

CAN HIGHTOWER HOLD ON TO ITS ADVISORS?

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HighTower Advisors is entering its new, post-private equity era with guns blazing — as well as some unanswered questions.

After closing its deal with PE powerhouse Thomas H. Lee Partners to buy a majority stake in the RIA three weeks ago, HighTower has added a \$450 million breakaway team to its platform, parted ways with three top executives in a management shake-up, harmonized its share classes and restructured its credit line to take on more debt for future acquisitions.

And HighTower CEO Elliot Weissbluth promises new high-level hires in the coming months as "the last steps of [the firm's] reorganization."

But keeping its current group of advisors on board and happy appears to be the RIA's biggest challenge in the wake of its share offering to vested partners following the Thomas H. Lee deal.

In the meantime, HighTower is aggressively pursuing new advisors.

Hummer Mower Associates, a Chicago-based breakaway team from Wintrust Wealth Management with a reported \$450 million in client assets, has signed up for HighTower's outsourced platform services. Last month, a new \$115 million firm led by Gayle Johnson in Santa Fe, New Mexico also signed on as a client to HighTower's platform.

In the executive suite, HighTower has parted ways with managing director Kimberly Papedis, chief brand strategist Susan Krakower and business development executive Charles Cornett, Weissbluth confirmed. The departures were first reported by AdvisorHub.

HighTower "had to say goodbye to some friends" as it reorganizes, Weissbluth says. But as the firm grows into new markets, it is on the verge of announcing a wave of new executive hires, according to the CEO.

That growth is expected to come primarily from acquisitions, with Lee earmarking \$100 million for M&A. In addition, HighTower has restructured its credit facility to be able to also access debt for additional acquisition capital, Weissbluth says.

Despite HighTower's "significant war chest" for mergers and acquisitions, Weissbluth acknowledges that the RIA is up against formidable competition in a red-hot market.

But, he argues, competitors that are true serial acquirers versus opportunistic buyers of one or two firms per year "significantly narrows the field." And while the amount of a deal offer is critical, Weissbluth contends it's not everything.

"All money is green," he says, "and sellers are going to ask 'What else do you have?' We don't lead with money. We lead with our value proposition, which is our platform, our brand and our culture."

Indeed, HighTower will continue to emphasize offering advisory firms and breakaway teams access to its platform services, Weissbluth says. "If a firm is not ready to monetize, or wants to preserve its economic autonomy, they can still be part of our community, with other options open down the road."

But how current HighTower advisors react to the firm's share offering, with a valuation less than many had hoped for, is still uncertain.

Vested shareholders can sell their stock or buy shares "at the same price and terms as the new investors," Weissbluth says. Vested advisors can also convert their stock into a new single share class, or can choose to leave the firm, he adds.

Will advisors be offered incentives to stay put?

HighTower will "deploy different kinds of programs [for advisors] in the future," Weissbluth says, including incentives that "have not been rolled out yet."

And will advisors, in fact, stay?

That depends on their situation, says one HighTower partner who asked not be identified.

"If you stay, you're betting on other people," the partner says. "You're betting that T.H. Lee can sell the firm to another PE shop and get a better price than if you went out on your own and then sold your business. You're betting that the other teams at HighTower can collectively do better than you can on your own."

"If you're a bigger team who doesn't need much support, you might consider leaving," the partner continues. "If you're smaller and costs are an issue, you're probably more inclined to stay."

HighTower's biggest ace in the hole is complacency, says **Carolyn Armitage, Managing Director for ECHELON Partners**, an industry M&A consulting firm and investment banker.

"Inertia is on their side because, for the most part, folks don't want to change," Armitage says. "But it's a double-edged sword because inertia is a detriment when it comes to recruiting new advisors."

As for Weissbluth, the CEO says he isn't going anywhere.

"I'm on the board of directors and I'm sticking around," he says.
