

**May 3, 2013****Dear clients and colleagues,**

The global recovery has seen the U.S market reach record highs and the financial industry slowly stabilizing. Since the financial crisis we have seen changes in household investing trends. One of these changes has been strong growth in investing through financial advisors, specifically independent advisors. Between 2008 and 2011, Registered Independent Advisors (RIAs) and Dually Registered Advisors saw assets grow 50% and 140% respectively.

Being a successful financial advisor requires a lot of assistance in terms of back office support, research, asset allocation, financial reporting, along with many other processes that can take away from the advisor's focus: the client. The solution is financial technology.

Financial technology is important as the need for efficiency and transparency has become a requirement from all advisors and institutions. This week we profile Investnet, a recent addition to our portfolio, which we believe will benefit from this trend.

**Investnet (ENV US - \$17.33)**[www.investnet.com](http://www.investnet.com)***Business Overview***

Investnet was founded in 1999 by the current CEO, Jud Bergman. It is a technology and investment management outsourcing provider focusing principally on the independent, fee-based financial advisor. The platform holds a large number of different proprietary software developed specifically to meet the requirements of financial advisors, from back-office to front-office. This in turn simplifies the wealth management process helping independent advisors more effectively compete against the wire house advisors.

The business model is to license the proprietary software to financial advisors and earn a percentage on Assets Under Management/Administration (AUM/AUA), creating a predictable and recurring revenue stream. This, along with strong customer retention and favorable industry trends, provides a very attractive business. The fee-generating AUM/AUA represents approximately 78% of revenue, with the remaining revenue coming from licensing. Investnet holds \$98B of AUM/AUA and 1.7M accounts, both of which have seen double-digit compounded annual growth rates (CAGR) in the past seven years.

***Target Market***

Investnet operates in a market that's growing rapidly due to four important trends.

More high-net-worth individuals and retail investors are turning to advisers. It's because as baby boomers are near retirement, they will move from saving and accumulation to principal protection and income generation.

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Trend number two is an increase in the number of independent advisers. The third trend is fee-based assets versus commission-based. Envestnet supports only fee-based fiduciary and not commission-based assets. This segment is growing as advisers who do their business on the basis of fees offer greater alignment and transparency. Finally, advisers are looking to firms like Envestnet to outsource key critical functions such as technology, operations and investment management.

### **Competition**

- Turnkey Asset Management Platforms (TAMPS): Bundled wealth management offerings from companies such as Lockwood, Peregrine, Brinker Capital, SEI, Genworth
- Performance reporting, single point application: Advent, Morningstar, eMoney Advisor, MoneyGuidePro, and NaviPlan
- Rebalancing: Redblack
- Custodial Platforms: Fidelity or Schwab or Pershing

### **Competitive advantages**

- First-mover advantage in integrated financial products and services
- Broad and deep integration of its software solutions creates high barriers to entry
- Economies of scale as the company has capacity to service 3x the current asset base
- Revenue base is highly visible and highly recurring
- No conflict of interest (support practices that charge fees and not those that charge commissions)

### **Growth strategy**

- Grow the number of advisers on the platform
- Deeper client penetration in existing and new adviser accounts
- Substantial organic and strategic M&A opportunities

### **Risks**

- Decline in financial markets could reduce the value of AUM/AUA, therefore reducing revenues
- Fragmented industry with high competition
- Client concentration as top 10 clients account for more than 50% of revenue

### **Market Data**

Market Cap \$585M, Debt nil, Cash 29.9M, p/e (2014) 22.7x, ev/sales (2014) 2.3x, ev/ebitda (2014) 11.3x.

Have a nice weekend.

The Global Alpha Team

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