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How a classic $16.2 billion RIA pulled off an IPO after a few speedbumps and why the decision is looking good

Shares of Silvercrest Asset Management are up about 40% and Wall Street analysts are proffering praise

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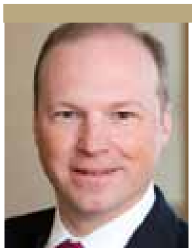
by Sanders Wommack

Brooke's Note: I joined Sanders on his interview with Richard Hough. What may or may not come through in this article is just how truly relaxed Mr. Hough is about the whole enterprise — and talking to analysts and reporters. His demeanor was my biggest takeaway from pulling this all together. Maybe RIAs are making this all too hard. On another note, one of Silvercrest's esteemed advisors is Burnett "Jody" Hansen, who was a few doors down on the road I lived on in primary school in Yarmouth, Maine. He had the air of somebody going places in second grade and it appears that he has.

As the RIA industry has grown and become more sophisticated, one daunting benchmark has remained elusive—an initial public offering followed by a successful tenure on the public market.

This ultimate affirmation of the RIA business model isn't easy to achieve. For one thing, most RIAs are too small to make going public worth the risk. For a company to ensure the decent analyst coverage that helps prevent low trading volumes and inaccurate valuations, it typically needs more than $50 million in EBITDA, revenues of around $200 million, and to be growing at 20% to 30% annually, according to Dan Seivert, chief executive of Manhattan Beach, Calif.-based ECHELON Partners. In his opinion, these numbers put the necessary AUM for an RIA to go public comfortably at somewhere between $20 billion and $30 billion. See: What to make of Mark Hurley's latest prophesy that most RIA firms will go out with a whimper.



Richard Hough: The company had a plan of going public from day one.

Edelman Financial Group is a textbook case of what happens when a company doesn't get this coverage. When Ric Edelman took his Fairfax, Va.-based RIA private in 2012 for $257 million, he cited a stock price that was dead in the water from lack of institutional interest, and which wouldn't support large sales without crushing the price. His private-equity partner, Lee Equity, paid a 43% premium over closing price. See: Ric Edelman strikes a private-equity deal that subtracts $2 million in expenses — now let the after-bidding begin.

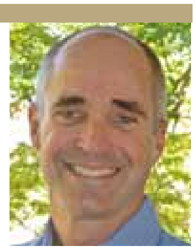
And even if an RIA had the desired metrics for an IPO, most aren't interested in paying the steep compliance costs that come with the territory. Between the new officers required by law, IPO fees and expenses, and all the increased reporting companies have to do, going public and staying public is an expensive proposition. Edelman estimated he saved $2 million per year in compliance costs by going private.

BRIEF LIQUIDITY EVENT?

But none of this appeared to have daunted Silvercrest Asset Management Group, a New York-based RIA that launched itself in the public markets in June 2013.

Silvercrest was founded in 2002 as a multifamily office RIA by a team from New York-based Donaldson, Lufkin & Jenrette led by G. Moffett Cochran. As of March 31, the company had $16.2 billion AUM and offices in New York, Boston, Los Angeles, and Charlottesville, Va. Its client growth is mainly driven by referrals. It doesn't pursue a niche among athletes or entertainers but instead woos multifamily accounts. Before the IPO, Silvercrest had in the vicinity of $14 billion, including non-discretionary assets.

Dan Seivert: Never-ending reporting of results wears you out even if there isn't news associated with them — but there's always news associated with them.



Silvercrest's contrarian move was enough to make some wonder if Silvercrest was an "accidental" IPO — a bastard child of venture capital parents foisted onto the public after a hasty, rewarding fling. After all, it was clear from filing documents that the company was using much of the proceeds to buy out its major private-equity investor, Microsoft founder Paul Allen's Vulcan Capital in New York.

DEATH OF A FOUNDER

Another factor that could support the accidental IPO theory was the death, last November, of the firm's deeply regarded co-founder and chief executive, G. Moffett Cochran, who died after a 10-year battle with cancer. In that light, it makes sense that the IPO was a brief liquidity event for Allen and Cochran, and that management was now looking to get off Wall Street and go private again.

