

# Franklin Resources, Inc.

## First Quarter Results

January 29, 2024 | Executive earnings commentary



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Chief Operating Officer

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## Conference call details:

Access to the teleconference at 11:00 AM Eastern will be available via [investors.franklinresources.com](https://investors.franklinresources.com) or by dialing (888) 396-8049 in North America or (416) 764-8646 in other locations using access code 09627581. 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 627581# through February 5, 2024, or via [investors.franklinresources.com](https://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. Refer to 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, refer to the appendix to this commentary and the "Supplemental Non-GAAP Financial Measures" section of the earnings release.

# First quarter highlights

## Key metrics

(\$ in millions, except AUM in billions and per share data)

		% Change (except adj. EFR and margin)	
	Q1 2024	vs. Q4 2023	vs. Q1 2023
Ending AUM <sup>1</sup>	\$1,455.5	5.9%	4.9%
Average AUM <sup>1</sup>	1,394.2	(1.8%)	3.0%
Adj. revenue	1,529.1	(3.3%)	6.3%
Adj. operating income	417.0	(18.5%)	5.5%
Adj. net income	328.5	(23.1%)	25.2%
Adj. diluted EPS	0.65	(22.6%)	27.5%
Adj. effective fee rate <sup>2</sup> (bps)	39.7	40.2	39.0
Adj. operating margin	27.3%	32.4%	27.5%

## Summary highlights

- Ending AUM increased by 5.9% to \$1.46 trillion from the prior quarter and increased by 4.9% from the prior year quarter primarily due to market appreciation. Average AUM declined by 1.8% from the prior quarter to \$1.39 trillion and increased by 3.0% from the prior year quarter.
- Adjusted operating income declined by 18.5% to \$417.0 million from the prior quarter and increased by 5.5% from the prior year quarter. Adjusted operating margin was 27.3% compared to 32.4% in the prior quarter and 27.5% in the prior year quarter. The annual deferred compensation acceleration for retirement-eligible employees decreased the current quarter's and prior year quarter's adjusted operating margin by 260 bps.
- We continued to make good progress on the execution of our long-term plan of further diversifying our business across asset classes, vehicles, and geographies.
  - Long-term net outflows, inclusive of reinvested distributions, were \$5.0 billion compared to net outflows of \$6.9 billion in the prior quarter and net outflows of \$10.9 billion in the prior year quarter. Reinvested distributions were \$10.8 billion compared to \$2.7 billion in the prior quarter and \$12.1 billion in the prior year quarter.
  - Long-term net flows were positive in key areas including Alternatives, Multi-Asset, Equity, ETFs, and SMAs.
  - We continued to see aggregate positive net flows in non-US regions which have AUM of approximately \$436 billion. Our US gross sales, excluding reinvested distributions, improved by 14.8% from the prior quarter.
- **Putnam:** We closed our acquisition of Putnam Investments ("Putnam") from Great-West Lifeco ("Great-West") on January 1. While excluded from our first quarter results, Putnam increases our AUM by \$148 billion to a combined total AUM of approximately \$1.6 trillion<sup>3</sup>, and enhances our presence in the insurance and retirement sectors. Putnam also adds complementary capabilities across key asset classes with strong long-term track records – 87% or higher of mutual fund AUM outperformed peers in the 1-, 3-, 5-, and 10-year periods and 91% of mutual fund AUM are in funds rated four- or five-star by Morningstar<sup>4</sup>.

1. Excludes approximately \$12 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. Pro forma AUM as of December 31, 2023.

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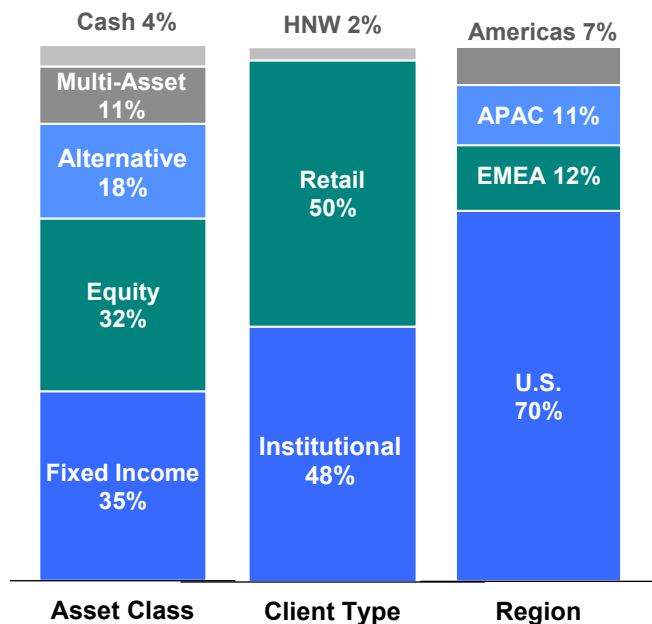
## First quarter highlights

- **Alternatives:** Our three largest alternative managers, Benefit Street Partners, Clarion Partners, and Lexington Partners each had net inflows in the current quarter with a combined total of \$3.8 billion. We continued to see strong client demand in secondary private equity and private credit, in particular.
  - On January 9, Lexington Partners announced the closing of its flagship global secondary fund (Lexington X) with \$22.7 billion of total capital commitments. Lexington X ranks among the largest funds raised to date in the global secondary private equity market and significantly exceeded the target for this fund and its prior secondary fund, which closed with \$14 billion raised in 2020.
  - Client interest was strong across alternative strategies on wealth management platforms under the Alternatives by Franklin Templeton brand in the US. Approximately 20% of the capital raised in Lexington X came from the wealth management channel.
  - On January 24, Benefit Street Partners closed its fifth flagship private credit fund with \$4.7 billion of total capital commitments exceeding its target, and also announced the merger of their two business development companies, Franklin BSP Lending Corporation and Franklin BSP Capital Corporation, that is expected to be immediately accretive to fund shareholders and to unlock nearly \$700 million of capital for deployment.
  - Alternative assets represent 18% of our AUM and approximately 25% of our total adjusted investment management fees (excluding performance fees) for the last twelve months.
- **ETFs:** ETFs generated net inflows of approximately \$1.0 billion, representing the fifth consecutive quarter of net inflows of approximately \$1.0 billion. ETF AUM has increased by over 40% from the prior year quarter to nearly \$20 billion.
- Franklin Templeton, as well as two of its specialist investment managers Clarion Partners and ClearBridge Investments, was recognized in ***Pension & Investment's 2023 Best Places to Work in Money Management***.

