

# WisdomTree Investments Inc (WETF)

## Commoditization And Patent Litigation Fears Overstated, In Our View; Pull Back Creates Opportunity

- **Commoditization and patent litigation fears overblown** — We believe the stock has lagged peers around two investor issues: 1) commoditization risk following BLK commentary around possible strategy to lower fees to compete with industry leader Vanguard; and, 2) potential EPS risk from an adverse outcome in patent litigation. We believe these concerns are overdone and represent a buying opportunity.
- **Likely insulated from possible ETF commoditization** — Following recent BLK commentary – see our 7/18 report, [Off The Call: Moving In The Right Direction But Backdrop Difficult](#); and, 9/10 report, [Getting \(Some\) Clarity On ETF Pricing Strategy](#) – investors have focused on possible impacts on the ETF industry. We see WETF insulated from possible ETF commoditization as: 1) rules based/fundamentally weighted ETFs differentiate product set from beta replicators; and, 2) exemptive relief creates a first mover advantage – see our 9/14 report, [Inside Pandora's Box; It Isn't As Scary As Imagined](#)
- **Keeping potential patent litigation EPS risk in perspective** — We are encouraged around management commentary in the 2Q 10-Q adding a third key defense to the patent litigation issue. WETF stated they have evidence the patent owner failed to disclose information prior to the patent that may have resulted in a denial. That said, even in the case of an adverse outcome, we estimate ~\$0.03 A/T impact when assuming all equities ETFs at risk – \$12.4B in AUM, or ~83% of total AUM. While the \$0.03 is the worst case scenario and translates into possibly 8% dilution in 2014, the shares are down nearly 25% from Spring highs (even as AUM climb). If we strip out price action related to commoditization risk, we believe investors have put nearly a 60x PE on the (possibly) foregone EPS. We believe this is overdone.
- **Maintain Buy; \$8.50 12-month price target** — We see two ways for investors to win with WETF: 1) we view WETF as the best pure play on ETFs within our coverage universe with clear share gains overall and particularly within equities; and, 2) we believe WETF is a potential sale candidate.

EPS	Q1	Q2	Q3	Q4	FY	FC Cons
2011A	0.00A	0.01A	0.01A	0.01A	0.03A	0.02A
2012E	0.02A	0.02A	0.01E	0.03E	0.09E	0.08E
Previous	0.02A	0.02A	0.01E	0.03E	0.09E	na
2013E	na	na	na	na	0.21E	0.22E
Previous	na	na	na	na	0.21E	na
2014E	na	na	na	na	0.30E	0.26E
Previous	na	na	na	na	0.30E	na

Source: Company Reports and dataCentral, Citi Research. FC Cons: First Call Consensus.

### Company Update

<b>Buy</b>	<b>1</b>
Price (13 Sep 12)	US\$6.59
Target price	US\$8.50
Expected share price return	29.0%
Expected dividend yield	0.0%
<b>Expected total return</b>	<b>29.0%</b>
Market Cap	US\$822M

### Price Performance (RIC: WETF.O, BB: WETF US)



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### See Appendix A-1 for Analyst Certification, Important Disclosures and non-US research analyst disclosures.

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Fiscal year end 31-Dec	2010	2011	2012E	2013E	2014E
<b>Valuation Ratios</b>					
P/E adjusted (x)	nm	nm	73.5	31.7	21.8
P/E reported (x)	nm	nm	73.5	31.7	21.8
P/BV (x)	43.2	34.6	21.2	14.6	10.5
P/Adjusted BV diluted (x)	na	na	na	na	na
Dividend yield (%)	0.0	0.0	0.0	0.0	0.0
<b>Per Share Data (US\$)</b>					
EPS adjusted	-0.07	0.03	0.09	0.21	0.30
EPS reported	-0.07	0.03	0.09	0.21	0.30
BVPS	0.15	0.19	0.31	0.45	0.63
Tangible BVPS	0.15	0.19	0.31	0.45	0.63
Adjusted BVPS diluted	na	na	na	na	na
DPS	0.00	0.00	0.00	0.00	0.00
<b>Profit &amp; Loss (US\$m)</b>					
Net interest income	0	0	0	0	0
Fees and commissions	41	64	83	109	137
Other operating Income	1	1	1	1	1
<b>Total operating income</b>	<b>41</b>	<b>65</b>	<b>83</b>	<b>110</b>	<b>138</b>
Total operating expenses	-49	-62	-77	-82	-92
<b>Oper. profit bef. provisions</b>	<b>-8</b>	<b>3</b>	<b>6</b>	<b>27</b>	<b>47</b>
Bad debt provisions	0	0	0	0	0
Non-operating/exceptionals	0	0	0	1	1
<b>Pre-tax profit</b>	<b>-8</b>	<b>3</b>	<b>7</b>	<b>28</b>	<b>47</b>
Tax	0	0	0	0	-5
Extraord./Min. Int./Pref. Div.	0	1	6	1	0
<b>Attributable profit</b>	<b>-8</b>	<b>4</b>	<b>12</b>	<b>29</b>	<b>43</b>
Adjusted earnings	-8	4	12	29	43
<b>Growth Rates (%)</b>					
EPS adjusted	67.2	142.7	211.7	131.5	45.8
Oper. profit bef. prov.	64.7	139.5	110.8	328.0	69.7
<b>Balance Sheet (US\$m)</b>					
<b>Total assets</b>	<b>29</b>	<b>43</b>	<b>67</b>	<b>92</b>	<b>122</b>
Avg interest earning assets	0	0	0	0	0
Customer loans	0	0	0	0	0
Gross NPLs	0	0	0	0	0
<b>Liab. &amp; shar. funds</b>	<b>29</b>	<b>43</b>	<b>67</b>	<b>92</b>	<b>122</b>
Total customer deposits	0	0	0	0	0
Reserve for loan losses	0	0	0	0	0
Shareholders' equity	17	26	43	63	88
<b>Profitability/Solvency Ratios (%)</b>					
ROE adjusted	-45.4	18.1	36.0	54.7	56.6
Net interest margin	na	na	na	na	na
Cost/income ratio	118.6	95.3	92.3	75.0	66.4
Cash cost/average assets	179.3	173.3	140.2	103.3	85.6
NPLs/customer loans	na	na	na	na	na
Reserve for loan losses/NPLs	na	na	na	na	na
Bad debt prov./avg. cust. loans	na	na	na	na	na
Loans/deposit ratio	na	na	na	na	na
Tier 1 capital ratio	na	na	na	na	na
Total capital ratio	na	na	na	na	na

