

PHILLY BUYER LAYS DOWN A COOL \$199 MILLION IN CASH TO BUY FOLIODYNAMIX, THE BETTER TO PUT ENVESTNET FIRMLY IN ITS SIGHTS

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Brooke's Note: This is a hell of a story about a company, FolioDynamix, and a young entrepreneur, Joe Mrak, and a deal that you might know little about. My guess is that as it all tumbles into Actua, you will.

A Radnor, Pa.-based cloud software company serving insurance agents, the government and health care firms is spending \$199 million to purchase FolioDynamix, the portfolio-rebalancing brains behind companies like LPL Financial, Cetera Financial Group, Raymond James Financial Inc., Cambridge Investment Research Inc., Pershing Advisor Solutions and the former ING — Voya Financial.

Actua Corp. paid the eye-opening sum in an all-cash deal to buy a 97% stake in New York-based FolioDynamix, a firm that has shown a knack for nudging its way into enterprise-level accounts with the serious players of the independent advisor world. The deal is expected to close in the fourth quarter.

FolioDynamix, which has been shopped around since at least May, will continue to operate in New York using its own brand name and its more than 100 staffers.

Dogging Investnet

The deal has outsized strategic importance in the realm of serving independent advisors because it could prove a challenge to an as-yet unchallenged industry giant.

"They are Investnet's biggest rival," says **Dan Seivert**, chief executive of **ECHELON Partners**, an investment bank in Manhattan Beach, Calif. aimed at RIA-related businesses. Actua's threat lies in its size and publicly traded status that make it not only a potential competitor for clients but also a bidder for good M&A deals that come down the pike, he adds.

Indeed, armed with Actua's heft, Joseph Mrak, chief executive of FolioDynamix, thinks his firm is well positioned to compete against Investnet.

"I really think we're on par with Investnet. They're across the table from us nine times out of 10 on any deal we're selling to. They're our core competitor. We are probably the last two standing," Mrak, 41, says. "I think

Investnet tried to get more into our market and we're going to go right after them. The best way to put it is we've got a lot more gas to go after the marketplace."

Whether FolioDynamix, apparently valued at \$199 million, and Actua, with its market cap of about \$600 million, will be able to represent a threat to Investnet, with a market cap of about \$1.6 billion, remains to be seen. Bill Crager, president of Investnet declined comment through a spokeswoman.

Momentum-fueled

Fueled by this new deal, Mrak, who thinks the industry needs further consolidation, has his eye out for other firms to purchase.

"We've done a few acquisitions over the last few years and we plan to keep doing that. This allows us to be more aggressive in that fashion."

Having grown its revenue by 40% in the past year to about \$40 million of revenue, one thing FolioDynamix has going for it is momentum. That hyper-growth puts it ahead of the other 11 companies in that investment processing software category that average about 15% of annual growth. That was a major factor in its ability to command such a big buyout price, according to **Seivert**.

True cloud?

Seivert points out that the company's ability to package itself as a "cloud" company also lent itself to such a favorable valuation. **Seivert** qualifies that opinion, however, by observing that whether FolioDynamix is a true cloud or software-as-a-service company is open to interpretation. "Does Investnet position themselves as a cloud-based company?" he asks rhetorically. Though Investnet's core business is typically not spoken of that way, its RIA-facing subsidiary, Tamarac, has been known as a cloud-based firm and has gained tremendous momentum as a result.

The cloud cred of FolioDynamix is not a concern of Doug Alexander, president of Actua, who said in a prepared statement: "FolioDynamix exemplifies the Actua vision of leveraging the power of the cloud to transform vertical markets and processes."

A vision and \$26 million

Some of the recent moves of the trade-rebalancing company have been high profile ones. FolioDynamix nabbed LPL Financial's business last year and it still works with more than 700 Cetera Financial Group advisors.

Pershing Advisor Solutions had used FolioDynamix and made some changes to use Naperville, Ill.-based Portfolio Pathway, but Mrak says Pershing continues to use his firm for block trading and rebalancing. Pershing issued a press release in June 2014 stating it was using FolioDynamix.

Only seven years after its 2007 founding by Mrak, FolioDynamix has \$650 billion of assets administered on its software and 80,000 users. The former Placemark Investments Inc. co-founder was able to combine a vision, an orphaned piece of SunGard Financial Systems software and about \$26 million of venture capital into what appears from the outside to be an overnight success.

