



COMPANY UPDATE ESTIMATE CHANGE

Key Metrics

FELE - NASDAQ - as of	10/23/17	\$44.40
Price Target		--
52-Week Range	\$34.75 -	\$46.95
Shares Outstanding (mm)		46.5
Market Cap. (\$mm)		\$2,064.2
1-Mo. Average Daily Volume		187,011
Institutional Ownership		79.4%
Net Debt/Total Capital	Q3'17	18.2%
ROE	TTM	33.7%
Book Value / Share	Q2'17	\$14.90
Price / Book Value		3.0x
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	A --	--
2Q	*\$0.51	--	*\$0.58	A --	--
3Q	*\$0.48	--	*\$0.53	A --	--
4Q	*0.38	\$0.43	\$0.44	--	--
Year	\$1.66	\$1.89	\$1.88	\$2.17	\$2.12
P/E	26.7x		23.6x		20.9x

* adjusted for special items

Revenue (\$MM)

		Prior	Current	Prior	Current
	2016A	2017E	2017E	2018E	2018E
1Q	\$218	--	\$220	A --	--
2Q	\$252	--	\$305	A --	--
3Q	\$240	--	\$311	A --	--
4Q	\$240	\$324	\$322	--	--
Year	\$950	\$1,172	\$1,159	\$1,340	\$1,341

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 2016, the company employed ~5,200 persons.*

Industrials

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Franklin Electric Co., Inc.

FELE — NASDAQ — Neutral-3

Mixed Q3 Results for FELE; Reiterating Neutral

- FELE reported Q3'17 adjusted EPS of \$0.53 versus \$0.48 in Q3'16; results fell between our target for \$0.54 and consensus at \$0.52. Much like Q2, compressing margins were offset by higher sales; a lower effective tax rate boosted EPS by ~\$0.03.
- GAAP results were EPS of \$0.52, but include a \$0.01 loss from restructuring associated with the newly-established Headwater Distribution segment.
- Sales of \$311MM (+29.8%) missed both our estimate for \$322MM and consensus for \$319MM. The Headwater Distribution acquisitions brought about +\$51MM to net sales, driving ~21% consolidated growth. Organic topline: Fueling Systems (FS) +8.8%, Water Systems (WS) +7.8%.
- SG & A expenses were 22.8% of revenue in Q3, down 30bps yr/yr; FELE gross margin slid 220bps yr/yr versus our expectations for -180bps. We see the potential for the gross margin conversation to remain challenged, based on Headwater through 1H'18, and the potential for rising raw cost inflation.
- FELE narrowed FY 2017 EPS guidance from \$1.87-\$1.97 to \$1.88-\$1.92, an effective cut of \$0.02 to the mid-point. Management cited uncertainties in Asia and Latin America as reason for the decreased upside potential. Reflecting slight downside to our Q3, and just tweaks to our Q4, our 2017E EPS drops \$0.01 to \$1.88 due to rounding. Our 2018E EPS falls \$0.05 to \$2.12 on a 10bps trim to full-year operating margin.
- We are initiating 2019E EPS at \$2.37. Overall, we expect modest revenue growth from healthy end-markets and attractive incremental margin, particularly from higher-margin Fueling Systems.
- We are reiterating our Neutral rating. Overall performance in Q3 was decent, in our view; organic growth is good at the legacy segments, but the margin narrative reduces timeliness, in our view.

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

ADDITIONAL DISCUSSION—Q3 RESULTS & FINAL THOUGHTS

In our view, Q3 was another solid quarter from FELE, but one that was likely delivered amidst higher expectations (versus Q2 several months ago). Revenue obviously remains robust (+29.8%) despite missing both our target and consensus, but the lower-margin Headwater Distribution segment still brings some risk, in our view, for sustained valuation adjustments that accompany margin compression. Perhaps holding related implications for valuation, we are compelled to point out that a lower tax rate in each quarter of this year has been a tailwind to EPS growth.

Fundamentally and operationally, we still like FELE's franchises, and look forward to a potential entry point given the company's balance sheet and competitive position. At this point however, we remain patient, and reiterate our Neutral rating.

