

ENVESTNET, INC.
Form 10-K
February 29, 2016
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UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the year ended December 31, 2015

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

Commission file number 001-34835

Envestnet, Inc.

(Exact name of registrant as specified in its charter)

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Delaware (State or other jurisdiction of incorporation or organization)	20-1409613 (I.R.S Employer Identification No.)
35 East Wacker Drive, Suite 2400, Chicago, IL (Address of principal executive offices)	60601 (Zip Code)

Registrant's telephone number, including area code:

(312) 827-2800

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class:	Name of Each Exchange on Which Registered:
Common stock, par value \$0.005 per share	NYSE

Securities registered pursuant to Section 12(g) of the Act:

None

Indicate by check mark whether the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark whether the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (232.405

of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the registrants knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer Accelerated filer

Non-accelerated filer Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes No

Aggregate market value of registrant’s common stock held by non-affiliates of the registrant, based upon the closing price of a share of the registrant’s common stock on June 30, 2015 as reported on The New York Stock Exchange on that date: \$974,384,652. For purposes of this calculation, shares of common stock held by (i) persons holding more than 5% of the outstanding shares of stock, and (ii) officers and directors of the registrant, as of June 30, 2015, are excluded in that such persons may be deemed to be affiliates. This determination is not necessarily conclusive of affiliate status.

As of February 22, 2016, 42,007,403 shares of the common stock with a par value of \$0.005 per share were outstanding.

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Forward Looking Statements

Unless the context requires otherwise, the words “Envestnet,” “the Company,” “we,” “us” and “our” are references to Envestnet, Inc. and its subsidiaries as a whole.

This annual report on Form 10 K contains forward looking statements regarding future events and our future results within the meaning of the Private Securities Litigation Reform Act of 1995. These forward looking statements include, in particular, statements about our plans, strategies and prospects under the heading “Management’s Discussion and Analysis of Financial Condition and Results of Operations.” These statements are based on our current expectations and projections about future events and are identified by terminology such as “anticipate,” “believe,” “continue,” “could,” “estimate,” “expect,” “expected,” “intend,” “will,” “may,” or “should” or the negative terms or variations of such words, and similar expressions are intended to identify such forward looking statements. In addition, any statements that refer to projections of our future financial performance, our anticipated growth and trends in our business and other characteristics of future events or circumstances are forward looking statements. Forward looking statements may include, among others, statements relating to:

- difficulty in sustaining rapid revenue growth, which may place significant demands on our administrative, operational and financial resources,
- fluctuations in our revenue,
- the concentration of nearly all of our revenues from the delivery of our solutions and services to clients in the financial services industry,
- the impact of market and economic conditions on revenues,
- our reliance on a limited number of clients for a material portion of our revenue,
- the renegotiation of fee percentages or termination of our services by our clients,
- our ability to identify potential acquisition candidates, complete acquisitions and successfully integrate acquired companies,
- compliance failures,
- regulatory actions against us,
- the failure to protect our intellectual property rights,
- our inability to successfully execute the conversion of clients’ assets from their technology platform to our technology platforms in a timely and accurate manner,
- general economic conditions, political and regulatory conditions,
- the impact of fluctuations in interest rates on our business,
- market conditions and our ability to issue additional debt and equity,
- our ability to expand our relationships with existing customers, grow the number of customers and derive revenue from new offerings such as our data analytic solutions and market research services and premium FinApps,
- our financial performance,

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- the results of our investments in research and development, our data center and other infrastructure,
- our ability to realize operating efficiencies,
- the advantages of our solutions as compared to those of others,
- our ability to establish and maintain intellectual property rights,
- our ability to retain and hire necessary employees and appropriately staff our operations, in particular our India operations, and
- management's response to these factors.

In addition, there may be other factors of which we are presently unaware or that we currently deem immaterial that could cause our actual results to be materially different from the results referenced in the forward looking statements. All forward looking statements contained in this annual report and documents incorporated herein by reference are qualified in their entirety by this cautionary statement. Forward looking statements speak only as of the date they are made, and we do not intend to update or otherwise revise the forward looking statements to reflect events or circumstances after the date of this annual report or to reflect the occurrence of unanticipated events, except as required by applicable law. If we do update one or more forward looking statements, no inference should be made that we will make additional updates with respect to those or other forward looking statements.

Although we believe that our plans, intentions and expectations are reasonable, we may not achieve our plans, intentions or expectations.

These forward looking statements involve risks and uncertainties. Important factors that could cause actual results to differ materially from the forward looking statements we make in this annual report are set forth in Part I under "Risk Factors"; accordingly, investors should not place undue reliance upon our forward looking statements.

You should read this annual report on Form 10 K completely and with the understanding that our actual future results, levels of activity, performance and achievements may be different from what we expect and that these differences may be material. We qualify all of our forward looking statements by these cautionary statements.

The following discussion and analysis should also be read along with our consolidated financial statements and the related notes included elsewhere in this annual report. Except for the historical information contained herein, this discussion contains forward looking statements that involve risks and uncertainties. Actual results could differ materially from those discussed below.

Except where we have otherwise indicated or the context otherwise requires, dollar amounts presented in this Form 10 K are in thousands, except for Item 9A, Exhibits and per share amounts.

Item 1. Business

General

We were founded in 1999 and through organic growth and strategic transactions we have grown to become a leading provider of financial and wealth management technology and services to financial advisors, investors and financial service providers.

