



## COMPANY UPDATE / ESTIMATE CHANGE

### Key Metrics

FELE - NASDAQ - as of	2/17/17	\$40.75
Price Target		--
52-Week Range	\$27.39 -	\$44.55
Shares Outstanding (mm)		46.3
Market Cap. (\$mm)		\$1,886.9
1-Mo. Average Daily Volume		110,293
Institutional Ownership		80.6%
Net Debt/Total Capital	Q4'16	10.6%
ROE	TTM	13.3%
Book Value / Share	Q4'16	\$13.11
Price / Book Value		3.1x
Dividend Yield		1.0%
EBITDA Margin	FY'16	15.3%

### EPS FY 12/31

		Prior	Current	Prior	Current
	2016A	2017E	2017E	2018E	2018E
1Q	*\$0.29	--	\$0.34	--	--
2Q	*\$0.51	--	\$0.52	--	--
3Q	*\$0.48	--	\$0.53	--	--
4Q	*0.38	--	\$0.46	--	--
Year	\$1.66	\$1.81	\$1.84	\$1.99	\$1.99
P/E	24.5x		22.1x		20.5x

\* adjusted for special items

### Revenue (\$MM)

		Prior	Current	Prior	Current
	2016A	2017E	2017E	2018E	2018E
1Q	\$218	--	\$230	--	--
2Q	\$252	--	\$262	--	--
3Q	\$240	--	\$250	--	--
4Q	\$240	--	\$253	--	--
Year	\$950	\$998	\$996	\$1,066	\$1,057

**Company Description:** *Founded in 1944 and incorporated in 1946, Franklin Electric designs, manufactures and distributes water and fuel pumping systems and equipment. With headquarters in Ft. Wayne, IN, FELE's products are sold worldwide by its employee sales force and independent manufacturing representatives. As of year-end 2015, the company employed ~4,900 persons.*

### Industrials

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February 21, 2017

## Franklin Electric Co., Inc.

FELE — NASDAQ — Neutral-3

### FELE Ends 2017 with Strong Q4 Report; Reiterating Neutral Rating.

#### Investment Highlights

- FELE reported Q4'16 (ending 12/31/16) adjusted EPS of \$0.38 versus \$0.35 in Q4'15. The quarter exceeded both our target and consensus by a penny. FY 2016 adjusted EPS grew 12.7% to \$1.66. The year was substantially driven by sales growth and improved gross margin, offset slightly by higher incentive comp.
- Revenue grew 9.3% and 2.7% in Q4 and FY 2016, respectively, with consolidated growth to close the year at its quickest since Q4'14. Our target for Q4 sales at \$231.5MM was comfortably above consensus at \$227.9MM, but still undershot actual Q4 revenue of \$239.6MM.
- Forex concerns have hampered sales growth for 22 consecutive quarters, although we believe FY 2017 impact could be almost negligible (around -1%). 2016 organic revenue: Fueling Systems (FS) +5.1%, Water Systems (WS) +5.2%, with both segments peaking in Q4 from favorable comparisons.
- SG & A expenses were up 23% in Q4, and 8% for the full year, on what we expect is a return to a more normalized cost structure; this includes substantial incentive comp, which percolated in 2H'16. Gross margin rose 270bps to 34.9% in 2016, although aside from fixed cost leveraging, we do not see potential for much expansion over the next couple of years.
- FELE initiated FY 2017 adjusted EPS guidance in the range of \$1.77 to \$1.87. Our 2017E EPS rises \$0.03 to \$1.84; our 2018E EPS is unchanged at \$1.99. FELE is guiding to net sales growth of +3% to +5% in 2017.
- We are reiterating our Neutral rating. We missed some of the industrial sector reacceleration late last year and into early-2017; however, we believe the stock is fairly valued at this point.

**Note Important Disclosures on Pages 5-6**  
**Note Analyst Certification on Page 5**

**SUITABILITY**

We assign FELE a suitability rating of '3.' A complete description of our suitability scale is on page 5. In our view, Franklin holds good competitive positions and operates with generally favorable long-term growth tailwinds, but faces competition from a relatively strong docket of companies and must deal with cyclicalities in developing regions and in energy/agriculture end-markets. FELE's SMID-cap status and volatile stock price keep Franklin below our '2' suitability rating. Conservative financial metrics, a base level of replacement/recurring revenue, and a long-term history of execution keep FELE well above our most aggressive '4' rating.