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# Commoditization And Patent Litigation Fears Overstated, In Our View; Pull Back Creates Opportunity

## Investment Summary

In this report we detail our views on two recent investor issues that we believe have weighed on the stock: 1) commoditization risk following BLK commentary around possible strategy to lower fees to compete with industry leader Vanguard; and, 2) potential dilution from an adverse outcome in patent litigation.

We see WETF as likely insulated from possible ETF commoditization as: 1) rules based/fundamentally weighted ETFs differentiate product set from beta replicators; and, 2) exemptive relief advantage over peers creates a first mover advantage. We are encouraged around management commentary in the 2Q 10-Q adding a third key defense in the matter.

We see two ways for investors to win with WETF: 1) we view WETF as the best pure play on ETFs within our coverage universe with clear share gains overall and particularly within equities; and, 2) we believe WETF is a potential sale candidate.

## Why We See WETF Insulated From A Possible ETF “Pricing War”

Following CEO commentary on the 2Q EPS call – see our 7/18 report, [Off The Call: Moving In The Right Direction But Backdrop Difficult](#) – and at a recent investor conference – see our 9/10 report, [Getting \(Some\) Clarity On ETF Pricing Strategy](#) – investors have focused on possible impacts on the ETF industry.

It is worth noting that we do not see a widespread ETF “price war” breaking out, but we do see building risk for active FI inflows and thus implications for trading, spreads and sell-side economics developing.

That said, we see WETF as likely insulated from possible ETF commoditization as: 1) rules based/fundamentally weighted ETFs differentiate product set from beta replicators; and, 2) exemptive relief creates a first mover advantage. In Figure 1, as a case study, we look at the Diversified Emerging Market Morningstar category or one of the areas we think BLK may act on lowering prices – see our 9/14 report, [Inside Pandora's Box; It Isn't As Scary As Imagined](#). WETF has continued to produce solid YTD net flows of \$3.2B, or a ~38% annualized growth rate, despite already having a large fee discrepancy to industry leader Vanguard. We believe WETF has generated solid growth despite having higher fees due to their focus on alpha generation through fundamental weighting that has produced solid performance.

Figure 1. WETF Is A Share Gainer In Diversified Emerging Markets Despite A Higher Fee

Morningstar Category	(@ 7/31) AUM (\$M)	% U.S. ETF AUM	YTD Net Flows (\$M)	YTD Annualized Org Growth	W. Avg Mgmt Fee% Prospectus	Versus Vanguard
<b>Diversified Emerging Markets ETFs</b>						
BlackRock	36,640	7%	668	3%	0.67	0.53
Charles Schwab	506	7%	60	24%	0.25	0.11
INVESTCO Ltd	890	2%	-22	-4%	0.56	0.42
Vanguard	52,380	24%	8,336	34%	0.14	N/A
WisdomTree	4,814	31%	1,911	113%	0.63	0.49
<b>Sub-total/Weighted-average</b>	<b>95,231</b>	<b>18%</b>	<b>10,952</b>	<b>23%</b>	<b>0.37</b>	<b>0.52</b>

Source: Strategic Insight Simfund, Citi Research

## Keeping Potential Patent Litigation EPS Risk In Perspective

We continue to believe an adverse outcome regarding patent litigation is unlikely. At the margin, we are encouraged around management commentary in the 2Q 10-Q adding a third key defense in the matter. We note that WETF previously had disclosed their two points of defense were: 1) the claim mischaracterizes the methods WETF employs; 2) WETF provided evidence that fundamental weighting was commonly known and in commercial practice prior to the patent; while adding an important argument; 3) WETF stated they have evidence the patent owner failed to disclose information prior to the patent that may have resulted in a denial.

That said, even in the event of an adverse outcome we do not see an outsized impact on earnings. In Figure 2, we estimate a ~\$0.03 A/T impact and ~8% dilution to 2014 EPS when assuming all equities ETF at risk – \$12.4B in AUM, or ~83% of total AUM. While the \$0.03 is the worst case scenario and translates into possibly 8% dilution in 2014, the shares are down nearly 25% from Spring highs (even as AUM climb).