Investnet is a leading provider of unified wealth management technology and services. Our open architecture platforms unify and fortify the wealth management process, delivering unparalleled flexibility, accuracy, performance, and value. As of December 31, 2015, approximately 47,000 advisors used our technology platforms, supporting approximately \$851 billion of assets in approximately 3.5 million investor accounts.

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On November 19, 2015 we acquired Yodlee, Inc. (“Envestnet | Yodlee”). Envestnet | Yodlee is a leading data analytics platform powering dynamic, cloud-based innovation for digital financial services. Our vision for Envestnet | Yodlee is to empower lives with innovative digital financial services. Envestnet | Yodlee customers include financial institutions, internet services companies providing innovative financial solutions and third-party developers of financial applications. As of December 31, 2015, more than 950 organizations in over 15 countries use the Envestnet | Yodlee platform to power their consumer-facing digital offerings and we receive subscription fees for 21.3 million of these consumers, whom we refer to as our paid users.

Our headquarters are located in Chicago, Illinois and we have offices in New York, New York; Denver, Colorado; Seattle, Washington; Sunnyvale and Redwood City, California; Boston, Massachusetts; Landis and Raleigh, North Carolina; Addison, Texas; Tucson, Arizona; Berwyn, Pennsylvania and Trivandrum and Bangalore, India.

We intend to continue to selectively pursue acquisitions, investments and other relationships that we believe can enhance the attractiveness of our technology platforms or expand our client base. Given our scale of operations and record of past transactions and access to capital, we believe we are well positioned to engage in such transactions in the future. During the past three years we have acquired the following entities:

- In July 2013, we acquired the Wealth Management Solutions (“WMS”) division of Prudential Investments. WMS offers financial institutions access to an integrated wealth platform, which helps construct and manage sophisticated portfolio solutions across an entire account life cycle, particularly in the area of UMA trading.
- In February 2014, we formed Envestnet Retirement Solutions, LLC (“ERS”) with various third parties. ERS offers advisory and technology enabled services to financial advisors and retirement plans.
- In October 2014, we acquired Placemark Holdings, Inc. (“Placemark”). Placemark, now operating as Envestnet | Placemark develops UMA programs and other portfolio management outsourcing solutions, including patented portfolio overlay and tax optimization services, for banks, full service broker dealers and RIA firms.
- In February 2015, we acquired Upside Holdings, Inc. (“Upside”). Upside helps financial advisors compete against other digital advisors, or “robo advisors,” by leveraging technology and algorithms to advise, manage, and serve clients who want personalized investment services.
- In May 2015, we acquired Oltis Software LLC (d/b/a Finance Logix®) (“Envestnet | Finance Logix”). Finance Logix provides financial planning and wealth management software solutions to banks, broker-dealers and RIAs.
- In August 2015, we acquired Castle Rock Innovations, Inc. (“Castle Rock”). Castle Rock provides data aggregation and benchmarking solutions to retirement plan record-keepers, broker-dealers, and advisors.
- In November 2015, we acquired Yodlee, Inc. (“Envestnet | Yodlee”). Envestnet | Yodlee is a leading data aggregation and data analytics platform powering dynamic, cloud-based innovation for digital financial services.

For the year ended December 31, 2015, we earned fees of \$333,700 from assets under management (“AUM”) or assets under administration (“AUA” and collectively “AUM/A”), representing a 13% increase over earned fees from AUM/A in 2014. Asset based fees accounted for approximately 79%, 84% and 83% of our total revenues for the years ended December 31, 2015, 2014 and 2013, respectively.

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For the year ended December 31, 2015, subscription and licensing revenues were \$75,300, representing a 54% increase over subscriptions and licensing in 2014. Subscription and licensing revenues accounted for 18%, 14% and 15% of our total revenues for the years ended December 31, 2015, 2014 and 2013, respectively.

For the year ended December 31, 2015, professional services and other revenues were \$12,000, representing a 108% increase over professional services and other revenues in 2014.

Segments

Business segments are generally organized around our service offerings. Financial information about each business segment is contained in Note 19 to the Consolidated Financial Statements. Our business segments are as follows:

Investnet is a leading provider of unified wealth management software and services empowering financial advisors and institutions.

Investnet | Yodlee is a leading data aggregation and data analytics platform powering dynamic, cloud-based innovation for digital financial services.

Investnet Segment

Overview

Investnet empowers financial advisors to deliver fee based advice to their clients. We work with both Independent Registered Investment Advisors (“RIAs”), as well as advisors associated with financial institutions such as broker dealers and banks. The services we offer and market to financial advisors address advisors’ ability to grow their practice as well as to operate more efficiently—the Investnet platforms span the various elements of the wealth management process, from the initial meeting an advisor has with a prospective client to the ongoing day to day operations of managing an advisory practice.

Our centrally hosted technology platforms, which we refer to as having “open architecture” because of their flexibility, provides financial advisors with access to a series of integrated services to help them better serve their clients. These services include risk assessment and selection of investment strategies and solutions, asset allocation models, research and due diligence, portfolio construction, proposal generation and paperwork preparation, model management and account rebalancing, account monitoring, customized fee billing, overlay services covering asset allocation, tax management and socially responsible investing, aggregated multi custodian performance reporting and communication tools, as well as access to a wide range of leading third party asset custodians.

