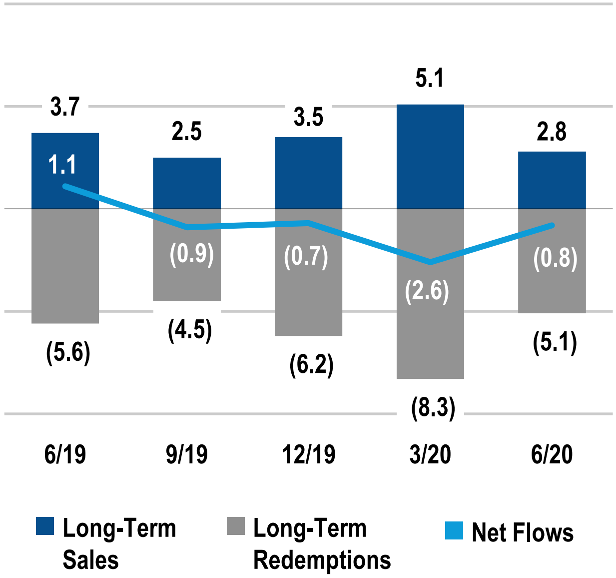
## U.S. Equity

(In US$ billions, for the three months ended)




## Multi-Asset/Balanced

(In US$ billions, for the three months ended)

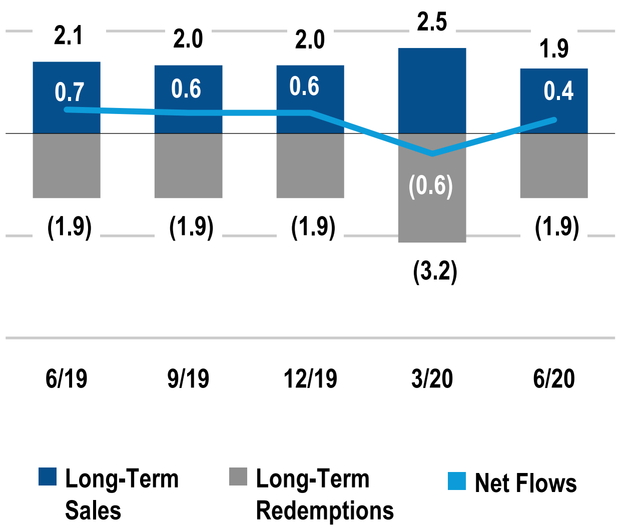



Our U.S. equity strategies continued to gain momentum led by Franklin Dynatech Fund and the cross-border Franklin Technology Fund. Both funds are rated 5-stars by Morningstar and experienced an acceleration of flows over the last two quarters, reaching new highs for gross and net sales. Franklin Dynatech is now our sixth largest fund by assets under management with $15 billion in AUM.

Franklin Income Fund net flows improved by almost $900 million this quarter but still comprised most of the outflows for the multi-asset/balanced category.

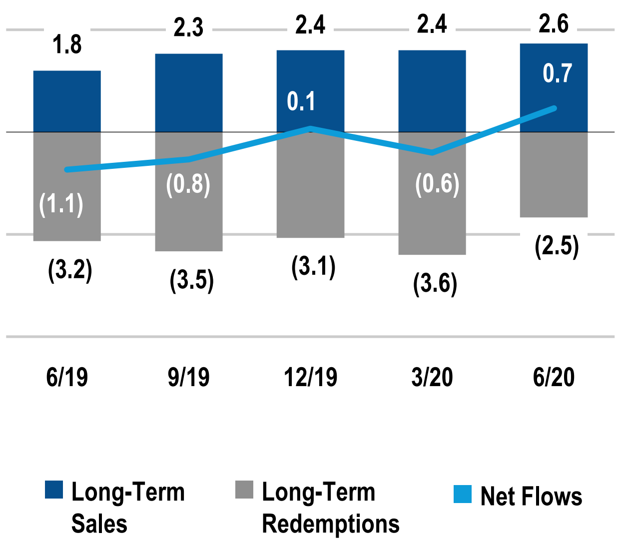
### Tax-Free Fixed Income

(In US$ billions, for the three months ended)




### Taxable U.S. Fixed Income

(In US$ billions, for the three months ended)




Tax-Free U.S. fixed income flows returned to the levels seen in the December quarter and benefited from strong year-to-date relative investment performance. Net flows were positive for this investment objective in five of the last six quarters. The strategies continue to focus on quality issuance and income generation, while utilizing minimal leverage.

Taxable U.S. fixed income returned to inflows as redemptions decreased and sales improved to almost $3 billion. This is net of a $300 million corporate redemption in the quarter from a low duration strategy to fund the Legg Mason transaction. Sales in Franklin U.S. Government Securities Fund reached the highest level since the first quarter of fiscal year 2013 and the fund's sales year-to-date already surpassed full year sales levels in each of the past three years.

