

The Value of a Trust & Wealth Management Franchise

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SECTION 1

Don't Forget About Your Trust Department

Asset Size and Profit Margins

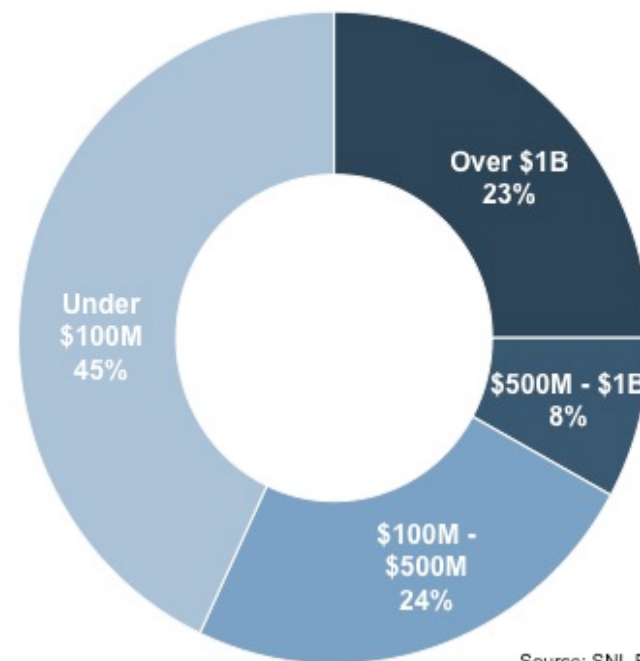
Roughly 1,500 Banks have trust departments

- But only ~30% are large enough to be consistently profitable

Roughly 11,000 federally Registered Investment Advisers (RIAs)

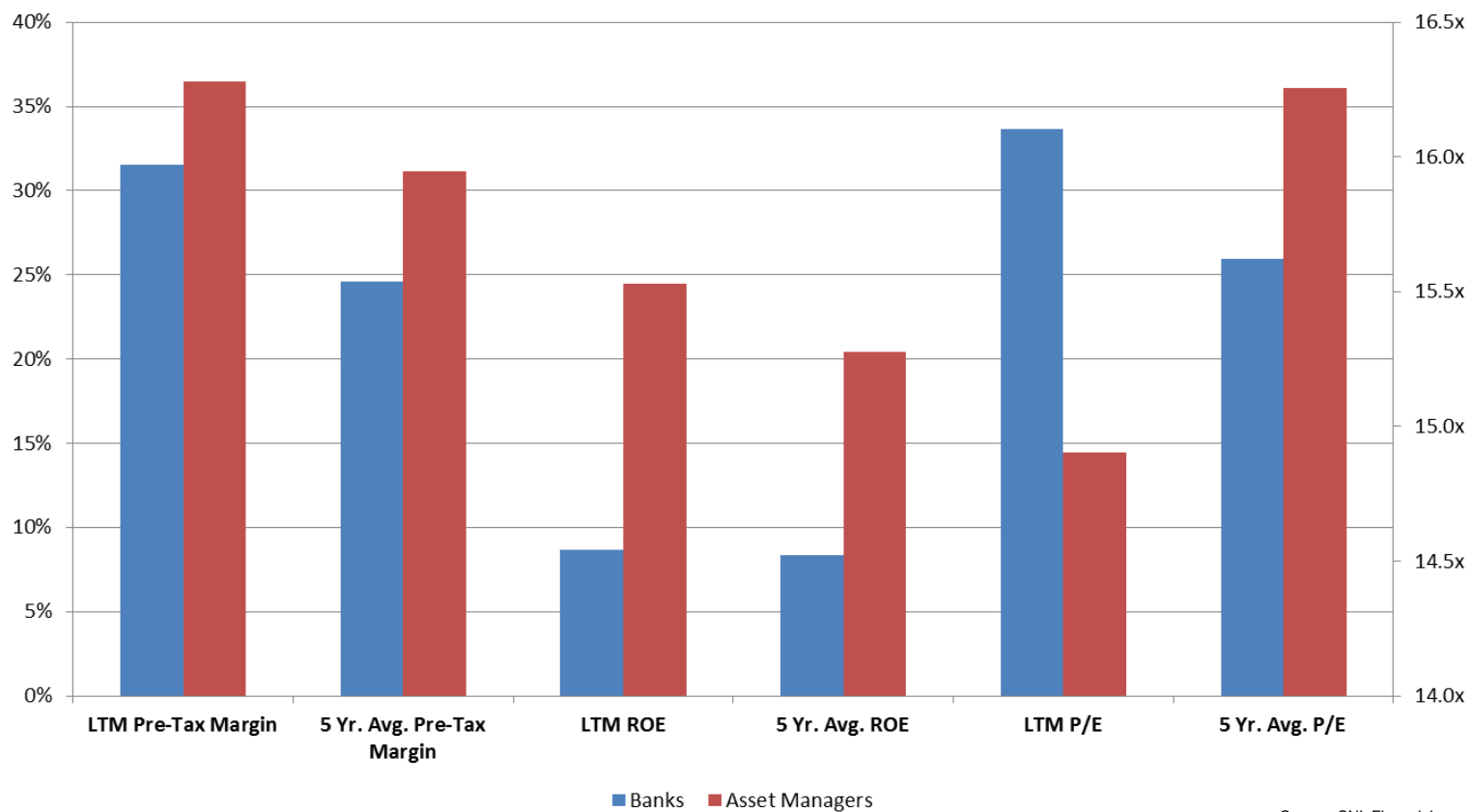
- But only ~40% are large enough to be consistently profitable