## AUM and investment performance

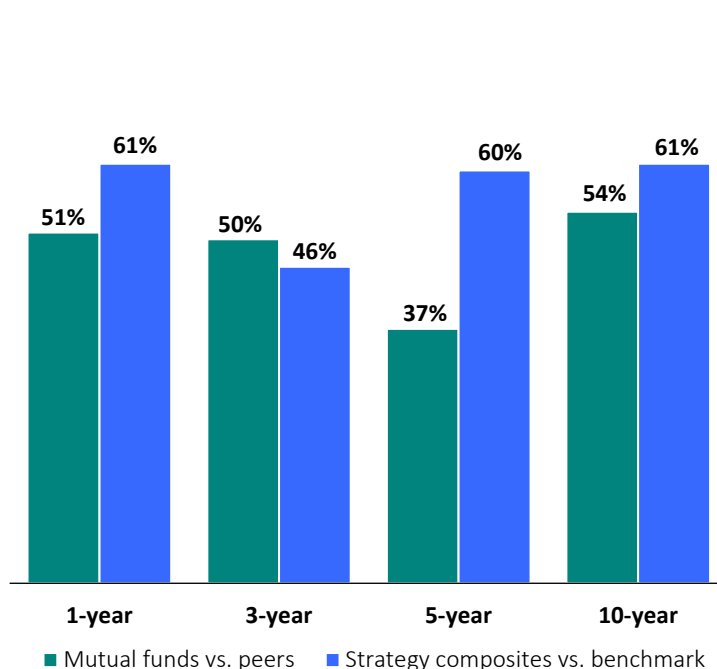
### Diversified by asset class, client type, and region

AUM of \$1.46 trillion as of December 31, 2023



### Percentage of AUM above peer median and benchmark<sup>1</sup>

As of December 31, 2023



- AUM of approximately \$1.46 trillion is diversified across asset classes, client types, and regions.
- Investment performance continues to be strong and resulted in 61%, 46%, 60%, and 61% of our strategy composite AUM outperforming their respective benchmarks on a 1-, 3-, 5-, and 10-year basis. The 5-year period improved from the prior quarter primarily due to certain U.S. taxable fixed income strategies.
- Investment performance resulted in 51%, 50%, 37%, and 54% of our mutual fund AUM outperforming their peers on a 1-, 3-, 5-, and 10-year basis. Mutual fund performance improved in the 1-, 3-, and 10-year periods from the prior quarter due to improved performance in certain fixed income and equity strategies and declined in the 5-year period primarily due to our one of our largest funds managed for yield.

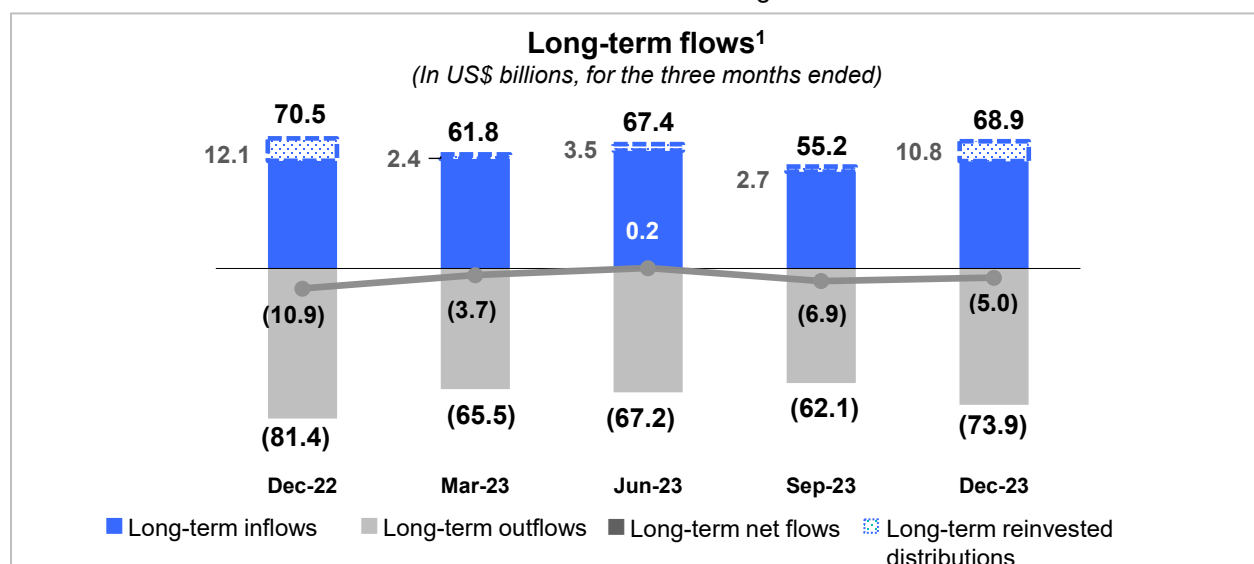
1. Benchmark comparisons are based on each strategy's composite returns (composites may include retail SMA and mutual fund assets managed as part of the same strategy) as compared to a market index that has been selected to be generally consistent with the investment objectives of the account. Multi-asset 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 46%, respectively of the firm's total AUM as of December 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%, 35%, 35%, and 33%, respectively of the firm's total AUM as of December 31, 2023.

## AUM and flows

(In US\$ billions) <sup>1</sup>	December 31, 2023	September 30, 2023	% Change	December 31, 2022	% Change
Beginning AUM	\$1,374.2	\$1,431.5	-4%	\$1,297.4	6%
Long-term inflows	68.9	55.2	25%	70.5	-2%
Long-term outflows	(73.9)	(62.1)	19%	(81.4)	-9%
<b>Long-term net flows</b>	<b>(5.0)</b>	<b>(6.9)</b>	<b>-28%</b>	<b>(10.9)</b>	<b>-54%</b>
Cash management net flows	4.7	(1.6)	NM	17.5	-73%
<b>Total net flows</b>	<b>(0.3)</b>	<b>(8.5)</b>	<b>-96%</b>	<b>6.6</b>	<b>NM</b>
Acquisitions	-	-	NM	34.9	-100%
Net market change, dist. & other	81.6	(48.8)	NM	48.8	67%
<b>Ending AUM</b>	<b>\$1,455.5</b>	<b>\$1,374.2</b>	<b>6%</b>	<b>\$1,387.7</b>	<b>5%</b>
<b>Average AUM</b>	<b>\$1,394.2</b>	<b>\$1,419.1</b>	<b>-2%</b>	<b>\$1,353.5</b>	<b>3%</b>