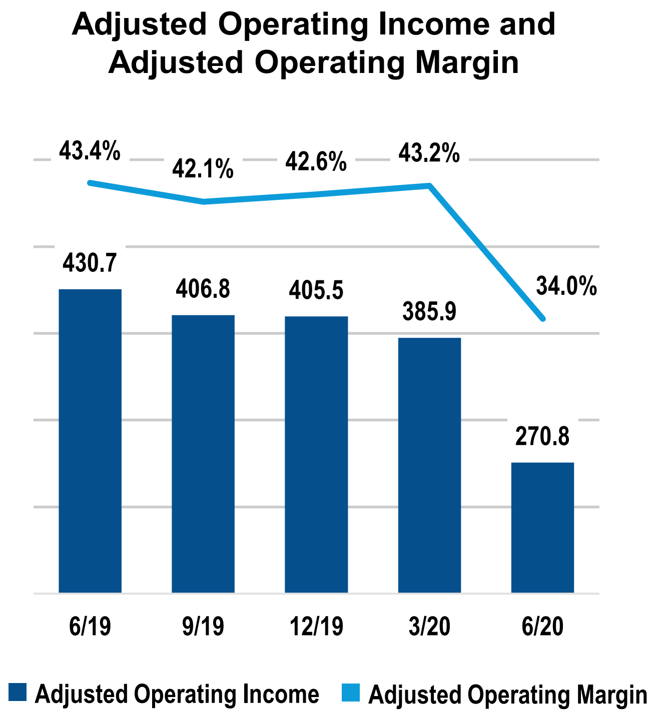
Third quarter flows reflect almost $500 million of committed capital that Benefit Street Partners (BSP) was able to deploy opportunistically into the recent dislocation in the credit markets before the market shifted rapidly. Subsequent to quarter-end, BSP was able to call an additional $100 million of committed capital across the Private Debt and Special Situations platform, launched BSP Dislocation Fund with approximately $260 million of first close commitments, closed on an additional $120 million of commitments in Senior Secured Opportunities Fund II (bringing total commitments to about $620 million), and priced a new CLO (BSP's 20th under management) of about $400 million. In addition, the team is actively working to launch real estate funds to take advantage of recent market opportunities and to develop a private BDC.

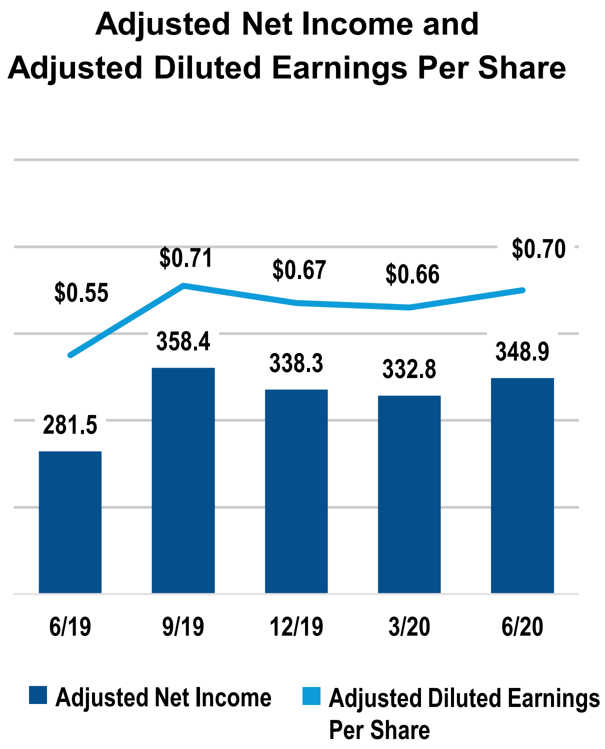
# Financial Results

(Non-GAAP results, in US$ millions except per share data, for the three months ended)

| US GAAP | 6/19 | 9/19 | 12/19 | 3/20 | 6/20 |
|---|---|---|---|---|---|
| Operating Income | 374.9 | 391.5 | 392.7 | 356.1 | 253.7 |
| Operating Margin | 25.4% | 27.0% | 27.8% | 26.6% | 21.4% |

| US GAAP | 6/19 | 9/19 | 12/19 | 3/20 | 6/20 |
|---|---|---|---|---|---|
| Net Income | 245.9 | 306.4 | 350.5 | 79.1 | 290.4 |
| Diluted EPS | $0.48 | $0.61 | $0.70 | $0.16 | $0.58 |




Third quarter operating income contracted to $271 million as a consequence of the sharp decline in assets under management in March that resulted in the current quarter beginning nearly 12% lower than the prior quarter average. Despite the partial rebound in assets under management since March, adjusted revenue was 11% lower this quarter. Lower revenue and increased compensation resulted in a lower adjusted operating margin of 34.0% for the quarter. Importantly, we continue to make progress on expense initiatives and the fiscal year-to-date adjusted operating margin was 40.2%.

Adjusted net income was $349 million, a 5% increase from last quarter, due to below the line items that are discussed in more detail later in this commentary.

Adjusted earnings per share was $0.70, an 6% increase over the March quarter.