**CONSIDERATIONS AND RISKS**

We believe Franklin's sales are sensitive to macroeconomic conditions. As such, the company may experience difficulty due to trends that are both difficult to predict and are beyond the company's control. Additionally, the company is exposed to raw material and labor cost inflation. An inability to pass on higher input costs to customers may pressure margins, lower sales and/or decrease earnings.

Franklin has acquired several companies over the past decade, and may acquire additional companies in the future. Failure to effectively integrate acquisitions or overpayment for operating assets may result in write-downs, decreased financial flexibility and/or lower earnings.

Franklin generates a significant portion of sales outside of the United States and also maintains manufacturing plants, warehouses and distribution systems abroad. We believe world-wide operations expose the company to political and foreign exchange risk, as well as present operational challenges..

Franklin operates in a fragmented market against several established competitors. Significant engineering breakthroughs by the company's competition could have a negative impact on FELE.

Our Suitability rating is 3 on a 1-to-4 scale (1 = most conservative, 4 = most aggressive).

*Additional information is available upon request.*

## Franklin Electric Co (FELE)

(\$'s in thousands)

Income Statement Analysis			2-Apr	2-Jul	1-Oct									
	FY'14	FY'15	Q1'16	Q2'16	Q3'16	Q4'16	FY'16	Q1'17E	Q2'17E	Q3'17E	Q4'17E	FY'17E	FY'18E	
Net Sales	\$ 1,047,777	\$ 924,923	\$ 218,430	\$ 252,081	\$ 239,755	\$ 239,590	\$ 949,856	\$ 230,440	\$ 262,480	\$ 249,920	\$ 253,350	\$ 996,190	\$1,057,300	
Cost of Sales	703,367	627,315	144,194	161,403	154,286	158,567	618,450	152,090	167,990	162,450	169,740	652,270	693,120	
Gross Profit	344,410	297,608	74,236	90,678	85,469	81,023	331,406	78,350	94,490	87,470	83,610	343,920	364,180	
%	32.9%	32.2%	34.0%	36.0%	35.6%	33.8%	34.9%	34.0%	36.0%	35.0%	33.0%	34.5%	34.4%	
Selling, G & A Expense	227,711	204,250	52,345	57,954	55,373	55,537	221,209	54,962	61,141	54,373	53,537	224,010	238,600	
%	21.7%	22.1%	24.0%	23.0%	23.1%	23.2%	23.3%	23.9%	23.3%	21.8%	21.1%	22.5%	22.6%	
Restructuring (Income)/Expense	16,611	2,997	820	45	(1,715)	252	(598)	100	100	100	100	400	400	
Operating Inc.	100,088	90,361	21,071	32,679	31,811	25,234	110,795	23,288	33,249	32,997	29,973	119,510	125,180	
%	9.6%	9.8%	9.6%	13.0%	13.3%	10.5%	11.7%	10.1%	12.7%	13.2%	11.8%	12.0%	11.8%	
