



MARCATO

Virtus Investment Partners  
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## MARCATO IS SUPPORTIVE OF THE RIDGEWORTH ACQUISITION

- ▲ Virtus' acquisition of RidgeWorth is transformational and strategically compelling
  - Improves diversification by asset class, client type, and strategy
  - Adds scale, relationships, and resources to pursue new areas of growth
  - Provides valuable tax assets and accretion to earnings and cash flows
- ▲ Despite the merits of the combination, Virtus has not articulated a clear framework for the transaction's intended financing structure, creating uncertainty about the magnitude of value creation
- ▲ **With significant accretion potential and untapped balance sheet capacity, Virtus should finance the RidgeWorth transaction with available cash, committed debt, and minimal issuance of its undervalued stock**
- ▲ Minimal stock issuance could drive EPS accretion of 50%+

# A STRONGER BUSINESS

RidgeWorth adds scale and diversification by asset class, client type, and strategy, reducing the volatility of earnings and enhancing the resilience of the franchise

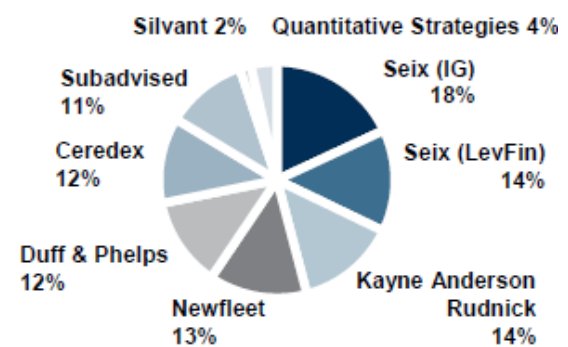
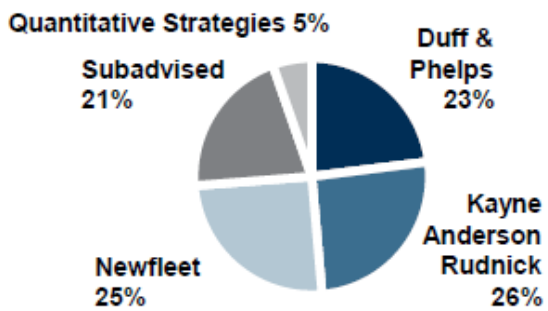
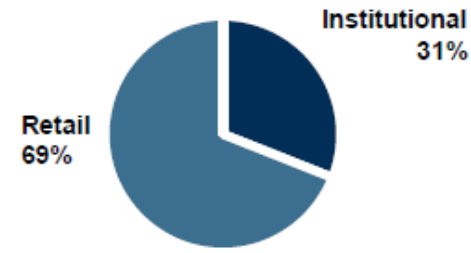
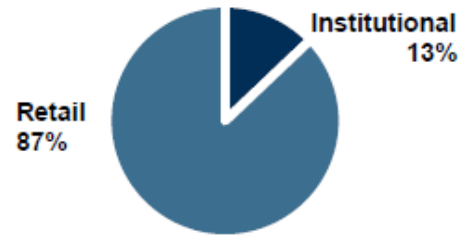
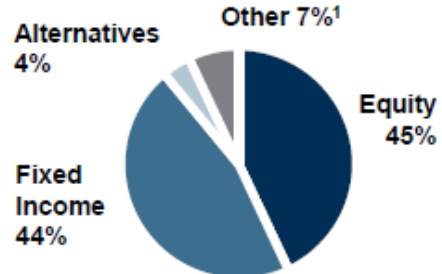
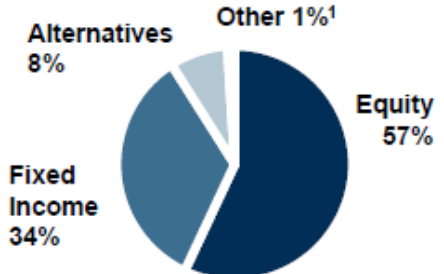
Asset Class