Richard Hough, chief executive of Silvercrest since Cochran's death, roundly dismisses such talk and denies the firm was under the least bit of pressure to cash-out.

"The company had a plan of going public from day one," says Hough.

UNCONVENTIONAL WISDOM

Now, a year removed from its IPO, Silvercrest's decision is looking very wise. Shares have risen over 40% and Silvercrest has experienced few of the negatives that typically accompany a fairly new firm's Faustian bargain with the public market. Indeed, as a test case for other RIAs considering the same path, Silvercrest challenges some of the conventional wisdom about public listings. **See: Focus Financial VC backer says IPO still on the table after private auction yields no sale.**

From 2006 to the present day, the firm has a 98% retention rate. The average client account size is $33 million and the account minimum $5 million. **See: Look before you leap: Six questions you must consider before becoming a multifamily office.**

At the core of Silvercrest's value proposition is the firm's proprietary-equity strategies, which have consistently crushed their benchmarks. According to the firm's most recent quarterly filing, Silvercrest's six equity strategies have outperformed comparable Russell indexes — between 1.1% and 3.9% per year since their inceptions between 2002 and 2005. This kind of performance has attracted notice from major institutional investors in addition to the firm's ultrahigh-net-worth clients. The firm is now managing approximately $2.5 billion from institutions, including $400 million from CalSTRS. **See: A careful look into whether CalPERS is ticking along or a ticking time bomb.**

BUCKING THE LARGE-NUMBERS LAW

Hough says that Silvercrest decided to go public after it reached $14 billion AUM (including non-discretionary assets), had annual revenues nearing $60 million, and EBITDA of about $17 million.

Though those dollar amounts weren't attracting swarms of investment bankers, Silvercrest's rate of asset growth tipped the balance. Since its founding, Silvercrest grew its AUM at a stunning annual compound rate of 48%, a rate that is in large part holding, at 46%, despite law-of-large-numbers challenges that make such growth more challenging with each passing year.

That growth has attracted plenty of attention from equity research firms, which is a key component of a successful listing. Three analysts cover Silvercrest, a good number for a firm of its size. Silvercrest's two IPO underwriters were Raymond James Financial Inc. based in St. Petersburg, Fla., and Sandler, O'Neill & Partners LP of New York. Sidoti & Co. LLC, also in New York, which specializes in small-cap companies, also assigned analysts to cover Silvercrest. **See: Why exactly private equity firms are dumping money into IBDs at a time when many are going bust.**

BAD TIMING

Which isn't to say the firm's transition was entirely without problems. Silvercrest first filed for an IPO in October 2012, and soon after it got its first taste of the fickle nature of life on Wall Street. It had to withdraw its plans on Nov. 14 after realizing short-term pessimism was the controlling mood on the street.

"While we received significant interest from potential investors, market conditions simply did not provide a valuation appropriate for Silvercrest's growing business," said then-chief executive Cochran.

The company tabled its plans and bided its time.

But when Silvercrest dusted off its Form S-1 filing in the middle of 2013, another stormy period of market weather hit.

Steven Schwartz, an analyst at Raymond James who covers Silvercrest, says the firm was remarkably unlucky with its timing. Because of market conditions, its second IPO attempt ultimately priced shares at only $11, below the initial expected range of $12 to $14. This wasn't enough to deter Silvercrest management, however, and they ended up floating $60 million worth of shares through Sandler O'Neill and Raymond James on June 27, 2013. SAMG popped 7.5% on opening day to close at $11.83. **See: What to make of LPL nearing a successful — but scaled back — IPO.**

LONG WIND-UP

Poor market-timing aside, Silvercrest has had few reasons to regret the IPO.

While admitting that it was a small company to go public, Hough says that the overall costs were relatively low. Because it had been planning for it for so long, the company was already operating with the same standards of compliance and regulation as a public company, and it had years and years of fully audited books behind it. All in all, Hough estimates it cost just $5 million, if not less, to make the leap. See: One-Man Think Tank: Four red flags in the SEC's fiduciary report.

