

Private-equity firms set sights on wealth management biz

By Charles Paikert

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NEW YORK - Private-equity firms are zeroing in on the wealth management business.

New York-based Circle Peak Capital LLC's acquisition last month of WealthTrust Inc., a Nashville-based financial holding company that already owns 10 advisory firms with \$6.4 billion in assets, is emblematic of the growing trend, said Peter Rockefeller, a managing director with New York-based Berkshire Capital Securities LLC.

"It's difficult for local advisory firms to grow organically, and a lot of partners are looking to retire," said Mr. Rockefeller, whose firm served as an investment banker on the WealthTrust-Circle Peak deal. "Private-equity firms know this and are actively looking to develop strategies for the space. I think you're going to see a lot more of this sort of thing happening in the next few years."

"It's an industry that's ripe for consolidation, and the smart money is starting to flow in," said David DeVoe, director of mergers and acquisitions for the strategic-client group at Schwab Institutional in San Francisco.

Boston-based Grail Partners LLC, for example, has been backing independent-advisory acquisitions around the country by United Capital Financial Partners Inc. of Newport Beach, Calif.

And Jeffrey Lovell, managing director at Lovell Minnick Partners LLC in Rolling Hills Estates, Calif., confirmed that wealth management acquisitions are also "an area of interest" to his private-equity firm.

According to Mr. DeVoe, holding companies have accounted for 28% of advisory acquisitions this year.

'A great sector for us'

One of the highest-profile

private-equity investments in the wealth management sector has come from Boston-based Summit Partners LP, which is backing Focus Financial Partners LLC, a Boston-based holding company with an aggressive acquisition strategy (InvestmentNews, March 6). The roll-up firm was founded in January by Austrian-born Rudy Adolf, who previously headed Minneapolis-based American Express Financial Services' global-brokerage-and-banking division.

"It's an industry that's filled with great entrepreneurs, and we believe it's a great sector for us," said Kevin Mohan, general partner for Summit, which has put \$35 million in Focus to date.

Focus already has acquired six wealth advisory firms in four states and nearly \$5 billion in client assets since the beginning of the year, with plans for more to fill out a "national footprint," said Mr.

Adolf, the firm's chief executive.

WealthTrust, which made its most recent acquisition last month, snapping up Scottsdale, Ariz.-based DeGreen Wealth Management, also has a national expansion strategy, according to chief executive M. Rush "Rusty" Benton.

Before being bought by Circle Peak, WealthTrust was owned by Memphis, Tenn.-based Morgan Keegan & Co., which wanted to focus on its Southeastern base and placed "geographical constraints" on growth, he said.

The brokerage firm, owned by Regions Financial Corp. of Birmingham, Ala., was "not a great strategic fit" for WealthTrust, Mr. Benton said. By contrast, he said, Circle Peak enthusiastically backs the firm's strategy to develop a national brand and grow to \$20 billion in assets in three to five years.

A combination of leveraging WealthTrust's "holding company capability" and the large pool of independent-advisory firms around the country make the goal attainable, agrees Circle Peak managing partner R. Adam Smith.

WealthTrust's targets, he said, will be advisory and planning firms "with a strong local presence and asset wealth management capabilities ranging from a half billion dollars to \$5 billion."

Circle Peak paid between \$50 million and \$100 million for WealthTrust, Mr. Smith said, and "anticipates significant capital deployment to the platform in the years ahead."

Immediately after the sale, according to Mr. Benton, WealthTrust signed a letter of intent to acquire a wealth advisory firm with \$1 billion in assets early next year.

Both WealthTrust and Focus offer advisory firms back-office, platform and compliance support, as well as sales and marketing expertise and services. They also want the local firms to retain a degree of autonomy, and partners in the acquired firms have equity in the holding company as added incentive for a possible public sale of the company in the future.

More-sophisticated marketing will be "extremely important" to WealthTrust's growth, Mr. Benton said. "This is an industry that

doesn't market itself well," he said. "There's room for a national brand, and that's what we want to be."

Mr. Adolf, however, said that he does not see branding as "critical leverage" for growth. "Quality of the client" and referrals are more important, he said. "That's why the small guys seem to be building, because of their closeness to the client. Seventy percent of this business is referral based. This is what's critical."

Mr. Adolf downplayed WealthTrust as a competitor, contending that its business model had "stalled" because the firm hadn't made an acquisition since 2004 before buying DeGreen last month.

"We haven't run into them in the market," he said. "They're not really a player."

Mr. Benton declined to respond to Mr. Adolf's comments except to say he is "sure [Focus] will be good competition."

Both firms were given high marks by industry observers.

"I like what they're doing," said Charles "Chip" Roame, manag-

ing principal of Tiburon (Calif.) Strategic Advisors LLC. "The well-capitalized players are the one who are going to do well."

Entrepreneurial spirit

Focus' rapid growth this year has been a "phenomenal undertaking," according to Schwab's Mr. DeVoe, while WealthTrust has "clearly demonstrated its ability to acquire independent firms and allow them to operate independently and grow the organization."

Both firms, he added, "are backed by great private-equity companies" and have successfully capitalized on the "entrepreneurial aspect" of the firms they've acquired.

That same entrepreneurial spirit also represents a challenge for wealth management firms, cautioned Liz Nesvold, managing director of New York-based Cambridge International Partners Inc., who also worked as an investment banker on the WealthTrust deal.

"Their clients become their friends," she said. "How do you then turn over the keys to the relationship?"

Nonetheless, she calls the trend of private-equity-backed holding companies' acquiring wealth advisory firms "compelling."

"There's not a tremendous amount of well-branded public players," Ms. Nesvold concluded. "I think there will be tremendous receptivity for companies who want more national presence."