



Fall 2020

## 2020 Shareholder Meeting | Inflection Points and Opportunity

Dear Shareholders:

An “Inflection point” is:

- A moment when significant change occurs; turning point
- A key event that changes the trajectory of some process or situation related to the economy or society



**TAD EDWARDS**

**Founder, Chairman, CEO, and President**

We have certainly seen vivid inflection points this year in the world, in the U.S., in our industry, and in our firm. We at Edwards face these challenges as opportunities for growth and innovation, and I believe we couldn't have a better team to do just that.

“Changes call for innovation, and innovation leads to progress.” -Li Keqiang, Economist and Chinese Premier (“lee kuh chee-ang”)

After 13 successive quarters with growing profits, the COVID-19 pandemic hit. It has certainly been disruptive and in many places, and for many people, devastating.

We've faced several substantial challenges related to the pandemic, but are taking advantage of the

opportunities for innovation in many divisions of the firm...

- Investment Banking: When the Fed lowered interest rates to near zero, this put additional pressure on our revenue and profits. Fortunately, our investment banking division isn't directly affected by the Fed's actions, and we recently added two experienced team members who are building on our healthy pipeline of prospective clients.
- Recruiting: Although we've eliminated travel for the most part, our Recruiting Team now relies on our technology to conduct “face-to-face” meetings with prospective Advisors, including a new virtual home office visit program.
- Training and Development: Restrictions limiting face-to-face meetings have forced us to develop innovative ways to mentor and train our new employees in a virtual setting.
- Corporate Communications: In order to stay top of mind with clients, prospects and prospective advisors, we are furthering our digital footprint through social media and online activities as so many of us are spending more time than ever behind a screen.
- Our first-class technology and stellar team in Business Services have enabled everyone to work remotely almost seamlessly. Being forced to use more technology has opened new ideas for connection with younger potential clients and prospects; it's how they live.



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These never-imagined inflection points have brought the opportunity to grow even stronger. We are working hard to continue our success as a client-first firm that makes a positive difference in all our constituents' lives. I am thankful for our present success and optimistic that we will emerge even better prepared for our future.

I cannot thank you enough for your interest and investment in Benjamin F. Edwards. We value you and are privileged to call you partners.

Gratefully,  
Tad



**DOUG RUBENSTEIN**  
Chief Operating Officer

2020 is a year like none other, and we are leading with vision through its inflection points. We pride ourselves in always strategically planning our path as a company.

My mom was an artist and we are fortunate to have many of her treasured works in our home. Included are two oil paintings of the same Waterloo Bridge in London.



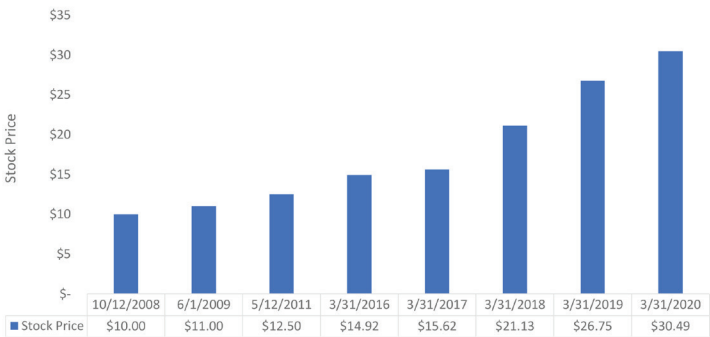
One was painted by my mom when she was age 17; the other was painted six decades later when she was age 77. In one, the sun is rising; in the other, the sun is setting; a bridge of 60 years. That beautifully painted bridge is one way to muster the long perspective of life.

We are blessed as a company to endure the long perspective of life and to continue building and fortifying our mission-centric business of serving investors for generations

**Good News Always Welcome - Our Stock Price Celebration .**

As we proudly announced earlier this summer to our shareholders and all employees, our current common stock independent valuation is \$30.49 per share, up 14% from last year.

Stock Price



- Our valuation considers such important factors as:**
- Our past and future growth, from our still first-inning perspective
  - The profitability and margins of our growth
  - Our no-debt balance sheet
  - The experience of our employees, including our financial advisors, our field and home office partners and our leadership
  - The accuracy of our projections
  - Our visible Edwards brand and legacy



- Our entrepreneurial confidence, conviction and passion (more to come in a moment below).

Of biggest measure, our Edwards stock price is a financial and mathematical reflection of our future.

Confidently, during this annual independent valuation process, at which time we work with our valuator and our auditors, we provide our revised and now seasoned and tested 10-year projection model.