1. Excludes approximately \$12 billion of AUM in our China joint venture.

- Ending AUM increased by 5.9% to \$1.46 trillion from the prior quarter primarily due to market appreciation. Average AUM decreased by 1.8% to \$1.39 trillion from the prior quarter and increased by 3.0% from the prior year quarter.
- Long-term inflows of \$68.9 billion increased by 24.8% from the prior quarter and a reduction of 2.3% from the prior year quarter. Reinvested distributions were \$10.8 billion compared to \$2.7 billion in the prior quarter and \$12.1 billion in the prior year quarter. Excluding reinvested distributions, long-term inflows increased by 10.7% from the prior quarter and were flat from the prior year quarter.
- Long-term outflows were \$73.9 billion, an increase of 19.0% from the prior quarter and an improvement of 9.2% from the prior year quarter.
- Long-term net outflows, inclusive of reinvested distributions, were \$5.0 billion compared to net outflows of \$6.9 billion in the prior quarter and net outflows of \$10.9 billion in the prior year quarter.
- Region:** We continued to see aggregate positive net flows in non-US regions which have AUM of approximately \$436 billion. Our US gross sales, excluding reinvested distributions, improved by 14.8% from the prior quarter.
- We further diversified our business across vehicles:
  - ETFs** generated net inflows of approximately \$1.0 billion, representing the fifth consecutive quarter of net inflows being approximately \$1.0 billion.
  - SMA AUM** ended the quarter at \$125 billion and generated positive net flows for a third consecutive quarter.
  - Canvas®** generated net inflows of approximately \$0.4 billion and continues to have a robust pipeline, and AUM has more than doubled to \$5.9 billion since close of the acquisition.
- This quarter, our institutional pipeline of won but unfunded mandates was \$13.2 billion. The pipeline remains diversified by asset class and across our specialist investment managers.

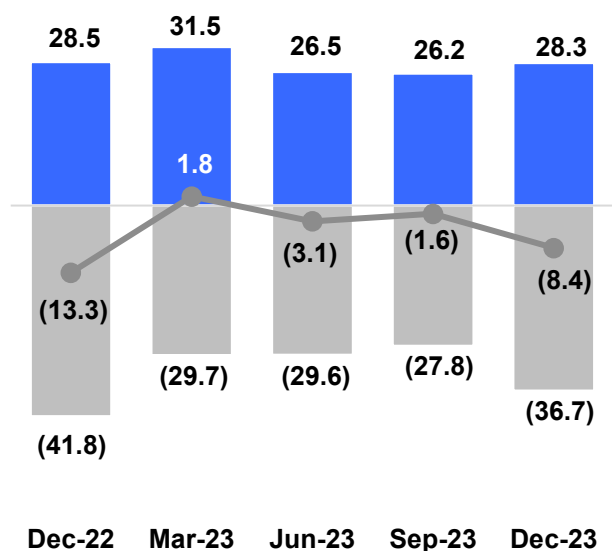


1. Excludes money market funds.

## Fixed Income: \$512 billion

(in US\$ billions, for the three months ended)

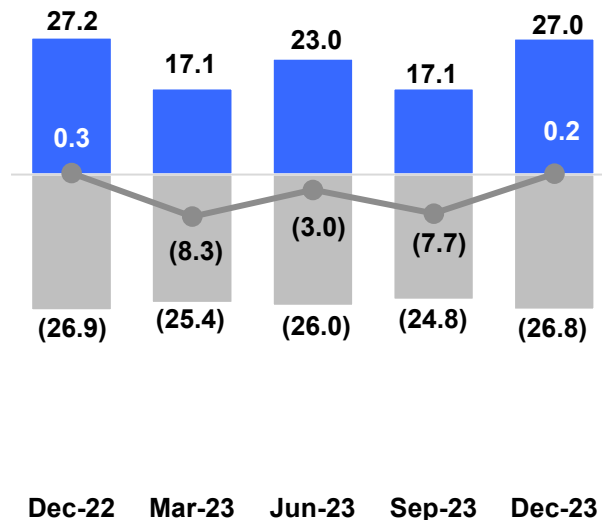
Fixed income net outflows were \$8.4 billion. We saw client interest reflected in positive net flows into Tax Efficient, Global Opportunistic, Mortgage-Backed Securities, and Multi-Sector strategies.



## Equity: \$468 billion

(in US\$ billions, for the three months ended)

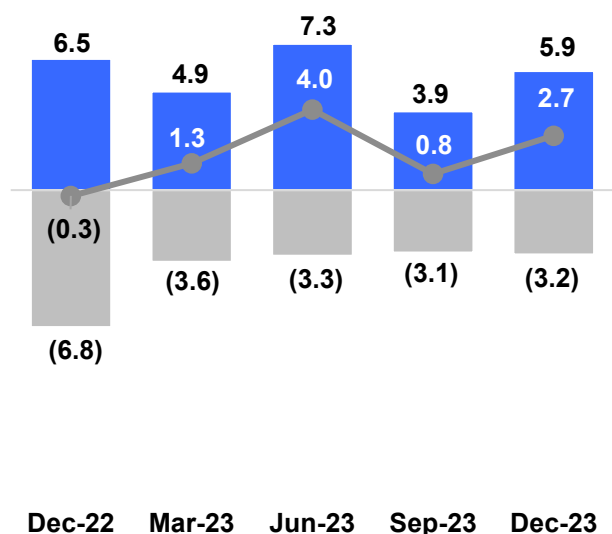
Equity net inflows were \$0.2 billion, including reinvested distributions of \$8.2 billion. We saw positive net flows into All Cap Growth, Smart Beta, All Cap Value, Equity Income, Large Cap Value, and Small Cap Core strategies.



## Alternative: \$256 billion

(in US\$ billions, for the three months ended)

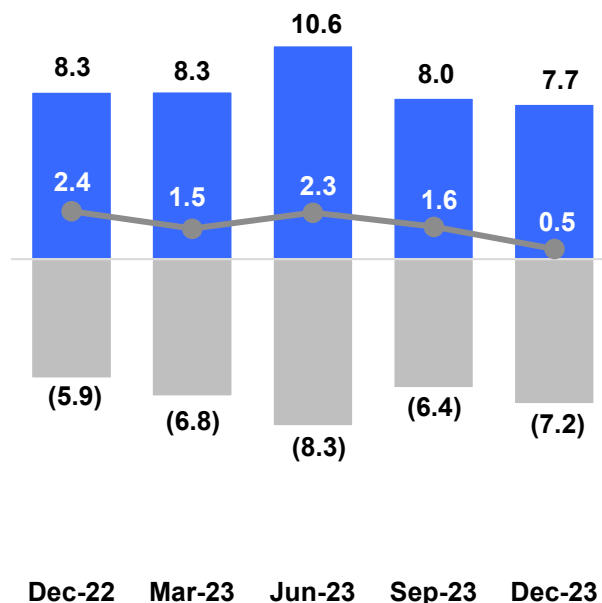
Alternative net inflows were \$2.7 billion driven by growth into private market strategies, which were partially offset by outflows in liquid alternative strategies. Benefit Street Partners, Clarion Partners, and Lexington Partners each had net inflows in the current quarter with a combined total of \$3.8 billion.