Client Type

Manager

## Status Quo

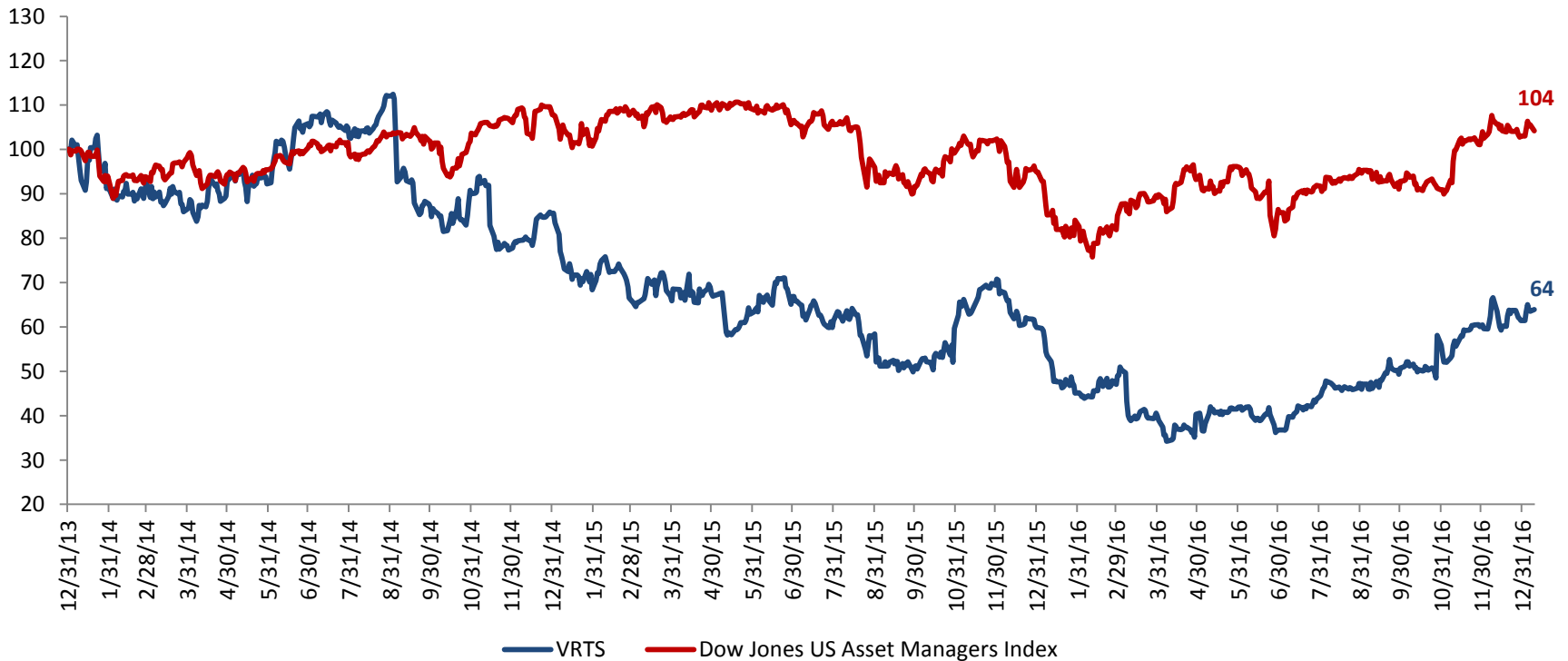
## Pro Forma



# SHARE PRICE UNDERPERFORMANCE

Virtus' share price has underperformed peers over the past three years

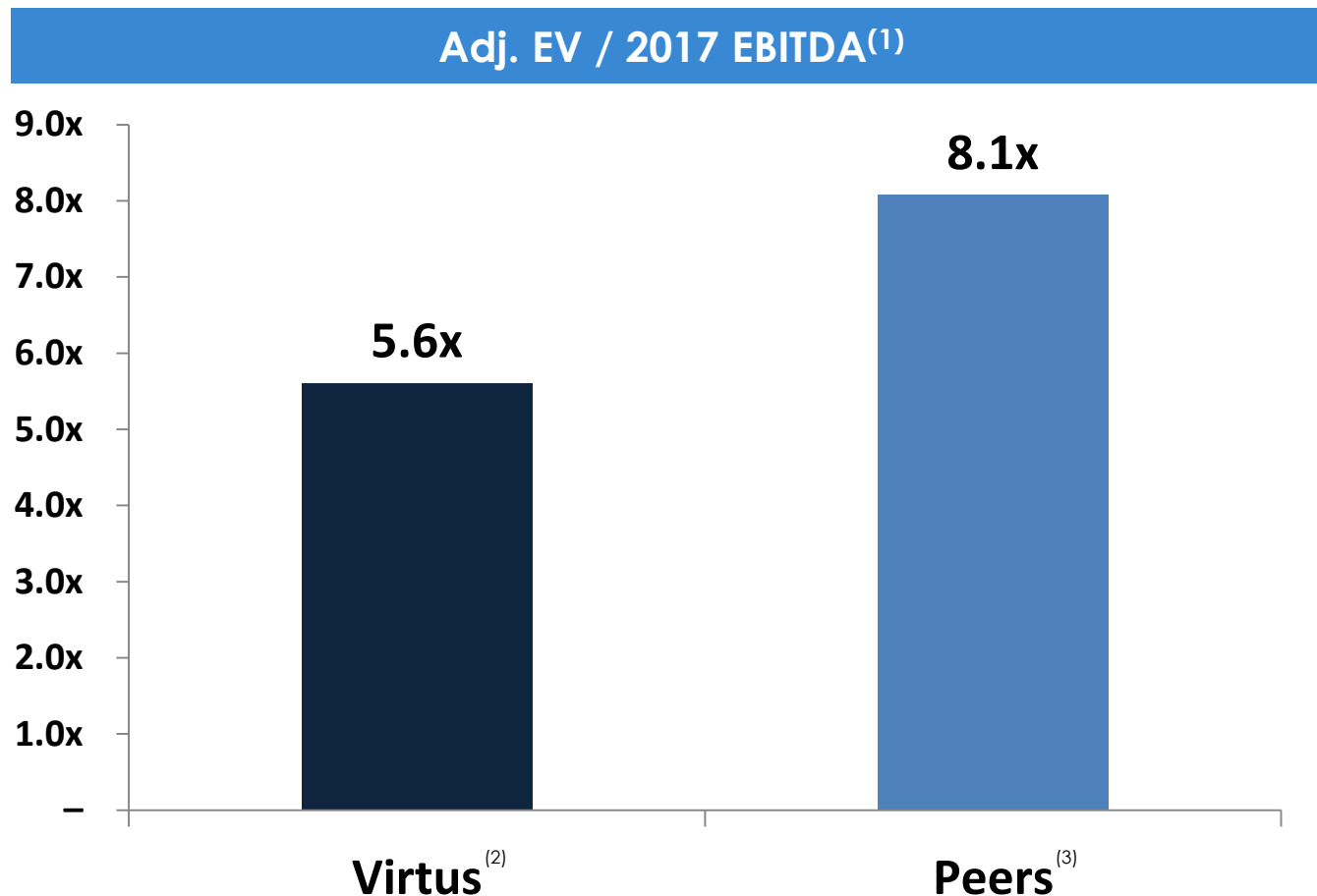
## Indexed Share Price Performance (12/31/13 = 100)



# SHARE PRICE UNDERVALUATION

Due to the stock's undervaluation, minimizing equity dilution should be a top priority

▲ Virtus has significant asset value (~30% of market capitalization in net cash and investments) that continues to be mispriced despite recent accelerated capital returns to shareholders



(1) Enterprise value adjusted for investments as of 1/9/17  
(2) Status quo Virtus as of 1/9/17  
(3) TROW, BEN, LM, IVZ, BLK, JNS, AB, APAM, FII, CNS, EV

# SIGNIFICANT BALANCE SHEET CAPACITY

Virtus can finance the transaction prudently without issuing significant equity

- ▲ Assuming a financing mix of \$75mm in cash, \$400mm in incremental debt, and \$38mm in incremental equity, Virtus can still completely de-lever in four years
  - Virtus' capital-light business model generates strong free cash flows to support leverage
  - Pro forma AUM diversification reduces earnings volatility and enhances leveragability
