

## COMPANY NOTE

Target | Estimate Change

USA | Financials | Brokers, Asset Mgrs & Exchanges

November 13, 2014

# Jefferies

## WisdomTree Investments (WETF) Houston, We Have Lift-off

### Key Takeaway

**In the winner-take-all world of ETFs, WETF's product set currently looks amongst the best positioned to take market share at an elevated pace. In the previous few months, organic growth has quickly accelerated from low single digits to an industry leading 30%+ amidst a highly favorable backdrop, one that has the potential to improve further with more catalysts on the horizon. Our new 2015 and 2016 non-GAAP EPS estimates are above consensus. Reiterate Buy.**

**Fundamentals Accelerating**—QTD, AUM is up 7.1% to a record \$38.5B with net inflows of \$2.0B (30%+ organic growth rate) driving the majority of the increase. The surprise QE announcement by the Bank of Japan has reinvigorated investor appetite for the company's flagship product DXJ (Japan Hedged Equity), which has inflowed \$725M+ since the announcement 10 days ago. Meanwhile, over this same period, the company's other flagship product, HEDJ (European Hedged Equity), has seen net inflows of \$445M as talk around QE in Europe escalates.

**Only One Leg of the Trifecta Has Hit, Still Room to Run**—In previous notes we have highlighted 3 independent scenarios (i.e., QE in Japan, QE in Europe, or Rising Rates in US) under which WETF would experience an elevated organic growth rate. Only the QE in Japan part of the story has thus far played out, while the other two are on the horizon, a view expressed by Jefferies' global strategists. As a result, we believe the current organic growth rate could persist for an extended period, has some downside protection, and possibly even accelerate further. See pages 3-10 for a deeper dive.

**More to the Story than DXJ and HEDG**—WETF recently commenced its European operations, launching with 4 UCITS ETFs, and is seeing momentum build within its Boost branded ETFs (also based in Europe). The company also recently completed tax planning, which will lower its tax rate by 700 bps going forward, initiated a quarterly dividend (2.0% annual yield), and authorized a \$100M share repurchase plan. We also expect new products to continue being rolled out and distribution expanded further. Ultimately, while DXJ and HEDG should drive strong AUM growth in the near term, the secular trend of assets moving from active to passive strategies will likely continue to provide a tailwind for years to come.

### Valuation/Risks

Our \$20 price target is roughly a 25x TTM multiple of our 2017 EPS estimate of \$1.05, discounted back. Risks to our estimate include weak fund flows and negative equity market performance.

USD	Prev.	2013A	Prev.	2014E	Prev.	2015E	Prev.	2016E
Rev. (MM)	--	149.0	181.0	182.0	217.0	236.0	267.0	293.0
EV/Rev		13.9x		11.4x		8.8x		7.1x
Cons. EPS	--	0.37	0.44	0.45	0.48	0.47	--	0.60
<b>EPS</b>								
Mar	--	0.06	0.07A	0.06A	--	0.10	--	--
Jun	--	0.09	--	0.09A	--	0.12	--	--
Sep	--	0.11	0.08	0.09A	--	0.13	--	--
Dec	--	0.12	0.08	0.09	--	0.14	--	--
FY Dec	--	0.37	0.31	0.33	0.40	0.49	0.49	0.65
FY P/E		43.3x		48.6x		32.7x		24.7x

2013 EPS is GAAP. 2014 and later EPS is non-GAAP and assumes a 38% rate.

**BUY**

Price target \$20.00

(from \$15.00)

Price \$16.03

### Financial Summary

Book Value (MM):	\$174.0
Net Debt (MM):	(\$151.0)
Long-Term Debt (MM):	\$0.0
Cash & ST Invest. (MM):	\$151.0

### Market Data

52 Week Range:	\$18.50 - \$9.11
Total Entprs. Value (MM):	\$2,065.9
Market Cap. (MM):	\$2,216.9
Shares Out. (MM):	138.3
Float (MM):	106.4
Avg. Daily Vol.:	2,702,704

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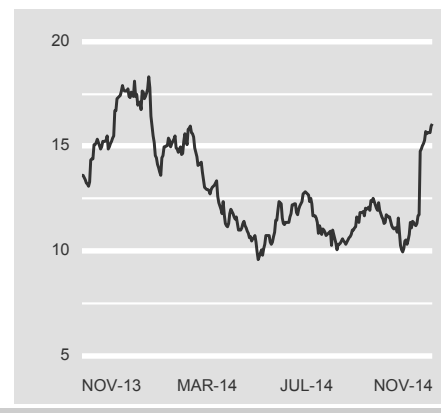
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### Price Performance



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**WETF**

Target | Estimate Change

November 13, 2014

WisdomTree, Inc.

**Buy: \$20 Price Target****Scenarios****2015 Target Investment Thesis**

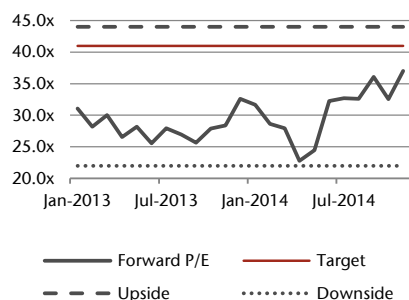
- Annualized organic growth of ~20-30%
- ETF Industry organic growth of 10%
- Equity market performance at the historical average of 8%
- Operating margins improve 400 bps y/y to the range 46-48%
- Modest share repurchases offset dilution
- 2015 non-GAAP EPS: \$0.49  
Target Multiple: 40.0x  
Target Price \$20

**Upside Scenario**

- Rising Rate ETFs achieve scale
- ETF Industry organic growth of 15%+
- Equity market performance exceeds 10%, accelerating AUM growth
- Operating margins improve 600+ bps y/y to the range 48-50%
- Modest share repurchases offset dilution
- 2015 non-GAAP EPS: \$0.55  
Target Multiple: 45x  
Target Price \$25

**Downside Scenario**

- Growth slows to below 10% or potentially even turns negative
- Japan and/or Europe tighten policy instead of implementing QE
- Increased equity market volatility or prolonged downturn in equity markets
- Industry-wide fee pressure on ETFs
- 2015 EPS: \$0.36  
Target Multiple: 25x  
Target Price \$9

**Long Term Analysis****2014 Forward P/E (Consensus)**

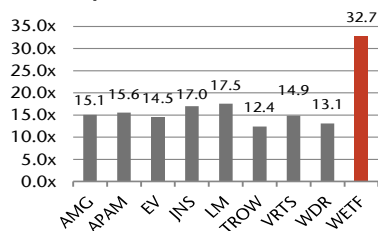
Source: FactSet, Jefferies estimates

**Long Term Financial Model Drivers**

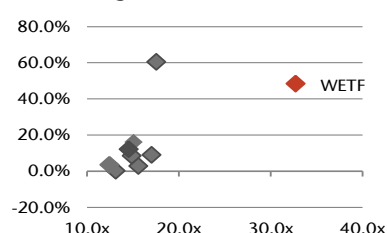
LT Earnings CAGR	10-20%
Organic Growth	5-10%
Revenue/AUM Growth	4-8%
Operating Margins	1-2%

**Other Considerations**

WETF has generated positive organic growth every year since inception, aided by innovative products and a strong tailwind from investors increasingly allocating to passive/ETF strategies vs. active management. The company's operating leverage is significant as incremental margins are amongst the highest in the industry. The newly launched European business represents a free call option on growth.

