

## Janus Capital Group (JNS)

### Alert: 2Q EPS Initial Look – Still Well Enmeshed in Negative Feedback Loop

- **2Q EPS miss** — \$0.13 versus our \$0.14 forecast and consensus at \$0.15. Relative to our forecast – and a similar pattern to most reporting to date – revenues, margins, and AUM/flows missed estimates – though averaging of AUM clearly impacted results and should stabilize into 3Q. Still, another difficult quarter defined by elevated attrition, elevated performance fee drag, margin compression (though cost control solid, to be fair), and adverse incremental mix shift – offset by moderate buyback surprise – with share count flat Q/Q.
- **Revenue + margin shortfalls** — \$206M revenues nearly 6% below forecast due to \$10M shortfall in investment management fees – though mostly due to lower average AUM (but also adverse mix impact) – and ~\$4M worse than forecast negative performance fees. \$154M costs a nice surprise reflecting better than expected compensation control (~\$82M – both base/variable comp + LTI). Nonetheless, \$52M operating income fell ~\$4M below forecast, translating into 25.3% operating margin and ~50 bps < forecast and down ~600 bps Y/Y. Favorably, the margin dipped < 100 bps Q/Q yet ongoing attrition and lower AUM are clearly exacting a toll on profitability. We believe the outlook remains mixed.
- **AUM shortfall on worse than forecast attrition** — \$152.4B AUM at 6/30, down 7% Q/Q and 1% below our forecast. \$4B net outflows ~50% worse than forecast and a ~10% annualized loss rate. The key variant was \$2.5B in quant attrition (~23% annualized loss rate) versus our \$1.5B attrition forecast. \$1.1B FI inflows mostly in-line (19% annualized growth). \$2.5B fundamental equities attrition mostly in-line, but still a 10% annualized loss rate. Lead indicators remain mixed, with uneven performance + positioning trends, in our view.
- **Stock and call** — Apart from solid comp control, very little to get excited about, in our view. We will review our model post 10 AM EST earnings call with management – dial in: (888) 397-5388. The stock has been weak of late but we expect the shares to lag pending incremental call disclosure. AMG + LM remain our most favored traditional stocks – see our 7/25 report, [Don't Throw The Baby Out With The Bathwater - We Still Like AMG + LM Into Earnings Among Traditionals](#).

Companies mentioned: (AMG.N; US\$103.33; 1); (LM.N; US\$24.77; 1).

#### ■ Company Update

<b>Neutral</b>	<b>2</b>
Price (25 Jul 12)	US\$6.98
Target price	US\$7.75
Expected share price return	11.0%
Expected dividend yield	3.4%
<b>Expected total return</b>	<b>14.5%</b>
Market Cap	US\$1,316M

#### Price Performance (RIC: JNS.N, BB: JNS US)



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#### See Appendix A-1 for Analyst Certification, Important Disclosures and non-US research analyst disclosures.

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## Janus Capital Group

### Valuation

We value the shares of JNS at \$7.75. Our \$7.75 12-month price target is derived by applying a ~12x target P/E multiple to our base 2012 EPS estimate. We believe a lower-than-historical target multiple is justified given heavy U.S. retail exposure and mixed flow prospects.

### Risks

In addition to a mixed fundamental outlook around flows and margin, if the impact from any of the following factors proves to be greater than we expect, the stock price may have difficulty reaching our target price. If market conditions improve faster than anticipated, the stock price may outperform our target.

Financial market risk — Changes in markets have a direct impact on AUM and investment advisory and services fees.

Performance risk — An inability to meet relevant investment benchmarks could result in clients withdrawing assets and in prospective clients choosing to invest with competitors. This could also result in lower investment management fees, which could result in a decline in revenue.

Redemption risk — Investors can redeem their investments without notice. A significant increase in redemption rates could have a material adverse effect on revenues, financial condition, results of operations and business prospects.

## Affiliated Managers Group

### Valuation

We value the shares of AMG using the target P/E method. Our \$132 target reflects a 14.5x target P/E against our 2013 economic EPS estimate. AMG has historically traded at 14x and 15x FTM economic (cash) P/E.

### Risks

AMG's manager of managers model collars downside market and EPS risk reflecting revenue, income, and equity sharing arrangements across an increasingly global footprint. The two central risks to our price target reflect a delay in the closing of deals and sustained below trend capital markets which might reduce our EPS expectations and temper P/E multiple expansion.