## Multi-Asset: \$155 billion

(in US\$ billions, for the three months ended)

Multi-asset net inflows were \$0.5 billion driven by Canvas®, our Custom Indexing solution platform, and Franklin Templeton Investment Solutions.



■ Long-term inflows

■ Long-term outflows

● Long-term net flows



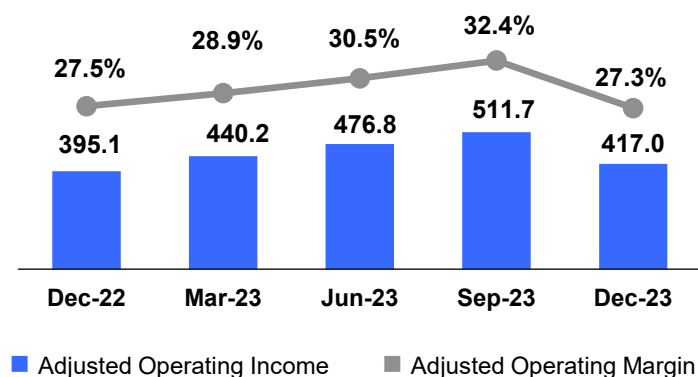
## Financial results<sup>1</sup>

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

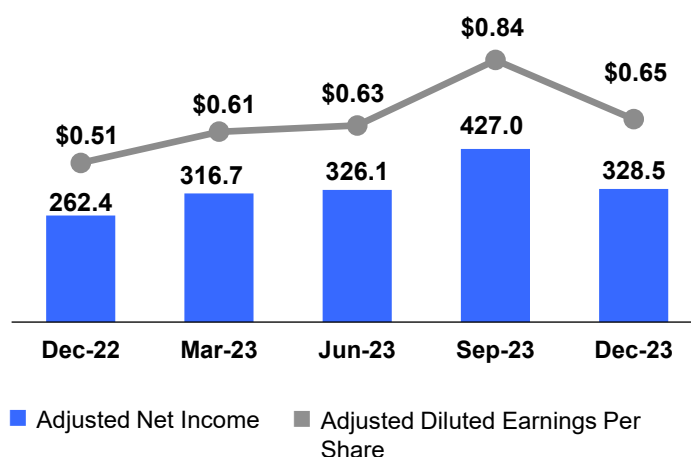
US GAAP	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23
<b>Operating Income</b>	194.0	255.1	314.9	338.3	206.5
<b>Operating Margin</b>	9.9%	13.2%	16.0%	17.0%	10.4%

US GAAP	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23
<b>Net Income</b>	165.6	194.2	227.5	295.5	251.3
<b>Diluted EPS</b>	\$0.32	\$0.38	\$0.44	\$0.58	\$0.50

### Adjusted operating income and adjusted operating margin



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



- Adjusted operating income was \$417.0 million, a decline of 18.5% from the prior quarter and an increase 5.5% from the prior year quarter.
- Adjusted operating margin was 27.3% compared to 32.4% in the prior quarter and 27.5% in the prior year quarter. The annual deferred compensation acceleration for retirement-eligible employees decreased the current quarter's and prior year quarter's adjusted operating margin by 260 bps.
- Adjusted net income and adjusted diluted EPS declined by 23.1% and 22.6% from the prior quarter to \$328.5 million and \$0.65, respectively. Adjusted net income and adjusted diluted EPS increased by 25.2% and 27.5% from the prior year quarter, respectively.
- The decline from the prior quarter includes (i) annual deferred compensation acceleration of \$40 million; (ii) transaction-related investment management fees earned from Fondul in the prior quarter of approximately \$35 million; (iii) foreign exchange losses of approximately \$7 million compared to gains of \$14 million in the prior quarter; (iv) lower realized gains on investments in the current quarter; and (v) a higher effective tax rate, partially offset by the net impact of higher catch-up fees (\$33 million vs. \$17 million in the prior quarter) recognized at the closing of fundraising rounds for Lexington X.

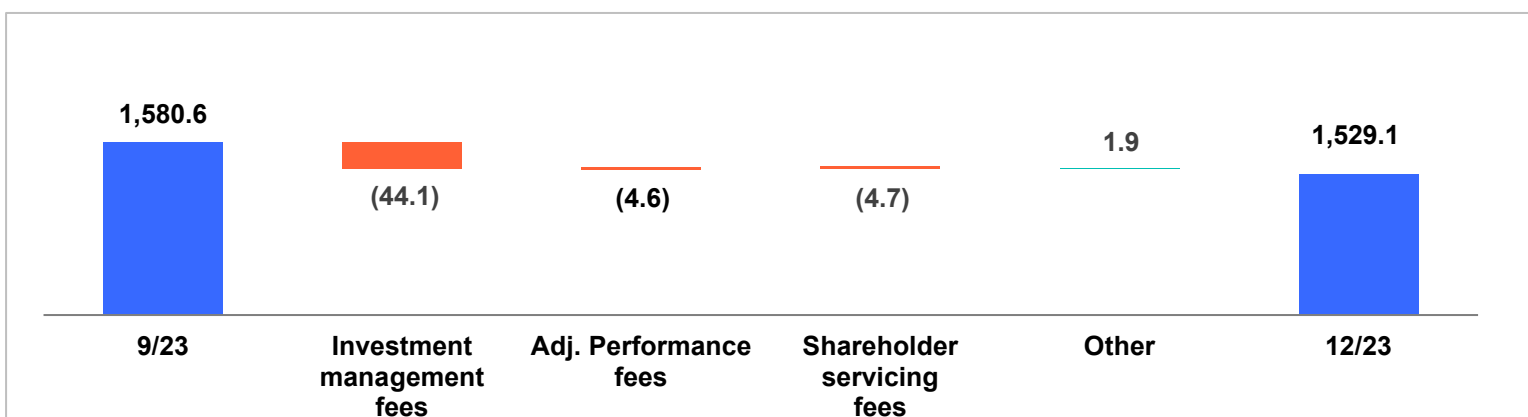
1. For the reconciliations from US GAAP to non-GAAP measures see the appendix to this commentary and the Supplemental Non-GAAP Financial Measures section of the earnings release. For prior periods please refer to historical earnings commentaries available at [franklinresources.com](http://franklinresources.com).