Bank Trust Departments
by Asset Size



Source: SNL Financial

Performance Comparison: Trust/RIAs vs. Banks



Source: SNL Financial

Banks With and Without Trust Operations...

Banks with higher fiduciary income tend to trade at higher multiples and generate higher returns than peers with less meaningful trust operations

	Price / LTM Core Earnings	Price / Est. 2015 Earnings	Price / Est. 2016 Earnings	Price / Book Value	Price / Tangible Book Value	Dividend Yield
National, \$1B - \$5B in Assets	13.82	14.27	13.46	136%	162%	2.7%
National, Fid Inc/Fee Inc. >30% & Fee Inc/Rev > 25%	14.60	15.15	13.73	165%	201%	3.1%

	Core Return on Tangible Equity, LTM	Return on Assets, LTM	Net Interest Margin	Fee Income / Assets	Non-Interest Expenses / Assets	Efficiency Ratio
National, \$1B - \$5B in Assets	12.10%	0.96%	3.73%	0.77%	2.64%	61%
National, Fid Inc/Fee Inc. >30% & Fee Inc/Rev > 25%	14.69%	1.16%	3.43%	1.61%	2.95%	60%

Source: SNL Financial

Build or Buy?

Organic Growth



Pros

- No capital outlay required
- Fewer integration issues / culture clashes

Cons

- Slow build
- Lower AUM/AUA typically means lower margins
- Most lack in-house expertise to create a successful Trust/RIA franchise

Acquisition



Pros

- Benefits of scale / operating leverage
- Can be immediately accretive
- Improve bank's valuation through higher ROE
- Cross-selling opportunities
- Revenue diversification

Cons

- Costly
- Subsequent downturns can lead to low or negative ROIs
- Retaining / motivating key staff members
- Potentially dilutive

SECTION 2

Contrasting Banks and Asset Managers / Trust Companies

In Both Cases, Assets Drive Earnings ...

Bank Economics



Earning Assets
 x Net Interest Margin
 = Revenue
 - Operating Expenses
 = Pre-Tax, Pre-Provision Income


TrustCo / RIA Economics



AUM / AUA / AUC
 x Realized Fee Schedule
 = Revenue
 - Operating Expenses
 = Operating Income (EBIT)

... But Returns to Capital and Labor Vary Widely

Bank Economics



Earning Assets	\$1,000,000,000
x Net Interest Margin	<u>3.50%</u>
= Revenue	\$35,000,000
- Operating Expenses*	<u>23,000,000</u>
= Pre-Tax, Pre-Provision Income	\$12,000,000