**Peer Group****2015 Group P/E's (JEF estimates)**

Source: FactSet, Jefferies estimates

**2015 Earnings Growth vs P/E**

Source: FactSet, Jefferies estimates

**Recommendation / Price Target**

Ticker	Rec.	PT
AB	Hold	\$27
APAM	Buy	\$59
EV	Hold	\$43
FII	Buy	\$35
JNS	Buy	\$17
LM	Hold	\$50
VRTS	Hold	\$170
WDR	Buy	\$55
<b>WETF</b>	<b>Buy</b>	<b>\$20</b>

**Catalysts**

- A new "hit" fund emerges (e.g., rising rate suite of ETFs)
- DXJ (Japan Hedged Equity ETF) growth accelerates (QE in Japan)
- HEDG (European Hedged Equity ETF) growth accelerates (QE in Europe)

**Company Description**

WisdomTree is the 5th largest ETF sponsor in the U.S. by AUM and the only publicly-traded asset manager that focuses exclusively on ETFs. WisdomTree entered the ETF market in June 2006 with 20 ETFs and has grown its offering to above 50. Its ETFs employ either fundamentally weighted index strategies or are actively managed. The company distributes its ETFs through all major channels including brokerage firms, registered investment advisors, institutional investors, private wealth managers and discount brokers. The company is also one of the few that has been granted exemptive relief by the SEC to use its own indexes for its ETFs.

## “Effective Monopoly” to Drive Near-term Growth

### One Monopoly is Good, Two Even Better, Three is Almost Stealing

Most ETFs at scale tend to attract the bulk of assets for that strategy, creating a monopoly like effect.

Unlike the world of traditional mutual funds, managing a successful ETF is effectively the equivalent of running a monopoly as a given ETF at scale tends to attract the vast majority of flows for that strategy. A review of the 100 largest ETFs in the US (not shown) indicates there are only a handful of exceptions to this rule of thumb. With DXJ and HEDG both at scale, we expect them to attract the vast majority of flows into Japan and Europe under the scenarios described earlier.

To illustrate this monopoly like effect, we note that since central bank policy began to diverge between the US and Europe (*i.e.*, mid-late August), HEDG has inflowed \$1.5B, while competitor ETFs have collectively outflowed \$5.1B. We note this pattern is identical for DXJ, which in 2013 captured roughly 56% of \$16B of net inflows into Japan, and more recently has captured roughly 43% of the \$1.7B of net inflows in November thus far.

We estimate flows into DXJ and HEDG are able to generate incremental margins of upwards of 75%.

In terms of earnings sensitivity to inflows, we estimate that for every \$1B of new inflows into DXJ, EPS increases by roughly \$0.0015, or equivalently 4% from 2014 levels. Our estimate assumes gross margins for DXJ in the range 90-95% with incremental margins in the neighbourhood of 70-75%. We estimate the contribution from HEDG is similar but slightly more modest given the difference in scale between the two products. Sensitivity to earnings from DXJ performance and flows can be seen in Exhibit 1 below.

### Rising Rate Suite of Products also Offer Significant Potential

The rising rate suite of products is beginning to see increased traction as a result of more hawkish comments from the US Fed.

We believe the potential of the rising rate suite of fixed income products is also significant and could evolve into the third “monopoly” for WETF. After launching last December, this product set experienced its first set of net inflows in Sept, capturing over \$80M in the span of a couple of weeks, and more recently capturing \$112M thus far in 4Q.

Currently there is over \$20B in ETFs that are indexed or benchmarked to the Barclays US Aggregate Bond Index. Users of these existing products that wish to hedge against rising rates represent only one small pool of investors that could benefit from WETF’s suite of rising rate products. Total assets benchmarked or tied to the Barclays US Aggregate Bond Index is more than an order of magnitude greater.

**Exhibit 1: EPS Sensitivity to DXJ Fund Flows and Performance**

Δ EPS		DXJ Fund Performance										
		-25%	-20.0%	-15.0%	-10.0%	-5.0%	0.0%	5.0%	10.0%	15.0%	20.0%	25.0%
DXJ Net Flows (\$Billions)	-2.5	-\$0.106	-\$0.092	-\$0.076	-\$0.059	-\$0.049	-\$0.040	-\$0.028	-\$0.017	-\$0.005	\$0.007	\$0.020
	-2.0	-\$0.100	-\$0.085	-\$0.068	-\$0.051	-\$0.041	-\$0.032	-\$0.020	-\$0.009	\$0.003	\$0.016	\$0.028
	-1.5	-\$0.094	-\$0.078	-\$0.061	-\$0.043	-\$0.033	-\$0.024	-\$0.012	\$0.000	\$0.012	\$0.024	\$0.037
	-1.0	-\$0.087	-\$0.071	-\$0.053	-\$0.035	-\$0.025	-\$0.016	-\$0.004	\$0.008	\$0.020	\$0.032	\$0.045
	-0.5	-\$0.081	-\$0.064	-\$0.046	-\$0.027	-\$0.017	-\$0.008	\$0.004	\$0.016	\$0.028	\$0.041	\$0.054
	0.0	-\$0.075	-\$0.057	-\$0.039	-\$0.019	-\$0.009	\$0.000	\$0.012	\$0.024	\$0.037	\$0.049	\$0.062
	0.5	-\$0.068	-\$0.050	-\$0.031	-\$0.011	-\$0.001	\$0.008	\$0.020	\$0.032	\$0.045	\$0.058	\$0.071
	1.0	-\$0.062	-\$0.043	-\$0.024	-\$0.003	\$0.007	\$0.016	\$0.028	\$0.040	\$0.053	\$0.066	\$0.079
	1.5	-\$0.055	-\$0.036	-\$0.016	\$0.005	\$0.015	\$0.024	\$0.036	\$0.049	\$0.061	\$0.074	\$0.088
	2.0	-\$0.049	-\$0.030	-\$0.009	\$0.013	\$0.023	\$0.032	\$0.044	\$0.057	\$0.070	\$0.083	\$0.096
	2.5	-\$0.043	-\$0.023	-\$0.001	\$0.021	\$0.031	\$0.040	\$0.052	\$0.065	\$0.078	\$0.091	\$0.105

Source: Jefferies

Despite the stock's recent run, we believe further upside still exists.