## Revenues<sup>1</sup>

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

	Dec-23 US GAAP	Adjustments	Dec-23 Adjusted	Sep-23 Adjusted	Dec-23 Adjusted vs. Sep-23 Adjusted	Dec-22 Adjusted	Dec-23 Adjusted vs. Dec-22 Adjusted
Investment management fees, ex. performance fees	1,485.8	(93.0)	1,392.8	1,436.9	(3%)	1,330.6	5%
Performance fees	166.4	(72.6)	93.8	98.4	(5%)	65.1	44%
Sales and distribution fees	296.4	(296.4)	-	-	NM	-	NM
Shareholder servicing fees	32.5	-	32.5	37.2	(13%)	33.4	(3%)
Other	10.0	-	10.0	8.1	23%	10.0	0%
<b>Total Operating Revenues</b>	<b>1,991.1</b>	<b>(462.0)</b>	<b>1,529.1</b>	<b>1,580.6</b>	<b>(3%)</b>	<b>1,439.1</b>	<b>6%</b>
<i>Effective fee rate</i>			<i>39.7 bps</i>	<i>40.2 bps</i>		<i>39.0 bps</i>	

## Adjusted Operating Revenues – Quarters Ended September 30, 2023 and December 31, 2023



- Adjusted operating revenues of \$1.53 billion declined 3.3% from the prior quarter and increased 6.3% from the prior year quarter. This quarter's decrease is primarily due to lower adjusted investment management fees. The prior year quarter included only two months of Alcentra's operations, which was acquired on November 1, 2022.
- Adjusted investment management fees of \$1.39 billion, excluding performance fees, decreased 3.1% from the prior quarter and increased 4.7% from the prior year quarter. This quarter's decrease is primarily due to approximately \$35 million of transaction-related investment management fees earned from Fondul in the prior quarter and lower average AUM. This was partially offset by \$33 million of catch-up fees recognized at the closing of fundraising rounds for Lexington X, which was approximately \$16 million higher than the prior quarter. The increase from the prior year quarter is primarily due to higher average AUM, adjusted performance fees, and catch-up fees.
- Adjusted performance fees were \$93.8 million compared to \$98.4 million in the prior quarter and \$65.1 million in the prior year quarter. Performance fees were primarily earned by our alternative specialist investment managers.
- The adjusted effective fee rate<sup>2</sup> was 39.7 bps compared to 40.2 bps in the prior quarter and 39.0 bps in the prior year quarter. The prior quarter effective fee rate included the transaction-related management fees earned from Fondul (-1.0 bps impact to Q1 vs. prior quarter) while this quarter's effective fee rate included higher catch-up fees recognized at the closing of fundraising rounds for Lexington X (+0.5 bps impact to Q1 vs. prior quarter).

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2. The adjusted effective fee rate is annualized adjusted investment management fees, excluding performance fees, divided by average AUM for the period.

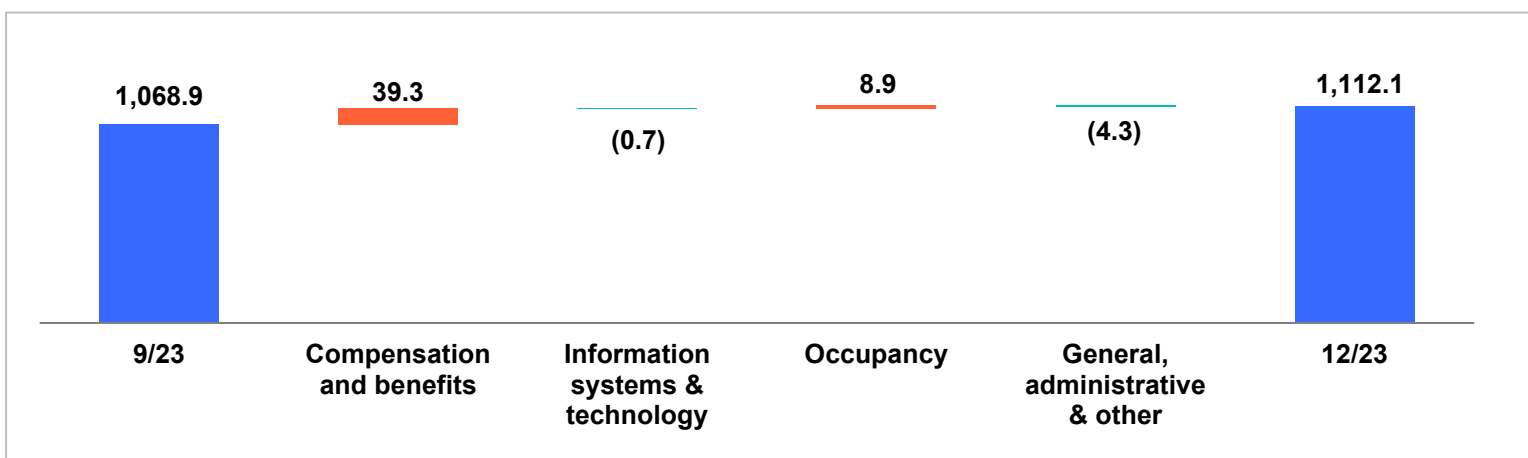


## Expenses<sup>1</sup>

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

	Dec-23		Dec-23	Sep-23	Dec-23 Adjusted vs. Sep-23	Dec-22	Dec-23 Adjusted vs. Dec-22
	US GAAP	Adjustments	Adjusted	Adjusted	Adjusted	Adjusted	Adjusted
Compensation & benefits	968.3	(179.1) <sup>2</sup>	789.2	749.9	5%	744.5	6%
Sales, distribution & marketing	400.8	(400.8)	-	-	NM	-	NM
Information systems & technology	131.0	(6.5)	124.5	125.2	(1%)	116.0	7%
Occupancy	66.7	-	66.7	57.8	15%	54.5	22%
Amortization of intangible assets	85.8	(85.8)	-	-	NM	-	NM
General, administrative & other	132.0	(0.3)	131.7	136.0	(3%)	129.0	2%
<b>Total Operating Expenses</b>	<b>1,784.6</b>	<b>(672.5)</b>	<b>1,112.1</b>	<b>1,068.9</b>	<b>4%</b>	<b>1,044.0</b>	<b>7%</b>

## Adjusted Operating Expenses – Quarters Ended September 30, 2023 and December 31, 2023



- Adjusted operating expenses were \$1.11 billion, an increase of 4.0% from the prior quarter and 6.5% from the prior year quarter. This quarter's increase is primarily due to higher adjusted compensation and benefits. The prior year quarter included only two months of Alcentra's operations, which was acquired on November 1, 2022.
- Adjusted compensation and benefits increased 5.2% from the prior quarter and 6.0% from the prior year quarter. The current quarter included the annual deferred compensation acceleration for retirement-eligible employees of \$40 million and higher incentive compensation related to the closing of fundraising rounds for Lexington X.
- Adjusted compensation and benefits was 51.6% of adjusted operating revenues compared to 47.4% in the prior quarter and 51.7% in the prior year quarter. Excluding the annual deferred compensation acceleration for retirement-eligible employees, adjusted compensation and benefits was approximately 49% of adjusted operating revenues for the current quarter and prior year quarter.
- Non-compensation adjusted operating expenses were \$322.9 million, a 1.2% increase from the prior quarter and a 7.8% increase from the prior year quarter. The increase from the prior quarter is primarily due to a new office lease related to our consolidation of existing office space in New York City. Our consolidation initiatives are expected to result in additional rent expense of approximately \$50 million during fiscal year 2024 while the new office space is readied for occupancy in early fiscal year 2025, after which rent expense is expected to decrease by a similar amount.