PlaceMark itself was recently sold in a more modest deal to Envestnet.

Leveraging Wells Fargo

FolioDynamix may have paid \$1 million or less for the SunGard technology, sources says, which turned out to be an exceptional bargain because it came with Wells Fargo as its client. "It was like [Sungard said]: take it. It was very opportunistic on Joe's part," says **Seivert**.

Mrak was able to convince St. Louis-based Wells Fargo Advisors LLP to hang in there until some wrinkles got ironed out, **Seivert** says. And once it had Wells Fargo under control, it was able to leverage that marquee relationship into faith on the part of other large enterprises.

However, Mrak says his firm lost that account when Wells Fargo merged with Wachovia in 2009.

Raising revenues

Actua Corp. is virtually unknown as a brand, having changed its name from ICG Group to Actua Corp. on Sept. 5. Actua is derived from the Latin word *actuat*, which means to incite action or activate. The company's new Nasdaq ticker symbol is ACTA.

Though it is unclear exactly where Actua got \$199 million in cash, the firm no doubt gained liquidity when it sold its subsidiary Procurian Inc. for \$375 million in October 2013 to an affiliate of Accenture, an international consulting and technology firm. ICG Group was formally known as Internet Capital Group Inc.

Actua projects this new deal will bring new net revenue of more than \$50 million on a gross revenue basis. One way revenues could jump 25% is for it to cross-sell to its existing insurance agents, **Seivert** says.

"We have followed FolioDynamix since 2010 and have watched Joe Mrak and his team execute and create the first truly integrated, cloud-based enterprise level wealth management platform," Alexander says. "They have built an impressive customer base that relies on FolioDynamix to deliver industry-leading capabilities to their clients."

New to the insurance game

It will be interesting to see how the companies blend together given the fact that Actua is more heavily in the insurance business, says Joel Bruckenstein, publisher of Albuquerque, N.M.-based Technology Tools for Today and co-producer of the Technology Tools for Today (T3) conference.

"The only thing that strikes me is Actua Corp. seems to be in the insurance space and from what I know FolioDynamix seems to be in the broker-dealer space," he says. "To me, those are different markets. I don't know if Actua is trying to get into this space or if they think FolioDynamix is a good fit for existing clients. I'd need to learn more."

Mrak says it is quite possible he may use Actua's connections to drum up more insurance business. But Actua also services other industries including the government and health and safety.

Courting RIAs

Of the 80,000 FolioDynamix users, about 60% are advisors at banks, 10% are RIAs and 30% are reps of independent broker dealers, but Mrak says he is hopeful to increase the firm's presence among RIAs.

"We feel our secret is our vision from day one where we wanted one single log-in, one single system. When you look at Envestnet, they've got Prima and Tamarac and you've got to use other solutions and that can be a disjointed experience. With us the magic has always been that we're a one-stop shop and we think that's an excellent value proposition for the RIA space."

But Mrak is hoping to even improve the experience for RIAs. "With Actua, we can build a better service model for RIA space. We've got a platform that is phenomenal for RIAs and we can get very competitive in the RIA space."

FolioDynamix has offices in New York, Sacramento, Evansville, Ind. and Columbus, Ohio.

LPL deal

LPL executives will be watching to see what comes of the change in ownership.

"We look forward to learning more about the investments Actua is making in FolioDynamix and their future plans to further expand the Folio platform," says LPL's chief technology officer, Victor Fetter.

But LPL is on record saying it is impressed with how FolioDynamix can straddle RIA and brokerage assets on a hybrid platform. "It's a single platform to do brokerage and advisory trading, as well as rebalancing," Christopher Giles, a senior vice president of advisor technology with LPL, said in an earlier RIABiz interview. "That's the why [for going with FolioDynamix]."

Mrak says his firm provides technology and back-office services including due diligence, investment modeling, portfolio research, unified-managed-account offering, trading platforms and performance reporting. That means that some companies, like LPL, will pick and choose the services they want, while others will sign on to a whole bundle of FolioDynamix products.

All of his existing team is coming along, Mrak says, and he expects no changes in personnel.

“Our vision from day one was to build the absolute best advisory service we can from soup to nuts and we’ve done that.”

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