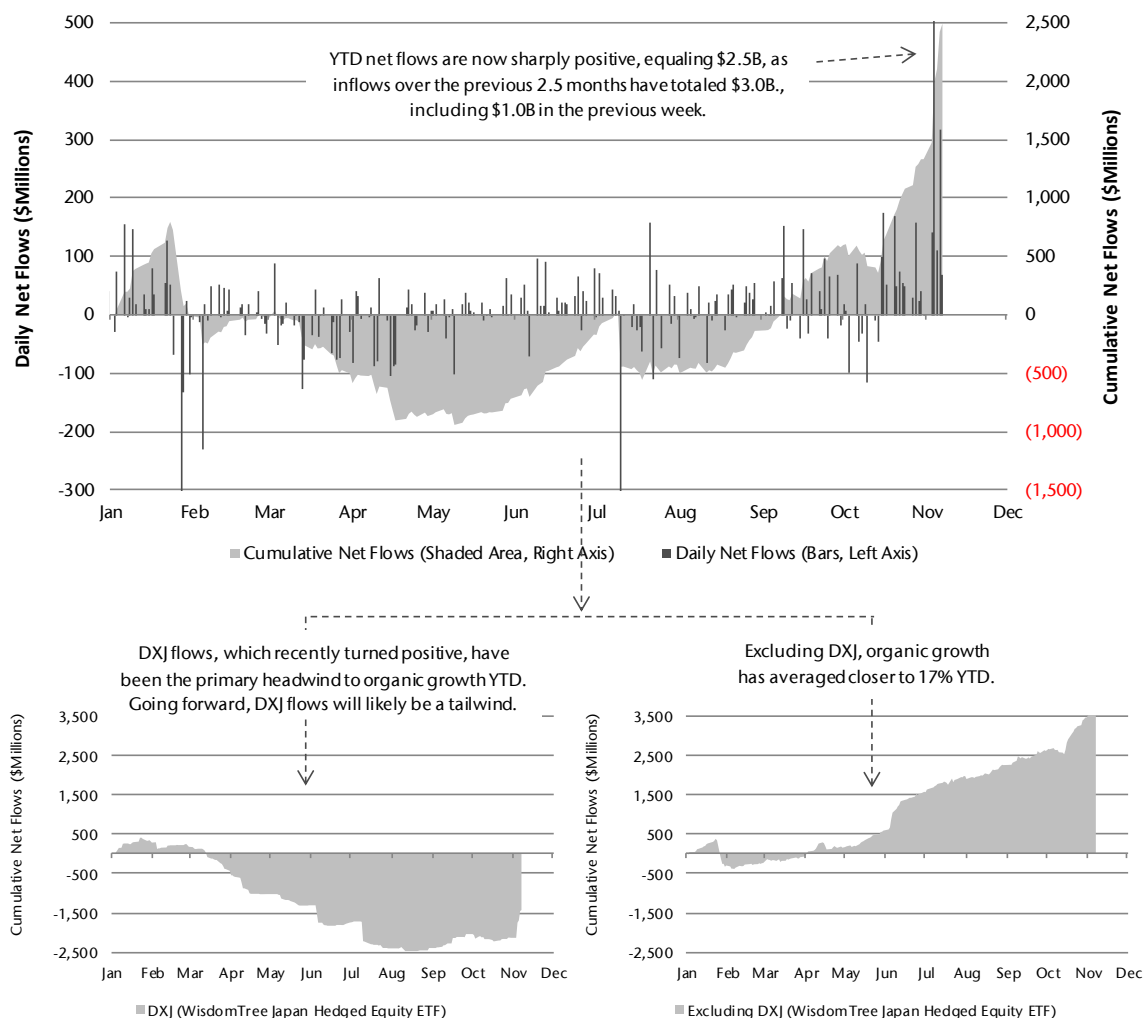
### Raising Estimates, Potential for Further Upside Still Exists

We have raised our 2015 and 2016 non-GAAP EPS estimates by \$0.08 (20%) and \$0.16 (33%) to \$0.48 and \$0.65, respectively. The change reflects expectations of stronger AUM growth, as well as a lower tax rate going forward. With respect to the tax rate, at the end of 3Q, management completed its state related tax planning and is now anticipating a future baseline tax rate of 38% vs. 45% previously.

Our new earnings estimates anticipate net inflows will total \$10.5B in 2015 (20-25% organic growth) versus \$6.5B previously (12-17% organic growth). We believe the bulk of inflows in the first half of the year will be driven by the currency hedged line-up of products (i.e., HEDG and DXJ), and an acceleration of inflows into the rising interest rates set of products will aid in the back half of 2015 and beyond.

We believe further upside to our 2015 earnings estimates still exists if Europe is somewhat aggressive in its adoption of QE and/or U.S. interest rates begin rising more quickly than predicted by futures curves. Longer-term we note that the addressable market for HEDG and the suite of rising rate products is much larger than the addressable market for DXJ.

### Exhibit 2: Flow trends can change rapidly and cumulative net flows (through Nov 7, 2014) are now positive for the year



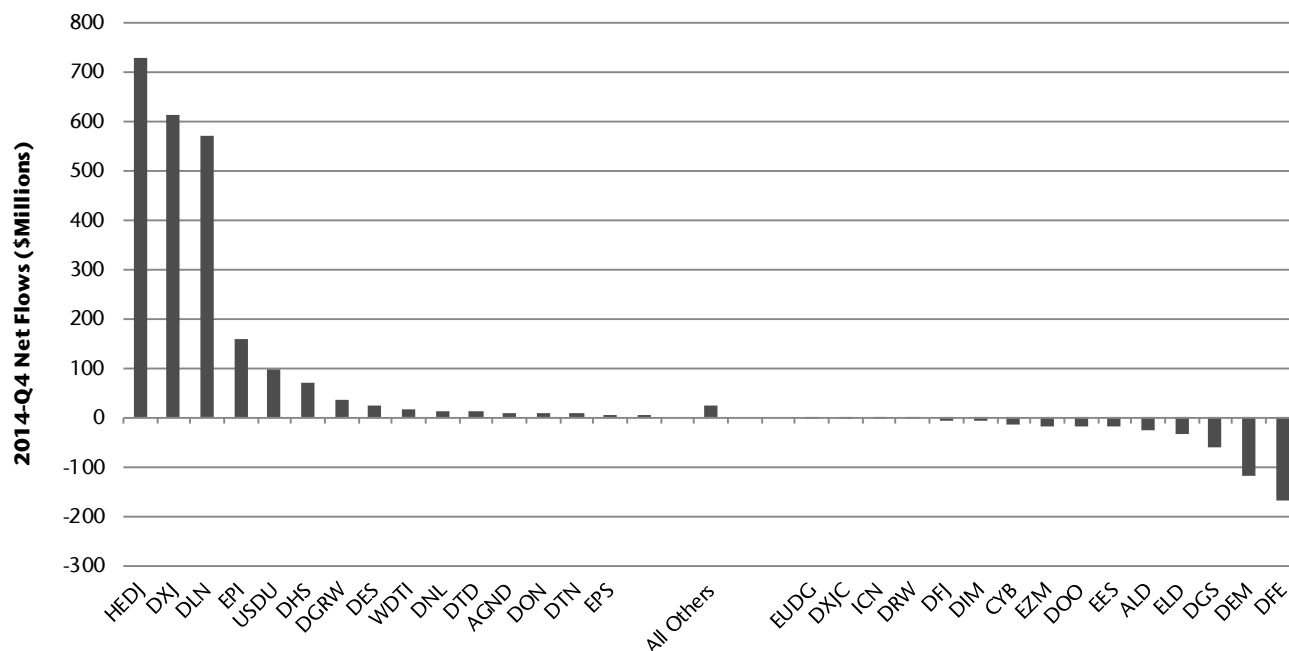
Source: Company Data

### Lots of Ways to Catch Lightning in a Bottle ... Potential is Underappreciated

Despite the recent demonstrated success, we continue to believe the potential of WETF's product line-up in the current environment is underappreciated. The phenomenal growth that was experienced in 2013 (+\$1B/month average) could be repeated under the right circumstances, with the last week of flows a possible advance preview (*i.e.*, +\$1.2B of net inflows post Japan QE announcement and a more dovish tone by the European Central Bank). If expectations for a rate hike in the US continue to progress, or alternatively QE in Europe becomes a reality, the primary products we believe are likely to benefit (or further benefit) are listed below. Net flows into these and other WETF products can be seen in Exhibit 3 below.

