Marty Bicknell buys a $1.1 billion RIA that serves the mass affluent, and taps credit for the first time

by Lisa Shidler

Brooke's Note: There are at least two wrinkles here in this $1.1 billion-AUM deal. Mariner's Marty Bicknell is buying a firm that caters to the mass affluent and he is showing that he is not allergic to borrowing money. My two cents is that it looks like a perfect Mariner deal. I spent my early career as a reporter at the Harrisburg Pa.-based Central Penn Business Journal. I know that part of the world (James Carville famously said Pennsylvania is Philly on one end and Pittsburgh on the other and Alabama in between.) The deal is unquestionably another sign that Mariner can stage an assault on the Northeast corridor. But the DNA of Central Penn is, in many ways, more akin to Kansas than to Philadelphia or Baltimore. So Marty is right in his comfort zone of high-key business in a low-key town.

When Robert R. Thomas reached the $1 billion AUM mark in the first quarter of 2014 — 14 years after he started his business — he didn't bask in the glory of reaching the milestone.

What the principal of Vantage Investments Advisors LLC did instead will come as no surprise to other constructively paranoid entrepreneurs. He thought: What now?

Thomas reached the conclusion that M&A experts, roll-up owners and strategic buyers like Bicknell hope more big firm owners reach: merge with an established larger firm.

"I reached the $1 billion milestone and wanted to know how to get to $2 billion. Do I do it myself and hire more people or do I partner with a firm like Mariner that has the experience and people to help me? I decided that was the best route for my clients and the growth of the firm."

Thomas sold the majority of his firm to Mariner Holdings, which is headed by Barron's No. 2 advisor Marty Bicknell, the chief executive and founder of Leawood, Kan-based firm. Mariner manages more than $40 billion in assets including $12.5 billion in the classic RIA, Mariner Wealth Advisors.

In a mood to buy

With Vantage Investments aboard, Mariner Wealth Advisors finished 2014 with $12.5 billion in assets, up 56% from about $8 billion at the end of 2013. See: Housen deal shows Marty Bicknell can make it in Jersey — by word of mouth.

Vantage was Bicknell's second traditional acquisition in 2014. In April, Mariner acquired Housen Financial with $817 million AUM and its staff of 13 professionals, including seven advisors, in Manasquam, N.J.

But that accounting hardly does justice to the tear that Bicknell was on putting his firm's capital to work. He executed a major coup by grabbing the bulk of the Kansas City office of SageView Advisory Group, LLC to initiate its push in the 401(k) business. See: How Mariner Holdings is angling to become a $3-billion 401(k) company overnight by co-opting a local SageView office). Bicknell also purchased an investment bank, Allied Business Group LLC. See: Marty Bicknell adds an investment bank to his $10-billion RIA and $26-billion asset manager.

Marty Bicknell: The banks wouldn't loan it to you if you had liquidity issues.

Bicknell also revealed that that his firm is a co-investor with Steve Lockshin in Betterment Institutional, the prominent New York-based robo-advisor. See: Fidelity and Betterment sign a deal with Steve Lockshin and Marty Bicknell as groomsmen at the altar.

"In 2014, we added really close to $2 billion [in AUM] of acquisition," says Bicknell. "From a size standpoint, it's not far behind 2012 when we did four transactions. If we could find four $1 billion firms that fit all of our criteria, we'd buy them. "

Bicknell has learned buying advisory firms continues to be a game of frog-kissing and long courtships.

"It's very hit and miss and we talked to just as many firms in 2014 as we did in 2012 when we did four deals," Bicknell says.

Line of credit

In the past, Mariner financed all of its deals from its own hoard of cash. But this year, for the first time, Bicknell began using a line of credit from a bank to finance the acquisitions.

When asked why, Bicknell says it represents less of a shift in philosophy than it might appear.

"Our leverage ratios are very conservative. It's really all about timing and being able to take advantage of opportunities when they present themselves. As a closely held business with no outside shareholders our risk is 100% our own risk. We are extremely conservative in how we view that." See: What bet Rudy Adolf is making on RIAs by pre-borrowing $550 million from Bank of America and a wider syndicate.

And Bicknell points out that the liquidity of the firm was not a factor in the decision — especially considering that banks generally prefer to lend money to borrowers who don't need it.

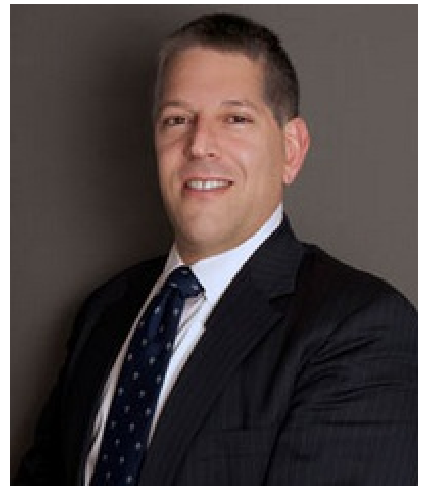
"Using debt isn't a liquidity issue at all. The banks wouldn't loan it to you if you had liquidity issues," Bicknell says.

Charisma equity

Opening a line of credit is a canny move on Bicknell's part — and a sign of his ability to clone success, according to Steve Levitt, managing director and co-founder of Park Sutton Advisors LLC in New York.

"If he is using a credit line, that is smart — particularly in this environment of low interest rates. I think Mariner's success is in part due to the attractive strategic proposition of the group, Marty's charisma, and actually having ready access to capital."

