## Recommendation

After analyzing the two companies of interest, it is our recommendation that Principle should acquire Footprint Asset Management. When comparing the two companies through the frameworks of ESG strategy, cultural fit, and financials, Footprint is the perfect choice. We recommend offering $409.95 million for the company and we plan to purchase it using the $1.5 billion of available capital allocated for corporate purposes.

## ESG Strategy

Principal Financial Group (PFG) is a well-known international financial organization that provides consumers, companies, and institutional clients with diverse financial products and services. The business is dedicated to sustainability, and it has a strong Environmental, Social, and Governance (ESG) strategy that emphasizes sustainable products, data security, privacy, transparency, accountability, and reporting.

**Sustainable Products:**
PFG values sustainable goods to address the most serious social and environmental issues from nowadays. In the past years, the company has committed to providing its clients with sustainable investing solutions, such as mutual funds and exchange-traded funds (ETFs) that consider ESG factors during diverse investment decisions. These investments look for businesses with incredibly good environmental, social, and governance policies, such as lowering their carbon impact, maintaining honest businesses, and encouraging gender diversity. In addition to that, PFG has developed its line of environmentally friendly investment solutions, for example, the Sustainable Future Funds, which make investments in businesses that set the bar for corporate governance, social responsibility, and environmental sustainability. Moreover, the funds are making investments in businesses that offer solutions for global problems including poverty, resource depletion, and climate change.

**Data Security and Privacy:**
Another high priority of the significant ESG impact is also Data Security and Privacy which are crucial for any financial company, as they help to protect sensitive information from clients and prevent cyber-attacks. The financial and personal information from clients is secure due to PFG's large data security and privacy program. They also provide regular security audits, personnel training, and the application of innovative security technologies that are all part of the comprehensive program, which has a significant effect on the business. PFG also gives clients control over their data by giving them options to opt out of certain types of data collection and sharing. This can be done because the company also demands strict privacy policies and regulations to ensure that clients’ personal information is not misused or shared without their knowledge to any other people.

**Transparency, Accountability, & Reporting:**
Transparency, accountability, and reporting are principal elements that make up PFG's ESG strategy. The company believes that being transparent about its ESG practices and performance builds lots of trust with the clients and different stakeholders. This is why the business makes information about its ESG policies, practices, and performance available through different

channels, such as its annual sustainability report. Because the company is establishing specific goals and objectives, PFG holds itself accountable for its ESG performance since it is reporting on it frequently and keeping a close eye on its development. For instance, the business has a target of reducing its carbon footprint by 30% by 2025, and it frequently updates its progress in this direction. In addition to that, Principal Financial Group makes itself accountable for its ESG performance by establishing specific objectives and by keeping track of its progress. Principal Financial Group engages in numerous ESG reporting projects, such as the Carbon Disclosure Project (CDP) and the United Nations Global Compact, in addition to its own ESG reporting (UNGC). These projects give businesses a platform for disclosing their ESG performance and practices and comparing it to that of their competitors.

**ESG - Evaluation:**

When it comes to evaluating the stated objectives of the transaction it is clear that all ESG practices in investment management can offer a range of benefits. Some of the benefits would be improved long-term financial performance where companies that prioritize ESG practices might be better positioned for long-term financial success. They can avoid expensive legal or reputational problems by lowering the inherent environmental and social risk, and by investing in their people, businesses can increase productivity and lower turnover, which would result in better financial returns for investors. ESG investing can assist investors in supporting businesses that are having a positive influence on society and the environment, such as those devoted to social justice, sustainable agriculture, or renewable energy. As a result of our calculations, Footprint has the highest score and will have a significant impact on Principal Financial Group's ESG strategy. With a cumulative score of 13.02, Footprint is at the top, followed by Principal Financial Group (9.64) and Quant (9.60). As a result, there is better risk management from the ability of investors to detect and avoid businesses that may be exposed to hazards related to concerns like climate change, human rights abuses, or other problems. A portfolio of that kind that prioritizes ESG criteria may have fewer investment options, which might result in a portfolio that is less diversified and less profitable than one that does not and has more risk. Nevertheless, there may be instances of limited disclosure investors that might find it challenging to assess the performance of some companies on these criteria since they may not provide adequate information about their ESG policies. Given that Quant has a "Fossil Fuel Free" investing policy and depends on global modeling that takes ESG data points into account, it is possible that it would fit the ESG approach of Principal Financial Group. PFG may need to consider the possible costs and benefits of giving ESG criteria priority in its investment process if its primary goal is to maximize returns for its investors. PFG should also think about whether the proposed expense increase would influence future contributions to the fund and whether it is consistent with the company's overarching strategic goals. Overall, the acquisition fits well with PFG's objectives because we know that it is committed to assisting businesses that have high ESG performance and promote sustainable practices. Footprint Asset Management has a proven record of accomplishment of successfully incorporating ESG analysis into its investment process, and it has built a portfolio of businesses with high ESG scores as we calculated, which shows that it would be a more suitable fit for PFG's ESG approach.