Interest (Expense)	(10,735)	(10,039)	(2,427)	(2,221)	(1,983)	(2,101)	(8,732)	(2,100)	(1,810)	(1,670)	(1,670)	(7,250)	(5,530)	
Other Income / (Expense)	1,349	6,863	(32)	1,373	1,446	(1,794)	993	(30)	1,370	1,450	-	2,790	2,790	
FX Income / (Expense)	(999)	(869)	(77)	315	399	420	1,057	(50)	(50)	(50)	(50)	(200)	(200)	
Pre Tax Inc.	89,703	86,316	18,535	32,146	31,673	21,759	104,113	21,108	32,759	32,727	28,253	114,850	122,240	
Income Tax (Expense)	(18,851)	(12,625)	(4,955)	(7,959)	(7,926)	(3,958)	(24,798)	(5,382)	(8,353)	(8,345)	(7,205)	(29,290)	(31,170)	
Tax Rate	21.0%	14.6%	26.7%	24.8%	25.0%	18.2%	23.8%	25.5%	25.5%	25.5%	25.5%	25.5%	25.5%	
Net Income	70,852	73,691	13,580	24,187	23,747	17,801	79,315	15,725	24,405	24,382	21,048	85,560	91,070	
%	6.8%	8.0%	6.2%	9.6%	9.9%	7.4%	8.4%	6.8%	9.3%	9.8%	8.3%	8.6%	8.6%	
Less: NI Attrib to non-ctrl interst	(1,046)	(746)	(123)	(205)	(83)	(159)	(570)	-	-	-	-	-	-	
Net Income att to FELE Inc.	69,806	72,945	13,457	23,982	23,664	17,642	78,745	15,725	24,405	24,382	21,048	85,560	91,070	
%	6.7%	7.9%	6.2%	9.5%	9.9%	7.4%	8.3%	6.8%	9.3%	9.8%	8.3%	8.6%	8.6%	
Shares Out.	48,347	47,538	47,475	46,700	46,900	46,900	46,994	46,765	46,630	46,495	46,360	46,563	46,023	
Diluted EPS	\$ 1.43	\$ 1.51	\$ 0.28	\$ 0.50	\$ 0.50	\$ 0.37	\$ 1.65	\$ 0.34	\$ 0.52	\$ 0.52	\$ 0.45	\$ 1.84	\$ 1.98	
Adjusted EPS	\$ 1.74	\$ 1.47	\$ 0.29	\$ 0.51	\$ 0.48	\$ 0.38	\$ 1.66	\$ 0.34	\$ 0.52	\$ 0.53	\$ 0.46	\$ 1.84	\$ 1.99	
Dividends Paid	\$ 0.348	\$ 0.383	\$ 0.0975	\$ 0.1000	\$ 0.1000	\$ 0.1000	\$ 0.398	\$ 0.1000	\$ 0.1100	\$ 0.1100	\$ 0.1100	\$ 0.430	\$ 0.440	
Rate of Change Analysis														
Revenue	8.5%	-11.7%	-3.2%	1.9%	3.1%	9.3%	2.7%	5.5%	4.1%	4.2%	5.7%	4.9%	6.1%	
Organic Rev-- ex-FX & Acq	8.6%	-5.2%	2.9%	4.9%	3.4%	9.9%	5.2%	4.6%	4.6%	6.4%	6.4%	5.5%	6.5%	
Op Income	-19.1%	-9.7%	32.8%	41.0%	14.6%	7.1%	22.6%	10.5%	1.7%	3.7%	18.8%	7.9%	4.7%	
EPS--Adj if necessary	2.6%	-15.3%	-8.9%	45.7%	5.9%	8.2%	12.7%	16.2%	3.5%	9.3%	20.4%	11.3%	7.7%	
EBITDA--Adj if necessary	-3.1%	-15.2%	21.7%	25.6%	3.7%	-0.5%	11.6%	4.7%	1.5%	7.5%	13.9%	6.7%	4.2%	
Working Capital	13.4%	0.6%	-10.9%	-6.5%	1.6%	4.2%	4.2%	3.9%	-2.3%	-4.4%	2.1%	2.1%	4.1%	
Inventory	15.1%	-11.8%	-6.2%	-4.2%	2.8%	4.6%	4.6%	2.7%	2.1%	2.1%	2.9%	2.9%	3.2%	
			*Raise guide by \$0.03 on both ends due to FX	*April; \$30MM 5.79% LTD due	**narrowed guide from \$1.60-\$1.70									
			**Reiterated EPS Guide			*FY Guide: Rev +2-to +4%, Adj EPS \$1.62-\$1.67		*April; \$30MM 5.79% LTD due				*FY Guide: Rev +3 to +5%, Adj EPS \$1.77-\$1.87		

