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Captrust Taps PE Player GTCR For Further Expansion

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A Chicago-based private equity firm gives Captrust a shot in the arm to hunt for larger acquisitions, as well as provide liquidity to some of the firm's 380 current employee shareholders.

Captrust Financial Advisors, the registered investment advisory firm with $390 billion under advisement and an aggressive acquirer of RIAs over the past decade, announced Tuesday that Chicago-based private equity investor GTCR had taken a 25% stake in the firm.

The deal values the Raleigh-based firm at $1.25 billion.

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Captrust is among the largest RIAs in the country, with 43 offices across 21 states. It has acquired 40 firms since 2006, including seven in 2019 and another two so far this year. It is, says president Ben Goldstein, following the "NFL" strategy – "it's just a short cut for saying we want to be in the 35 major markets in the US."

The move to find an investment partner began last year, Goldstein said, and the investment promises to add more dry powder to the firm's growth strategy. Part of the money will provide liquidity to current shareholders—About half of the firm's 700 employees are shareholders, with founder Fielding Miller being the largest. Miller and the current management team will remain in place.

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Rush Benton, Captrust's senior director of strategic wealth and the architect of that growth strategy, said the new capital serves two purposes. Over the past few years, Captrust has been steadily increasing the size of firms it acquires, from $1 billion AUM to, now, between $3 billion and $4 billion. "That requires a lot more capital," he told WealthManagement.com in the interview Tuesday.

Since joining the firm in 2013, Benton has been has spearheaded the addition of 16 teams, representing more than $13 billion in assets.

"The M&A opportunity was too great, and the math was getting challenging," added Goldstein.

In addition, Benton said the team was following Miller's "core principal" that when business conditions get difficult, competitors will pull back, slow down and—much like the nation during the pandemic—

“shelter in place,” giving a company with a conservative balance sheet a chance to “step into that void and become more aggressive.”

“We’ve always had this philosophy of, ‘Let’s play offense when everybody else is playing defense.’ It’s uncanny that Fielding has been preaching there is going to be another downturn and when it happens, we want to be well-positioned to take advantage of it,” Benton said. “We did think in the not too distant future that there would be market difficulties. We didn’t predict they would be caused by a pandemic, but we thought it would occur.”

The private equity foothold in the RIA space has mushroomed from 75 firms in 2008 to north of 275 presently, said Dan Seivert, CEO of Manhattan Beach, Calif.-based investment bank and research outfit Echelon Partners.

For some industry observers, it’s a dangerous trend. Critics like Focus Financial’s Rudy Adolf and Dynasty Financial’s Shirl Penney have vocally dismissed private equity investment as “short-term capital,” given that most PE investors look for a liquidity event—a sale to another firm or a public offering—within five to seven years. The fear is the pressure to improve a firm’s margins during that time can impair the business or services to clients.

Private equity provides additional options for RIA firm acquisition and growth, beyond banks or passive investors, that could cause the industry’s economics to shift “benefiting the investors far more than the advisors,” he said. “But for now, there are more signs of them setting off price increases,” said Sievert.

The more PE firms there are, the more competition there is for deals, which usually drives up valuations, though he still thinks valuations are too low “given the growth, recurring revenues and relative stability of the industry.”

Dave DeVoe, founder of DeVoe & Co., the San Francisco investment bank and research firm, said that there is no cause for alarm. “PE is called ‘smart money’ for a reason,” he said. “PE firms methodically assess slivers of industries to determine the most dynamic areas, and then the players within that that they believe are positioned to win. Each PE investment in the RIA space is yet another vote that the RIA model is the best way to serve the investing public.”

Goldstein said Captrust looked at a number of different investors before selecting GTCR.

“We wanted a long-term partner,” said Goldstein. While many PE firms have a three- to five-year time horizon, this one offered seven years. “We didn’t want to be back on the capital treadmill” in another few years, Goldstein said.

In addition, he said, GTCR was willing to forego a “control” investment – as an employee- and management-controlled firm which uses equity to lure recruits, this appealed to Captrust.

Further, some PE firms seek to boost returns by financial engineering and taking on large debt, but “we didn’t want to change our conservative approach,” said Goldstein.

GTCR is not a “turnaround firm,” he added, “not a capital partner that needs to cut expenses. They’re about long-term growth.”

Captrust gave up two of its nine board seats in the deal to GTCR managing directors Collin Roche and Mike Hollander. Captrust said it will dedicate part of the money to “provide partial liquidity to (current) shareholders.” It will use the rest as “primary capital to fund acquisitions.”

Goldstein said both Rhodes and Hollander have experience in the RIA industry on both the wealth management side, Captrust’s main line of business, and on the institutional, endowment and foundation side. “They have a long history of working with growth companies – companies that are growing organically and through M&A,” Goldstein said.

Captrust is actively looking at four potential targets right now, and the firm has no intention of abandoning its “NFL” strategy.

“However, we’re not so sure about Buffalo or Green Bay. It has nothing to do with the temperature. Those just aren’t big enough towns,” Goldstein said.