

## KEYNOTE INTERVIEW

# Capturing opportunities in financial services



*The financial services space is ripe for value-additive consolidation, say CD&R's **David Winokur**, **Dan Glaser** and **Walt Bettinger***

## **Q Why does it make sense for PE firms to focus on financial services investments?**

**David Winokur:** Broadly defined, financial services represent 15-25 percent of US private equity activity. It is also a highly diversified sector with limited correlation to other areas of the economy, in our view making it an attractive industry to invest in up and down cycles.

Beyond the big trends, I can't speak to why other firms may want to focus on financial services, but for CD&R it made sense to dedicate a vertical to the sector for a few reasons. First, the distribution-oriented investments we focus on are in high-quality growth areas and highly resilient businesses that

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benefit from scaled investment. So, having the chance to pursue those opportunities with an almost \$26 billion fund is pretty compelling.

Second, this is not a new area of investment for the firm. In some ways, it was surprising that we had not established a dedicated financial services vertical before 2022. We made successful investments in the insurance space, including Tranzact and Capco, but under a broader umbrella of business services investments. Having a team of people that wakes up every single day thinking about financial services, though, makes

you far less likely to miss out on some fantastic deals, and establishing a formal vertical allows us to do this.

**Dan Glaser:** As David says, financial services is a large part of the economy, and these are people businesses, brains businesses. They are resilient, they have good growth characteristics and they are also typically in areas where technological advances and AI are highly leverageable.

Network also really matters in sourcing these deals. When I joined in 2023, David and I were able to bring together contacts throughout financial services. Our first two financial services investments, Focus Financial Partners and CRC Group, were both exclusive

opportunities where we were able to get a lead from management.

After all, the last thing you want as an investor is a lack of support from management. When you're underwriting their budget for the subsequent year, you want to co-create the next steps. Alignment with management is a key element of the playbook; in effect, it's about taking a playbook we've used consistently across our investments and applying it to financial services.

### **Q What lessons have you learned while building out this focus on financial services?**

**DW:** Having created a comprehensive business plan that identified the major themes, both secular and cyclical, driving financial services over the next 10-20 years, we then decided where on the chessboard we wanted to be against those themes.

It's about prioritising investments in important, high-quality companies in growth markets with great management teams. A lot of people can do that, so we believe the real skill is in identifying value within an individual opportunity. The aim is to spot opportunities where we can do something different to what has been done in the past. That might mean a business model evolution or transformation, as in the case of Focus, or the reshaping of a portfolio business, as with CRC.

It's worth bearing in mind, too, that these are often distributed-leadership businesses, so autonomy and entrepreneurship are important. That makes equity a major tool in the toolkit, aligning incentives to create the right culture.

We also thought about how we needed to build our team, because we knew having the right people on hand would be differentiating. I wrote a list of 25 executives I would love to partner with, one of whom was Dan, who had run one of the largest insurance companies in the world and one of the largest professional services firms in the world.

We have also engaged a whole mosaic of operating advisers to our funds, including Gordon Smith, the former co-president and chief operating officer at JPMorgan Chase & Co; Peter Crawford, former CFO of Charles Schwab; and, of course, Walt Bettinger, former CEO of Charles Schwab.

### **Q What makes an investment in a wealth management firm like Focus Financial Partners attractive in terms of value creation?**

**DW:** We focus in two places: the wealth management industry and the insurance brokerage industry. We view those both as high-quality growth segments, with lots of fragmentation and ample opportunities to reinvest capital behind businesses in really accretive ways. We see a broad consolidation theme in both spaces.

Within wealth management, probably the most attractive business model in our view is the registered investment adviser business model. That involves independent financial advisers acting as fiduciaries. The valuation dynamics there have become very robust, in part because of strong growth tailwinds.

Focus Financial Partners, for example, was founded by a set of entrepreneurs with great vision around the shift from legacy wealth models in the big wirehouses towards the independent channels. They recognised those independent businesses would need capital solutions and embarked on a roll-up strategy over a 20-year period, acquiring 50 percent of around 90 firms.

