Financials, growth key to plan for IPO

Manning & Napier looks to raise up to $250M with its public offering

By MARY STONE

With a low cancellation rate and an impressive increase in assets under management despite the recession, Manning & Napier Inc. presents a compelling offering, one IPO analyst says.

The investment management firm filed with the Securities and Exchange Commission last Friday to raise up to $250 million in an initial public offering. It plans to use the ticker symbol MN.

Based in Fairport, the firm had $42.6 billion in assets under management as of March 31, up from $6.9 billion on Dec. 31, 1999; its compound annual growth rate over that period was 17.5 percent. Revenues over the same period jumped from $50.2 million to $255.5 million in 2010.

Except for 2008, Manning & Napier has increased its assets under management every year since 2002.

To Scott Sweet, a senior managing partner at IPO Boutique, an advisory firm in Florida, that fact is impressive, considering the dot.com bust in the early 2000s and the 2007-09 recession.

In economic hard times, Sweet said, investors are especially careful to keep their money in experienced hands. If Manning & Napier managed to grow—and keep a low average cancellation rate of 3.6 percent—over the last five years, it shows investors that the firm's management is solid, he said.

"The industry standard cancellation rate is 25 percent. In comparison, Manning &

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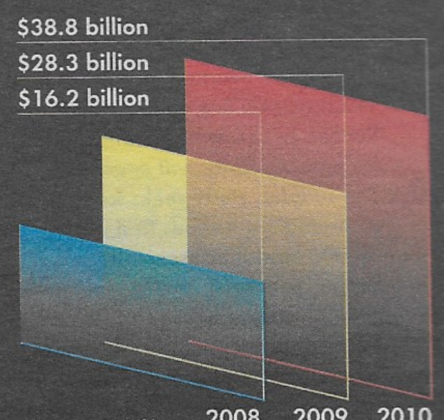
Bigger and bigger

Over the past three years, Manning & Napier has more than doubled assets under management to $38.8 billion at the end of 2010.



Source: SEC filing

MANNING & NAPIER

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Napier's is extremely low," he said.

In the investment industry, the firm's track record is well-recognized, especially for one of its funds, which until 2010 beat the Standard & Poor's 500-stock index for 11 consecutive years.

In its filing, Manning & Napier did not disclose the number of shares to be offered or the expected price—in which case, Sweet said, it was impossible to determine whether the investment is an attractive one. However, he said, given data showing top- and bottom-line growth, no debt, increasing assets under management and a strong blend of assets, the numbers look good.

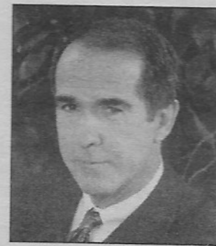
"Assuming it's priced fairly and to its comps, I would consider it attractive," Sweet said.

An IPO now makes sense for a firm such as Manning & Napier because of the recent recession. Firms with a long and strong track record and an emphasis on high-end institutional investments can more clearly demonstrate their success by snapping up money that in more prosperous times might be placed in more speculative investments, Sweet explained.

Financials

The company's revenue was $255.5 million last year, up from nearly $96 million five years earlier, SEC documents show. For the quarter ended March 31, revenue amounted to $78 million, up from $57.2 million the year before. If that performance continues for the rest of the year, it would be impressive growth, Sweet said.

Net income for the quarter was $23.7 million, up from $9.7 million a year ago, SEC documents show. Annually, net income has fallen slightly since the recession: from $59 million in 2008, to $54 million in 2009 and $53 million in 2010—still considerably higher than it was five years earlier, when the company earned $25 million.



William Manning

The firm states in its filing that a substantial non-cash compensation expense related to its reorganization as a publicly traded firm "is likely to cause our net income to be negative for 2011 and 2012."

Upon completion of the offering, Chairman William Manning—the firm's co-founder and controlling stockholder—will hold a majority of the combined voting power of the firm's capital stock through his ownership of all outstanding Class B common stock. As a result, Manning will have the ability to approve or disapprove certain transactions and matters.

That provision could be attractive to investors, said Brighton Securities Corp. president George Conboy, who observed that the timing of the IPO is not surprising in light of an upswing in investment interest now.

"Clearly, if you have an asset, and they have this firm, and you're seeing that assets in a favorable environment are selling at comparatively higher prices, there is an incentive to want to take your company public, particularly in the case of Manning & Napier, where the indications are that they intend to retain voting control," Conboy said.

Given the record of management there, shareholders might be happy to leave direction in the hands of people who have demonstrated success.

Conboy said an IPO likely has been under consideration for a long time, given its industry and the research-driven nature of Manning & Napier.

And there could have been a number of reasons for announcing an IPO now, he said.

"Bill Manning is not a young guy. He might have some estate issues he wants to plan for, and some of his colleagues and other fellow shareholders might like the idea of owning shares, but they might also like to get a piece of that as cash," Conboy said.

Pay at the top

Co-founder William Manning is the firm's controlling stockholder, but two executive officers have higher annual compensation.

William Manning, chairman and director of investment process	$1,454,921
Patrick Cunningham, CEO	$3,729,438
Jeffrey Coons, president and co-director of research	$793,302
Charles Stamey, managing director of sales and distribution	$3,729,439
Beth Galusha, interim CFO and treasurer	$98,500

Source: SEC filing

A native of Elmira, Manning, now 74, arrived in Rochester in 1970 after working on Wall Street for a decade at the former Merrill Lynch, Pierce, Fenner and Smith Inc. Manning wanted to run his own company and met the late William Napier, a municipal bond specialist in Rochester who also wanted to start an investment firm.

In 2003, Manning stepped down as president to focus on mentoring research analysts and passed leadership to a six-member team. A year ago, the firm reorganized its executive team; Patrick Cunningham was appointed CEO.

IPO timing

Given the market and a return of buying interest, Conboy said, going public now makes sense for Manning & Napier shareholders.

"(Manning & Napier) will not have the kind of sizzle that a technology offering has, but you can't sink your teeth into sizzle. But you can sink your teeth into steak, and Manning & Napier is steak for investors."

—George Conboy, Brighton Securities Corp.

The company, he said, probably already has a preliminary price as underwriters meet with institutional and individual investors to finalize.

"The average investor is looking past that average price per share, let's say $30 per share. But what's the market cap going to be? In other words, I understand the share is priced at x, but what's the whole pie priced at?" Conboy said.

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