If the impact from any of the following factors proves to be greater than we expect, the stock may have difficulty reaching our target price. If market conditions improve faster than anticipated, the stock may outperform our target.

Financial market risk — Changes in markets have a direct impact on AUM and investment advisory and services fees.

Performance risk — An inability to meet relevant investment benchmarks could result in clients withdrawing assets and in prospective clients choosing to invest with competitors. This could also result in lower investment management fees, including minimal or no performance-based fees, which could result in a decline in revenue.

Redemption risk — Investors can redeem their investments without notice. A significant increase in redemption rates could have a material adverse effect on revenues, financial condition, results of operations and business prospects.

## Legg Mason Inc

### Valuation

We value the shares of LM using a combination of Target P/E method and sum-of-the-parts. Our \$32.50 12-month target price is derived by applying a 11x target P/E multiple to our calendarized 2013 EPS estimate (discounted back 6 months at 10% cost of capital) plus adding \$7 per share related to the estimated NPV of the company's NOL and purchase goodwill tax shields. We believe a 11x target P/E multiple, below the company's 15x historical FTM P/E, is warranted given uneven organic growth prospects.

### Risks

If the impact from any of the following factors proves to be greater than we expect, the stock price may have difficulty reaching our target price. If market conditions improve faster than anticipated, the stock price may outperform our target.

Financial market risk — Changes in markets have a direct impact on AUM and investment advisory and services fees.

Performance risk — An inability to meet relevant investment benchmarks could result in clients withdrawing assets and in prospective clients choosing to invest with competitors. This could also result in lower investment management fees, which could result in a decline in revenue.

Redemption risk — Investors can redeem their investments without notice. A significant increase in redemption rates could have a material adverse effect on revenues, financial condition, results of operations and business prospects.

## Appendix A-1

### Analyst Certification

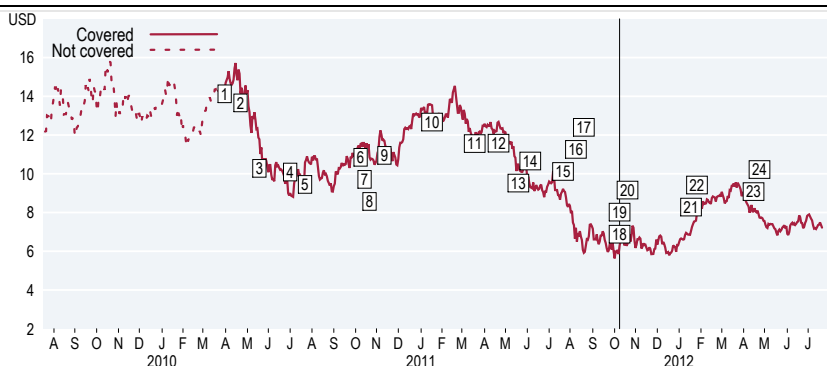
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Analyst: William R Katz

Covered since March 31 2010



Date	Rating	Target Price	Closing Price
1 31-Mar-10	*2M	*15.00	14.29
2 22-Apr-10	2M	*14.00	14.14
3 19-May-10	2M	*13.00	11.78
4 1-Jul-10	*1M	13.00	9.00
5 22-Jul-10	1M	*14.00	10.59
6 8-Oct-10	*2H	*13.00	11.54
7 14-Oct-10	2H	*12.50	11.49
8 21-Oct-10	2H	*11.50	10.85

\* Indicates change

Date	Rating	Target Price	Closing Price
9 11-Nov-10	2H	*12.00	11.70
10 18-Jan-11	*3H	12.00	13.54
11 18-Mar-11	*2H	12.00	11.88
12 21-Apr-11	2H	*14.00	12.68
13 19-May-11	2H	*11.50	10.48
14 6-Jun-11	2H	*10.50	9.31
15 21-Jul-11	2H	*9.50	9.22
16 9-Aug-11	2H	*7.25	7.21

Date	Rating	Target Price	Closing Price
17 19-Aug-11	2H	*6.50	5.92
18 8-Oct-11	Stock rating system changed		
19 8-Oct-11	*2	6.50	5.85
20 20-Oct-11	2	*6.25	6.38
21 18-Jan-12	*3	*5.50	7.05
22 26-Jan-12	3	*5.75	7.99
23 16-Apr-12	*2	*8.00	8.08
24 24-Apr-12	2	*7.75	7.74

