



HighTower's advisors get a say in who buys the firm.

## The HighTower Advisors 'for-sale' rumors grow to include a named suitor

Source says Oppenheimer is consummating a deal but observers question how HighTower could graft its roll-up onto the aging B-D

September 1, 2017 — 10:24 AM EDT by Lisa Shidler and Brooke Southall



3 Comments

**Brooke's Note:** The way I answer the question about why RIABiz covers every little movement of a HighTower Advisors or a Focus Financial Partners goes something like this: Readers are interested and for good reason -- the roll-ups' bids for success capture so many of the tension points of an RIA business that is tormented by the need to achieve scale, make a return on investment, keep advisors happy, keep investors happy and do it all sustainably. HighTower, by many accounts, has been for sale and open to new equity investments for five years or more and grows more shopworn by the day, even though it's nobody's stale box of crackers. HighTower almost certainly enjoys healthy cash flow and healthy growth prospects. Do the math. A company that manages \$30 billion of assets to many clients may have revenues as high as \$300 million. So how does something so valuable in such a hot industry not get sweet offers that it'd like to take? The biggest issue seems to be that even if a buyer and seller can agree to terms, it's all moot unless the advisors on

staff or under HighTower affiliation also want to go along with the deal. Advisors are only likely to agree to a buyer that allows them at least the open architecture they enjoy now -- or more. But buyers willing to pay a premium for HighTower want to "unlock its value," which is to say that they'd like to close architecture by consolidating onto one platform by pushing margin-enhancing products through the pipeline. The new rumored buyer may never rise to official acquirer but the issues surrounding the deal's potential are sticking around for both HighTower and the advisory business.

Long rumored to be seeking a sale, HighTower Advisors LLC may have attracted the interest of a buyer with decent financial strength, if faded glory.

Oppenheimer & Co. Inc. is sniffing around -- and maybe even meeting the parents of -- the Chicago-based, \$30-billion roll-up, according to a Chicago-based source who asked not to be identified. See: HighTower parts ways with -- and doesn't replace -- the dealmaker who has 'worked on more breakaway transactions ... than anyone in the industry'. In fact, that source, who's racked up a track record of providing credible off-record information to RIABiz over the years, said the talks between the firms had heated up and that "HighTower is close to selling to Oppenheimer."

CIBC, the Toronto-based bank had purchased New York-based Oppenheimer & Co. Inc., and sold it in 2002 to Fahnstock Viner. Oppenheimer & Co. Inc. is a publicly traded investment bank and investment firm based in New York with a market capitalization of \$218 million.

Other recent Oppenheimer dalliances with the RIA business include its hire of Derek Bruton as a managing director and its hire of Joan Khoury as chief marketing officer. Joan Khoury gets hired as CMO to revive brand of the other Oppenheimer Both Bruton and Khoury formerly held high-level positions at LPL Financial where they helped evolve the brand toward more of a RIA-hybrid stature.

HighTower did not respond to inquiries placed with its public relations firm about the purported sale. Several industry sources said they hadn't heard any rumors about about a sale to New York-based Oppenheimer. Still, no source dismissed the possibility out of hand, saying it has a plausible ring to it.

But all sources -- including the two off-the-record ones who receive offering documents in the course of their practices -- say it's an open secret that HighTower is for sale and has been for a time -- at least in terms of looking to relieve initial investors. The company is private-equity backed and has gone nine years without a liquidity event. Nothing, they also agree, suggests HighTower is being forced to sell, especially since its size and business model assures significant cash flow.

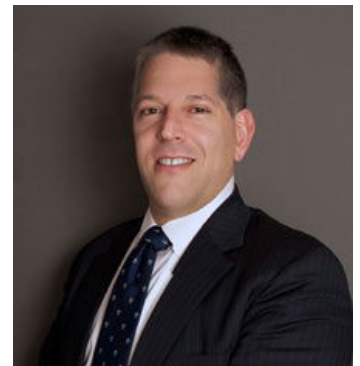
## Marriage of convenience

With its reputation as a "sleepy, old" broker-dealer known for having more than its share of older and small FINRA-dinged advisors in its employ, Oppenheimer would make a big strategic score acquiring HighTower, says Louis Diamond, recruiter for Diamond Consultants in New York.