  - \$475mm of debt financing already committed by Morgan Stanley and Barclays
- ▲ **Leverage analysis excludes a ~\$200mm investment portfolio where significant liquidity can be extracted for additional operating flexibility**

## Financing Mix

	\$	%
Cash	\$75	15%
Debt Issued	400	78%
Equity Issued	38	7%
<b>Total Consideration</b>	<b>\$513</b>	<b>100%</b>

## Illustrative Balance Sheet

	B/S @ 3Q16	Seed capital recycling	Interim cash flows	RidgeWorth	Pro Forma B/S	4-Years cash flows	B/S @ T+4 yrs.
Cash	(\$41)		(22)	75	(\$38)		(\$38)
Debt	30	(50)		400	430	(362)	68
<b>Net Debt / (Cash)</b>	<b>(\$11)</b>				<b>\$392</b>		<b>\$31</b>
<i>x Adj. EBITDA</i>	<i>(0.1x)</i>				<i>2.4x</i>		<i>0.2x</i>
<i>x Adj. EBITDA - CapEx</i>	<i>(0.1x)</i>				<i>2.5x</i>		<i>0.2x</i>
<i>Adj. EBITDA / Interest</i>					<i>6.7x</i>		<i>N/M</i>
Investments - seed	(\$179)	50			(129)		(129)
Investments - other	(31)			(41)	(72)		(72)
<b>Net Debt / (Cash + Investments)</b>	<b>(\$221)</b>				<b>\$191</b>		<b>(\$170)</b>
<i>x Adj. EBITDA</i>	<i>(2.5x)</i>				<i>1.2x</i>		<i>(1.0x)</i>
<i>x Adj. EBITDA - CapEx</i>	<i>(2.6x)</i>				<i>1.2x</i>		<i>(1.1x)</i>

