After RIA private equity hot-shot Genstar's $1.7 billion purchase of ugly duckling Cetera, Robert Moore plans to take on LPL--not with acquisitions, but a recruitment storm

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With fresh capital, new partners and a radical new plan to turn reps into owners, ex-LPL chief-in-waiting and Cetera Chairman and CEO Robert Moore is no longer playing the niche game.

With Genstar's deep pockets backing him, Moore is ready to beat LPL Financial at its own game -- bone crushing scale. See: LPL Financial wages 'war' on Cetera, Securities America and Kestra after they pounced on NPH advisors in wake of sale.

"If that [means] 10,000 [new advisors], if it's 20,000, even better, if it's 30,000, we're ready to break through what appears to be the ceiling that's historically been there," he says.

Indeed, Cetera's headcount could surge as much as four-times, says its chairman and CEO.

Such a radical growth spurt needs a catalyst. In this case, the firm plans to give out more equity and a "meaningful" cut of the broker-dealer's action, so advisors are more than just pay-and-earn reps, says Moore, who spent just under seven years at LPL, most recently as its president (2012-2015).

"We're working on innovative ways to get equity into the hands of existing and prospective advisors as a way to demonstrate our difference to the marketplace ... Genstar's purchase isn't just about squeezing to expand margins.

Genstar acquired Cetera in July in a deal said to be worth $1.7 billion. Despite the fact that Aretec's ownership was scarred by scandal, Genstar is thought to have invested $600 million in equity to help finance the deal at a 54% mark-up on the $1.1 billion Aretec paid in 2014. See: Charles Goldman's turnaround of Genworth castoff leads Chinese investor to pay stunning price.

As a result, the independent broker-dealer (IBD) now has the ability to go head-to-head with rivals like Fort Mill, S.C.-based LPL.

Cetera has significantly more firepower than the last time it was in a head-to-head recruitment fight with LPL, says Moore. "The pipeline is at a historic high. A lot of people were waiting for the conclusion of Cetera's capital structure review. Now we're re-engaging."

Unlike Genstar's purchase of Mercer and Ascensus, the Cetera deal is not predicated on an acquisition-based strategy, says Tony Salewski, a former Morgan Stanley investment banker who is now one of five Genstar managing directors. He's responsible for jointly overseeing the private equity firm's investments at Cetera, Mercer, Ascensus, and four other companies. See: Determined to out-Joe-Duran Duran's United Capital, Dave Welling moves his $12B roll-up's HQ to Denver.

"There's so much we can do at the base [of Cetera] that M&A is not the key thesis", Salewski explains.

"Cetera's ability to recruit advisors moves the needle in a way that's the most attractive to grow, so improving the platform to make it an attractive home for advisors and then going out and finding structures aligned with our advisors, that's what really gets us excited," he says.

Genstar is right to pinpoint recruitment as a key focus, especially when the training capabilities of its subsidiaries like Cetera Advisor Networks are taken into account, says Barnaby Grist, executive chairman at NYC-based RIA compliance robo "RIA in a Box." See: Purchase of RIA in a Box with reclaimed Barnaby Grist as overseer shows ambition of New York buyer to create compliance 'robo-advisor'.

"Cetera is really a back office to Cetera Advisor Networks, and to this day, that's their largest business and strength. I couldn't name another firm in the industry that has that set of skills sitting with its regional directors, who have some extraordinary people coaching selection and talent," says Grist.

Alongside Salewski, Genstar's interest in Cetera is also managed by the firm's vice president Sid Ramakrishnan, ex-Charles Schwab & Co. executive vice president for retail Ben Brigeman, and Hal Strong, a former vice chairman at Seattle, Wa. asset-manager Russell Investments, both of whom are member's of Genstar's strategic advisory board.

Bucking a trend

Genstar's investment is notable for the fact that it bucks a market trend. The number of IBDs declined almost 30% in the past eleven years to about 850 firms, according to a study by **ECHELON Partners**. Technology has made advisors far less dependent on IBDs for infrastructure, making it easier to move to fee-based assets and RIA status.

But the idea that IBDs are on a downward path to oblivion is very much overstated, and Genstar certainly knows what it's doing, says Grist. "There's plenty of room for multiple large IBDs to survive and thrive ... It's a huge industry; Genstar has a good track record, is well positioned and knows how to work in this business."

San Francsico-based Genstar's management track-record is indeed notable. It's responsible for the turnaround and successful sale of the $25 billion AUM Concord, Calif.-based TAMP AssetMark, alongside New York City's Aquiline Capital Partners. It currently owns a majority stake in Dresher, PA. retirement roll-up Ascensus; New York City-based alternative investment firm Artivest and Santa Barbara, Calif.'s $11 billion AUM RIA Mercer. See: Vanguard's 401(k) recordkeeper, Ascensus, gets set to roll up a world of third party administrators to create a small plan superpower.