"If you are able to bring in a ridiculous number of Barron's-rated fee-based advisors, it's a home run," he says. "You get scale and credibility."

The point about why HighTower and its advisors might be reticent is echoed by Tim Welsh, president of Nexus Strategy LLC of Larkspur, Calif.

"HighTower was built on independence," he says. "If something else owns it ... you're not independent." See: With a reminiscent fire, Elliot Weissbluth personally leads a new charge to buy RIAs.



Steve Levitt: I think it is not easy getting investors to pay the premium valuations that the sophisticated shareholders of a group like HighTower will seek.

## Departures and tribulations

Fueling credence of a deal in the works is HighTower's current struggle to find its feet as it executes the wrenching change from a branded, branch-based, employee-staffed business to a roll-up of RIAs and implements an oh-by-the-way outsourcing option -- brand optional. See: After chats with Phyllis Borzi, a flagship HighTower team executes a 'deliberate' breakaway to form a \$2.5-billion RIA.

"HighTower is known for its technology and I really like their fiduciary model," says Steven Levitt, managing director and founder of Park Sutton Advisors LLC in New York. "At the same time, the original model of recruiting wirehouse advisors with loans and stock isn't an easy one, particularly given these types of personalities in the advisors. It wouldn't surprise anyone if HighTower were looking for liquidity, given that they have outside shareholders."

Prominent HighTower staff associated with the old model of growth by wirehouse recruit have been leaving in bunches. Mike Papedis, head of RIA acquisitions; chief development officer Michael Parker; and its president Michael LaMena, who presided over HighTower's AUM climbing from \$5 billion to \$30 billion, are gone. CEO Elliot Weissbluth remains at the helm. See: See: Elliot Weissbluth's second in command walks from HighTower to an ivory tower of 'pari passu' ownership with an 'impeccable' reputation.

In addition, this summer, Hightower's attrition rate spiked in 2017 including high-AUM teams defected around the July 4th weekend.

## Seeking liquidity

Founded in 2008, Hightower has been open about borrowing money as the years pass and no private equity buyers step up to buy stakes on the terms it demands.

In April, the roll-up procured a loan of credit for \$245 million, a boost of \$75 million from the company's previous credit line -- one that helped float HighTower's purchase roll-up WealthTrust with its \$6.4 billion in AUM. In 2014, HighTower Advisors gained a \$100 million credit line from BMO Harris Bank and PNC Bank. See: Roll-ups are off at an acquisition clip in 2015 as \$2 billion washes over the transom in a single week.

While the WealthTrust deal was touted by HighTower executives as a major success, industry insiders say the company needs to refresh its capital reserves in the form of a deep-pocketed purchaser or a major fresh investment.

"The acquisition of WealthTrust, while sizable was not a business tremendous organic growth to my knowledge," Levitt says. "Obviously, HighTower has outsider shareholders who presumably for a long time have been anticipating some liquidity," he says. See: See: HighTower picks up \$6.4-billion roll-up on the cheap but the valuation may reflect WealthTrust's stagnant growth and profitability.

HighTower's most patient capital is about \$200 million from its largest investors -- Asset Management Ventures and DLB Capital. Asset Management Ventures was formed by Credit Suisse in 2003 after the company suffered one of its worst years in 2002. HighTower chairman David S. Pottruck is the firm's most high-profile investor.

Getting buyers and sellers to agree on price for this kind of complex company is hard as hell Levitt says. "I think it is not easy getting investors to pay the premium valuations that the sophisticated shareholders of a group like HighTower will seek."



*Tim Welsh: The big zillion-dollar broker realized they could go straight to an RIA. You can deal with Schwab without giving up your soul to HighTower.*

## Oppenheimer aversion

Welsh says a radical shift in how big brokerage teams form RIAs may be keeping investors from plunging capital into HighTower.

"To me there's a lot of baggage you'd be buying," he says. "It's not that the legacy model didn't work but which one is the best play going forward. The big zillion-dollar broker realized they could go straight to an RIA. You can deal with Schwab without giving up your soul to HighTower."

The other challenge that could hold up a potential HighTower deal with Oppenheimer -- or any number of other buyers -- is the challenge of making the organ transplant when blood types aren't an exact match, according to Diamond.