- DXJ (WisdomTree Japan Hedged Equity ETF)
- HEDG (WisdomTree Europe Hedged Equity ETF)
- AGZD (WisdomTree Barclays U.S. Aggregate Bond Zero Duration ETF)
- AGND (WisdomTree Barclays U.S. Aggregate Bond Negative Duration ETF)
- HYZD (WisdomTree BofA Merrill Lynch High Yield Bond Zero Duration ETF)
- HYND (WisdomTree BofA Merrill Lynch High Yield Bond Negative Duration ETF)
- USDU (WisdomTree Bloomberg U.S. Dollar Bull ETF)

**Exhibit 3: Top 15 Inflowing and Top 15 Outflowing WisdomTree ETFs in 2014-Q4**



Note: The following funds do not have any net flows in 2014-Q4 (through Nov 7, 2014).

Source: Company Data

**HEDG is Well Positioned to Capture the Bulk of Future Inflows into Europe**

Amongst currency hedged ETFs, which are becoming increasingly important, WETF has arguably the best brand recognition. Perhaps more importantly, it has the largest currency hedged ETF for exposure to Europe (the largest market outside the US) and the largest currency hedged ETF for exposure to Japan (the 2<sup>nd</sup> largest market outside the US). This first-mover advantage to scale is significant and unlikely to be overcome.

The table below shows that amongst competitor ETFs, HEDG is outperforming much larger funds, including Vanguard and BlackRock's offerings, capturing \$1.7B (22%) of all net flows into Europe ETFs from Jan-Aug of this year. The difference is more dramatic since Sept (post Fed commentary), with HEDG capturing \$1.4B, or effectively all of Sept-Nov flows. This is not surprising given the relative outperformance of the fund, which is positive for the year vs negative for the majority of competitor funds. If there is QE in Europe or rates begin rising in the US, then HEDG's investment returns should continue to outperform peers. As a result, we believe HEDG is well positioned to capture the bulk of future inflows into Europe.

**Exhibit 4: The 10 Largest Europe ETFs by AUM ... The data shows WETF is best positioned to capture bulk of future flows.**

Exchange Traded Fund	Ticker Symbol	Net Assets (\$M)	Average Daily Vol	YTD Return	Jan-Aug Net Flows (\$M)	Sept-Nov Net Flows (\$M)
Vanguard FTSE Europe ETF	VGK	\$11,716	5,678,933	-9.13%	2,167	-2,712
iShares MSCI EMU Index Fund	EZU	\$7,313	5,172,614	-11.70%	721	-717
iShares MSCI Germany Index Fund	EWG	\$4,790	4,498,096	-15.99%	-1,042	325
SPDR DJ EURO STOXX 50 ETF	FEZ	\$4,231	2,252,190	-11.85%	627	-773
<b>WisdomTree Europe Hedged Equity Fund</b>	<b>HEDG</b>	<b>\$3,615</b>	<b>1,066,058</b>	<b>0.27%</b>	<b>1,665</b>	<b>1,422</b>
iShares MSCI UK Index Fund	EWU	\$3,085	2,679,296	-9.29%	651	-819
iShares S&P Europe 350 Index Fund	IEV	\$2,749	761,024	-8.37%	814	-425
iShares MSCI Spain Index Fund	EWP	\$1,875	1,247,137	-5.78%	1,550	-368
iShares MSCI Switzerland Index Fund	EWL	\$1,082	585,251	-2.03%	18	64
iShares MSCI Italy Index Fund	EWI	\$1,045	3,865,421	-10.07%	758	-370

Note: Data is through Nov 7, 2014.

Source: Morningstar, Bloomberg

## Longer-term Positioning Favorable

### European Operations Successfully Launched

On Oct 24, WisdomTree Europe commenced operations by launching 4 UCITS ETFs (*i.e.*, ETFs domiciled in Europe). While this is a small step, it marks an important milestone for WETF as the European market is expected to begin undergoing some of the same types of changes the US market has been undergoing over the previous decade (*i.e.*, greater transparency on fees and a movement towards a fee-based model instead of commission based). Currently the penetration of ETFs in Europe is roughly 5-7% of total long-term retail mutual fund assets, which is about half the penetration rate in the US.

In addition to WisdomTree Europe effectively being a free long-term call option on growth in the European market, we believe the potential of the Boost franchise (*i.e.*, levered and inverse ETFs) should also not be underestimated. In the US, levered and inverse ETFs have proven to be attractive trading tools with AUM across such ETFs totalling approximately \$35B. Boost currently manages approximately \$150M spread across 42 products. While this AUM is small, it has roughly doubled since the company was acquired by WETF earlier this year.

### Expanding Distribution Footprint

In September WETF announced that Charles Schwab would begin offering 6 WETF funds on its OneSource ETF platform, and a few weeks prior to that announced BetaShares would begin selling all of WETF's products in Australia. We view these additions as incremental positives that will support growth in the long-term but are unlikely to materially impact flows in the near-term. Internationally, WETF now has distribution in Latin America, Japan, and Australia. As this footprint builds and acceptance of ETFs increases, we expect assets from outside the US to also contribute to overall growth.

### New Capital Return Policy Adopted

Management surprised during 3Q earnings by announcing an \$0.08 quarterly dividend as well as authorizing a \$100M share repurchase program. While the timing is earlier than we had anticipated, we note that cash had been quickly building on the balance sheet (ended 9/30 at \$164M) for the previous year+ and with a significant DTA would have continued to build. We view the new capital return policy favorably.

### ETMFs (NextShares) Unlikely to Pose a Threat

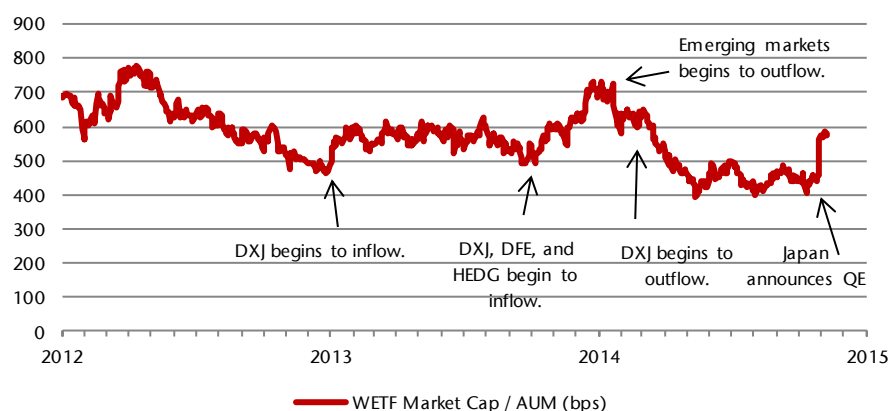
Last week EV received the green light from the SEC to proceed with its actively managed ETMF methodology. While this "technology" has the potential to disrupt the landscape of mutual fund ownership over time, we do not believe it represents a threat to the existing ETF structure or industry. More likely, we believe it has the potential to cannibalize existing actively managed mutual funds. While ETMFs put active management on closer footing with ETFs (*i.e.*, both structures offer tax efficiency), active managers will still need to outperform benchmarks in order to retain business. Over the previous decade, as the free flow of information has improved, it has become harder for active managers to outperform, the consequence of which has been an increasing percentage of assets being allocated to passive strategies.



