FRANKLIN TEMPLETON

# Franklin Resources, Inc.

## Second Quarter Results

May 1, 2023 | Executive earnings commentary


**Jenny Johnson**
President
Chief Executive Officer

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

**Adam Spector**
Executive Vice President
Head of Global Distribution


### Contents



### Conference call details:

Access to the teleconference at 10:00 AM Eastern will be available via investors.franklinresources.com or by dialing (888) 396-8049 in North America or (416) 764-8646 in other locations using access code 14027917. A replay of the teleconference can also be accessed by calling (877) 674-7070 in North America or (416) 764-8692 in other locations using access code 027917 through May 7, 2023, or via investors.franklinresources.com. Analysts and investors are encouraged to review the Company's recent filings with the US 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 appendix for important information concerning such matters. This commentary also contains non-GAAP financial measures. For the reconciliations from US 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.

## Second quarter highlights

**Key metrics**

| *($ in millions, except AUM in billions and per share data)* | Q2 2023 | % Change (except adj. EFR and margin) vs. Q1 2023 | vs. Q2 2022 |
|---|---|---|---|
| Ending AUM[1] | $1,422.1 | 2.5% | (3.7%) |
| Average AUM[1] | 1,419.5 | 4.9% | (6.4%) |
| Adj. revenue | 1,521.7 | 5.7% | (5.8%) |
| Adj. operating income | 440.2 | 11.4% | (23.7%) |
| Adj. net income | 316.7 | 20.7% | (35.6%) |
| Adj. diluted EPS | 0.61 | 19.6% | (36.5%) |
| Adj. effective fee rate[2] (bps) | 39.0 | 39.0 | 38.5 |
| Adj. operating margin | 28.9% | 27.5% | 35.7% |

### Summary highlights

- Despite March market volatility and stress in the regional banking sector, we made progress across our business with improving long-term flow trends, continued diversification by products and vehicles, and increased adjusted operating income by 11.4% from the prior quarter.
- Long-term net outflows improved from the prior quarter to $3.7 billion with three of our four asset classes (**Fixed Income, Multi-asset, and Alternatives**) generating positive net flows. In addition, we saw continued progress in **ETFs** and **Canvas®**, our Custom Indexing solution platform with net inflows of $1.0 billion and $0.3 billion, respectively.
- We saw improving flow trends across the business by sales region compared to the prior quarter and the Asia Pacific region generated positive long-term net flows in the quarter.
- Investment performance continued to improve across asset classes. This quarter, 64%, 63%, 61%, and 66% of our strategy composite assets under management (AUM) outperformed their respective benchmarks on a 1-, 3-, 5-, and 10-year basis. For mutual funds, 67%, 53%, 63%, and 56% of AUM outperformed their peers on a 1-, 3-, 5-, and 10-year basis. In addition, 49% of mutual fund AUM was in funds rated four- or five-star by Morningstar[3].
- Our balance sheet position remains strong with total cash and investments of $6.8 billion[4].

### Financial results

- AUM of $1.42 trillion as of March 31, 2023.
- This quarter's financials include an additional month of results from Alcentra.
- Adjusted operating revenues of $1.52 billion increased 5.7% from the prior quarter, driven by higher adjusted performance fees and average AUM, partially offset by two fewer calendar days, and declined 5.8% from the prior year quarter primarily due to lower average AUM. Adjusted performance fees were $103.2 million, compared to $65.1 million in the prior quarter and $113.7 million in the prior year quarter. This quarter's adjusted effective fee rate[2] was in line with the prior quarter at 39.0 bps, compared to 38.5 bps in the prior year quarter.
- Adjusted operating expenses were $1.08 billion, a 3.6% increase from the prior quarter and 4.1% increase from the prior year quarter. The increase from the prior quarter is primarily due to higher performance fee-related compensation and higher expenses related to the start of the calendar year, partially offset by lower deferred compensation acceleration for retirement eligible employees.
- Adjusted operating income was $440.2 million, an 11.4% increase from the prior quarter and a 23.7% decline from the prior year quarter. Adjusted operating margin was 28.9% compared to 27.5% in the prior quarter and 35.7% in the prior year quarter.

1. Excludes approximately $13 billion of AUM in our China joint venture.
2. The adjusted effective fee rate is annualized adjusted investment management fees, excluding performance fees, divided by average AUM for the period.
3. 
4. Includes our direct investments in CIPs of $0.9 billion and approximately $300 million of employee-owned and other third-party investments made through partnerships. Excludes $500 million undrawn revolving credit facility.

# Second quarter highlights

## Financial results (cont'd)

- Adjusted net income and adjusted diluted earnings per share increased by 20.7% and 19.6% from the prior quarter to $316.7 million and $0.61, respectively.

## Investment performance

- Investment performance continued to improve across asset classes. This quarter 64%, 63%, 61%, and 66% of our strategy composite AUM[1] outperformed their respective benchmarks on a 1-, 3-, 5-, and 10-year basis. Investment performance for the 1-, 3-, and 5-year periods improved compared to the prior quarter. The 1-year period improved primarily due to certain US equity strategies, and the 3- and 5-year periods due to certain US taxable fixed income strategies.

## AUM and flows

- Ending AUM increased by 2.5% to $1.42 trillion from the prior quarter primarily due to market appreciation and declined by 3.7% from the prior year quarter. Average AUM increased by 4.9% to $1.42 trillion from the prior quarter and decreased by 6.4% from the prior year quarter.
- Excluding reinvested distributions, long-term inflows of $59.4 billion increased by 1.7% from the prior quarter and decreased 19.5% from the prior year quarter. Reinvested distributions were $2.4 billion this quarter, compared to $12.1 billion in the prior quarter and $2.3 billion in the prior year quarter.
- Long-term outflows were $65.5 billion, a reduction of 19.5% and 25.4% from the prior quarter and the prior year quarter, respectively.
- Long-term net outflows were $3.7 billion compared to net outflows of $10.9 billion in the prior quarter and net outflows of $11.7 billion in the prior year quarter. Three of our four asset classes generated positive net flows:
  - **Fixed income** generated net inflows of $1.8 billion and included the funding of a previously disclosed $7.5 billion institutional mandate. Despite market uncertainty, we benefitted from having a broad range of fixed income strategies with non-correlated investment philosophies. Client interest continued with net inflows into US Taxable Corporate, Municipal, and Global Opportunistic strategies.
  - **Multi-asset** net inflows were $1.5 billion driven by the Franklin Income Fund, Fiduciary Trust International, and Canvas®, our Custom Indexing solution platform.
  - **Alternative** net inflows were $1.3 billion driven by growth into private market strategies, which were offset by outflows in liquid alternative strategies. Benefit Street Partners, Clarion Partners, and Lexington Partners each had net inflows, with a combined total of $1.5 billion.
  - **Equity** net outflows were $8.3 billion as the risk-off environment continued to impact investor sentiment. We saw positive net flows into ETFs, Global, and Small Cap Growth equity strategies.
- **Cash management**, which is excluded from long-term AUM and flows, generated net outflows of $4.3 billion in the quarter and included an episodic redemption of approximately $7.5 billion from a sweep program associated with a regional bank.
- **Regional diversification**: This quarter, we experienced improving flow trends across all of our geographies compared to the prior quarter. The Asia Pacific region generated positive long-term net flows in the quarter, benefitting from our regionally focused model and strategy.
  - Franklin Templeton Sealand Fund Management, our Shanghai-based joint venture with approximately $13 billion of AUM[2], launched a China A-shares UCITS fund to meet the growing demand of onshore China equity assets in the retail and high-net-worth markets.

