



January 15, 2007

Private Equity Betting on Boomers

By John E. Morris

Aging owners and an aging population are spurring private equity investment in wealth management firms.

In the latest deal, New York private equity firm Crestview Partners LP bought Birmingham, Mich., money manager Munder Capital Management from Comerica Inc. earlier this month. Like similar deals over the past year, management retained a minority stake in the firm, which had \$27.1 billion in assets under management as of Sept. 30. Grail Partners LLC and Capricorn Management LLC co-invested with Crestview.

The closing came two months after New York's Circle Peak Capital LLC recapitalized Nashville-based WealthTrust Inc., with 10 affiliated investment advisory firms, roughly 7,000 clients and \$6.5 billion in assets under management. That deal, valued between \$50 million and \$100 million, also was a divestiture - from Regions Financial Corp. - in which management invested in the buyout.

One driver behind the deals is the aging baby boomer generation, which needs more financial advice as it moves closer to retirement age. And the aging process is also bringing firms onto the market. "We think there is an [investment] opportunity in smaller wealth management firms run by aging entrepreneurs," says Robert Machinist, managing partner of MB Investment Partners Inc., a 2-year-old portfolio company of New York-based Centre Partners. "You get to the point where you manage money well, but you haven't thought about what to do with your business."

Financial sponsors with investments in wealth management firms are actively seeking "succession-planning talent" to support the growth of their businesses, says Jeff Garrity, a managing director at Russell Reynolds Associates Inc., a New York executive recruitment firm that manages headhunting assignments for buyout firms.

In addition to Crestview, Circle Peak and Centre Partners, San Francisco's Hellman & Friedman LLC and Boston's Summit Partners have also been investing in the sector.

In many cases, sponsors are consolidating smaller firms.

MB Investment Partners executed its first add-on acquisition in February with the purchase of Ironwood Capital Management LLC, a Boston firm specializing in small-cap stocks, for undisclosed terms. The deal boosted MB's assets under management to more than \$1.2 billion. MB Investment has been talking to other advisory firms in the Northeast, Machinist adds.

The same month Boston's Summit Partners committed \$35 million to Focus Financial Partners LLC, a New York firm headed by former American Express Co. executive Ruediger Adolf with \$3.5 billion in assets under management. In June Focus expanded by buying wealth advisory

firms HoyleCohen Inc. and Resnick Investment Advisors LLC. Focus handles about \$5 billion in assets.

"This industry is ripe for consolidation," says WealthTrust CEO M. Rush "Rusty" Benton. "There is a lot of talk about selling of firms." His firm acquired DeGreen Wealth Management of Scottsdale, Ariz., at the same time Circle Peak recapitalized WealthTrust.

With new capital and a bigger platform, the asset managers can broaden their product ranges, Benton explains.

"We absolutely view the Circle Peak transaction as a move to support the development of an alternative asset investment platform."

The rationale for investing in the sector is not limited to the U.S. Indeed, the biggest deal of all was Hellman & Friedman's buyout of British asset manager Gartmore Investment Management plc from Nationwide Mutual Insurance Co. of Columbus, Ohio, valued at about £500 million (\$936 million). - Kelly Holman

Reports this month in the U.K. and Australian press that London private equity shop CVC Capital Partners Ltd. had been authorized by its limited partners to make hostile bids caused a brief stir. It turned out, however, the supposed "change" had in fact been written into the terms of CVC's 2005 fund. But there are signs that London buyout shops are increasingly willing to act as predators and not just suitors.

CVC's great rival Permira was frustrated when it made a £280 million (\$540 million) unsolicited bid in March for music and book distributor HMV Group plc but has begun taking minority stakes in potential targets to squeeze their boards. In December it built a 14% holding in Britvic plc, a U.K. drinks company, after a full takeover offer was rebuffed earlier in 2006. It said the move should be considered friendly, but it could change its tune when restrictions imposed by the Takeover Panel expire in a few months.

Similarly, Icelandic holding company Baugur Group hf, which functions much like a buyout firm, successfully acquired department store group House of Fraser plc by first building a stake.

People with longer memories also point to moves by midmarket buyout shop Duke Street Capital, which a few years back took to building threatening stakes in reluctant targets, such as fitness club chain Esporta Group Ltd., before taking them private. Duke Street later returned to sourcing proprietary deals, but big beasts such as Permira see potential in public targets at a time when proprietary sourcing is difficult.

For its part, CVC has pursued Swiss food and drink packager Sig Holding AG in a joint bid with Norway's Ferd Holding AS despite management's insistence that their \$2.6 billion (\$2.14 billion) offer was both unsolicited and unwelcome.

CVC and Permira apparently are not alone. Michael Halford of SJ Berwin LLP, a law firm that specializes in private equity fund formation, says he and his colleagues have seen several instances where prospective LPs have asked for "no hostiles" clauses to be written into a fund partnership agreement and were persuaded by the general partners that these would be unnecessarily constraining. He said he and his partners cannot recall a partnership agreement with an explicit "go get 'em" clause but that the absence of an explicit prohibition is significant.

Other sources say Duke Street was explicitly authorized to make hostile bids. It could not be determined what wording is in CVC's and Permira's agreements.

Acquiring a stake can be a means of obtaining due diligence, says Mark Paccitti, head of private equity at Deloitte & Touche LLP. But buyout firms have to be careful not to make "virtual bids" - buying a stake and making a highly conditional offer contingent on due diligence - because that can damage their reputation in the marketplace.

Hostile strategies will remain the exception, not the rule, says Wieland Janssens, head of private equity at ABN Amro Holding NV.

"Even now, hostiles aren't going to be strategy. They're more a tactic in service of doing a good deal. It will remain the target to go in friendly, because you don't want to alienate management."
- Jonathan Braude

Questor Management Co. LLC, the Southfield, Mich.-based private equity boutique founded 13 years ago by turnaround specialist Jay Alix, will go out of business after it winds down its portfolio, a spokeswoman says.

In December, Questor recruited Lawrence Ramaekers, a longtime associate at Alix's advisory boutique, AlixPartners LLC, to oversee and eventually sell its half-dozen remaining holdings. Ramaekers replaces John Janitz, Questor's co-managing principal, who plans to leave shortly.

Last year, Hellman & Friedman LLC bought a controlling stake in AlixPartners, which had consulted extensively for Questor. The bigger factor, however, in the decision to shut the doors may have been the fact that Questor had difficulty raising a third fund. Its first fund had single-digit returns, according to a person familiar with its results. Its second fund, an \$865 million vehicle raised in 1999, may yet produce respectable results, sources familiar with the firm say, but that will hinge on successful disposals of its remaining holdings. - David Carey