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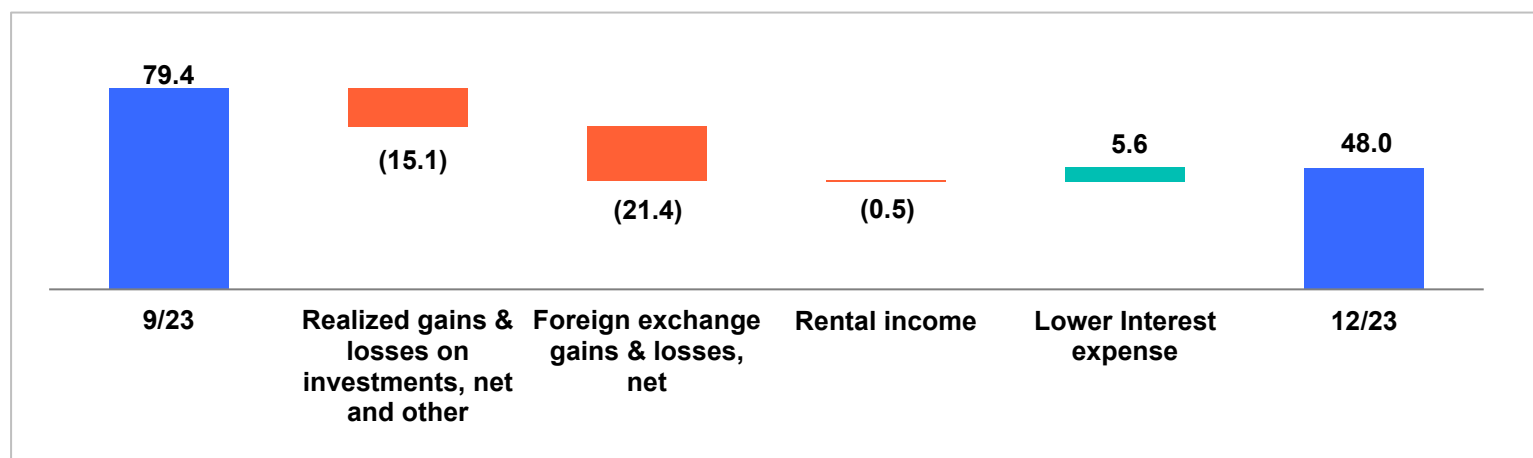
2. Includes \$72.6 million of performance fees that were passed through as compensation per the terms of the acquisition agreement.

## Other Income (Expense), Net<sup>1</sup>

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

	Dec-23		Dec-23	Sep-23	Dec-23 Adjusted vs. Sep-23	Dec-22	Dec-23 Adjusted vs. Dec-22
	US GAAP	Adjustments	Adjusted	Adjusted	Adjusted	Adjusted	Adjusted
Investment and other income, net	173.2	(104.0)	69.2	106.2	(35%)	24.2	186%
Interest expense	(18.8)	(2.4)	(21.2)	(26.8)	(21%)	(31.1)	(32%)
Investment and other income (losses) of CIPs	(23.8)	23.8	-	-	NM	-	NM
Expenses of CIPs	(5.9)	5.9	-	-	NM	-	NM
<b>Other Income (Expense), Net</b>	<b>124.7</b>	<b>(76.7)</b>	<b>48.0</b>	<b>79.4</b>	<b>(40%)</b>	<b>(6.9)</b>	<b>NM</b>

## Adjusted Other Income – Quarters Ended September 30, 2023 and December 31, 2023



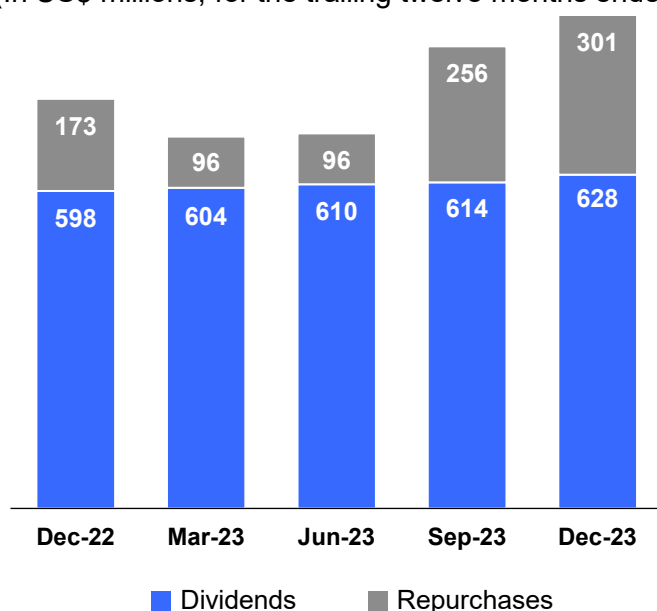
- Adjusted other income was \$48.0 million compared to \$79.4 million in the prior quarter and adjusted other expense of \$6.9 million in the prior year quarter. The current quarter decrease is primarily related to foreign exchange losses driven by the weakening of the US dollar as compared to gains in the prior quarter and lower realized gains on investments in the current quarter.
- Interest due to debt holders was \$24.4 million compared to \$26.6 million in the prior quarter and \$28.4 million in the prior year quarter. Rental income was \$10.8 million compared to \$11.3 million in the prior quarter and \$9.7 million in the prior year quarter.
- This quarter's GAAP tax rate was 22.6% compared to 17.7% in the prior quarter and 26.3% in the prior year quarter. We expect our annual GAAP tax rate to be between 24 - 26% range. The actual effective tax rate may differ due to nonrecurring or discrete items or potential changes in tax legislation.