1. Composite AUM measured for the 1-, 3-, 5-, and 10-year periods represent 51%, 51%, 50%, and 47%, respectively of the firm's total AUM as of March 31, 2023.
2. China joint venture AUM is excluded from Franklin Templeton AUM.

# Second quarter highlights

## AUM and Flows, Cont'd.

- We further diversified our business across products, vehicles, and asset classes to create broader sources of revenue.
  - Six of our top 20 funds[1] by AUM generated net inflows. In addition, 15 of our top 20 net inflow generating funds were outside our largest 20 funds[1] by AUM and represented a broad range of investment strategies.
  - **SMA** AUM ended the quarter at $109.8 billion. Our SMA platform made further progress in diversifying its core US equity and US fixed income client base across a number of investment capabilities, including Munis, Emerging Markets, and Custom Solutions.
  - **Canvas®**, our Custom Indexing solution platform, achieved net inflows each quarter since the platform launched in September 2019, and AUM increased over 13%. This past quarter, Canvas® generated net inflows of approximately $300 million and continues to have a robust pipeline.
  - **ETFs** generated net inflows of $1.0 billion and totaled $14.7 billion in AUM. This quarter, we launched a variant of our flagship Franklin Income Fund in a US-domiciled multi-asset active ETF vehicle.
- **Client Engagement:** In March, we actively engaged with our clients to help them navigate financial uncertainty created by stress in the regional banking sector. The Franklin Templeton Institute provided timely updates through webinars, articles and video posts. Clients were particularly interested in the numerous panels comprised of our specialist investment managers who offered investment perspectives across asset classes, including venture capital, alternative credit, and traditional fixed income.

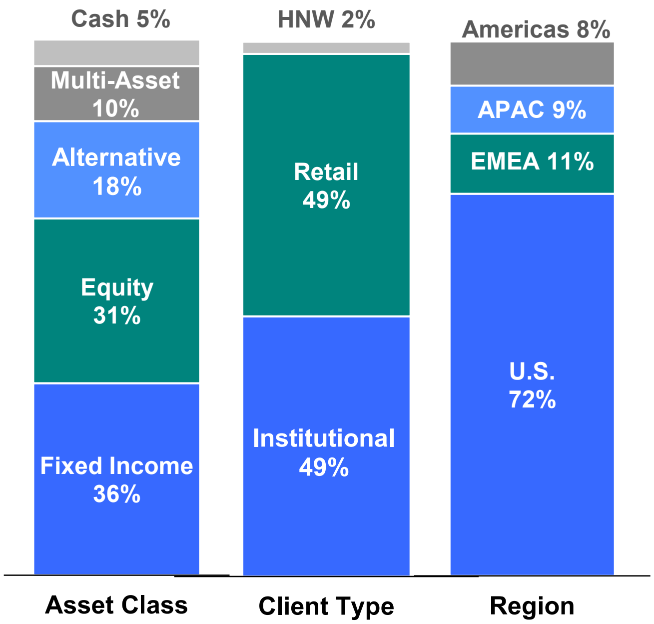
## Other highlights

- **Wealth Management Alternatives**: Retail and high-net-worth investors continue to remain under-allocated to alternatives relative to institutional investors. Providing these investors new ways to access the correlation benefits of less liquid asset classes is a significant opportunity to improve investor outcomes. This quarter, we achieved positive momentum launching products on wealth management platforms under the Alternatives by Franklin Templeton brand in the US. We saw client interest across our alternative strategies, particularly in secondary private equity. Additionally, we continue to focus on client education initiatives through our alternative-focused podcasts and webinars partnering with the Franklin Templeton Academy.
- **Private Wealth Management** AUM ended the quarter at $32.6 billion. Fiduciary Trust International generated its 10th consecutive quarter of long-term net inflows.
- **Digital Wealth Tools:** This quarter, we have made good progress implementing GOE®**,** our Goals Optimization Engine platform, across a broad array of distribution channels globally. We continue to focus on activating distribution across a variety of channels, such as RIAs, advisor platforms as well as non-traditional firms, including robo-advisors, brokerage/model marketplaces, digital banks, and payment companies.

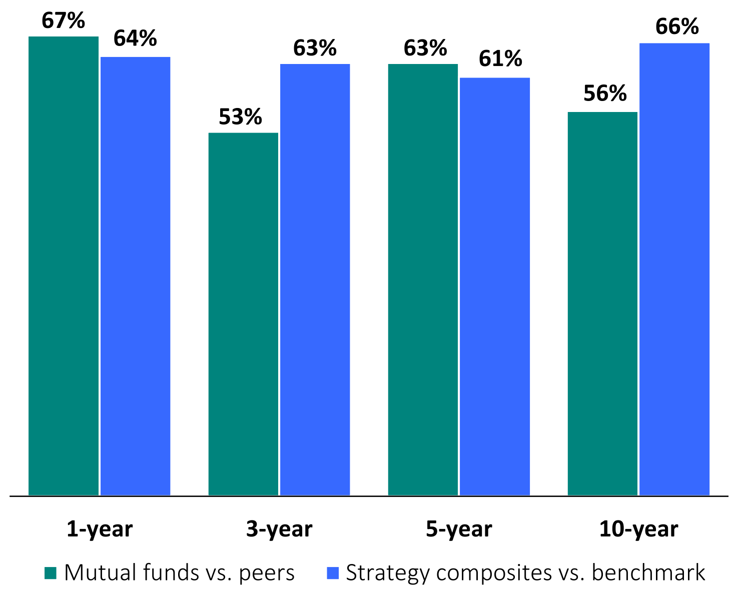
1. Excludes closed funds.

# AUM and investment performance

**Diversified by asset class, client type and region**
AUM of $1.42 trillion as March 31, 2023




**Percentage of AUM above peer median and benchmark[1]**
As of March 31, 2023




- AUM of approximately $1.42 trillion is diversified across asset classes, client types, and regions.
- Investment performance continued to improve across asset classes. This quarter 64%, 63%, 61%, and 66% of our strategy composite AUM outperformed their respective benchmarks on a 1-, 3-, 5-, and 10-year basis. The 1-year period improved primarily due to certain equity strategies, and the 3- and 5-year due to certain US taxable fixed income strategies.
- Investment performance resulted in 67%, 53%, 63%, and 56% of our mutual funds AUM outperforming their peers on a 1-, 3-, 5-, and 10-year basis. Mutual fund performance improved from the prior quarter due to an improvement in equity performance in the 1- and 5-year periods and an improvement in US fixed income strategies in the 3-year period. This quarter, we had 49% of mutual fund AUM in funds rated four- or five-star by Morningstar[2].

