



Will Bob Oros' PE-backed strategy for HighTower work?

by Charles Paikert for Financial Planning

After using a variety of strategies to grow to nearly \$50 billion in AUM over the last 11 years, HighTower Advisors is unfurling its roadmap to build up value for an eventual liquidity event.

"Private equity is not long-term capital and Thomas H. Lee Partners [the RIA's majority shareholder] is no different," says HighTower CEO Bob Oros. "But Lee has patient capital, and if we build the firm the right way we will have quite a few options when the time comes [to make a decision]. We want to build enterprise value that people will be attracted to."

But how exactly does Oros, the former Fidelity and H.D. Vest executive who replaced Elliot Weissbluth as CEO in January, plan to do that?

HighTower adds assets with M&A

Delphi Private Advisors - \$860K

Green Square Wealth Management - \$2.2B

LourdMurray - \$3.6B

HighTower Advisors - \$48B

Source: SEC Form ADV

HighTower's initial growth spurt came from attracting high-end breakaway brokers as equity partners under the guidance of Weissbluth, a co-founder of the firm. In 2013, HighTower began to compete with Dynasty Financial Partners as a platform provider of outsourced services for RIAs willing to pay around 15% of their revenues.

Those business models are no longer on the front burner, Oros says.

HighTower will partner with breakaways "under the right circumstances," but those relationships are "not our focus," he explained. The platform business, meanwhile, only accounts for 6% of the company's revenues, according to the RIA's CEO.

Instead, Oros is concentrating on solidifying HighTower's relationships with its existing advisors and using Thomas H. Lee's capital to make investments in other RIAs.

The strategy shift comes amid restlessness among HighTower advisors who haven't been able to cash out their equity stakes.

There have been several major defections over the past few years, including the \$1- billion-plus Bapis Group, which left HighTower for Rockefeller Capital last fall. The previous year, Kelly Wealth Management and Joel Guth's Gryphon Financial Partners, managing combines assets of nearly \$3 billion, also cut ties with HighTower.

To stem the losses, Oros says HighTower has used cash and equity to secure an undisclosed number of "long-term commitments" from advisors to stay with the RIA. "We now own a majority of revenue of firms long-term," he says.

"Morale is high," says a HighTower advisor who did not want to be identified. "There is now one class of stock, interests are aligned and HighTower is getting more involved in the business than they had in the past."

HighTower is also pursuing an aggressive M&A strategy, buying stakes in firms in return for a share of the earnings, Oros says.

Backed by Lee's capital, HighTower "can be a major player in the acquisition space," Oros asserts. "The bigger firms are asking, 'how do we get bigger?' We can provide capital, succession planning, scale and growth."

But that sales pitch is echoed by other large, well-funded RIA buyers in the extremely competitive space, including Focus Financial Partners, Mercer Capital, Captrust and Mariner Wealth Advisors.

HighTower's success will be determined not only by having sufficient capital to compete for deals but by its "ability to sell the vision of [the RIA's] planned liquidity event," says Carolyn Armitage, managing director of M&A consulting firm Echelon Partners.

HighTower's association with breakaways may also be problematic, says industry consultant industry consultant John Furey, principal of Advisor Growth Strategies.

"A big challenge is that HighTower is known for being a breakaway provider, not a solution provider to RIAs for scale, succession and liquidity," Furey says. "And valuations are still high right now, so HighTower will need to show value with their deals."

HighTower's recharged M&A strategy has yielded two major deals in the past two months.

This week the RIA made a strategic investment in LourdMurray, a Beverly Hills, California-based wealth management firm that recently merged with Delphi Private Advisors, based in San Diego. The firms have a combined AUM of \$4.4 billion, according to their latest SEC Form ADVs.

In February, HighTower bought an equity stake in RIA Green Square Wealth Management, a multifamily office in Memphis, Tenn. with \$2.2 billion in AUM. In the last two years, HighTower has also bought stakes in WealthTrust, a collection of RIAs with \$6 billion in combined AUM, and Salient Private Client, including the firm's trust company.

Will the new strategy work?

"It makes sense," says Brooks Hamner, vice president of business valuation firm Mercer Capital.

"If Lee is looking to sell HighTower in the near future, then they'll want to spiff it up before the auction process," Hamner says. "Building AUM — and revenue and earnings by extension — through M&A and organic growth is certainly one way to accomplish that. [But] they may have to pay up for some of those deals."

HighTower appears to be following the Focus model, where private equity backing from KKR and Stone Point Capital and aggressive dealmaking led to an IPO, says Amit Dogra, a former HighTower executive and currently CEO of Third Seven Advisors in New York.

"It isn't surprising, especially with THL involved and their acquisition strategy," Dogra says. "For M&A deals, HighTower will have to compete with Focus on the multiple [valuation], but because HighTower actually provides infrastructure they can win. That's a differentiator against Focus."

Echelon's Carolyn Armitage is especially optimistic.

"With the successful track record of their PE backer and new leadership at the helm," she predicts, "HighTower's next chapter should end well."