

**MERCER CAPITAL**

# **Investment Management Team Overview**

Valuation and related services for asset managers, wealth managers, and independent trust companies

**Memphis | Nashville | Dallas | Houston | Winter Park**

# Mercer Capital Investment Management Team Overview

## Typical Clients



Client base includes hundreds of RIAs and related investment firms both in the US and internationally



Client size by AUM ranges from ~\$50M to \$100B+; Typical client in \$500 million to \$10 billion range



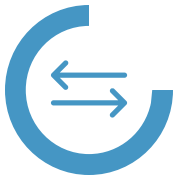
Clients include asset managers, wealth managers, independent trust companies, broker dealers, PE and alternative managers, OCIOs, etc.

## Services Offered

Mercer Capital's RIA services typically fall into one of three categories:



Valuation and Related Services



Transaction Advisory Services



Litigation Related Services

## Team Overview



- Average 15+ years relevant industry experience
- Regularly provide advisory services to RIAs, BDs, independent trust companies, etc.
- Frequent writers and speakers on industry trends
- Significant experience working and advising on transactions in the industry
- Experienced expert witnesses in industry litigation matters

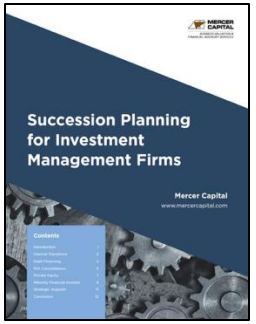
## Recent Publications



Investment Management Newsletter  
2024 Q2



Buy-Sell Agreements for Investment Management Firms



Succession Planning for Investment Management Firms

## Meet Our Team

### Investment Management Group



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**Koby Allen**  
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# Services Overview

 <b>Valuation and Related Services</b>	 <b>Transaction Advisory Services</b>	 <b>Litigation Related Services</b>
<ul style="list-style-type: none"> <li>▪ Company valuation for internal transactions, options issuance</li> <li>▪ Valuations pursuant to buy-sell / operating agreements</li> <li>▪ Valuations related to gift and estate tax planning</li> <li>▪ ESOP valuations</li> <li>▪ Financial reporting valuations (e.g., purchase price allocations)</li> <li>▪ Compensation consulting (benchmarking; review and design of compensation programs)</li> </ul>	<ul style="list-style-type: none"> <li>▪ Buy-side and sell-side M&amp;A representation services</li> <li>▪ Consulting related to internal transactions</li> <li>▪ Fairness opinions</li> </ul>	<ul style="list-style-type: none"> <li>▪ Shareholder disputes and corporate restructuring</li> <li>▪ Valuation and contract related disputes</li> <li>▪ Business damages and lost profits</li> <li>▪ Damages related to non-compete, non-solicitation provisions</li> <li>▪ Family law and divorce</li> <li>▪ Tax-related controversies</li> </ul>



## Representative Engagements Valuation Services

Client	Location	Mercer Capital's Services
Asset Manager	West Coast	Provided valuation and related advisory services in connection with a minority interest sale to a foreign bank
Trust Company	Pacific Islands	Valued the business in connection with the founder's controlling interest sale to a bank
Asset Manager	Southwest	Provided valuation of several RIA entities for estate tax compliance
Hedge Fund	Northeast	Provided valuation for a shareholder buy-out
Wealth Management Firm and Broker-Dealer	Midwest	Provided valuation for a shareholder buy-out
Hybrid Asset/Wealth Manager	West Coast	Work regularly for the board, providing valuation services to facilitate ownership transition and leadership succession
Asset Manager	Midwest	Provide valuations for the company annually pursuant to buy-sell provisions and for estate planning for principles
Independent Trust Company and Wealth Management Firm	Northeast	Provide annual valuations for employee stock ownership plan
Publicly Traded Bank	Northeast	Performed purchase price allocations in relation to purchases of multiple wealth-management focused RIAs
Privately Held Bank	Northeast	Performed purchase price allocation in relation to purchase of wealth management-focused RIA and independent trust company