We offer these solutions principally through the following product and services suites:

- Investnet | Advisor Suite™ empowers advisors to provide better client outcomes and strengthen their practice. Our cloud based platform unifies the applications and services advisors use to manage their practice and advise their clients, including data aggregation; financial planning; capital markets assumptions; asset allocation guidance; research and due diligence on investment managers and funds; portfolio management, trading and rebalancing; multi custodial, aggregated performance reporting; and billing calculation and administration.

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- Investnet | PMC®, our Portfolio Management Consultants (“PMC”) group primarily engages in research and consulting services aimed at providing financial advisors with additional support in addressing their clients’ needs, as well as the creation of investment solutions and products. Investnet | PMC’s investment solutions and products include managed account and multi manager portfolios, mutual fund portfolios and Exchange Traded Funds (“ETF”) portfolios. Investnet | PMC offers Prima Premium Research, comprising institutional quality research and due diligence on investment managers, mutual funds, ETFs and liquid alternatives funds. Investnet | PMC also offers Overlay Services which includes patented portfolio overlay and tax optimization services.
- Investnet | Tamarac™ provides leading portfolio accounting, rebalancing, trading, performance reporting and client relationship management (“CRM”) software, principally to high end RIAs.
- Investnet | Retirement Solutions (ERS) offers a comprehensive suite of services designed specifically for retirement plan professionals. With our integrated technology, ERS addresses the regulatory, data, and investment needs of retirement plans and delivers the information holistically.
- Investnet | Vantage™ provides enterprise data solutions for financial institutions, aggregates and manages investment data, and provides multi-custodial consolidated performance reporting and benchmarking, giving clients an in depth view of all holdings, and empowering advisors and institutions to better manage their business.
- Investnet | Finance Logix™ provides financial planning and wealth management software solutions to banks, broker-dealers and RIAs.
- Investnet | Advisor Now™ now offers private-labeled investor-facing technology that enables advisors and institutions to deliver a complete digital wealth management experience to their clients.

We believe that our business model results in a high degree of recurring and predictable financial results. The majority of our revenue is asset based, meaning it is derived from fees charged as a percentage of the assets that are managed or administered on our technology platforms by financial advisors. We also generate revenues from recurring, contractual licensing fees for providing access to our technology platforms and from professional services.

For over 85% of our asset based fee arrangements, we bill customers at the beginning of each quarter based on the market value of customer assets on our technology platforms as of the end of the prior quarter, providing for a high degree of revenue visibility in the current quarter. Inherently, revenue from quarter to quarter may fluctuate based on changes in asset values or fee rates on those asset values. Furthermore, our licensing fees are highly predictable because they are generally established in multi year contracts providing longer term visibility regarding that portion of our total revenues.

As the tables below indicate, our wealth management solutions business has experienced steady and significant growth over the last several years. We believe this growth is attributable to secular trends in the wealth management industry as described below, the uniqueness and comprehensiveness of our products, as well as acquisitions.

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The following table sets forth the AUM or AUA as of the end of the quarters indicated:

Assets Under Management or Administration

(\$ in billions)

The following table sets forth the number of accounts with AUM or AUA as of the end of the quarters indicated:

Accounts Under Management or Administration

(in thousands)

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The following table sets forth as of the end of the years indicated the number of financial advisors that had client accounts on our technology platforms:

Total Advisors

Market Opportunity

The wealth management industry has experienced significant growth in terms of assets invested by retail investors in the past several years. According to the Federal Reserve, U.S. household financial assets are approaching \$70 trillion as of September 30, 2015, representing a sizeable wealth management opportunity.

In addition to experiencing significant growth in financial assets, the wealth management industry is characterized by a number of important trends, including those described below, which we believe create a significant market opportunity for technology enabled investment solutions and services like ours:

- Increase in independent financial advisors;
- Increased reliance on technology among independent financial advisors;
- Increased use of financial advisors;
 - Increased use of fee based investment solutions; and
- More stringent standards applicable to financial advisors.

Business Model

We believe that a number of attractive characteristics contribute significantly to the success of our business model, including:

- Being positioned to capitalize on favorable industry trends;
- Recurring and resilient revenue base;
- Strong customer retention; and
- Substantial operating leverage.

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Growth Strategy

Investnet serves the fastest growing segments of the wealth management industry: independent financial advisors; fee based solutions; and outsourced investment and technology solutions. We intend to increase revenue and profitability by continuing to pursue the following strategies:

- Increase our advisor base;
- Extend the account base within a given advisor relationship;
- Expand the services utilized by each advisor;
- Obtain new enterprise clients;
- Continue to invest in our technology platforms;
- Continue to pursue strategic transactions and other relationships; and
- Cross market and sell the Investnet | Yodlee product offerings to Investnet customers.

Technology Platforms

Our technology platforms feature a three tier architecture integrating a Web based user interface, an application tier that houses the business logic for all of the platforms' functionality and a SQL Server databases. The application tier resides behind load balancers which distribute the workload demands across our servers. We believe our technology design allows for significant scalability.

Investnet undergoes an annual SSAE 16 SOC 1 Type II audit to validate the continued operation of our internal controls for the UMP, UMPi and Tamarac platforms. The SOC reports confirm design and operating effectiveness of internal controls. We maintain multiple redundancies, back up our databases and safeguard technologies and proprietary information consistent with industry best practices. We also maintain a comprehensive business continuity plan and company wide risk assessment program that is consistent with industry best practices and that complies with applicable regulatory requirements.