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 cyclicality 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)

			2-Apr		2-Jul		1-Oct								
Income Statement Analysis	FY'14	FY'15	Q1'16	Q2'16	Q3'16	Q4'16	FY'16	Q1'17	Q2'17	Q3'17	Q4'17E	FY'17E	FY'18E	FY'19E	
Net Sales	\$ 1,047,777	\$ 924,923	\$ 218,430	\$ 252,081	\$ 239,755	\$ 239,590	\$ 949,856	\$ 220,252	\$ 305,349	\$ 311,113	\$ 322,010	\$ 1,158,720	\$ 1,340,660	\$ 1,412,270	
Cost of Sales	703,367	627,315	144,194	161,403	154,286	158,567	618,450	144,436	202,596	207,271	219,930	774,230	894,860	940,980	
Gross Profit	344,410	297,608	74,236	90,678	85,469	81,023	331,406	75,816	102,753	103,842	102,080	384,490	445,800	471,290	
%	32.9%	32.2%	34.0%	36.0%	35.6%	33.8%	34.9%	34.4%	33.7%	33.4%	31.7%	33.2%	33.3%	33.4%	
Selling, G & A Expense	227,711	204,250	52,345	57,954	55,373	55,537	221,209	56,991	68,298	70,986	74,062	270,340	308,350	320,490	
%	21.7%	22.1%	24.0%	23.0%	23.1%	23.2%	23.3%	25.9%	22.4%	22.8%	23.0%	23.3%	23.0%	22.7%	
Restructuring (Income)/Expense	16,611	2,997	820	45	(1,715)	252	(598)	315	251	1,009	100	1,680	400	400	
Operating Inc.	100,088	90,361	21,071	32,679	31,811	25,234	110,795	18,510	34,204	31,847	27,918	112,470	137,050	150,400	
%	9.6%	9.8%	9.6%	13.0%	13.3%	10.5%	11.7%	8.4%	11.2%	10.2%	8.7%	9.7%	10.2%	10.6%	
Interest (Expense)	(10,735)	(10,039)	(2,427)	(2,221)	(1,983)	(2,101)	(8,732)	(3,514)	(2,244)	(2,297)	(2,300)	(10,360)	(8,050)	(6,330)	
Other Income / (Expense)	1,349	6,863	(32)	1,373	1,446	(1,794)	993	667	5,573	574	-	6,810	2,610	2,610	
FX Income / (Expense)	(999)	(869)	(77)	315	399	420	1,057	475	(372)	193	(50)	250	(200)	(200)	
Pre Tax Inc.	89,703	86,316	18,535	32,146	31,673	21,759	104,113	16,138	37,161	30,317	25,568	109,170	131,410	146,480	
Income Tax (Expense)	(18,851)	(12,625)	(4,955)	(7,959)	(7,926)	(3,958)	(24,798)	(204)	(6,917)	(5,769)	(5,114)	(18,000)	(32,850)	(36,620)	
Tax Rate	21.0%	14.6%	26.7%	24.8%	25.0%	18.2%	23.8%	1.3%	18.6%	19.0%	20.0%	16.5%	25.0%	25.0%	
Net Income	70,852	73,691	13,580	24,187	23,747	17,801	79,315	15,934	30,244	24,548	20,454	91,170	98,560	109,860	
%	6.8%	8.0%	6.2%	9.6%	9.9%	7.4%	8.4%	7.2%	9.9%	7.9%	6.4%	7.9%	7.4%	7.8%	
Less: NI Attrib to non-ctrl interst	(1,046)	(746)	(123)	(205)	(83)	(159)	(570)	(204)	(335)	(78)	-	(620)	-	-	
Net Income att to FELE Inc.	69,806	72,945	13,457	23,982	23,664	17,642	78,745	15,730	29,909	24,470	20,454	90,550	98,560	109,860	
%	6.7%	7.9%	6.2%	9.5%	9.9%	7.4%	8.3%	7.1%	9.8%	7.9%	6.4%	7.8%	7.4%	7.8%	
Shares Out.	48,347	47,538	47,475	46,700	46,900	46,900	46,994	47,000	47,000	47,000	46,876	46,969	46,707	46,437	
Diluted EPS	\$ 1.43	\$ 1.51	\$ 0.28	\$ 0.50	\$ 0.50	\$ 0.37	\$ 1.65	\$ 0.33	\$ 0.64	\$ 0.52	\$ 0.44	\$ 1.93	\$ 2.11	\$ 2.37	
Adjusted EPS	\$ 1.74	\$ 1.47	\$ 0.29	\$ 0.51	\$ 0.48	\$ 0.38	\$ 1.66	\$ 0.34	\$ 0.58	\$ 0.53	\$ 0.44	\$ 1.88	\$ 2.12	\$ 2.37	
Dividends Paid	\$ 0.348	\$ 0.383	\$ 0.0975	\$ 0.1000	\$ 0.1000	\$ 0.1000	\$ 0.398	\$ 0.1000	\$ 0.1075	\$ 0.1075	\$ 0.1075	\$ 0.423	\$ 0.438	\$ 0.448	
Rate of Change Analysis															
Revenue	8.5%	-11.7%	-3.2%	1.9%	3.1%	9.3%	2.7%	0.8%	21.1%	29.8%	34.4%	22.0%	15.7%	5.3%	
Organic Rev-- ex-FX & Acq	8.6%	-5.2%	2.9%	4.9%	3.4%	9.9%	5.2%	0.9%	5.6%	6.3%	5.4%	4.6%	5.4%	5.3%	
Op Income	-19.1%	-9.7%	32.8%	41.0%	14.6%	7.1%	22.6%	-12.2%	4.7%	0.1%	10.6%	1.5%	21.9%	9.7%	
EPS--Adj if necessary	2.6%	-15.3%	-8.9%	45.7%	5.9%	8.2%	12.7%	16.8%	13.7%	10.3%	15.8%	13.7%	12.3%	12.1%	
EBITDA--Adj if necessary	-3.1%	-15.2%	21.7%	25.6%	3.7%	-0.5%	11.6%	-9.4%	5.6%	9.3%	9.3%	3.2%	16.4%	7.6%	
Working Capital	13.4%	0.6%	-10.9%	-6.5%	1.6%	3.0%	3.0%	11.1%	37.7%	38.3%	19.5%	19.5%	4.2%	3.6%	
Inventory	15.1%	-11.8%	-6.2%	-4.2%	2.8%	4.6%	4.6%	13.5%	40.8%	40.1%	17.2%	17.2%	2.9%	2.7%	
			*Raise guide by \$0.03 on both ends due to FX	*April; \$30MM LTD due	**narrowed guide from \$1.60-\$1.70		*FY Guide: Rev +2-to-+4%, Adj EPS \$1.62-\$1.67		*Acq of Western DSI--HdWtr Distrib Seg	*Guidance Tightened to \$1.88 - \$1.92		*FY Guide: EPS \$1.87-\$1.97			