Figure 2. We Estimate ~\$0.03 A/T Impact P/S In The (Possible) Event Of An Adverse Outcome

		<u>Comments</u>
At Risk AUM (\$M)	\$12,370	Includes all Equities ETFs (International, EM, and US)
x		
Potential 3rd Party Licensing Fee	<u>5 bps</u>	
Foregone Revenue (\$M)	\$6.2	
x		
Forward Tax Rate	<u>44%</u>	Note: WETF is not currently paying taxes
A/T Earnings	\$3.5	
Share Count (M)	138.5	
A/T Impact P/S	<b>\$0.03</b>	
Dilution % 2014 EPS	<b>8%</b>	We use 2014 as we would not expect an adverse outcome until 2013 and then would expect an appeal

Source: Company reports, Citi Research

The shares are down \$2 from the recent peak in late April while since BLK's CEO commentary around ETF pricing, the stock has been down ~\$0.25. Assuming the decline since BLK's CEO commentary can be contributed to investors discounting commoditization risk and the remaining \$1.75 was related to patent litigation fears, we estimate investors are placing a ~60x multiple on the \$0.03 A/T impact per share.

In addition to the \$0.03 A/T impact, in the case of an adverse outcome, WETF would be liable to the patent owner dating back to November 2009 – or the date of the patent award. We believe WETF would absorb this liability with cash on the balance sheet and estimate the amount as a nominal impact.

Companies mentioned: (BLK.N; US\$181.89; 2); (IVZ.N; US\$25.65; 1); (SCHW.N; US\$14.31; 2).