We have historically made significant investments in platform development in order to enhance and expand our technology platforms and expect to continue to make significant investments in the future. In the years ended December 31, 2015, 2014 and 2013, we incurred technology development costs totaling approximately \$12,600, \$11,600 and \$9,100, respectively. Of these costs, we capitalized approximately \$5,500, \$3,400 and \$3,100, respectively, as internally developed software. We expect to continue focusing our technology development efforts principally on adding features to increase our market competitiveness, enhancements to improve operating efficiency, address regulatory demands and reduce risk, and client driven requests for new capabilities.

Our proprietary Web based platforms provide financial advisors with access to investment solutions and services that address, in one unified, centrally hosted platform, based on our knowledge of the industry, the widest range of front , middle and back office needs in our industry. The "open architecture" design of our technology platforms provide financial advisors with flexibility in terms of the investment solutions and services they access, and configurability in the manner in which the financial advisors utilize particular investment solutions and services. The multi tenant platform architecture ensures that this level of flexibility and customization is achieved without requiring us to create unique applications for each client, thereby reducing the need for additional technology personnel and associated expenses. In addition, though our technology platforms are designed to deliver a breadth of functions, financial advisors are able to select from the various investment solutions and services we offer, without being required to subscribe to or purchase more than what they believe is necessary.

Customers

Independent financial advisors that are working alone or as part of financial advisory firms. Our principal value proposition aimed at independent financial advisors working alone or as part of financial advisory firms is that our technology platforms allow them to compete effectively with financial advisors employed by large financial institutions. We provide independent financial advisors with access to as many or more of the investment solutions and services that are typically available to financial advisors working at the largest firms.

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Enterprise clients. We provide enterprise clients with customized, private labeled technology platforms that enable them to support their affiliated financial advisors with a broad range of investment solutions and services. Our contracts with enterprise clients establish the applicable terms and conditions, including pricing terms, service level agreements and basic platform configurations. See Item 1A, “Risk Factors” for further discussion of risks related to customer concentration.

Sales and Marketing

Our sales and marketing staff is organized by sales channel and product offering. Our enterprise sales team focuses on entering into agreements with enterprise clients, which enable us to sell our platform capabilities to those firms and the advisors associated with them. Our advisory sales team sells to the individual financial advisors of dually registered broker dealer and RIA firms. The sales channels work collaboratively with the product teams to offer our additional value-added services. Investnet | Tamarac sells rebalancing, performance reporting and CRM solutions principally to large RIA firms. Investnet | Vantage software aggregates and manages investment data, provides performance reporting and benchmarking. Investnet | PMC offers portfolio and investment management consulting services, including Prima Premium Research and due diligence capabilities. ERS offers a comprehensive suite of services designed specifically for retirement plan professionals. Investnet | Finance Logix provides financial planning and wealth management software solutions to banks, broker-dealers and RIAs.

The principal aim of our marketing efforts is to create greater visibility of our company and our brands, and to provide thought leadership to the wealth management industry. Our marketing efforts are focused on our core markets: financial advisors and enterprise clients. We use advertising and public relations to communicate our message to these target markets.

To implement our marketing efforts, we generally employ paid print and online advertisements in a variety of industry publications, as well as promotions that include e blast campaigns and sponsored webinars for financial advisors. We also partner with independent broker dealers on direct mail campaigns targeting such firms’ financial advisors to describe the investment solutions and services that we offer, produce brochures and presentations for financial advisors to use with their clients and we create Internet pages or sites to promote our investment solutions and services.

Competition

We generally compete on the basis of several factors, including the breadth and quality of investment solutions and services to which we provide access through our technology platforms, the number of custodians that are connected through our technology platforms, the price of our investment solutions and services, the ease of use of our technology platforms and the nature and scope of investment solutions and services that each client believes are necessary to address their needs. Our competitors offer a variety of products and services that compete with one or more of the investment solutions and services provided through our technology platforms, although, based on our industry experience, we believe that none offers a more comprehensive set of products and services than we do. Our principal competitors include:

- Turnkey Asset Management Platform Providers. Providers of turnkey asset management platforms, including SEI Investments Company, AssetMark, Inc. and Lockwood Advisors (a subsidiary of BNY Mellon Corporation), typically provide financial advisors with one or more types of products and services but generally offer fewer choices in terms of custodians, asset managers, technology features and functionality.
- Providers of Specific Service Applications. A number of our competitors, including Advent Software, Inc., provide financial advisors with a product or service designed to address one specific issue or need, such as financial planning or performance reporting. While our technology platforms also provide access to these investment solutions or

services, financial advisors may elect to utilize a single application rather than a fully integrated platform.

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· Custodians. A number of leading asset custodians, such as Pershing LLC (a subsidiary of BNY Mellon Corporation) and The Charles Schwab Corporation, have expanded beyond their custodial businesses to also offer advisor trading tools that compete with our financial advisor directed solutions.

Envestnet | Yodlee Segment

Overview

Envestnet | Yodlee is a leading data aggregation and data analytics platform powering dynamic, cloud-based innovation for digital financial services. More than 950 companies, including 12 of the 20 largest U.S. banks and hundreds of Internet services companies, subscribe to the Envestnet | Yodlee platform to power personalized financial apps and services for millions of consumers. Envestnet | Yodlee solutions help improve the speed and delivery of financial innovation, improve digital customer experiences, and drive better outcomes for our clients and their customers.

