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## **Capital Structure in Money Management**

**Donald H. Putnam**

**Darlene T. DeRemer**

Grail Partners LLC

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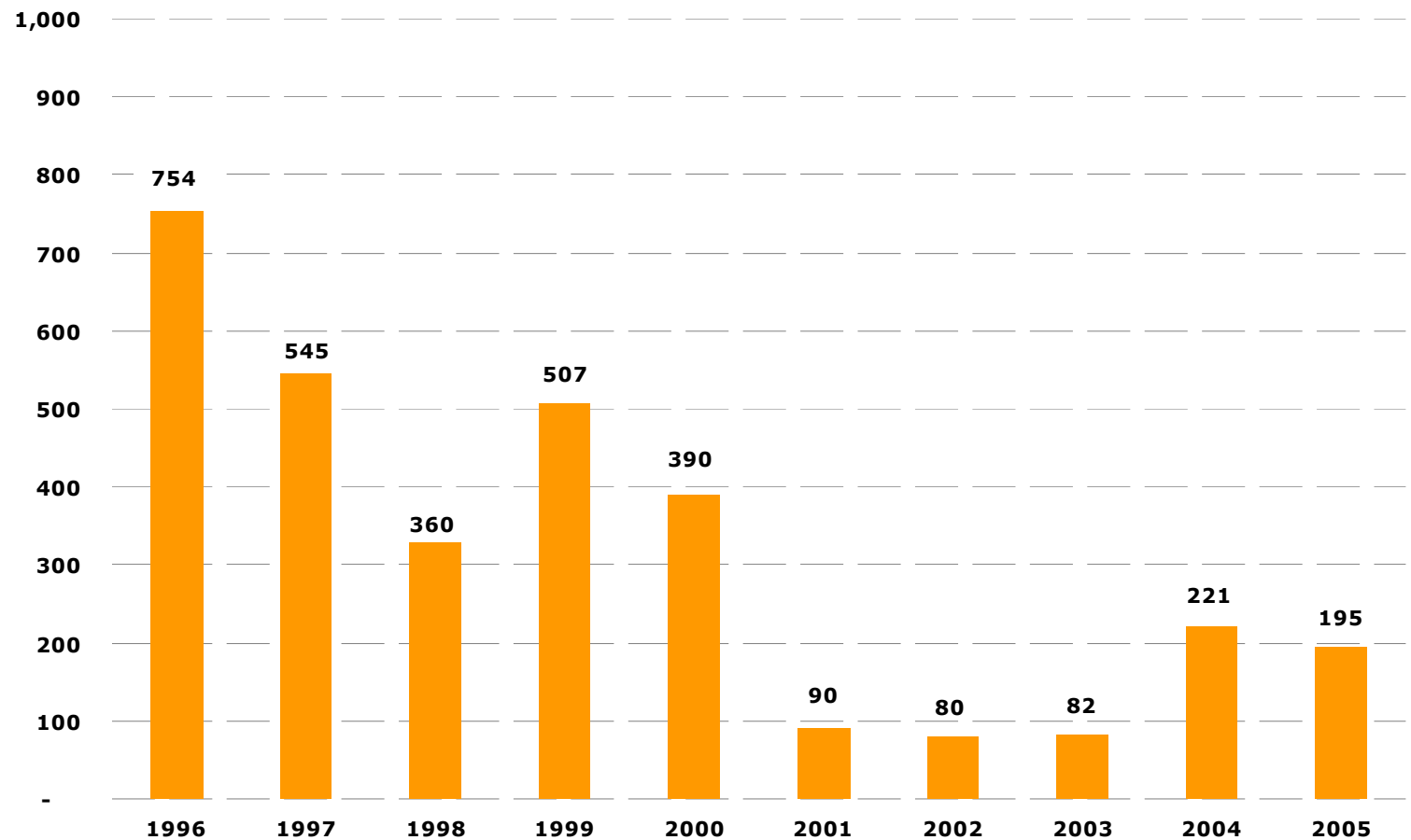
May 11, 2006

## IPO Markets – Slight Rebound

### IPOs and Publics

- Coming off the 2001-2003 lulls, the number of IPOs doubled in the past two years but remain well behind the 1990's surge