Implied Margin 34.3%

Required Equity Capital \$100,000,000

* ~250 Employees, 15 branches

Implied Profit Per Employee \$48,000

TrustCo / RIA Economics



AUM/AUA/AUC	\$1,000,000,000
x Realized Fee Schedule	<u>0.60%</u>
= Revenue	\$6,000,000
- Operating Expenses**	<u>4,000,000</u>
= Operating Income (EBIT)	\$2,000,000

Implied Margin 33.3%

Required Equity Capital \$1,000,000

** < 20 employees, one office

Implied Profit Per Employee \$100,000

Contrasting Banks & TrustCos/RIAs

	Banks	TrustCos/RIAs
Revenue Model	Net Interest Margin	Fee Schedule (% AUM/AUA)
Income Exposure	Interest Rates	Market Conditions
Scheduled Asset Attrition	Loan Amortization	Pension Obligations / Trust Payouts
Unscheduled Asset Attrition	Refinancing	Account Termination / Rebalancing
Relevant Valuation Metrics	Price to Book or P/E	Enterprise Value to AUM/AUA or EBITDA
Deal Structure	No Earn-Out	20% - 50% Earn-Out
Due Diligence	Credit Risk / Compliance	Staff and Client Retention

SECTION 3

Valuing Trust and Wealth Management Franchises

Valuation Approaches

Asset-Based Approach

Not applicable because TrustCos / RIAs et al. are not (internally) capital intensive businesses

Income Approach

Discounted cash flow analysis to evaluate business plan and industry trends

Market Approach

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

Income Approach: DCF

Projected Cash Flow

Project likely revenue mix

- AUM trends (capture and loss rate, marketing effectiveness)
- Fee schedule and trends in light of competitive pressures
- Performance fees (if applicable)
- Consider ceiling on revenue from product mix, capacity

Project expense base

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

WACC

Cost of equity

- CAPM (considered in light of WACC of comparable public companies)
- Risk potentially leveraged to the market (like revenue), but Fed is pressuring WACCs down
- Non-systemic (company specific) risk considered (client demographics, sector focus, management dependence, etc.)
- Often higher for higher risk revenue streams (performance fees)