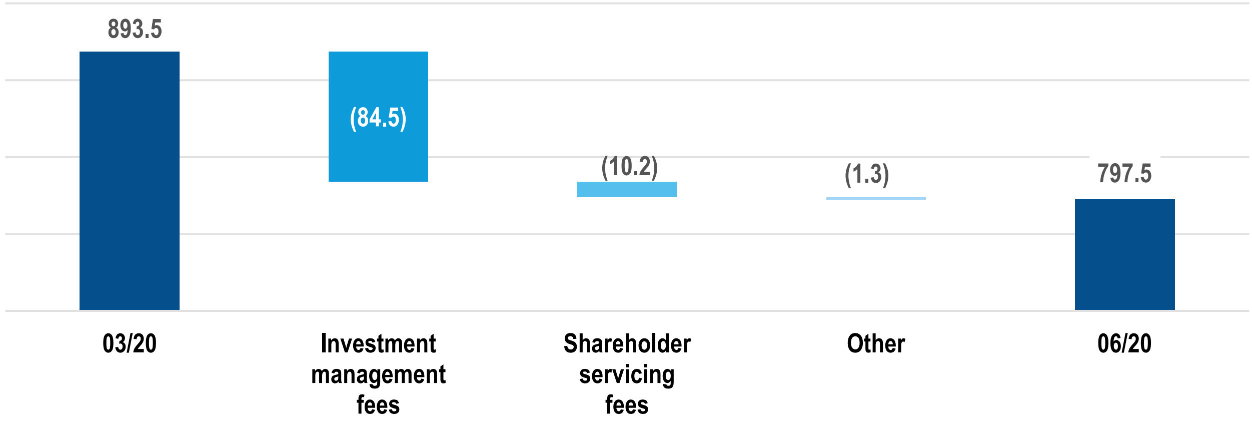
Non-GAAP financial measures. For the reconciliations from US GAAP to non-GAAP measures see the appendix to this commentary and the Supplemental Non-GAAP Financial Measures section of the earnings release.

# Revenues

(Non-GAAP results, in US$ millions, for the three months ended)

| | Jun-20 US GAAP | Adjustments | Jun-20 Adjusted | Mar-20 Adjusted | June-20 Adjusted vs. Mar-20 Adjusted | Jun-19 Adjusted | Jun-20 Adjusted vs. Jun-19 Adjusted |
|---|---|---|---|---|---|---|---|
| Investment management fees | 809.2 | (61.5) | 747.7 | 832.2 | (10%) | 931.4 | (20%) |
| Sales and distribution fees | 302.1 | (302.1) | - | - | - | - | - |
| Shareholder servicing fees | 44.6 | - | 44.6 | 54.8 | (19%) | 52.7 | (15%) |
| Other | 32.2 | (27.0) | 5.2 | 6.5 | (20%) | 8.8 | (40%) |
| **Total Operating Revenues** | **1,188.1** | **(390.6)** | **797.5** | **893.5** | **(11%)** | **992.9** | **(20%)** |

**Adjusted Operating Revenues—Quarter Ended March 31, 2020 vs June 30, 2020**




Adjusted operating revenue of $798 million declined 11% compared to the March quarter, as illustrated above, and almost 20% versus the same quarter a year ago.

Investment management fees, adjusted to include fees from investment products that were previously eliminated by consolidation and reduced by the allocation of investment management fees for sales, distribution and marketing expenses was $748 million, a decrease of almost $85 million from last quarter. This was primarily due to lower assets under management, virtually no performance fees (a $6.9 million decrease from the March quarter) and a lower adjusted effective fee rate (EFR) of 49.7 basis points, compared to 50.6 basis points last quarter.

The decrease in the adjusted EFR was primarily attributable to a mix shift among higher fee EMEA and lower fee U.S. strategies, but was also impacted by fee waivers, including the discontinuation of management fees from previously-announced India credit fund closures.

Shareholder servicing fees were lower by $10 million, with $7.5 million of the decrease due to seasonally lower transaction-based fees.

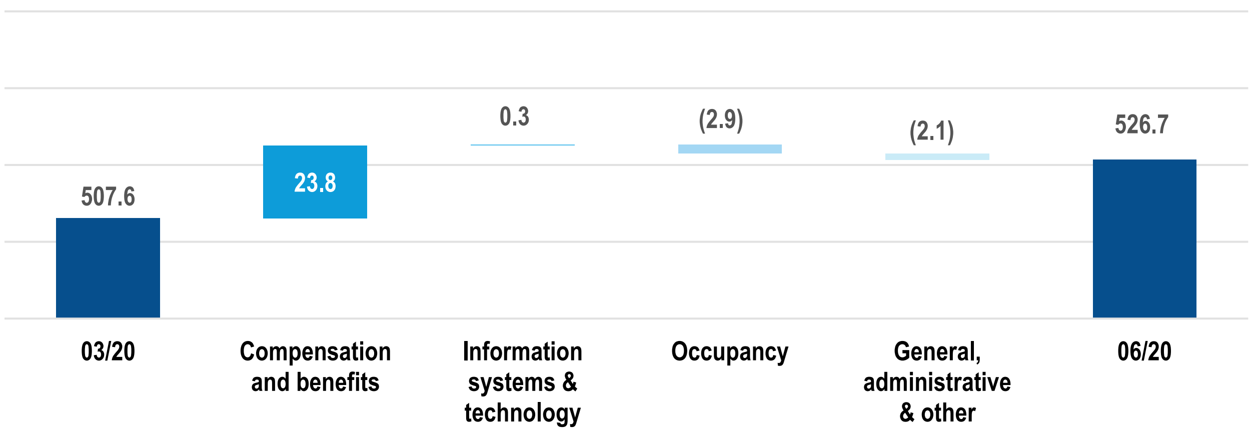
Non-GAAP financial measures. For the reconciliations from US GAAP to non-GAAP measures see the appendix to this commentary and the Supplemental Non-GAAP Financial Measures section of the earnings release.