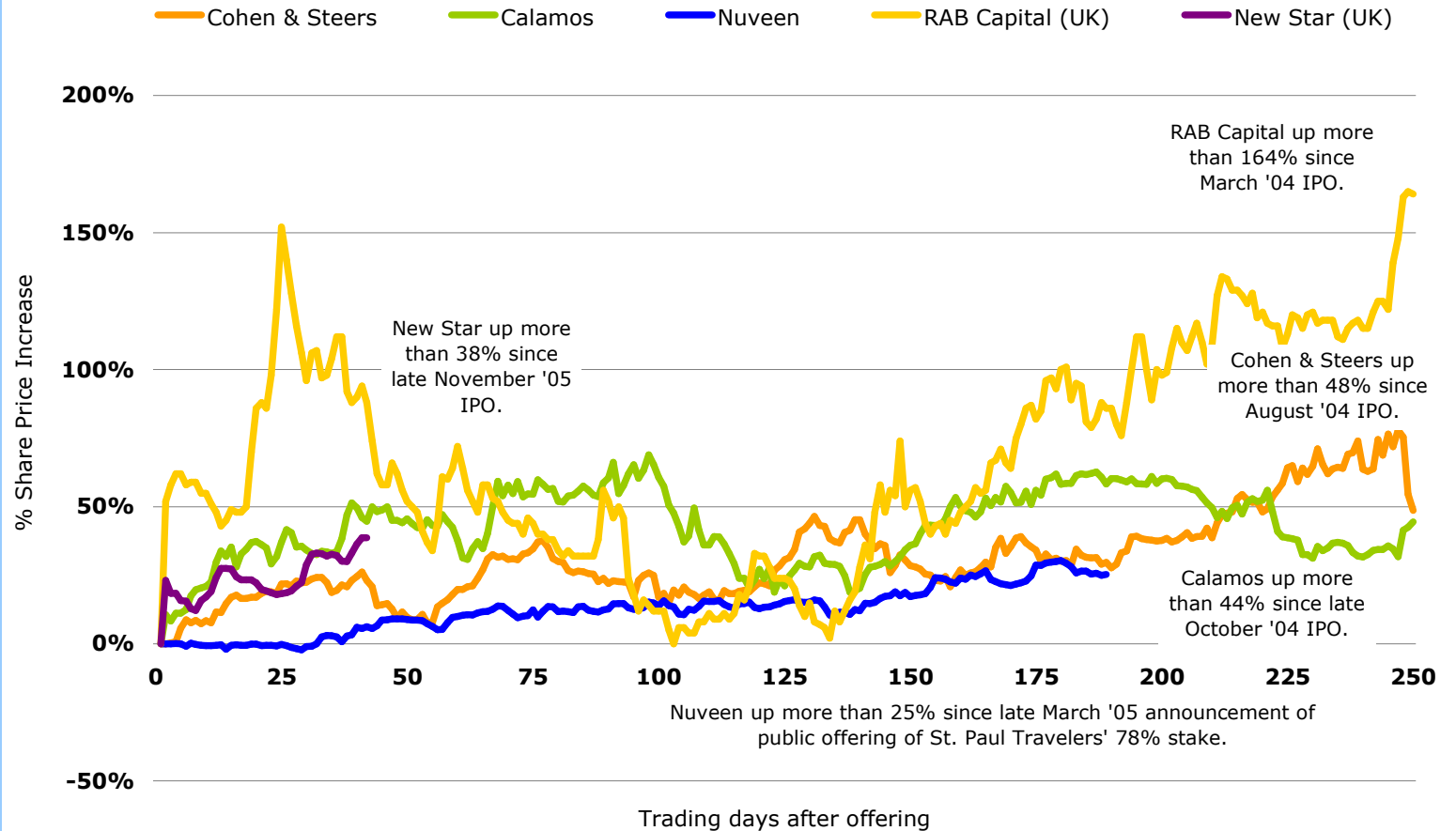
**Number of US IPOs: 1996 - 2005**



# Recent Money Manager IPOs

## IPOs and Publics

- Money manager IPOs up and away in the last two years



Source: Bloomberg, Grail Partners LLC

## Public Asset Manager IPO Information

### IPOs and Publics

- Strong growth in value, with a few stragglers

	Ticker	IPO Date	IPO Data		Current Data		Market Cap CAGR	EBITDA CAGR
			Market Cap (\$mm)	Run Rate EBITDA	Market Cap (\$mm)	Run Rate EBITDA		
Eaton Vance	EV	Dec-59	\$23	\$2,826	\$3,967	\$334,918	12%	11%
Legg Mason	LM	Jul-83	83	8,000	15,538	850,158	26%	23%
Westwood Holdings Group	WHG	Jun-02	70	9,188	112	6,315	13%	-9%
BKF Capital Group <sup>1</sup>	BKF	Jan-00	80	13,696	72	5,807	-2%	-13%
T. Rowe Price Associates, Inc.	TROW	Apr-86	178	31,014	11,701	697,300	23%	17%
AllianceBernstein L.P.	AB	Jan-88	149	31,780	16,700	1,218,285	34%	25%
Affiliated Managers Group, Inc.	AMG	Nov-97	378	42,989	4,691	366,957	35%	29%
Cohen & Steers	CNS	Aug-04	445	45,508	1,034	57,264	66%	15%
GAMCO Investors Inc.	GBL	Feb-99	525	45,877	1,179	87,503	12%	9%
Nuveen Investments	JNC	May-92	692	85,756	4,027	309,936	13%	10%
W.P. Stewart	WPL	Dec-00	849	88,909	906	67,703	1%	-5%
BlackRock, Inc.	BLK	Sep-99	896	92,214	10,113	371,443	45%	24%
Waddell & Reed Financial, Inc.	WDR	Mar-98	1,472	116,333	1,951	153,245	4%	3%
Franklin Resources <sup>3</sup>	BEN	Jan-71	524	138,884	24,717	1,376,006	27%	15%
Calamos Asset Management	CLMS	Oct-04	1,800	145,441	3,914	252,078	68%	44%
Federated Investors, Inc	FII	May-98	1,634	152,893	3,795	430,386	11%	14%
AMVESCAP <sup>4</sup>	AVZ	Feb-97	6,518	405,161	8,861	594,712	3%	4%
Janus Capital Management, Inc. <sup>5</sup>	JNS	Jun-00	8,552	518,000	4,120	224,200	-12%	-13%

<sup>1</sup> Effective date whereby John A. Levin & Co. became the sole operating subsidiary

<sup>2</sup> Information shown is as of earliest available date (March 1990)

<sup>3</sup> Information shown is as of earliest available date (December 1989)

<sup>4</sup> Effective date of AIM/INVESCO merger

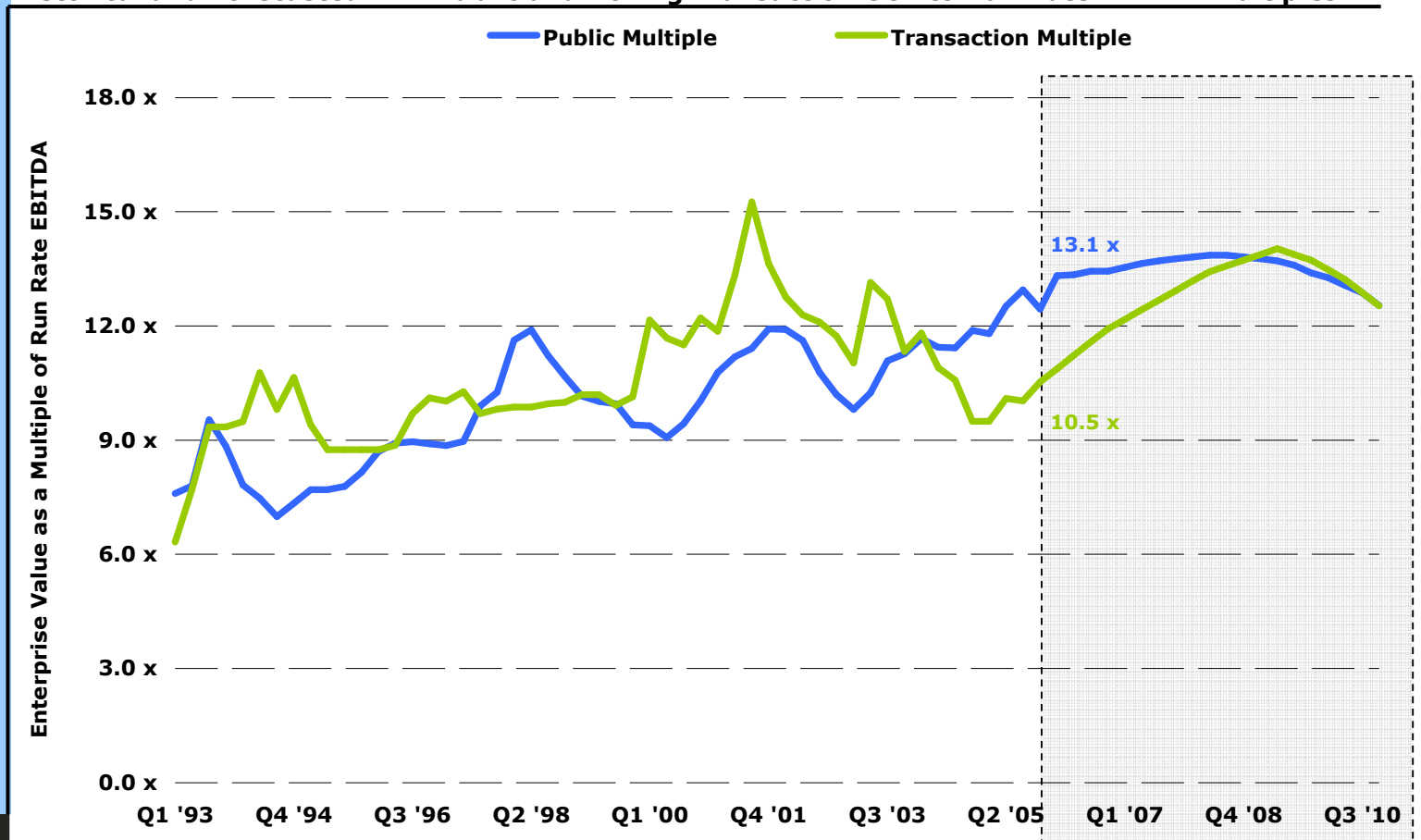
<sup>5</sup> Effective date of Stillwell Financial spinoff from KCSR

# Public vs. Private EBITDA Multiples: A 10-year Perspective

## IPOs and Publics

- The markets have applied a clear premium to publicly traded firms, reversing historical trends
- Transaction multiples remain volatile since trending downward from 2001 and reaching a floor in Q2 2005

Historical and Forecasted TTM Public and Rolling Transaction GCV to Run Rate EBITDA Multiples



Source: Grail Partners LLC and public sources.

