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Sell Side

## Stifel's 'Transformational Acquisitions' Fuel Muni Growth

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Stifel Financial Corp. is approaching yet another milestone in its transformation from a regional player into a national wealth management and investment banking firm.

With the acquisition of Sterne Agee Group Inc. just completed, the St. Louis-based firm is focused on finishing its deal to acquire Barclays Wealth and Investment Management Americas by year-end, as it pursues a strategy that has helped build its global wealth management platform to \$1.3 billion, according to a September financial report.

"The Stifel story has changed dramatically in the last five to six years," said Ken Williams, executive vice president of the broker dealer division, Stifel, Nicolaus & Co., and director of its municipal finance group.

"The Stifel today is different than it was seven or eight years ago ... we have a lot more capital and capabilities," Williams said, as the firm completes a 15th year of aggressive growth, fueled by mergers and acquisitions.

The acquisition of the Barclays unit will further expand Stifel's public finance role and build its presence as a national underwriter seeking senior-managed roles on larger deals.

Williams said Stifel has already broadened its reach into different segments of public finance by increasing its total public finance staff to 170, with most of the growth attributable to key mergers and acquisitions over the last two years.

The most recent growth spurt included the expansion of its wealth management and fixed income capabilities through the June acquisition of Sterne Agee, a Birmingham, Ala.-based financial services firm.

Stifel, Nicolaus this year has advanced to seventh place among all senior book runners, from 10th in 2014, with 485 issues totaling \$10.65 billion in the first half of 2015, as of July 6 data provided by Thomson Reuters.

It had secured a top-10 ranking in three categories in 2014. In addition to its 10th place ranking among all senior managers, it was in the top group for negotiated deals and small deals.

The acquisition of Sterne Agee was a seamless transition that added nine municipal professionals -- five public finance bankers and four traders - to Stifel, Nicolaus, Williams said.

It also helped boost its public finance banking presence in the South, with the addition of two public finance bankers in Texas, and expanded its coverage of the housing sector.

The Sterne Agee merger is the latest move toward the 124-year-old firm's "strategic vision," which is "to build the premier wealth management and investment banking firm," according to its September financial report.

Sterne Agee's fixed income platform was complementary to Stifel's existing products and services, and the acquisition would allow the firm to "catapult" to a new level, Ronald J. Kruszewski, chairman and chief executive officer of Stifel, said in a Feb. 2015 press release announcing the merger.

The deal will accelerate the growth in the firm's fixed income platform and be a strong contributor to the expansion of the institutional group, Kruszewski said in a June 5 release, when the merger was completed.

"This acquisition furthers our goal of creating a balanced, well-diversified business mix with wealth management and institutional exposure," he said.

Eric Needleman, chairman of Sterne Agee Group Inc., said the merger gives Sterne Agee's shareholders, clients, and employees an opportunity to "prosper in the ever-challenging financial services arena" after a century of its own growth and success.

"Our goal of being a preeminent financial services company has not changed, but we are accelerating this plan by joining together with a like-minded company with a similar legacy," Needleman said in the February release.

Stifel has similar expectations for the merger with Barclays, which is expected to come mid-fourth quarter, according to a Stifel spokesperson.

The deal will marry Stifel's broad investment advisors platform, and asset management and investment capabilities with Barclays' capital markets division and investment advisory and managed money divisions, among others.

Stifel attributes much of its recent growth and expansion since 2000 to its "transformational acquisitions" strategy.

Stifel's build-up dates back to at least 2000, when it merged with Hanifen Imhoff. In 2005, it acquired Legg Mason Capital Markets. In 2006, it bought Miller Johnson Steichen Kinnard's private client group.

In 2007, Stifel acquired Ryan Beck and separately purchased First Service Bank. In 2008, it formed Choice Financial Partners and separately acquired 17 offices from Butler Wick. In 2009, Stifel purchased 56 branches from UBS. In 2010, it acquired Thomas Weisel Partners Group. In 2011, it took Stone & Youngberg, where Williams was the former head of the municipal bond department. In 2012, it purchased Miller Buckfire. In 2013, it merged with Keefe, Bruyette & Woods.

Last year, Stifel acquired the Los Angeles-based public finance investment banking boutique De La Rosa & Co., and also picked up a bond-trading business in 2013 from Knight Capital Group

Inc.

"Before Stone & Youngberg, the public finance footprint was primarily in the Midwest and a small footprint in Denver," Williams said. Prior to Oct. 2011 the firm was mostly active in Missouri, Michigan, Ohio, and had bankers in Illinois and Colorado, he said.

The recent acquisitions have expanded that reach, specifically the municipal operations, he said. "The goal of the municipal division is really reflective of the CEO" and his vision of building a national, rather than a regional, presence.

"The CEO is a big believer of the municipal marketplace," Williams said. "The growth of the municipal group is part of the overall plan to build a bigger firm and build out a part of the institutional side, which wasn't what he wanted it to be."

One of the largest long-term deals that Stifel has managed to date was a six-pronged sale totaling \$537.48 million from the Industry, Calif., Public Facilities Authority in June.

Stifel was also senior manager in June of Los Angeles, Calif.'s \$1.4 billion tax and revenue anticipation note sale in the short-term market.

"We do business in almost every region in the country," and maintain public finance offices in 21 different locations, Williams said.

Currently its structure includes, but it not limited to, its global wealth management platform, which includes a private client division that grew by 35% as a result of the merger with Sterne Agee to 2,800 financial advisors in 349 branches with over \$200 billion in client assets, according to the firm.

Its asset management platform has over \$22 billion in total assets, including fixed income and municipals, according to the report.

The firm offers equity and fixed income sales and trading, and maintains investment banking and research platforms as part of its overall business structure.

"We had a very busy first half and we were busy in July," Williams said, though the banking activity slowed down because of seasonal cycles like income tax season and summer vacations.

"We are expecting the rest of the year to remain busy," and expect municipal supply to be unencumbered by any potential movement by the Federal Reserve Board before year end, Williams said.

"I don't know that a modest rate increase by the Fed will have any effects on refunding, and I don't see a rate hike affecting the volume for new money."

Williams said the firm hopes to continue the growth and expansion of its municipal operations.

The firm aims to maintain its high distribution of municipal bonds and its status as a lead underwriter of K-12 financings and tax increment financings across the country, he said. It also strives to win larger issuer transactions as senior book-running manager and boost its retail presence from its institutionally-driven underwriting and trading focus.

"Our challenge and what we are trying to do," he said, "is build a more dynamic and successful municipal practice."