Cost of debt

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

Capital structure

- Typically assume 100% equity

Indicated Value

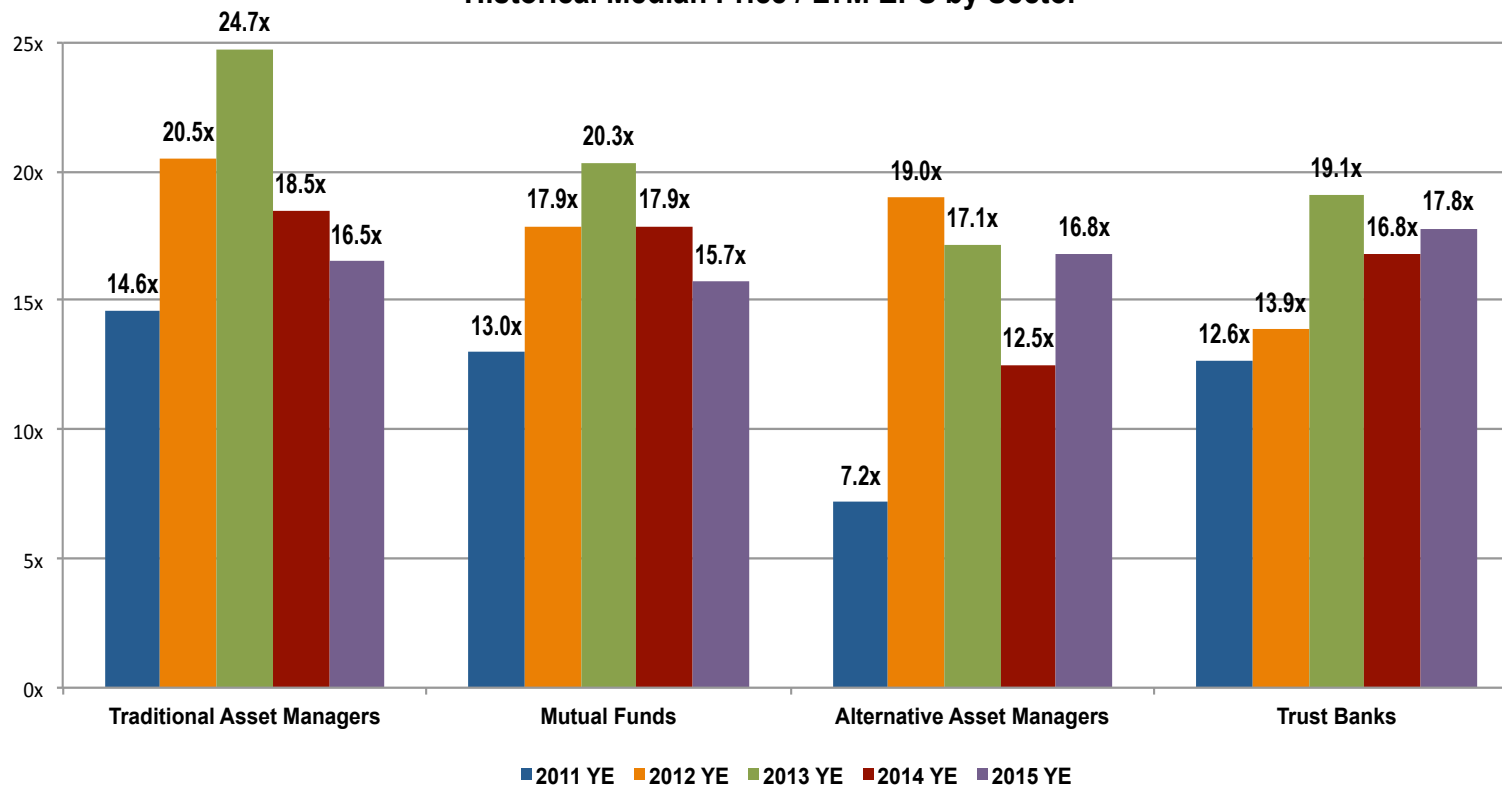
Indicated value

- Expressed on a total capital basis
- Before consideration of capital structure implications
- Evaluated against available market pricing metrics for reasonableness

Market Approach: Public Company Pricing

Multiples peaked in 2013 across the broader industry

Historical Median Price / LTM EPS by Sector



Focus on Traditional Managers (<\$40B in AUM/AUA)

Sometimes market activity is instructive with regard to expectations for income approach models.

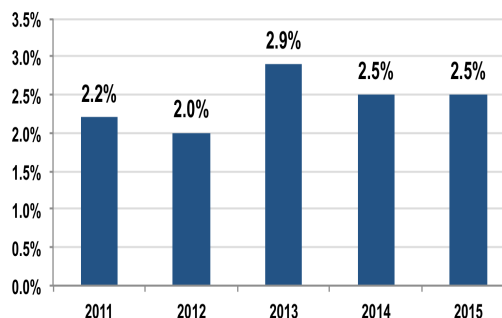
Dialing in on traditional long-only asset managers shows this same trend of declining multiples in 2014 (and a more modest reduction in 2015) across a variety of pricing metrics.

If we process this through the lens of an income approach such as the discounted cash flow model, one of two things must be happening: either the cost of capital is increasing, or the growth outlook for asset management is stalling.

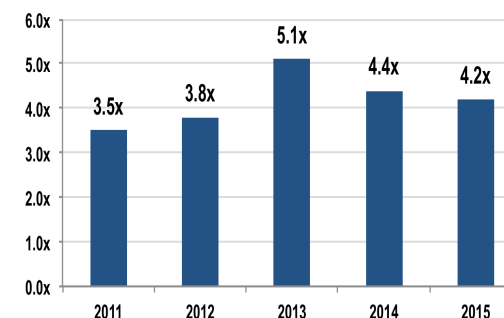
Despite the Fed's recent actions, there is no reason to assume the cost of capital is now higher in asset management than a year ago, so the trend in multiples suggests that the growth outlook for earnings in RIAs and trust companies is somewhat less robust.