Figure 3. WisdomTree Investments Summary Model

WisdomTree Investments, Inc. Earnings Results and Forecasts (\$ Millions, Except As Noted)																								
KEY FORECAST VARIABLES:		1Q11	2Q11	3Q11	4Q11	1Q12	2Q12	Forecast:				Forecast:			% Change									
								3Q12E	4Q12E	2010	2011	2012E	2013E	2014E	3QE/2Q	3QE/3Q	12E/11	13E/12E	14E/13E					
<b>Revenues:</b>																								
Advisory fees		14.3	16.5	17.6	16.0	19.0	20.2	20.8	22.6	40.6	64.4	82.6	109.0	137.5	2.8	18.4	28.4	32.0	26.1					
Total revenue		14.5	16.7	17.7	16.2	19.2	20.4	21.0	22.9	41.5	65.2	83.4	109.9	138.5	2.9	18.3	28.0	31.7	26.0					
<b>Expenses:</b>																								
Compensation and benefits		5.2	4.6	5.1	4.8	5.9	5.5	5.3	5.3	19.2	19.7	21.9	23.8	25.9	-3.8	3.6	11.2	8.9	8.7					
Fund management and administration		4.2	5.7	5.1	4.9	5.4	5.6	5.9	6.4	14.3	19.9	23.4	31.1	39.2	6.4	16.3	17.6	32.9	26.1					
Marketing and business development		1.0	1.4	0.9	1.2	1.3	1.5	1.6	1.9	3.7	4.5	6.4	7.0	7.7	3.4	75.6	42.4	10.0	10.0					
Professional fees		1.4	1.1	1.5	1.1	1.1	1.4	1.4	1.5	3.8	5.0	5.4	3.5	1.2	1.8	-3.2	6.9	-35.8	-64.9					
Occupancy, communication and equipment		0.3	0.3	0.3	0.3	0.3	0.4	0.4	0.4	1.1	1.1	1.4	1.6	1.7	1.3	31.8	27.8	10.0	10.0					
Depreciation and amortization		0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.3	0.3	0.3	0.4	0.4	33.3	47.1	29.6	5.0	5.0					
Other		0.5	0.5	0.7	0.6	0.6	0.7	2.7	0.9	1.7	2.2	4.9	5.3	5.7	256.7	272.7	118.5	8.0	8.0					
Third party profit sharing		1.1	1.5	1.8	1.2	1.7	1.2	1.0	1.0	2.3	5.7	5.0	5.1	6.0	-16.9	-43.1	-10.7	0.4	18.8					
Total expenses		14.4	16.0	16.4	15.3	18.1	20.3	19.8	18.9	49.2	62.0	77.0	82.5	91.9	-2.5	20.6	24.3	7.1	11.4					
Operating Income (Loss)		0.2	0.7	1.4	0.8	1.1	0.2	1.3	4.0	-7.5	3.2	6.6	28.0	47.5	637.3	-5.8	105.7	327.3	69.2					
Interest and investment income		0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.1	0.2	0.0	0.2	0.6	0.9										
Pre-tax Income		0.2	0.7	1.4	0.8	1.1	0.2	1.3	4.0	-7.5	3.2	6.6	28.0	47.5	637.3	-5.8	105.7	327.3	69.2					
Tax		0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	4.5										
Tax Rate		0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	9.5%										
Net Income (loss)		0.2	0.7	1.4	0.8	1.1	0.2	1.3	4.0	-7.5	3.2	6.6	28.0	43.0	637.3	-5.8	105.7	327.3	53.1					
Weighted average common shares - diluted		134.5	134.9	136.1	135.7	137.4	138.5	138.7	139.0	112.0	135.3	138.4	140.1	141.9	0.2	1.9	2.3	1.3	1.3					
GAAP EPS		0.00	0.01	0.01	0.01	0.01	0.00	0.01	0.03	-0.07	0.02	0.05	0.20	0.30	636.0	-7.6	101.0	322.0	51.3					
Adjusted EPS		0.00	0.01	0.01	0.01	0.02	0.02	0.01	0.03	-0.07	0.03	0.09	0.21	0.30	-37.8	43.1	211.7	131.5	45.8					
Cash EPS		0.00	0.01	0.01	0.01	0.02	0.02	0.02	0.03	-0.06	0.03	0.09	0.21	0.31	-36.2	43.1	199.9	128.1	45.3					
<b>AUM (\$Millions):</b>																								
Total AUM		11,284	12,934	11,184	12,182	15,691	15,004	15,924	17,696	9,891	12,182	17,695	22,982	28,615	6.1	42.4	45.3	29.9	24.5					
Q/Q Chg		14%	15%	-14%	9%	29%	-4%	6%	11%	65%	23%	45%	30%	25%										
Net New Flows		1,264	1,699	179	756	2,299	338	750	1,500	3,135	3,898	4,887	4,000	4,000	121.9	319.0	25.4	-18.2	0.0					
Annualized Organic Growth		51%	60%	6%	27%	75%	9%	20%	38%	52%	39%	40%	23%	17%										
Revenue Yield (bps)		56.2	55.1	54.7	53.9	53.7	53.6	53.5	53.5	55.3	55.0	53.6	53.6	53.3										
<b>US ETFs AUM</b>																								
Net Flows		53	374	241	586	565	-113	200	400	487	1,254	1,052	1,300	1,300	7.5	74.4	42.3	34.6	27.5					
Annualized Organic Growth		10%	67%	37%	93%	66%	-11%	20%	36%	37%	61%	31%	27%	20%										
<b>International Developed ETFs</b>																								
Net Flows		2,613	2,619	2,299	2,212	2,964	2,846	2,990	3,345	2,063	2,213	3,345	4,097	4,901	5.1	30.1	51.2	22.5	19.6					
Annualized Organic Growth		93%	5%	8%	-14%	50%	18%	21%	40%	1%	24%	37%	15%	12%										
<b>International Emerging Markets ETFs</b>																								
Net Flows		3,759	3,988	3,230	3,614	5,594	5,430	5,747	6,352	3,780	3,613	6,352	8,350	10,486	5.8	77.9	75.8	31.4	25.6					
Annualized Organic Growth		6%	37%	10%	52%	155%	33%	22%	35%	134%	24%	74%	24%	18%										
<b>Currency ETFs</b>																								
Net Flows		1,467	1,896	1,194	950	881	769	777	787	1,743	950	787	929	1,078	1.1	-34.9	-17.2	18.0	16.0					
Annualized Organic Growth		92%	104%	-119%	-63%	-44%	-37%	0%	0%	91%	-9%	-20%	13%	11%										
<b>Fixed Income ETFs</b>																								
Net Flows		902	1,379	1,493	1,506	1,735	1,698	1,840	2,059	N/A	1,506	2,059	2,652	3,268	8.4	23.2	36.7	28.8	23.2					
Annualized Organic Growth		238%	196%	81%	-1%	43%	-2%	24%	43%	N/A	N/A	30%	24%	19%										
<b>Alternative ETFs AUM</b>																								
Net Flows		73	192	243	277	242	167	169	272	N/A	277	272	388	510	1.3	-30.4	-1.9	42.7	31.4					
Annualized Organic Growth		N/A	674%	135%	61%	-33%	-96%	0%	237%	N/A	N/A	7%	37%	26%										
<b>Statistics:</b>																								
Gross Margin		64%	61%	61%	62%	63%	67%	67%	67%	60%	61%	66%	67%	67%										
Adjusted Operating Margin		1%	8%	8%	6%	13%	16%	9%	21%	3%	6%	15%	26%	34%										
Comp % Revenue		36%	28%	29%	30%	31%	27%	25%	23%	46%	30%	26%	22%	19%										
Fund Mgmt & Administration % Revenue		29%	30%	29%	31%	29%	28%	29%	29%	35%	31%	28%	29%	29%										
EBITDA (\$M)		0.2	1.5	1.4	1.1	2.6	3.2	2.0	4.7	-7.4	4.2	12.6	28.9	47.0										
Free Cash Flows (\$M)		0.2	1.4	1.4	1.0	2.6	3.2	2.0	4.7	-7.2	4.1	12.5	29.2	42.9										
Adjusted Net Income (\$M)		0.16	1.39	1.36	0.99	2.55	3.18	1.98	4.70	1.21	4.04	12.41	29.10	47.45										
Dividend		\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00										
Book Value per share		0.13	0.15	0.17	0.19	0.25	0.27	0.28	0.31	0.15	0.19	0.31	0.45	0.63										

Source: Company reports, Citi Research

## WisdomTree Investments Inc

### Company description

WisdomTree Investments is a NY-based asset manager focused on exchange-traded funds (ETFs) using its proprietary fundamentally weighted index methodology. WisdomTree also licenses its indexes to third parties for proprietary products and offers a platform to promote the use of WisdomTree ETFs in 401(k) plans. WETF offers products diversified across international, emerging market, U.S., fixed income, currency, and alternative asset classes. The company is led by CEO and founder Mr. Jonathan Steinberg and senior officials including Michael Steinhardt, non-executive Chairman, and Jeremy J. Siegel, Senior Advisor.