Grail Partners Estimates

## UK Public Asset Managers: Detail

- UK public asset managers are trading, on a median basis, as of April 28, 2006, at run-rate multiples of:
  - 12.5x run-rate EBITDA,
  - 4.1x run-rate revenues, and
  - 3.3% of assets under management

### U.K. and European Publicly Traded Money Managers - Pricing Multiples

As of Friday, April 28, 2006

(All Figures in Millions, Except Where Noted and Per Share Data)

Asset Managers	Symbol	Price 28-Apr	Market Cap.	Going Concern Value <sup>(1)</sup>	AUM	Price to Earnings			Going Concern Value to			
						LTM	CFY	NFY	Assets Managed	Run-Rate Revenues	Run-Rate EBITDA	Run-Rate EBIT
Aberdeen Asset Management PLC	ADN LN	197.3p	£1,233	£1,166	£72,000	37.5x	23.0x	17.7x	1.6%	7.5x	31.4x	nm
Absolute Capital Management	ACMH LN	273.0p	£141	£139	£624	neg	n/a	n/a	22.3%	7.3x	13.0x	13.0x
Amvescap PLC	AVZ LN	599.5p	£4,857	£5,127	£236,284	33.5x	22.0x	19.3x	2.2%	4.0x	13.8x	18.0x
Azimut Holding SpA	AZM IM	€ 9.8	€ 1,408	€ 1,499	€ 12,000	neg	19.0x	15.0x	12.5%	9.8x	12.1x	12.8x
Charlemagne Capital Ltd	CCAP LN	100.0p	£194	£187	£2,989	6.2x	n/a	n/a	6.3%	3.8x	6.8x	6.9x
F&C Asset Management PLC	FCAM LN	215.0p	£1,019	£1,120	£131,000	21.0x	14.9x	14.4x	0.9%	4.1x	10.4x	21.9x
Henderson Group PLC	HGI LN	83.0p	£958	£471	£67,700	29.7x	19.4x	19.4x	0.7%	2.0x	5.9x	8.9x
Iimia Investment Group PLC	IIG LN	185.5p	£26	£19	£533	52.1x	n/a	n/a	3.6%	1.2x	5.4x	6.6x
Liontrust Asset Management Plc	LIO LN	373.0p	£121	£108	£4,460	15.9x	15.9x	14.6x	2.4%	4.1x	11.3x	11.4x
Man Group Plc	EMG LN	2527.0p	£8,642	£8,159	£27,595	21.6x	14.7x	14.1x	29.6%	7.8x	13.0x	14.8x
New Star Asset Management Group Ltd	NSAM LN	432.0p	£1,303	£1,314	£16,800	66.7x	21.7x	17.2x	7.8%	11.6x	23.4x	39.4x
Partners Group	PGHN SW	SFr. 77.50	SFr. 2,275	SFr. 2,238	SFr. 11,000	nm	n/a	n/a	20.3%	18.8x	27.9x	29.2x
Premier Asset Management Plc	PAM LN	155.0p	£21	£17	£1,330	nm	23.8x	16.7x	1.3%	2.1x	nm	neg
RAB Capital PLC	RAB LN	90.0p	£452	£416	£1,522	35.1x	20.6x	15.7x	27.3%	4.1x	11.3x	11.6x
Rathbone Brothers	RAT LN	1176.0p	£499	£499	£10,000	19.2x	17.7x	15.6x	5.0%	4.2x	11.4x	12.1x
Rensburg Sheppards PLC	RBG LN	794.0p	£263	£339	£11,700	21.2x	19.6x	18.1x	2.9%	5.0x	18.1x	31.7x
Savoy Asset Management Plc	SMN LN	178.5p	£19	£17	£1,100	41.1x	n/a	n/a	1.6%	2.0x	26.8x	30.5x
Schroders PLC	SDR LN	1129.0p	£3,311	£2,925	£122,500	18.7x	18.2x	16.3x	2.4%	3.9x	12.5x	13.1x
Median						25.7x	19.4x	16.3x	3.3%	4.1x	12.5x	13.1x
Market Cap-Weighted Mean						23.6x	16.3x	14.6x	13.9%	7.3x	15.2x	16.8x

<sup>(1)</sup> Equity market capitalization plus net debt capitalization

Note: all figures represent normalized earnings; nm=not meaningful, n/a=not available, neg=negative

## US Public Asset Managers: Detail

- US public asset managers are trading, on a median basis, as of April 28, 2006, at run-rate multiples of:
  - 14.4x run-rate EBITDA,
  - 4.8x run-rate revenues, and
  - 3.3% of assets under management

### U.S. Publicly Traded Money Managers - Pricing Multiples

As of Friday, April 28, 2006

(US\$ in Millions, Except Where Noted and Per Share Data)