** Dataset considers activity at Westwood, Pzena, Hennessy, Diamond Hill, GAMCO*

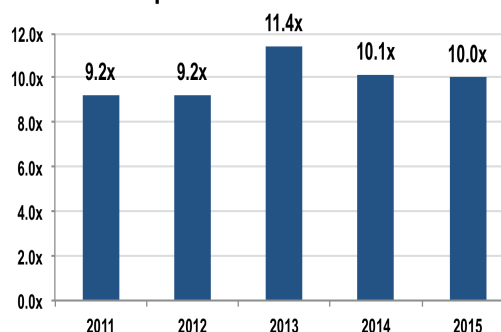
Enterprise Value / AUM



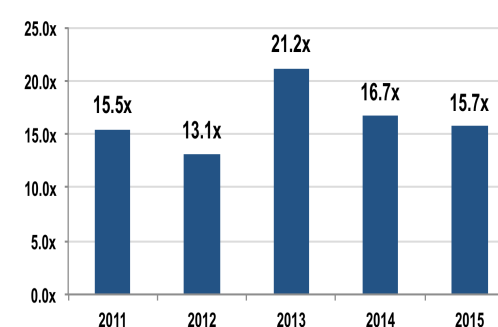
Enterprise Value / LTM Revenue



Enterprise Value / LTM EBITDA



Market Cap / LTM Earnings



Guideline Asset Manager / Trust Company Transactions (Target AUM/AUA between \$1 billion and \$15 billion)

Buyer	Seller	AUM			Initial Pmt (\$)	Earnout (max)	Total Deal Val (\$M)	Deal Value (Excl. Earn-out) ÷			Revenue (\$M)	EBITDA (\$M)	EBITDA Margin
		(\$M)	Announced	Closed				EBITDA	AUM (%)	Rev			
TriState Capital Holdings Inc.	The Killen Group, Inc.*	2,500	12/16/15	EQ2-2016	15.0	20.0	35.0	5.00x	0.60%	1.05x	14.3	3.0	21.0%
Hellman & Friedman	Edelman Financial**	15,000	10/12/15	EQ2-2016	800.0	NA	800.0	10.15x	5.33%	3.56x	225.0	78.8	35.0%
Simmons First National Corp.	Ozark Trust & Investment Co.	1,029	4/29/2015	10/30/2015	20.7	NA	20.7	10.35x	2.01%	3.51x	5.9	2.0	33.9%
Boston Private Financial Hldgs	Banyan Partners LLC	4,581	7/16/14	10/2/14	65.0	15.0	80.0	9.29x	1.42%	2.60x	25.0	7.0	28.0%
Legg Mason Inc.	Martin Currie (Holdings) Ltd.	9,800	7/24/14	10/1/14	NA	NA	427.8	NA	4.37%	NA	NA	NA	NA
Henderson Group	Geneva Capital Mgmt Ltd.	6,300	6/30/14	10/1/14	130.0	70.0	200.0	NA	2.06%	NA	NA	NA	NA
Affiliated Managers Group Inc.	SouthernSun Asset Mgmt LLC	5,317	12/19/13	3/31/14	NA	NA	109.9	NA	2.07%	NA	NA	NA	NA
TriState Capital Holdings Inc.	Chartwell Investment Partners	7,500	1/7/14	3/5/14	45.0	15.0	60.0	7.50x	0.60%	1.74x	25.9	6.0	23.2%
KKR & Co. L.P.	Avoca Capital Holdings	8,000	10/18/13	2/19/14	NA	NA	102.3	NA	1.28%	NA	NA	NA	NA
AXA	W.P. Stewart & Co. Ltd.	2,000	8/15/13	12/12/13	NA	NA	78.4	NA	3.92%	NA	NA	NA	NA
Fiera Capital Corp.	Bel Air	5,975	9/3/13	10/31/13	115.0	10.0	125.0	9.62x	1.92%	NA	NA	12.0	NA
Fiera Capital Corp.	Wilkinson O'Grady & Co.	2,086	9/3/13	10/31/13	29.7	1.6	31.3	12.04x	1.42%	NA	NA	2.5	NA
Standard Life Plc	Newton's private client bus.	3,000	2/27/13	9/27/13	NA	NA	126.4	NA	4.21%	NA	NA	NA	NA
Legg Mason Inc.	Fauchier Partners Mgmt Ltd.	5,400	12/13/12	3/13/13	80.0	56.0	136.0	NA	1.48%	NA	NA	NA	NA
First Republic Bank	Luminous Capital Holdings LLC	5,891	11/2/12	12/28/12	NA	NA	125.0	NA	2.12%	NA	NA	NA	NA
Tamco Holdings, LLC	Titanium Asset Mgmt Corp.	8,713	12/18/12	12/18/12	NA	NA	36.0	NA	0.41%	1.62x	22.3	NA	NA
Charles Schwab Corp.	ThomasPartners Inc.	2,200	10/15/12	12/14/12	NA	NA	85.0	NA	3.86%	NA	NA	NA	NA
Hennessy Advisors Inc.	FBR Fund Advisers Inc.	2,200	6/6/12	10/26/12	19.7	9.1	28.8	NA	0.90%	NA	NA	NA	NA
City National Corp.	Acebes D'Alessandro & Assoc.	4,890	4/25/12	7/2/12	NA	NA	100.0	NA	2.04%	NA	NA	NA	NA
MEDIAN		5,317			55.0	15.0	100.0	9.62x	2.01%	2.17x	23.7	6.0	28.0%
AVERAGE		5,389			132.0	24.6	142.5	9.14x	2.21%	2.34x	53.1	15.9	28.2%

