

PRICE T ROWE GROUP INC

Form 10-K

February 16, 2018

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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2017

Commission file number 000-32191

T. ROWE PRICE GROUP, INC.

(Exact name of registrant as specified in its charter)

Maryland 52-2264646

State of incorporation IRS Employer Identification No.

100 East Pratt Street, Baltimore, Maryland 21202

Address, including zip code, of principal executive offices

(410) 345-2000

Registrant's telephone number, including area code

Securities registered pursuant to Section 12(b) of the Act:

Common stock, \$.20 par value per share The NASDAQ Stock Market LLC

(Title of class)

(Name of exchange on which registered)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months, and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate website every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulations S-T during the preceding 12 months. Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

Non-accelerated filer (do not check if smaller reporting company)

Smaller reporting company

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes No

The aggregate market value of the common equity (all voting) held by non-affiliates (excludes current executive officers and directors) computed using \$74.21 per share (the NASDAQ Official Closing Price on June 30, 2017, the last business day of the registrant's most recently completed second fiscal quarter) was \$17.4 billion.

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The number of shares outstanding of the registrant's common stock as of the latest practicable date, February 14, 2018, is 244,444,519.

DOCUMENTS INCORPORATED BY REFERENCE: In Part III, the Definitive Proxy Statement for the 2018 Annual Meeting of Stockholders to be filed pursuant to Regulation 14A.

Exhibit index begins on page 78.

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PART I

Item 1. Business.

GENERAL.

T. Rowe Price Group, Inc. is a financial services holding company that provides global investment management services through its subsidiaries to investors worldwide. We provide an array of T. Rowe Price U.S. mutual funds (Price Funds), other T. Rowe Price investment products, subadvisory services, separate account management, recordkeeping, and related services to individuals, advisors, institutions, financial intermediaries, and retirement plan sponsors. We are focused on delivering global investment management excellence to help clients around the world achieve their long-term investment goals.

The late Thomas Rowe Price, Jr., founded our firm in 1937, and the common stock of T. Rowe Price Associates, Inc. was first offered to the public in 1986. The T. Rowe Price Group corporate holding company structure was established in 2000.

We derive the vast majority of our consolidated net revenue and net income from investment advisory services provided by our subsidiaries, primarily T. Rowe Price Associates and T. Rowe Price International Ltd. Our revenues depend largely on the total value and composition of assets under our management. Accordingly, fluctuations in financial markets and in the composition of assets under management impact our revenues and results of operations. At December 31, 2017, we had \$991.1 billion in assets under management, including \$606.3 billion in the T. Rowe Price U.S. mutual funds and \$384.8 billion in other investment products.

2017 FINANCIAL HIGHLIGHTS.

U.S. stocks posted excellent returns in 2017. In fact, it was the ninth consecutive year of positive total returns for the S&P 500 Index. Most major stock indexes finished the year near record highs amid expectations that the new U.S. tax law would lift corporate profits and add to U.S. economic growth in 2018. The S&P 500 Index and the NASDAQ Composite Index, which is heavily weighted in technology companies, returned 21.8% and 28.2%, respectively, in 2017. Developed non-U.S. equity markets outperformed the broad U.S. market in 2017, as a weaker dollar enhanced returns to U.S. investors. Global bond returns were mostly positive in 2017.

The table below presents financial results on a U.S. GAAP basis as well as a non-GAAP basis that adjusts for the impact of the Dell appraisal rights matter, the consolidated T. Rowe Price investment products, the supplemental savings plan, other non-operating income, and the non-recurring charge recognized in 2017 related to the enactment of U.S. tax reform. We believe the non-GAAP financial measures below provide relevant and meaningful information to investors about our core operating results.

(in millions, except per-share data)	2016	2017	Dollar change	Percentage change	
U.S. GAAP Basis					
Investment advisory fees	\$3,728.7	\$4,287.7	\$559.0	15.0	%
Net revenues	\$4,222.9	\$4,793.0	\$570.1	13.5	%
Operating expenses	\$2,489.5	\$2,684.2	\$194.7	7.8	%
Net operating income	\$1,733.4	\$2,108.8	\$375.4	21.7	%
Non-operating income	\$227.1	\$396.3	\$169.2	74.5	%
Net income attributable to T. Rowe Price Group	\$1,215.0	\$1,497.8	\$282.8	23.3	%

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Diluted earnings per common share	\$4.75	\$5.97	\$1.22	25.7	%
Weighted average common shares outstanding assuming dilution	250.3	245.1	(5.2)	(2.1)	%

Adjusted⁽¹⁾

Operating expenses	\$2,416.8	\$2,715.8	\$299.0	12.4	%
Net income attributable to T. Rowe Price Group	\$1,148.9	\$1,361.1	\$212.2	18.5	%
Diluted earnings per common share	\$4.49	\$5.43	\$.94	20.9	%

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Assets under management (in billions)

Average assets under management	\$778.2	\$909.0	\$130.8	16.8 %
Ending assets under management	\$810.8	\$991.1	\$180.3	22.2 %

⁽¹⁾ See the reconciliation to the comparable U.S. GAAP measures at the end of the Results of Operations sections of Part II, Item 7 - Management's Discussion and Analysis of Financial Condition and Results of Operations.

