



WELLINGTON WEST IN THE NEWS

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National Bank buys 12.5 per cent of Wellington West for \$35.8 million

MONTREAL - National Bank (TSX:NA) is spending \$35.8 million to purchase a minority stake in Winnipeg-based brokerage Wellington West Holdings Inc. as part of a strategy by Canada's sixth largest bank to expand its presence outside of Quebec.

For now, National Bank Financial Group has a 12.5 per cent interest in Wellington West but has locked up first-refusal rights to purchase the independent company should its employee shareholders elect to sell.

Under the deal, National Bank also has a right to acquire up to an additional five per cent of Wellington West from existing shareholders, and to prevent future dilution of its holding.

The companies said Monday that Wellington West will also be in line for a \$35-million capital contribution from National Bank if it hits earnings targets over the next three years.

National Bank executive vice-president Brian Davis said the Wellington investment is "part of the puzzle" of the bank's various efforts to expand its reach, which may also include expansion of its branch network.

"We see this as a tremendous opportunity to invest in an investment firm based predominantly outside of Quebec and has a tremendous track record of success," said Davis, who will assume the bank's new seat on Wellington's board of directors.

The equity stake follows National Bank's purchase of Quebec-based Retirement Options Group, and previous acquisitions of Bieber Securities of Winnipeg and Toronto's Aquilon Capital.

Monday's transaction will see National pay \$54.40 a share for Wellington as the Montreal-based bank seeks to boost its presence in wealth management, a potentially lucrative area of growth for the banking industry.

The much larger Scotiabank (TSX:BNS) made a similar move about a year ago when it bought about' per cent of DundeeWealth Inc. (TSX:DW) and arranged a right of first refusal to buy the rest.

Canada's other four large chartered banks (Bank of Montreal, CIBC, Royal and Toronto-Dominion) already have extensive wealth management operations of their own.

Wellington founder and CEO Charlie Spiring said the partnership with National Bank will strengthen the independent firm's balance sheet to facilitate its planned doubling in size within 36 months.

"We really believe that National Bank, of all six national banks, truly understands the independent space out there," he said in an interview.

Fifteen years after opening as a boutique investment firm in Winnipeg, Wellington is a national full-service wealth firm with \$9.6 billion under administration and \$135 million in annual revenues.

National has provided Wellington with back office services since the early '90s, and recently added custodial services and arranges National Bank loans for its clients.

"It's a partner that understands us, we understand them, we believe they allow us in this sort of transaction to continue to maintain our autonomy," Wellington president Kish Kapoor added in an interview.

National Bank Financial co-CEO Luc Paiement said the investment reflects a "commitment to invest in wealth management businesses across the country and expand our distribution alternatives, even in the current challenging market environment."

Paiement was named National's head of its wealth-management group in February, in addition to his other duties.

The Wellington West stake will beef up National's stale wealth-management business, which has seen seven quarters of flat operating profit, Desjardins Securities analyst Michael Goldberg said in a note to clients.

"This acquisition will allow National to expand its wealth-management platform and distribution alternatives across the country," Goldberg wrote.

National Bank intends to take advantage of the buyers' market to solidify its holdings with additional deals, Davis said.

"We are in active discussions with several other independent dealers and my guess is that the trend which we have seen start in the last six months will pick up some speed," he said.

National Bank's minority partnership comes months after Wellington decided to abandon plans to go public because of unfavourable market conditions. Spiring said it has been in strong financial health and the market malaise had no impact on the decision to seek a partner.

On the Toronto Stock Exchange, National Bank shares gained 49 cents to \$52.25 in Monday trading.

*Winnipeg Free Press



Wellington deal good for national bank

Jonathan Ratner

National Bank's (NA/TSX) purchase of a 12.5% stake in Wellington West Holdings Inc. comes at an important time given that operating

profit from National's wealth management business has been flat for the past seven quarters.

National will pay \$35.8-million and an additional \$35-million if Wellington meets certain earnings targets over the next three years. It also has the right to buy another 5% of the company and has been granted right of first refusal if Wellington decides to pursue an outright sale or of a substantial block of shares.