Mutual Fund Managers	Symbol	Price 28-Apr	Market Cap.	Going Concern Value <sup>(1)</sup>	AUM	Price to Earnings			Going Concern Value to			
						LTM	CFY	NFY	Assets Managed	Run-Rate Revenues	Run-Rate EBITDA	Run-Rate EBIT
<sup>(2)</sup> Calamos Asset Management Inc	CLMS	\$38.76	\$3,914	\$3,898	\$47,601	28.3x	24.1x	20.8x	8.2%	8.1x	14.3x	16.6x
Eaton Vance Corp	EV	28.47	3,967	3,802	116,500	38.5x	22.0x	18.8x	3.3%	4.6x	12.0x	14.8x
Federated Investors Inc	FII	35.10	3,811	3,727	213,423	18.0x	17.0x	15.1x	1.7%	3.9x	8.8x	10.8x
Franklin Resources Inc	BEN	93.12	24,683	22,502	491,600	21.5x	18.9x	16.7x	4.6%	4.8x	11.5x	13.9x
GAMCO Investors Inc	GBL	38.48	1,179	1,247	26,798	18.9x	17.6x	17.1x	4.7%	4.8x	11.3x	11.3x
Hennessy Advisors, Inc	HNNA	27.50	111	116	1,832	22.2x	n/a	n/a	6.4%	7.9x	15.8x	17.2x
Janus Capital Group Inc	JNS	19.46	4,131	3,857	148,500	44.0x	24.7x	18.3x	2.6%	3.9x	14.7x	17.9x
Nuveen Investments Inc	JNC	48.12	3,946	4,536	136,117	23.7x	20.4x	17.7x	3.3%	7.2x	13.8x	14.5x
T Rowe Price Group Inc	TROW	84.19	11,576	10,772	269,500	26.7x	22.6x	19.7x	4.0%	6.7x	14.7x	15.6x
US Global Investors Inc	GROW	20.76	158	153	3,050	50.6x	n/a	n/a	5.0%	4.9x	22.0x	22.4x
Waddell & Reed Financial Inc	WDR	23.52	1,937	1,974	41,863	23.0x	18.0x	15.9x	4.7%	3.0x	13.7x	15.0x
<b>Diversified Asset Managers</b>												
Affiliated Managers Group Inc	AMG	101.30	4,589	5,559	184,310	36.0x	17.8x	15.3x	3.0%	5.1x	12.3x	13.4x
<sup>(3)</sup> AllianceBernstein L.P.	AB	64.45	17,177	16,594	617,000	21.3x	18.2x	15.5x	2.7%	4.5x	10.9x	13.1x
Amvescap PLC	AVZ	21.87	8,859	9,330	411,000	35.1x	22.3x	18.6x	2.3%	4.2x	14.5x	18.8x
BKF Capital Group Inc	BKF	9.03	72	28	4,502	neg	n/a	n/a	0.6%	0.3x	neg	neg
BlackRock Inc/New York	BLK	151.54	10,140	9,916	452,682	43.3x	30.7x	22.3x	2.2%	6.7x	20.5x	22.1x
Cohen & Steers Inc	CNS	25.63	1,035	996	20,491	34.7x	25.1x	21.8x	4.9%	6.7x	17.0x	21.1x
<sup>(4)</sup> Diamond Hill Investment Group	DHIL	42.00	87	85	2,181	42.1x	n/a	n/a	3.9%	6.0x	20.5x	21.1x
Legg Mason Inc	LM	118.48	15,538	16,008	850,800	28.6x	28.4x	20.3x	1.9%	5.8x	18.2x	20.6x
WP Stewart & Co Ltd	WPL	20.04	924	875	9,514	18.2x	17.0x	15.7x	9.2%	4.8x	10.9x	12.1x
Westwood Holdings Group Inc	WHG	19.65	110	108	4,900	29.8x	n/a	n/a	2.2%	4.5x	15.6x	16.3x
S&P 500	SPX	1310.61				17.8x	17.3x	16.1x				
Mutual Fund Managers Median						23.7x	20.4x	17.7x	4.6%	4.8x	13.8x	15.0x
Diversified Managers Median						34.7x	22.3x	18.6x	2.5%	5.0x	15.6x	18.8x
Overall Group Median						28.4x	21.2x	18.0x	3.3%	4.8x	14.4x	16.0x
Market Cap-Weighted Mean						28.1x	22.0x	18.0x	3.4%	5.3x	13.9x	16.1x

<sup>(1)</sup> Equity market capitalization plus net debt capitalization

<sup>(2)</sup> Only approximately 23% is public float; for comparative purposes, figures shown prior to minority interest expense

<sup>(3)</sup> Master limited partnership; only approximately 32.1% is public float

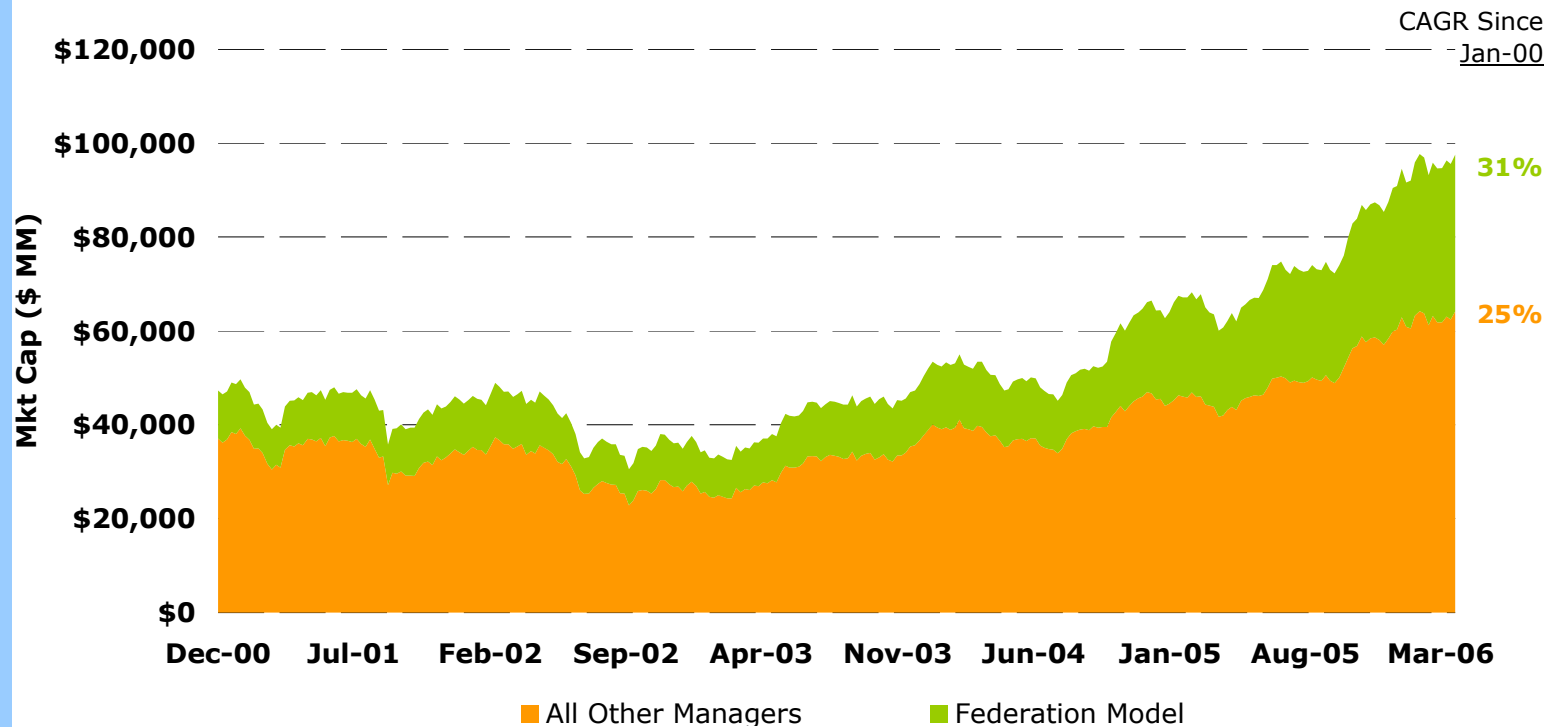
<sup>(4)</sup> Income generated by Private Investment Partnership included in revenues

