Bibliowicz's Turnaround Plan

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National Financial Partners is going through a rough stretch, and its turnaround plan may include being more aggressive in rolling up RIAs.

Though many of the firms under the NFP umbrella are life-insurance sales firms with commission revenue, CEO Jessica Bibliowicz said NFP hopes to see growth in its investment advisory division, which accounted for 8% of revenue in 2009.

"(It) is currently our smallest, but it's an area we believe has high potential for growth," she said in a conference call with Wall Street analysts and shareholders of the firm on Wednesday morning. "Our broker dealer and RIA capabilities should be attractive to advisors."

NFP outlined other initiatives yesterday designed to return once high-flying advisory roll-up to health.

Adopting the NFP brand

The company is abandoning, in part, the strategy that kept the advisory firms it bought as separate entrepreneurial ventures. The benefits firms under its umbrella are beginning to work more closely together, negotiating jointly with vendors, and adopting the NFP brand.

The company has established an annual cash incentive instead of a three-year plan. It rewards firms for growth over an incentive target.

The company will continue to build its recurring revenue base, now 52% of revenues in 2009, up from 45% in 2008.

Bibliowicz made the remarks in a conference call to discuss fourth quarter results for NFP. It had net income of $1.9 million or four cents per share, compared to a loss of $12.4 million or 31 cents per share in the same quarter last year. For the year, the company had a net loss of $493.4 million, on revenue of $948.3 million. The loss per diluted share was $12.02.

Investors loved what they heard. NFP shares jumped 21.87% to $10.81 from $8.87 the day before. Back in 2007, it was trading above $55. NFP had its initial public offering in 2003.

No timetable for resuming acquisitions

One point firm executives did not address was when NFP might return to making acquisitions, and the company did not respond to a request for comment on that point. Instead of acquiring firms, NFP continues to shed firms that were not, according to the company, big producers.

The company had sold all or portions of 34 firms in 2009 and will close a few more sales this year, according to chief operating officer Doug Hammond. As of Sept. 30, the company had about 150 firms under its umbrella.

"In 2009, we sold firms for approximately $30 million in total consideration and these firms accounted for less than $1 million of gross margin," said a spokeswoman. "NFP has great firms, dedicated professionals and financial flexibility to now focus on the future and specifically, how best to grow and deliver long-term value."

Sources said that some principals acquired by NFP have been opting to leave NFP. The company has a non-compete agreement that lasts for two years, according to one source.

NFP made changes last year that enabled it to turn its fourth-quarter profit. It repaid $108 million over the year, leaving it with a $40 mllion debt; it also cut operating expenses by 10%. It subleased a floor in its corporate office space on Madison Avenue.

"We acted quickly in a difficult environment," said Bibliowicz. "We are now a stronger and more seasoned company."

Long climb back

The company may be leaner, but observers say it faces a long climb back.

Both of the company's growth engines are sputtering, says **Daniel Seivert**, CEO of **Echelon Partners**, a Manhattan Beach, Calif.-based investment banking firm.

The company cut off acquisitions in 2008. And the incentives created by the deals through which NFP acquired firms meant that principals at some advisory firms don't have much of a reason to work hard.

Indeed, the incentives of the entrepreneurs who have sold to NFP have been consistently questioned. NFP acquired 100% of the firms for a combination of cash and stock, and designed deals with an earnout in year three and another incentive in year six, according to a report by Boston-based Off Wall Street.

Sunset of their careers

In that report, in early 2008, Mark Roberts, director of research, said that the few number of firms reaching the earnout appeared "to confirm the inference from our analysis of the buyout deals and conversations that independent brokers sell to NFP mainly at the sunset of their careers."

The new incentive payment plan might help, but that remains to be seen. In yesterday's conference call, analysts quizzed NFP executives about the new incentive plan. On an accrual basis the plan cost the company $9 million in the fourth quarter.

Overall, Seivert gave this summary about the company: "It's still in the shop."

The extent to which NFP's issues can be generalized to all advisory roll-ups is a matter of debate.

Mark Hurley, CEO of Dallas-based Fiduciary Network, throws doubt on the advisory roll-up model in general, based on the incentive issue. There's no reason an up-and-coming advisor would stay with a firm that had been rolled-up, because the payouts are lower than they would be if he or she went independent, he says.

His company provides an alternative exit strategy to advisors: Fiduciary Network buys minority interests in RIA firms and provides financing for second-generation partners and succession planning for the founders.

Knee-jerk reaction

Seivert, on the other hand, says a well-structured roll-up can work, and that it's a knee-jerk reaction to color all of them with the same brush. "There are so many ways to do roll-ups," he said.

In any case, doubts about the business model haven't stopped anyone from rushing to start one, he noted.

"It's the gold mine, and everyone's rushing to it with picks, shovels and pans," Seivert said.

About ECHELON Partners

ECHELON Partners (ECHELON) was formed in 2001 to offer investment banking and consulting to a subset of the financial services industry known as "investment product developers and distributors" (IPDADs). Since that time, ECHELON's professionals have helped hundreds of senior executives envision, initiate, and execute a multitude of complex business strategies and transactions. ECHELON's business is making companies more valuable through delivering advice and orchestrating transactions. Accordingly, ECHELON measures its success in the enterprise value it creates for its clients. Companies that strive to outperform their peers choose to work with ECHELON because we are as passionate about their results as they are.

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