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## Capital management

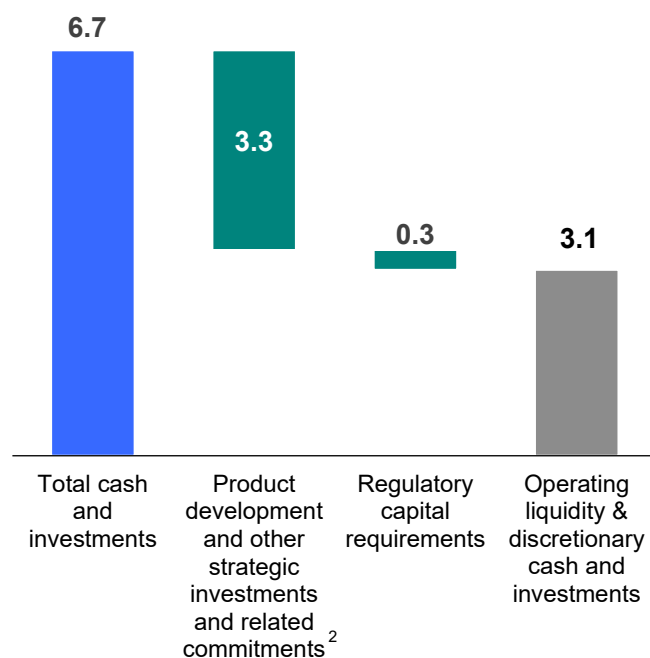
### Dividends and share repurchases

(In US\$ millions, for the trailing twelve months ended)



### Allocation of cash and investments<sup>1</sup>

(In US\$ billions, as of December 31, 2023)



- In December, we announced a quarterly cash dividend of \$0.31 per share, representing a 3.3% increase over the dividends paid for the prior quarter.
- During the quarter, we returned \$227 million to shareholders including \$168 million in dividends and \$59 million in share repurchases. We typically plan to repurchase shares to offset employee-related equity issuances throughout the year. In December 2023, our Board of Directors authorized the repurchase of up to 40 million shares of our common stock under our stock repurchase program (an increase of 27.2 million shares).
- Total cash and investments were \$6.7 billion<sup>1</sup> as of December 31, 2023 compared to \$6.9 billion as of September 30, 2023.
- As of December 31, 2023, we maintain senior debt with an aggregate principal amount due of \$2.85 billion<sup>3</sup> and an undrawn \$800 million revolving credit facility.
- On January 1, 2024, we acquired Putnam from Great-West for 31.6<sup>4</sup> million shares of our common stock and deferred cash consideration of \$100.0 million to be paid in our third fiscal quarter of 2024. Additionally, we paid approximately \$220 million for net cash and investments.
- Inclusive of the Putnam acquisition, we have approximately \$875 million of nominal cash tax benefits available related to past acquisitions, which we expect to realize over the next 15 years.

1. Includes our direct investments in CIPS of \$1.0 billion and approximately \$300 million of employee-owned and other third-party investments made through partnerships, and approximately \$370 million of investments that are subject to long-term repurchase agreements and other financing arrangements. Excludes \$800 million undrawn revolving credit facility.

2. Includes undrawn capital commitments of \$300 million.

3. Excludes fair value adjustments from purchase accounting.

4. Excludes shares to be granted under a deferred compensation program.

## Appendix

### Reconciliation of US GAAP results to Non-GAAP results: Three months ended December 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
<b>Revenues</b>								
Investment management fees	1,652.2	11.4	(104.4)	(72.6) <sup>1</sup>	-	-	-	1,486.6
Sales and distribution fees	296.4	-	(296.4)	-	-	-	-	-
Shareholder servicing fees	32.5	-	-	-	-	-	-	32.5
Other	10.0	-	-	-	-	-	-	10.0
<b>Total Operating Revenues</b>	<b>1,991.1</b>	<b>11.4</b>	<b>(400.8)</b>	<b>(72.6)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,529.1</b>
<b>Expenses</b>								
Compensation and benefits	968.3	-	-	(141.7) <sup>1</sup>	(6.7)	-	(30.7)	789.2
Sales, distribution and marketing	400.8	-	(400.8)	-	-	-	-	-
Information systems and technology	131.0	-	-	(6.5)	-	-	-	124.5
Occupancy	66.7	-	-	-	-	-	-	66.7
Amortization of intangible assets	85.8	-	-	(85.8)	-	-	-	-
General, administrative and other	132.0	-	-	(0.3)	-	-	-	131.7
<b>Total Operating Expenses</b>	<b>1,784.6</b>	<b>-</b>	<b>(400.8)</b>	<b>(234.3)</b>	<b>(6.7)</b>	<b>-</b>	<b>(30.7)</b>	<b>1,112.1</b>
<b>Operating Income</b>	<b>206.5</b>	<b>11.4</b>	<b>-</b>	<b>161.7</b>	<b>6.7</b>	<b>-</b>	<b>30.7</b>	<b>417.0</b>
<b>Other Income (Expense)</b>								
Investment and other income (losses) net	173.2	(21.1)	-	-	-	(57.9)	(25.0)	69.2
Interest expense	(18.8)	-	-	(2.4)	-	-	-	(21.2)
Investment and other income (losses) of CIPs, net	(23.8)	23.8	-	-	-	-	-	-
Expenses of CIPs	(5.9)	5.9	-	-	-	-	-	-
<b>Total Other Income (Expense)</b>	<b>124.7</b>	<b>8.6</b>	<b>-</b>	<b>(2.4)</b>	<b>-</b>	<b>(57.9)</b>	<b>(25.0)</b>	<b>48.0</b>
<b>Income before taxes</b>	<b>331.2</b>	<b>20.0</b>	<b>-</b>	<b>159.3</b>	<b>6.7</b>	<b>(57.9)</b>	<b>5.7</b>	<b>465.0</b>
Taxes on income	74.9	-	-	38.6	1.6	(11.9)	1.3	104.5
<b>Net income</b>	<b>256.3</b>	<b>20.0</b>	<b>-</b>	<b>120.7</b>	<b>5.1</b>	<b>(46.0)</b>	<b>4.4</b>	<b>360.5</b>
Less: Net income (loss) attributable to noncontrolling interests	5.0	22.2	-	-	-	(8.9)	13.7	32.0
<b>Net Income Attributable to Franklin Resources, Inc.</b>	<b>251.3</b>	<b>(2.2)</b>	<b>-</b>	<b>120.7</b>	<b>5.1</b>	<b>(37.1)</b>	<b>(9.3)</b>	<b>328.5</b>
Less: allocation of earnings to participating nonvested stock and stock unit awards	9.7							12.9
<b>Net Income Available to Franklin Resources, Inc. Common Stockholders</b>	<b>241.6</b>							<b>315.6</b>
<b>Diluted EPS</b>	<b>\$0.50</b>				<b>Adjusted Diluted EPS</b>			<b>\$0.65</b>
<b>Avg. Diluted Shares Outstanding</b>	<b>487.9</b>				<b>Avg. Diluted Shares Outstanding</b>			<b>487.9</b>
<b>Operating Margin</b>	<b>10.4%</b>				<b>Adjusted Operating Margin</b>			<b>27.3%</b>

1. Includes \$72.6 million of performance fees that were passed through as compensation per the terms of the acquisition agreement.