* Reported EBITDA net of \$2 million trading error

** Revenue and EBITDA estimates based on figures from Edelman's last public filing in the second quarter of 2012.

SECTION 3

Case Study on Recent Transactions

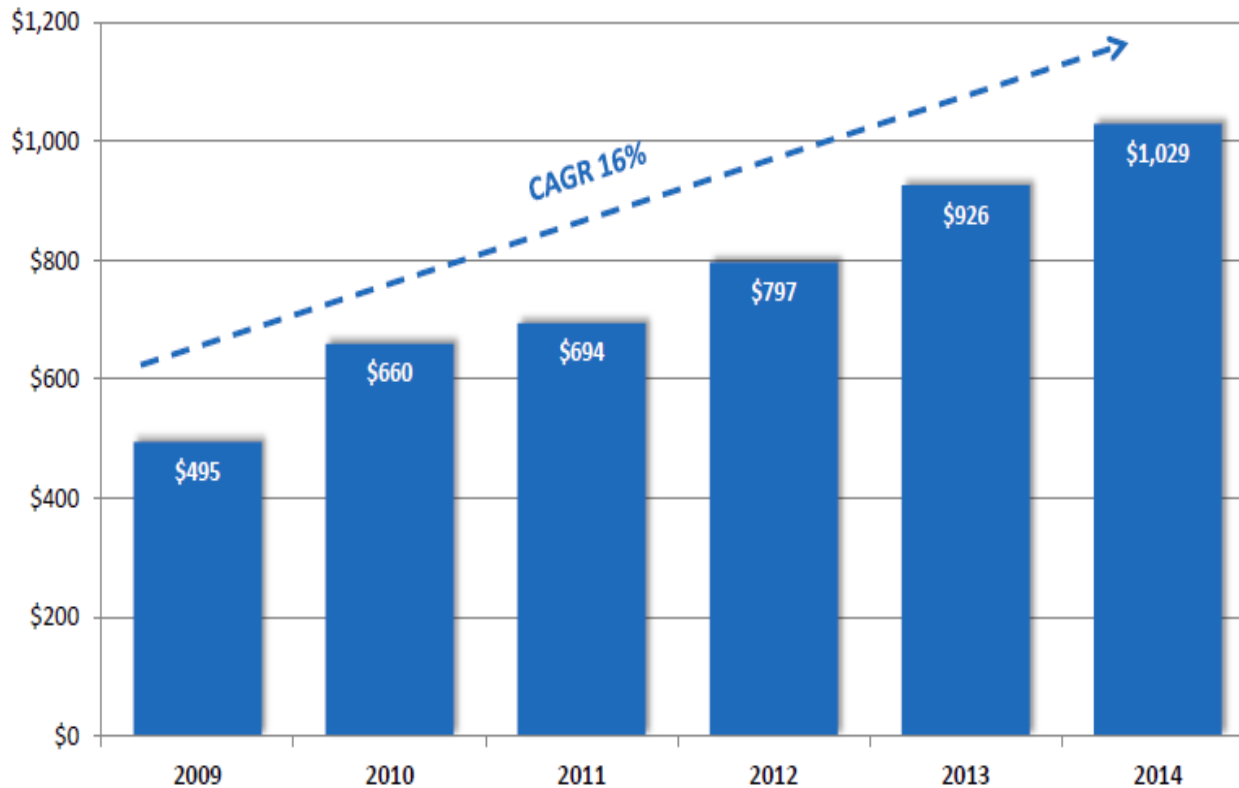
Recent Transaction: Simmons First National Corporation (SFNC) Acquisition of Ozark Trust and Investment Corporation

