Adam Antoniades Likely to Step Down as Cetera CEO by Year-End

June 14, 2023
By Diana Britton, WealthManagement.com

Several industry observers close to Cetera say the timeline is set and former Fidelity executive Mike Durbin, CEO of the holding company, will take control of the firm after an upcoming recapitalization with private equity owner Genstar.

In May, Cetera Holdings, the holding company of Cetera Financial Group, announced it had appointed former Fidelity Institutional executive Mike Durbin as its new CEO, with Adam Antoniades continuing his current role as CEO of Cetera Financial Group.

But several sources close to the company say the decision has been made and Antoniades will likely step down from that role in the next six to nine months. Durbin will lead the broker/dealer network.

The interim period is a stewardship period for Durbin and Antoniades and an opportunity for Durbin to wrap his arms around the business and get to know Cetera's advisors, according to one source familiar with the company. The idea is to minimize any impact from the change to retain more advisors through the transition, said a source close to Cetera's leadership team.

Two sources close to the firm said Genstar, Cetera's private equity owner, is going to restructure its investment—specifically, the investment will move out of Genstar's Fund VIII to another fund, providing some liquidity to investors and recapitalize the company, at which point Antoniades will step down.

If they can show an exit with a decent return but not continue to drag down and tie down the capital of that earlier fund, that's what they do. As a private equity firm, You only have so much time before your investors are like, 'Hey, I thought you said this was a five-year fund,'" one of the sources said.

A spokesman for Genstar declined to comment, and Durbin and Antoniades both deny there are any plans for Antoniades to leave.

"Adam is gainfully employed," Durbin said. "We're up to our eyeballs in forward-leaning work and getting together swimmingly. He's deeply engaged."

But a combination of events have caused the Genstar-backed firm to choose Durbin as the person to lead the network into the future, several industry observers said. According to several sources contacted for this article, the firm is falling behind on technology and operations integrations; its Genstar private equity fund holders, now in their fifth year, are anxious about their returns, partially because the acquisition of Securian, announced in January of this year, is going to be more expensive than originally planned.

Durbin, with deep experience in the RIA market from his tenure at Fidelity, makes sense from a tactical level as well, and coincides with moves other independent broker/dealers are making to transform into platforms supporting more fee-based advisors and financial planners.

Kestra Financial, for instance, brought on David Canter from Fidelity last year to lead its Bluespring Wealth Partners division. More recently, Advisor Group tapped Ed Swenson, the former Dynasty Financial Partners chief operating officer and co-founder, as president of its RIA Solutions division. LPL Financial is now the fourth-largest RIA custodian by assets, and has built out offerings for advisors who have no FINRA license and do no brokerage business at all.

“At a minimum, Durbin can maybe help them jump-start relevance in the RIA space,” said one source familiar with Cetera.

These sources said the move will not be a rebuke of Antoniades, who made significant progress unifying a sprawling firm, created out of several disparate pieces, and one with a complicated history.

“Adam has been there a long time, and he’s done quite well as it relates to taking on the responsibility for a pretty significant, now incredibly complex organization,” said another source close to the company. “I think the private equity firms, like everywhere, are pretty anxious to make progress, particularly in areas that—not just Cetera but other firms—have struggled with. This hybrid business and making sense of and creating the right commercial model for a firm like Cetera or Advisor Group or almost any of the independents is a really tough nut to crack.”

What you’re seeing is probably one of the key drivers of a whole transition at Cetera that’s coming,” he added. “If anybody can do it, [Durbin’s] the guy. He comes from one of the most deep-seated and well-regarded institutions in that space from the other side. I understand he’s an incredibly strong operator.”

“My belief is they felt that they needed someone to come in and run it like the future as opposed to what it is today, which is a collection of these businesses that were never really integrated,” another source said. “They have a central brand, but there’s nothing else that they have. It’s not efficient at all.”

When then-CEO RJ Moore stepped down from his role in February 2019, the firm appointed Ben Brigeman, nonexecutive chairman of the board of directors, as interim CEO. The board then searched for a new CEO for eight months before finally promoting Antoniades, president at the time, to the role.

“At the very beginning, Cetera wanted to name a more strategic leader because again, just when you look at Adam’s background, he’s just in general a much more tactical/micromanager,” said another source close to Cetera’s leadership team.

Another source familiar with Cetera said it did not make sense from a business perspective to have a CEO of the holding company as well as the broker/dealers.

“There is nothing in the holding company, other than the broker/dealers,” she said. “So to have a CEO reporting to a CEO just from that lens makes no sense. You’re paying for two individuals to basically do the same job. That’s redundancy.”

But Durbin said he will serve as the “enterprise CEO,” leading the firm into new, adjacent markets, with Antoniades leading the core businesses that already exist. He pointed to the holding company’s recent acquisition of The Retirement Planning Group, an independent RIA with $1.4 billion in assets, as one example.

“My addition to the team should be viewed as this really important proof point about how we collectively see the future, the commitment Genstar’s making to still a long run of getting growth here and how we want to attack new markets and new and adjacent capabilities around the core,” Durbin said. “The hope is I can bring an incremental set of capacity, capabilities, experiences, network to augment the core, but the core needs to keep humming and the core will keep humming because Adam’s still running it.”

Industry observers also said Cetera is falling behind competitor Advisor Group, which announced in April it is merging its multibrand network into a single entity, in terms of its operations and integration.