## Appendix

### Reconciliation of US GAAP results to Non-GAAP results: Three months ended September 30, 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
<b>Revenues</b>								
Investment management fees	1,634.4	11.2	(104.7)	(5.6) <sup>1</sup>	-	-	-	1,535.3
Sales and distribution fees	306.4	-	(306.4)	-	-	-	-	-
Shareholder servicing fees	37.2	-	-	-	-	-	-	37.2
Other	8.1	-	-	-	-	-	-	8.1
<b>Total Operating Revenues</b>	<b>1,986.1</b>	<b>11.2</b>	<b>(411.1)</b>	<b>(5.6)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,580.6</b>
<b>Expenses</b>								
Compensation and benefits	826.3	-	-	(62.4) <sup>1</sup>	(8.3)	-	(5.7)	749.9
Sales, distribution and marketing	411.1	-	(411.1)	-	-	-	-	-
Information systems and technology	128.3	-	-	(3.1)	-	-	-	125.2
Occupancy	57.8	-	-	-	-	-	-	57.8
Amortization of intangible assets	86.5	-	-	(86.5)	-	-	-	-
General, administrative and other	137.8	-	-	(1.8)	-	-	-	136.0
<b>Total Operating Expenses</b>	<b>1,647.8</b>	<b>-</b>	<b>(411.1)</b>	<b>(153.8)</b>	<b>(8.3)</b>	<b>-</b>	<b>(5.7)</b>	<b>1,068.9</b>
<b>Operating Income</b>	<b>338.3</b>	<b>11.2</b>	<b>-</b>	<b>148.2</b>	<b>8.3</b>	<b>-</b>	<b>5.7</b>	<b>511.7</b>
<b>Other Income (Expense)</b>								
Investment and other income (losses) net	72.1	16.1	-	-	-	13.4	4.6	106.2
Interest expense	(24.4)	-	-	(2.4)	-	-	-	(26.8)
Investment and other income (losses) of CIPs, net	40.5	(40.5)	-	-	-	-	-	-
Expenses of CIPs	(3.0)	3.0	-	-	-	-	-	-
<b>Total Other Income (Expense)</b>	<b>85.2</b>	<b>(21.4)</b>	<b>-</b>	<b>(2.4)</b>	<b>-</b>	<b>13.4</b>	<b>4.6</b>	<b>79.4</b>
<b>Income before taxes</b>	<b>423.5</b>	<b>(10.2)</b>	<b>-</b>	<b>145.8</b>	<b>8.3</b>	<b>13.4</b>	<b>10.3</b>	<b>591.1</b>
Taxes on income	75.0	-	-	35.3	2.0	4.7	2.4	119.4
<b>Net income</b>	<b>348.5</b>	<b>(10.2)</b>	<b>-</b>	<b>110.5</b>	<b>6.3</b>	<b>8.7</b>	<b>7.9</b>	<b>471.7</b>
Less: Net income (loss) attributable to noncontrolling interests	53.0	(11.8)	-	-	-	(7.2)	10.7	44.7
<b>Net Income Attributable to Franklin Resources, Inc.</b>	<b>295.5</b>	<b>1.6</b>	<b>-</b>	<b>110.5</b>	<b>6.3</b>	<b>15.9</b>	<b>(2.8)</b>	<b>427.0</b>
Less: allocation of earnings to participating nonvested stock and stock unit awards	10.7							15.9
<b>Net Income Available to Franklin Resources, Inc. Common Stockholders</b>	<b>284.8</b>							<b>411.1</b>
<b>Diluted EPS</b>	<b>\$0.58</b>				<b>Adjusted Diluted EPS</b>			<b>\$0.84</b>
<b>Avg. Diluted Shares Outstanding</b>	<b>490.0</b>				<b>Avg. Diluted Shares Outstanding</b>			<b>490.0</b>
<b>Operating Margin</b>	<b>17.0%</b>				<b>Adjusted Operating Margin</b>			<b>32.4%</b>

1. Includes \$5.6 million of performance fees that were passed through as compensation per the terms of the acquisition agreement.

## 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
<b>Revenues</b>				<sup>1</sup>				
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
<b>Total Operating Revenues</b>	<b>1,967.1</b>	<b>5.1</b>	<b>(388.6)</b>	<b>(144.5)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,439.1</b>
<b>Expenses</b>				<sup>1</sup>				
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
<b>Total Operating Expenses</b>	<b>1,773.1</b>	<b>-</b>	<b>(388.6)</b>	<b>(313.9)</b>	<b>(10.9)</b>	<b>-</b>	<b>(15.7)</b>	<b>1,044.0</b>
<b>Operating Income</b>	<b>194.0</b>	<b>5.1</b>	<b>-</b>	<b>169.4</b>	<b>10.9</b>	<b>-</b>	<b>15.7</b>	<b>395.1</b>
<b>Other Income (Expense)</b>								
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	-	-	-	-	-	-
<b>Total Other Income (Expense)</b>	<b>35.1</b>	<b>2.8</b>	<b>-</b>	<b>(0.2)</b>	<b>-</b>	<b>(31.4)</b>	<b>(13.2)</b>	<b>(6.9)</b>
<b>Income before taxes</b>	<b>229.1</b>	<b>7.9</b>	<b>-</b>	<b>169.2</b>	<b>10.9</b>	<b>(31.4)</b>	<b>2.5</b>	<b>388.2</b>
Taxes on income	60.3	-	-	41.1	2.6	(2.4)	0.5	102.1
<b>Net income</b>	<b>168.8</b>	<b>7.9</b>	<b>-</b>	<b>128.1</b>	<b>8.3</b>	<b>(29.0)</b>	<b>2.0</b>	<b>286.1</b>
Less: Net income (loss) attributable to noncontrolling interests	3.2	11.5	-	-	-	(0.7)	9.7	23.7
<b>Net Income Attributable to Franklin Resources, Inc.</b>	<b>165.6</b>	<b>(3.6)</b>	<b>-</b>	<b>128.1</b>	<b>8.3</b>	<b>(28.3)</b>	<b>(7.7)</b>	<b>262.4</b>
Less: allocation of earnings to participating nonvested stock and stock unit awards	7.7							11.8
<b>Net Income Available to Franklin Resources, Inc. Common Stockholders</b>	<b>157.9</b>							<b>250.6</b>
<b>Diluted EPS</b>	<b>\$0.32</b>				<b>Adjusted Diluted EPS</b>			<b>\$0.51</b>
<b>Avg. Diluted Shares Outstanding</b>	<b>490.2</b>				<b>Avg. Diluted Shares Outstanding</b>			<b>490.2</b>
<b>Operating Margin</b>	<b>9.9%</b>				<b>Adjusted Operating Margin</b>			<b>27.5%</b>

1. Includes \$144.5 million of performance fees that were passed through as compensation per the terms of the acquisition agreement.



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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.

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