### Investment strategy

WETF is well positioned for a material upturn in profitability as AUM have reached critical mass. WETF is a pure play on the rapidly growing \$1T+ in AUM ETF business that has several tailwinds. With strong organic growth potential from seasoning of existing products, broadening distribution, and a strong investment track record, WETF should see strong, if not accelerating, market share gains. And, WETF has a key comparative advantage over most peers, reflecting its most comprehensive active ETF "exemption relief" from the SEC. We rate WETF as a Buy.

### Valuation

We value WETF using the target P/E method. Our \$8.50 12-month target equates to a 6% market capitalization to AUM ratio, which is applied to our YE2013 estimate and discounted back six months at a 15% discount rate. While the 6% market capitalization/AUM target is well ahead of the 1-2% median for traditional asset managers, we believe a premium valuation is warranted in light of: a) superior organic growth prospects and faster than average AUM build; b) among best in class EPS growth potential; and, c) likely still depressed EPS given net income only inflected positively and the franchise offers high earnings leverage potential. Such growth across multiple metrics is well ahead of likely industry norms.

### Risks

In addition to low liquidity, the central risks to our price target are: 1) scale; 2) organic growth; 3) and adverse market depreciation.

Additionally, if the impact from any of the following factors proves to be greater than we expect, the share price may have difficulty reaching our target price. If market condition improve faster than anticipated, the share price may outperform our target.

Financial market risk — Changes in markets have a direct impact on AUM and investment management fees.

Performance risk — An inability to meet relevant investment benchmarks could result in clients withdrawing assets and in prospective clients choosing to invest with competitors. This could potentially result in lower revenue.

Redemption risk — Investors can sell ETFs without notice. A significant increase in redemption rates could have a material adverse effect on revenues, financial condition, results of operations, and business prospects.

## BlackRock Inc

### Valuation

We value the shares of BlackRock using the target P/E method. Our \$190 12-month target price is derived by applying a ~14x target P/E multiple to our 2013 adjusted EPS estimate discounted six months. The 13.5x target P/E is below the company's historical average but premium to industry average.

### Risks

If the impact from any of the following factors proves to be greater than we expect, the stock price may have difficulty reaching our target price. If market conditions improve faster than anticipated, the stock price may outperform our target. Other risks include:

Financial market risk — Changes in markets have a direct impact on AUM and investment advisory and services fees.

Performance risk — An inability to meet relevant investment benchmarks could result in clients withdrawing assets and in prospective clients choosing to invest with competitors. This could also result in lower investment management fees, which could result in a decline in revenue.

Redemption risk — Investors can redeem their investments without notice. A significant increase in redemption rates could have a material adverse effect on revenues, financial condition, results of operations and business prospects.

Integration risk — That said, management has an impeccable track record, merging in increasingly sizable State Research and Merrill Lynch Investment Managers platforms. BGI integration will run over two years.

## Invesco Ltd

### Valuation

We value the shares of Invesco using the target P/E method. Our \$29.00 12-month price target is derived by applying a ~14.5x target P/E to our FTM adjusted EPS estimate. The ~14.5x target P/E is moderately below the historical GAAP median of 16x but at the high range of the sector.

### Risks

The three central risks to our 12-month price target reflect below average markets, and outsized FX swings, the combination of which could reduce our EPS estimates and temper upward P/E multiple revaluation.

Additionally, if the impact from any of the following factors proves to be greater than we expect, the stock price may have difficulty reaching our target price. If market conditions improve faster than anticipated, the stock price may outperform our target.

Financial market risk — Changes in markets have a direct impact on AUM and investment advisory and services fees.

Performance risk — An inability to meet relevant investment benchmarks could result in clients withdrawing assets and in prospective clients choosing to invest with competitors. This could also result in lower investment management fees, which could result in a decline in revenue.

Redemption risk — Investors can redeem their investments without notice. A significant increase in redemption rates could have a material adverse effect on revenues, financial condition, results of operations and business prospects.

## The Charles Schwab Corporation

### Valuation

We value SCHW using the target P/E method. Our \$13.50 target factors a target P/E multiple of ~20x our FTM EPS estimate. Since 2003, SCHW's FTM P/E averaged 21x. We use a below LT average target multiple to reflect changing business mix.

### Risks

If the impact on the company from any of the following factors proves to be greater than we anticipate, the stock will likely have difficulty achieving our target price.

Equity levels and volatility — Market changes have a direct impact on AUM. Market volatility can also impact clients' trading volumes. Trading revenue comprised ~20% of total 2011 revenue.

Interest rates — Interest revenue (~37% of 2011 revenue) increases when rates rise and decreases when rates fall as interest-earning assets re-price more quickly than liabilities. SCHW has also been waiving fees on certain money market products in order to stay competitive. If the Fed Funds rate stay in the 0–0.25% range during 2011, waivers could continue to pressure revenue.

Integration risk — On March 21, 2011, Schwab announced it signed a definitive agreement to acquire optionsXpress. Failure to meet expected deal synergies or delays in meeting those synergies could pressure the stock or prevent it from reaching our target price.

## Appendix A-1

### Analyst Certification

The research analyst(s) primarily responsible for the preparation and content of this research report are named in bold text in the author block at the front of the product except for those sections where an analyst's name appears in bold alongside content which is attributable to that analyst. Each of these analyst(s) certify, with respect to the section(s) of the report for which they are responsible, that the views expressed therein accurately reflect their personal views about each issuer and security referenced and were prepared in an independent manner, including with respect to Citigroup Global Markets Inc and its affiliates. No part of the research analyst's compensation was, is, or will be, directly or indirectly, related to the specific recommendation(s) or view(s) expressed by that research analyst in this report.



