

State of the Company

Purcell's Annual Meeting address highlights strong performance



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– Paul Purcell

"Thank you for taking phenomenal care of our clients," said Paul Purcell, Baird Chairman, President & CEO, as he opened his State of the Company address at the Annual Meeting for All Associates on May 18. "You are indeed the best in the industry. Thank you for being such great team members and partners to all of us at Baird."

Paul noted that the greatest differentiator for Baird is people. "It's about our associates and our clients," he said. "It's about our teamwork, the way we treat each other as partners, the fact that we're privately held and employee-owned and that we, and nobody else, control our own destiny. We are very good at what we do and, equally importantly, we are a great team and a family."

Underscoring that Baird is very good at what it does, Paul discussed a number of 2010 and 2011 accolades, including Baird's eighth consecutive year of recognition on FORTUNE's list of the 100 Best Companies to Work For®, plus the firm's best-ever results for research and sales quality in this year's annual Greenwich Associates survey of small-cap and mid-cap fund managers.¹

A Long Way in a Decade

Baird's book value increased an average of 11% a year for the last decade, despite what Paul called a "tough decade" for the economy and the financial markets. During the same timeframe, associate ownership grew from 35% of the firm's value to 93%.

Baird's stock also heavily outperformed the S&P 500 Financial Sector Index² over the last decade, with Baird book value climbing 182% versus a 46% decline in the index.³ During the economic downturn in the past three years, Baird's stock was up 27% while the Financial Index was down 45%.³

Paul also used a longer-term example to illustrate how associates' stake in the company and the value of that stake have increased over the years. Book value was \$90 million in 1994. At the end of 2010, it was \$489 million – a 5.4-fold increase. In addition, because associate ownership increased from 20% to 93% over that 16-year period, the dollar value of associates' stake in Baird grew from \$18 million to \$456 million – a 25.3-fold increase. "This is pretty phenomenal performance, thanks to your hard work," Paul told associates.

2010 Results

"2010 was a very good year," Paul said, noting that revenue was up 18% to \$847 million and operating income was up 35% to \$84 million for the year over 2009.⁴

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“We had outstanding performance, especially in the second half of the year,” Paul said. “We had an exceptionally strong rebound for Private Wealth Management, Investment Banking and Private Equity. We also had excellent results from Asset Management and Fixed Income Capital Markets.”

Through the downturn, Baird continued to grow, hiring 227 Private Wealth Management associates from 2008 to 2010, plus opening 24 new offices. Baird accomplished all this while experiencing turnover that was less than half the industry average.⁵

“We’re passionate about growing our talent,” Paul said. “During the downturn, we added 15% to our head count, while the rest of the industry significantly re-trenched. We believe in ourselves and what we’re doing for our clients.”

Global Challenges

Paul acknowledged the sovereign debt crisis in Europe, chaos in the Middle East and the repercussions of the Japanese tsunami as issues that could have lasting effects in the financial world. “We’re seeing significant commodity price inflation coming out of Asia, and clearly, the tragedy in Japan is going to create years – not months – of issues,” he said.

According to Paul, other significant challenges facing the financial industry include the slow economic recovery in the United States, market volatility, the rapid change of technology on a global basis and an “unfriendly” regulatory and financial service reform environment. “All of these issues can be managed if we stay vigilant,” Paul said. “My reminder to you and all associates is: risk management is a team sport. We clearly have the talent and resources to manage through the issues.”

A Great Start to 2011

For the first four months of the year, revenues and operating income were up 12%. Book value was up 11% since April 30, 2010.

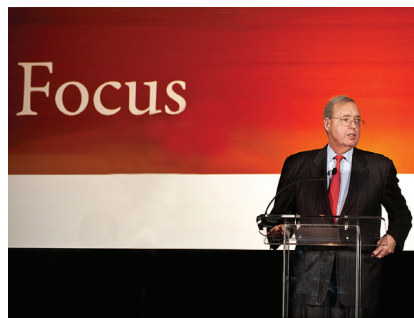
For the full year, Paul expects revenues of \$880 million, up about 4%, and operating income of \$90 million or higher, up 7%. He estimates book value to increase at least 10%, depending on the market.