# Expenses

(Non-GAAP results, in US$ millions, for the three months ended)

| | Jun-20 US GAAP | Adjustments | Jun-20 Adjusted | Mar-20 Adjusted | Jun-20 Adjusted vs. Mar-20 Adjusted | Jun-19 Adjusted | Jun-20 Adjusted vs. Jun-19 Adjusted |
|---|---|---|---|---|---|---|---|
| Sales, distribution & marketing | 368.6 | (368.6) | - | - | - | - | - |
| Compensation & benefits | 386.5 | (24.2) | 362.3 | 338.5 | 7% | 377.4 | (4%) |
| Information systems & technology | 62.1 | - | 62.1 | 61.8 | 0% | 65.7 | (5%) |
| Occupancy | 31.5 | - | 31.5 | 34.4 | (8%) | 32.2 | (2%) |
| General, administrative & other | 85.7 | (14.9) | 70.8 | 72.9 | (3%) | 86.9 | (19%) |
| **Total Operating Expenses** | **934.4** | **(407.7)** | **526.7** | **507.6** | **4%** | **562.2** | **(6%)** |

**Adjusted Operating Expenses—Quarter Ended March 31, 2020 vs June 30, 2020**




Adjusted operating expenses increased 4% during the quarter to $527 million. Despite the increase, fiscal year-to-date expenses are 5% lower than the same period last year, within the range of a 5% to 7% reduction in expenses we communicated last quarter, which remains our expectation on a stand-alone basis.

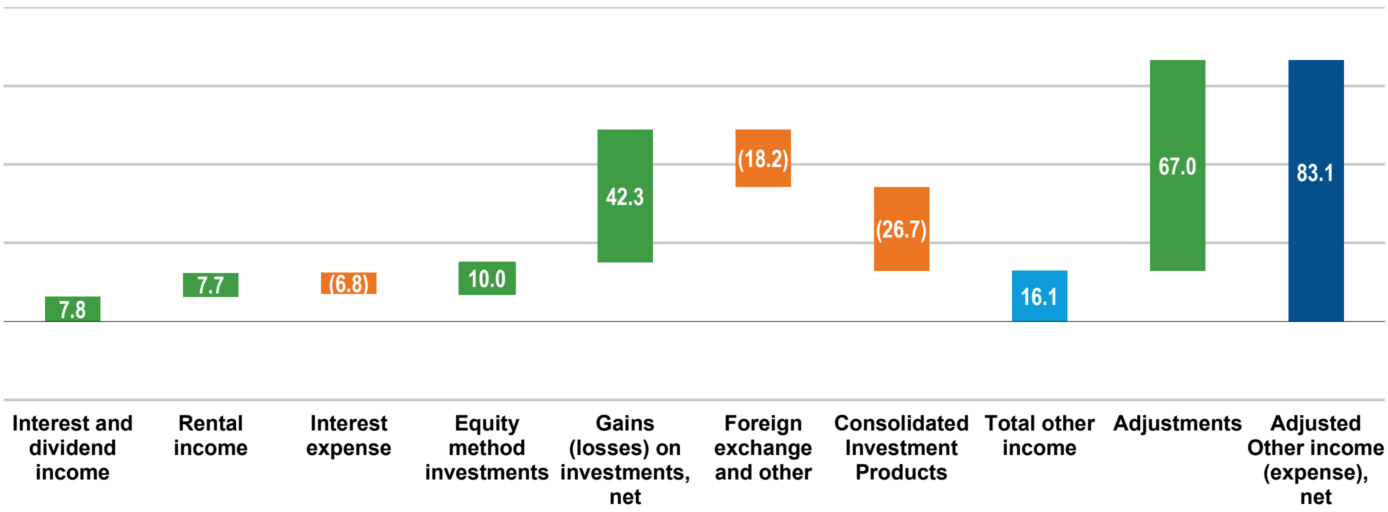
Compensation and benefits expense, adjusted to exclude $15.5 million of acquisition-related retention compensation and $8.7 million of special termination benefits resulting from the cost initiatives already mentioned, increased 7% to $362 million. This was due to higher variable compensation as our compensation accruals stabilized after aggressive cuts last quarter to reflect the recovery in assets under management and flows. If the recovery is not sustained, we will make necessary adjustments in the fourth quarter.

Non-compensation expenses decreased 3% from last quarter due to ongoing expense management efforts, including our work-from-home contingency response to COVID-19. Information systems and technology was flat while occupancy and general, administrative and other expenses decreased 8% and 3%, respectively, the latter of which was inclusive of a $5.5 million increase in director compensation related to appreciation of the company's stock.

