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## Julius Baer IPO pushes against tide

### Low valuations scaring off most investment managers

By **Jay Cooper**

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John Siciliano questioned why any managers are currently looking at IPOs.

The decision by Julius Baer Investment Management LLC executives to take the firm public likely will prove the exception and not the rule among asset managers looking to raise capital, investment bankers say.

Lower valuations and a volatile market are likely to scare away most investment managers who were considering an initial public offering to raise capital or cash out senior investment staff. Instead, those managers might seek a merger, shelve IPO plans until the market improves or take advantage of a special purpose acquisition company.

Earnings before interest tax and amortization multiples for asset management firms are down 16% since September, according to data from Grail Partners LLC, New York.

"You're looking at (valuations) being down 10% to 30%," said John Siciliano, a managing partner with Grail. "I'm perplexed as to why anyone would decide to do this right now."

Given market conditions, the timing of the IPO from Julius Baer surprised many in the investment banking industry.

It was rumored last summer that Julius Baer Holding AG, the money manager's Zurich-based parent, might float the company publicly after talks with other money managers wanting to acquire JBIM fell through (*Pensions & Investments*, Aug. 6).

That was before the markets, and valuations, fell.

"Only the strongest should tackle this market for the right IPO," said Elizabeth Nesvold, founder of investment banking boutique Silver Lane Advisors LLC, New York.

### 'Great name'

The strength of New York-based Julius Baer Investment Management is one reason executives might have gone through with the IPO even though the markets were down, Ms. Nesvold added.

"It's a great name. They've got cachet," Ms. Nesvold said. "They've got some nice attributes."

She pointed out that most of JBIM's revenue is from recurring fees, not performance fees, and that type of revenue stream is more attractive in a down market because it is more consistent.

Other money managers are shying away from the IPO market. Ms. Nesvold said she had two asset management clients that were considering IPOs this year, but have instead opted to form a strategic partnership with another firm or to sell all or part of their business to a private equity firm. She declined to name those clients.

Turner Investment Partners Inc., Berwyn, Pa., filed to go public back in November, filing a slight amendment to their S-1 in January. Executives at the firm declined to comment on whether they will float the stock in the current market or wait for market conditions to improve.

JBIM executives declined to comment on their IPO, beyond a release issued Feb. 12. A registration statement filed with the Securities and Exchange Commission said the firm will be renamed Artio Global Investors Inc. before the offering. Artio plans to sell up to \$1 billion in common stock on the New York Stock Exchange, according to the filing.

Grail Partners' Mr. Siciliano estimates the company is worth \$2 billion to \$2.5 billion.

"This is looking like an uncommonly large IPO for a firm of this size," Mr. Siciliano said. "They wouldn't sell that much in this environment unless there are other pressures." He added he had heard there were pressures from the Julius Baer family and senior management to complete this divestiture as quickly as possible.

JBIM might be going public to cash in before equity markets decline further. "They want to have a stake in the ground and exit while (the firm) still has so much value," Mr. Siciliano said.

### **Predominantly international**

While the SEC filing states Artio will launch hedge funds and private equity funds, 92% of JBIM's \$73.2 billion in assets under management is in international equity strategies. In general, the international equity market has fallen off with the domestic equity market. The Morgan Stanley Capital International Europe Australasia Far East index is down 11.2% since the end of June while the Dow Jones industrial average is down 7.7% over the same time period.

Assets at the firm have grown at a phenomenal rate, up 2,424% since year-end 2002, when the firm managed only \$2.9 billion, according to the SEC filing.

The firm's two principals, Chief Executive Officer and Chief Investment Officer Richard Pell, along with Rudolph-Riad Younes, head of international equity, have been compensated well for that growth.

The two were paid a total of \$100 million in 2006, and \$120 million in the first three quarters of 2007, according to an analysis of the S-1 by Bear Stearns analyst Christopher Wheeler.

Earnings were pulled down significantly by those compensation packages, Mr. Wheeler points out in a report on the IPO.

"This compensation package looks to be converted into shares at the time of the IPO to improve the underlying profitability of the business and increase the attractions of the business to external investors," Mr. Wheeler said in his report.

When Artio floats its stock, its executives will hope it fares better than recent IPOs of other asset management firms.

The value of Blackstone Group LP's stock has fallen 51.6% since its IPO in June; Pzena Investment Inc. has seen its stock value drop 42.2% since its IPO in October; and the value of Och-Ziff Capital Management LLC's stock has fallen 32% since it went public in November. All three are based in New York.

Those statistics are part of the reason asset management firms are shying from IPOs. "It has to give others pause for thought on whether an IPO is an attractive route," said Paul Holt, president of New York-based investment bank Cambridge International Partners Inc.