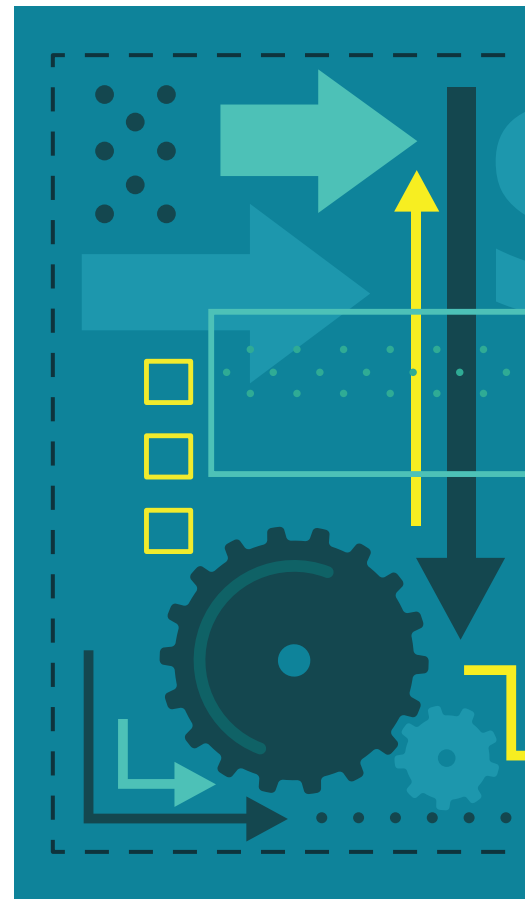
There was not much integration behind that business model, however. There was talent all over the place, and we saw an opportunity to take the business, leverage the capabilities that existed, then consolidate and integrate the firm into a cohesive business with a clear go-to market.

**DG:** Focus was a solid business in an attractive segment. It had decent

performance, but it was definitely a bit stuck. We saw a clear opportunity to improve it, which, combined with an attractive valuation, was compelling.

The wealth management segment is about trusted advisory business with transactions. It is large, growing and, most importantly, necessary. In that respect, it is not dissimilar to insurance distribution businesses, with high client retention, recurring revenues, generally high margins, cash generation, low capital requirements and low risk. There has also been a gradual flow of talent from the wirehouses to the independents, and in my experience it always makes sense to follow the talent.

When we acquired Focus, we went on a listening tour, visiting more than half of the 90 firms, building a coalition of the willing. There was so much





### Q What's next on the horizon for financial services investing?

**DW:** There are a number of themes we are actively pursuing, and probably 25 target ideas that we are looking to unlock.

We believe our size is a real advantage, but it also creates a natural narrowing in terms of what we can pursue, so we try to be really intentional around opportunities. We build relationships with management teams, build reach into corporate America and Europe, and we are also formulating new strategies around value creation.

We are looking for additional exposure in wealth and retirement, and in retail insurance brokerage, and we are beginning to formulate a strategy around financial technology and payments. We also see broader professional services as an attractive opportunity. Those are definitely the next areas on the horizon.

overlap and inefficiency, and huge appetite to integrate and build a stronger client proposition. Right now, there is a lot of work taking place to create connectivity.

### Q And how about investments in insurance brokers like CRC Group? What value creation initiatives can be carried out there?

**DW:** CRC was, at the time of our acquisition, the fifth largest insurance broker in the US by revenue, and the largest bank-owned insurance broker by revenue. Over time, with strong performance and PE's gradual entrance into that industry, we think insurance brokerage has become incompatible with bank ownership. It is hard for them to support acquisitions and

create incentives that excite the broker population.

After the US regional bank crisis of 2023, there was an opportunity to provide solution capital and acquire CRC out of bank ownership.

**DG:** As with Focus, there were secular tailwinds here given the new age of risk that we are entering, encompassing several large-scale risks such as cybersecurity, AI, climate change and pandemics. That has driven significant growth in demand for insurance lines to manage complex risks, and we like that space.

What's more, CRC was a good business in a great segment that was performing well, but it was a bit stuck. Here, the issue was structural ownership; being the best business within a

bigger business is not good if it means a lack of attention and underinvestment.

There were two parts of the CRC business that we did not think belonged, so we went out and sold the retail insurance brokerage arm and the wholesale life insurance business to leading strategic buyers. We now have this highly focused business ready to unleash its capabilities to acquire firms, strategically recruit and align around a pure-play approach.

### Q Walt, you became a senior adviser to CD&R funds in March. How do you hope to help?

**Walt Bettinger:** When I announced last year that I was going to step down as CEO after 16 years at Charles Schwab, I heard from a number of organisations, boards and PE firms. I spoke to a small number, and CD&R quickly rose to the top. After all, its culture plays to two of my strengths – the first being entrepreneurialism, having founded my own firm at the age of 22. Even though the businesses we invest in are very large, many of the issues they face are similar to the more entrepreneurial firms out there.

The second aspect of it was the appeal of growing businesses. At Schwab, for instance, I had taken the firm from nine million to 45 million clients, and from \$1 trillion to \$10 trillion in assets. Most of that was organic growth, but I also oversaw a number of significant acquisitions, including that of TD Ameritrade. Now, when you think about the opportunities we're confronting here, many have technology and automation at their heart. Deep investment in technology and digital transformation is a way to not only maintain but also improve the client experience, with greater scale and leverage. Delivering that to other financial services platforms is key to the playbook here. ■

David Winokur is a partner and Dan Glaser is an operating partner at CD&R. Walt Bettinger is a senior adviser on financial and technology services to CD&R funds

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