In 2016, we paid our clients \$166.2 million to compensate them for the denial of their appraisal rights in connection with the 2013 leveraged buyout of Dell. We made claims with our insurance carriers and, on December 30, 2016, entered into an agreement with our primary insurance carrier to recover \$100 million from the claim. The insurance proceeds were recognized as an offset to the related \$166.2 million charge in 2016. In 2017, we received \$50 million in additional recoveries from our insurance carriers and recognized a related reduction in operating expenses. In 2017, we recognized a non-recurring charge of \$71.1 million to reflect the estimated effect of the U.S. tax law changes enacted on December 22, 2017, in a comprehensive tax reform bill originally known as the Tax Cuts and Jobs Act ("Tax Reform"). The recognized charge was based on current interpretation of the tax law changes, and includes \$18.9 million for the remeasurement of our deferred tax assets and liabilities, and a \$52.2 million tax liability for the mandatory deemed repatriation of foreign sourced net earnings.

Assets Under Management.

Assets under management ended 2017 at \$991.1 billion, an increase of \$180.3 billion from the end of 2016. During 2017, investors entrusted net inflows of \$14.0 billion to our management and market appreciation and income, net of distributions not reinvested, added \$166.3 billion. In 2017, our net cash flows include \$7.1 billion in our target date retirement products, which provide shareholders with a single, diversified portfolio that invests in underlying T. Rowe Price U.S. mutual funds or collective investment trusts. The assets under management in these products totaled \$232.1 billion at December 31, 2017, or 23.4% of our managed assets at December 31, 2017, compared with 23.3% at the end of 2016.

Capital Resources.

At December 31, 2017, we remain debt-free with ample liquidity, including cash and discretionary investments in T. Rowe Price products of \$2.7 billion. We also have seed capital investments in T. Rowe Price investment products of \$1.2 billion that are redeemable, although we generally expect to be invested for several years until unrelated third-party investors substantially reduce our relative ownership percentage. We paid \$2.28 per share in regular dividends in 2017, an increase of 5.6% over the \$2.16 per share in regular dividends paid in 2016. Additionally, we expended \$458.1 million to repurchase 6.6 million shares, or 2.7%, of our outstanding common stock in 2017. We invested \$186.1 million during the year in capitalized technology and facilities. These cash expenditures were made from existing cash balances.

Additional information concerning our assets under management, results of operations, and financial condition, during the past three years is contained in the Management's Discussion and Analysis of Financial Condition and Results of Operations in Part II, Item 7, as well as our consolidated financial statements, which are included in Item 8 of this Form 10-K.

STRATEGIC INITIATIVES.

Our core capabilities have enabled us to deliver excellent operating results since our IPO in 1986. We maintain a client-centric culture that is focused on delivering excellent long-term investment performance and world-class service to our clients. We have distributed our broad array of active investment strategies through a diverse set of distribution

channels to meet the needs of our clients. Our ongoing financial strength has allowed us to take advantage of attractive growth opportunities, invest in key capabilities, including investment professionals, technologies, and new product offerings; and, most importantly, provide our clients with strong investment management expertise and service.

The market in which we operate has been evolving quickly and a number of headwinds have arisen over the last few years, including a shifting demand from equities to income-oriented solutions as the population ages, demand for new vehicles to meet client needs, an accelerating regulatory landscape, and passive and alternative investments taking market share from active strategies.

Despite the headwinds, we believe there are significant opportunities that align to our core capabilities. As such, we are responding with several multi-year initiatives that are designed to strengthen our long-term competitive position and can be categorized into three areas: broadening our product offerings and vehicles; strengthening and deepening distribution across all channels; and strengthening our technology platform and digital capabilities. We have seen early, encouraging signs of success in the execution of these strategic imperatives.

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INVESTMENT MANAGEMENT SERVICES.

Distribution Channels.

We distribute our products in countries located within three broad geographical regions: North America, Europe Middle East and Africa (EMEA), and Asia Pacific (APAC). We accumulate our assets