While National's revenues have been driven primarily by trading recently, the deal allows it to expand its wealth management platform and distribution alternatives nationwide, said Desjardins Securities analyst Michael Goldberg. He considers the news as positive for National, which he rates a "buy" with a \$60 price target.

Mr. Goldberg also noted the Supreme Court's decision not to hear the ABCP settlement appeal is good for the bank. He pointed to the bank's valuation (based on internal models, not observable values) of its ABCP exposure at \$1.671-billion. This assumed a 90% probability that the restructuring would be a success and that a 5% change in probability would cut the valuation by \$35-million.

This implied the paper would be worth \$1.74-billion assuming a successful restructuring and only \$630-million if it did not go through, Mr. Goldberg told clients. Therefore, \$1.1-billion, or nearly 25% of its book value, was riding on the outcome.



National Bank Takes Wellington Stake

Jamie Sturgeon

National Bank Financial Group expanded its wealth-management business yesterday by buying a 12.5% stake in Wellington West Holdings Inc. National Bank, the sixth-largest bank in Canada, agreed to pay \$35.8-million, or \$54.40 a share, for the stake, with an option to acquire a greater percentage of the Winnipeg-based independent brokerage over time. The move, on the heels of one of the most tumultuous weeks for financial markets in memory, demonstrates a "commitment to invest in wealth-management businesses across the country and expand [National Bank's] distribution alternatives, even in the current challenging market environment," said Luc Paiement, vice-president of National Bank wealth management. Wellington West will continue to operate independently while a representative of National Bank's choosing will be appointed to the board. The deal also gives National Bank certain veto powers on transactions, such as the sale of Wellington,

so long as the commercial bank continues to meet agreed-upon minimum ownership levels.



National Bank buys stake in Winnipeg brokerage

CP

National Bank of Canada is spending \$35.8-million to purchase a minority stake in Winnipeg-based brokerage Wellington West Holdings Inc. as part of a strategy by Canada's sixth largest bank to expand its presence outside of Quebec. For now, National Bank has a 12.5-per-cent interest in Wellington West but has locked up first-refusal rights to purchase the independent company should its employee shareholders elect to sell. Under the deal, National Bank also has a right to acquire up to an additional 5 per cent of Wellington West from existing shareholders, and to prevent future dilution of its holding. The companies said yesterday that Wellington West will also be in line for a \$35-million capital contribution from National Bank if it hits earnings targets over the next three years. NA (TSX) rose 49 cents to \$52.25.



Wellington West sells stake

Andrew Willis

Wellington West got the capital it needs to keep expanding, and a potential buyer if employees ever decide to sell, when National Bank Financial stepped up yesterday with a \$36-million capital injection.

Wellington West sold a 12.5-per-cent stake in itself to the investment banking arm of National Bank of Canada, with employee-shareholders free to cash in by selling another 5 per cent on the same valuation. There is a mechanism that allows NBF to put in an additional \$35-million over the next three years, in return for an even larger stake.

This financing kills three birds with one stone. First off, it gives employees in privately owned Wellington West a chance to cash in on their equity. Wellington West had planned to satisfy that need by going public this year. But no dealer wants to stage an IPO at a time when iconic investment banking names are going bust.

More cash in the kitty also helps Wellington West, a dealer with \$9.6-billion of client assets under management, expand its business.

The company has made no secret of its plan to acquire smaller rivals, teams of stockbrokers and financial planning firms.

"This capital will allow us to do more of what we do best," said Kish Kapoor, president of Wellington West. "We will continue to aggressively recruit more top investment advisers and pursue more corporate finance opportunities."

Finally, this deal gives NBF the right of first refusal on a firm full of high-quality stockbrokers, at a time when every player in financial services wants to bulk up in wealth management.

In fact, with Wellington West now linked to National Bank and Bank of Nova Scotia enjoying the same advantage if Dundee Wealth ever comes up for grabs, much of the drama is missing from the next round of consolidation on the Street.



Wellington West takes on partner

National Bank brings deep pockets to city firm

By: Martin Cash

WELLINGTON West has teamed up with the deep-pocketed partner it needs to continue to grow as an independent brokerage firm, selling a 12.5 per cent stake in itself to National Bank.