Our model is detailed and complex, with many drivers, assumptions and line items. It is a proverbial “bottoms up” model, that engages all of our business divisions in mapping out the why, where and how of our direction.

For those of you who enjoy the technical side, our model includes a heavy dose of regression analysis on many of our business trends and a discounted cash flow analysis or DCF is determined, with perpetual values a big part of the equation since we are a business intended to last for generations.

We enjoy the accomplishment of many years of history to analyze and to learn from as we consider the future. Many are familiar with the phrase: “You are what you measure.” Within the environment of our valuation, this discipline is imperative.

Our independent valuation also incorporates the current financial markets and how public companies in similar businesses are trading.

The annual valuation date is March 31 of every year. Yes, for this year’s valuation, March 31, 2020 was not a good day, within a not good week and month, as we all know. Trend analysis enabled our valuator to take a longer historical view.

### ***Back to The Confidence, Conviction and Passion***

With all of the financial and business inputs for our valuation, the heart and soul of our Edwards is weaved into this calculation.

Hours of dialogue and diligence with our independent valuator, over the past five years, allow us to share many stories, describe how we all “do business” for our clients and how we operate for our stakeholders (again, employees and owners) too.

Similar to my discussions with visiting financial advisor recruits, and interested possible new shareholders, I point to our mission statement, highlighting three points:



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- Serve our clients
- Protect the company we own
- Have fun

We introduced our 3 Vs of Values, Vision and Victory last year.

The evergreen nature of our 3Vs is proving itself this year to be both timeless and timely.

Values, Vision and Victory enable us to take the long view, artistically and business-wise, the investments for generations time frame, with how we navigate the here and now, and our future.

Our divisions are working steadfastly, on full tilt, quite successfully for all of us.



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**TOM MARTIN**

**Chief Financial Officer**

2019 was a very good year. For the past two years, our pre-tax earnings have more than doubled from the previous year. I am very blessed to have dedicated and talented team in the Finance Division. We have been very busy keeping up with the ever-changing regulatory environment and managing the real estate portfolio for the firm. We again received a clean audit opinion from Deloitte for 2019.

**Highlights include:**

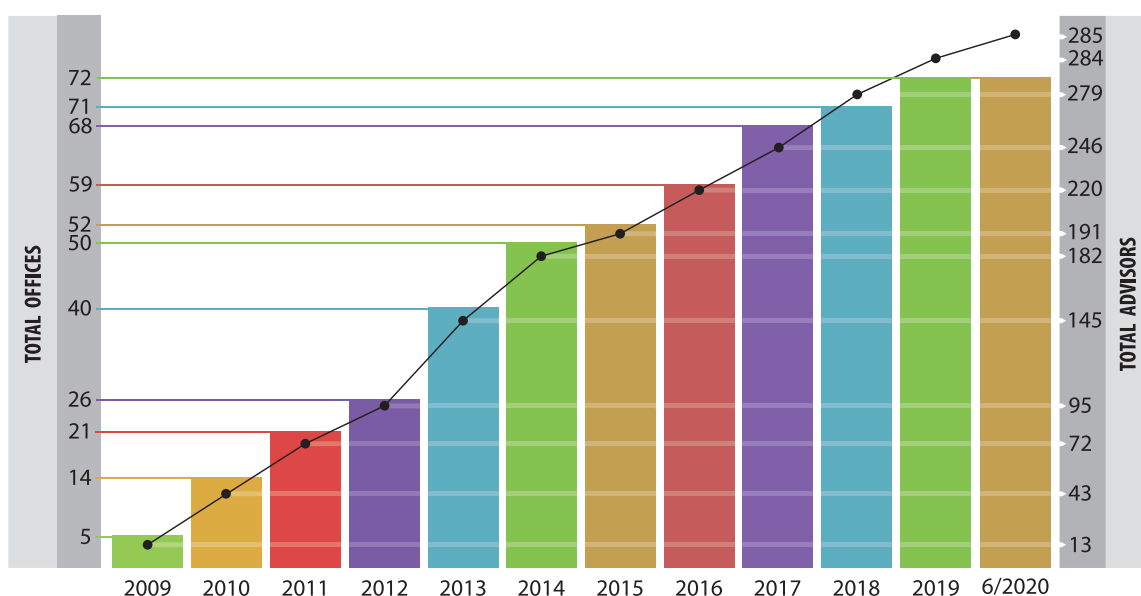
- Pre-tax earnings were \$18.7 million, an increase of 103% versus 2018.
- Total Revenue in 2019 was \$170 million an increase of 17 percent. A strong equity market in 2019 coupled with an increase in Financial Advisors fueled this growth.
- Average annual production for advisors increased from \$480,000 in 2013 to \$531,000 in 2019.
- Variable profit margin increased to 50.5% from 47.9% in 2018.
- For the fifth year in a row we had positive cash flow from operations.