Note: all figures represent normalized earnings; nm=not meaningful, n/a=not available, neg=negative

# Success of the Federation

## Federation Model

### Federation Model Market Caps v. All Other Managers Market Caps<sup>1</sup>



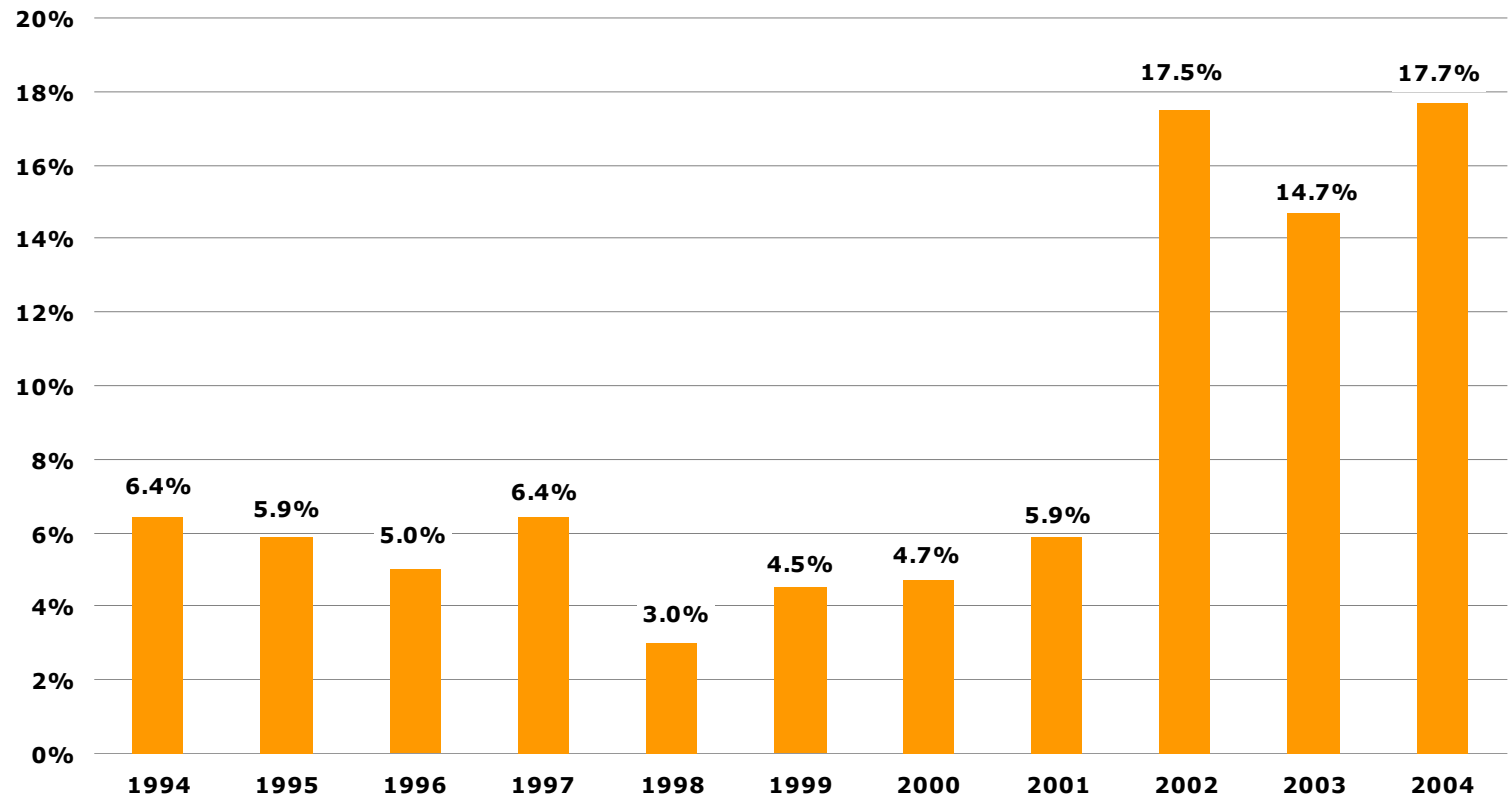
<sup>1</sup>**Federation Model:** Alliance Bernstein, AMG, Calamos, Nuveen and Legg Mason.

**All Other Managers:** Franklin Resources, BKF Capital, BlackRock, Cohen and Steers, Diamond Hill, Eaton Vance, Federated Investors, US Global Investors, Hennessey Advisors, Janus Capital, T. Rowe Price, Waddell & Reed, Westwood Holdings Group and WP Stewart.

## Private Equity's Significant Presence

Private Equity –  
Surging  
Importance

### Private Equity Buyers as a Percentage of All M&A Transactions



## **MBO / LBO – History of Success**

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- **112** money management MBO/LBO transactions in the last twenty years
  - To buy companies from conglomerate ownership – “LBO”
  - To liquefy founders and enfranchise the next generation – “MBO”
- Only **two** have failed to pay off all senior debt on time – Two “workouts”:
  - Altamira – a 1996 TA Associates LBO - was restructured successfully and sold to NBF
  - Dreman – a 1989 Texas Pacific MBO - failed in an equity crush-down and was sold to Kemper for the value of the debt.

- So: a 2% chance of default, and <20% chance that equity holders do not beat inflation

**There is about an 80% likelihood of real returns from recap equity, and about a 60% chance that the returns beat the company organic growth rate (a result of leverage, tax arbitrage and equity incentives).**

