



## Janus Capital Group, Inc. (NASDAQ: JNS)

### Company Background:

Janus Capital Group, Inc. (JNS), the well-known mutual fund company, recently hired Bill Gross from PIMCO. We believe this is a transformational event in the company's history. Although the stock price is up on this news, we believe it does not fully reflect the increased value from the addition of Bill Gross. Therefore, we think JNS's stock presents an interesting asymmetrical risk/reward opportunity at current prices.

### Investment Thesis:

#### 1. Hiring of Bill Gross is a transformational event –

Bill Gross is the Bond King. We believe this is a major addition for Janus.

a. He founded PIMCO and managed over \$1 trillion in assets at the firm. PIMCO manages over \$2 trillion of fixed income investments. We believe some percentage of these assets will eventually make their way to Janus. If just 5% of the \$1 trillion he managed at PIMCO comes to Janus, AUM would increase \$50 billion or 30%.

b. There is no doubt Bill Gross has a great long-term track record. Although PIMCO had been experiencing out-flows due to recent performance and concerns about Gross's management of the organization, those concerns shouldn't follow Gross to Janus. At Janus, Gross is only responsible for managing money and a small investment team, not the entire firm. We expect him to post satisfactory returns at Janus managing a smaller amount of money. We believe prospective investors will come to the same conclusion.

c. The high profile nature of Gross's hiring could increase the visibility of Janus's already credible fixed income franchise. Janus manages over \$30 billion of fixed income mutual funds. These funds have admirable existing track records and could attract additional in-flows as investors start to view Janus as another option to place fixed income money.

d. Gross has the same compensation package as other Janus portfolio managers. This is one of the most positive aspects of Janus hiring Gross. Janus didn't have to pay him a higher

percentage of the revenue he brings to Janus or give him any outsized equity awards.

#### 2. If Janus's overall net flows change from out-flows to in-flows JNS's stock multiple will expand –

Prior to Gross's hiring, Janus's stock traded at a low (for an investment manager) 12.5x 2015 Est EPS. We believe this low multiple reflected persistent out-flows from the equities business. If the fixed income franchise gains in-flows and the overall company flows become positive, we believe the multiple will expand to reflect these flows. We think a 15x multiple is more appropriate and in line with the rest of the investment management industry.

#### 3. Stock only discounts about \$25 billion following

**Gross at Janus** – Since Gross was hired, Janus's stock has increased, but we estimate the increased stock price is forecasting only \$25 billion of the \$1 trillion Gross managed at PIMCO to follow him to Janus. We estimate for every \$10B of AUM coming to Janus for Gross to manage that it will add 9 cents to Janus's earnings per share. We get to the 9 cents per \$10B AUM with the following assumptions:

Since Gross's hiring, Janus's stock price has risen from \$11.11 to \$14.47 or \$3.36. If net flows are \$25 billion and EPS rises \$0.225 and we put a 15x multiple on it, it is \$3.38. This \$25 billion AUM estimate could be low. Our incremental margin assumption may be conservative.

|                        |                    |
|------------------------|--------------------|
| AUM                    | \$10 BILLION       |
| FEE RATE               | 0.50%              |
| INCREMENTAL MARGIN     | 50%                |
| TAX RATE               | 35%                |
| INCREMENTAL NET INCOME | \$16.25 MILLION    |
| SHARES OUTSTANDING     | \$182 MILLION      |
| INCREMENTAL EPS        | \$0.09 / \$10B AUM |

#### 4. Equity business has potential to turnaround –

Janus has three different equity businesses and each has had some level of outflows over the past five years. We see the net out-flows beginning to dissipate in the Core/Growth franchise

and assets starting to flow into the Janus Contrarian Fund and the Janus Research Fund. The INTECH franchise has had breakeven flows. However, the Value franchise has persistent net out-flows. If the equities business can get to break-even flows, Janus overall flows should be attractive given the addition of Gross.

**5. Janus's CEO has made three significant external moves to enhance the company** - Dick Weil became CEO of Janus in 2010. He is beginning to build a track record of sensible external deals. We are willing to bet that he will continue to make franchise enhancing deals.

a. Dai-Ichi Life - In 2012, Weil made an alliance with Dai-Ichi Life Insurance company where Dai-Ichi was able to purchase 20% of Janus and the companies would work together to distribute Janus investment products in Japan.

b. Gross hiring - As discussed above, Weil was able to hire Gross. Weil worked for Gross at PIMCO up until he took the CEO role at Janus.

c. Acquisition of Velocity Shares - A couple of weeks ago, Janus announced that it had acquired upstart ETF provider Velocity Shares. We believe this low-cost acquisition gives Janus the intellectual capital to build their own ETF products. Plus, the Janus distribution force will help expand Velocity Shares's products.

**6. High-short interest** - Other investors have shorted about 24% of Janus's float. A portion of the short interest is related to a convertible bond issued by the company. In addition, we think other reasons short interest is high are: 1) outflows in the equities franchise, 2) skepticism about the amount of AUM that will follow Bill Gross to Janus, and 3) a

long-held hatred of the company from the Dot Com days. We believe the high short interest will provide a persistent bid under the company's shares if AUM starts to flow in the fixed income franchise.

**7. Basic business is attractive** - As an investment manager, Janus's business model is attractive. The business has recurring revenue and low capital requirements. Revenues grow at a rate of the market +/- net-flows, but expenses do not increase proportionately, so the business has natural operating leverage. The free cash is available to pay out to shareowners in the form of dividends or share repurchases.

**8. Balance sheet has improved** - Since 2008, Janus has been steadily using its cash to pay down debt. Its net cash position has improved by \$1 billion.

### Investment Risks:

**1. Gross has a short stay at Janus** - With the suddenness of Gross's leaving PIMCO and joining Janus, could he do something similar and leave Janus quickly? Maybe, but it seems unlikely that he would make two high profile changes in such a short period of time. That being said, Gross is 70, so we cannot expect him to stay at Janus more than 5-10 years.

**2. Investors don't follow or are slow to follow Gross to Janus** - Maybe Gross has done too much damage to his reputation and investors will not follow him to Janus. At least, it could take a long period of time for assets to move over to Janus.

**3. Continued out-flows from Janus's equities business** - Maybe Janus's equity business won't turnaround.



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