**Results through June 30, 2020:**

Events that unfolded in the first half of the year have certainly affected our results. The global pandemic and its ripple effect on the markets and our economy presented unforeseen challenges. In March, the Federal Reserve announced two emergency interest rate cuts to cushion the economic effects of the pandemic. Despite this move, the pandemic has harmed communities and disrupted economic activity across the globe.

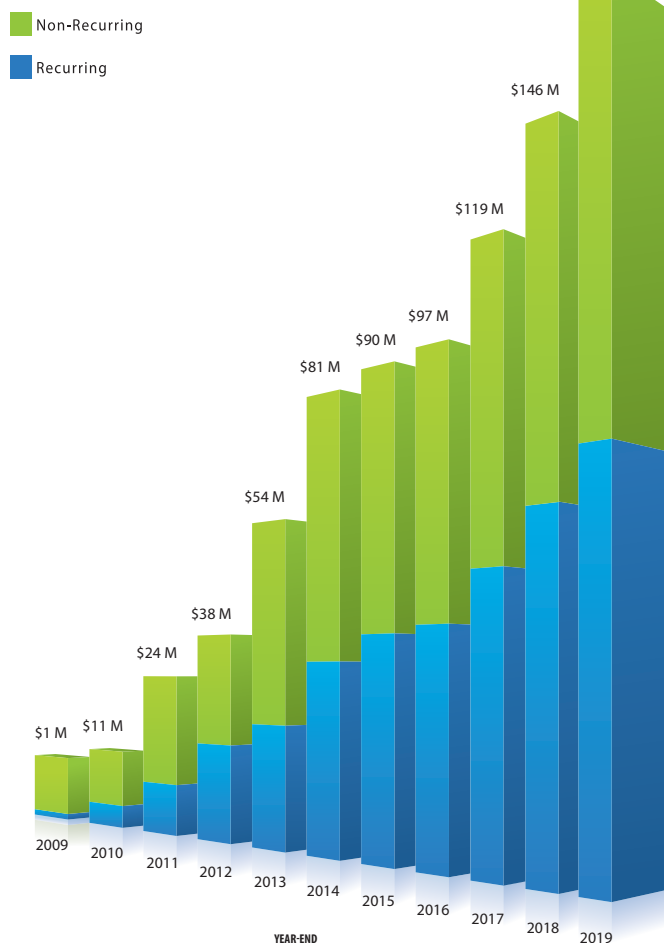
A conservative balance sheet (with zero debt) has helped us continue our solid financial position in these fluid and challenging times.

- The six-month pre-tax earnings declined to \$5.0 million from \$9.8 million in 2019.
- Six-months ended revenue decreased to \$81.8 million from \$83.9 million in 2019.
- Total stockholders' equity grew to \$75.0 million.
- Our regulatory net capital as of June 30, 2020 was \$35.9 million, an increase of \$5.7 million since year-end, and a \$12.2 million increase when compared to June 30, 2019