## Representative Engagements Transaction Advisory

Client	Location	Mercer Capital's Services
<b>Wealth Management Firm and Broker-Dealer</b>	Southeast	Facilitated due diligence with potential acquirers and negotiated run-rate financials to maximize deal proceeds
<b>Trust Company</b>	West	Conducted due diligence and formulated offer to purchase trust company which would expand geographic presence
<b>Alternative Asset Manager</b>	Mid-Atlantic	Provided valuation and related services for a prospective IPO
<b>Wealth Management Firm</b>	Northeast	Provided valuation and advisory services in connection with sale to a bank
<b>Fixed Income Asset Manager</b>	Midwest/ Southeast	Facilitated sale of minority interest to a permanent financial partner to finance buy-out of founder
<b>Asset Manager/OCIO</b>	Southeast	Provided transaction advisory services related to buy-out of a founding shareholder
<b>Equity and Fixed Income Manager</b>	Midwest	Provided valuation to facilitate sale of equity interest from founding shareholders to next generation of management
<b>Investment Consulting Firm</b>	Southeast	Provided a fairness opinion for a management buy-out
<b>Equity Asset Manager</b>	West Coast	Provided tax advisory services in connection with a minority sale to a bank
<b>Turnkey Asset Management Platform (TAMP)</b>	Midwest	Provided buy-side advisory services to purchase business from founder



## Representative Engagements Litigation Services

Client	Location	Mercer Capital's Services
Wealth Management Firm	Northeast	Provided litigation support and expert witness testimony related to damages resulting from breach of non-solicitation agreement and confidentiality provisions of employment agreement
Wealth Management Firm	Northeast	Provided valuation and related expert witness testimony for a shareholder buy-out
Fixed Income Asset Manager	Pacific Northwest	Provided valuation and related expert witness testimony for a shareholder buy-out
Wealth Management Firm	Northeast	Provided valuation and related expert witness testimony related to litigation brought by a former shareholder
Regional Broker Dealer	Southeast	Provided litigation support and expert witness testimony related to litigation stemming from acquisition of RIA by regional broker dealer
Hedge Fund	Northeast	Mutually retained expert to value interest in a shareholder dispute
Equity Asset Manager	Southeast	Provided valuation and helped negotiate settlement for a partner's interest pursuant to marital dissolution
Alternative Asset Manager	Southeast	Provided valuation and related expert witness testimony for a partner's interest pursuant to marital dissolution
Fixed Income Asset Manager	West Coast	Provided valuation and related expert witness testimony for owner's interest pursuant to marital dissolution
Private Equity Fund	Southeast	Provided valuations and related expert witness testimony for owner's GP and LP interests pursuant to marital dissolution

# Valuation Approaches

Different valuation approaches offer alternative perspectives on the value of the business



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## Asset Approach

*What is the current value of the company's assets relative to its liabilities?*

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Generally not applicable because investment management firms are not internally capital intensive businesses



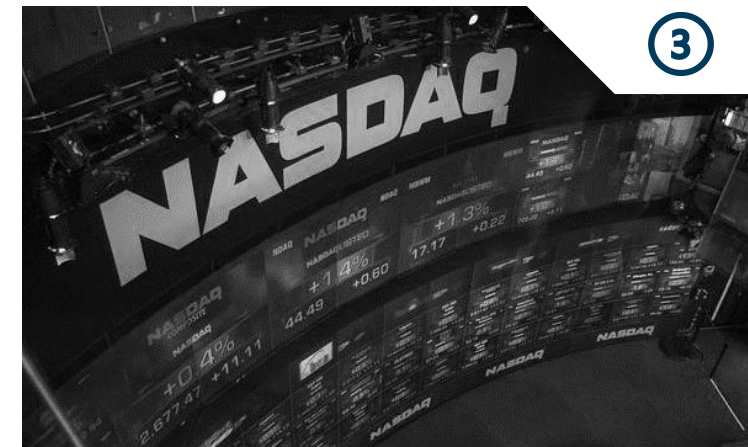
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## Income Approach

*What is the present value of the future benefits owners expect to realize from operating the business?*

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Discounted cash flow analysis to reflect outlook for earnings, market return expectations, and industry trends



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## Market Approach

*What can be inferred from observable behavior of real world investors about the value of the business in today's market?*

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Pricing metrics from public companies and transactions relative to company performance characteristics



# Income Approach – DCF Considerations



## Project likely revenue mix

- Projected asset flows and market appreciation
- Fee schedule and trends in light of services / strategy and competitive pressures
- Fees for ancillary services (financial planning, insurance fees, etc.)
- Performance fees and carried interest if applicable

## Project expense base

- Non-labor cost trends
- Staffing for business plan
- Evaluated in light of industry norms and trends
- Potential for operating leverage

## Cost of equity

- CAPM (considered in light of WACC of comparable public companies)
- Risk leveraged to the market (like revenue)
- Non-systematic (company specific) risk considered (client demographics, sector focus, management dependence, etc.)
- Often higher for higher risk revenue streams (performance fees and other episodic revenue)

## Cost of debt

- Usually irrelevant: little use of debt in investment management firms

## Capital structure

- Typically 100% equity

## Indicated value

- Typically expressed on an enterprise value basis
- Before consideration of capital structure implications
- Evaluated against available market pricing metrics for reasonableness

# Market Approach Considerations



## Baseline revenue

- Ongoing revenue a product of current AUM and effective realized fee level
- Risk adjusted consideration of other key revenue sources (insurance, planning, accounting, performance fees, etc.)