# Other Income and Taxes

(in US$ millions, for the three months ended June 30, 2020)

## Other Income

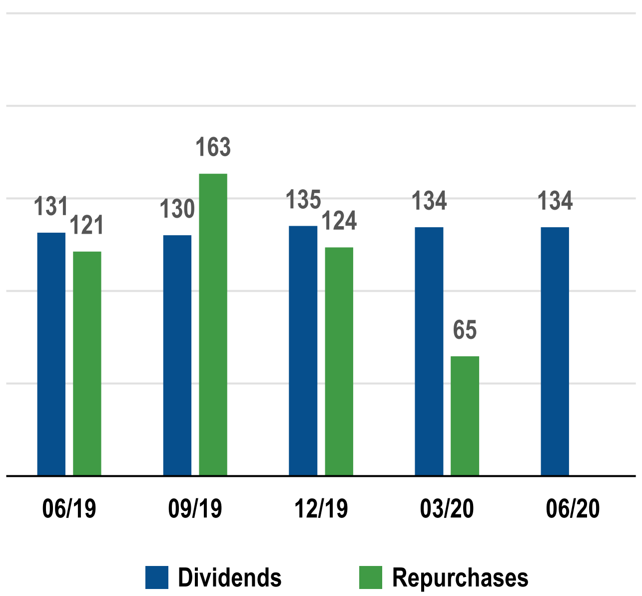



Other income adjusted for unrealized investment gains increased to $83.1 million this quarter as a realized gain on the sale of an investment more than offset lower dividend and interest income. During the quarter, we sold select investments to fund the purchase of Legg Mason, including a long-held offshore investment that resulted in a realized gain of $93.4 million ($80.1 million net of a related hedge) and also allowed us to realize a tax benefit of $38.6 million from a capital loss, resulting in a lower effective tax rate this quarter.

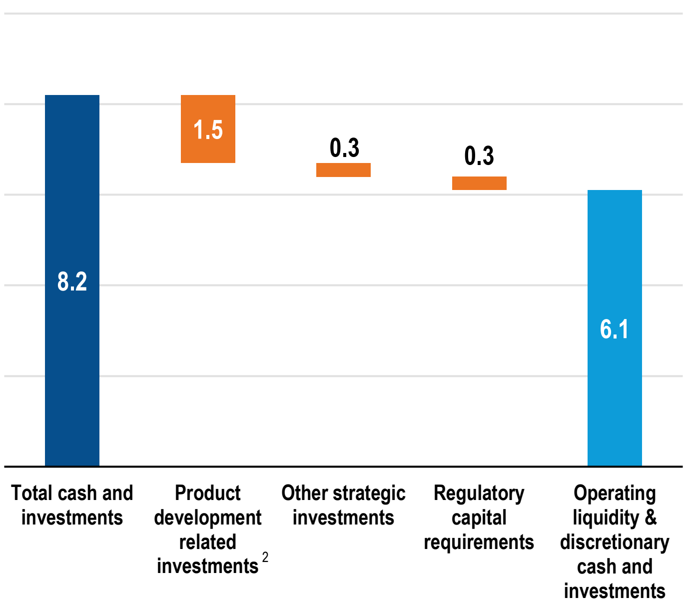
Our effective tax rate without the benefit of discrete items, including the capital loss, was 20.3% for the quarter and 24% for the year-to-date period. On a stand-alone basis, we currently expect the full fiscal year tax rate to be in the range of 21% to 22%, including all discrete items in this quarter.

# Capital Management

### Dividends and Share Repurchases
(US$ millions, for the three months ended)




### Allocation of Cash and Investments[1]
(In US$ billions, as of June 30, 2020)




The quarterly dividend of $0.27 per share was declared in June and per previous guidance, share repurchases were curtailed this quarter as we navigated the COVID-19 crisis and related market uncertainties and prepared for the Legg Mason acquisition.

Total cash and investments was $8.2 billion as of June 30, 2020, prior to funding the acquisition. Pro forma for the acquisition, we expect to have approximately $5 billion of cash and investments at closing, along with significantly enhanced and diversified cash flow generation.

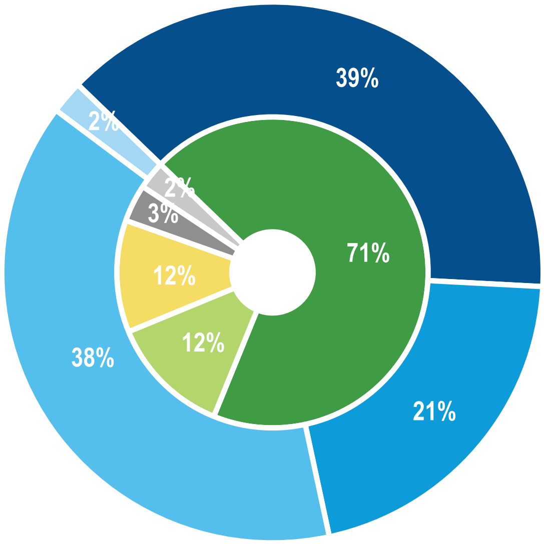
We will provide an update on capital management when we report year-end results in October, but—all else being equal—we expect to continue our history of annual regular cash dividend growth, with opportunistic share repurchases, and will likely reduce debt by about 20% over the next few years, while maintaining appropriate liquidity and continuing to invest in the future of our business.