## Valuation (as Multiple of Market Cap / AUM)

Over the previous 3 years, the Market Cap / AUM multiple of WETF's stock has ranged from approx. 400-800 bps. As the exhibit below indicates, this multiple depends to a significant extent on the organic growth rate, with the high end of the range coinciding with strong inflows and the low end coinciding with outflows. Currently WETF stock is trading at approx. 580 bps, in line with the historical average of 570 bps. This leads us to believe multiple expansion may be more modest from current levels and that price appreciation will likely depend more on AUM asset growth going forward (*i.e.*, organic growth).

**Exhibit 5: Market Cap / AUM multiple is impacted by flows**



Source: Company Data, FactSet

## Valuation (as Multiple of Forward P/E)

As a young growth company, WETF is subject to volatility in its near-term growth, which in turn results in volatility in its forward P/E multiple. As an alternative approach to selecting a single forward multiple to apply to next year's earnings, we take a look at the company's earnings prospects a few years out (to 2017) to try and look past the noise. Our 2017 after-tax EPS estimates and sensitivity to different industry growth rates and different market share dynamics can be found in Exhibit 6 below. Our analysis suggests WETF shares are likely still undervalued as can be seen in Exhibit 7.

**Exhibit 6: 2017 EPS**

2017 EPS		WETF capture of industry net flows										
ETF Industry Organic Growth Rate	3.0%	2.0%	2.2%	2.4%	2.6%	2.8%	3.0%	3.2%	3.4%	3.6%	3.8%	4.0%
	\$0.57	\$0.57	\$0.58	\$0.58	\$0.59	\$0.59	\$0.60	\$0.60	\$0.61	\$0.61	\$0.62	\$0.62
	\$0.60	\$0.60	\$0.61	\$0.62	\$0.62	\$0.63	\$0.64	\$0.65	\$0.66	\$0.67	\$0.68	\$0.68
	\$0.63	\$0.63	\$0.64	\$0.65	\$0.66	\$0.68	\$0.69	\$0.70	\$0.71	\$0.72	\$0.74	\$0.75
	\$0.66	\$0.66	\$0.68	\$0.69	\$0.71	\$0.72	\$0.74	\$0.75	\$0.77	\$0.78	\$0.80	\$0.82
	\$0.70	\$0.70	\$0.71	\$0.73	\$0.75	\$0.77	\$0.79	\$0.81	\$0.83	\$0.85	\$0.87	\$0.89
	\$0.73	\$0.73	\$0.75	\$0.78	\$0.80	\$0.82	\$0.85	\$0.87	\$0.89	\$0.92	\$0.94	\$0.97
	\$0.77	\$0.77	\$0.79	\$0.82	\$0.85	\$0.88	\$0.90	\$0.93	\$0.96	\$0.99	\$1.02	\$1.05
	\$0.81	\$0.81	\$0.84	\$0.87	\$0.90	\$0.94	\$0.97	\$1.00	\$1.03	\$1.07	\$1.10	\$1.14
	\$0.85	\$0.85	\$0.89	\$0.92	\$0.96	\$1.00	\$1.03	\$1.07	\$1.11	\$1.15	\$1.19	\$1.23
ETF Industry Organic Growth Rate	\$0.89	\$0.89	\$0.93	\$0.98	\$1.02	\$1.06	\$1.11	\$1.15	\$1.19	\$1.24	\$1.29	\$1.33
	\$0.94	\$0.94	\$0.99	\$1.03	\$1.08	\$1.13	\$1.18	\$1.23	\$1.28	\$1.33	\$1.39	\$1.44

Source: Jefferies



**Exhibit 7: Present Value of 2017 EPS**

25x P/E		WETF capture of industry net flows										
		2.0%	2.2%	2.4%	2.6%	2.8%	3.0%	3.2%	3.4%	3.6%	3.8%	4.0%
ETF Industry Organic Growth Rate	3.0%	\$11.44	\$11.54	\$11.64	\$11.74	\$11.84	\$11.94	\$12.04	\$12.14	\$12.25	\$12.35	\$12.45
	4.5%	\$11.97	\$12.13	\$12.28	\$12.44	\$12.60	\$12.75	\$12.91	\$13.07	\$13.23	\$13.39	\$13.55
	6.0%	\$12.53	\$12.75	\$12.96	\$13.18	\$13.40	\$13.61	\$13.83	\$14.05	\$14.28	\$14.50	\$14.72
	7.5%	\$13.13	\$13.40	\$13.68	\$13.96	\$14.24	\$14.53	\$14.82	\$15.10	\$15.39	\$15.69	\$15.98
	9.0%	\$13.75	\$14.09	\$14.44	\$14.79	\$15.14	\$15.50	\$15.86	\$16.22	\$16.59	\$16.95	\$17.32
	10.5%	\$14.41	\$14.82	\$15.25	\$15.67	\$16.10	\$16.53	\$16.97	\$17.41	\$17.86	\$18.31	\$18.76
	12.0%	\$15.10	\$15.60	\$16.10	\$16.60	\$17.11	\$17.63	\$18.15	\$18.68	\$19.21	\$19.75	\$20.29
	13.5%	\$15.83	\$16.41	\$16.99	\$17.59	\$18.19	\$18.79	\$19.40	\$20.03	\$20.65	\$21.29	\$21.93
	15.0%	\$16.60	\$17.27	\$17.95	\$18.63	\$19.32	\$20.03	\$20.74	\$21.46	\$22.19	\$22.93	\$23.68
	16.5%	\$17.42	\$18.18	\$18.95	\$19.73	\$20.53	\$21.34	\$22.15	\$22.98	\$23.83	\$24.68	\$25.55
	18.0%	\$18.27	\$19.14	\$20.01	\$20.90	\$21.81	\$22.73	\$23.66	\$24.61	\$25.57	\$26.55	\$27.54

Source: Jefferies

We estimate there is a good possibility WETF will earn between roughly \$0.80-1.15 in 2017 after taxes (Exhibit 6) and will end the year with AUM in the range \$70-100B (Exhibit 8), which is roughly 2.0-2.5x the current level. Based on a 25x TTM P/E multiple, this results in an approx. \$15.50-22.00 valuation when discounted back to today at 10% and is inclusive of \$0.90 in deferred tax asset value. We note the following:

- Our valuation assigns zero value to WisdomTree Europe. Any traction in Europe has the potential to significantly increase value.
- If WETF is not able to gain any market share but simply maintains current market share (i.e., 2.0% capture of future industry flows), a valuation below the current stock price results if future industry flows occur at an organic growth rate at or below the historical average (see Exhibits 9-10).
- The high end of the valuation range, \$22.00, assumes the ETF industry will grow roughly in line with its average over the previous 5 years (i.e., low double-digits) and WETF will continue to gain market share at slightly above its historical rate, capturing roughly 4% of net new inflows. Given WETF's greater brand recognition and established track record, and a highly favorable macro backdrop, we believe there is a strong possibility the company can capture more than 3% of future net flows and believe 3% to be more of a readily achievable baseline.