1. Benchmark comparisons are based on each strategy's composite returns (composites may include retail SMA and mutual fund assets managed as part of the same strategy) as compared to a market index that has been selected to be generally consistent with the investment objectives of the account. Multi-asset strategies that lack benchmarks consistent with their investment objectives are excluded. Composite AUM measured for the 1-, 3-, 5-, and 10-year periods represent 51%, 51%, 50%, and 47%, respectively of the firm's total AUM as of March 31, 2023. Mutual fund performance is sourced from Morningstar and measures the percentage of ranked fund AUM in the top two quartiles of their peer groups. Mutual Fund AUM measured for the 1-, 3-, 5- and 10-year periods represents 36%, 36%, 35%, and 33%, respectively of the firm's total AUM as of March 31, 2023.
2. 

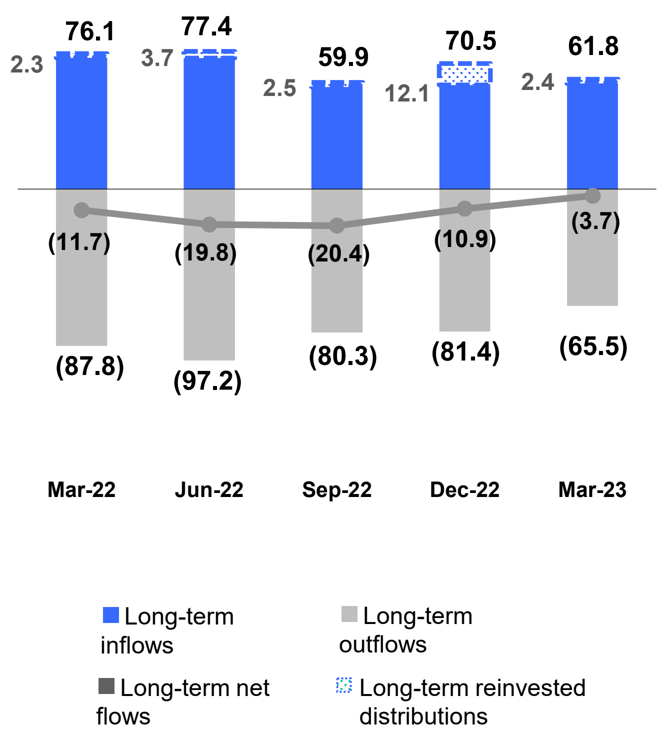
## AUM and flows

| (In US$ billions)[1] | Mar 31, 2023 | Dec 31, 2022 | % Change | Mar 31, 2022 | % Change |
|---|---|---|---|---|---|
| Beginning AUM | $1,387.7 | $1,297.4 | 7% | $1,578.1 | (12%) |
| Long-term inflows | 61.8 | 70.5 | (12%) | 76.1 | (19%) |
| Long-term outflows | (65.5) | (81.4) | 20% | (87.8) | 25% |
| **Long-term net flows** | **(3.7)** | **(10.9)** | **66%** | **(11.7)** | **68%** |
| Cash management net flows | (4.3) | 17.5 | NM | (7.1) | 39% |
| **Total net flows** | **(8.0)** | **6.6** | **NM** | **(18.8)** | **57%** |
| Acquisitions | - | 34.9 | NM | - | NM |
| Net market change, dist. & other | 42.4 | 48.8 | (13%) | (81.8) | NM |
| **Ending AUM** | **$1,422.1** | **$1,387.7** | **2%** | **$1,477.5** | **(4%)** |
| **Average AUM** | **$1,419.5** | **$1,353.5** | **5%** | **$1,516.1** | **(6%)** |

1. Excludes approximately $13 billion of AUM in our China joint venture.

- Ending AUM increased by 2.5% to $1.42 trillion from the prior quarter primarily due to market appreciation. Average AUM increased by 4.9% to $1.42 trillion from the prior quarter.
- Excluding reinvested distributions, long-term inflows increased by 1.7% from the prior quarter. Reinvested distributions were $2.4 billion this quarter, compared to $12.1 billion in the prior quarter. Long-term outflows were $65.5 billion, a reduction of 19.5% from the prior quarter.
- Long-term net outflows were $3.7 billion compared to net outflows of $10.9 billion in the prior quarter. Three of our four asset classes generated positive net flows:
  - **Fixed income** generated net inflows of $1.8 billion and included the funding of a previously disclosed $7.5 billion institutional mandate. Despite market uncertainty, we benefitted from having a broad range of fixed income strategies with non-correlated investment philosophies. Client interest continued with net inflows into US Taxable Corporate, Municipal, and Global Opportunistic strategies.
  - **Multi-asset** net inflows were $1.5 billion driven by the Franklin Income Fund, Fiduciary Trust International, and Canvas®, our Custom Indexing solution platform.
  - **Alternative** net inflows were $1.3 billion driven by growth into private market strategies, which were offset by outflows in liquid alternative strategies. Benefit Street Partners, Clarion Partners, and Lexington Partners each had net inflows, with a combined total of $1.5 billion.
  - **Equity** net outflows were $8.3 billion as the risk-off environment continued to impact investor sentiment. We saw positive net flows into ETFs, Global, and Small Cap Growth equity strategies.
- **Cash management**, which is excluded from long-term AUM and flows, generated net outflows of $4.3 billion in the quarter and included an episodic redemption of approximately $7.5 billion from a sweep program associated with a regional bank.

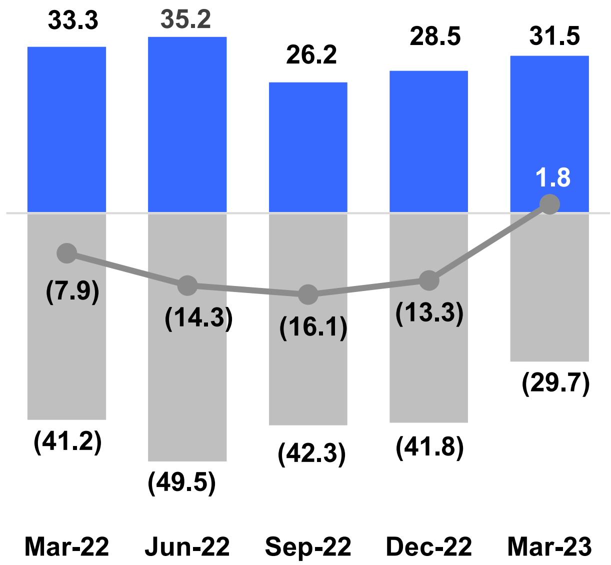
**Long-term flows[1]**
(In US$ billions, for the three months ended)



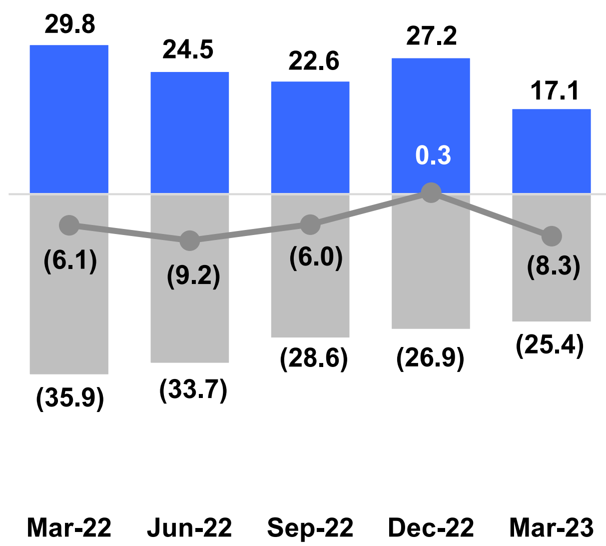

1. Excludes money market funds.

- Our institutional pipeline of won but unfunded mandates was $15.4 billion, reflecting the funding of a $7.5 billion institutional fixed income mandate, and remained diversified by asset class and across our specialist investment managers.

