Executives' Debate: Should RIAs Go Public?

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NEWPORT BEACH, Calif. – Do the benefits of going public outweigh the disadvantages?

Top financial advisory industry executives weighed in with forceful arguments for both sides of the issue at the keynote session of the annual Deals and Deal Makers Summit, "Demystifying the Financial Engineering of Deal Makers."

The session was structured as a debate and the executives on stage were assigned to make the case for one side or the other.

Going public is part of the "natural evolution" of the RIA business, said Mark Tibergien, chief executive of Pershing Advisor Solutions. Peter Raimondi, president of Boston Private Wealth, who last year sold his firm Banyan Partners to Boston Private, agreed with a caveat – that RIAs are best suited to go public as part of a larger publicly organization.

PROS AND CONS

Proponents of advisory firms going public cited "powerful" advantages, including the ability to raise capital, offer shareholders liquidity, the ability to use equity for deals and executive compensation and increased brand visibility.

RIAs going public have to make their firms attractive to investors, countered Jeff Dekko, chief executive of Minneapolis-based Wealth Enhancement Group. And if advisory firms are overly reliant on market performance for revenues, investors can "just buy ETFs" he said.

Those against going public also noted that the promise of increased liquidity may be hollow because stocks of advisory firms tend to be thinly traded. Being able to offer equity compensation may also prove illusory, they add, because the equity is only valuable if the company is growing.

COST OF CAPITAL

In addition, raising capital may be difficult and expensive in a high interest rate environment, detractors pointed out, and the increased transparency of a public company may allow competitors easier access to a firm's business strategy.

Companies with valuations less than $500 million often can't attract analyst coverage, they add, and institutional interest and low trading volume can lead to big price swings.

What's more, two advisory firms that have gone public, Edelman Financial and NFP are now private, **Dan Seivert**, chief executive of **ECHELON Partners**, the investment bank specializing in mergers and acquisitions that sponsors the conference, pointed out.

The executives also debated synergy value in transactions and who should profit from the enhanced value to a combined firm.

SYNERGY VALUE BENEFIT?

Examples of synergy value include cross-selling to existing clients in each firm, access to the markets of both firms, marketing and selling complimentary products and increased competitive power, scale and credibility.

Synergies in expense savings include elimination of redundancies, increased purchasing and bargaining power and reduced compensation and technology expenses.

The accumulated synergy value should accrue to the buyer, Dekko argued, because the buyer is providing the size to make synergies worthwhile and "they're taking all the risk."

On the contrary, Raimondi retorted, sellers should demand a higher price for the synergy value because "they built the enterprise that provides the synergies and have the skills that the buyer wants."