Source: Company reports and Hilliard Lyons estimates

Franklin Electric Co (FELE)			2-Apr	2-Jul	1-Oct								
Summary Cash Flow			Q1'16	Q2'16	Q3'16	Q4'16p	FY'16p	Q1'17E	Q2'17E	Q3'17E	Q4'17E	FY'17E	FY'18E
Net Income	70,852	73,691	13,580	24,187	23,747	17,801	79,315	15,725	24,405	24,382	21,048	85,560	91,070
D & A	37,210	37,210	8,752	8,881	9,119	8,782	35,534	8,810	8,990	9,170	9,050	36,020	36,820
Share-based Compensation	7,471	5,626	2,539	1,616	1,757	977	6,889	3,170	2,020	2,200	1,220	8,610	10,770
Deferred Income Tax	(2,415)	(6,802)	270	2,691	(376)	1,500	4,090	1,500	1,500	1,500	1,500	6,000	6,000
FX Expense (Income)	999	869	77	(315)	(399)	(420)	(1,057)	50	50	50	50	200	200
Cash Provided (Used) by Wrk Cap	(28,695)	(1,463)	(32,893)	(5,785)	10,128	18,253	(10,297)	(33,537)	11,602	15,670	834	(5,430)	(10,730)
Operating CF	85,422	109,131	(7,675)	31,275	43,976	46,893	114,474	(4,282)	48,567	52,972	33,702	130,960	134,130
Cap Ex	(35,525)	(26,171)	(11,153)	(8,337)	(10,619)	(9,027)	(39,136)	(8,500)	(9,000)	(9,000)	(8,500)	(35,000)	(35,000)
Acquisitions, net of cash acq	(42,315)	(24,088)	-	-	(1,007)	-	(1,007)	(5,000)	(3,000)	(5,000)	(5,000)	(18,000)	(2,000)
Divestitures	1,608	1,542	185	1,981	3,673	189	6,028	50	50	50	50	200	200
Dividends	(17,421)	(18,926)	(4,506)	(5,315)	(4,662)	(4,654)	(19,137)	(4,677)	(5,129)	(5,114)	(5,100)	(20,020)	(20,250)
Free CF	(8,231)	41,488	(23,149)	19,604	31,361	33,401	61,222	(22,408)	31,488	33,907	15,153	58,140	77,080
Debt Proceeds	98,394	233,486	31,606	30,446	1,932	200	64,180	-	-	-	-	-	-
Debt (Repayments)	(117,217)	(189,910)	(19,817)	(50,086)	(24,707)	-	(94,610)	(500)	(30,000)	(400)	-	(30,900)	(30,900)
Stock Sale Proceeds	2,929	2,929	411	199	2,582	2,051	5,243	2,000	2,000	2,000	2,000	8,000	8,000
Stock (Repurchases)	(10,610)	(48,579)	(4,175)	(561)	(1,457)	(1,229)	(7,422)	(7,500)	(7,500)	(7,500)	(7,500)	(30,000)	(30,000)
Net CF	(34,735)	39,414	(15,124)	(398)	9,711	34,423	28,613	(28,408)	(4,012)	28,007	9,653	5,240	24,180
Adjusted EBITDA	153,909	130,568	30,643	41,605	39,215	34,268	145,731	32,098	42,239	42,167	39,023	155,530	162,000
Adj EBITDA Margin	14.7%	14.1%	14.0%	16.5%	16.4%	14.3%	15.3%	13.9%	16.1%	16.9%	15.4%	15.6%	15.3%
Adj EBITDA/Share	\$ 3.18	\$ 2.75	\$ 0.65	\$ 0.89	\$ 0.84	\$ 0.73	\$ 3.10	\$ 0.69	\$ 0.91	\$ 0.91	\$ 0.84	\$ 3.34	\$ 3.52
Summary Balance Sheet			Q1'16	Q2'16	Q3'16	Q4'16p	FY'16p	Q1'17E	Q2'17E	Q3'17E	Q4'17E	FY'17E	FY'18E
Cash and Equivalents	59,141	81,561	74,642	71,582	78,981	104,331	140,331	75,920	71,910	99,920	109,570	109,570	133,750
A/R	143,787	127,251	151,173	161,972	152,093	145,999	145,999	156,700	157,490	137,460	144,410	144,410	153,670
Inventory	220,528	194,594	207,741	210,642	215,067	203,471	203,471	213,450	214,990	219,630	209,310	209,310	216,020