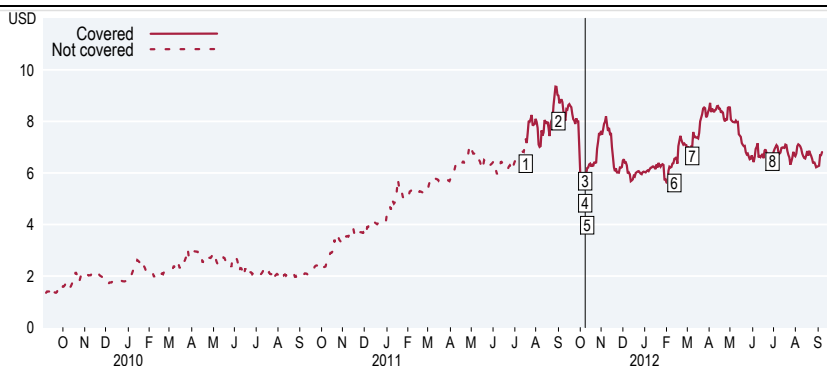
## IMPORTANT DISCLOSURES

### WisdomTree Investments Inc (WETF)

#### Ratings and Target Price History Fundamental Research

Analyst: William R Katz

Covered since July 18 2011



	Date	Rating	Target Price	Closing Price
1	18-Jul-11	*1H	*10.00	7.31
2	1-Sep-11	1H	*11.00	9.00
3	8-Oct-11	Stock rating system changed		

	Date	Rating	Target Price	Closing Price
4	8-Oct-11	*1	11.00	5.78
5	12-Oct-11	1	*9.00	6.19
6	13-Feb-12	1	*8.50	6.55

	Date	Rating	Target Price	Closing Price
7	8-Mar-12	1	*9.50	7.03
8	29-Jun-12	1	*8.50	6.57

\* Indicates change

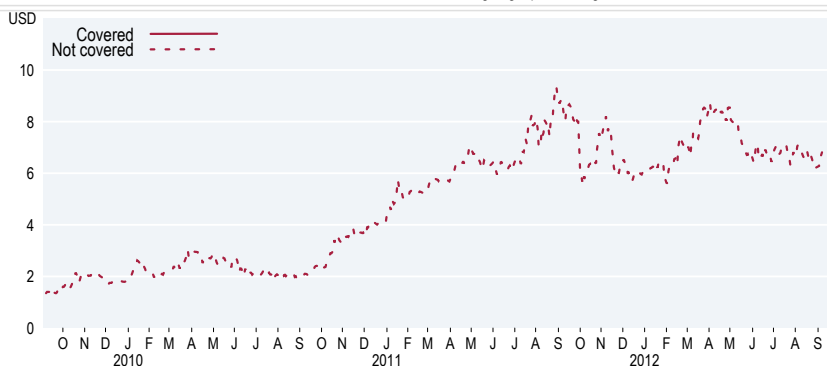
Rating/target price changes above reflect Eastern Standard Time

### WisdomTree Investments Inc (WETF)

#### Ratings and Target Price History Best Ideas Research Relative Call (3 Month)

Analyst: William R Katz

Covered since July 18 2011



\* Indicates change

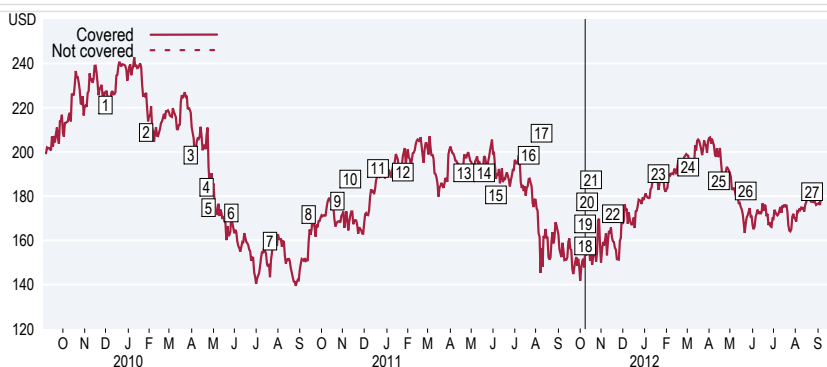
Rating/target price changes above reflect Eastern Standard Time

### BlackRock Inc (BLK)

#### Ratings and Target Price History Fundamental Research

Analyst: William R Katz

Covered since March 31 2010



	Date	Rating	Target Price	Closing Price
1	1-Dec-09	1M	*265.00	226.74
2	27-Jan-10	1M	*269.00	226.77
3	31-Mar-10	*3M	*190.00	217.76
4	22-Apr-10	*2M	*198.00	207.79
5	26-Apr-10	2M	*200.00	192.95
6	27-May-10	2M	*175.00	172.39
7	21-Jul-10	2M	*165.00	143.33
8	14-Sep-10	2M	*175.00	159.55
9	25-Oct-10	2M	*180.00	168.39

	Date	Rating	Target Price	Closing Price
10	11-Nov-10	*1M	*210.00	171.20
11	21-Dec-10	1M	*225.00	192.51
12	25-Jan-11	1M	*240.00	198.01
13	21-Apr-11	1M	*250.00	198.88
14	19-May-11	1M	*265.00	198.10
15	6-Jun-11	1M	*255.00	187.85
16	21-Jul-11	1M	*250.00	187.72
17	9-Aug-11	1M	*225.00	156.54
18	8-Oct-11	Stock rating system changed		