## Fixed Income: $510 billion
(in US$ billions, for the three months ended)

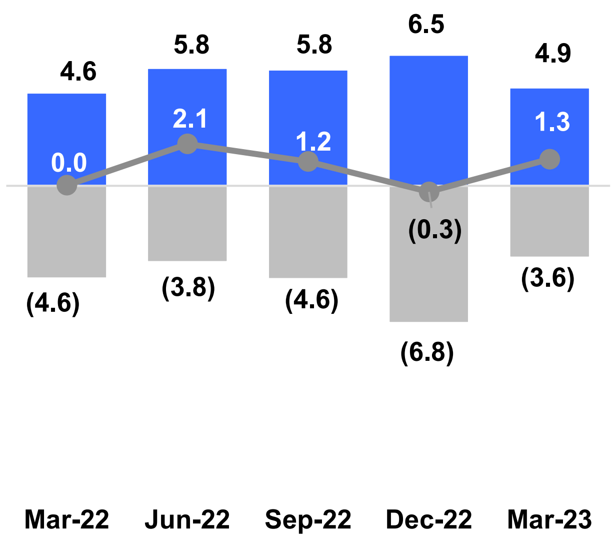



## Equity: $437 billion
(in US$ billions, for the three months ended)

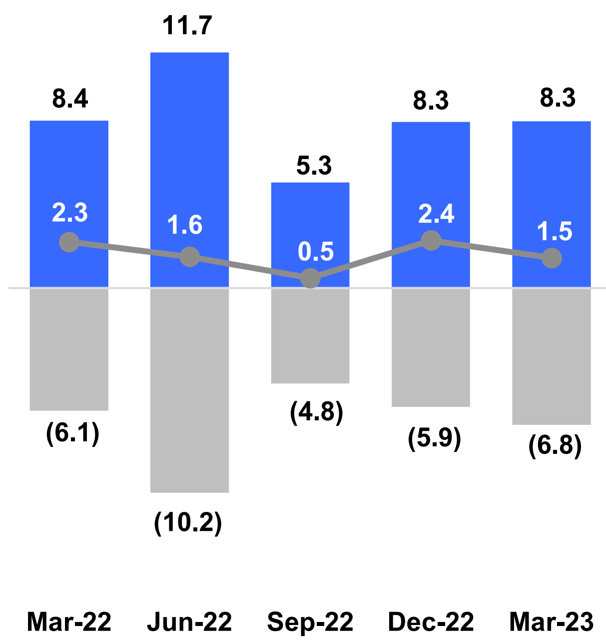



■ Long-term inflows ■ Long-term outflows ● Long-term net flows

## Alternative: $258 billion
(in US$ billions, for the three months ended)




## Multi-Asset: $146 billion
(in US$ billions, for the three months ended)




■ Long-term inflows ■ Long-term outflows ● Long-term net flows

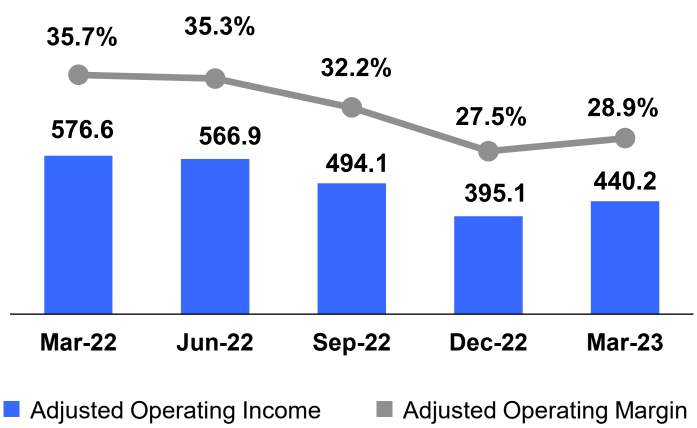
## Financial results[1]

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

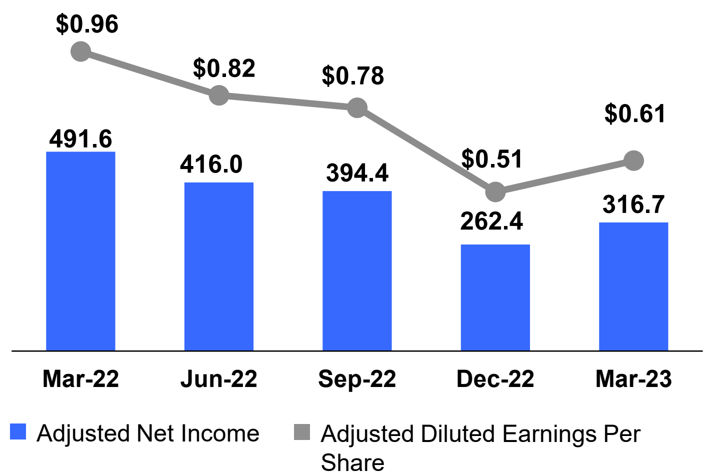
| US GAAP | Mar-22 | Jun-22 | Sep-22 | Dec-22 | Mar-23 |
|---|---|---|---|---|---|
| Operating Income | 463.0 | 404.7 | 348.5 | 194.0 | 255.1 |
| Operating Margin | 22.2% | 19.9% | 18.0% | 9.9% | 13.2% |

| US GAAP | Mar-22 | Jun-22 | Sep-22 | Dec-22 | Mar-23 |
|---|---|---|---|---|---|
| Net Income | 349.6 | 256.4 | 232.7 | 165.6 | 194.2 |
| Diluted EPS | $0.68 | $0.50 | $0.46 | $0.32 | $0.38 |

**Adjusted operating income and adjusted operating margin**




**Adjusted net income and adjusted diluted earnings per share**




- Adjusted operating income was $440.2 million, an increase of 11.4% from the prior quarter, primarily due to higher performance fees and investment management fees partially offset by higher compensation and benefits expense, and a decrease of 23.7% from the prior year quarter primarily due to lower investment management fees and higher expenses following the addition of Alcentra.
- Adjusted operating margin was 28.9% compared to 27.5% in the prior quarter and 35.7% in the prior year quarter.
- Adjusted net income and adjusted diluted earnings per share increased by 20.7% and 19.6% from the prior quarter to $316.7 million and $0.61, respectively. Adjusted net income and adjusted diluted EPS declined by 35.6% and 36.5% from the prior year quarter, respectively.