Other Current Assets	46,083	34,728	30,617	29,531	31,289	30,018	30,018	31,230	30,120	31,910	30,620	30,620	31,230
Total Current Assets	469,539	438,134	464,173	473,727	477,430	483,819	483,819	477,300	474,510	488,920	493,910	493,910	534,670
Net PP&E	209,786	190,039	194,756	195,916	198,675	196,137	196,137	198,280	199,740	202,020	203,920	203,920	202,900
Intangible Assets	160,314	141,357	141,490	140,850	138,256	138,300	138,300	138,300	138,300	138,300	138,300	138,300	138,300
Goodwill	208,828	199,847	201,580	201,365	202,037	201,649	201,649	204,100	205,600	208,100	210,600	210,600	211,800
Other Non-Current Assets	27,420	27,031	30,524	29,105	28,219	20,000	20,000	9,000	11,000	13,000	13,000	13,000	13,000
Total Assets	1,075,887	996,408	1,032,523	1,040,963	1,044,617	1,039,905	1,039,905	1,026,980	1,029,150	1,050,340	1,059,730	1,059,730	1,100,670
A/P	70,806	57,822	62,568	56,983	60,695	63,927	63,927	64,520	64,830	63,980	68,910	68,910	73,330
Accrued Expenses	95,419	52,109	46,594	58,686	61,003	60,119	60,119	47,530	59,860	62,220	61,320	61,320	62,550
Income Taxes	788	1,794	2,628	2,950	3,353	1,800	1,800	2,628	2,950	3,353	1,800	1,800	1,800
ST Borrowing and CP/LT Debt	34,092	32,946	45,337	55,673	33,418	33,418	33,418	33,400	33,400	33,400	33,400	33,400	33,400
Total Current Liabilities	201,105	144,671	157,127	174,292	158,469	157,761	157,761	148,078	161,040	162,953	165,430	165,430	171,080
Long-Term Debt	143,695	188,103	187,257	157,203	156,712	156,544	156,544	156,200	126,200	125,800	125,800	125,800	96,600
Employee Benefit Plans	58,709	47,398	46,799	42,337	40,799	45,307	45,307	45,310	43,310	41,310	51,310	51,310	57,310
Other LT Liabilities	73,395	56,771	61,100	64,095	66,446	65,205	65,205	65,210	65,210	65,210	65,210	65,210	65,210
Total Liabilities	476,904	436,943	452,283	437,927	422,426	424,817	424,817	414,798	395,760	395,273	407,750	407,750	390,200
Shareholders' Equity	596,840	557,700	578,337	601,565	620,597	615,088	615,088	612,182	633,390	655,067	651,980	651,980	710,470
Noncontrolling Interest	2,143	1,765	1,903	1,471	1,594	-	-	-	-	-	-	-	-
Book Value	\$ 12.41	\$ 11.94	\$ 12.18	\$ 12.88	\$ 13.23	\$ 13.11	\$ 13.11	\$ 13.09	\$ 13.58	\$ 14.09	\$ 14.06	\$ 14.06	\$ 15.51
Tangible Book Value	\$ 4.73	\$ 4.64	\$ 4.96	\$ 5.55	\$ 5.98	\$ 5.87	\$ 5.87	\$ 5.77	\$ 6.21	\$ 6.64	\$ 6.54	\$ 6.54	\$ 7.86
Current Ratio	2.3x	3.0x	3.0x	2.7x	3.0x	3.1x	3.1x	3.2x	2.9x	3.0x	3.0x	3.0x	3.1x
Net LT Debt / Total Cap	11.4%	14.3%	14.7%	11.3%	10.0%	6.8%	6.8%	10.4%	7.1%	3.3%	2.1%	2.1%	-4.6%
Net Total Debt / Total Cap	15.3%	17.9%	19.4%	17.3%	13.7%	10.6%	10.6%	14.2%	11.1%	7.3%	6.1%	6.1%	-0.4%
TTM ROE--Unadjusted	11.5%	12.8%	14.4%	16.4%	17.4%	13.3%	13.3%	18.9%	19.5%	20.0%	13.5%	13.5%	13.3%