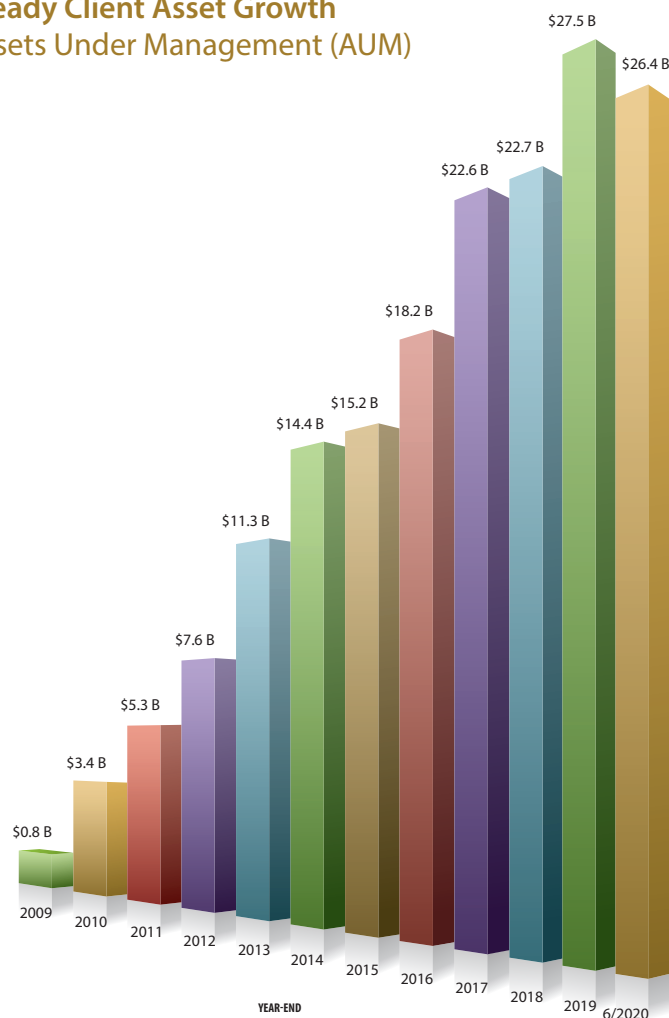


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## Consistent Revenue Growth (\$ millions)



## Steady Client Asset Growth Assets Under Management (AUM)



**CHRIS KELLER**

**Director of Business Services**

We are consistently committed in Business Services to making it easier and safer for the client and advisor to do business together. I cannot say though that any of us foresaw the year that has been 2020 when we were strategizing and designing through our different priorities.

The week of St. Patrick's Day was a week like no other in our 11 years as a company. As schools and businesses were closing, and as people were fearful

for their own well-being and the health of their loved ones, as an essential business, we had an obligation to enable our employees to be productive and accessible to each other and their clients from their homes. Within a few short days, most of our firm was working from home. Our multi-year effort to build a safe, mobile enterprise - including (a) electronic signature, (b) laptops for everyone, (c) the migration to digital, cloud-based applications and a (d) hosted data center that



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offered a business phone anywhere you went—has greatly benefited the firm as we serve in our federally designated role as an essential business. Specific recent successes that supported our response to COVID, include:

1. We released the first phase of a new application called Engage that allows a client to open an account digitally, without a single piece of paper.
2. As a way to continue to improve the service model to our advisors, we introduced a new Concierge Service Desk. This team is committed to be a one-stop solution to our advisors and their teams for all of their Business Services needs.
3. In early March, we rolled out Microsoft Teams, giving everyone in the firm the opportunity to host a video call with fellow employees or clients.

We've been tested in interesting and unique ways since March, but our advisors have been able to support their clients or add new clients this entire time. I'm proud of how our employees around the country have responded; we are a resilient bunch.

Looking forward, as many of our employees continue to work from home, we remain focused on operating our business. Our priorities continue to be defined by the combination of increased regulation, ongoing expectations from clients and advisors for a better, simpler experience, and an ever-accelerating pace of competition.

1. We continue to refine and invest in our enterprise Registered Investment Advisor (RIA)—our independent channel we call Edwards Wealth Management. With three teams now operating in this model, we continue to invest in our advisory platform that will benefit our affiliates and employees alike.

2. Our investments in our Salesforce technology platform continue. We've added talent in the past year as we look to differentiate and improve our advisor experience. This will continue with the integration of Salesforce with Orion and Pershing as well as the addition of new Digital Communications that will benefit our advisors and also our back-office.
3. We have been, and very likely will continue to be pushed to rethink our strategic relationship with Pershing as well as our product shelf as a result of regulator expectations.



**MARTY ALTENBERGER**  
**Director of Branches**

Last year was a challenging year for growth through recruiting advisors. Our full-service channel in 2019 recruited 14 Financial Advisors with total trailing 12-month production of just over \$9 million. So far this year, we've attracted five advisors representing just over \$2 million in total production.

We had reason for optimism as we started 2020 with five advisors joining in the first quarter. Of course, when the pandemic arrived, everything became much more difficult and critical face-to-face meetings with recruits were all but eliminated. However, our growth team led by Lois Powell has taken advantage of video technology to do virtual face-to-face video meetings with potential recruits. We've had several virtual home office visits with candidates.

While the personal connection of video meetings may not be quite the same as face-to-face, the logistical burden of having the prospect travel to St. Louis from his or her hometown is eliminated. It sometimes can be easier to get an advisor to commit to a few hours on a video conference than a trip to the home office. So, we've taken advantage of that. The Branch Growth



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Team added two full-time staff members who have been busy making calls to new prospects and continue to nurture existing relationships.