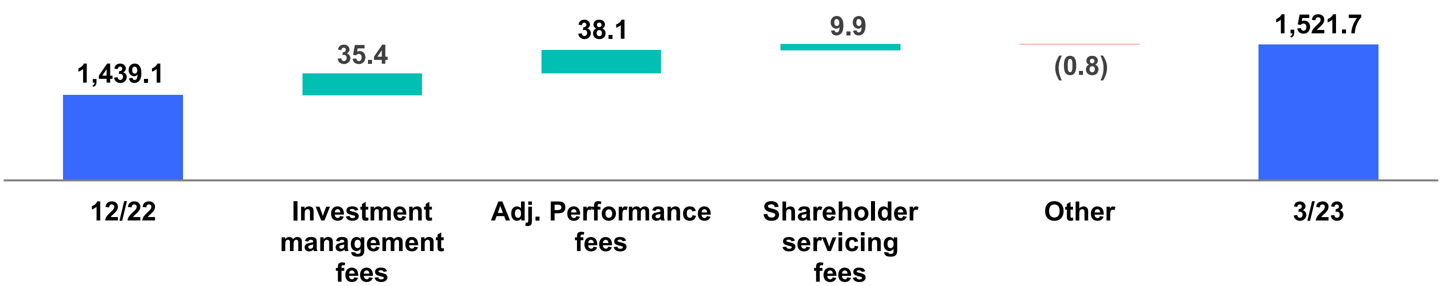
1. For the reconciliations from US GAAP to non-GAAP measures see the appendix to this commentary and the Supplemental Non-GAAP Financial Measures section of the earnings release. For prior periods please refer to historical earnings commentaries available at franklinresources.com.

## Revenues[1]

(GAAP and non-GAAP in US$ millions except per share data, for the three months)

| | Mar-23 US GAAP | Adjustments | Mar-23 Adjusted | Dec-22 Adjusted | Mar-23 Adjusted vs. Dec-22 Adjusted | Mar-22 Adjusted | Mar-23 Adjusted vs. Mar-22 Adjusted |
|---|---|---|---|---|---|---|---|
| Investment management fees, ex. performance fees | 1,462.1 | (96.1) | 1,366.0 | 1,330.6 | 3% | 1,440.5 | (5%) |
| Performance fees | 111.2 | (8.0) | 103.2 | 65.1 | 59% | 113.7 | (9%) |
| Sales and distribution fees | 301.4 | (301.4) | - | - | NM | - | NM |
| Shareholder servicing fees | 43.3 | - | 43.3 | 33.4 | 30% | 52.2 | (17%) |
| Other | 9.2 | - | 9.2 | 10.0 | (8%) | 9.4 | (2%) |
| **Total Operating Revenues** | **1,927.2** | **(405.5)** | **1,521.7** | **1,439.1** | **6%** | **1,615.8** | **(6%)** |
| *Effective fee rate* | | | *39.0 bps* | *39.0 bps* | | *38.5 bps* | |

## Adjusted Operating Revenues – Quarters Ended December 31, 2022 and March 31, 2023




- Adjusted operating revenues of $1.52 billion increased 5.7% from the prior quarter and declined 5.8% from the prior year quarter. This quarter's increase is primarily due to higher performance fees, investment management fees, and shareholder servicing fees.
- Adjusted investment management fees of $1.37 billion, excluding performance fees, increased 2.7% from the prior quarter and decreased 5.2% from the prior year quarter. This quarter's increase is primarily due to higher average AUM and an additional month of Alcentra, partially offset by two fewer calendar days.
- Adjusted performance fees were $103.2 million compared to $65.1 million in the prior quarter and $113.7 million in the prior year quarter.
- Shareholder servicing fees increased by 29.6% from the prior quarter primarily due to seasonal fees related to year-end capital gain and income distributions.
- The adjusted effective fee rate[2] was in line with the prior quarter at 39.0 bps, compared to 38.5 bps in the prior year quarter.

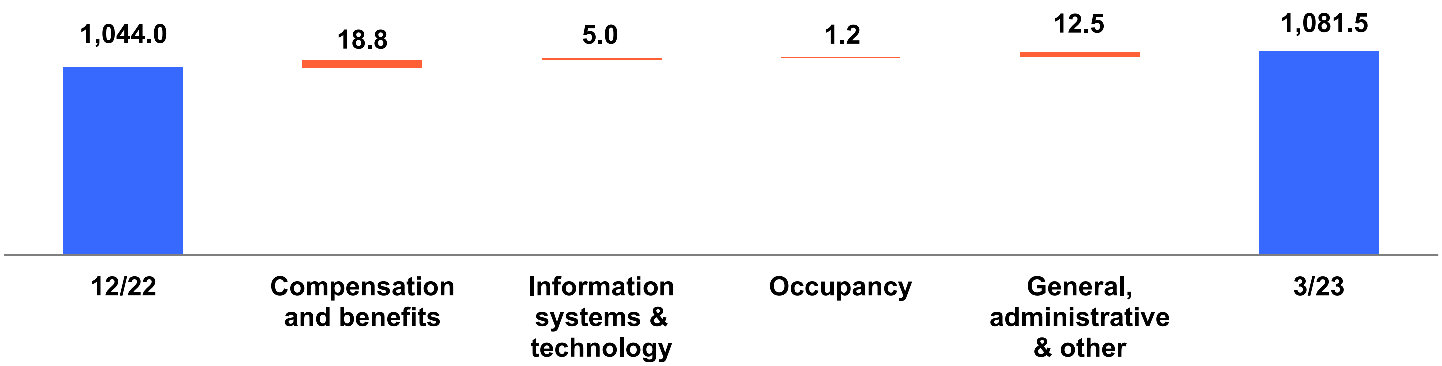
1. For the reconciliations from US GAAP to non-GAAP measures see the appendix to this commentary and the Supplemental Non-GAAP Financial Measures section of the earnings release. For prior periods please refer to historical earnings commentaries available at franklinresources.com.
2. The adjusted effective fee rate is annualized adjusted investment management fees, excluding performance fees, divided by average AUM for the period.

## Expenses[1]

(GAAP and non-GAAP in US$ millions except per share data, for the three months)

| | Mar-23 US GAAP | Adjustments | Mar-23 Adjusted | Dec-22 Adjusted | Mar-23 Adjusted vs. Dec-22 Adjusted | Mar-22 Adjusted | Mar-23 Adjusted vs. Mar-22 Adjusted |
|---|---|---|---|---|---|---|---|
| Compensation & benefits | 847.3 | (84.0) | 763.3 | 744.5 | 3% | 729.2 | 5% |
| Sales, distribution & marketing | 406.6 | (406.6) | - | - | NM | - | NM |
| Information systems & technology | 128.0 | (7.0) | 121.0 | 116.0 | 4% | 120.1 | 1% |
| Occupancy | 59.7 | (4.0) | 55.7 | 54.5 | 2% | 52.5 | 6% |
| Amortization of intangible assets | 86.0 | (86.0) | - | - | NM | - | NM |
| General, administrative & other | 144.5 | (3.0) | 141.5 | 129.0 | 10% | 137.4 | 3% |
| **Total Operating Expenses** | **1,672.1** | **(590.6)** | **1,081.5** | **1,044.0** | **4%** | **1,039.2** | **4%** |

## Adjusted Operating Expenses – Quarters Ended December 31, 2022 and March 31, 2023




- Adjusted operating expenses were $1.08 billion, an increase of 3.6% from the prior quarter and 4.1% from the prior year quarter.
- Adjusted compensation and benefits increased 2.5% from the prior quarter and 4.7% from the prior year quarter. The increase from the prior quarter is primarily due to higher performance fee-related compensation, elevated seasonal payroll and benefit expenses related to the start of the calendar year, an additional month of Alcentra, and improved formulaic performance-related compensation, partially offset by lower deferred compensation acceleration for retirement eligible employees.
- Adjusted compensation and benefits was approximately 50.2% of adjusted revenues this quarter compared to 51.7% in the prior quarter and 45.1% in the prior year quarter.
- Non-compensation adjusted expenses were $318.2 million, a 6.2% increase from the prior quarter, and a 2.6% increase from the prior year quarter. This quarter’s increase is primarily due to higher transfer agency outsourcing costs, T&E, and advertising.