Source: Company reports and Hilliard Lyons estimates

### **Analyst Certification**

I, Spencer E. Joyce, CFA, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject company(ies) and its (their) securities. I also certify that I have not been, am not, and will not be receiving direct or indirect compensation in exchange for expressing the specific recommendation(s) in this report.

### **Important Disclosures**

Hilliard Lyons' analysts receive bonus compensation based on Hilliard Lyons' profitability. They do not receive direct payments from investment banking activity.

### **Suitability Ratings**

- 1** - A large cap, core holding with a solid history
- 2** - A historically secure company which could be cyclical, has a shorter history than a "1" or is subject to event driven setbacks
- 3** - An above average risk/reward ratio could be due to small size, lack of product diversity, sporadic earnings or high leverage
- 4** - Speculative, due to small size, inconsistent profitability, erratic revenues, volatility, low trading volume or a narrow customer or product base

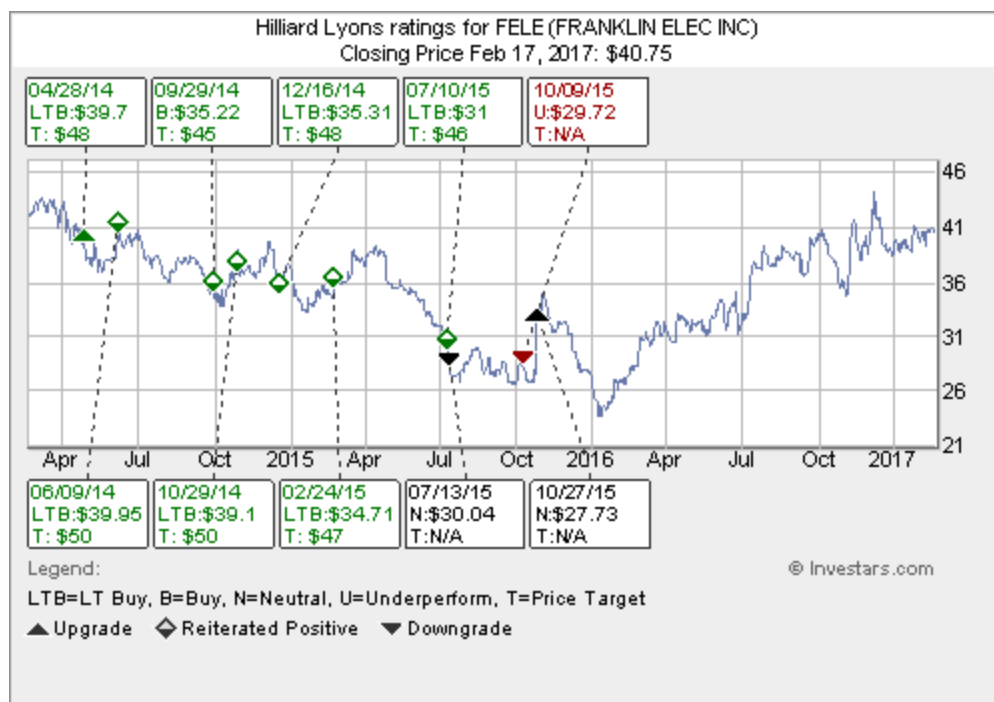
### **Investment Ratings**

**Buy** - We believe the stock has significant total return potential in the coming 12 months.

**Long-term Buy** - We believe the stock is an above average holding in its sector, and expect solid returns to be realized over a longer time frame than our Buy rated issues, typically 2-3 years.

**Neutral** - We believe the stock is an average holding in its sector, is currently fully valued, and may be used as a source of funds if better opportunities arise.

**Underperform** - We believe the stock is vulnerable to a price setback in the next 12 months.



Rating	Hilliard Lyons Recommended Issues		Investment Banking Provided in Past 12 Mo.	
	# of Stocks Covered	% of Stocks Covered	Banking	No Banking
Buy	36	30%	17%	83%
Hold/Neutral	76	62%	7%	93%
Sell	10	8%	0%	100%

As of 6 February 2017

### Other Disclosures

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