One of the valued attributes we share with prospects is how we all do our very best to live up to the firm's Mission Statement which states: "Our leadership team is approachable, available and encourages feedback from clients, employees and advisors." An example of this is a group we call the FAAB.

The firm's branch staff (Financial Client Associates) formed a 10-person group in May 2016 to serve as the voice of the field to the home office. They called the group the Financial Associate Advisory Board or FAAB. Members are chosen through interviews. New firm technology, new forms, changes in operational items, clarification of procedures, communications and even relationship-building are on the plates of FAAB members.

This group's shared ideas and feedback for new tools and processes has helped guide the firm from an end-user perspective. I'd like to close with the FAAB Mission Statement, which exemplifies how we all come together every day regardless of location and strive to make a meaningful difference in our clients' lives.

### **Financial Associate Advisory Board Mission Statement**

The Financial Associate Advisory Board represents and advocates for all Financial Associates in cooperation with, and in support of, the Benjamin F. Edwards home office.

The board acts as a communication liaison between the assistants in the field and the various departments throughout the firm. Our primary goals are:

- To provide department management with a select group of Financial Associates focused on idea sharing and productive feedback
- To provide home office management with an efficient platform with which to disseminate information to branch operations employees
- To assist home office staff in the creation of operational standards and training programs that support increased productivity
- To preserve BFE Culture & Standards of Excellence through professional communication and peer to peer mentorship
- To encourage & promote professional development through intra firm networking



**CHRIS WHITING**

**Director of Sales & Marketing**

Sales & Marketing continues to focus on providing the best- in-class products, services and support for our advisors to serve their clients.

As always, there's a lot going on across Sales & Marketing. I've selected a few key topics to provide updates on, and I welcome any questions or ideas you'd like to share. Please reach out anytime to connect.

- I hope you saw the exciting news that Bill Hornbarger is joining Edwards as Chief Investment Officer and Chairman of the Investment Strategy Committee. Adding Bill to the lineup is an opportunity to continue building on an already solid foundation, and part of our strategy to take us to the next level. Bill brings a tremendous level of experience to Edwards and has led investment strategy at both a traditional



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brokerage firm and RIA (Registered Investment Advisor). Our goal is for Bill to work closely with the team on developing the firm's market outlook, investment strategy, allocation guidelines, and to oversee our strategic investment programs. In this role, he will also serve as the firm's key spokesperson on economic and market activity. Please join me in welcoming Bill.

- As part of our commitment to deliver a competitive and relevant technology platform, we recently began converting branches to a new portfolio and performance reporting system through a partnership with Orion Advisory Technology. This effort, which began almost two years ago, will help our advisors and their teams be more efficient, and provide clients with a richer, more modern digital user experience. Orion is an industry-leading third-party software and service provider focused on supporting more than 2,000 firms in our industry. This robust platform is constantly evolving and integrates with many of our other tools including Salesforce, MoneyGuidePro and Pershing. We are converting branches to the system in four waves with a plan to have all branches implemented by the end of 2020.
- Training and development is a big part of our culture and something we're very committed to. Over the past year, we've evaluated the many and varied needs of our advisors throughout their career to ensure programs meet or exceed advisor expectations. In working with our advisors and reviewing the results of our competitive analysis, we've identified a few gaps and opportunities to make strategic investments in both our coaching and new advisor training programs. Several of these changes, including a new investment in advisor coaching, are already under way.

- Our advisory business continues to grow across all portfolios on the platform. As of July 31, we had over 32,000 advisory accounts with \$8.8 billion in AUM, and we look forward to continued growth. Over the past year, we've implemented operational changes to our advisor directed programs and consolidated and enhanced our due diligence process. All of this is part of our ongoing commitment to bring greater efficiencies to the platform, and to deliver an attractive array of investment solutions to our advisors and their clients.



**BILL WISDOM**

**Director of Regulatory & Oversight Services**

Cultivating a risk and compliance program with the ability to adapt to the increasing business complexities of a growing firm like Edwards is no small task. Last fall, while in the midst of implementing a new industry sweeping regulation, Regulation Best Interest (Reg BI), the firm determined that it was an opportune time for our organizational infrastructure to take an evolutionary step to strengthen our focus on risk management and controls by forming the Regulatory & Oversight Services Division (ROS).

Since that time, the new division, which consists of Regulatory Initiatives, Brokerage and Advisory Compliance, Supervision, and External Examinations & Internal Testing has been hard at work collaborating with other business units of the firm to deliver to our advisors and clients the best risk and compliance support available.