**Exhibit 8: 2017 Year-end AUM**

2017 AUM		WETF capture of industry net flows										
		2.0%	2.2%	2.4%	2.6%	2.8%	3.0%	3.2%	3.4%	3.6%	3.8%	4.0%
ETF Industry Organic Growth Rate	3.0%	53.9	54.3	54.8	55.3	55.8	56.2	56.7	57.2	57.7	58.1	58.6
	4.5%	56.4	57.2	57.9	58.6	59.3	60.1	60.8	61.5	62.3	63.0	63.7
	6.0%	59.1	60.1	61.1	62.1	63.1	64.1	65.1	66.1	67.1	68.1	69.0
	7.5%	61.9	63.1	64.4	65.7	67.0	68.2	69.5	70.8	72.1	73.3	74.6
	9.0%	64.8	66.4	67.9	69.5	71.1	72.6	74.2	75.7	77.3	78.9	80.4
	10.5%	67.8	69.7	71.6	73.4	75.3	77.2	79.1	80.9	82.8	84.7	86.5
	12.0%	71.0	73.2	75.4	77.6	79.8	81.9	84.1	86.3	88.5	90.7	92.9
	13.5%	74.3	76.8	79.4	81.9	84.4	86.9	89.4	92.0	94.5	97.0	99.5
	15.0%	77.8	80.6	83.5	86.4	89.2	92.1	95.0	97.8	100.7	103.5	106.4
	16.5%	81.4	84.6	87.8	91.0	94.3	97.5	100.7	103.9	107.2	110.4	113.6
	18.0%	85.1	88.7	92.3	95.9	99.5	103.1	106.7	110.3	113.9	117.5	121.1

Source: Jefferies

Our valuation assumptions were as follows:

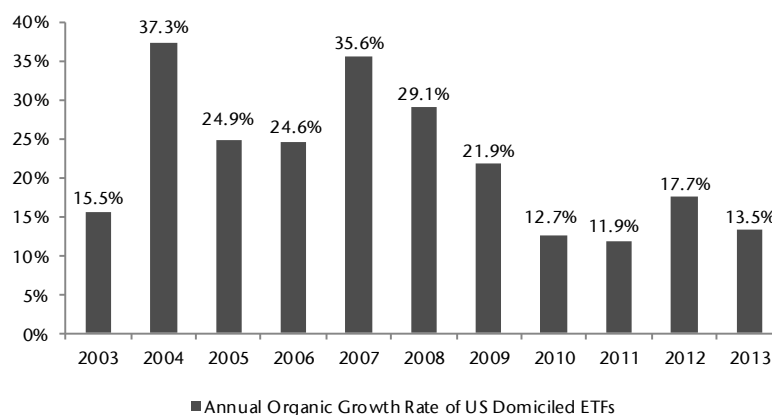
#### Starting Assumptions

- Starting AUM = \$38.5B
- Equity market return = 8% annually
- Valuation end period = 2017 EPS discounted back
- Present value of deferred tax assets = \$0.90

#### Key Inputs

- ETF industry growth rate = 3.0-18.0% annualized (see Exhibit 9)
- WETF capture of industry flows = 3.0-4.0% annually (see Exhibit 10)
- Fee Rate = 50 bps (below current 52 bps)
- Operating Margins = 50%-60% (over the range \$55-105B in AUM)
- Tax Rate = 38%
- Share Count = 140M (no dilution)
- P/E Multiple = 25x TTM (current Fwd P/E multiple is 30-35x)
- Discount Rate = 10%

#### Exhibit 9: ETF Industry Organic Growth Rate by Year



Source: Investment Company Institute (ICI.org)

#### Exhibit 10: WETF's Capture of Net Industry Flows

Year	Industry Flows (\$Billions)	WETF Flows (\$Millions)	Market Share	Ending AUM (\$Millions)
2006	\$64	1,408	2.2%	1,523
2007	\$151	2,961	2.0%	4,559
2008	\$177	907	0.5%	3,180
2009	\$117	1,774	1.5%	5,979
2010	\$118	3,135	2.7%	9,891
2011	\$118	3,898	3.3%	12,182
2012	\$185	4,732	2.6%	18,286
2013	\$180	14,323	8.0%	34,884

Source: Company Data

**Exhibit 11: Comparable Valuations**

		(\$ M M )									13 - '14	14 - '15				
		Last	Market	Adjusted EPS			P/E			Est. EPS	Est. EPS	'13 EV/	'14 EV/	M kt Cap/		
Companies	Symbol	Close	Cap.	CY:13A	CY:14E	CY:15E	CY:13A	CY:14E	CY:15E	Growth	Growth	EBITDA	EBITDA	AUM	Rating	
Traditional Asset Managers																
Affiliated Managers	AMG	\$200.23	\$11,764	\$10.31	\$11.45	\$13.30	19.4x	17.5x	15.1x	11%	16%	17.0x	15.3x	193%	Buy	
AllianceBernstein	AB	\$26.60	\$2,591	\$1.78	\$1.81	\$2.00	14.9x	14.7x	13.3x	2%	10%	10.7x	11.6x	0.55%	Hold	
Artisan Partners	APAM	\$51.11	\$3,716	\$2.55	\$3.19	\$3.28	20.0x	16.0x	15.6x	25%	3%	12.8x	9.4x	3.50%	Buy	
BlackRock	BLK	\$349.90	\$60,148	\$16.59	\$19.38	\$20.21	21.1x	18.1x	17.3x	17%	4%	21.1x	18.7x	131%	Hold	
Eaton Vance Corp.	EV	\$41.40	\$5,093	\$2.17	\$2.54	\$2.85	19.1x	16.3x	14.5x	17%	12%	9.6x	8.8x	178%	Hold	
Federated Investors	FII	\$31.20	\$3,141	\$1.55	\$1.40	\$1.65	20.1x	22.3x	18.9x	-10%	18%	12.3x	10.6x	0.89%	Buy	
Franklin Resources	BEN	\$56.97	\$36,147	\$3.51	\$3.75	\$3.89	16.2x	15.2x	14.6x	7%	4%	9.8x	8.7x	4.15%	Hold	
Invesco	IVZ	\$40.86	\$18,264	\$2.12	\$2.52	\$2.67	19.3x	16.2x	15.3x	19%	6%	17.0x	15.3x	2.34%	Buy	
Janus Capital	JNS	\$14.47	\$2,662	\$0.65	\$0.78	\$0.85	22.3x	18.6x	17.0x	20%	9%	10.1x	10.1x	153%	Buy	
Legg Mason	LM	\$54.03	\$6,287	\$1.97	\$1.92	\$3.08	27.4x	28.1x	17.5x	-3%	60%	18.2x	13.6x	0.88%	Hold	
T Rowe Price	TROW	\$82.71	\$22,017	\$3.90	\$4.52	\$4.94	21.2x	18.3x	16.7x	16%	9%	12.0x	10.9x	3.18%	Buy	
Virtus Inv. Partners	VRTS	\$13.04	\$1,702	\$8.72	\$11.33	\$12.30	21.0x	16.2x	14.9x	30%	9%	12.8x	9.5x	2.84%	Hold	
Waddell & Reed	WDR	\$47.78	\$4,019	\$2.96	\$3.63	\$3.64	16.1x	13.2x	13.1x	23%	0%	8.7x	6.9x	3.10%	Buy	
WisdomTree	WETF	\$16.03	\$2,241	\$0.37	\$0.33	\$0.49	43.3x	48.6x	32.7x	-11%	48%	42.5x	24.9x	6.50%	Buy	
						Mean	20.0x	17.8x	16.1x	12%	11%	11.9x	11.9x	2.0%		
						Median	20.0x	17.5x	15.6x	16%	9%	12.0x	10.6x	2.1%		
Alternative Asset Managers																
Apollo Global Mgmt	APO	\$22.57	\$8,392	\$4.80	\$1.80	\$2.27	4.7x	12.6x	9.9x	-63%	26%	15.6x	11.6x	12.3%	NC	
Blackstone Group	BX	\$31.90	\$36,818	\$3.07	\$3.33	\$3.48	10.4x	9.6x	9.2x	8%	5%	12.8x	11.4x	17.5%	Buy	
Carlyle Group	CG	\$29.39	\$9,002	\$3.55	\$2.62	\$2.87	8.3x	11.2x	10.2x	-26%	9%	19.0x	15.9x	5.7%	NC	
Fortress Inv't Group	FIG	\$7.42	\$3,279	\$0.79	\$0.80	\$0.90	9.4x	9.3x	8.2x	1%	13%	6.6x	5.6x	4.9%	Hold	
KKR & Company	KKR	\$21.99	\$5,217	\$2.99	\$2.37	\$2.57	7.4x	9.3x	8.6x	-21%	8%	6.6x	3.7x	25.8%	NC	
Oaktree	OAK	\$46.27	\$6,991	\$6.38	\$3.29	\$3.69	7.3x	14.1x	12.6x	-48%	12%	3.1x	3.7x	9.0%	NC	
Och-Ziff Capital Mgmt	OZM	\$11.71	\$5,958	\$1.87	\$0.99	\$1.54	6.3x	11.8x	7.6x	-47%	56%	14.6x	13.6x	12.7%	Buy	
						Mean	7.7x	11.1x	9.5x	-28%	18%	11.2x	9.3x	13%		
						Median	7.4x	11.2x	9.2x	-26%	12%	12.8x	11.4x	12%		