1. Includes direct investments in CIPs of $0.7 billion.
2. Includes undrawn capital commitments of $240 million.

# Appendix

## Mix of Ending Assets Under Management

(As of June 30, 2020)




| Investment Objective (US$ billions) | | Jun-20 |
|---|---|---|
| Equity | $ | 243.0 |
| Multi Asset/Balanced | | 129.3 |
| Fixed Income | | 240.1 |
| Cash Management | | 10.4 |
| **Total** | **$** | **622.8** |

| Sales Region (US$ billions) | | Jun-20 |
|---|---|---|
| United States | $ | 439.7 |
| Europe, Middle East and Africa | | 78.2 |
| Asia-Pacific | | 74.1 |
| Canada | | 19.7 |
| Latin America | | 11.1 |
| **Total** | **$** | **622.8** |

# Reconciliation of US GAAP results to Non-GAAP results: Three months ended June 30, 2020

| (in US$ millions except per share data) | US GAAP Basis | Consolidated Investment Products | Sales, distribution and marketing | Acquisition-related | Special Termination Benefits | Unrealized investment (gains) losses | Non-GAAP Basis |
|---|---|---|---|---|---|---|---|
| **Revenues** | | | | | | | |
| Investment management fees | **809.2** | 4.9 | (66.4) | - | - | - | **747.7** |
| Sales and distribution fees | **302.1** | 0.1 | (302.2) | - | - | - | **0.0** |
| Shareholder servicing fees | **44.6** | - | - | - | - | - | **44.6** |
| Other | **32.2** | (27.0) | - | - | - | - | **5.2** |
| **Total Operating Revenues** | **1,188.1** | **(22.0)** | **(368.6)** | **-** | **-** | **-** | **797.5** |
| **Expenses** | | | | | | | |
| Sales, distribution and marketing | **368.6** | - | (368.6) | - | - | - | **-** |
| Compensation and benefits | **386.5** | - | - | (15.5) | (8.7) | - | **362.3** |
| Information systems and technology | **62.1** | - | - | - | - | - | **62.1** |
| Occupancy | **31.5** | - | - | - | - | - | **31.5** |
| General, administrative and other | **85.7** | (5.8) | - | (9.1) | - | - | **70.8** |
| **Total Operating Expenses** | **934.4** | **(5.8)** | **(368.6)** | **(24.6)** | **(8.7)** | **-** | **526.7** |
| **Operating Income** | **253.7** | **(16.2)** | **-** | **24.6** | **8.7** | **-** | **270.8** |
| **Other Income (Expense)** | | | | | | | **-** |
| Other income (expenses), net | **16.1** | 42.0 | - | (1.7) | - | 26.7 | **83.1** |
| **Income before taxes** | **269.8** | **25.8** | **-** | **22.9** | **8.7** | **26.7** | **353.9** |
| Taxes on income | **16.1** | - | - | 5.4 | 2.0 | (1.9) | **21.6** |
| **Net income** | **253.7** | **25.8** | **-** | **17.5** | **6.7** | **28.6** | **332.3** |
| Less: Net income (loss) attributable to noncontrolling interests | **(36.7)** | 20.1 | - | - | - | - | **(16.6)** |
| **Net Income Attributable to Franklin Resources, Inc.** | **290.4** | **5.7** | **-** | **17.5** | **6.7** | **28.6** | **348.9** |
| Less: allocation of earnings to participating nonvested stock and stock unit awards | **4.2** | | | | | | **5.0** |
| **Diluted EPS** | **$0.58** | | | | **Adjusted Diluted EPS** | | **$0.70** |
| **Diluted Shares Outstanding** | **490.7** | | | | **Diluted Shares Outstanding** | | **490.7** |
| **Operating Margin** | **21.4%** | | | | **Adjusted Operating Margin** | | **34.0%** |