The homegrown Winnipeg success story will receive \$35.8 million -- \$54.40 per share -- and an additional \$34.95 million in three years if earnings targets are achieved.

The remaining 86 per cent of the company remains in the hands of Wellington West employees.

Although the deal announced Monday comes at a time of great volatility in the market and massive reshaping of the brokerage-business landscape, Wellington West founder and CEO Charlie Spiring said his firm's strategy has been in place for some time and that the commercial details of the National Bank deal were negotiated in June.

"Having a spectacular balance with deep pockets and a lot of cash in the banks, I thought might be helpful in case maybe another investment dealer was struggling or having a hard time," Spiring said. "My vision of Lehman disappearing and Bear Stearns disappearing and Merrill Lynch disappearing wasn't really in the cards when I first started this process."

Wellington West has grown dramatically in the 15 years since Spiring left Midland Walwyn and set up his boutique operation in Winnipeg in 1993. The company now manages client assets of

close to \$10 billion and boasts some of the country's top producers among its 600 employees in 48 offices.

Spiring said the company has aggressive growth targets, with plans to double its assets to \$20 billion in the next three years with about one-quarter coming from acquisitions and the balance organically.

National Bank has been on a growth campaign to strengthen its wealth-management business and expand its business outside Quebec. In May, it acquired the smaller Winnipeg independent brokerage business Bieber Securities and earlier this week paid \$1.5 billion to acquire Retirement Option Group, a full-service securities broker that operates exclusively in Quebec.

"Wellington West is a tremendous success story and in that respect we are happy to be associated with them, not only on the service we historically provide, but as long-term equity partners," said Brian Davis, National Bank's executive vice-president corporate development. "We want to be part of that story."

Davis said an important part of the deal is that National Bank gets a leg up on other potential suitors if Wellington West decides to sell the business. National Bank has handled all of Wellington West's back office functions for several years.

Spiring and Kish Kapoor, president of Wellington West Holdings Inc., have made it clear the company is not for sale, but it has received entreaties from several parties looking to buy a piece of the firm. It was recently ranked No. 1 by Investor Economics as the Canadian brokerage firm with the largest percentage change in assets for 2007.

Wellington West made it clear two years ago it intended to go public and last year went so far as to say that would happen in 2008.

But market conditions made that next to impossible and early this year it said it was postponing those efforts indefinitely.

Wellington West is almost 100 per cent owned by employees after the 10 per cent stake that was held by Crocus Investment Fund was purchased back last year. But of the five largest independent firms in the country -- including GMP Securities, Richardson Partners, Dundee Securities and Canaccord Capital -- Wellington West was the only one without a partner with substantial resources at its disposal.

"We are a national firm and arguably a North American firm and the only backstop is the bank of Charlie which is not bad, but we're not able to finance massive growth and acquisitions," said Spiring. "Now we have a partner with deep pockets who truly understands the wealth-management business. They are very friendly and they know us well."

Wellington West raised \$12.5 million from an internal equity offering in May at the same valuation that National Bank paid. Company officials say that offering dispels the suggestion made by some that its employee owners will not be happy with the dilution in ownership at a price that is probably a lot less than what was being contemplated for an IPO this year.

The deal gives National Bank the right to buy up to an additional five per cent if current employee-owners want to sell their shares.

– With files from CP
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The Gazette

National Bank expands its reach

Quebec's National Bank of Canada confirmed Monday it is buying a minority stake in Toronto's Wellington West Holdings Inc. for an initial \$35 million in an effort to expand its financial advisor network outside the province.

The deal, first rumored on Sept. 12, is being done via National Bank Financial, which will get a 12.5-per-cent equity stake in Wellington West.

National Bank can invest a further \$35 million in Wellington West if it achieves certain targets over the next three years. The deal closes in mid-October.



National Bank Grabs 12% of Winnipeg's Wellington West

National Bank Financial Group snapped up a minority stake in spunky Winnipeg brokerage firm Wellington West Holdings Inc. for \$35.8 million, the two companies announced Monday.

National Bank, one of Canada's smaller chartered banks, said it bought the 12.5 per cent stake in Wellington in order to expand its own wealth management operations throughout Canada.