We serve two main customer groups, financial institutions (“FI”), customers and Internet services companies providing innovative financial solutions, which we refer to as our Yodlee Interactive (“YI”), customers. Envestnet | Yodlee provides FI customers with access to our platform, secure, open application programming interfaces (“APIs”) and end-user facing applications powered by our platform and APIs (“FinApps”). Our platform and APIs enable FI customers to receive end user-permissioned transaction data elements that we aggregate and cleanse, as well as to enable our money movement solutions. The FinApps powered by our platform and APIs can be subscribed to individually or in combinations that include personal financial management, wealth management, card, payments and small-medium business (“SMB”) solutions. Our YI customers are Internet services companies and third-party developers, who use our platform to develop new applications and enhance existing solutions. Our YI customers operate in a number of sub-vertical markets, including wealth management, personal financial management, small business accounting, small business lending and authentication. These customers use the Envestnet | Yodlee platform to build solutions that leverage our open APIs and access to a large end user base. In addition to aggregated transaction-level account data elements, we provide YI customers with secure access to account verification, money movement and risk assessment tools via our APIs. We play a critical role in bringing innovation from Internet services companies to financial institutions through the Envestnet | Yodlee platform. For example, our YI customers use our solutions in such diverse applications as providing working capital to small businesses online; personalized financial management, planning and advisory services; ecommerce payment solutions; and online accounting systems for small businesses. We provide access to our solutions across multiple channels, including web, tablet and mobile.

The Envestnet | Yodlee platform delivers a wide variety of FinApps and also enables our customers to develop their own applications through our open APIs, that deliver trusted and secure data, money movement solutions, and other feature functionality. Our FinApps are targeted at the retail financial, wealth management, small business, card and other financial solutions sectors. These FinApps help consumers and small businesses simplify and manage their finances, review their financial accounts, track their spending, calculate their net worth, and perform a variety of other activities. Examples of FinApps include our Expense FinApp, which helps consumers track their spending, and a Payroll FinApp from a third party, which helps small businesses process their payroll.

We are a big data practitioner providing our customers with data analytics solutions and market research services that enhance the value of our solutions and anonymized data derived from a massive and dynamic set of end user-permissioned transaction-level data that we gather and refine. We believe that our brand leadership, innovative technology and intellectual property, large customer base, and unique data gathering and enrichment provide us with competitive advantages that have enabled us to generate strong growth.

Our solutions benefit our customers and their end users in a wide variety of ways. For both our FI and YI customers, providing Envestnet | Yodlee-powered solutions improves their end user satisfaction and retention, accelerates speed

to market, creates technology savings and enhances their data analytics solutions and market research capabilities. For our customers' end users, our solutions provide better access to their financial information and more control over their finances, leading to more informed and personalized decision making. For our customers who are members of the developer community, our solutions provide access to critical data and payments solutions, faster speed to market and enhanced distribution.

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Market Opportunity

The financial services industry is undergoing a technological shift. Outdated enterprise hardware and software is being replaced by cloud-driven solutions that are easier and less expensive to implement, update and manage. Banks continue to spend heavily on IT in order to compete effectively in an increasingly competitive environment. We believe as financial institutions continue to spend on technology, a growing proportion of that spending will shift from outdated internally-developed or custom-built enterprise software to cloud-based solutions. In addition to the large opportunity that we have with traditional financial institutions, we believe that we also have a significant opportunity with Internet services companies providing innovative financial solutions.

The industry in which Envestnet | Yodlee operates has the following opportunities:

- Consumers and small businesses are struggling to effectively manage their finances;
- Financial institutions have challenges and opportunities to engage and retain their customers;
- Emerging Internet-based financial services companies are paving the path of innovation;
- Cloud-based platforms are simplifying software delivery;
- Open platforms and application-level developer ecosystems are driving innovation forward;
- New technology platforms are leveraging big data; and
- Large addressable market.

As we continue to expand our presence in the markets outlined above, the number of potential end users who use our solutions increases dramatically. Our potential end user base includes any consumer of financial services on the Internet—and this end user could be a paid user of Envestnet | Yodlee many times over across multiple customers and products. This multiplier effect greatly increases our addressable end user base.

Business Model

We provide subscription services on a business-to-business-to-consumer (“B2B2C”) basis to financial services clients, whereby our customers offer solutions based on our platform to their end users. On a business-to-business (“B2B”) basis we deliver an open platform to customers and third-party developers through our API’s. We serve two main customer groups or channels, FI and YI customers.

Our FI customers encompass many of the leading FIs, including 12 of the 20 largest banks in the United States, which hold 82% of the total assets of the top 20 U.S. banks (based on total assets as of June 30, 2015). We estimate that our current network of FI customers alone reaches more than 100 million end users, representing a significant opportunity to grow our paid user base within existing customers.

Our YI customers are Internet services companies providing innovative financial solutions, with an increasingly large and diverse base of users, and third-party developers. Third-party developers benefit from access to critical data and payment capabilities, our faster speed to market and enhanced distribution.

Our data analytics solutions and market research services enhance the value of our solutions to our customers and provide insights derived from small, scrubbed, non-identified, and dynamic samples from a massive population of end user-permissioned, non-identified transaction-level data that we gather and refine.

