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COMPANY PROFILE

T. Rowe Price Group, Inc.

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COMPANY OVERVIEW

T. Rowe Price Group, Inc. (T. Rowe) is a provider of global investment management. It offers a wide range of mutual funds, sub-advisory solutions, investment offerings, record keeping, and separate account management. T. Rowe offers FCP, SICAV, collective investment trusts, target data retirement trusts, and Australian unit trusts. It caters to individuals, institutions, financial intermediaries, advisors, and retirement plan sponsors through a network of branch offices, sales representatives, and online portals. The company operates in North America, Europe, and Asia-Pacific. T. Rowe is headquartered in Baltimore, Maryland, the US.

The company reported revenues of (US Dollars) US$4,793 million for the fiscal year ended December 2017 (FY2017), an increase of 13.5% over FY2016. In FY2017, the company’s operating margin was 44%, compared to an operating margin of 41% in FY2016. In FY2017, the company recorded a net margin of 31.3%, compared to a net margin of 28.8% in FY2016.

KEY FACTS

Head Office	T. Rowe Price Group, Inc. 100 East Pratt Street P.O. Box 89000 Baltimore Maryland Baltimore Maryland USA
Phone	1 410 3452000
Fax	
Web Address	www3.troweprice.com
Revenue / turnover (USD Mn)	4,793.0
Financial Year End	December
Employees	6,796
NASDAQ Ticker	TROW

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SWOT ANALYSIS

T. Rowe Price Group, Inc (T.Rowe) is a provider of investment management services. Improved asset under management and cost efficiency, and diverse investments are a few of its key strengths, even as its litigation charges and fee-based business model could be areas for improvement. Stiff competition, availability of limited talent, and regulatory changes in the US may affect the growth of the company. However, corporate tax cuts in the US, growing wealth management prospect of the US, new funds, and strategic business acquisitions may offer significant growth opportunities for the company.

Strength	**Weakness**
Assets under Management Business Diverse Investments Cost Efficiency	Litigation Fee-based Business Model
Opportunity	**Threat**
Corporate Tax Cuts in the US New Funds Business Acquisition Growing Wealth Management Prospects: The US	Limited Talent Competition Regulatory Changes: The US

Strength

Assets under Management Business

Improvement in the assets under management (AuM) in FY2017, showcases the growing believe among the investors about T. Rowe's investment strategies and it also enhance the company's business capabilities. During the year AuM increased by 22.2% to US$991.1 billion from US$810.8 billion in the previous year. The AuM improved due to rise in net inflows by US$166.3 billion. Its AuM invested US$606.3 billion in the T. Rowe Price US mutual funds and US$384.8 billion in other investment products.

Diverse Investments

T. Rowe's diverse investment of AuM enables it to depend less on a particular asset class and mitigate with various market risks. In FY2017, the company invested 56.9% of its AuM in equities, followed by 29.5% in asset allocation, and 13. 6% in fixed income. T. Rowe invested 61.2% of AuM in T. Rowe Price US mutual funds and 38.8% in other investment products. T. Rowe invested 67.7% of AuM in total retirement and tax deferred annuity assets and 32.3% in other account types.

Cost Efficiency

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Improvement in the cost efficiency of the company in FY2017, enhanced its profitability. It reported cost efficiency ratio of 56% in FY2017 from 58.95% in the previous year. The ratio showcases operating expenses as a percentage of net revenue. During the year, its revenue improved by 13.5% to US$4,793 million from US$4,222.9 million, which was due to growth in investment advisory fees by 15%, administrative fees by 1.6%, and distribution and servicing charges by 3.7%. The operating expenses increased by 7.8% to US$2,684.2 million from US$2,489.5 million, due to rise in compensation and related costs by 11.4%, advertising and promotion costs by 15.1%, distribution and servicing costs by 3.7%, depreciation and amortization of property and equipment by 7.6%, and other operating expenses by 22.5%.

Weakness

Litigation

Involvement in legal issues could render the company incur additional costs and affects its brand image. In February 2017, a litigation charge was filed against T. Rowe, which accused it of self-dealing in company 401 (k) plan. The case was filed by Mr. David G. Feinberg, a participant in the company's US Retirement Program. The litigation states that the defendants favored the economic interests of the company and its affiliates over the interests of their employees in savings for their retirement by providing, during the Class Period (February 14, 2011 through judgment in this case), only its own in-house investment funds in its 401(k) Plan. The exclusive relationship provided a windfall to the company's affiliates, T. Rowe Price Associates, Inc. and T. Rowe Price Trust Company. The litigation alleges that the defendants failed to loyally and prudently monitor the fees and performance of 401(k) plan investment options, and retained the in-house funds to enrich the company.

