

Indie wealth firms sought by acquirers

Market slump hasn't dimmed the luster of firms with local clout and high-end clients

By **Charles Paikert**
September 15, 2008

Growing independent-wealth-management firms with strong local roots, charismatic managers and loyal high-net-worth clients continue to be coveted by acquisition-minded financial services companies.

The coveted firms are in California, or in the South or Southwest, and manage at least \$500 million in assets.

Among the most sought after are Trovena LLC of San Diego, Lydian Private Bank and Trust of Palm Beach, Fla., Albion Financial Group in Salt Lake City and Sentinel Trust Co. in Houston, said industry sources, who asked not to be identified.

Other strong regional firms that are considered attractive targets include Oxford Financial Group Ltd. in Carmel, Ind., and Threshold Group of Gig Harbor, Wash., said officials.

"There's a lot of interest out there, especially in regional-wealth-management players with \$500 million to \$1 billion in assets, with an open-architecture platform," said Liz Nesvold, managing partner of Silver Lane Advisors LLC in New York.

Financial heavyweights that have expressed interest in buying, or have recently purchased, wealth management firms include Barclays Bank PLC of London, Wells Fargo & Co. of San Francisco, Northern Trust Corp. of Chicago and UBS AG of Zurich, Switzerland. Also in the hunt are growing regional firms with national ambitions such as Fisher Investments of Woodside, Calif., Homrich & Berg Inc. in

Atlanta, Aspiriant of San Francisco and Los Angeles, and Presidio Financial Partners LLC in San Francisco, as well as perennial buyers such as holding companies Focus Financial Partners LLC of New York and WealthTrust LLC of Nashville, Tenn.

Brodie Cobb, chief executive of Presidio, said the firm is looking to buy or partner with firms in New York, Texas and California with \$500 million or more in assets.

"We think there are more and more of those types of firms out there who would be interested in joining us," he said.

Lakepoint Investment Partners LLC of Cleveland, which is set to be acquired by Northern Trust this month, epitomizes the prototypical independent regional firm considered highly desirable by buyers, said Steven Levitt, managing director and co-founder of Park Sutton Advisors LLC in New York.

"Lakepoint is a good, well-regarded local firm with nearly \$600 million in assets," he said.

"They are good at relationship management with impressive, high-net-worth clients," Mr. Levitt said. "But it's a very localized business, and they knew they need access to a broader wealth management platform."

Local firms that may be acquisition targets are also feeling pressure from sophisticated, wealthy clients to diversify the types of asset classes and investment opportunities they can offer, Mr. Levitt said.

Mark Scalzo, group vice president and head of mergers and acquisitions at Fisher Investments, which last month bought Houston-based Lighthouse Capital Management LP, agrees.



Brody Cobb: Presidio seeks firms with at least \$500 million in assets.

"[Local] firms have realized that being able to invest globally is becoming increasingly important to clients," he said. "And that that is a capability they don't currently have."

Potential buyers are also paying close attention to geography, said Daniel Seivert, chief executive and managing partner of Manhattan Beach, Calif.-based Echelon Partners Corp., an investment-banking and consulting firm.

"They want firms that are established in local markets, particularly fast-growing ones in California and the South," he said.

"We are seeing private banks looking to expand their geographic footprints," said Stuart Rutherford, a senior financial services analyst for Datamonitor in London. "And buying a wealth manager is a fast-track way of gaining scale in a particular geography."

Indeed, to kick-start its growth plans in the United States, Barclays would consider buying an American wealth management firm, Bob Diamond, its president, said last month.

Wells Fargo's chief executive, John Stumpf, has also publicly expressed interest in purchasing a wealth management firm, most likely in the Western United States, where the bank is strongest.

Potential buyers of wealth management firms, however, are wary of overpaying, while sellers, not surprisingly, want to maximize their price.



Mark Scalzo: Clients place importance on being able to invest globally.

FAVORABLE MARKET

Mr. Levitt said the wealth management market is favorable for sellers.

Most firms with less than \$1 billion in assets, he said, are being valued at seven to 10 times the "run rate" of earnings before interest, taxes, depreciation and amortization.

The run rate, Mr. Levitt explained, is the likely revenue from a book of business over the next year, minus likely fixed expenses.

Mr. Scalzo said that wealth management firms have been valued at two to three times revenue this year. However, he added, that number "has come down a bit because of concern where the market is going."

Despite intense interest in wealth management firms, Ms. Nesvold described the market environment as "difficult" because many large banks that normally would be active buyers are dealing with credit problems and are "all in the penalty box."

"There are a lot of tire kickers out there," she said.

But Ms. Nesvold added that buyers waiting for prices to drop may be disappointed.

"There are no cheap values on firms of size," she said. "There are no blue-light specials."



Steven Levitt: *The prices that are being paid for firms are attractive.*

www.investmentnews.com