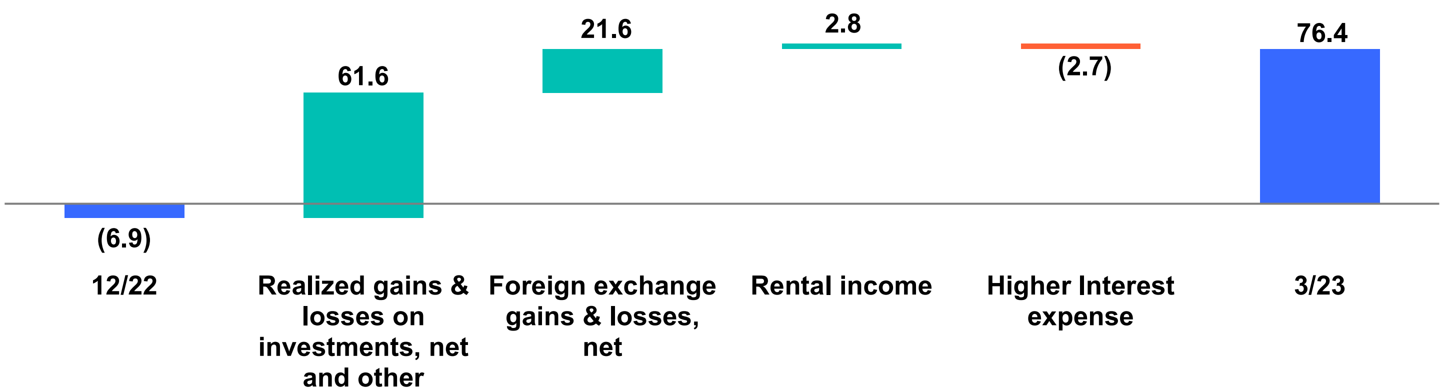
1. For the reconciliations from US GAAP to non-GAAP measures see the appendix to this commentary and the Supplemental Non-GAAP Financial Measures section of the earnings release. For prior periods please refer to historical earnings commentaries available at franklinresources.com.

## Other Income (Expense), Net[1]

(GAAP and non-GAAP in US$ millions except per share data, for the three months)

| | Mar-23 US GAAP | Adjustments | Mar-23 Adjusted | Dec-22 Adjusted | Mar-23 Adjusted vs. Dec-22 Adjusted | Mar-22 Adjusted | Mar-23 Adjusted vs. Mar-22 Adjusted |
|---|---|---|---|---|---|---|---|
| Investment and other income, net | 125.6 | (15.4) | 110.2 | 24.2 | 355% | 105.0 | 5% |
| Interest expense | (33.5) | (0.3) | (33.8) | (31.1) | 9% | (29.2) | 16% |
| Investment and other income (losses) of CIPs | 87.2 | (87.2) | | - | NM | - | NM |
| Expenses of CIPs | (3.4) | 3.4 | | - | NM | - | NM |
| **Other Income (Expense), Net** | **175.9** | **(99.5)** | **76.4** | **(6.9)** | **NM** | **75.8** | **1%** |

## Adjusted Other Income – Quarters Ended March 31, 2023 and December 31, 2022

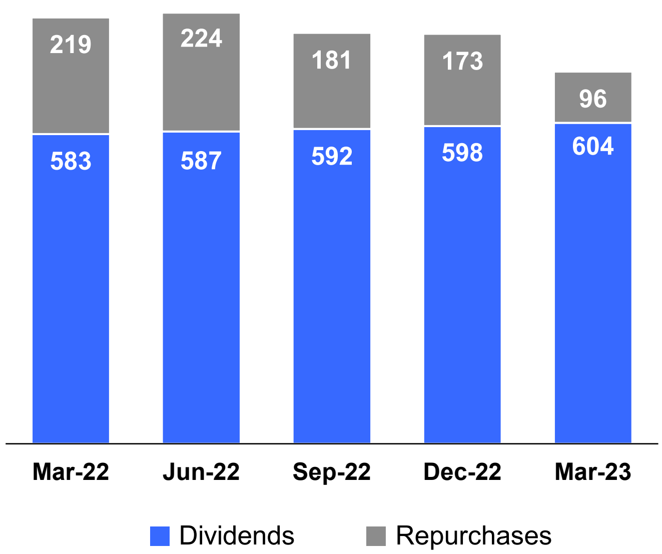



- Adjusted other income was $76.4 million, compared to adjusted other expense of $6.9 million in the prior quarter and adjusted other income of $75.8 million in the prior year quarter. This quarter's increase is primarily due to $49.5 million of realized gains on equity method investments that are fully offset in noncontrolling interests and lower foreign exchange losses.
- Interest due to debt holders was $28.5 million, compared to $28.4 million in the prior quarter and $26.9 million in the prior year quarter. Rental income was $13.4 million, compared to $10.6 million in the prior quarter and $8.6 million in the prior year quarter.
- This quarter's GAAP tax rate was 21.6%, compared to 26.3% in the prior quarter and 22.2% in the prior year quarter. We expect our annual tax rate to be at the lower end of the 25 - 27% range. The actual effective tax rate may differ due to nonrecurring or discrete items or potential changes in tax legislation.

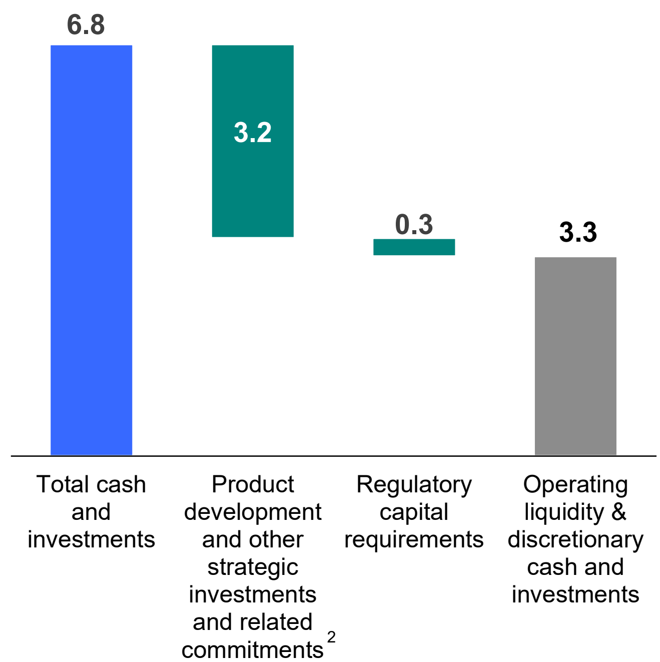
1. For the reconciliations from US GAAP to non-GAAP measures see the appendix to this commentary and the Supplemental Non-GAAP Financial Measures section of the earnings release. For prior periods please refer to historical earnings commentaries available at franklinresources.com.