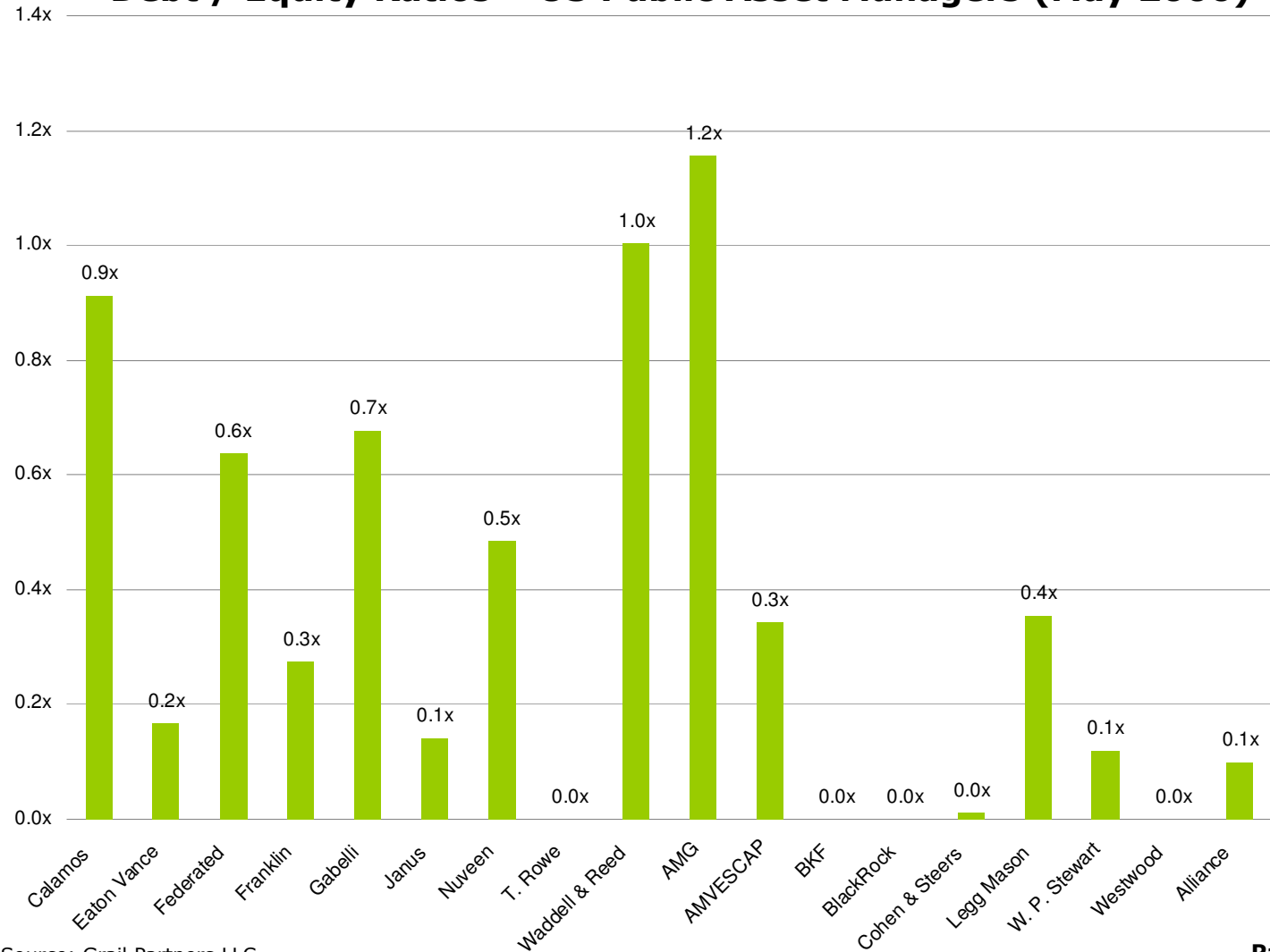
- The key risk is not senior debt – banks simply will not lend at unsafe levels.
- **Key risks are**
  - **a) too much non-bank debt,**
  - **b) too little incentive for the next generation (hoarding), and**
  - **c) excessively high price (seller flight)**

## Publics Using Leverage

### Debt / Equity – US Publics

- Minimal leverage, as one would expect, though ratios vary across the industry

### Debt / Equity Ratios – US Public Asset Managers (May 2006)

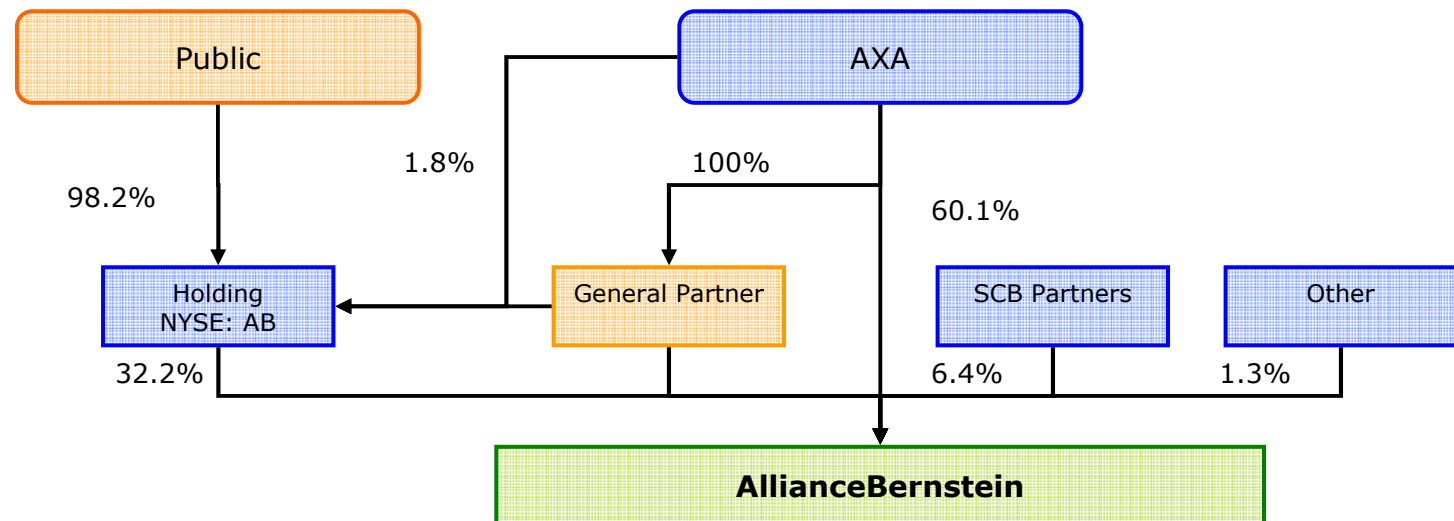


Source: Grail Partners LLC

# Alliance Bernstein

## Case Studies

- Structural differences in Holding Company (NYSE: AB) and AllianceBernstein (operating partnership)



Beneficial Ownership	
AXA Financial <sup>2</sup>	61.1%
Other <sup>3</sup>	32.3%
Directors, Officers, Employees <sup>1</sup>	6.6%

As of December 31, 2005

<sup>1</sup> Direct and indirect ownership including unallocated units in deferred compensation plan

<sup>2</sup> Includes 1% General Partnership interests

<sup>3</sup> Public, former employees and other

Source: AllianceBernstein.