Our platform powers hundreds of FinApps created and made available by us, our customers and third-party developers. FinApps can be sold individually or in combinations and include personal financial management, wealth management, card, payments and SMB solutions. Examples of FinApps are an Expense FinApp that helps a consumer

track their spending, or a Payroll FinApp from a third party that can help a small business with processing its payroll. Our open APIs enable us, our FI and YI customers and third-party developers to create new FinApps that can be made available across our broad end user base.

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In addition to aggregated transaction-level account data, we provide our customers with secure access to account verification, money movement and risk assessment tools via our APIs. By using our account verification solutions, customers can verify an end user's account information, ownership and balance in real time, reducing risk for our customers when interacting with an end user's checking account. By using our money movement solutions, end users can debit and credit consumer and small business accounts in real time or in batches, route payments between accounts or to other people and pay bills.

Growth Strategy

The Envestnet | Yodlee growth strategy is currently divided into three primary areas of focus: user growth, revenue per paid user growth and cross selling of our product offerings to Envestnet customers. In addition, key elements of this growth strategy include:

User Growth:

- Expand end user usage with existing customers
- Grow the number of customers
- Increase our global market presence

Revenue per Paid User Growth:

- Data analytics solutions and market research
- Data-driven cross-sell and digital marketing opportunities
- Market research
- Credit and risk analytics
- FinApps

Technology Platforms

Envestnet | Yodlee Data Aggregation:

Our data aggregation platform collects a wide variety of end user-permissioned transaction-level data from over 14,500 sources and puts it in a common repository. Envestnet | Yodlee developed robust proprietary technology and processes and established relationships that allow us to curate these data sources and expand our access to new data sources. Over 74% of this data is collected through structured feeds from our FI customers and other FIs. These structured feeds, which consist of either batch files pushed to us or real-time access, provide this critical data efficiently and at scale. Where we do not have direct connections, we capture data using our proprietary information-gathering techniques.

Beyond collecting data, our data aggregation platform performs a data refining process and augments the data with additional information from a variety of other sources. We enrich the data with a proprietary twelve-step process, adding such elements as categorization and merchant identification for bank or credit card account data and investment holding identification for investment account data. As our platform usage grows and is exposed to more users and use cases, the system benefits from machine learning algorithms to better normalize, categorize and process large amounts of data, allowing our network to become more effective, efficient and valuable to our customers. With

this enhanced data, including consolidated data from within our FI customers and account data regarding accounts at other FIs, we enable our customers to offer more personalized solutions to their end users, which provide end users insights that allow them to take better control of, and better manage, their finances.

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Investnet | Yodlee Money Movement:

Our money movement solutions facilitate payment flows. Our customers can debit and credit consumer and small business accounts in real time or in batches and route payments between accounts (funds transfer), to billers (bill pay), or to other individuals (peer to peer). Designed to be run as a service, our money movement solutions allow us to operate these functionalities in the cloud and quickly adapt to new payment systems.

Our payment engine, which is a principal component of our money movement solutions, is a task-based payment processing platform that controls all payment activity across cobrands, originators, processors, and billers.

Customers

Our customers include financial institutions, Internet service companies providing innovative financial solutions and third-party developers of financial applications. Our platform was used by more than 500 FIs, including 12 of the 20 largest banks in the United States (based on total assets as of June 30, 2015), and more than 400 Internet services companies globally as of December 31, 2015.

Sales and Marketing

We have a direct sales and pre-sales team servicing the leading global FIs. The FI sales team is divided geographically into three regional groups: North America; Europe; Middle East/Africa and Asia-Pacific. Each regional sales and pre-sales team is responsible for acquiring new FI customers. Within the North America region we further divide our direct sales and pre-sales representatives into teams that focus on specific accounts, on a named-account basis, depending on size, location, product specialization and/or brand. Our direct sales and pre-sales teams are supported by customer advocacy teams who specialize in customer account management and expansion. Together, sales, pre-sales and customer advocacy representatives are responsible for growing our customer relationships in terms of account penetration (cross-selling additional products and services into the same or additional groups within a FI) and expanding use of existing products and services (increasing usage). We also have a global channel partner sales team responsible for acquiring and supporting channel partners who target sales to FIs with fewer than \$20 billion in deposits or assets under management. Additionally, we have resources that pursue our opportunities for sales of data analytics solutions and market research services.

We have a direct sales and technical pre-sales team covering Internet services companies and partners in each region in which we currently operate or intend to operate. Each regional sales and technical pre-sales team is responsible for acquiring new customers and channel partners. From time to time, we assign specific accounts based upon sales or domain expertise. Our direct sales and technical pre-sales teams are supported by a customer success and developer relations team who specialize in customer API integration, and account management and expansion, including services to our channel partners. Together, sales, technical pre-sales, customer success and developer relations representatives are responsible for growing our direct customer and channel partner relationships in terms of account penetration and API usage.

Our marketing efforts are focused on initiatives to drive global company, brand and solutions awareness and significant lead generation and sales acceleration across our whole business. These initiatives include educating the market about Yodlee, achieving recognition as the industry leader through awards, speaking engagements, thought leadership articles, data trends and metrics, and high profile interviews.

We employ a variety of integrated sales and marketing initiatives, including hosted demand generation webinars, sponsorship and partnership of key industry conferences, customer and developer-focused events and programs, meet-ups and hack-a-thons, and other high-profile activities designed to demonstrate thought leadership and engage

new audiences in actionable and measurable ways. We employ many tools, including web and social properties, integrated creative campaigns consisting of online advertising, digital and video content marketing, direct mail, blogs, analyst relations and media relations. In addition, our marketing efforts develop consumer best practices tools, case studies, and education to drive deeper consumer activity and engagement with top customers.