## Baseline expenses

- Run-rate labor costs evaluated in light of market data as available
- Differentiation between fixed and variable compensation as appropriate
- Most non-labor costs slated at run-rate as of valuation date
- Nonrecurring items of income and expense adjusted out as appropriate

## Publicly traded firms

- May provide perspective, but meaningful benchmarks may be scarce or nonexistent
- Evaluated for comparability
- EBITDA often most meaningful, but look at EV to revenue, EV to AUM multiples for context
- Multiples potentially adjusted for size and non-systemic risk factors

## Transactions data

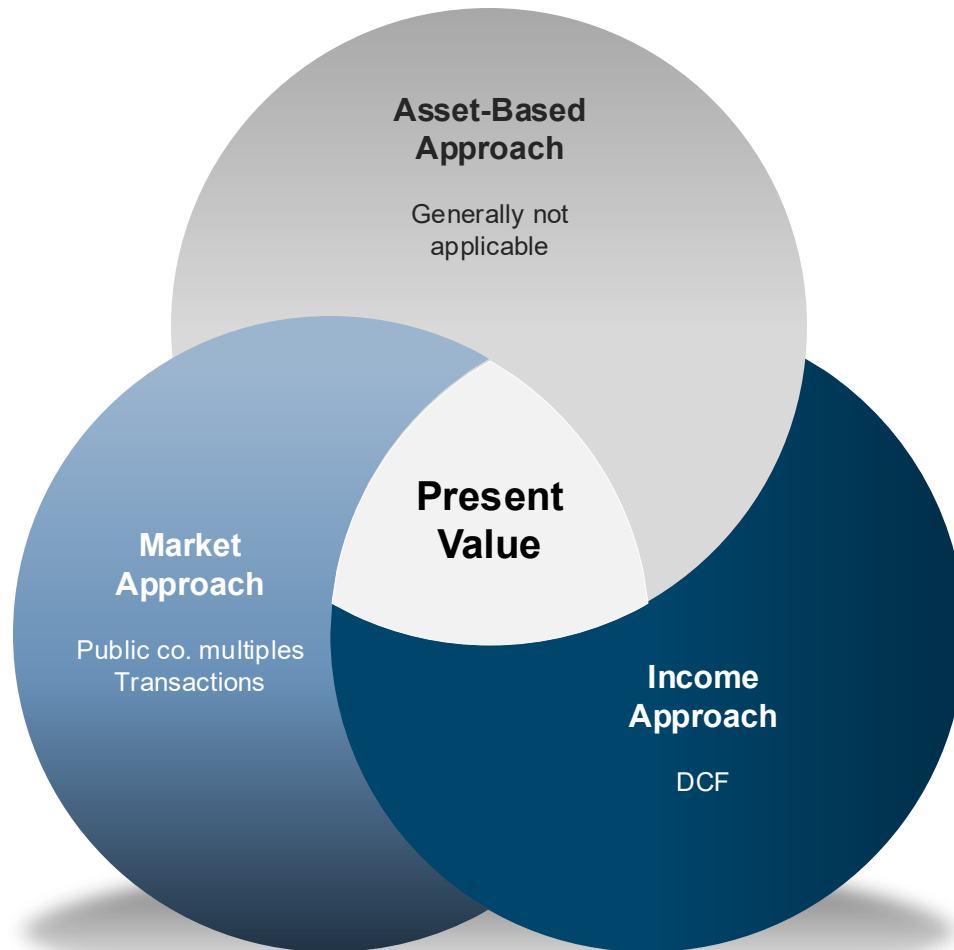
- Publicly available data provides perspective, but data is thin and idiosyncratic
- Mercer Capital's proprietary transactions database provides additional perspective
- Deals occur for specific reasons which may be not be relevant
- Trends in deal pricing offer bands of reasonableness

## Indicated value

- Expressed on an enterprise value basis
- Before consideration of capital structure implications
- Evaluated against discounted cash flow analysis for reasonableness (consideration of business plan and cost of capital relative to market)

# Reconciling Indicated Values

It would be unusual for the indicated values from the various income and market methods to align perfectly.