Note 1: Data as of: 11/12/2014. Averages exclude WETF estimates. WETF 2013 EPS is not comparable to 2014 and 2015 EPS.

Note 2: EPS estimate for AMG represent Cash EPS. NC estimates are consensus.

Note 3: For valuation purposes, LM and VRTS have a deferred tax asset with an NPV of approx. \$5-6/share and \$7-8/share, respectively.

Note 4: BEN and TROW had approx. \$9.4B (\$15/share) and \$3.2B (\$12/share) of net cash and investments as of 9/30/2014.

Source: Jefferies, Company data, FactSet

## Exhibit 12: Income Statement Model

WISDOMTREE INVESTMENTS, Inc.  
 Surinder Thind, Jefferies, 415.229.1515  
 Non-GAAP  
 FYE Dec  
 \$ in Thousands except per share data

2013 and 2014 non-GAAP EPS estimates are not comparable to each other.  
 Starting in 2014, non-GAAP assumes taxes but removes one-time items, including DTA release. Non-GAAP also excludes WisdomTree Europe results.

## INCOME STATEMENT

	FYE 2011	FYE 2012	1Q13 Mar '13	2Q13 Jun '13	3Q13 Sep '13	4Q13 Dec '13	FYE 2013	1Q14 Mar '14	2Q14 Jun '14	Actual 3Q14A Sep '14	Estimate 4Q14E Dec '14	FYE 2014E	1Q15E Mar '15	2Q15E Jun '15	3Q15E Sep '15	4Q15E Dec '15	FYE 2015E	FYE 2016E
<b>Revenues</b>																		
Advisory fees (US)	64,366	84,024	29,153	37,101	39,437	42,903	148,594	42,609	43,753	46,659	48,044	181,065	51,248	56,794	61,590	65,192	234,824	292,219
Advisory fees and income (Europe)	-	-	-	-	-	-	-	-	193	231	250	674	300	400	500	600	1,800	3,400
Other income	794	774	188	230	193	263	874	311	182	224	250	967	250	250	250	250	1,000	1,000
<b>GAAP Total revenues</b>	<b>65,160</b>	<b>84,798</b>	<b>29,341</b>	<b>37,331</b>	<b>39,630</b>	<b>43,166</b>	<b>149,468</b>	<b>42,920</b>	<b>44,128</b>	<b>47,114</b>	<b>48,544</b>	<b>182,706</b>	<b>51,798</b>	<b>57,444</b>	<b>62,340</b>	<b>66,042</b>	<b>237,624</b>	<b>296,619</b>
Less Advisory Fees (Europe)	-	-	-	-	-	-	-	-	(193)	(231)	(250)	(674)	(300)	(400)	(500)	(600)	(1,800)	(3,400)
<b>Non-GAAP Total revenues</b>	<b>65,160</b>	<b>84,798</b>	<b>29,341</b>	<b>37,331</b>	<b>39,630</b>	<b>43,166</b>	<b>149,468</b>	<b>42,920</b>	<b>43,935</b>	<b>46,883</b>	<b>48,294</b>	<b>182,032</b>	<b>51,498</b>	<b>57,044</b>	<b>61,840</b>	<b>65,442</b>	<b>235,824</b>	<b>293,219</b>
<b>Expenses</b>																		
Compensation and benefits	19,634	23,233	7,482	9,447	9,648	9,633	36,210	9,355	7,026	9,250	10,922	36,553	11,654	10,914	11,533	11,888	45,989	54,727
Fund management and administration	19,882	23,020	8,223	9,106	8,794	8,953	35,076	9,168	7,625	8,139	8,253	33,185	8,806	9,766	10,286	10,897	39,754	47,749
Marketing and advertising	4,475	5,363	1,937	2,196	2,031	2,145	8,309	2,578	2,675	3,244	3,495	11,992	3,470	3,619	3,803	3,897	14,789	14,795
Sales and business development	3,603	3,586	1,801	1,520	1,305	1,848	6,474	1,301	1,653	1,185	1,699	5,838	1,813	1,924	1,995	2,014	7,746	9,390
Professional and consulting fees	4,307	4,603	613	657	542	936	2,748	1,795	1,026	945	1,359	5,125	1,295	1,379	1,434	1,453	5,560	5,766
Occupancy, communication and equipment	1,127	1,419	377	591	723	1,093	2,784	900	807	809	947	3,463	984	1,034	1,060	1,057	4,135	4,579
Depreciation and amortization	267	307	82	83	84	190	439	192	199	206	200	797	200	200	200	200	800	800
Third party sharing arrangements	5,651	5,468	111	428	374	455	1,368	10	115	187	340	652	363	402	436	462	1,663	2,076
Other	2,243	2,976	861	1,061	1,164	1,437	4,523	1,142	1,105	1,088	1,214	4,549	1,243	1,321	1,371	1,387	5,323	5,766
ETF shareholder proxy	-	3,264	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Litigation	150	176	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Exchange listing and offering	729	353	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
WETF Europe buy-out charge	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Expenses (Europe)	-	-	-	-	-	-	-	-	1,764	1,804	2,000	5,568	2,000	2,000	2,000	2,000	8,000	8,500
<b>GAAP Total expenses</b>	<b>62,068</b>	<b>73,768</b>	<b>21,487</b>	<b>25,089</b>	<b>24,665</b>	<b>26,690</b>	<b>97,931</b>	<b>26,441</b>	<b>23,995</b>	<b>26,857</b>	<b>30,428</b>	<b>107,721</b>	<b>31,828</b>	<b>32,559</b>	<b>34,118</b>	<b>35,254</b>	<b>133,760</b>	<b>154,149</b>
Less Expenses (Europe, Other one-time)	(879)	(3,793)	-	-	-	-	-	-	(1,764)	(1,804)	(2,000)	(5,568)	(2,000)	(2,000)	(2,000)	(2,000)	(8,000)	(8,500)
<b>Non-GAAP Total Expenses</b>	<b>61,189</b>	<b>69,975</b>	<b>21,487</b>	<b>25,089</b>	<b>24,665</b>	<b>26,690</b>	<b>97,931</b>	<b>26,441</b>	<b>22,231</b>	<b>25,053</b>	<b>28,428</b>	<b>102,153</b>	<b>29,828</b>	<b>30,559</b>	<b>32,118</b>	<b>33,254</b>	<b>125,760</b>	<b>145,649</b>
<b>GAAP</b>																		