## SIGNIFICANT SYNERGY AND ACCRETION POTENTIAL

The RidgeWorth acquisition can be highly accretive

- ▲ If equity dilution is minimized, the acquisition can be significantly more accretive than the “15%+” guidance currently provided by Management
- ▲ Identified synergies are large and straightforward (consolidation of duplicative corporate and business support functions)
- ▲ Further upside from revenue synergies (e.g., enhanced distribution in the institutional channel)

Pro Forma Adj. EPS		
(\$ in millions, except per share)	2018	2019
RidgeWorth Adj. EBITDA	\$48	\$48
Cost Synergies	25	25
<b>Adj. EBITDA</b>	<b>\$73</b>	<b>\$73</b>
(-) D&A	(6)	(6)
(-) Stock-based compensation	(1)	(1)
<b>Adj. EBIT</b>	<b>\$65</b>	<b>\$65</b>
(-) Interest	(21)	(18)
(-) Taxes @ 38.5%	(17)	(18)
<b>RidgeWorth Adj. Net Income</b>	<b>\$27</b>	<b>\$29</b>
VRTS Adj. Net Income (Status Quo)	\$50	\$52
(+) RidgeWorth Adj. Net Income	27	29
<b>VRTS Adj. Net Income (Pro Forma)</b>	<b>\$77</b>	<b>\$80</b>
VRTS FD shares outstanding (Status Quo)	6.095	6.095
(+) Shares issued	0.310	0.310
<b>VRTS FD shares outstanding (Pro Forma)</b>	<b>6.404</b>	<b>6.404</b>
<b>Status Quo VRTS Adj. EPS</b>	<b>\$8.15</b>	<b>\$8.45</b>
<b>Pro Forma VRTS Adj. EPS</b>	<b>\$12.03</b>	<b>\$12.54</b>
\$ accretion / (dilution)	\$3.88	\$4.09
% accretion / (dilution)	48%	48%



## ACCRETION SENSITIVITY

However, the benefits of the transaction are sensitive to the financing structure that Management employs

2019 EPS Sensitivity					
<i>Net debt / EBITDA</i>	0.6x	1.2x	1.8x	2.4x	2.5x
<i>Debt Issued</i>	\$100	\$200	\$300	\$400	\$425
Adj. EPS	\$10.32	\$10.91	\$11.63	\$12.54	\$12.81
% Accretion	22%	29%	38%	48%	52%

Given Virtus' balance sheet capacity and earnings accretion potential, Management should maximize the use of cash / debt and minimize the issuance of undervalued equity

## VALUABLE TAX ASSETS

The RidgeWorth acquisition provides tax assets worth ~\$12 per share

▲ \$420mm of purchased intangibles will be amortized over 15 years for tax purposes

▲ Tax assets will create \$10.8mm of annual tax expense savings that enhance cash flows ("Cash" EPS > Adj. EPS)

NPV of Cash Tax Savings	
Annual Tax Expense Savings @ 38% Tax Rate	\$10.8
Period (years)	15
Discount Rate %	10%
Net Present Value	\$79
(/) FD shares outstanding	6.40
<b>Net Present Value Per Share</b>	<b>~\$12</b>

"Cash" EPS		
	2018	2019
Adj. EPS	\$12.03	\$12.54
(+) Cash tax savings per share	1.69	1.69
<b>"Cash" EPS</b>	<b>\$13.72</b>	<b>\$14.23</b>

## PRICE TARGET

Significant upside potential for shareholders

2019 Adj. EPS	\$12.54
(x) P/E multiple	14.5x
2018 Price Per Share	\$181.86
(+) NPV of tax assets	12.22
<b>2018 Adj. Price Per Share</b>	<b>\$194.09</b>
(+) Dividends	3.71
<b>2018 Value Per Share</b>	<b>\$197.80</b>
Current Price Per Share	\$122.75
<i>% upside / downside</i>	<i>61.1%</i>
<i>% IRR (2.0 yrs.)</i>	<i>27.3%</i>