And there are many positive aspects to Silvercrest's new home on NASDAQ. As the firm looks to expand to major cities around the country, Hough says capital raising through share sales is a great tool to use. Furthermore, shareholders now have an extremely easy way to gain liquidity. All shareholders, including the firm's managers and advisors (as well as their estates, in Cochran's case) can effect an orderly, amicable exit whenever they choose instead of waiting (or pushing) for Silvercrest's next sale, or hoping the company would be willing to appraise and buy back their stakes. See: How Envestnet may use its IPO to speed growth.

Shareholders can also be more secure about the direction of the firm's future. Instead of being passed from PE firm to PE firm, there's a certainty and finality to Silvercrest's listing that Silvercrest management isn't keen to give up. It no longer has to worry about orienting itself towards partners it doesn't want as it would in a bank, roll-up or, for that matter, toward an RIA with a different culture. See: Nicholas Schorsch invites 500 reps to NYC to kick off a 25-city barnstorming tour aimed at easing fears.

JOYS OF ACCOUNTABILITY

Hough even sees reason to laud a presumably onerous requirement of public listing — transparency. He thinks of the process as a built-in mechanism for providing a managerial accountability that should exist anyway.

Wall Street analysts end up facilitating this process, according to Hough. "One really great benefit about going public is our relationship with analysts. When you go public, they need to see a strong business plan and then the execution. To have to articulate that very clearly in investor presentations and be held to it later is a great business practice." See: Envestnet is honing its business model — and message — as it drives toward an IPO.

Of course, more than one CEO of a public company has felt that Wall Street analysts failed to grasp their long-term business model and have punished them for short-term results. Fortunately, Silvercrest has so far avoided this Wall Street myopia — a pernicious threat, particularly for thinly traded micro-cap shares — whereby bad press drives down the stock price and attracts short-selling hedge funds. See: Macro-economic analysis comes to the everyday RIA, and is welcomed post-2008.

"Never-ending reporting of results wears you out even if there isn't news associated with them — but there's always news associated with them," says Seivert.

But Hough says the firm has managed to stay above that fray thus far — knock on wood. "I haven't felt the pressure of meeting short-term expectations. That said, we've been growing quickly and the equity markets have been at our backs. "But we've been asked short-term questions before and I don't hesitate to tell them that the reason for our success is that we take the long view of things."

MAJORING IN MULTIFAMILY

So far, the market has rewarded that management philosophy. Not including opening day gains, Silvercrest's stock price has risen 43% since its first day of trading. This compares with a 24% rise for the S&P 500, and a 26% increase for Morningstar's Asset Management benchmark. And even after all the gains, there might still be more room to run.

"Shares look cheap," says Steven Schwartz, who has a "Strong Buy" rating on the stock. He particularly likes Silvercrest's niche: capitalizing on the rise of the multifamily office model and the shift away from wirehouses. See: A $6-billion multi-family office highlights its home-cooking approach to picking boutique managers with a star hire.

BUY AND HOLD

Silvercrest's success this year is mostly attributable to plain old-fashioned execution, says Hough.

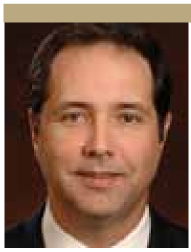
"Right out of the gate we did what we said we'd do and executed on our business plan how we said we would."

But Hough also notes that the company didn't face a flood of insiders seeking a quick payday. Very few of the firms shareholders opted to sell.

"I'm 45; I've got a lot of my career ahead of me. This is not about cashing out, and that's true for a lot of my colleagues," says Hough.

It's an attitude you might expect from a firm organized around helping individuals create and preserve wealth over the long term, and whose clients are themselves founders and executives of hugely successful companies. But whatever the reasons, the IPO didn't cause any companywide identity crisis or lead newly flush executives to start looking around for their next big deal.

"The biggest thing is to sustain the culture after you go public, and it looks like they've navigated that well," says Schwartz. See: Four brokerage-world practices that could ramp up RIA asset growth.



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