Steve Levitt: If Marty can access capital by borrowing, it also helps him keep the firm private — while still continuing to do more deals.



In fact, few buyers are as qualified as Bicknell.

"There are many buyers looking for deals," Levitt adds. "In Park Sutton's estimation, many buyers are unqualified. In other words, they don't have access to meaningful financing. A competitive offer for a $1 billion-plus RIA is going to be 50% to 70% paid at closing, which means a competitive buyer needs ready access to capital. I don't interpret his accessing a line of credit to mean he has run out of capital. If the group is big enough and has the cash flow and can borrow at attractive rates to finance deals, that's smart."

The borrowing prowess also signals that Mariner is moving into the same conversation as the most prolific buyers of RIAs and asset managers.

"I think the access of Focus Financial Partners LLC and Affiliated Managers Group to capital is one reason behind their acquisition success. Not to mention, if Marty can access capital by borrowing, it also helps him keep the firm private — while still continuing to do more deals," Levitt says. See: What's really going on with Focus Financial?.

Small town, solvent clients

Vantage is unique in that it has reached the milestone of $1.1 billion in assets with a large mass-affluent client base of 2,900 clients and is nestled in the small college town of State College, home to Pennsylvania State University. The area is often dubbed Happy Valley and in 2010, State College was named the third-safest metropolitan area in the U.S. Most of the clients at Vantage have $500,000 to $5 million in assets.

Thomas founded Vantage in 2000.He grew up in South Florida but went to Penn State for his college degree. From there, he left for Boston working for U.S. Trust and State Street from 1989 to 1991 before moving back to State College in 1991 to 1993 while earning his MBA. Thomas worked at Aris Corp., another RIA based in State College, from 1993 to 2000 as a senior vice president and director of investment services. Thomas left Aris to start his own firm.

Bicknell likes the profile of the Vantage opportunity. As a Kansan, he knows the potential for growing RIAs profitably in mid-sized towns away from major metropolitan areas where unemployment rates are low and the cost of living is equally low. He also likes gaining more of a foothold in the coveted Northeast corridor.

"Their area of penetration in Pennsylvania, New York and New Jersey gives us more exposure to the Northeast. Our exposure to the Northeast is growing which is what we want. Frankly, we want quality advisors who have our same culture and focus on clients first," Bicknell says. "The actual location is a secondary question for us as long as they are in a community where they can grow."

Buying away from a giant city is actually a smart move, Levitt says. "I'm a huge proponent of people buying wealth firms away from those top tier markets. You'll find the sellers are a bit more open. If you're in State College, there may be some buyers but not everyone wants to be in that market. It offers real opportunities for someone like Mariner because here is wealth all over. To me, it makes sense to go into secondary markets where you can be a major player."

Mariner began expanding its mass-affluent niche a few years ago. See: Marty Bicknell jumps into the mass market

with no 'robo-advisors' and a missionary zeal.

“They do a really strong job of servicing that market,” he says of Vantage. “We launched a mass affluent strategy from scratch more than two years ago and this really helps propel that.”

Hot property

This RIA seems like an ideal firm for Mariner, says Levitt.

“This is right in the footprint that Mariner likes to play in. They’ve got a lot of mass-affluent clients and Mariner has initiated services for the mass affluent. I think he’s smart and sees value in serving the mass affluent all the way to the ultrahigh-net-worth. I think he segments and that’s something that others just don’t do.”

Thomas hired Silver Lane, the M&A in New York, to help introduce him to potential buyers.

Thomas was charged with so many duties that selling the bulk of the business made the most sense for him, says Edward Higham, managing director of Silver Lane See: The Carlyle Group gets a bigger testing paw into RIA waters .

“Vantage could have kept growing and remained profitable. But the thinking is it’s harder to get to the second billion in assets than the first — though some might debate that. Rob was doing so much. He was the CEO and he was just wearing too many hats. He either needed to consider a partnership to take off some of the stuff from his plate or hired a chief operating officer and other people.”

Edward Higham: He was the CEO and he was just wearing too many hats.

Higham said there were multiple firms interested in Vantage.

“As opposed to dealing with compliance and things like leases, he can really focus on growing the business. There were a lot of people who were very interested. He has a very interesting business that is quite diverse and many were interested in it. Yes, State College is in the middle of nowhere but he’s got a growing base of clients all around the Mid-Atlantic.”

Decisions, decisions

Vantage holds assets with Schwab Advisor Services , Fidelity Institutional Wealth Services, TD Ameritrade and TIAA Cref. Even though Bicknell has favored Fidelity, advisors can choose their own custodians. Thomas intends on keeping his assets at all four custodians.

Technology-wise, Thomas is considering switching to Orion Advisor Services, LLC , the technology used by most of Mariner’s advisors. Right now, Vantage uses Envestnet | Tamarac.

Key-man selling point

Thomas and Bicknell began talking about a deal in spring 2014.

“Everything’s been positive. It’s positive partnering with experienced firms and the No. 2 Barron’s advisor. There is no downside whatsoever,” Thomas says.

A significant upside was Bicknell himself.

“A big part of it was Marty and he knows the industry. Meeting the other executives and employees at Mariner… it felt like they knew what they were doing. They’re experts in their field and I thought this was a great partnership. This wasn’t an overnight engagement before we got married. It was a lot of due diligence on their side and a lot of due diligence on my side to make sure it fits. I was in a position where I didn’t have to do anything and he was in a position where he didn’t have to do anything either.”