Source: Company reports and Hilliard Lyons estimates

Franklin Electric Co (FELE)			2-Apr	2-Jul	1-Oct										
Summary Cash Flow	FY'14	FY'15	Q1'16	Q2'16	Q3'16	Q4'16	FY'16	Q1'17	Q2'17	Q3'17p	Q4'17E	FY'17E	FY'18E	FY'19E	
Net Income	70,852	73,691	13,580	24,187	23,747	17,801	79,315	15,934	30,244	24,548	20,454	91,170	98,560	109,860	
D & A	37,210	37,210	8,752	8,881	9,119	8,782	35,534	8,924	9,488	10,006	9,550	37,970	38,050	38,000	
Share-based Compensation	7,471	5,626	2,539	1,616	1,757	977	6,889	2,941	1,605	1,497	1,220	7,260	9,090	11,360	
Deferred Income Tax	(2,415)	(6,802)	270	2,691	(376)	393	2,978	(1,483)	(1,878)	(1,500)	1,500	(3,360)	6,000	6,000	
FX Expense (Income)	999	869	77	(315)	(399)	(420)	(1,057)	(475)	372	(193)	50	(250)	200	200	
Cash Provided (Used) by Wrk Cap	(28,695)	(1,463)	(32,893)	(5,785)	10,128	21,230	(7,320)	(56,351)	(46,876)	12,334	76,775	(49,120)	(12,800)	(11,370)	
Operating CF	85,422	109,131	(7,675)	31,275	43,976	48,763	116,339	(30,510)	(7,045)	46,692	109,549	83,670	139,100	154,050	
Cap Ex	(35,525)	(26,171)	(11,153)	(8,337)	(10,619)	(9,027)	(39,136)	(4,908)	(13,713)	(3,896)	(8,500)	(31,020)	(35,000)	(40,000)	
Acquisitions, net of cash acq	(42,315)	(24,088)	-	-	(1,007)	-	(1,007)	-	(52,255)	472	(110)	(51,890)	(2,000)	(2,000)	
Divestitures	1,608	1,542	185	1,981	3,673	189	6,028	34	75	98	50	260	200	200	
Dividends	(17,421)	(18,926)	(4,506)	(5,315)	(4,662)	(4,654)	(19,137)	(4,668)	(5,531)	(5,046)	(5,039)	(20,280)	(20,430)	(20,780)	
Free CF	(8,231)	41,488	(23,149)	19,604	31,361	35,271	63,087	(40,052)	(78,469)	38,320	95,950	(19,260)	81,870	91,470	
Debt Proceeds	98,394	233,486	31,606	30,446	1,932	697	64,681	20,383	148,901	-	-	169,280	-	-	
Debt (Repayments)	(117,217)	(189,910)	(19,817)	(50,086)	(24,707)	(456)	(95,066)	(20,843)	(101,245)	(42,000)	-	(164,090)	(30,900)	(30,900)	
Stock Sale Proceeds	2,929	2,929	411	199	2,582	2,051	5,243	481	1,566	1,723	2,000	5,770	8,000	8,000	
Stock (Repurchases)	(10,610)	(48,579)	(4,175)	(561)	(1,457)	(1,229)	(7,422)	(655)	(1,719)	(889)	(7,500)	(10,760)	(20,000)	(20,000)	
Net CF	(34,735)	39,414	(15,124)	(398)	9,711	36,334	30,523	(40,686)	(30,966)	(2,846)	90,450	(19,060)	38,970	48,570	
Adjusted EBITDA	153,909	130,568	30,643	41,605	39,215	34,268	145,731	27,749	43,943	42,862	37,468	150,440	175,100	188,400	
Adj EBITDA Margin	14.7%	14.1%	14.0%	16.5%	16.4%	14.3%	15.3%	12.6%	14.4%	13.8%	11.6%	13.0%	13.1%	13.3%	
Adj EBITDA/Share	\$ 3.18	\$ 2.75	\$ 0.65	\$ 0.89	\$ 0.84	\$ 0.73	\$ 3.10	\$ 0.59	\$ 0.93	\$ 0.91	\$ 0.80	\$ 3.20	\$ 3.75	\$ 4.06	
Summary Balance Sheet	FY'14	FY'15	Q1'16	Q2'16	Q3'16	Q4'16	FY'16	Q1'17	Q2'17	Q3'17p	Q4'17E	FY'17E	FY'18E	FY'19E	
Cash and Equivalents	59,141	81,561	74,642	71,582	78,981	104,331	104,331	70,651	55,095	60,129	150,580	150,580	189,540	238,120	
A/R	143,787	127,251	151,173	161,972	152,093	145,999	145,999	154,701	190,650	176,286	183,550	183,550	194,300	204,680	
