

Rating  
**Hold**North America  
United StatesFinancial  
Brokers, Asset  
Managers & ExchangesCompany  
**WisdomTree  
Investments Alert**Reuters  
WETF.OOBloomberg  
WETF USExchange  
NMS  
Ticker  
WETFDate  
27 July 2018

## Results

Price at 26 Jul 2018 (USD)	9.29
Price Target	11.00
52-week range	13.23 - 8.72

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**WETF 2Q18 Initial Thoughts****WETF 2Q adj. EPS of \$0.09 vs \$0.08 Consensus & our \$0.09 estimate**

WETF's adjusted diluted 2Q18 EPS of \$0.09 beat Consensus of \$0.08 & was in line w/ our \$0.09 est. We initially view core EPS at ~\$0.09 as well. Total operating revenue of \$75mn modestly missed our \$77mn est., while core operating expense (ex-acquisition payments & restructuring charges) of \$52mn beat our \$53mn est. & adjusted effective tax rate of 29.2% was slightly better than our 30.0% est.

**Stock likely pressured on outflows but conf. call may be bigger driver**

We view 2Q results as mixed given relatively good cost control, as well as the realization of \$5mn ETF Securities deal synergies & identification of another \$7mn expense synergies, though flows continued to be challenged w/\$1.3bn of total outflows, down from \$2.2bn Q/Q, from international developed equity ETF outflows. With this said, we think mgmt's 9am conference call may be a more important driver for the stock, especially given any commentary on expectations of traction from new distribution agreements, new products, & the recently closed ETF Securities acquisition, to at least offset recent persistence of outflows in firm's three largest ETFs (DXJ, HEDJ, & PHAU).

**Key positives in 2Q results**

Key positives were: 1) adjusted pre-tax margin of 30.0% up from 25.9% Q/Q though slightly below our 30.5% est., 2) ~77% of US-listed equity, fixed income, & alternative ETF assets outperformed comparable Morningstar averages since inception (~63% of ETFs by number of funds), & 3) identified \$7mn of annual cost efficiencies from closing Japan sales office (\$4mn) & from other marketing/distribution savings (\$3mn).

**Key negatives to monitor**

Key negatives were: 1) \$1.3bn of total outflows in 2Q (incl. DXJ/HedJ), driven primarily by \$1.5bn of international developed market equity outflows, partially offset by modest fixed income & US equity inflows, 2) outflows continuing in DXJ, HEDJ, & PHAU, with nearly \$800mn outflow so far in July, partially mitigated by \$100mn+ net inflows across other ETFs & 3) average advisory fee of 48bps down from 50bps Q/Q & Y/Y.

**Stock & option liquidity data**

Market Cap (USD)	1,430.7
Shares outstanding (m)	154.0
Free float (%)	-
Volume (26 Jul 2018)	253,809
Option volume (und. shrs., 1M avg.)	-

Source: Deutsche Bank

**Reiterate Hold Rating & \$11 PT**

We will review our model after mgmt's 9:00am conference call. Our PT is driven by our view for WETF to trade at an overall 50% P/E premium to the S&P 500, given its differentiated business model in the fast growing ETF industry. Downside risks are: 1) weakening US dollar that could spur HEDJ and DXJ outflows; 2) sharp market downturn that materially reduces AuM; 3) increased pricing competition in smart beta ETF products; & 4) investor perception that WETF will remain independent in perpetuity. Upside risks are: 1) a pickup in smart beta industry flows relative to pure beta products, 2) a strengthening US dollar that could spur HEDJ and DXJ inflows, 3) increased flows from expanded international distribution channel through ETF Securities acquisition, & 4) any indication from other management teams of interest in acquiring an ETF provider.

Deutsche Bank Securities Inc.

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