Deal Structure & Analysis

Pricing metrics generally in line with market measures for a TrustCo of this size though the lack of an earn-out or contingency payment is somewhat unusual

	<u>SFNC / TCO</u>
Closing Date	10/30/15
AUM	\$ 1,029
Realized Average Fee	0.60%
Revenue	\$ 5.9
Operating Expense (Excl. Depr.)	3.9
EBITDA	<u>\$ 2.0</u>
<i>EBITDA Margin</i>	34.5%
Total Purchase Price	\$ 20.7
Structure	100% Stock Acquisition
Consideration	75% stock / 25% Cash
Earnings Accretion	\$.01 to \$.02 per Share
Implied % of AUM (Excl. Earn-out)	2.0%
Multiple of Revenue (Excl. Earn-out)	3.5x
Multiple of EBITDA (Excl. Earn-out)	10.2x

Ozark Trust AUM Growth ...



Source: SFNC Presentation to Investors

... Led to Margin Expansion

	2010	2011	2012	2013	2014	CAGR 2010-2014
Revenue	\$3,585	\$4,104	\$4,676	\$5,278	\$5,884	13.2%
Operating Expenses	2,815	3,137	3,456	3,644	4,039	9.4%
Operating Income	770	967	1,220	1,634	1,845	24.4%
Other Income	21	64	11	10	16	
Income Before Income Taxes	791	1,031	1,231	1,644	1,861	23.8%
Income Taxes	297	385	467	620	680	
Net Income	\$494	\$646	\$764	\$1,024	\$1,181	24.4%
<i>Operating Margin %</i>	21.5%	23.6%	26.1%	31.0%	31.4%	
<i>Net Income Margin %</i>	13.8%	15.7%	16.3%	19.4%	20.1%	

Source: SFNC Presentation to Investors

But Remember - Sometimes Failures of Marketing Are Masked by the Market ...

Hypothetical

	2010	2011	2012	2013	2014	Cumulative
Starting AUM / AUA	600,000,000	685,000,000	715,000,000	875,000,000	985,000,000	
New Business	5,000,000	0	10,000,000	15,000,000	5,000,000	35,000,000
Client Contributions (Withdrawals)	10,000,000	20,000,000	10,000,000	(5,000,000)	(15,000,000)	20,000,000
Terminations	(30,000,000)	(60,000,000)	(40,000,000)	(80,000,000)	(45,000,000)	(255,000,000)
Net Business Gained / Lost	(15,000,000)	(40,000,000)	(20,000,000)	(70,000,000)	(55,000,000)	(200,000,000)
Change in Market Value	100,000,000	70,000,000	180,000,000	180,000,000	204,000,000	734,000,000
Ending AUM/AUA (Starting AUM + Net Flows + Δ in MV)	685,000,000	715,000,000	875,000,000	985,000,000	1,134,000,000	

Hellman & Friedman's \$800 Million Purchase of Edelman Financial

5% of AUM and 3x the going private price seems rich but closer inspection reveals normal pricing (8-10x EBITDA) for a wealth manager of this size

		Likely Range of EBITDA Multiples				
		7.0	8.0	9.0	10.0	11.0
Likely EBITDA Margin	25.00%	\$525,000,000	\$600,000,000	\$675,000,000	\$750,000,000	\$825,000,000
	27.50%	\$577,500,000	\$660,000,000	\$742,500,000	\$825,000,000	\$907,500,000
	30.00%	\$630,000,000	\$720,000,000	\$810,000,000	\$900,000,000	\$990,000,000
	32.50%	\$682,500,000	\$780,000,000	\$877,500,000	\$975,000,000	\$1,072,500,000
	35.00%	\$735,000,000	\$840,000,000	\$945,000,000	\$1,050,000,000	\$1,155,000,000
	37.50%	\$787,500,000	\$900,000,000	\$1,012,500,000	\$1,125,000,000	\$1,237,500,000
	40.00%	\$840,000,000	\$960,000,000	\$1,080,000,000	\$1,200,000,000	\$1,320,000,000