# Reconciliation of US GAAP results to Non-GAAP results: Three months ended March 31, 2020

| (in US$ millions except per share data) | US GAAP Basis | Consolidated Investment Products | Sales, distribution and marketing | Acquisition-related | Unrealized investment (gains) losses | Non-GAAP Basis |
|---|---|---|---|---|---|---|
| **Revenues** | | | | | | |
| Investment management fees | **908.2** | 6.2 | (82.2) | - | - | **832.2** |
| Sales and distribution fees | **341.7** | - | (341.7) | - | - | **-** |
| Shareholder servicing fees | **54.8** | - | - | - | - | **54.8** |
| Other | **33.6** | (27.1) | - | - | - | **6.5** |
| **Total Operating Revenues** | **1,338.3** | **(20.9)** | **(423.9)** | **-** | **-** | **893.5** |
| **Expenses** | | | | | | |
| Sales, distribution and marketing | **423.9** | - | (423.9) | - | - | **-** |
| Compensation and benefits | **365.7** | - | - | (27.2) | - | **338.5** |
| Information systems and technology | **61.8** | - | - | - | - | **61.8** |
| Occupancy | **34.4** | - | - | - | - | **34.4** |
| General, administrative and other | **96.4** | (10.9) | - | (12.6) | - | **72.9** |
| **Total Operating Expenses** | **982.2** | **(10.9)** | **(423.9)** | **(39.8)** | **-** | **507.6** |
| **Operating Income** | **356.1** | **(10.0)** | **-** | **39.8** | **-** | **385.9** |
| **Other Income (Expense)** | | | | | | |
| Other income (expenses), net | **(253.2)** | 16.9 | - | - | 257.6 | **21.3** |
| **Income before taxes** | **102.9** | **6.9** | **-** | **39.8** | **257.6** | **407.2** |
| Taxes on income | **44.1** | - | - | 9.1 | 18.2 | **71.4** |
| **Net income** | **58.8** | **6.9** | **-** | **30.7** | **239.4** | **335.8** |
| Less: Net income (loss) attributable to noncontrolling interests | **(20.3)** | 23.3 | - | - | - | **3.0** |
| **Net Income Attributable to Franklin Resources, Inc.** | **79.1** | **(16.4)** | **-** | **30.7** | **239.4** | **332.8** |
| **Diluted EPS** | **$0.16** | | | **Adjusted Diluted EPS** | | **$0.66** |
| **Diluted Shares Outstanding** | **491.8** | | | **Diluted Shares Outstanding** | | **491.8** |
| **Operating Margin** | **26.6%** | | | **Adjusted Operating Margin** | | **43.2%** |

# Reconciliation of US GAAP results to Non-GAAP results: Three months ended June 30, 2019

| (in US$ millions except per share data) | US GAAP Basis | Consolidated Investment Products | Sales, distribution and marketing | Acquisition-related | Special Termination Benefits | Unrealized investment (gains) losses | Non-GAAP Basis |
|---|---|---|---|---|---|---|---|
| **Revenues** | | | | | | | |
| Investment management fees | **1,019.4** | 6.9 | (94.9) | - | - | - | **931.4** |
| Sales and distribution fees | **367.5** | - | (367.5) | - | - | - | **-** |
| Shareholder servicing fees | **52.7** | - | - | - | - | - | **52.7** |
| Other | **37.1** | (28.3) | - | - | - | - | **8.8** |
| **Total Operating Revenues** | **1,476.7** | **(21.4)** | **(462.4)** | **-** | **-** | **-** | **992.9** |
| **Expenses** | | | | | | | |
| Sales, distribution and marketing | **462.4** | - | (462.4) | - | - | - | **-** |
| Compensation and benefits | **437.7** | - | - | (21.5) | (38.8) | - | **377.4** |
| Information systems and technology | **65.7** | - | - | - | - | - | **65.7** |
| Occupancy | **32.2** | - | - | - | - | - | **32.2** |
| General, administrative and other | **103.8** | (2.6) | - | (14.3) | - | - | **86.9** |
| **Total Operating Expenses** | **1,101.8** | **(2.6)** | **(462.4)** | **(35.8)** | **(38.8)** | **-** | **562.2** |
| **Operating Income** | **374.9** | **(18.8)** | **-** | **35.8** | **38.8** | **-** | **430.7** |
| **Other Income (Expense)** | | | | | | | **-** |
| Other income (expenses), net | **38.6** | 16.6 | - | - | - | (24.9) | **30.3** |
| **Income before taxes** | **413.5** | **(2.2)** | **-** | **35.8** | **38.8** | **(24.9)** | **461.0** |
| Taxes on income | **158.9** | - | - | 8.8 | 9.3 | (3.6) | **173.4** |
| **Net income** | **254.6** | **(2.2)** | **-** | **27.0** | **29.5** | **(21.3)** | **287.6** |
| Less: Net income (loss) attributable to noncontrolling interests | **8.7** | (2.6) | - | - | | - | **6.1** |
| **Net Income Attributable to Franklin Resources, Inc.** | **245.9** | **0.4** | **-** | **27.0** | **29.5** | **(21.3)** | **281.5** |
| **Diluted EPS** | **$0.48** | | | | **Adjusted Diluted EPS** | | **$0.55** |
| **Diluted Shares Outstanding** | **502.3** | | | | **Diluted Shares Outstanding** | | **502.3** |
| **Operating Margin** | **25.4%** | | | | **Adjusted Operating Margin** | | **43.4%** |

# Forward-Looking Statements

Statements in this commentary regarding Franklin Resources, Inc. and its subsidiaries, which are not historical facts, are forward-looking statements within the meaning of the U.S. Private Securities Litigation Reform Act of 1995. When used in this commentary, words or phrases generally written in the future tense and/or preceded by words such as “will,” “may,” “could,” “expect,” “believe,” “anticipate,” “intend,” “plan,” “seek,” “estimate,” or other similar words are forward-looking statements. Forward-looking statements involve a number of known and unknown risks, uncertainties and other important factors, some of which are listed below, that could cause actual results and outcomes to differ materially from any future results or outcomes expressed or implied by such forward-looking statements. While forward-looking statements are our best prediction at the time that they are made, you should not rely on them and are cautioned against doing so. Forward-looking statements are based on our current expectations and assumptions regarding our business, the economy and other future conditions. Because forward-looking statements relate to the future, they are subject to inherent uncertainties, risks and changes in circumstances that are difficult to predict. They are neither statements of historical fact nor guarantees or assurances of future performance.