"Our investment reflects National Bank Financial Group's commitment to invest in wealth management businesses across the country and expand our distribution alternatives, even in the current

challenging market environment," said Luc Paiement, National Bank's executive vice-president of wealth management.

National Bank has bought other wealth management companies recently.

Last week, for instance, the bank announced the purchase of wealth management company Retirement Option Group for an undisclosed amount of money.

For its part, Wellington had grown from a Prairie-based brokerage and wealth management firm with sales in the range of \$16 million in 2002 to one with 48 branches across Canada, revenue of \$134 million and approximately \$10 billion in assets under management by 2007.

The deal gives Wellington access to more capital without giving up its aggressive style.

"This is a turning point in the history of Wellington West," said Charlie Spiring, Wellington West's president and chief executive officer.

Interestingly, in the past, the sometimes-controversial Spiring has touted Wellington's independence from larger financial institutions as reason for the company's strong growth.

Three month stock chart for National Bank
Three month stock chart for National Bank

"In our industry, banks dominate 70% of the business, and they don't let you become owners of the brokerage division, which is the high-profit division," he told Profit Magazine earlier this year.

Under the terms of the deal, National Bank will pay \$54.50 a share of the employee-owned Wellington, fixing the value of the brokerage firm's shares based upon a recent \$12.5-million rights issue sold by Wellington.

Wellington has the option to receive another \$35 million in additional financing from National Bank over the next three years if the Winnipeg firm meets certain profitability targets.

For its part, National Bank has the right of first refusal to buy up to another five per cent of Wellington's share.

Deal with National Bank Financial gives Wellington West necessary resources

The Winnipeg-based brokerage will now make acquisitions of its own after receiving \$35.8 million from National Bank Financial for its purchase of 12.5% of Wellington West

By Geoff Kirbyson

The head of Wellington West Capital Inc. is confident he has found the financial backing he needs to pounce on opportunities created by ongoing market turmoil.

Charlie Spiring, CEO of the Winnipeg-based brokerage, says the deal to sell 12.5% of the firm to National Bank Financial Group for \$35.8 million, or \$54.40 per share, paves the way to make acquisitions worth between \$200 million and \$500 million.

If Wellington West is able to surpass a number of revenue targets within 36 months, the firm will receive another \$35 million, or \$53.10 per share, from National Bank Financial.

"One of our great bragging rights is we've never had a losing quarter in our 15-year history," he says, noting if the potential payout is achieved, the company will be valued at more than \$500 million.

All of the proceeds from the sale will be allocated to growth strategies, so Wellington West can become the pre-eminent independent firm in Canada, Spiring says.

"My concern was that if we had a slower market, we couldn't keep our foot on the accelerator. I wanted to be able to take advantage of the turmoil in the marketplace, just like we advise our clients to do," he says.

Spiring says the firm had been relying on "the bank of Charlie" up to this point to fund its growth but that wouldn't be sufficient going forward.

"The banks are richer than Charlie the last time I looked," he says.

Spiring says the company won't waste any time in putting that capital to use as it already has a deal signed to purchase another dealer. The announcement will be made before the end of the year.

Spiring says Wellington West has been looking for a financial partner since it bought back about 9% of its own shares from the now-defunct Crocus Investment Fund in 2006.

Kish Kapoor, president of Wellington West, says finding a deep-pocketed partner ensures that the company is on an even playing field with other independents that have already teamed up with much larger backers.

He says the new-found financial clout will allow him to recruit some of the most successful advisors in the country.

“We’re talking to more brokers now than we ever have in the history of our firm. We have a sufficient amount of cash so every person we want to attract, I won’t be worried whether we have enough capital to recruit them,” Kapoor says.

Buying a piece of Wellington West is the latest move by National Bank Financial, which has been aggressively building out its presence in English-speaking Canada over the past couple of years. Earlier this spring, it purchased another Winnipeg-based firm, Bieber Securities.

Luc Paiement, the bank’s executive vice president of wealth management, says the investment in Wellington West reflects its desire to further expand its distribution capabilities.

