
2023 BROOKS CASE COMPETITION

TO: PRINCIPAL SENIOR MANAGEMENT

FROM: TEAM FIVE

SUBJECT: COMPANY ACQUISITION, QUANT IMPACT PARTNERS, AND FOOTPRINT ASSET MANAGEMENT

DATE: 3/27/2023

After much evaluation, we believe the principal should acquire Footprint Asset Management over Quant. Footprint provides a better investment option, more opportunities for meshing between ESG sectors, and ultimately a better cultural fit.

I. ESG Strategy and Cultural Fit

While evaluating the financial impact of acquisitions is fundamental, so is understanding how such deals can provide insight into better ESG capabilities. In acquiring Footprint Asset Management, it gives principals several ways in which they can improve an already sound ESG strategy. First, utilizing "Greenium" or the ability to charge a higher compensation based on ESG factors can create higher expense ratios that aren't at the expense of the fund. Furthermore, using ESG effectively can bolster investor engagement and enhance the potential for ESG factors can create higher expense ratios that aren't at the fund's expense for investors to stay loyal to the financial services Principal offers.

Principal Financial prides itself on its ability to provide strong solutions and services to its vast customer base. A necessary step in achieving this level of customer deliverance is investing in and developing a dedicated long-term workforce that is built around integrity, inclusion, and trust. Footprint Captures this idea well through a low employee turnover and high employee retention. Furthermore, Footprint has good supplemental pieces to Principals' social goals as they hyper-focus on investing for good as well as improving broad social aspects through investing.

II. Fair Valuation

a. Financial Ratios

The financial ratios calculated for each company are equity multiplier, asset utilization, and profit margin. An equity multiplier indicates how much a company's assets are financed through equity. Footprint is projected to have an equity multiplier of 2.38 which is an indication that Footprint is more debt-financed, meaning that it is more tax benefits and lower WACC. Asset utilization shows how effectively a company uses assets to generate revenue and Footprint has a ratio of 0.2. The profit ratio measures the profitability of a company, and Footprint is projected to have a profit margin of 79% which is much higher than Quant Impacts' projected ratio of 60.6%.

b. DCF Model

Financial data for 2021-2023 (Projected) were changed to reflect assumed acquisition synergies. We expect revenue growth for both companies to be a consistent 3% year over year. The expected total compensation growth percentage value was found by using average growth from 2021-2023 data. SG&A expenses were taken from the projected growth in 2023 and were applied to expected projections. Miscellaneous expenses include interest expenses, fund expenses & distribution fees, and Miscellaneous expenses. Miscellaneous expenses were calculated as the average value of 2021-2023 and were projected as a constant value. FCF was taken from Net income after a 13.7% tax rate for both companies.

For WACC calculation we first found the beta of each fund compared to each individual benchmark, and then we calculated the portfolio beta by taking the weighted average of betas based on AUM in each fund. To calculate the WACC we took the portfolio beta and inputted the cost of debt and the risk-free rate that was provided. We then used this to find a valuation of \$633 million for Footprint and \$630 Million for Quant.

Financial Ratios

	Ratio	2021	2022	2023 (Forecasted)
Quant	Equity Multiplier	2.0408	1.8182	1.7241
	Asset Utilization	0.2000	0.2000	0.2000
	Profit Margin	0.6314	0.6580	0.6068
Footprint	Equity Multiplier	2.2222	2.3256	2.3809
	Asset Utilization	0.2000	0.2000	0.2000
	Profit Margin	0.7289	0.6621	0.7193

Inputted Values for WACC Calculations

Description	Quant Impact Partners	Footprint Asset Management
Revenue	3%	3%
Total Compensation	36.44%	29.773%
SG&A	3.785%	4.982%
Misc. Expenses	\$1,866,666.67	\$14,176,666.67
WACC	.081448	.082345
NPV	\$630,969,041.60	\$633,288,089.85

DCF Model

	2021	2022	2023	2024	2025	2026	2027	2028
Total Revenues	112,097,500.00	68,078,000.00	101,432,000.00	104,474,960.00	107,609,208.80	110,837,485.06	114,162,609.62	117,587,487.90
Total Compensation & Benefits	40,748,250.00	22,732,750.00	39,548,000.00	37,866,113.90	39,002,097.32	40,172,160.24	41,377,325.05	42,618,644.80
General, Administrative, & Other	9,455,000.00	7,564,000.00	7,943,750.00	8,244,420.94	8,556,472.27	8,880,334.75	9,216,455.42	9,565,298.25
Misc. Expenses	410,000.00	10,180,000.00	(4,990,000.00)	1,866,666.67	1,866,666.67	1,866,666.67	1,866,666.67	1,866,666.67
EBIT	61,484,250.00	27,601,250.00	58,930,250.00	56,497,758.49	58,183,972.54	59,918,323.41	61,702,162.48	63,536,878.18
tax (13.7%)	8,423,342.25	3,781,371.25	8,073,444.25	7,740,192.91	7,971,204.24	8,208,810.31	8,453,196.26	8,704,552.31
NI	53,060,907.75	23,819,878.75	50,856,805.75	48,757,565.58	50,212,768.30	51,709,513.10	53,248,966.22	54,832,325.87
OCF=	53,060,907.75	23,819,878.75	50,856,805.75	48,757,565.58	50,212,768.30	51,709,513.10	53,248,966.22	54,832,325.87
FCF=	53,060,907.75	23,819,878.75	50,856,805.75	48,757,565.58	50,212,768.30	51,709,513.10	53,248,966.22	54,832,325.87
WACC with 13.7% tax	0.081447509							
NPV(2023 to 2027) =	\$204,903,052.25							
NPV(2028...)=	\$455,125,989.35							
NPV(2023...)=	\$660,029,041.60							
Plus: Cash	99,870,000							
Minus: Long term debt	128,930,000							
Total value	\$630,969,041.60							

WACC Calculation

Benchmark	Footprint vs benchmark				Footprint	Benchmark							
	1yr	3yr	5yr	10yr		1yr	3 yr	5 yr	10 yr	1 yr	3 yr	5 yr	10 yr
Russell 1000® Growth Index	-0.12	0.39	0.8	0.73	-29.26%	8.18%	11.76%	14.83%	-29.14%	7.79%	10.96%	14.10%	
Russell 1000® Growth Index	-3.29	4.81	3.09	2.47	-32.43%	12.60%	14.05%	16.57%	-29.14%	7.79%	10.96%	14.10%	
Russell MidCap® Index	-2.56	-1.39	-2.27	-0.23	-15.26%	18.29%	5.20%	9.43%	-12.70%	19.68%	7.47%	9.66%	
Bloomberg U.S. Aggregate Bond Index	-1.07	-0.44	-0.19	-0.3	-10.79%	-4.21%	0.34%	0.82%	-9.72%	-3.77%	0.53%	1.12%	
MSCI U.S. REIT Index	-0.55	0.17	0.62	0.8	-12.29%	4.29%	7.99%	7.31%	-11.74%	4.12%	7.37%	6.51%	

Covariance	Benchmark variance	Beta	AUM	% of port
0.041641356	0.040843809	1.019527	\$4,929,000,000.00	0.48773
0.047359383	0.040843809	1.159524	\$1,351,000,000.00	0.133683
0.019241378	0.018412863	1.044997	\$2,453,000,000.00	0.242727
0.00269609	0.002506007	1.075851	\$1,078,000,000.00	0.106669
0.008566977	0.008056737	1.063331	\$295,000,000.00	0.029191
			Footprint Beta	1.051711