	Date	Rating	Target Price	Closing Price
19	8-Oct-11	*1	225.00	147.78
20	12-Oct-11	1	*190.00	156.00
21	18-Oct-11	1	*180.00	156.30
22	17-Nov-11	1	*190.00	159.60
23	20-Jan-12	*2	*193.00	182.82
24	2-Mar-12	2	*197.00	198.25
25	16-Apr-12	2	*201.00	198.18
26	23-May-12	2	*180.00	167.50
27	24-Aug-12	2	*190.00	178.27

\* Indicates change

Rating/target price changes above reflect Eastern Standard Time

## BlackRock Inc (BLK)

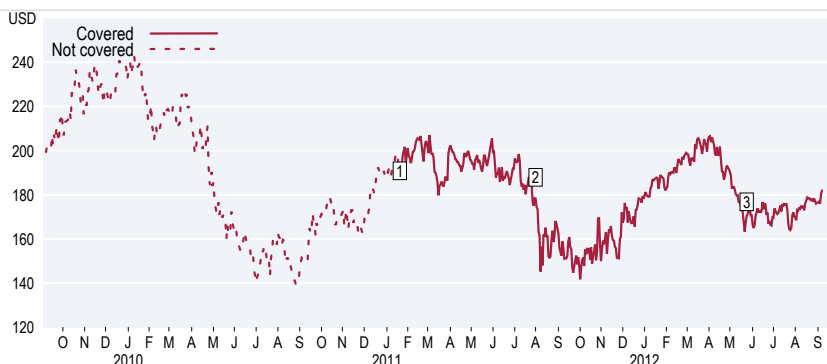
### Ratings and Target Price History

#### Best Ideas Research

#### Relative Call (3 Month)

Analyst: William R Katz

Covered since March 31 2010



	Date	Rating	Target Price	Closing Price
1	20-Jan-11	*ADD MP	-	190.87

\* Indicates change

	Date	Rating	Target Price	Closing Price
2	1-Aug-11	*REM MP	-	178.36

	Date	Rating	Target Price	Closing Price
3	24-May-12	*ADD MP	-	170.44

Rating/target price changes above reflect Eastern Standard Time

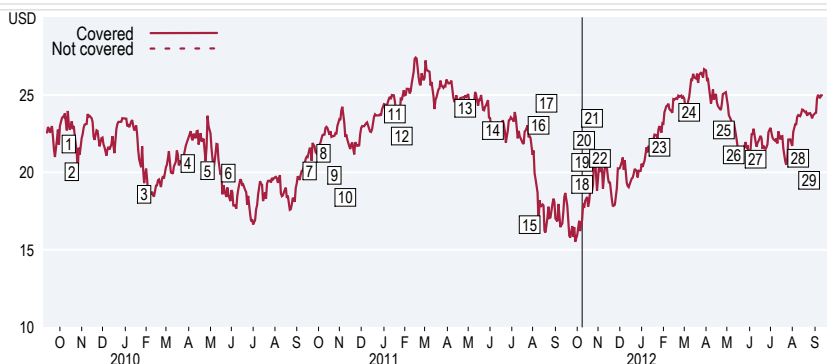
## Invesco Ltd (IVZ)

### Ratings and Target Price History

#### Fundamental Research

Analyst: William R Katz

Covered since March 31 2010



	Date	Rating	Target Price	Closing Price
1	14-Oct-09	1M	*27.00	23.10
2	19-Oct-09	1M	*30.00	23.30
3	28-Jan-10	1M	*27.00	19.30
4	31-Mar-10	1M	*26.00	22.09
5	28-Apr-10	1M	*27.00	23.66
6	27-May-10	1M	*25.00	18.56
7	20-Sep-10	1M	*26.00	21.54
8	8-Oct-10	1M	*27.00	22.41
9	25-Oct-10	1M	*28.00	22.36
10	9-Nov-10	1M	*26.50	22.29

\* Indicates change

	Date	Rating	Target Price	Closing Price
11	18-Jan-11	*2M	26.50	24.59
12	27-Jan-11	2M	*27.00	24.66
13	27-Apr-11	2M	*25.50	24.97
14	6-Jun-11	2M	*24.50	22.78
15	27-Jul-11	2M	*24.00	22.37
16	9-Aug-11	2M	*18.50	16.62
17	19-Aug-11	2M	*17.00	16.11
18	8-Oct-11	Stock rating system changed		
19	8-Oct-11	*2	17.00	16.20
20	12-Oct-11	*1	*21.00	17.70

	Date	Rating	Target Price	Closing Price
21	24-Oct-11	1	*23.00	18.80
22	3-Nov-11	1	*25.00	20.03
23	26-Jan-12	1	*27.00	22.99
24	8-Mar-12	1	*30.00	24.87
25	26-Apr-12	1	*31.00	25.10
26	10-May-12	1	*28.50	23.25
27	11-Jun-12	1	*27.00	21.97
28	9-Aug-12	1	*28.00	23.70
29	24-Aug-12	1	*29.00	23.80