Oppenheimer is self-clearing, he says, and HighTower advisors are accustomed to choosing their own clearing firm. Not to mention that HighTower advisors would be loathe to be associated with the Oppenheimer brand since they virtually all come from Morgan Stanley, UBS and Merrill Lynch where the Oppenheimer brand is reviled.

Of course, HighTower could be held in an autonomous subsidiary -- but not without big drawbacks.

"You're not unlocking any value," Diamond says.

## Depleted war chest

If HighTower does pursue a deal with Oppenheimer then it signals a different strategy, another source familiar with the situation says. "Now, it's becoming a subsidiary of a very large bank and the growth won't be breakaways but trying to buy other firms and fold them into a single business."

The same source says HighTower has been trying to raise money for the longest time. "When you're raising money, you're for sale," the source says. "The question is how much can they raise and how much you've been sold. They've tried before and haven't been successful. They may have used their war chest to buy WealthTrust and they may have done that so they can make a bigger deal."

HighTower suffered some of its toughest losses with its wirehouse-lite brand this year. On June 30, HighTower Advisors hit its hardest day in its history when it lost two teams with a combined \$3 billion of managed assets. It bid adieu to Joel Guth, 47, who left Hightower along with his 11-person team forming RIA Gryphon Financial Partners Group, which manages nearly \$1 billion in assets. See: See: HighTower loses two teams comprising 33 people and \$3 billion of assets over July 4th weekend, declines comment, then issues a 'smashing' press release.

HighTower also lost Leo Kelly, 48, with a 21-person team that was dubbed Kelly Wealth Management under HighTower. His team managed about \$2 billion in assets, and his new RIA is Verdence Capital Advisors. In fact, numerous sources who ask not to have their name used, say that HighTower has had "serious conversations" regarding an investment, sale or liquidity event.

The source who has heard that Oppenheimer is interested in HighTower says that buyer and seller have just enough compatibility for a potential marriage.

"The reason I think it makes sense is Oppenheimer has had a hard time recruiting. They also have a wrap program that could fill the needs of the few advisors at HighTower who has adopted the manager selection advisory model," the source says.

👤 Elliot Weissbluth | Joan Khoury | Derek Bruton | Tim Welsh | Steven Levitt

👉 HighTower Advisors | CIBC World Markets | Oppenheimer & Co. | Diamond Consultants | Louis Diamond | Nexus Strategy | Park Sutton Advisors



*Louis Diamond: If you are able to bring in a ridiculous number of Barron's-rated fee-based advisors, it's a home run. You get scale and credibility.*

Mentioned in this article:

### **Diamond Consultants**

*Recruiter*

*Top Executive: Howard Diamond*

### **Nexus Strategy**

*Consulting Firm*

*Top Executive: Timothy D. Welsh*

### **Park Sutton Advisors, LLC**

*Mergers and Acquisition Firm*

*Top Executive: Steven Levitt*

Share your thoughts and opinions with the author or other readers.

3 Comments 

Stephen Winks said:

September 2, 2017 — 11:25 AM EDT

The irresolvable question of b/ds and RIAs is how can a b/d whose brokers do not render advice (has a compliance protocol that does not acknowledge or support advice as a means to avoid fiduciary liability) reconcile with the fact that RIAs must assure the advice they render is in the client's best interest as required of all who render advice. This is the original sin of our regulatory infrastructure. .Yet the brokerage/insurance transactions culture seeks to establish equivalency between transactions with no ongoing responsibility for recommendations to advisory services with significant ongoing fiduciary responsibilities required by statute. The truth is transactions and advisory services are polar opposites. There is no natural commonality of interest between conventional brokerage and advisory services, thus, HighTower either becomes a means to reorder brokerage around advisory services or is best swerved as being the alternative to brokerage. SCW

Jeff Spears said:

September 5, 2017 — 10:39 AM EDT

Woke up this morning to find that Santa didn't come. Still a believer

Jeff Bischoff said:

September 5, 2017 — 2:23 PM EDT

I would be shocked if this deal happened. One has a great brand name, and the other one Had a great brand name, 20 years ago. This is a marketing business. Brand matters. Perception matters. The price would have to be really high , and Bud doesn't like to pay retail, so, I'm betting it won't happen. But it does coincide with the swirling chatter that HT has an active book out on itself. I would expect a MUCH more Tiffany's type of brand would be the only acceptable suitor for the HT folks to say YES to.