NFP: Requiem for a Roll-up

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Jessica Bibliowicz's experiment of rolling up a diverse group of financial services firms has ended with a thud.

Ms. Bibliowicz, chief executive of National Financial Partners Corp. and daughter of financier Sandy Weill, plans to step down next month after leading the company since 1999. Douglas Hammond, the president and chief operating officer, is slated to take over.

But before bolting, Ms. Bibliowicz was able to strike a deal with private-equity firm Madison Dearborn Partners LLC to take NFP private at $25.35 a share, giving it a market capitalization of $1.01 billion. A decade ago, when the company went public with great fanfare at $23 a share, it had a market cap of $724.5 million. The Madison Dearborn transaction, an-nounced last week, is expected to close in the third quarter.

The deal struck some observers as a less-than-rousing success. NFP shareholders have lost about 15% since the company went public in September 2003. Over that same time, the S&P 500 gained 51% on a price basis, according to Morningstar Inc. data. “The financial aggregator model [doesn't] hold water financially,” said Felipe Luna, chief executive of Concert Global Inc.

When principals of financial firms sell to an aggregator, the seller “treats it as a liquidity event rather than as an opportunity to invest fresh capital into the growth of their businesses,” said Mr. Luna, whose firm provides support services to 64 registered investment advisory firms managing a total of $2 billion.

NFP spokeswoman Lesley Bogdanow declined to make Ms. Bibliowicz or Mr. Hammond available, saying that the company wouldn't comment beyond its statement announcing the deal. Whether NFP provides a lesson for other aggregators isn't clear.

Consolidators such as Focus Financial Partners LLC and HighTower Advisors LLC are acquiring fee-based RIAs. Service providers such as Concert Wealth Management Inc. and Dynasty Financial Partners LLC share revenue with registered investment advisory firm partners, but they don't own them.

By contrast, NFP was founded in 1998 to buy up insurance producers, corporate-benefits firms and hybrid advisers. NFP gets almost half its revenue and two-thirds of its profits from its corporate-client group, which provides employee benefit services to middle-market companies. Insurance producers and estate planners make up its next-largest business segment, followed by its Advisor Services Group, a platform for hybrid advisers.

NFP's focus on employee benefit firms was a good move, said Robert Matthews, chief executive of Fieldpoint Private Bank & Trust, who formerly ran Citigroup Inc.'s Global Wealth Advisory Services division.

The employee benefits businesses added more-predictable revenue, which private-equity firms like, he said. But NFP's life insurance sales business has been problematic. In 2006, the company became embroiled in a nationwide crackdown on sales of life settlements. Regulators were concerned about the practice of loaning money to clients for the purchase of life insurance, with the intent of selling the policy to an outside investor.

NFP made headlines when it was subpoenaed by then-New York Attorney General Eliot L. Spitzer, who sought information about sales of brokered policies. Life settlements accounted for about one-fifth of NFP's revenue in 2005, according to a report in *InvestmentNews* at the time.

In regulatory filings, NFP said that sales of life settlements declined after 2006, contributing to a significant falloff in revenue. Meanwhile, after climbing to more than $50 in early 2006, shares of NFP began a dramatic slide in early 2008, falling to less than $1 by November of that year.

After the initial public offering in 2003, NFP was offering its partner firms 125% of their trailing-12-month production, with 60% of that value in stock, said recruiter Jon Henschen of Henschen & Associates LLC.

“Some [advisers] left [NFP] because the stock didn't work, and some over operational issues,” and others found it difficult working as an employee with a lower commission payout, he said. In 2009, because of lower revenue, particularly from a drop-off in life insurance sales, NFP took a $618.5 million charge, reflecting lower values of its producer practices.

Four years later, Madison Dearborn's purchase could signal that a rebound is in the making. The private-equity firm must think that NFP has “passed its turnaround point but that it's still early enough in the development cycle” to offer significant upside, Mr. Matthews said.

“It's almost like a relief package, to take a company out of the burden of being public, [which] can be an impediment to growth, because you're looking to the next quarter instead of the long-term-growth strategy,” said **Dan Seivert**, head of **Echelon Partners LLC**, a mergers-and-acquisitions firm.

DIVERSIFY BUSINESS LINES

The investment from a private-equity firm could help NFP buy more wealth management firms and diversify its business lines, said David DeVoe, managing partner at DeVoe & Company LLC, an M&A consultant. That strategy appears to be working for the company already.

Last summer, NFP acquired Fusion Advisor Network, a 240-person adviser group, bringing NFP's retail-wealth-management business to about 1,700 advisers. In terms of adviser numbers, that is about where the company was at the end of 2004. Total revenue grew to $1.06 billion last year, from $639.5 million in 2004. Madison Dearborn spokesman Chuck Dohrenwend declined to comment.

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