TSC / Killen

The most recent reported transaction in RIA/TrustCo space seems cheap at first glance but appears to be a result of compliance and succession issues

<i>Deal Analysis (in \$ Mil.)</i>	Tri-State / Killen Group	H&F/ Edelman	Simmons/ TCO	Tri-State / Chartwell	BPFH / Banyan	Median
Announcement Date	12/16/2015	10/12/2015	4/19/2015	1/7/2014	7/16/2014	
AUM/AUA	2,500	15,000	\$ 1,100	\$ 7,500	\$ 4,317	\$ 4,317
Realized Average Fee	0.57%	1.5%*	0.60%	0.34%	0.58%	0.58%
Revenue	14.3	225*	\$ 5.9	\$ 25.9	\$ 25.0	\$ 19.7
Operating Expense (Excl.Depr.)	11.3	151.9	3.9	19.9	18.0	18.0
EBITDA	3.0	78.8	\$ 2.0	\$ 6.0	\$ 7.0	\$ 6.0
<i>EBITDA Margin</i>	<i>21.0%</i>	<i>35.0%</i>	<i>34.5%</i>	<i>23.2%</i>	<i>28.0%</i>	<i>28.0%</i>
Initial Consideration	15.0	800.0	\$ 20.7	\$ 45.0	\$ 65.0	\$ 45.0
Earn-out	20.0	-	-	15.0	20.0	15.0
Total Purchase Price	35.0	800.0	\$ 20.7	\$ 60.0	\$ 85.0	\$ 60.0
Implied % of AUM/AUA (Excl. Earn-out)	0.6%	5.3%	1.9%	0.6%	1.5%	1.5%
Multiple of Revenue (Excl. Earn-out)	1.0x	3.6x	3.5x	1.7x	2.6x	2.6x
Multiple of EBITDA (Excl. Earn-out)	5.0x	10.2x	10.2x	7.5x	9.3x	9.3x

*estimated not disclosed

Mercer's Asset Management Group



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He serves as a course developer for the American Society of Appraisers (ASA) BV302 course and actively participates in the Appraisal Issues Task Force. In 2014, Matt was elected to serve on the Business Valuation Committee of the ASA.



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About Mercer Capital

Mercer Capital is a national business valuation and financial advisory firm. Financial institutions are the cornerstone of Mercer Capital's practice.

Founded in 1982, in the midst of and in response to a previous crisis affecting the financial services industry, Mercer Capital has served clients through a variety of market environments. Today, as in 1982, Mercer Capital's largest industry concentration is financial institutions.

Despite industry cycles, Mercer Capital's approach has remained the same – understanding key factors driving the industry, identifying the impact of industry trends on our clients, and delivering a reasoned and supported analysis in light of industry and client specific trends. The Financial Institutions Group of Mercer Capital provides a broad range of specialized advisory services to the financial services industry.

The Financial Institutions Group broadly assists:

- Depository institutions
- Insurance companies
- Investment funds
- Private equity, hedge funds, trust companies, and TrustCos / RIAs
- Specialty finance and real estate investment companies

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- Stock-based compensation (ASC 718)
- Goodwill impairment (ASC 350)
- Illiquid financial instruments (ASC 820)
- Portfolio investments held by business development companies, private equity firms, and other financial intermediaries

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- Equity transactions (share repurchases, issuances, and conversions)
- Corporate transactions (recapitalizations, divestitures, reorganizations, and the like)
- Employee benefit plans (ESOPs, KSOPs, stock option plans, and restricted stock)
- Tax compliance (income, estate, and gift)
- Buy/sell agreement consulting and the valuation of securities with contractual restrictions on transfer
- Valuation of complex securities (convertibles, options, warrants, and the like)
- Valuation of securities with impaired marketability
- Litigation support and dispute resolution

Questions?

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