“We have tremendous respect for what Charlie has achieved in building one of Canada’s premiere wealth management firms and we have great confidence in Wellington West’s growth potential and leadership within the independent space,” he says.

Spiring says he was comfortable in partnering with National Bank Financial, which will also get one seat on Wellington West’s nine-member board, because it has long provided the company’s back office and custodial services.

“They’ll give us some guidance on how we can grow faster. I’m excited about that but we control everything, when and how,” he says.

Wellington West has almost 130 brokers in 30 offices across the country overseeing more than \$10 billion in assets. Spiring says he wants to double the size of the firm within three years.



Wellington West sells small stake to National Bank

Renée Alexander

After searching for months, Wellington West Capital has found the backing it needs to pursue its aggressive growth strategy.

The Winnipeg-based full-service brokerage has signed a deal to sell 12.5% of the firm to National Bank Financial Group for \$35.8 million (\$54.40 per share).

Charlie Spiring, CEO and founder of Wellington West, says with the financial clout of one of the Big Six banks behind him, the firm has the ability to fund acquisitions up to \$500 million.

An agreement for the first of those purchases has already been signed and will be announced before year-end, he says.

The National Bank Financial deal also calls for Wellington West to receive a further \$35 million, or \$53.10 per share, if it’s able to hit several revenue targets over the next three years.

Spiring says the sale of one-eighth of the privately held, 15-year-old firm is about “strengthening a great hand.”

“We were going into a poker game, and we wanted to make sure we had the best hand with deep pockets. We were strong before; we’re extraordinarily strong now,” he says, adding he shook hands on the deal in June but it took until now to finalize the details.

Spiring says the influx of capital relieves any pressure to resume its quest to take the company public. Wellington West had originally intended to launch its IPO sometime this year, but the idea was shelved because of unfavourable market conditions.

The partnership came as no surprise to Dan Richards, president of Strategic Imperatives, a Toronto-based consulting firm to the financial services industry. He says the word on the street was that the two parties had agreed to a deal a year ago but that it was derailed when the asset-backed commercial paper crisis in the U.S. emerged.

He says it makes sense for both sides.

“If you look at the current environment for Wellington West, even before the events of the last little while, it’s become tougher to succeed as an independent without access to a deeper-pocket source of financing,” he says.

At the same time, the deal enables National Bank Financial to continue bulking up in English Canada, Richards says. Earlier this year, the Montreal-based bank acquired Bieber Securities, also of Winnipeg.

Luc Paiement, National Bank Financial’s executive vice-president of wealth management, says its investment in Wellington West demonstrates its commitment to expand even during difficult times.

“We have tremendous respect for what Charlie has achieved in building one of Canada’s premier wealth management firms, and we have great confidence in Wellington West’s growth potential and leadership within the independent space,” he says.

Kish Kapoor, who was brought on as president of Wellington West less than two years ago to spearhead its growth, says he's optimistic the heft of National Bank Financial will allow it to double its \$10 billion in assets within three years.

"We have to move really fast if we want to take advantage of every opportunity in this down market. You have to be well capitalized to be able to recruit effectively and to acquire effectively. Unless we have the cash on deck, people that do are going to beat us in that race," he says.

"In order to get the cash, we gave up 12.5% of our future to keep 87.5% of a much bigger pie."

Kapoor says until now, Wellington West had been financed through operating cash flow and its employees. That was a good short-term fix, but it didn't provide enough capital to execute its business plan in the long term, he says.

"If we didn't have the right fuel, we'd just be another great story that didn't live up to its potential," he says, adding he is talking to more brokers about jumping to Wellington West than ever before.

Spiring adds he has no intention of selling off any more of the company unless all of the independent dealers suddenly come knocking at Wellington West's door at once.

"We have a lot of security to do a lot of acquisitions. Unless something catastrophically good happens, we're not going to be in the market for quite a while," he says.

Spiring says Wellington West has been searching for a strategic partner since the Crocus Investment Fund ceased trading in December 2004. The now-defunct labour-sponsored fund used to own nine per cent of Wellington West's shares, but the company bought the position back two years ago.

Wellington West has nearly 130 brokers in 30 offices across the country.