Rating/target price changes above reflect Eastern Standard Time

### Janus Capital Group (JNS) Ratings and Target Price History Best Ideas Research Relative Call (3 Month)

Analyst: William R Katz

Covered since March 31 2010



Date	Rating	Target Price	Closing Price
1 11-Feb-11	*ADD LP	-	13.86

\* Indicates change

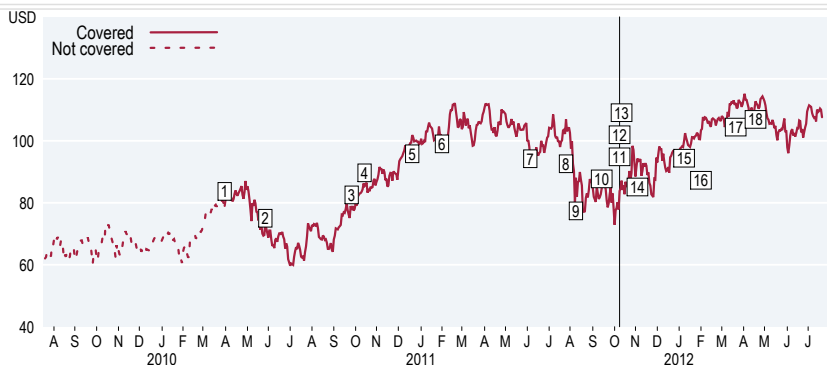
Date	Rating	Target Price	Closing Price
2 18-Mar-11	*REM LP	-	11.88

Rating/target price changes above reflect Eastern Standard Time

### Affiliated Managers Group (AMG) Ratings and Target Price History Fundamental Research

Analyst: William R Katz

Covered since March 31 2010



Date	Rating	Target Price	Closing Price
1 31-Mar-10	*1M	*105.00	79.00
2 27-May-10	1M	*100.00	73.68
3 27-Sep-10	1M	*104.00	77.71
4 14-Oct-10	1M	*106.00	85.42
5 21-Dec-10	1M	*123.00	101.86
6 1-Feb-11	1M	*128.00	100.01

\* Indicates change

Date	Rating	Target Price	Closing Price
7 6-Jun-11	1M	*122.00	94.22
8 26-Jul-11	1M	*125.00	106.92
9 9-Aug-11	1M	*110.00	88.07
10 14-Sep-11	1M	*107.00	84.71
11 8-Oct-11	Stock rating system changed		
12 8-Oct-11	*1	107.00	77.85

Date	Rating	Target Price	Closing Price
13 12-Oct-11	1	*105.00	87.15
14 3-Nov-11	1	*110.00	94.30
15 9-Jan-12	1	*115.00	99.99
16 1-Feb-12	1	*120.00	103.41
17 21-Mar-12	1	*129.00	112.19
18 18-Apr-12	1	*132.00	112.76