To say that COVID-19 has presented new and unique challenges is an understatement. However, with these challenges comes new and unique ways to operate—one being the important enhancements and greater efficiencies seen within the ROS Division. The division



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has provided effective monitoring to support branches through this difficult time. To establish and maintain a supervisory system that is reasonably designed to supervise the activities of each associated person to meet our regulators' expectations is especially daunting with most employees working from home. However, with the support of our technology department, we have made a seamless transition from onsite to remote oversight and supervision.

The firm's implementation of Reg BI required multiple enhancements to its supervision, document retention, compliance, and disclosure processes. Each enhancement, from promoting the adoption of electronic delivery of the Reg BI client disclosure documents (and the necessary operational functionality to support it) to the development of specialized "best interest" supervisory reports, required input and collaboration across the firm.

Reg BI is just one example of a major regulatory change affecting everyone in our industry. New and amended rules and interpretive guidance from the SEC, FINRA, MSRB, DOL, and state regulatory bodies are continuously published. It is not uncommon for regulators to begin enforcing existing rules in new and unexpected ways. As advocates to our clients and financial advisors, the ROS Division is poised to address these changes with the ultimate goal of preserving the advisor and client experiences.



**ALLEN COLE**

**Director of Law & Legal Services**

Law & Legal Services, like other areas, has had a very interesting year so far! Along with everyone else, they have been adjusting to the technological, psychological, social and familial aspects of working remotely.

But a remote workstyle, coupled with the underlying circumstances of the pandemic, has presented some interesting legal considerations.

The considerations might be as obvious as having to figure out how to work with regulators who wish to interview our employees "face-to-face" (but electronically).

Similarly, we have had to consider whether and how testimony can (or should) be given (or taken) at legal proceedings; should we agree to do it online, or wait until the court or hearing panel agrees to hear testimony in person? Each case stands alone; examination or cross-examination is likely to come across differently when it is seen over a computer monitor versus in person.

In all these cases, we want to ensure that, whichever approach we use, our attorney is able to communicate timely and confidentially with the employee who is being interviewed or examined.

Sometimes, though, the issues can be more esoteric. Can a notary sign attestations that a person has "appeared personally before" the notary, or has signed a document "in the presence of" the notary, when the person is only available electronically?

Are pandemics considered to be an "act of God" or a "force majeure" for purposes of contracts? This can make a difference when it causes unanticipated delays by us or our partners and vendors.

Working remotely, and the circumstances of the pandemic in particular, implicates wage-and-hour laws, as well as legal obligations to ensure that client financial information remains protected and secure. And the inherent medical nature of the pandemic implicates medical privacy laws when communicating with and about the medical conditions of our employees. Oh, and what about tax withholdings and state income tax obligations for persons who live across state borders from where they "normally" work?



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Our branches have had to contend with differing and changing requirements, guidance, and advice from federal, state and local governments; for example, are employees in all our branches required to stay at home under lockdown? Is their work considered “essential” according to the government? If a government order addresses “banks,” was it intended to apply to other types of financial services firms, such as ours? And, apart from the black-letter law, what is the right thing for the firm to do in order to best protect our employees, clients, and their family members?

There seems to be no end of these novel issues that have been considered by Law & Legal Services.

But this year has been an interesting inflection point, too, presenting our business with some

interesting opportunities. People are finding new ways to collaborate that are making them even more productive than before. Because businesses have rapidly mobilized and strengthened their remote-access infrastructure, they no longer necessarily have to be bound by traditional commercial real estate (although everyone will have to evaluate whether the loss of inherent opportunities for in-person mentorship, collaboration and informal training make employee-distancing worthwhile). Regulators – who set limits on the number of locations from which specific broker-dealers may operate—will either have to rethink the way they look at supervision, or they will consciously have to stand in the way of how businesses operate. Coin toss on that one.

## CONCLUSION

We are thankful for our shareholders and are invigorated to continue our growth for decades to come. Each day brings a new opportunity to explore here at “Our Edwards,” and our management team is focused on innovations for continuous improvement in the client experience. Adherence to our mission to first empower our financial advisors with the freedom to provide investment advice in an atmosphere grounded in trust, integrity and mutual respect remains embedded in all our actions.

Thank you,

**Tad Edwards**

Founder, Chairman, CEO and President

**Cynthia L. (Cindy) Bohme**

Corporate Secretary

**Douglas D. (Doug) Rubenstein**

Chief Operating Officer

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