## Cultural Fit

Based off Principal's cultural goal of prioritizing the customers in the asset management division, Footprint is a better fit. Footprint currently has 34% of its customers from retail investors, and an additional 17% is made up of small-medium businesses. Meanwhile, Quant only has 12% of its customers in the retail investor category. For this reason, Footprint fits well with Principal. In addition, Quant has a high key employee turnover ratio. 2 of the key fund managers left unexpectedly without announcing retirement. That begs the question, why? It is impossible to tell, but there is a risk that it is due to poor work culture. Principal strives to make inclusion and diversity a priority. This leads us to believe Quant is not a good cultural fit for Principal.

## Financials

### Beta (Quant)

| Assumptions | |
|---|---|
| Interest Rate on Debt | 3.95% |
| Effective Tax Rate | 13.70% |
| Risk Free Rate | 4.50% |
| Spread Indication | 3.25% |
| Market Risk Premium | 4.50% |
| Beta | 0.893101933 |

| Fund | Benchmark | Assets | Beta | Beta times Asset Quantity | Beta times Asset Quantity over Total AUM |
|---|---|---|---|---|---|
| QI International | MSCI EAFE NTR Index | $596M | 1.078 | 642.488 | 0.063032277 |
| QI Large Cap | Russell 1000® Growth Index | $4,244M | 1.083 | 4596.252 | 0.450922398 |
| QI Mid Cap | Russell MidCap® Index | $1,820M | 1.061 | 1931.02 | 0.189445698 |
| QI Small Cap | Russell 2000® Index | $882M | 1.144 | 1009.008 | 0.098990287 |
| QI Balanced | Bloomberg U.S. Aggregate Index | $1,027M | 0.372 | 382.044 | 0.037481016 |
| QI Bond | Bloomberg U.S. Aggregate Bond Index | $1,279M | 0.329 | 420.791 | 0.041282351 |
| QI Income | Bloomberg Credit 1-3 Year Index | $345M | 0.353 | 121.785 | 0.011947905 |
| | AUM | 10193 | | Overall Beta | 0.893101933 |
| | | | | | |
| | Expected Return | RF+Beta(MRP) | 8.52% | | |

### Beta (Footprint)

| Assumptions | |
|---|---|
| Interest Rate on Debt | 3.95% |
| Effective Tax Rate | 13.70% |
| Risk Free Rate | 4.50% |
| Spread Indication | 3.25% |
| Market Risk Premium | 5.50% |
| Beta | 0.997085395 |

| Fund | Benchmark | Assets | Beta | Beta times Asset Quantity | Beta times Asset Quantity over Total AUM | |
|---|---|---|---|---|---|---|
| Footprint Growth | Russell 1000® Growth Index | $4,929M | 1.083 | 5338.107 | 0.528211656 | |
| Footprint Value | Russell 1000® Growth Index | $1,351M | 1.083 | 1463.133 | 0.144778646 | |
| Footprint Mid Cap | Russell MidCap® Index | $2,453M | 1.061 | 2602.633 | 0.257533445 | |
| Footprint Fixed | Bloomberg U.S. Aggregate Bond Index | $1,078M | 0.329 | 354.662 | 0.035094201 | |
| Footprint Real Estate | MSCI U.S. REIT Index | $295M | 1.078 | 318.01 | 0.031467445 | |
| | AUM | 10106 | | Overall Beta | 0.997085395 | |
| | | All beta values found on bloomberg terminal | | | | |
| | | Using adjusted beta, since inception | | | | |
| | | | | | | |
| | | | | Expected Return | RF+Beta(MRP) | 9.98397% |

**Growth Rates of Key Variables:**
The key variables analyzed were the growth rates of total revenue, total expenses, net income, and net assets. Because the figures fluctuated so much from 2021-2022 and then from 2022-2023, we decided to average out these growth rates to try and make them useful. Because of the extreme changes from year to year, the average growth rates should not be used to predict future growth rates. They are extremely volatile, and it is simply too hard to predict since there is not enough historical data to determine a trend.

| **(Quant)** | 2021-2022 | 2022-2023 | Average |
|---|---|---|---|
| **Growth Rate Total Revenue** | -38.57% | 47.15% | 4.29% |
| **Growth Rate Total Expenses** | -20.00% | 5.00% | -7.50% |
| **Growth Rate Net Income** | -55.51% | 116.25% | 30.37% |
| **Growth Rate Net Assets** | -31.05% | 55.17% | 12.06% |

| **(Footprint)** | 2021-2022 | 2022-2023 | Average |
|---|---|---|---|
| **Growth Rate Total Revenue** | -37.35% | 28.97% | -4.19% |
| **Growth Rate Total Expenses** | -20.00% | 5.00% | -7.50% |
| **Growth Rate Net Income** | -52.71% | 64.89% | 6.09% |
| **Growth Rate Net Assets** | -40.13% | 25.97% | -7.08% |