Rating/target price changes above reflect Eastern Standard Time

## Affiliated Managers Group (AMG)

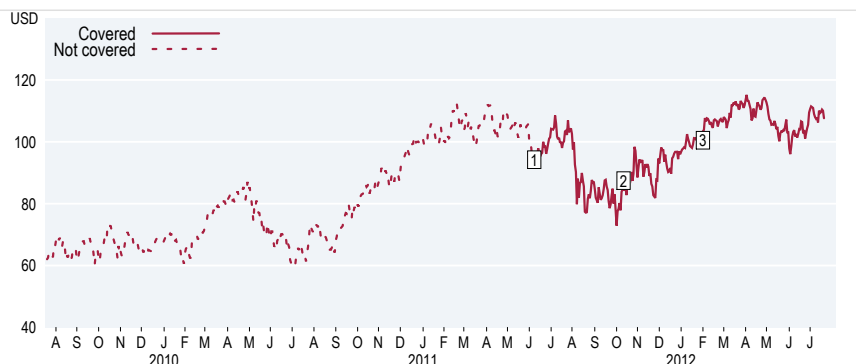
### Ratings and Target Price History

#### Best Ideas Research

#### Relative Call (3 Month)

Analyst: William R Katz

Covered since March 31 2010



	Date	Rating	Target Price	Closing Price
1	8-Jun-11	*ADD MP	-	94.59

\* Indicates change

	Date	Rating	Target Price	Closing Price
2	12-Oct-11	*REM MP	-	87.15

	Date	Rating	Target Price	Closing Price
3	1-Feb-12	*ADD MP	-	103.41

Rating/target price changes above reflect Eastern Standard Time

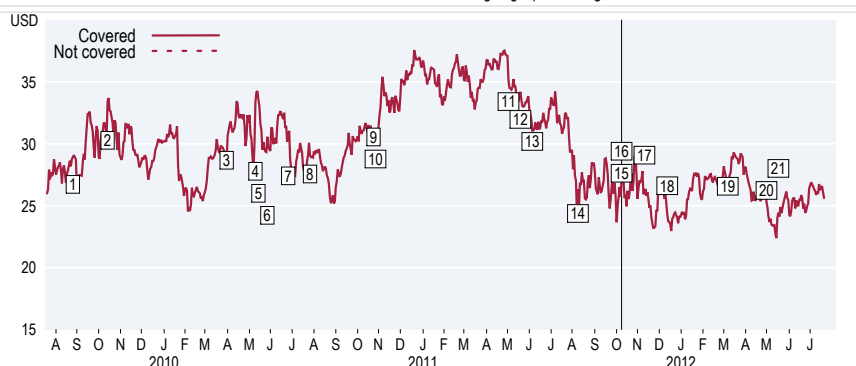
## Legg Mason Inc (LM)

### Ratings and Target Price History

#### Fundamental Research

Analyst: William R Katz

Covered since March 31 2010



	Date	Rating	Target Price	Closing Price
1	26-Aug-09	2H	*29.00	28.92
2	14-Oct-09	2H	*32.00	33.45
3	31-Mar-10	*2M	*29.50	28.67
4	11-May-10	2M	*33.50	33.38
5	14-May-10	*1M	*44.00	33.57
6	27-May-10	1M	*41.00	30.57
7	25-Jun-10	1M	*42.00	30.70

\* Indicates change

	Date	Rating	Target Price	Closing Price
8	27-Jul-10	1M	*44.00	29.07
9	25-Oct-10	1M	*45.00	30.96
10	27-Oct-10	1M	*46.00	30.58
11	3-May-11	1M	*41.00	35.13
12	19-May-11	1M	*40.00	34.20
13	6-Jun-11	1M	*38.00	31.01
14	9-Aug-11	1M	*34.00	26.30

	Date	Rating	Target Price	Closing Price
15	8-Oct-11	Stock rating system changed		
16	8-Oct-11	*1	34.00	25.72
17	10-Nov-11	1	*33.00	26.04
18	13-Dec-11	*2	*27.00	24.31
19	7-Mar-12	2	*29.00	26.69
20	1-May-12	2	*27.50	25.32
21	17-May-12	*1	*32.50	24.43

Rating/target price changes above reflect Eastern Standard Time

## Legg Mason Inc (LM)

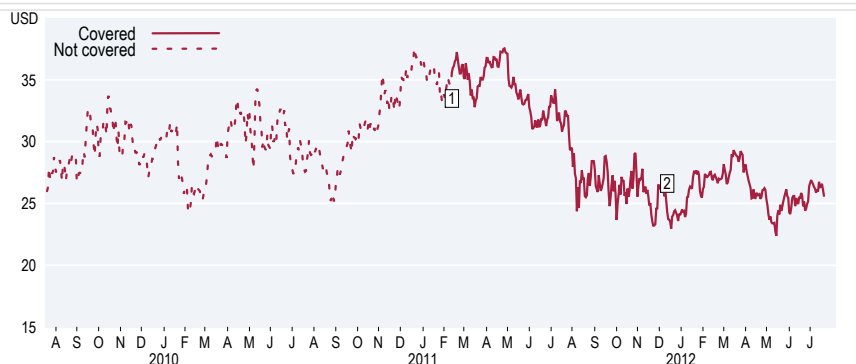
### Ratings and Target Price History

#### Best Ideas Research

#### Relative Call (3 Month)

Analyst: William R Katz

Covered since March 31 2010



	Date	Rating	Target Price	Closing Price
1	11-Feb-11	*ADD MP	-	35.58

\* Indicates change

	Date	Rating	Target Price	Closing Price
2	13-Dec-11	*REM MP	-	24.31

Rating/target price changes above reflect Eastern Standard Time

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<i>% of companies in each rating category that are investment banking clients</i>	44%	43%	40%	48%	43%	45%

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