Fee-based Business Model

T. Rowe similar to other investment management service providers, follows a fee-based business model, where the fee is related to the net asset value of the client assets. If clients migrate to fixed income securities with lower returns, this will reduce the company's earnings significantly. Under such circumstances, investors will prefer to invest in low-return low-risk investment vehicles such as AAA rated treasury bonds from major economies. This may result in an exodus of investments from high-risk investment products such as alternative assets, hedge funds and equities.

Opportunity

Corporate Tax Cuts in the US

Corporations across the US would benefit from the reduced corporate tax cut bill, which was signed into law in December 2017. Among them, financial services firms are expected to be among the biggest gainers as they pay some of the highest effective tax rates in the country. Banks could benefit from increase in borrowing by businesses. Along with increase in borrowing, higher interest rates will further boost banks' profit margins. Banks with overseas businesses would become more competitive, relative to their international counterparts in countries with lower corporate tax rates. The bill includes provisions

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related to repatriation of overseas cash, which could boost the US mergers and acquisitions that in turn would spur investment banking. The wealth management firms are also likely to witness substantial growth in their asset under management as the bill reduces tax rates for the wealthy. Most of the corporate America is likely to increase dividends and share buybacks that would further boost the US equity markets, in turn increasing the value of investments held by asset managers.

New Funds

Introduction of new funds in FY2017, enabled T. Rowe to diversify its offering capability and cater to wide customer needs. In this direction, in June 2017, it introduced Retirement Income 2020 Funds for individual investors who were approaching retirement. This supported T. Rowe to expand its retirement category and increase customer base. Earlier, in May 2017, T. Rowe introduced US High Yield Fixed Income Funds. It offered additional high yield investment opportunities to clients and enhanced its global fixed income franchise.

Business Acquisition

Strategic acquisition enables the company to grow in-organically and enhance its operational capabilities. In this direction in July 2017, the company acquired Henderson High Yield Opportunity Fund from Henderson Global Investors Inc. The acquisition enabled T. Rowe to improve its fixed income capabilities in the US and strengthen its pool of portfolio managers. The collaboration also helped T. Rowe to enhance its financial position and offer swift and smooth services to clients.

Growing Wealth Management Prospects: The US

The growing wealthy population in the US may provide ample growth opportunities to private banking/wealth management providers. According to in-house research, the population is projected to reach 204.4 million by 2020, including high net worth individuals (HNWIs) to 5.4 million and mass affluent to 199 million. The retail wealth of the population is forecasted to reach US$51,637.9 billion, including the wealth of HNWIs and mass affluent to US$19,331.2 billion and US$32,306.8 billion, respectively. The growth is expected to be driven by increasing retail savings and positive investments in the market on the back of optimistic economic forecast, corporate tax cuts, and focus on alternative investments.

Threat

Limited Talent

Companies operating in the investment management business face competition from peers in recruiting and retaining talented investment managers. It competes with asset management companies, private banks, multi-family offices, single family offices and wealth management firms for personnel with experience and talent. If it fails to retain the existing team of professionals, the company's asset management, and investment advisory service offerings could get adversely affected. Also, some provisions in the Dodd-Frank Act also suggest the Federal Reserve to establish compensation guidelines for regulated financial institutions. Such restrictions on employee compensation could limit the company's ability to recruit new talent and to preserve its team of professional advisors.

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Competition

The company operates in a highly competitive investment management sector of the US. It faces stiff competition from domestic and international investment management service providers operating in the market. A few of its key peers include BlackRock Inc, FMR LLC, Franklin Resources, Inc., The Vanguard Group, Inc., and State Street Global Advisors. It competes based on factors such as fees charged, market knowledge, service quality, investment portfolio, and assets under management.

Regulatory Changes: The US

Implementation and compliance of regulatory changes could render the company incur additional costs. In April 2016, the United States Department of Labor (DOL) issued the DOL Rule and related exemptions, which broaden the circumstances under which the company may be considered a fiduciary with respect to certain accounts that are subject to the Employee Retirement Income Security Act of 1974 (ERISA), and the prohibited transaction rules of section 4975 of the Code, including many employer-sponsored retirement plans and IRAs. The DOL also finalized certain prohibited transaction exemptions that allow investment advisors to receive compensation for providing investment advice under arrangements that would otherwise be prohibited due to conflicts of interest. The rule may increase the compliance costs for advisors and registered representatives. The advisors are required to act in the best favor of customers and disclose all commissions and fees to be disclosed to clients in terms of US$. It may eliminate several commissions. All advisors, agents, brokers, and financial planners will be bound to provide clients with a disclosure agreement, called a Best Interest Contract Exemption, in case of any conflict in interest.

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