“[Cetera has] done a great job with adding advisor head count, adding assets and getting the branding down," said the source close to the investment banking industry. "But from an operational efficiency standpoint and a single technology platform standpoint, they just have a lot of work to do. It's not that it's bad; it's just that it's not efficient."

They have struggled to consolidate into a single technology platform, but another source argued that they are finally getting there.

"But the platform isn't very good," he said. "It's almost as if they focused all their time and attention on what it would take to consolidate everybody to one place. Maybe it took so long and was more complicated than they thought, and that platform has not kept up."

Under his tenure, the firm started as 11 different companies now unified into four regulated entities with a very specific channel strategy, Antoniades said in an interview. All the integration they've needed to do is done at this point, he said.

Yet in some respects Cetera is not keeping up with its peers. In January, Cetera announced it had attracted more than $13 billion through organic recruiting in 2022, up from $10 billion in 2021. The firm has more than 8,000 financial advisors. That compares with $11.24 billion in recruited assets in 2022 for Commonwealth Financial Network, which has just 2,100 advisors. Advisor Group, which is more similar in size to Cetera with about 10,000 advisors, added nearly $21 billion in assets through recruiting efforts last year.

"If you're able to recruit way larger amounts with a much smaller advisor base, then it shows that your use of capital in recruiting acquisitions and onboarding advisor businesses is much more effective at an exponential rate than if you have a way larger advisor base and your total volume of recruited assets is still roughly the same," said one source. "It suggests either you only have a few large branches that are being effective, or it means you're just taking any kind of advisor you can just in the name of building volume because you know you're losing out on quality, or both."

"I do think it was a little odd that they came out so strongly in the press about having done $13 billion," said another source familiar with the company. "When you look at that in comparison with their peers, it wouldn't stand on its own as a success story."

According to data from Cerulli Associates, Cetera's advisor head count fell from 8,162 in 2016 to 7,453 in 2018. But its head count jumped from 8,730 in 2020 to 9,764 in 2021, when the firm acquired the independent financial planning channel of Voya Financial Advisors, which had 900 advisors.

Cetera's private equity owner, Genstar, is likely playing a central role in the leadership change underway, sources said, adding the limited partners haven't seen the growth they were hoping for.

Genstar first invested in Cetera in 2018, so they're currently in year five of a fund with a seven- to eight-year time horizon. Now, Genstar is planning on holding onto the business for a number of years and then moving Cetera to a newer fund, sources said.

"In order to do that, they need to make sure that it's humming along because they can't just put it in another fund and value it without having the right leadership in place," one source said. "They're investing a lot of money; it's not performing quite as well as they had hoped, and they're probably going to hold it longer."

Like most broker/dealers, Cetera got a boost from increased cash sweep revenue with the move to higher interest rates. Both Moody's and S&P Global Ratings upgraded their credit ratings for the firm earlier this year, with Moody's citing improving profitability, greater scale and the strategic benefits of the Securian Financial Group acquisition.

But Cetera's acquisition of the retail wealth business of Securian Financial Group, announced earlier this year, has turned out to be more problematic than the firm thought. Many, if not the majority, of Securian reps were employees of the insurance company, and had employee benefits such as health, dental and vision insurance. They won't be getting those benefits at Cetera, sources said.

One source familiar with Cetera said many of those advisors refused to come over absent greater clarity on how the firm was going to make up for the shortfall.

"It's going to be much more of an uphill climb to retain these advisors absent some kind of additional sweetener to make up for the loss of their employee benefits as statutory employees of the insurance company," he said.

Jonathan Henschen, founder of the recruiting firm Henschen & Associates, said a lot of those advisors were livid about losing that coverage, and that the firm had increased the retention packages they were handing out to Securian reps. For example, he said advisors with large amounts of fee-based business were offered 50% of their trailing 12-month production to move over, whereas most retention bonuses have historically been around 15 basis points, even for higher producers.

But Henschen said the biggest mistake Cetera made with Securian is the long lag time between the announcement of the deal (in January) and when the reps will actually switch over. The deal is expected to close in the third quarter.

"When you have those long lag times before they actually switch over, it gives them all the time in the world to pick and choose who they want to switch to, get good offers and then leave, versus when everything's switched over quickly, they don't have the time to do all the due diligence," Henschen said.

InvestmentNews reported in May that 43 advisors have departed Securian since the beginning of the year, while annual attrition at a broker/dealer of Securian's size is typically in the mid-single digits.

But a source close to the company and familiar with the b/d acquisition process said there's no question the board of directors knew exactly what they were getting into with Securian before signing the agreement.

"When you're going to go out and acquire a firm like Securian, first of all, the board absolutely understands every nuance of that transaction before they approve that, laying the capital out to do that deal," he said.

Antoniades said the deal is turning out to be "significantly less expensive than we originally anticipated."

"We've acquired this company, and we're bringing it immediately into our ecosystem so that they are adopting our technology day one, they're leveraging our service and operations platform day one. And there is no further integration to do after we close the business," he said. "And that actually creates a significantly better experience for those advisors going forward. So by any measure, the metrics are going to be really, really successful, in the same way they were for Voya and in the same way they were for Foresters before that."

"Everything that went into evaluation is tracking at or better than the time of valuation and deal, and we're weeks from closing and transition," Durbin said.

Read the full article here.