(Loss)/income before provision for income taxes	3,092	11,030	7,854	12,242	14,965	16,476	51,537	16,479	20,133	20,257	18,116	74,985	19,969	24,885	28,222	30,788	103,864	142,470
Provision for income taxes	-	-	-	-	-	-	-	(13,725)	9,531	9,634	6,884	12,324	7,588	9,456	10,724	11,700	39,468	54,139
<b>GAAP Net income</b>	<b>3,092</b>	<b>11,030</b>	<b>7,854</b>	<b>12,242</b>	<b>14,965</b>	<b>16,476</b>	<b>51,537</b>	<b>30,204</b>	<b>10,602</b>	<b>10,623</b>	<b>11,232</b>	<b>62,661</b>	<b>12,381</b>	<b>15,429</b>	<b>17,497</b>	<b>19,089</b>	<b>64,396</b>	<b>88,331</b>
Less Minority Interest	-	-	-	-	-	-	-	-	-	-	(333)	(333)	(323)	(304)	(285)	(266)	(1,178)	(969)
<b>GAAP Net income attributable to WETF</b>	<b>3,092</b>	<b>11,030</b>	<b>7,854</b>	<b>12,242</b>	<b>14,965</b>	<b>16,476</b>	<b>51,537</b>	<b>30,204</b>	<b>10,602</b>	<b>10,623</b>	<b>11,564</b>	<b>62,993</b>	<b>12,704</b>	<b>15,733</b>	<b>17,782</b>	<b>19,355</b>	<b>65,574</b>	<b>89,300</b>
Less one time items (DTA Release, Europe, etc)	-	-	-	-	-	-	-	21,210	(1,229)	(1,545)	(753)	17,684	(731)	(688)	(645)	(602)	(2,666)	(2,193)
<b>Non-GAAP Net Income</b>	<b>3,971</b>	<b>14,823</b>	<b>7,854</b>	<b>12,242</b>	<b>14,965</b>	<b>16,476</b>	<b>51,537</b>	<b>8,994</b>	<b>11,831</b>	<b>12,168</b>	<b>12,317</b>	<b>45,310</b>	<b>13,435</b>	<b>16,421</b>	<b>18,427</b>	<b>19,957</b>	<b>68,240</b>	<b>91,493</b>
Net income/share - basic (GAAP)	\$0.03	\$0.09	\$0.06	\$0.10	\$0.12	\$0.13	\$0.41	\$0.23	\$0.08	\$0.08	\$0.08	\$0.48	\$0.09	\$0.12	\$0.13	\$0.14	\$0.48	\$0.65
Net income/share - diluted (GAAP)	\$0.02	\$0.08	\$0.06	\$0.09	\$0.11	\$0.12	\$0.37	\$0.22	\$0.08	\$0.08	\$0.08	\$0.45	\$0.09	\$0.11	\$0.13	\$0.14	\$0.46	\$0.63
Net income/share - basic (Non-GAAP)	\$0.03	\$0.12	0.06	0.10	0.12	0.13	\$0.41	0.07	0.09	0.09	0.09	\$0.34	0.10	0.12	0.14	0.15	\$0.51	\$0.68
<b>Net income/share - diluted (Non-GAAP)</b>	<b>\$0.03</b>	<b>\$0.11</b>	<b>0.06</b>	<b>0.09</b>	<b>0.11</b>	<b>0.12</b>	<b>\$0.37</b>	<b>0.06</b>	<b>0.09</b>	<b>0.09</b>	<b>0.09</b>	<b>\$0.33</b>	<b>\$0.10</b>	<b>\$0.12</b>	<b>\$0.13</b>	<b>\$0.14</b>	<b>\$0.49</b>	<b>\$0.65</b>
Weighted average common shares - basic	114,132	122,138	125,436	125,771	126,509	128,851	126,642	130,934	131,533	131,778	132,278	131,631	132,778	133,278	133,778	134,278	133,528	135,528
Weighted average common shares - diluted	135,539	137,968	139,650	140,081	140,097	140,065	139,973	138,667	138,258	138,346	138,596	138,467	138,846	139,096	139,346	139,596	139,221	140,221
<b>Share Repurchase Activity</b>																		
Purchase Price (\$/share)	-	-	-	-	-	-	-	-	-	-	-	-	16.00	17.00	18.00	19.00	17.5	20.3
Shares Repurchased (Millions)	-	-	-	-	-	-	-	-	-	-	-	-	0.50	0.50	0.50	0.50	2.0	2.0
Equity Repurchased (\$Millions)	-	-	-	-	-	-	-	-	-	-	-	-	8.00	8.50	9.00	9.50	35.0	40.5

Source: Jefferies, Company data

## Company Description

WisdomTree is the 5th largest ETF sponsor in the U.S. by AUM and the only publicly-traded asset manager that focuses exclusively on ETFs. WisdomTree entered the ETF market in June 2006 with 20 ETFs and has grown its offering to more than 60. Its ETFs employ either fundamentally weighted index strategies or are actively managed. The company distributes its ETFs through all major channels including brokerage firms, registered investment advisors, institutional investors, private wealth managers and discount brokers. The company is also one of the few that has been granted exemptive relief by the SEC to use its own indexes for its ETFs.

## Analyst Certification:

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- Affiliated Managers Group (AMG: \$200.23, BUY)
- AllianceBernstein Holding L.P. (AB: \$26.60, HOLD)
- Artisan Partners Asset Management, Inc. (APAM: \$51.11, BUY)
- BlackRock, Inc. (BLK: \$349.90, HOLD)
- Blackstone Group (BX: \$31.90, BUY)
- Eaton Vance (EV: \$41.40, HOLD)
- Federated Investors, Inc. (FII: \$31.20, BUY)
- Fortress Investment Group (FIG: \$7.42, HOLD)
- Franklin Resources Inc. (BEN: \$56.97, HOLD)
- Invesco Ltd. (IVZ: \$40.86, BUY)
- Janus Capital Group, Inc. (JNS: \$14.47, BUY)
- Legg Mason Inc. (LM: \$54.03, HOLD)
- Och-Ziff Capital Management (OZM: \$11.71, BUY)
- T. Rowe Price Group (TROW: \$82.71, BUY)
- Virtus Investment Partners, Inc. (VRTS: \$183.04, HOLD)
- Waddell & Reed Financial, Inc. (WDR: \$47.78, BUY)

Rating and Price Target History for: WisdomTree Investments, Inc. (WETF) as of 11-12-2014



## Distribution of Ratings

Rating	Count	Percent	IB Serv./Past 12 Mos.	
			Count	Percent
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