# Capital management

**Dividends and share repurchases**
(In US$ millions, for the trailing twelve months ended)




**Allocation of cash and investments[1]**
(In US$ billions, as of March 31, 2023)




- In February, we announced a quarterly cash dividend of $0.30 per share, representing a 3.4% increase over the dividends paid for the prior year quarter.
- During the quarter, we returned $158 million to shareholders including $154 million in dividends and $4 million in share repurchases. We typically plan to repurchase shares to offset employee-related equity issuances throughout the year.
- Total cash and investments were $6.8 billion as of March 31, 2023 compared to $6.6 billion at December 31, 2022.

1. Includes our direct investments in CIPS of $0.9 billion and approximately $300 million of employee-owned and other third-party investments made through partnerships. Excludes $500 million undrawn revolving credit facility.
2. Includes undrawn capital commitments of $331 million.

# Appendix

## Reconciliation of US GAAP results to Non-GAAP results: Three months ended March 31, 2023

| (in US$ millions except per share data) | US GAAP Basis | Consolidated Investment Products | Sales, distribution and marketing | Acquisition-related | Special Termination Plan | Unrealized investment (gains) losses | Deferred Comp Plan and other | Non-GAAP Basis |
|---|---|---|---|---|---|---|---|---|
| **Revenues** | | | | | | | | |
| Investment management fees | **1,573.3** | 9.1 | (105.2) | (8.0) | - | - | - | **1,469.2** |
| Sales and distribution fees | **301.4** | - | (301.4) | - | - | - | - | **-** |
| Shareholder servicing fees | **43.3** | - | - | - | - | - | - | **43.3** |
| Other | **9.2** | - | - | - | - | - | - | **9.2** |
| **Total Operating Revenues** | **1,927.2** | **9.1** | **(406.6)** | **(8.0)** | **-** | **-** | **-** | **1,521.7** |
| **Expenses** | | | | | | | | |
| Compensation and benefits | **847.3** | - | - | (31.2) | (31.8) | - | (21.0) | **763.3** |
| Sales, distribution and marketing | **406.6** | - | (406.6) | - | - | - | - | **-** |
| Information systems and technology | **128.0** | - | - | (7.0) | - | - | - | **121.0** |
| Occupancy | **59.7** | - | - | (4.0) | - | - | - | **55.7** |
| Amortization of intangible assets | **86.0** | - | - | (86.0) | - | - | - | **-** |
| General, administrative and other | **144.5** | - | - | (3.0) | - | - | - | **141.5** |
| **Total Operating Expenses** | **1,672.1** | **-** | **(406.6)** | **(131.2)** | **(31.8)** | **-** | **(21.0)** | **1,081.5** |
| | | | | | | | | |
| **Operating Income** | **255.1** | **9.1** | **-** | **123.2** | **31.8** | **-** | **21.0** | **440.2** |
| **Other Income (Expense)** | | | | | | | | |
| Investment and other income (losses) net | **125.6** | 20.9 | - | - | - | (19.7) | (16.6) | **110.2** |
| Interest expense | **(33.5)** | - | - | (0.3) | - | - | - | **(33.8)** |
| Investment and other income (losses) of CIPs, net | **87.2** | (87.2) | - | - | - | - | - | **-** |
| Expenses of CIPs | **(3.4)** | 3.4 | - | - | - | - | - | **-** |
| **Total Other Income (Expense)** | **175.9** | **(62.9)** | **-** | **(0.3)** | **-** | **(19.7)** | **(16.6)** | **76.4** |
| **Income before taxes** | **431.0** | **(53.8)** | **-** | **122.9** | **31.8** | **(19.7)** | **4.4** | **516.6** |
| Taxes on income | **92.9** | - | - | 29.6 | 7.7 | (6.0) | 1.2 | **125.4** |
| **Net income** | **338.1** | **(53.8)** | **-** | **93.3** | **24.1** | **(13.7)** | **3.2** | **391.2** |
| Less: Net income (loss) attributable to noncontrolling interests | **143.9** | (62.3) | - | - | - | (17.8) | 10.7 | **74.5** |
| **Net Income Attributable to Franklin Resources, Inc.** | **194.2** | **8.5** | **-** | **93.3** | **24.1** | **4.1** | **(7.5)** | **316.7** |
| Less: allocation of earnings to participating nonvested stock and stock unit awards | **9.0** | | | | | | | **14.7** |
| **Net Income Available to Franklin Resources, Inc. Common Stockholders** | **185.2** | | | | | | | **302.0** |
| | | | | | | | | |
| **Diluted EPS** | **$0.38** | | | | **Adjusted Diluted EPS** | | | **$0.61** |
| **Avg. Diluted Shares Outstanding** | **491.4** | | | | **Avg. Diluted Shares Outstanding** | | | **491.4** |
| **Operating Margin** | **13.2%** | | | | **Adjusted Operating Margin** | | | **28.9%** |

# Appendix

## Reconciliation of US GAAP results to Non-GAAP results: Three months ended December 31, 2022

| (in US$ millions except per share data) | US GAAP Basis | Consolidated Investment Products | Sales, distribution and marketing | Acquisition-related | Special Termination Plan | Unrealized investment (gains) losses | Deferred Comp Plan and other | Non-GAAP Basis |
|---|---|---|---|---|---|---|---|---|
| **Revenues** | | | | | | | | |
| Investment management fees | **1,631.8** | 5.1 | (96.7) | (144.5) | - | - | - | **1,395.7** |
| Sales and distribution fees | **291.9** | - | (291.9) | - | - | - | - | **-** |
| Shareholder servicing fees | **33.4** | - | - | - | - | - | - | **33.4** |
| Other | **10.0** | - | - | - | - | - | - | **10.0** |
| **Total Operating Revenues** | **1,967.1** | **5.1** | **(388.6)** | **(144.5)** | **-** | **-** | **-** | **1,439.1** |
| **Expenses** | | | | | | | | |
| Compensation and benefits | **979.2** | - | - | (208.1) | (10.9) | - | (15.7) | **744.5** |
| Sales, distribution and marketing | **388.6** | - | (388.6) | - | - | - | - | **-** |
| Information systems and technology | **121.4** | - | - | (5.4) | - | - | - | **116.0** |
| Occupancy | **54.5** | - | - | - | - | - | - | **54.5** |
| Amortization of intangible assets | **83.2** | - | - | (83.2) | - | - | - | **-** |
| General, administrative and other | **146.2** | - | - | (17.2) | - | - | - | **129.0** |
| **Total Operating Expenses** | **1,773.1** | **-** | **(388.6)** | **(313.9)** | **(10.9)** | **-** | **(15.7)** | **1,044.0** |
| **Operating Income** | **194.0** | **5.1** | **-** | **169.4** | **10.9** | **-** | **15.7** | **395.1** |
| **Other Income (Expense)** | | | | | | | | |
| Investment and other income (losses) net | **91.1** | (22.3) | - | - | - | (31.4) | (13.2) | **24.2** |
| Interest expense | **(30.9)** | - | - | (0.2) | - | - | - | **(31.1)** |
| Investment and other income (losses) of CIPs, net | **(13.6)** | 13.6 | - | - | - | - | - | **-** |
| Expenses of CIPs | **(11.5)** | 11.5 | - | - | - | - | - | **-** |
| **Total Other Income (Expense)** | **35.1** | **2.8** | **-** | **(0.2)** | **-** | **(31.4)** | **(13.2)** | **(6.9)** |
| **Income before taxes** | **229.1** | **7.9** | **-** | **169.2** | **10.9** | **(31.4)** | **2.5** | **388.2** |
| Taxes on income | **60.3** | - | - | 41.1 | 2.6 | (2.4) | 0.5 | **102.1** |
| **Net income** | **168.8** | **7.9** | **-** | **128.1** | **8.3** | **(29.0)** | **2.0** | **286.1** |
| Less: Net income (loss) attributable to noncontrolling interests | **3.2** | 11.5 | - | - | - | (0.7) | 9.7 | **23.7** |
| **Net Income Attributable to Franklin Resources, Inc.** | **165.6** | **(3.6)** | **-** | **128.1** | **8.3** | **(28.3)** | **(7.7)** | **262.4** |
| Less: allocation of earnings to participating nonvested stock and stock unit awards | **7.7** | | | | | | | **11.8** |
| **Net Income Available to Franklin Resources, Inc. Common Stockholders** | **157.9** | | | | | | | **250.6** |
| **Diluted EPS** | **$0.32** | | | **Adjusted Diluted EPS** | | | | **$0.51** |
| **Avg. Diluted Shares Outstanding** | **490.2** | | | **Avg. Diluted Shares Outstanding** | | | | **490.2** |
| **Operating Margin** | **9.9%** | | | **Adjusted Operating Margin** | | | | **27.5%** |