**WACC:**
We calculated the WACC using the 2023 figures given. To get E/V, we simply divided the total value of the company in 2023 by the total value plus debt. Moving the numbers around, we got the D/V ratio by dividing debt by total value plus debt. Re was calculated by using the values given in the assumption. The only value not given was beta, which we had already calculated. Rd was calculated by multiplying the tax rate by total amount of debt, and then dividing by the debt. Once we calculated these four values, we plugged them into the WACC formula along with the tax rate.

Quant

| | | | |
|---|---|---|---|
| Debt | (128.04) | Re | 4.50% |
| Cash | 99.87 | Rd | 3.95% |
| E/V | 1.76 | | |
| D/V | -0.763571301 | WACC | 5.33% |

Footprint

| | | | |
|---|---|---|---|
| Debt | (224.34) | Re | 5.50% |
| Cash | 126.71 | Rd | 3.95% |
| E/V | 2.21 | | |
| D/V | -1.208694185 | WACC | 8.021% |

**Bidding Price:**
We found the bidding through evaluation of its enterprise value and use implied multiple. To find the EV we use the Market Cap plus total debt (Loan payable and other payable) minus cash and cash equivalents. Then we use two multiples which are EV/EBITDA and EV/EBIT. This shows us that the real value of Footprint for 2023 is 410 million while Quant valuation is 278 million.

**DCF model:**
To get the DCF bid pricing you can use the FCF of 2023 divided by the rate of return. To find FCF, the operating cash flow was divided by the rate of return. Assuming there are no capital expenditures (none planned according to the case study document), then this is our definitive answer for bid price. This method of valuation gave us a valuation for Quant of 366 million dollars, and for Footprint, of 481 million dollars.

**Effect on Principal:**
With the recommendation of acquiring Footprint Asset Management, the effect in 2022 for Principal starts with an increase of 46 million dollars in income before taxes. Net income would be 40.32 million dollars assuming the taxes stay the same for Footprint. This adds an additional 6.67% of free cash flow generation to Principals stated net income.

| Revenues | 2021 | 2022 | 2023 (Forecasted) | | | |
|---|---|---|---|---|---|---|
| Management & Advisory Fees | 144.50 | 91.95 | 117.32 | 96.5475 | 4.60 | |
| Incentive Fees | 8.67 | 5.52 | 7.04 | | | |
| Investment Income (Loss) | | | | | | |
| Principal Investments | 4.68 | 1.36 | 3.16 | | | |
| Total Investment Income | 4.68 | 1.36 | 3.16 | | | |
| Interest & Dividend Revenue | 4.33 | 2.76 | 3.52 | | | |
| Other | 2.89 | 1.84 | 2.35 | | | |
| Total Revenues | 165.07 | 103.42 | 133.38 | 108.02 | | |
| | | | | | | |
| Expenses | | | | | | |
| Compensation & Benefits | | | | | | |
| Compensation | 39.54 | 31.64 | 33.22 | 28.47161 | (3.16) | |
| Incentive Fee Compensation | 5.20 | 3.31 | 4.22 | | | |
| Total Compensation & Benefits | 44.75 | 34.95 | 37.44 | | | |
| General, Administrative, & Other | 17.06 | 13.65 | 14.33 | 9.552566 | (4.09) | |
| Interest Expense | 9.68 | 6.29 | 8.25 | | | |
| Fund Expenses & Distribution Fees | 7.95 | 7.86 | 6.58 | | | |
| Miscellaneous Expenses | (1.90) | (0.71) | (1.47) | | | |
| Total Expenses | 77.54 | 62.03 | 65.13 | 52.35 | (7.26) | -9.67663 |
| | | | | | | |
| Income Before Taxes | 87.53 | 41.39 | 68.25 | 45.99 | | |
| Taxes | 11.99 | 5.67 | 9.35 | 4.60 | Increase in revenue pre tax | |
| Net Income | 75.54 | 35.72 | 58.90 | 40.32 | NI post synergies | |
| | | | | | | |
| | | | | 0.066751 | % increase in NI for Principal | |

## Conclusion

In conclusion, it is our recommendation that Principal acquire Footprint Asset Management and not acquire Quant Impact Partners. This decision is based on all the data listed above from the cultural, ESG, and financial aspects. Overall, Footprint aligns with Principal better than Quant, and offers the improvements to ESG investing that Principal is looking for.