## Alliance Bernstein Case Study

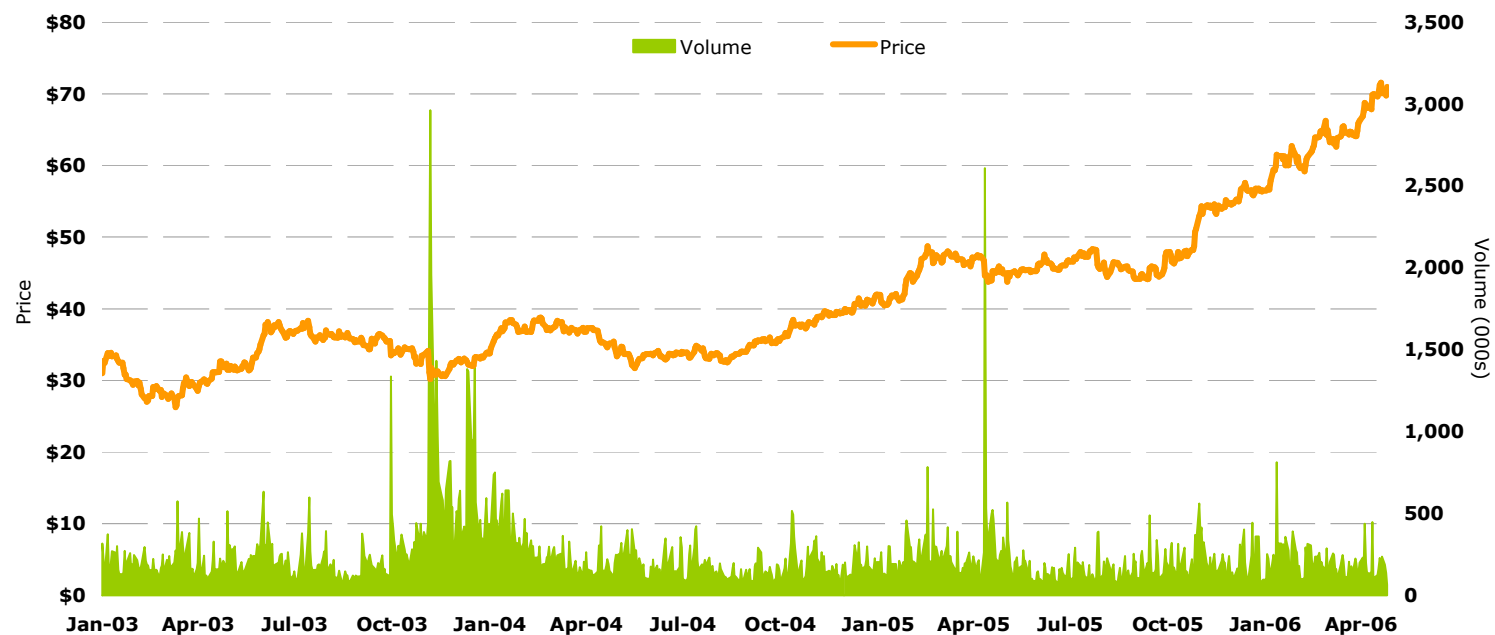
### Case Studies

<b>Structural Differences: Public Partnership vs. Operating Partnership</b>		
	<b><u>AllianceBernstein Holding (Public Partnership)</u></b>	<b><u>AllianceBernstein (Operating Partnership)</u></b>
<b>Operations</b>	<ul style="list-style-type: none"> <li>Owns units its principal source of earnings and cash flow</li> </ul>	<ul style="list-style-type: none"> <li>Conducts research and investment management business</li> </ul>
<b>Liquidity</b>	<ul style="list-style-type: none"> <li>Trades on the NYSE</li> </ul>	<ul style="list-style-type: none"> <li>Substantial restrictions on transfer highly illiquid</li> </ul>
<b>Taxes Paid by Partnership</b>	<ul style="list-style-type: none"> <li>Publicly traded partnership for federal income tax purposes and is subject to the 4.0% UBT, net of credits for UBT paid by AB, and a 3.5% federal tax on partnership gross income from the active conduct of a trade of business</li> </ul>	<ul style="list-style-type: none"> <li>Corporate and foreign subsidiaries pay corporate tax</li> </ul>
<b>Cash Distributions</b>	<ul style="list-style-type: none"> <li>Pays available cash flow quarterly as defined in partnership agreement;</li> <li>Lower than operating partnership due to federal taxes on revenues</li> </ul>	<ul style="list-style-type: none"> <li>Pays available cash flow quarterly as defined in partnership agreement</li> </ul>
<b>Taxes Paid by Investor</b>	<ul style="list-style-type: none"> <li>Pays ordinary income tax</li> <li>Taxable income reported annually on Form K-1</li> <li>Distributions generally not taxable</li> <li>35% tax withholding on distributions to non-US investors</li> <li>Substantial tax deferral (754 election) for all investors</li> </ul>	<ul style="list-style-type: none"> <li>Pays ordinary income tax</li> <li>Taxable income reported annually on Form K-1</li> <li>Distributions generally not taxable</li> <li>Substantial tax deferral (754 election) for all investors</li> </ul>

# Alliance Bernstein Case Study: Results

## Case Studies

**3-Year Stock Price and Volume History (as of 4/26/06)**



### Summary Financials

(\$'000s; fiscal year ending December 31)

Income Statement	2000	2001	2002	2003	2004	2005
Investment Advisory Revenue	\$1,689,817	\$2,023,766	\$1,847,876	\$1,882,399	\$2,113,351	\$2,290,867
Other Revenues	832,282	969,132	894,546	850,422	913,581	959,813
<b>Total Revenues</b>	<b>2,522,099</b>	<b>2,992,898</b>	<b>2,742,422</b>	<b>2,732,821</b>	<b>3,026,932</b>	<b>3,250,680</b>
Total Operating Expenses	1,484,242	1,862,553	1,773,623	2,088,185	2,029,616	2,185,812
<b>EBITDA</b>	<b>1,037,857</b>	<b>1,130,345</b>	<b>968,799</b>	<b>644,636</b>	<b>997,316</b>	<b>1,089,977</b>
<i>margin</i>	41%	38%	35%	24%	33%	34%
<b>Net Income</b>	<b>\$668,749</b>	<b>\$614,625</b>	<b>\$610,978</b>	<b>\$329,808</b>	<b>\$705,150</b>	<b>\$868,318</b>
<i>margin</i>	27%	21%	22%	12%	23%	27%

### Balance Sheet

Total Assets	\$8,270,762	\$8,175,393	\$7,217,970	\$8,171,669	\$8,779,330	\$9,490,480
Total Debt	933,475	627,609	426,907	405,327	407,517	407,291
Total Partners' Capital	4,133,677	3,988,160	3,963,451	3,778,469	4,183,698	4,302,674

### Stock Price Summary

(as of 4/26/06)

Period	High	Low	Average
2003	\$38.30	\$32.51	\$32.51
2004	42.00	31.70	36.19
2005	57.57	40.43	47.40
YTD 2006	71.55	59.20	65.19

### Key Figures & Multiples

(as of 4/26/06)

Price (as of 4/25/06)	\$69.75
Shares Outstanding (mm)	83.6
Market Capitalization (\$mm)	\$5,832
Price/LTM Earnings	23.5x

