

HIGHTOWER PICKS UP \$6.4-BILLION ROLL-UP ON THE CHEAP BUT THE VALUATION MAY REFLECT WEALTHTRUST'S STAGNANT GROWTH AND PROFITABILITY

4/13/2017 Originally Published by Brooke Southall, RIABiz

HighTower Advisors has purchased the remains of a once-proud roll-up for about \$70 million in what will turn out to be either a seminal value play or the money-losing acquisition of a known albatross.

The Chicago-based firm bought WealthTrust and its remaining \$6.4 billion of advised assets from Lee Equity Partners LLC, which combined its eight RIAs with the eight RIAs owned by Falcon Investment Advisors to form a \$15 billion RIA 18 months ago.

Sources who asked not to be identified questioned the wisdom of the purchase because, they say, WealthTrust is anything but a contiguous pool of assets. The Houston, Texas-based firm was comprised of 16 RIAs with various operating agreements and technology systems.

According to a tally of their separate ADV filings done by Tom Coyle at Financial AdvisorIQ, the combined assets under management of the 12 WealthTrust firms is about \$8.5 billion. But Houston-based Global Financial Services, which manages near \$2 billion, is no longer part of the group.

Those operating agreements protect it from the dictates of holding companies, former WealthTrust employees say. In addition, those RIAs still own 40% of their firms, the sources add.

The apparent low valuation of WealthTrust is in keeping with industry norms, according to **Dan Seivert**, CEO of **ECHELON Partners**, an RIA investment bank in Manhattan Beach, Calif.

"Most billion-plus wealth managers enjoy a valuation of \$20 million for each \$1 billion of assets they manage," he says. "Firms with slower growth and lower margins are often worth as little as \$10MM per Billion under management which appears to be more of the case with WealthTrust."

The high end of the valuation spectrum assumes industry average operating margins in the high 20% range and consistent average annual growth of profits of 10 to 15% per year. Faster growth and higher margins would lead to a higher valuation multiple and therefore as much as \$30MM in valuation for each \$Bn under advisement.

The investment banker who brokered the sale to HighTower acknowledged that the hodgepodge of entities posed challenges in wiring the deal.

But for HighTower CEO Elliot Weissbluth, the deal accomplishes two big objectives: getting his company to the 40% mark of teams that originate from registered investment advisors and nearly halfway to the \$100 billion AUA mark. See: HighTower parts ways with -- and doesn't replace -- the dealmaker who has 'worked on more breakaway transactions ... than anyone in the industry'.

"This is a transformational transaction for HighTower," he says in a release. "Ten years ago, we founded this company upon our core belief that the fiduciary approach is the best for clients—and the best for business."

HighTower's media relations company declined to respond to an email requesting an interview with Weissbluth.

The transaction is the largest in HighTower's history, bringing the company's total client assets to nearly \$46 billion—an almost four-fold increase in less than four years, according to the company release. See: With a reminiscent fire, Elliot Weissbluth personally leads a new charge to buy RIAs.

HighTower has only \$28.5 billion of managed assets, according to its ADV. The high proportion of non-managed assets reflects, in part, that 60% of HighTower teams come from Wall Street and many of them have held onto

to transactional assets under a broker-dealer. See: After chats with Phyllis Borzi, a flagship HighTower team executes a 'deliberate' breakaway to form a \$2.5-billion RIA.

HighTower financed the cash-only acquisition through a \$75 million expansion of its credit facility to \$245 million, led by BMO Harris and lenders Regions Bank, Fifth Third Bank and KeyBank.

HighTower's expansion sets the stage for a longer roll-up run, according to Sagar C. Kurada, chief financial officer of HighTower.

"Our new facility will allow HighTower to fund additional acquisitions and drive greater momentum in the marketplace."