For the most part, private equity funds have five-to-seven-year horizons before their acquisitions are publicly floated or sold. Cetera is housed in Genstar's fund eight, which has a 12-year runway for growth, which gives it plenty of time to spread its wings.

Genstar's strategy will be three-fold: Significant investment into improving Cetera's technology, increasing reps' ability to buy into the firm and working to turn the IBD's recruitment in-flows into a torrent, says Salewski.

"We only see a return if we partner with businesses that are growing, so as we look at this, it's not cost cutting or retrenching, but helping to accelerate and expand what's already happening at Cetera," he adds.

But traditional recruitment sources just won't be enough any more, given that demand for advisors already outstrips the number of advisors working today, says Moore.

“This is no longer the independent model, reliant on training programs from the wirehouses or Edward Jones. We know how to train and develop advisors directly. We had over 300 new entrants last year, and recruited 780 [experienced] advisors."

That said, for all the talk about recruitment, Genstar isn't going to look a gift-horse in the mouth and turn down a lucrative acquisition if it comes into view, says Salewski. "Growth will come largely through organic initiatives, but we will also look for attractive acquisition targets that expand our capabilities or extend our reach in a market."

Still, if Genstar does make acquisitions, they're going to be a lot more careful than the previous owners, who made it a habit to buy smaller broker-dealers with compliance challenges, adds Grist. “I'd expect them to be looking hard at acquisitions, but to be very much more interested in firms with a clean compliance history.”

Hungry to capitalize

Whenever there's a change of ownership at an IBD "it's a time when advisors think long and hard about whether they're in the right place, especially since every B-D and recruiting firm is hungry to capitalize on the change," says Diamond.

A case in point: When LPL announced plans to buy NPH for $325 million in Aug. last year, it didn't anticipate that as many as 1,200 advisors, or 38% of the 3,200 on board at the time, would flee the roost, most notably to Cetera, Kestra, and Securities America. See: LPL Financial wages 'war' on Cetera, Securities America and Kestra after they pounced on NPH advisors in wake of sale

Cetera has confirmed it won't offer its reps “retention bonuses” for staying on after the buy-out, despite being fairly common practice. Retention deals, including forgiveable loans, often fail because advisors don't get invested in improving the internal practice, nor do they promote a cultural buy-in.

But the degree to which reps can access equity in Cetera will accomplish both goals. This is going to be a key way in which the IBD differentiates itself and attracts new advisors, says Moore. Advisors also won't be swamped by a vast number of administrative changes because what's under the hood will stay the same.

Details on how the equity scheme will work, however, are unknown. An announcement is expected in late August.

Adjacencies

Aside from its investment and expertise, one more arrow in Genstar's quiver--the other firms it owns in the space--may well come into play later, says Moore.

“Genstar has a wide-range of portfolio companies that allow us to consider areas of adjacency and areas where we can leverage those relationships, some of which already have preexisting relationships with us, so we definitely see this as a broader based endeavor.”

But this isn't a case of simply putting things together just because there's a mutual owner, adds Salewski.

"None of the investment thesis is based on synergies between our firms ... [and] there are no plans to bring together Mercer and Cetera. But that doesn't mean there won't be adjacencies between portfolio companies at Genstar that can't be leveraged," he explains.

"We do have businesses that touch the IBD space, like Strategic Insight, where we see ways to accelerate some of the data sets they have, or Ascensus – a channel partner to Cetera – so we're looking to push and see if we can develop new products that benefit both bases."

Strategic Insights is a data analytics and business intelligence firm based in New York, and Genstar's investment is overseen by Salewski and director Geoff Miller. See: Buyer scoops up BrightScope using Genstar capital

Focus on the future

After NYC-based RIA roll-up Focus Financial Partners made its IPO successfully, private equity firms have a proof of concept for what they can achieve with acquisitions, and in five-to-seven years don't be surprised if Genstar take Cetera public, says Grist. "I would expect it's large enough to take public if they so wish." See: In another go-go sign, Focus Financial moves up IPO trade date to as early as Monday.

First things first, but the signs are good, says Moore. "We haven't closed yet, so I don't want to talk exits before we close. But in the very short time following Cetera's re-emergence, we've seen a marketplace that wants Cetera to be successful."

It really is all wait-and-see, right now, agrees Salewski. "In terms of ultimate ownership, Genstar doesn't have a firm perspective on it. We're curious after the Focus IPO, but I wouldn't say we're leaning to one option or another at this point." See: Focus Financial IPO is on at $39 per share as KKR pushes giant share premium, with an eye on raking off an extra $532 million.

"But Cetera is in the right place and at the right time."