Inventory	220,528	194,594	207,741	210,642	215,067	203,471	203,471	235,724	296,687	301,374	238,470	238,470	245,460	252,020	
Other Current Assets	46,083	34,728	30,617	29,531	31,289	30,018	30,018	33,803	37,194	44,462	30,620	30,620	31,230	31,850	
Total Current Assets	469,539	438,134	464,173	473,727	477,430	483,819	483,819	494,879	579,626	582,251	603,220	603,220	660,530	726,670	
Net PP&E	209,786	190,039	194,756	195,916	198,675	196,137	196,137	197,412	214,652	213,206	212,160	212,160	209,910	212,710	
Intangible Assets	160,314	141,357	141,490	140,850	138,256	134,667	134,667	133,675	136,818	136,800	136,800	136,800	136,800	136,800	
Goodwill	208,828	199,847	201,580	201,365	202,037	199,609	199,609	200,407	236,153	235,900	236,000	236,000	237,200	238,400	
Other Non-Current Assets	27,420	27,031	30,524	29,105	28,219	25,673	25,673	28,907	12,861	11,336	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	1,055,280	1,180,110	1,179,493	1,201,180	1,201,180	1,257,440	1,327,580	
A/P	70,806	57,822	62,568	56,983	60,695	63,927	63,927	69,042	73,266	76,163	87,590	87,590	92,720	97,670	
Accrued Expenses	95,419	52,109	46,594	58,686	61,003	60,119	60,119	43,497	57,047	64,545	61,320	61,320	62,550	63,800	
Income Taxes	788	1,794	2,628	2,950	3,353	3,274	3,274	3,170	3,823	3,353	3,274	3,274	3,274	3,274	
ST Borrowing and CP/LT Debt	34,092	32,946	45,337	55,673	33,418	32,946	32,946	33,783	145,381	104,081	145,400	145,400	84,100	84,100	
Total Current Liabilities	201,105	144,671	157,127	174,292	158,469	160,266	160,266	149,492	279,517	248,142	297,584	297,584	242,644	248,844	
Long-Term Debt	143,695	188,103	187,257	157,203	156,712	156,544	156,544	156,170	126,030	125,608	125,400	125,400	95,600	64,700	
Employee Benefit Plans	58,709	47,398	46,799	42,337	40,799	45,307	45,307	43,527	42,705	42,180	52,180	52,180	58,180	64,180	
Other LT Liabilities	73,395	56,771	61,100	64,095	66,446	62,700	62,700	68,283	17,635	18,653	18,650	18,650	18,650	18,650	
Total Liabilities	476,904	436,943	452,283	437,927	422,426	424,817	424,817	417,472	507,061	477,359	493,814	493,814	415,074	396,374	
Shareholders' Equity	596,840	557,700	578,337	601,565	620,597	613,445	613,445	636,003	671,433	700,263	707,366	707,366	842,366	931,206	
Noncontrolling Interest	2,143	1,765	1,903	1,471	1,594	1,643	1,643	1,805	1,616	1,871	-	-	-	-	
Book Value	\$ 12.41	\$ 11.94	\$ 12.18	\$ 12.88	\$ 13.23	\$ 13.08	\$ 13.08	\$ 13.53	\$ 14.29	\$ 14.90	\$ 15.09	\$ 15.09	\$ 18.07	\$ 20.10	
Tangible Book Value	\$ 4.73	\$ 4.64	\$ 4.96	\$ 5.55	\$ 5.98	\$ 5.95	\$ 5.95	\$ 6.42	\$ 6.35	\$ 6.97	\$ 7.14	\$ 7.14	\$ 10.05	\$ 12.00	
Current Ratio	2.3x	3.0x	3.0x	2.7x	3.0x	3.0x	3.0x	3.3x	2.1x	2.3x	2.0x	2.0x	2.7x	2.9x	
Net LT Debt / Total Cap	11.4%	14.3%	14.7%	11.3%	10.0%	6.8%	6.8%	10.8%	8.9%	7.9%	-3.0%	-3.0%	-10.0%	-17.4%	
Net Total Debt / Total Cap	15.3%	17.9%	19.4%	17.3%	13.7%	10.6%	10.6%	14.4%	22.9%	18.2%	12.3%	12.3%	-1.0%	-8.3%	
TTM ROE--Unadjusted	11.5%	12.8%	14.4%	16.4%	17.4%	13.3%	13.3%	18.9%	19.9%	33.7%	13.7%	13.7%	12.4%	12.1%	