Paul discussed priorities over the next five years, including increasing expertise and skills to compete in the marketplace, developing and retaining top talent and thinking globally in terms of planning.

He then took a look at each of Baird’s five businesses, noting, “We have five very strong businesses, all of which are well-positioned and have continued to gain market share in their respective markets.”

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Private Wealth Management (PWM): “The theme for PWM is continued quality growth,” Paul said, noting that PWM must continue to build out teams, increase productivity through increased assets and revenues per Financial Advisor, build recurring revenue, invest in technology and continue to deepen client relationships.

Equity Capital Markets: In Baird’s second-largest business, Paul said that he’d like to see the group increase research coverage by about 10% to 700 companies. He also called for an increase in the size of M&A transactions, an increased professional footprint and the maintenance of Baird’s industry-leading Greenwich rankings.

Fixed Income Capital Markets: Calling it Baird’s “counter-cyclical business,” Paul noted that Fixed Income Capital Markets enjoyed phenomenal growth from 2007 to 2009. With the stock market’s rebound, the fixed income group’s revenues are off its record 2009 level, but profitability remains good. Key initiatives for the group include originating proprietary taxable products and adding Public Finance expertise in the Health Care and Higher Education sectors.

Asset Management: Paul characterized Asset Management as Baird’s “most consistent grower over the last 10 years,” noting that Baird Funds’ assets under management crossed over the \$5 billion mark the week of the Annual Meeting. To achieve further growth, Paul said that the team would need to continue to develop the equity asset management portfolio, expand the distribution of the Baird Funds and launch Baird Public Investment Advisors in new markets.

Private Equity: “What is very, very interesting is, the Private Equity platform has come out of the 2008 and 2009 recession much better than we came out of the 2001 and 2002 downturn,” Paul said. “To refresh your memory, the returns of that vintage 2001 or 2002 were quite good, so the prospects are very good.” Continuing to drive top-quartile results and fully leveraging the talents of the team in China were two of the goals Paul cited for the business.

Corporate Resources Group: On the corporate resources front, Paul asserted that the firm should continue to recruit top talent, deepen expertise throughout the firm, strengthen partnerships with each of the business units and grow international capabilities.

The Road to Growth

If all of Baird’s teams can continue their strong performance and accomplish these goals, Paul said, the firm can grow from an \$850 million business today to a \$1.25 billion business in 2015, with operating income increasing 75% from \$84 million in 2010 to approximately \$150 million in 2015.

“This is all very attainable with the resources we have in place,” Paul said. “If that happens, everybody, including our clients, will win.”

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To reach the firm's goals, Paul reminded the audience to continue to act on Baird's basic tenets: "Clients always come first. We are a family. We must protect, all of us, our very important and quite unique culture of integrity. We must demand great outcomes in everything we do. We must have thoughtful growth. We absolutely must increase the diversity of our firm so it matches the ever-changing diversity of our client base. We must keep the individual respect that we have for each other as partners – profound respect for one another, profound respect for what we do, and profound respect for our clients.

"I am probably the most fortunate leader in our industry, because we have the best team. If we continue to take care of one another, the environment is there for us to take advantage of opportunities."

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¹Greenwich Associates U.S. Equity Investors – Small/Mid-Cap Funds, April 2011. Surveys conducted with 98 U.S. small-cap and mid-cap fund managers. 2011 Greenwich Quality Index is calculated using a normalized composite of all research qualitative evaluations.

²The S&P Financial Sector Index, also known as the S&P Financials Index, tracks the financial companies from the S&P 500 index. The value of Baird's privately held stock is based on Baird's book value, and there is no public market for Baird shares.

³Source: Per Capital IQ. Reflects split-adjusted stock prices, excludes dividends. Past performance is not a guarantee of future results. The S&P 500 Index is a representative sample of 500 leading companies in leading large-cap industries of the U.S. economy. The index is unmanaged and an investment cannot be made in it.

⁴Financial results do not reflect consolidation of certain private equity partnerships.

⁵Source: CompData Surveys' 2010 annual Compensation Data survey of 5,000 U.S. companies.