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Competition

While we do not believe any single company in the digital financial services market offers a comprehensive platform with features such as ours, the following companies offer products that compete with one or more of our solutions:

- for data aggregation: Intuit, Inc. and Fiserv, Inc. (CashEdge);
- for personal financial management: Intuit (direct to consumer service) and internal IT departments of FIs, as well as early-stage companies;
- for online bill pay: Fiserv and FIS Global Corporation;
- for data products and services: global payment networks, credit bureaus and other institutions that have access to large pools of data; and
- for account verification: MicroBilt Corporation and Early Warning Systems, LLC.

We believe the principal competitive factors in digital financial services include the following: reputation, cloud-based delivery model, data aggregation capability, access to data through direct connectivity to FIs, scale (size of customer base and level of user adoption), security, time to market, breadth and depth of application functionality user experience, access to third-party applications, ease of use, ease of integration, flexibility and configurability, and competitive pricing. We believe that we compete favorably with respect to all of these factors.

Regulation

Overview

The financial services industry is among the most extensively regulated industries in the United States. We operate investment advisory, broker-dealer and mutual fund advisory businesses, each of which is subject to a specific regulatory scheme, including regulation at the federal and state level, as well as regulation by self-regulatory organizations and non-U.S. regulatory authorities. In addition, we are subject to numerous laws and regulations of general application.

Our subsidiaries Envestnet Asset Management, Inc., Portfolio Management Consultants, Inc., ERS, Upside Financial, LLC, and Envestnet Portfolio Solutions, Inc. (“EPS”) operate investment advisory businesses. These subsidiaries are registered with the U.S. Securities and Exchange Commission (“SEC”) as “investment advisers” under the Investment Advisers Act of 1940, as amended (the “Advisers Act”), and are regulated thereunder. They may also provide fiduciary services as defined in Section 3(21)(A)(ii) of the Employee Retirement Income Security Act of 1974 (“ERISA”), including acting as an “investment manager” (as defined in Section 3(38) of ERISA). As described further below, many of our investment advisory programs are conducted pursuant to the non-exclusive safe harbor from the definition of an “investment company” provided for under Rule 3a-4 of the Investment Company Act of 1940, as amended (the “Investment Company Act”). If Rule 3a-4 were to cease to be available, or if the SEC were to modify the rule or its interpretation of how the rule is applied, it could have a substantial effect on our business. Envestnet Asset Management, Inc. serves as the investment adviser to two mutual funds. Mutual funds are registered as “investment companies” under the Investment Company Act. The Advisers Act, Investment Company Act and ERISA, together with related regulations and interpretations of the SEC, impose numerous obligations and restrictions on investment advisers and mutual funds, including recordkeeping requirements, limitations on advertising, disclosure and reporting obligations, prohibitions on fraudulent activities, and detailed operating requirements, including restrictions on transactions between an adviser and its clients, and between a mutual fund and its advisers and affiliates. The fiduciary obligations of investment advisers to their clients require advisers to, among other things, consider the suitability of the investment products and advice they provide, seek “best execution” for their clients’ securities transactions, conduct due diligence on third-party products offered to clients, consider the appropriateness of the adviser’s fees, and provide extensive and ongoing disclosure to clients. The application of these requirements to wrap fee programs is particularly complex and the

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SEC has in the past scrutinized firms' compliance with these requirements. The SEC is authorized to institute proceedings and impose fines and sanctions for violations of the Advisers Act and the Investment Company Act and has the power to restrict or prohibit an investment adviser from carrying on its business in the event that it fails to comply with applicable laws and regulations. Although we believe we are in compliance in all material respects with the requirements of the Advisers Act and the Investment Company Act and the rules and interpretations promulgated thereunder, our failure to comply with such laws, rules and interpretations could have a material adverse effect on us.

Portfolio Brokerage Services, Inc., ("PBS"), our broker-dealer subsidiary, is registered as a broker-dealer with the SEC under the Securities Exchange Act of 1934, ("Exchange Act"), in all 50 states and the District of Columbia. In addition, PBS is a member of the Financial Industry Regulatory Authority ("FINRA"), the securities industry self-regulatory organization that supervises and regulates the conduct and activities of broker-dealers. Broker-dealers are subject to regulations that cover all aspects of their business, including sales practices, market making and trading among broker-dealers, use and safekeeping of customers' funds and securities, capital structure, record-keeping and the conduct of directors, officers, employees, representatives and associated persons. FINRA and the SEC conduct periodic examinations of the operations of its members, including PBS. Violation of applicable regulations can result in the suspension or revocation of a broker-dealer's registration, the imposition of censures or fines and the suspension or expulsion of the broker-dealer from FINRA. PBS is subject to minimum net capital requirements under the Exchange Act, SEC and FINRA rules and conducts its business pursuant to the exemption from the SEC's customer protection rule provided by Rule 15c3-3(k)(2)(i) under the Exchange Act. As of December 31, 2015, PBS was required to maintain a minimum of \$100 in net capital and its actual net capital was \$1,176.

