FOR SALE: BRANCH OFFICES

Mar 25, 2009 12:34 PM, By Halah Touryalai

This week, *Stifel*Nicolaus announced it was buying 55 UBS wealth management branches spread across 24 states, which include $15 billion in assets under management, 320 reps and over $100 million in revenue. The St. Louis regional b/d will make an upfront cash payment of $27 million for the branches, which are said to consist of mostly lower level producers. UBS says the deal allows it to divest itself of producers who don't fit into its high-net-worth strategy, and sell them to a firm that's willing to take them on.

"You have to give UBS some credit for this strategy of selling of a portion of lower tier advisors. Other firms have made similar moves in winding down their number of low level producers by just closing down the branches," says Christopher Yeomans, research analyst at the Financial Research Corporation in Boston. (Click here for details on the transaction.)

While it's not the first time a firm has sold some of its branches to another b/d, Alois Pirker, senior analyst at the Aite Group, says the UBS/Stifel deal might spark a series of similar deals. "Ultimately there is over capacity at many firms right now. At Morgan Stanley, Smith Barney there must be people stepping on each other's toes. There is plenty of opportunity to sell branches," he says. The average annual production per rep at most regional b/ds doesn't approach the average per advisor at the wirehouses, he says. Branches that would be considered less profitable at the wirehouses are considered lucrative at regional b/ds like Stifel. In other words, one person's trash is another person's treasure. Plus, for the b/d making the acquisition, buying branches outright versus recruiting advisors one-by-one allows for a neater, smoother transition.

"This is the first deal that we've seen lately that makes sense. Firms like UBS have a hard time making money off of a $500,000 producer. Stifel on the other hand recruits that kind of advisor," says Ryan Mclaughin, a broker consultant at CSG Recruiting. These branches are in smaller markets and UBS found out that they're losing money on them, he adds.

The UBS/Stifel deal is scheduled to close in the third quarter of 2009, and recruiters and consultants alike believe the deal is a positive one for both sides. "I think it's a very smart transaction. I can see the logic for both sides. Stifel is really looking to expand and has been in growth mode for a while now. The 300 reps will make a significant impact on making them a bigger player. For UBS, selling smaller branches in smaller cities and rural areas will help their bottom line," says Darin Manis, chief executive of RJ & Makay a financial recruiting firm in Colorado Springs, Colo.

Danny Sarch, founder of Leitner Sarch Consultants Ltd., a recruiting firm in White Plains, N.Y, says UBS wants the type of leverage you get from a bigger producer while Stifel, like a lot of regional b/ds can make money from smaller advisors in smaller cities. A multi-million dollar branch requires the same services as a less productive one, he explains. All branches, he says, come with compliance costs, a branch office manager, and technology costs. Associate director at Cerulli Associates, Bing Waldert, says, "A lot of wirehouses are aggressively bringing up the average quality of the reps they employ. UBS may have found these smaller branches weren't as profitable and found someone who could use them."

Enter Stifel Nicolaus president and chief executive Ronald J. Kruszewski. He says he mentioned the idea of buying the UBS branches to Marten Hoekstra, CEO of UBS U.S. Wealth Management. "I've known Marten for awhile now. I broached the idea. We'd been having discussions for a few months and UBS did a strategic review of the plan," Kruszewski says.

Regional Appetite

Stifel's been on somewhat of an acquisition spree. It bought New Jersey-based Ryan Beck in 2007 and Youngstown, Ohio-based Butler Wick last year adding nearly 500 reps through the acquisitions. Kruszewski says there's no limit to the number of brokers the firm is willing to take on, so long as it's able to hold onto its regional culture. In that respect, he's not alone.

Regional b/ds have been on a recruiting frenzy in the last few months. RBC Wealth Management, Morgan Keegan, Janney Montgomery Scott, Baird and Stifel all say they are seeing unprecedented interest from wirehouse brokers looking to escape the upheaval at their Wall Street firms. Further, the revenue generated by the new recruits is higher than that of recruits in past years. In an effort to upgrade their advisor ranks, some regional b/ds have raised their production minimums for new recruits and existing brokers alike. (Read more about the regional channel's upgrade in *Registered Rep's* upcoming April 2009 issue.)

D.A. Davidson, the 320-rep regional b/d out of Great Falls, Montana hired 20 brokers in 2008. In the first quarter of the fiscal year, the firm hired 16 reps. "Our pipeline for the next six months reflects that we'll hire more than what we hired in the first quarter," says Jim Kerr, president of the firm's Private Client Group.

Kerr says not only is he interested in a deal similar to that of UBS and Stifel, his firm made a similar one last year. Last November, D.A. Davidson bought two Smith Barney branches located in Washington and Oregon, which included 8 brokers. Kerr says Smith Barney approached his firm about a possible sale. "These were not large branches but they were a good fit for us," he says. "It was the first time we've done anything like that. It's not going to be the right fit every time, but under the right circumstances we'd be interested in doing it again," Kerr adds. When asked about the deal Kerr mentions, a Smith Barney spokesperson declined to comment.

"I think we are going to see more deals like this in the future because there are many firms looking to off load lower producers," Manis says. And there appears to be a market, at least in the regional channel, for such advisors.

One executive of a major regional b/d says he's not surprised about the UBS/Stifel transaction. His firm has bought 2 wirehouse branches in the last 10 years but hasn't made any similar deals recently. "It's a deal that works for both sides. We'd certainly look at something like that if it was the right fit," he says. "If Stifel is successful in enticing those brokers to stay, then I think you'll see more of these types of acquisitions," he adds.

But Bing doesn't believe UBS's deal will set off a flurry of similar transactions. "This is a very specialized deal. It's difficult for firms to neatly package up a specific group of branches that fit exactly what a buyer is looking for." Most firms, he says, are going to continue to merge or simply close their less profitable branches. But at the very least, he says, the UBS/Stifel deal may change the way some firms think about less profitable branches. Wirehouses and other b/ds that had considered shutting down unprofitable branches might now consider selling those branches for some much needed capital.

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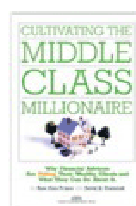

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