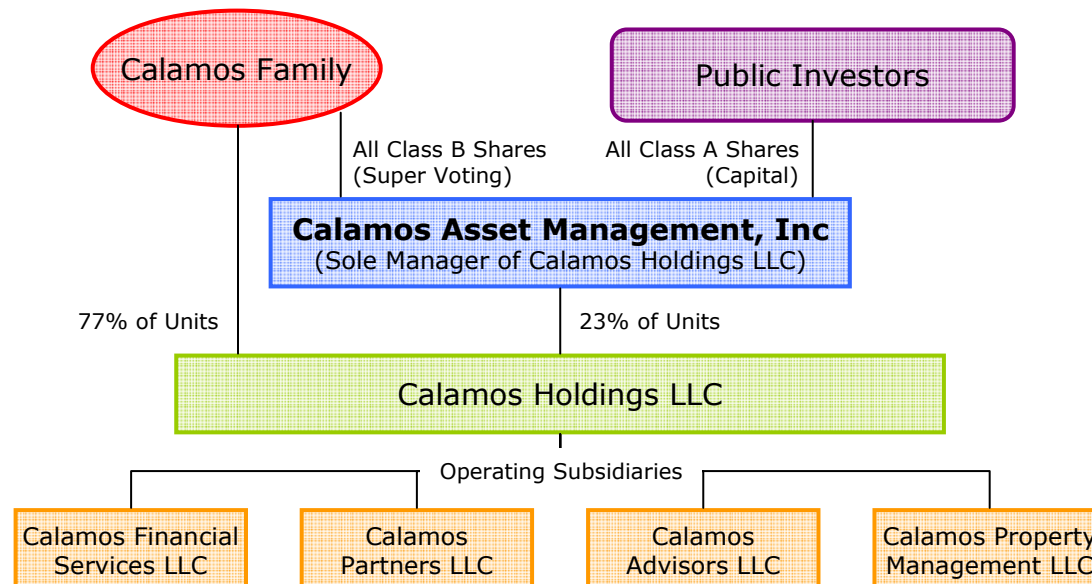
Note: EBITDA excludes deferred sales commissions amortization expense.  
Source: Company filings

Source: SNL Financial

## Case Studies

# Calamos Case Study: IPO

- In October 2004, Calamos sold 23% of the financial interests of the company to the public for \$414 million, valuing the business at \$1.8 billion
- For the Company, a public offering allowed:
  - Progressive liquidity to founders
  - Acquisition and retention currency
  - Access to public capital
  - At the time (and still today), a valuation premium over a trade sale, given relative market pricing
- The Company went public under a dual share structure:
  - Class A stock: publicly traded and publicly held (99.9% capital stock = 3% of votes)
  - Class B stock: family held and is super voting (0.1% of capital stock = 97% of votes)
- This unique structure offers the advantages of a public quotation, while still:
  - Tax-efficient earnings treatment for founders
  - Maintaining founder control through the dual share structure



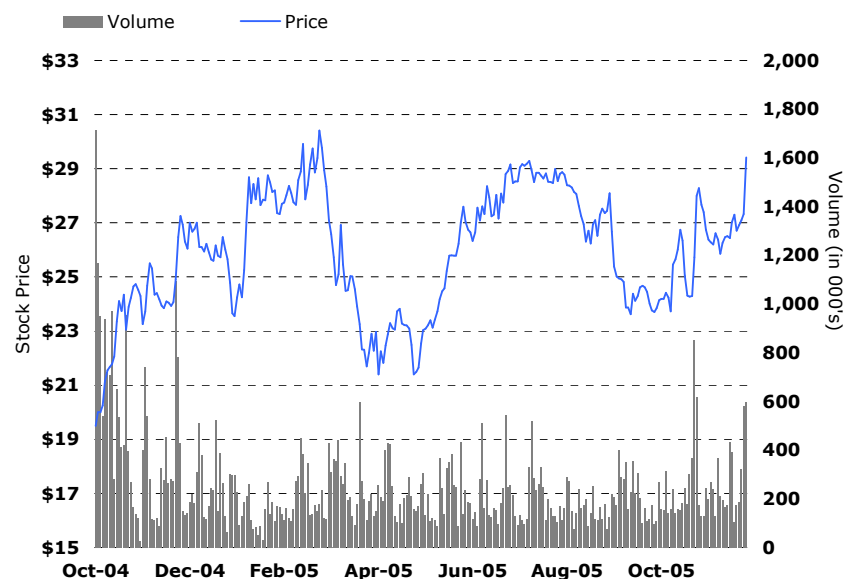
Source: SEC Filings  
Structure has been simplified  
for viewing ease

# Calamos Case Study: Results

## Case Studies

### Financial Performance

#### Trading History



#### Summary Pro Forma Financials (in \$mm)

<b>Income Statement:</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>	<b>F3Q 05</b>
Total Revenues	\$88	\$162	\$312	\$304
EBITDA	39	98	164	178
Operating Margin	44%	60%	53%	59%
Net Income	25	68	106	117

<b>Balance Sheet</b>	<b>2003</b>	<b>2004</b>	<b>9/30/05</b>
Total Assets	\$105	\$516	\$620
Cash & Equivalents	5	150	174
Total Equity	46	158	178

#### Financial Summary

Price (12/2/05)	\$29.41
Shares Outstanding (mm)	100
Market Cap	\$2,941
LTM Revenues	\$396
LTM Net Income <sup>1</sup>	\$176
Book Value <sup>1</sup>	\$423
P/E Ratio	16.7x
Price/Book	6.9x

Source: Bloomberg, SEC Filings

<sup>1</sup> Adjusted for minority interests to related entities

### Relative Valuation

#### U.S. Publicly Traded Money Managers - Pricing Multiples

As of Thursday, April 13, 2006

(US\$ in Millions, Except Where Noted and Per Share Data)

Mutual Fund Managers	Market Cap.	Going Concern Value <sup>(1)</sup>	Price to Earnings			Price to Book	Going Concern Value to			
			LTM	CFY	NFY		Assets Managed	Run-Rate Revenues	Run-Rate EBITDA	Run-Rate EBIT
<sup>(2)</sup> Calamos Asset Management Inc	\$4,284	\$4,268	33.8x	27.0x	23.3x	10.3x	9.0%	9.4x	16.6x	19.4x
Eaton Vance Corp	3,899	3,733	37.8x	21.6x	18.5x	7.9x	3.2%	4.5x	11.8x	14.6x
Federated Investors Inc	4,106	4,021	19.4x	18.3x	16.3x	7.6x	1.9%	4.2x	9.5x	11.6x
Franklin Resources Inc	25,086	22,905	21.8x	19.2x	17.0x	4.0x	4.7%	4.8x	11.7x	14.2x
GAMCO Investors Inc	1,212	1,280	19.4x	18.5x	17.9x	2.9x	4.8%	4.9x	11.6x	11.6x
Hennessy Advisors, Inc	109	114	21.8x	n/a	n/a	7.3x	6.2%	7.8x	15.5x	16.9x
Janus Capital Group Inc	4,900	4,625	52.2x	29.7x	22.0x	1.9x	3.1%	4.7x	17.7x	21.5x
Nuveen Investments Inc	3,930	4,520	23.6x	20.2x	17.8x	25.1x	3.3%	7.2x	13.7x	14.4x
T Rowe Price Group Inc	11,137	10,334	25.7x	22.3x	19.4x	5.5x	3.8%	6.4x	14.1x	15.0x
US Global Investors Inc	134	130	43.0x	n/a	n/a	11.1x	4.2%	4.2x	18.6x	18.9x
Waddell & Reed Financial Inc	1,890	1,928	22.4x	17.6x	15.7x	7.6x	4.6%	3.0x	13.4x	14.7x
<b>Summary</b>										
Median			23.6x	20.2x	17.9x	7.6x	4.2%	4.8x	13.7x	14.7x
Mean			29.2x	21.6x	18.6x	8.3x	4.4%	5.5x	14.0x	15.7x
Market Cap-Weighted Mean			26.8x	21.2x	18.3x	6.5x	4.3%	5.5x	13.0x	15.1x