Envestnet | Yodlee's solutions are subject to a strict set of legal and regulatory requirements intended to protect consumers and to help detect and prevent money laundering, terrorist financing and other illicit activities. Envestnet | Yodlee is examined on a periodic basis by various regulatory agencies. For example, Envestnet | Yodlee is a supervised third-party technology service provider subject to multi-agency supervisory examinations in a wide variety of areas based on published guidance by the Federal Financial Institutions Examination Council. These examinations include examinations of Envestnet | Yodlee's management, acquisition and development activities, support and delivery, IT, and disaster preparedness and business recovery planning. The Office of the Comptroller of the Currency (the "OCC") is the agency in charge of these examinations.

Either as a result of direct regulation or obligations under customer agreements, our subsidiaries are required to comply with certain provisions of the Gramm-Leach-Bliley Act, related to the privacy of consumer information and may be subject to other privacy and data security laws because of the solutions we provide. In addition, numerous regulations have been proposed and are still being written to implement the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (the "Dodd-Frank Act"), for enhanced due diligence of the internal systems and processes of companies like ours by their financial institutions customers.

Money movement services are potentially subject to regulation under a variety of federal and state laws, including state statutes regulating "money transmitters" and federal laws, such as the Bank Secrecy Act and the regulations thereunder, which regulate "money transmitting businesses" and "money services businesses." Many of these statutes are broadly worded and have not been subject to published judicial or administrative interpretation.

Our subsidiaries are subject to various federal and state laws and regulations that grant supervisory agencies, including the SEC and OCC, broad administrative powers. In the event of a failure to comply with these laws and regulations, the possible sanctions that may be imposed include the suspension of individual employees, limitations on the permissibility of our regulated subsidiaries and our other subsidiaries to engage in business for specified periods of time, censures, fines, and the revocation of registration as a broker-dealer or investment adviser, as applicable. Additionally, the securities laws and other regulations applicable to us and our subsidiaries provide for certain private rights of action that could give rise to civil litigation. Any litigation could have significant financial and non-financial

consequences including monetary judgments and the requirement to take action or limit activities that could ultimately affect our business.

Many of the laws and regulations to which our subsidiaries are subject are evolving, unclear and inconsistent across various jurisdictions, and ensuring compliance with them is difficult and costly. We continually develop

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improvements to our existing products and services as well as new products and services. Many of these improvements or new products and services may implicate regulations to which we may not already be subject or with which we may not have experience. New laws or regulations, or changes in existing laws or regulations or interpretations of existing laws and regulations, including those relating to the activities of our investment adviser, broker-dealer and financial institution clients, may occur that could increase our compliance and other costs of doing business, require significant changes to our systems or solutions or substantially change the way that our clients operate their businesses. Compliance with any new or revised regulatory requirements may divert internal resources, be expensive and time-consuming and may require increased investment in compliance functions or new technologies. Failure to comply with the laws and regulations to which we and our subsidiaries are subject could result in fines, penalties or limitations on our ability to conduct our business, or federal or state actions, any of which could significantly harm our reputation, and could materially and adversely affect our business, operating results and financial condition.

Investment Advisory Program Conducted Under Rule 3a-4

Under the Investment Company Act, an issuer that is engaged in the business of investing, reinvesting or trading in securities may be deemed an “investment company,” in which case the issuer may be subject to registration requirements and regulation as an investment company under the Investment Company Act. In order to provide assurance that certain discretionary investment advisory programs would not be considered investment companies, the SEC adopted Rule 3a-4 under the Investment Company Act, which provides a non-exclusive safe harbor from the definition of an investment company for programs that meet the requirements of the rule. We conduct the following programs pursuant to the Rule 3a-4 safe harbor:

- Separately managed accounts;
- Unified managed account portfolios;
- Mutual fund portfolios and exchange-traded fund portfolios; and
- Advisor as portfolio manager.

We believe that, to the extent we exercise discretion over accounts in any of these programs, these programs qualify for the safe-harbor because all of the programs have the following characteristics, which are generally required in order for a program to be eligible for the Rule 3a-4 safe harbor:

- Each client account is managed on the basis of the client’s financial situation, investment objectives and reasonable client-imposed investment restrictions;
- At the opening of the account, the client’s financial advisor obtains information from the client and provides us with the client’s financial situation, investment objectives and reasonable restrictions;
- On no less than an annual basis, the client’s financial advisor contacts the client to determine whether there have been any changes in the client’s financial situation or investment objectives, and whether the client wishes to impose any reasonable restrictions on the management of the account or reasonably modify existing restrictions. This information is communicated to us and reflected in our management of client accounts;
- On a quarterly basis, we or another designated person (in most cases this will be the client’s financial advisor) notify the client to contact us or another designated person if there have been any changes to the client’s financial position or investment objectives or if the client wishes to impose any reasonable restrictions on the management of the account;
- We, the client’s financial advisor and the manager of the client’s account, all of whom are knowledgeable about the account and its management, are reasonably available to the client for consultation;
- All of the programs allow each client to impose reasonable restrictions on the management of his or her account;
- On at least a quarterly basis, the client is provided with a statement containing a description of all activity in the client’s account during the preceding period, including all transactions made on behalf of the account, all contributions and withdrawals made by the client, all fees and expenses charged to the account, and the value of the

account at the beginning and end of the period; and

- For all of the programs, each client retains, with respect to all securities and funds in the client's account, the right to withdraw securities or cash, vote securities, or delegate the authority to vote securities to another

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