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

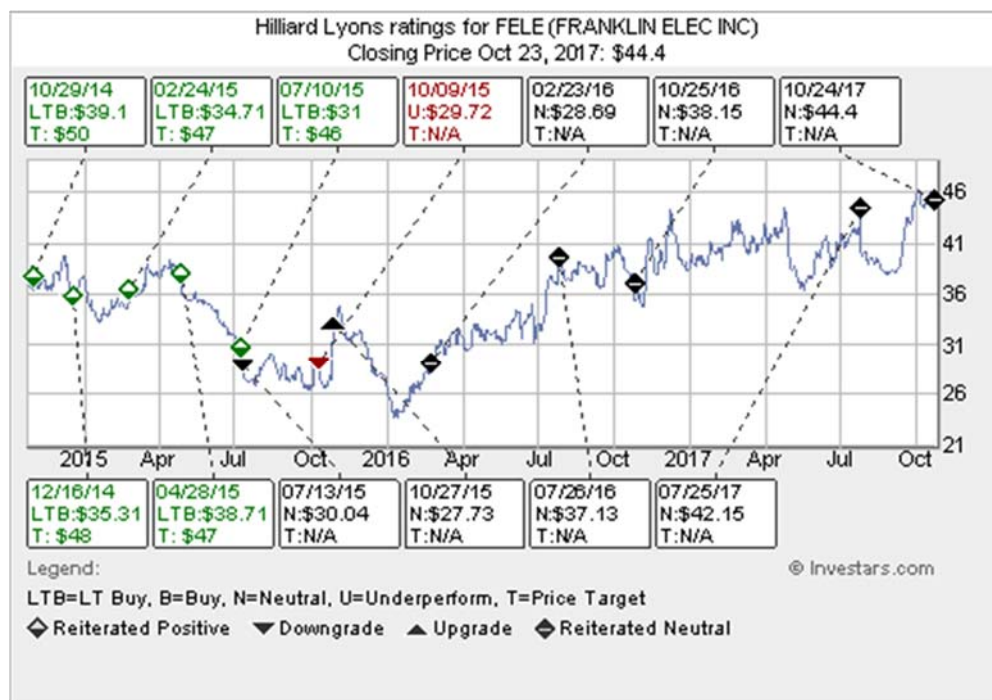
Investment Ratings

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.



Hilliard Lyons Recommended Issues			Investment Banking Provided in Past 12 Mo.	
Rating	# of Stocks Covered	% of Stocks Covered	Banking	No Banking
Buy	39	32%	8%	92%
Hold/Neutral	74	60%	9%	91%
Sell	8	7%	0%	100%
Restriction	2	2%	100%	0%

As of 5 October 2017

Other Disclosures

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