- Value indications from the market approach can be reasonably volatile, since the market for investment managers is leveraged to the performance of the market in general. Because valuation for fair market value purposes is more of a descriptive exercise than a prescriptive one, this is a perspective we consider.
- In our experience, though, investors in private companies think longer term. The more enduring indications of value from income approaches such as DCF models are often more representative of the actual behavior of real-world buyers and sellers of interests in investment management firms.
- Nonetheless, using multiple valuation approaches serves to generate tests of reasonableness against which the different indications can be evaluated.
- While we usually don't consider the asset approach to be relevant to the valuation of RIAs, the balance sheet can be remarkable in situations where there are excess or non-operating assets or contingent liabilities that need to be considered apart from the value of the firm's ongoing operations.

# Levels of Value

The levels of value can be described as follows:

## Controlling Interest Basis

Refers to the value of the enterprise as a whole. The controlling interest level of value is generally recognized to include two components, the financial control level and the strategic control level.

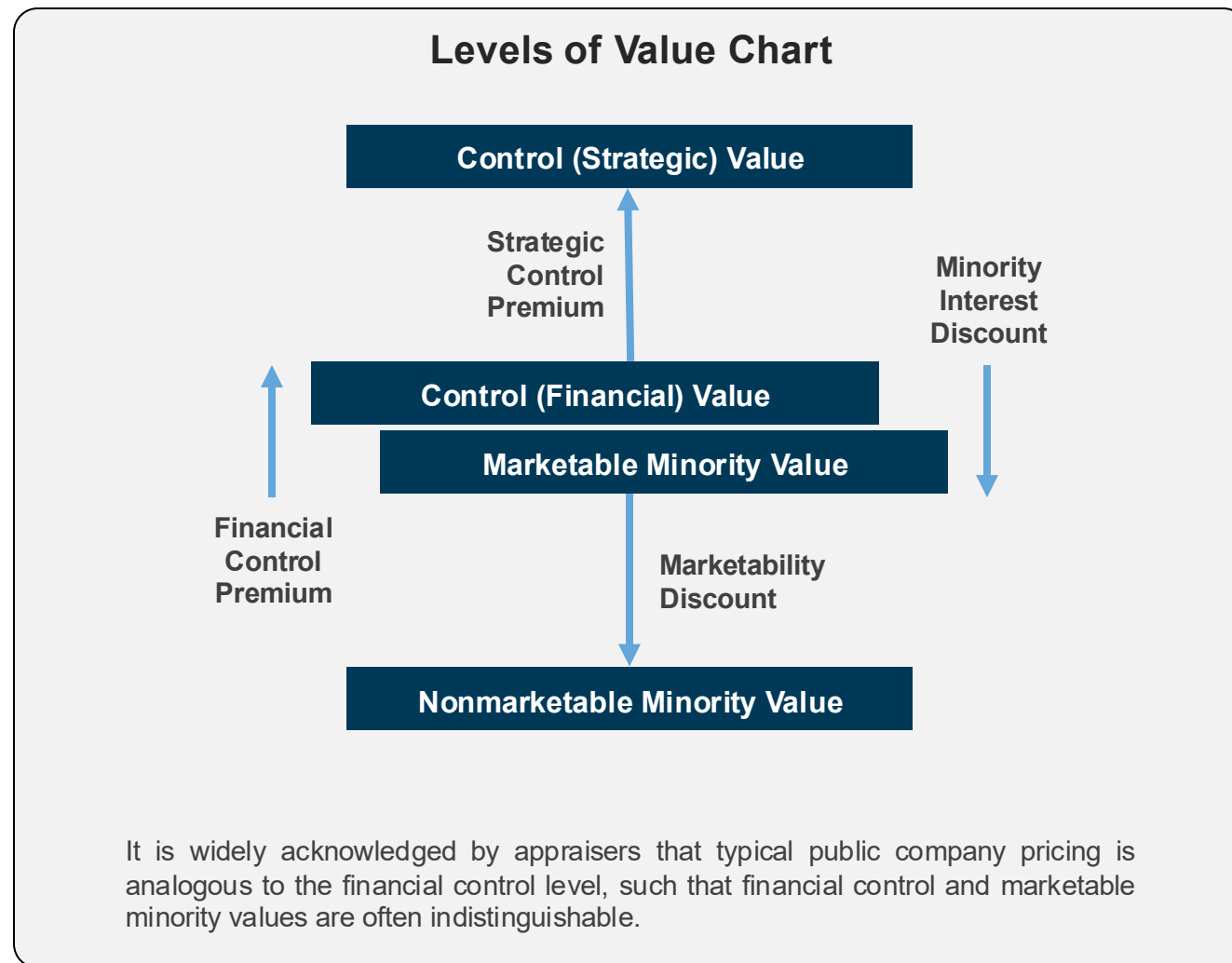
## Marketable Minority Interest Basis

Refers to the value of a minority interest, lacking control, but enjoying the benefit of liquidity as if it were freely tradable in an active market. The marketable minority level of value is also on an enterprise level of value, meaning that it is developed based on 100% of the expected cash flows of the enterprise.

## Nonmarketable Minority Interest Basis

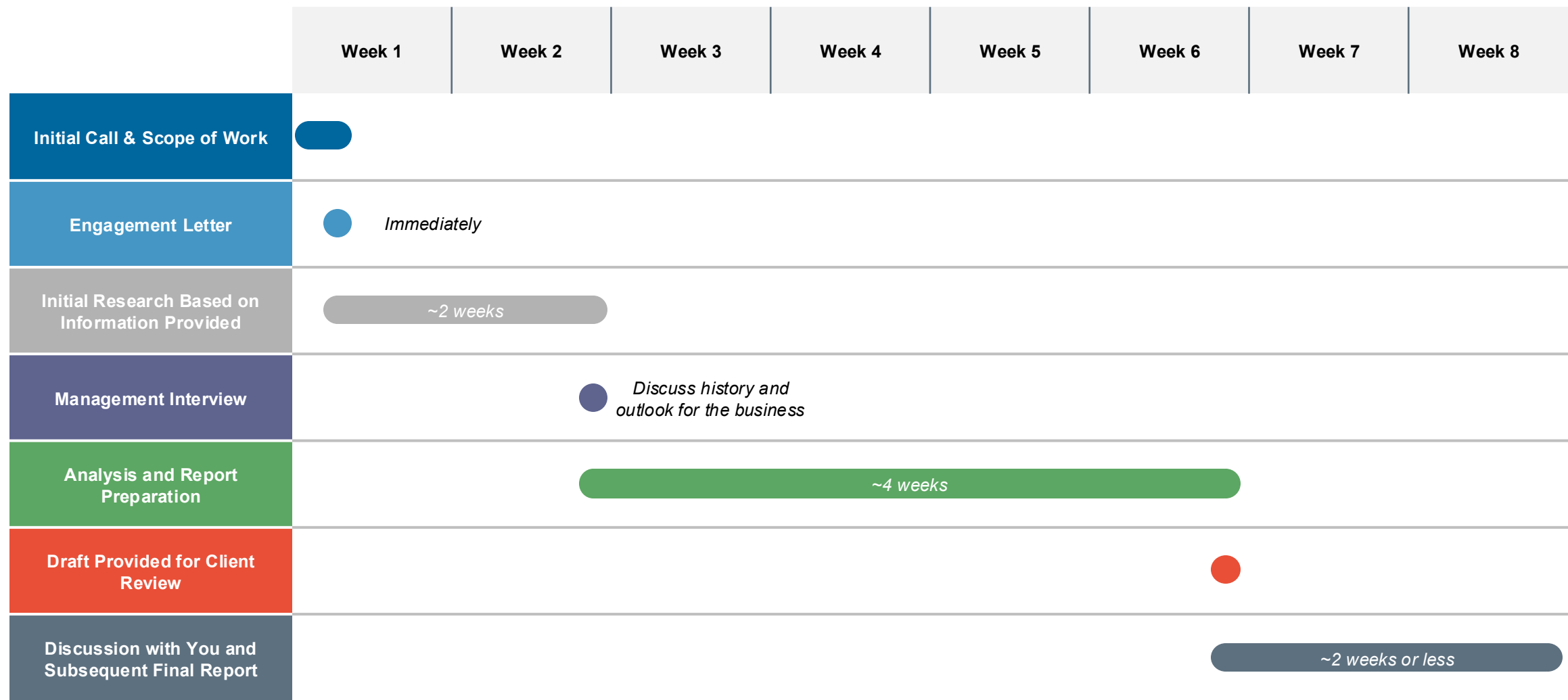
Refers to the value of a minority interest, lacking both control and market liquidity.

Valuation theory suggests that there are various “levels” of value applicable to a business or business ownership interest



# The Typical Valuation Process Takes Six to Eight Weeks

(depending on your needs)







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