# Appendix

## Reconciliation of US GAAP results to Non-GAAP results: Three months ended March 31, 2022

| (in US$ millions except per share data) | US GAAP Basis | Consolidated Investment Products | Sales, distribution and marketing | Acquisition-related | Special Termination Plan | Unrealized investment (gains) losses | Deferred Comp Plan and other | Non-GAAP Basis |
|---|---|---|---|---|---|---|---|---|
| **Revenues** | | | | | | | | |
| Investment management fees | **1,649.2** | 17.2 | (112.2) | - | - | - | - | **1,554.2** |
| Sales and distribution fees | **370.2** | - | (370.2) | - | - | - | - | **-** |
| Shareholder servicing fees | **52.2** | - | - | - | - | - | - | **52.2** |
| Other | **9.4** | - | - | - | - | - | - | **9.4** |
| **Total Operating Revenues** | **2,081.0** | **17.2** | **(482.4)** | **-** | **-** | **-** | **-** | **1,615.8** |
| **Expenses** | | | | | | | | |
| Compensation and benefits | **752.5** | - | - | (34.2) | (4.4) | - | 15.3 | **729.2** |
| Sales, distribution and marketing | **482.4** | - | (482.4) | - | - | - | - | **-** |
| Information systems and technology | **126.9** | - | - | (6.8) | - | - | - | **120.1** |
| Occupancy | **53.0** | - | - | (0.5) | - | - | - | **52.5** |
| Amortization of intangible assets | **60.4** | - | - | (60.4) | - | - | - | **-** |
| General, administrative and other | **142.8** | - | - | (5.4) | - | - | - | **137.4** |
| **Total Operating Expenses** | **1,618.0** | **-** | **(482.4)** | **(107.3)** | **(4.4)** | **-** | **15.3** | **1,039.2** |
| | | | | | | | | |
| **Operating Income** | **463.0** | **17.2** | **-** | **107.3** | **4.4** | **-** | **(15.3)** | **576.6** |
| **Other Income (Expense)** | | | | | | | | |
| Investment and other income (losses) net | **27.7** | (11.5) | - | - | - | 70.7 | 18.1 | **105.0** |
| Interest expense | **(22.9)** | - | - | (6.3) | - | - | - | **(29.2)** |
| Investment and other income (losses) of CIPs, net | **3.0** | (3.0) | - | - | - | - | - | **-** |
| Expenses of CIPs | **(4.6)** | 4.6 | - | - | - | - | - | **-** |
| **Total Other Income (Expense)** | **3.2** | **(9.9)** | **-** | **(6.3)** | **-** | **70.7** | **18.1** | **75.8** |
| **Income before taxes** | **466.2** | **7.3** | **-** | **101.0** | **4.4** | **70.7** | **2.8** | **652.4** |
| Taxes on income | **107.1** | - | - | 26.1 | 1.0 | 8.8 | 0.7 | **143.7** |
| **Net income** | **359.1** | **7.3** | **-** | **74.9** | **3.4** | **61.9** | **2.1** | **508.7** |
| Less: Net income (loss) attributable to noncontrolling interests | **9.5** | 7.2 | - | - | - | 0.4 | - | **17.1** |
| **Net Income Attributable to Franklin Resources, Inc.** | **349.6** | **0.1** | **-** | **74.9** | **3.4** | **61.5** | **2.1** | **491.6** |
| Less: allocation of earnings to participating nonvested stock and stock unit awards | **15.1** | | | | | | | **21.3** |
| **Net Income Available to Franklin Resources, Inc. Common Stockholders** | **334.5** | | | | | | | **470.3** |
| | | | | | | | | |
| **Diluted EPS** | **$0.68** | | | | **Adjusted Diluted EPS** | | | **$0.96** |
| **Diluted Shares Outstanding** | **490.5** | | | | **Diluted Shares Outstanding** | | | **490.5** |
| **Operating Margin** | **22.2%** | | | | **Adjusted Operating Margin** | | | **35.7%** |

# Appendix

Some of the statements herein may include forward-looking statements that reflect our current views with respect to future events, financial performance and market conditions. Such statements are provided under the “safe harbor” protection of the Private Securities Litigation Reform Act of 1995. Forward-looking statements include all statements that do not relate solely to historical or current facts and generally can be identified by words or phrases written in the future tense and/or preceded by words such as “anticipate,” “believe,” “could,” “depends,” “estimate,” “expect,” “intend,” “likely,” “may,” “plan,” “potential,” “seek,” “should,” “will,” “would,” or other similar words or variations thereof, or the negative thereof, but these terms are not the exclusive means of identifying such statements.

Forward-looking statements involve a number of known and unknown risks, uncertainties and other important factors that may cause actual results and outcomes to differ materially from any future results or outcomes expressed or implied by such forward-looking statements, including pandemic-related risks, market and volatility risks, investment performance and reputational risks, global operational risks, competition and distribution risks, third-party risks, technology and security risks, human capital risks, cash management risks, and legal and regulatory risks. 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 possible 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. 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.

These and other risks, uncertainties and other important factors are described in more detail in our recent filings with the US 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, 2022 and our subsequent Quarterly Reports on Form 10-Q. If a circumstance occurs after the date of this presentation that causes any of our forward-looking statements to be inaccurate, whether as a result of new information, future developments or otherwise, we undertake no obligation to announce publicly the change to our expectations, or to make any revision to our forward-looking statements, to reflect any change in assumptions, beliefs or expectations, or any change in events, conditions or circumstances upon which any forward-looking statement is based, unless 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 Contact**

1 (650) 312-4091