

## HighTower passes up \$40 million capital raise, takes a big breather from deals and implements a pacing regimen

by Brooke Southall

*Brooke's Note: Pretty much from the day of its founding until September, HighTower has been nothing less than a force of nature. Getting a company off the ground is always a race against time because money and start-up fever can carry you only so far before the business needs to stand on its own. But if you're building a wirehouse with a fiduciary-leaning model out of whole cloth, you are as Elliot Weissbluth says, creating a "category of one." Not only has HighTower grown but it has done so the hard way, taking on Wall Street's defense arsenal of retention bonuses and whatever Wall Street lawyers could dream up to stop it. But the firm has prevailed, with few hiccups, in making deal after deal. The industry has stood by in some awe and applauded such courage and ambition. So HighTower was — to an RIABiz watching this march — conspicuously quiet in not doing any deals for the past few months. Outside sources offered their thoughts and some details, and HighTower was helpful in letting us know some of what is behind the latest chapter in its ambitious development.*

After taking a pass on a big new round of financing following one of the biggest deal-making tears in RIA history, HighTower Advisors LLC declared a mini-moratorium on purchases for the latter months of the year — and carried it out. It's a relatively radical action taken by a company accustomed to announcing big deals every few weeks.

The round of funding with a private-equity group fell through in the late summer and early fall, HighTower confirmed to RIABiz. The reason was that mutually agreeable terms could not be reached at or near the time of closing, according to the company. HighTower declined to disclose the amount of the capital involved or the name of the would-be financier. Sources say that the funding in question was about \$40 million. Weinberg Perella was the intermediary firm hired to secure the financing, sources say.

### ***By the book***

The stoppage in transactions by the Chicago-based serial buyer of advisory practices comes on the heels of CEO Elliot Weissbluth's instituting a new long-term business plan based on the new Jim Collins book, *Great by Choice: Uncertainty, Chaos, and Luck—Why Some Thrive Despite Them All* (HarperBusiness 2011). Weissbluth zeroed in on Collins' idea that the best companies metaphorically focus on marching 20 miles every day on a trip, rather than worrying about the entire distance. It's a modern-day tortoise-beats-hare parable. (One person who will no longer be marching in the HighTower battalion is Matthew Reynolds, a

former chief compliance officer of the firm who also oversaw insurance and bank lending. He left in recent weeks. Weissbluth says that Reynolds remains a friend of the firm. His duties will be absorbed internally.)

### ***Slow out of the gate***

HighTower, which manages and advises \$25 billion of assets, of which \$10 billion is AUM, according to the firm's ADV, has played the role of the hare in its first three years in business as it sprinted to No. 13 on Inc. magazine's list of the 500 fastest-growing private companies. Now, according to Weissbluth, it has found its inner tortoise. It has imposed an off-season on itself. The company will henceforth buy and transition in advisory teams during the first nine months of each year then cease deal-making for three months as a period of digestion, he says. Freed of the distractions relating to making deals, HighTower has spent the last few months making certain that it was delivering on its promise to advisor partners in terms of products, technology, relationships and service, Weissbluth says.

Since suspending deal closings in September after bringing on some Merrill Lynch advisors in Las Vegas, the firm has seen business development activity continue apace and has been augmenting its pipeline — both for purchases of advisory practices and for HighTower Alliance, a program the company announced in September. See: [HighTower throws open its doors to non-partner firms who want service and/or brand](#). In that program, an advisor can either choose to simply use HighTower as an outsourcer or, by paying more, use the company as a more comprehensive outsourcer that includes its brand name.

### ***Skirting a 'cramdown'?***

The company cast a net through an intermediary this summer that it worked down to a few potential financiers and then to a single one. It also opened that round of financing to existing advisors, executives and people close to the company. In the end, there was funding available but not on the terms that HighTower viewed as acceptable — especially because there was not a financial necessity to obtain the cash. Without the outside funding, the insiders also lost the chance to invest but may be allowed to participate when HighTower seeks funding the next time.

“Because we didn't need the money, we passed,” Weissbluth says. He adds that the company is hitting its stride both on the top and bottom lines by not only experiencing its fifth consecutive profitable quarter but also the fifth in a row of increasing profit margins. Its critical mass is shown by its positioning in the Inc. ratings, he says.

Still, a number of sources from outside the company who asked not to be identified say that HighTower's shift in gears may indicate that it is experiencing some challenges with its original business model. They say that the fact that HighTower turned down the cash likely indicates it would have been on terms that were less favorable than the original financing. This could have resulted in a “cramdown” in deal parlance, or reduction in equity.

## ***Awkward years***

**John Furey**, principal of [Advisor Growth Strategies LLC](#) of Phoenix, says that what HighTower is experiencing “sounds like growing pains” that any young, high-flying company would experience. Still, he says it is cause for some concern because — bottom line — a company like Weissbluth’s needs to do a high volume of deals to succeed and will almost certainly need further rounds of capital to accomplish that. “Their growth can’t be as robust. They’re not going to spin enough cash operationally [to get to the asset level necessary for a big liquidity event like a merger or initial public offering].”



**John Furey:** Sounds like growing pains.

HighTower’s difficulty in finding capital on the right terms has parallels with what [Focus Financial Partners LLC](#) experienced when it tried to get its financier, Summit Partners, cashed out. See: [Focus Financial VC backer says IPO still on the table after private auction yields no sale](#).

HighTower has thus far raised \$165 million. In its last round, it raised \$100 million, much of which came from Asset Management Finance LLC of Boston and New York, in which Credit Suisse is significant investor. HighTower partners, including David S. Pottruck, former CEO of The Charles Schwab Corp., and Philip J. Purcell, Morgan Stanley’s former CEO, contributed the remainder. See: [Weissbluth lands war chest for HighTower Advisors \[Updated\]](#).

The bad thing about not closing on the new round of financing, sources say, is that it could make it more difficult the next time around. “The next PE firm will say: What did I miss?” says a source who asked not to be identified.

This source adds that it also isn’t a good sign that HighTower’s current financiers don’t want to put in more capital and that it is seeking capital from its advisors, executives and friends of the company.

“You’re not giving them money; you’re asking for money,” he says.

## ***New year, new deals***

HighTower might test the market for capital at the same time next year, but Weissbluth says he is in no rush. HighTower has sufficient capital reserves to continue to do deals, and deals will resume in the first quarter of 2013, according to Weissbluth.

Critics also say that the decision to bring the HighTower Alliance model into the mix isn't necessarily a good sign either — pointing out that a company wouldn't make such a leap if its core business was hitting on all cylinders.

Weissbluth says that his company has been strengthened considerably by the new HighTower Alliance and HighTower Network offerings. It allows HighTower sales staff to sit down with virtually any prospect and know that it has an offering for them. Advisors not geographically located near a physical HighTower office can now sign on as part of the new programs, deepening the pool of prospects.

“The financial advisory community has become more sophisticated about the [many] offerings,” Weissbluth says. “We are now more of a one-stop shop for advisors seeking solutions.”

Weissbluth says his company is “in a category of one” in terms of having all the strength and sophistication of a Wall Street firm with the ability to deliver a level of fiduciary care. “More and more people are inquiring about our success,” he says.

A highlight of the fall, he adds, was bringing together all the firm's advisors for a meeting in late October in Phoenix to discuss strategy. This differed from a more celebratory event earlier this year in Chicago that included a more diverse guest list — including RIABiz reporter Lisa Shidler who wrote this article: [What happened when HighTower assembled its RIAs at Trump Tower.](#)

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