Rating/target price changes above reflect Eastern Standard Time

## Invesco Ltd (IVZ)

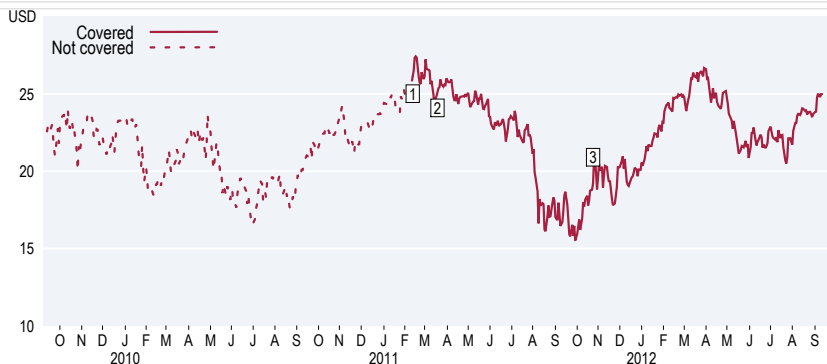
### Ratings and Target Price History

#### Best Ideas Research

#### Relative Call (3 Month)

Analyst: William R Katz

Covered since March 31 2010



	Date	Rating	Target Price	Closing Price
1	11-Feb-11	*ADD MP	-	25.75

\* Indicates change

	Date	Rating	Target Price	Closing Price
2	18-Mar-11	*REM MP	-	24.85

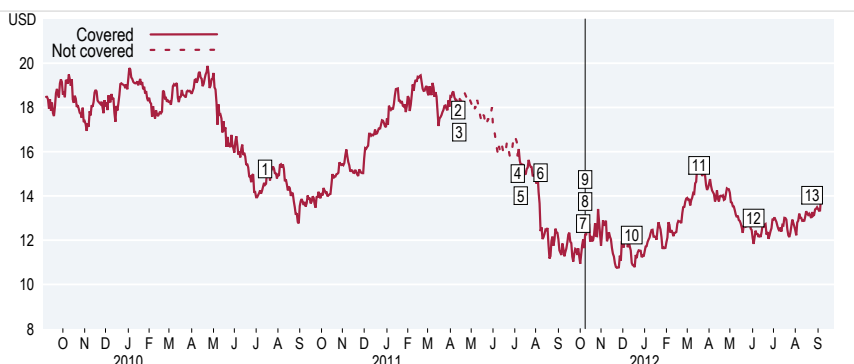
	Date	Rating	Target Price	Closing Price
3	25-Oct-11	*ADD MP	-	19.22

Rating/target price changes above reflect Eastern Standard Time

## The Charles Schwab Corporation (SCHW)

### Ratings and Target Price History Fundamental Research

Analyst: William R Katz  
Covered since July 6 2011



	Date	Rating	Target Price	Closing Price
1	14-Jul-10	2M	*16.00	14.50
2	13-Apr-11	2M	*19.00	18.18
3	14-Apr-11	Coverage terminated		
4	6-Jul-11	2M	*18.00	15.79
5	11-Jul-11	2M	*17.50	15.40

\* Indicates change

	Date	Rating	Target Price	Closing Price
6	8-Aug-11	2M	*15.50	12.41
7	6-Oct-11	2M	*13.00	12.04
8	8-Oct-11	Stock rating system changed		
9	8-Oct-11	*2	13.00	11.64
10	14-Dec-11	2	*12.00	10.97

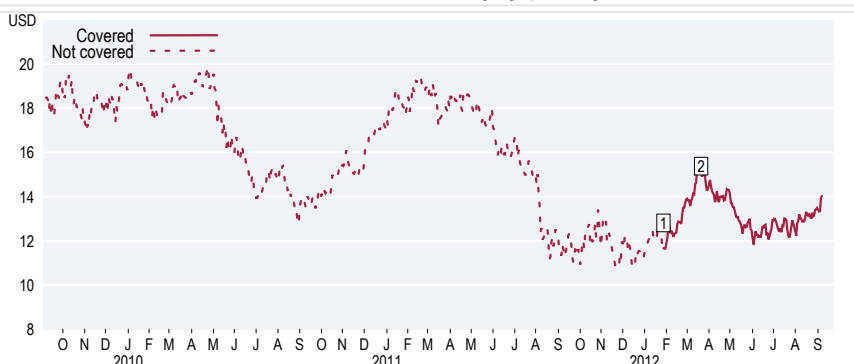
	Date	Rating	Target Price	Closing Price
11	19-Mar-12	*1	*20.00	15.31
12	4-Jun-12	*2	*13.00	11.83
13	24-Aug-12	2	*13.50	13.27

Rating/target price changes above reflect Eastern Standard Time

## The Charles Schwab Corporation (SCHW)

### Ratings and Target Price History Best Ideas Research Relative Call (3 Month)

Analyst: William R Katz  
Covered since July 6 2011



	Date	Rating	Target Price	Closing Price
1	27-Jan-12	*ADD LP	-	11.67

\* Indicates change

	Date	Rating	Target Price	Closing Price
2	21-Mar-12	*REM LP	-	15.26

Rating/target price changes above reflect Eastern Standard Time

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<i>Data current as of 30 Jun 2012</i>	12 Month Rating			Relative Rating		
	Buy	Hold	Sell	Buy	Hold	Sell
Citi Research Global Fundamental Coverage	53%	37%	10%	10%	80%	10%
% of companies in each rating category that are investment banking clients	44%	43%	40%	48%	43%	45%

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Citigroup Global Markets Inc

William R Katz; Neil Stratton, CFA; Steven J Fullerton

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