These and other risks, uncertainties and other important factors are described in more detail in our recent filings with the U.S. Securities and Exchange Commission, including, without limitation, in Risk Factors and Management’s Discussion and Analysis of Financial Condition and Results of Operations in our Annual Report on Form 10-K for the fiscal year ended September 30, 2019 and our subsequent Quarterly Reports on Form 10-Q:

- Our pending acquisition of Legg Mason, Inc. remains subject to transaction-related and other risks.
- Our business and operations are subject to adverse effects from the outbreak and spread of contagious diseases such as COVID-19, and we expect such adverse effects to continue.
- Failure to establish adequate controls and risk management policies, or the circumvention of controls and policies, could have an adverse effect on our operations, reputation and financial position.
- Failure to protect our intellectual property may negatively impact our business.
- Volatility and disruption of the capital and credit markets, and adverse changes in the global economy, may significantly affect our results of operations and may put pressure on our financial results.
- The amount and mix of our AUM are subject to significant fluctuations.
- We are subject to significant risk of asset volatility from changes in the global financial, equity, debt and commodity markets.
- Our funds may be subject to liquidity risks or an unanticipated large number of redemptions.
- A shift in our asset mix toward lower fee products may negatively impact our revenues.
- We may not effectively manage risks associated with the replacement of benchmark indices.
- Poor investment performance of our products could reduce the level of our AUM or affect our sales, and negatively impact our revenues and income.
- Harm to our reputation may negatively impact our revenues and income.
- Our business operations are complex and a failure to perform operational tasks properly or the misrepresentation of our services and products, resulting, without limitation, in the termination of investment management agreements representing a significant portion of our AUM, could have an adverse effect on our revenues and income.
- We face risks, and corresponding potential costs and expenses, associated with conducting operations and growing our business in numerous countries.
- Our increasing focus on international markets as a source of investments and sales of our products subjects us to increased exchange rate and market-specific political, economic or other risks that may adversely impact our revenues and income generated overseas.
- We may review and pursue strategic transactions that could pose risks to our business.
- Strong competition from numerous and sometimes larger companies with competing offerings and products could limit or reduce sales of our products, potentially resulting in a decline in our market share, revenues and income.
- Increasing competition and other changes in the third-party distribution and sales channels on which we depend could reduce our income and hinder our growth.
- Any failure of our third-party providers to fulfill their obligations, or our failure to maintain good relationships with our providers, could adversely impact our business.
- We may be adversely affected if any of our third-party providers is subject to a successful cyber or security attack.

## Forward-Looking Statements (continued)

- Our ability to manage and grow our business successfully can be impeded by systems and other technological limitations.
- Any significant limitation, failure or security breach of our information and cyber security infrastructure, software applications, technology or other systems that are critical to our operations could disrupt our business and harm our operations and reputation.
- Our inability to recover successfully, should we experience a disaster or other business continuity problem, could cause material financial loss, regulatory actions, legal liability, and/or reputational harm.
- We depend on key personnel and our financial performance could be negatively affected by the loss of their services.
- Our future results are dependent upon maintaining an appropriate expense level.
- Our ability to meet cash needs depends upon certain factors, including the market value of our assets, our operating cash flows and our perceived creditworthiness.
- We are dependent on the earnings of our subsidiaries.
- We are subject to extensive, complex, overlapping and frequently changing rules, regulations, policies, and legal interpretations.
- We may be adversely affected as a result of new or revised legislation or regulations or by changes in the interpretation of existing laws and regulations.
- Global regulatory and legislative actions and reforms have made the regulatory environment in which we operate more costly and future actions and reforms could adversely impact our financial condition and results of operations.
- Failure to comply with the laws, rules or regulations in any of the jurisdictions in which we operate could result in substantial harm to our reputation and results of operations.
- Changes in tax laws or exposure to additional income tax liabilities could have a material impact on our financial condition, results of operations and liquidity.
- Regulatory and governmental examinations and/or investigations, litigation and the legal risks associated with our business, could adversely impact our AUM, increase costs and negatively impact our profitability and/or our future financial results.
- Our contractual obligations may subject us to indemnification costs and liability to third parties.

Any forward-looking statement made by us in this press release speaks only as of the date on which it is made. Factors or events that could cause our actual results to differ may emerge from time to time, and it is not possible for us to predict all of them. We undertake no obligation to publicly update any forward-looking statement, whether as a result of new information, future developments or otherwise, except as may be required by law.

***The information in this commentary is provided solely in connection with this commentary, and is not directed toward existing or potential investment advisory clients or fund shareholders.***

**Investor Relations Contacts**

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