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How Captrust earned a \$1.25bn valuation

A closer look at the valuation at which the serial RIA acquirer sold a stake to PE firm GTCR.

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Captrust's decision to sell a 25% stake to private equity firm GTCR may mark the start of a new era for both itself and for private equity investment in the RIA industry.

The valuation — \$1.25bn — may help set a new bar for investors in the RIA space. United Capital netted \$750m in cash when it sold itself to Goldman Sachs in 2019.

Captrust oversees around \$390bn in assets, but the majority of that money comes in the form of 401(k) plan advised assets. A review of the Raleigh, N.C.-based firm's Form ADV shows that the firm manages around \$14.5bn for individual investors and has discretion over \$47.8bn in assets in total. The firm does not break out what percentage of its discretionary assets under management belongs to individual investors.

Historically, 401(k) plan client assets have lower profit margins than traditional wealth management assets. But it would be hasty to look at Captrust's proportion of 401(k) assets and assume that GTCR overpaid for its stake, explained Louis Diamond.

'While their AUM number is not a proper gauge of value, it's a large and scalable company with a track record of M&A,' said Diamond, an executive vice president at advisor recruiting and consulting firm Diamond Consultants.

Raleigh, N.C.-based Captrust has one of the longest track records of success among serial RIA acquirers. The firm has made 40 acquisitions since 2006.

Captrust has developed a business model that allows its wealth management franchise to generate large profits while working symbiotically with its 401(k) plan operations, Diamond said.

‘A lot of what they do on both sides of the house can be used for the other line of business (shared investment research, compliance, back office, operations) so the wealth and 401(k) arms co-exist and help each other out,’ he said. ‘Plus, they have so much market share in the 401(k) space that every new dollar of revenue brought in just about goes to the bottom line.’

Where does Captrust’s deal machine go from here? The firm has been targeting larger RIAs over the past few years: it most recently acquired Welch Hornsby, with \$1.75bn in discretionary assets, in March.

But adding a private equity backer takes away one of the key factors that differentiated Captrust from rivals like Mercer Global Advisors, Hightower and Cerity Partners.

‘Historically, Captrust has sought to differentiate their position as not beholden to a private equity firm,’ said David DeVoe, chief executive of RIA investment bank DeVoe & Company. ‘There’s no issue with taking PE money, but it’s a new element to their positioning.’

Even after taking the investment, Captrust chief executive Fielding Miller (pictured) remains the largest shareholder.