Forbes
OCTOBER 20, 2011 | WWW.FORBES.COM

Raymond James Not Missing A Beat Under Reilly

By Steve Schaefer, Forbes Staff

Ninety-five straight quarters of profits is nothing to sneeze at in any line of business, but in the financial industry, where many firms were lucky to get out of the 2008 crisis in one piece, losses have been a frequent occurrence at many firms for the past few years. One of the exceptions is Raymond James Financial, which wrapped up its fiscal year with another solid quarter Wednesday.


Courtesy of Raymond James Financial, Inc.
Raymond James CEO Paul Reilly and Chairman Tom James

The financial services firm reported record full-year revenue ($3.3 billion) and net income ($278.4 million) after the closing bell Wednesday, and on a conference call Thursday morning Chief Executive Paul Reilly expressed satisfaction with those results. Record performance on both lines, without a major acquisition, is not something many companies will show this year, Reilly said, while touting Raymond James' steady performance in an uncertain market.

Predictably, the firm's capital markets business was under pressure in a rough quarter that included the acrimonious debate over the U.S. debt ceiling, the S&P downgrade and a bubbling sovereign debt crisis in Europe. Despite weak equity markets, Raymond James did not report a loss in the segment even with the window closing on initial public offerings and challenges throughout the industry due to what Reilly called "a lot of noise."

You don't get to 95 straight profitable quarters without withstanding a few periods of that type of "noise," and Raymond James has done so with a conservative strategy in all markets that serves the business well in times of stress.

That was one of the focal points in an interview with Reilly back in February at Raymond James' St. Petersburg, Fla., headquarters. At the time, Reilly was just about a year into his tenure as CEO, which began after a year spent as president and successor-in-waiting to Tom James.

Sitting in his corner office that looks over the waters of Tampa Bay, Reilly stressed that his mission was to bring a "fresh look" to the firm rather than dramatically altering what had come before. In the months since that conversation, Reilly has elevated a new head of fixed income, installed an executive vice president of technology and operations, cut deals to acquire brokerage firm Howe Barnes Hoefer & Arnett and a Canadian loan portfolio from Allied Irish Banks, and agreed to repurchase auction-rate securities the firm's broker-dealer arm sold to investors before the market for such assets collapsed in early 2008.

It may just be a "fresh look," but it is still plenty of activity in year two of Reilly's tenure as CEO.

Usually when a brokerage firm recruits a chief executive it sticks to its own industry, but Raymond James hired Reilly away from executive recruiting firm Korn/Ferry in 2009. Reilly, who knew Tom James from years earlier owing to their shared love of tennis, had thought about the possibility of a job at Raymond James but never dreamed they would ask him to succeed James.

Part of Reilly's strategy since coming on board has been to seek out more opportunities for collaboration among the firm's different business units. James' entrepreneurial nature meant he let people run their own businesses, a management style that proved successful over his 40 years at the helm, but made the firm "Tom-centric." Managers could afford to have tunnel vision on their individual businesses because James intimately knew every line of business and could see how they fit together. Reilly realized that replicating that kind of experience is impossible, so he has sought out ways the different business lines can work more closely together.

This year's acquisition of brokerage firm Howe Barnes Hoefer & Arnett is an example. The team there "has hit the ground running" since the deal closed April 1 Reilly said in a May interview, working with other Raymond James businesses like the fixed-income group to find areas where its clients can be pitched on additional services.

Another area ripe for collaboration is the intersection of the firm's private client group, which accounts for around 60% of revenue, with other businesses including the bank. Despite the widespread defaults of recent years, the firm had only one mortgage sourced from PCG miss a payment and not a single loan to an investment banking client was delinquent. Reilly knows he can't compete with "the JPMorgans of the world," but finding more opportunities to lend to customers the bank already knows is a conservative way to grow the bank.

It will take a lot more than prudent principles and a solid history for Raymond James to defend its turf in the middle-market though. Reilly is fond of a slide that shows the competitive landscape a decade ago and today. The former is a lot more crowded in the middle, reflecting the landscape before a string of mergers during the mid-2000s and the subsequent financial crisis.

With $256 billion in assets under administration Raymond James is no pipsqueak, but it isn't quite in the "Too Big To Fail" camp either. Industry consolidation has left plenty of space up for grabs, but competitors will not just cede that real estate to Raymond James. "The bigger firms will come down market and the smaller firms will grow" Reilly said.

Attracting the best talent is one way to help capture the opportunity, which draws on Reilly's background as a recruiter. The firm hired aggressively when rivals undertook mass layoffs, but recruitment slowed to a degree when competitors were doling out big retention packages. "Some firms have paid [more than] 200% of production to attract advisors," Reilly said. "We think that's uneconomical."

On Thursday's conference call, Reilly reiterated that stance. "We're not the highest payers on the Street, never have been and never plan to be," he said. In a competitive space with other players like Morgan Stanley Smith Barney, Bank of America's Merrill Lynch and LPL Investment, among others, getting caught up in an arms race for financial advisors is a dangerous game.

Instead, Raymond James relies on its track record of success and stability to bring in new talent. That was a great selling point during the crisis, when many were disillusioned with the big-firm model, and the firm has continued to add personnel in investment banking, capital markets and elsewhere.

Aside from finding new avenues for growth and attracting talent, Reilly has also dealt with stepping in for a leader intimately tied to the firm's image. James' name is still over the door, his art collection provides much of the décor at the firm's headquarters and he remains executive chairman, not to mention the company's largest shareholder.

The cautionary tales about company builders who couldn't step aside are legion, and James admits to having little desire to retire to a life of leisure. "I don't have the wanderlust to travel," the 69-year-old said in an interview earlier this year, "and sure I'd like to take five strokes off my handicap but I couldn't play golf five days a week."

Reilly admitted to having had his doubts before coming on board, and asking James whether he could really let go. "Tom turns to me," Reilly recalled, "and he was yelling at me: 'Paul, you don't think I understand succession? Try taking over from your dad!'"

"Sometimes Elvis has to leave the building," according to Korn/Ferry CEO Gary Burnison, who succeeded Reilly at the recruiting firm. When he doesn't, "the predecessor has to be smart about staying out of things, and the successor has to be graceful if they happen to step over the line."

That has not been a problem at Raymond James, where James' continued presence is an "absolute advantage," in Reilly's view. Having a strong reservoir of what the two call "institutional knowledge" and a steady hand at the wheel helps when markets are in turmoil.

Reilly told me in February that when the market was raging in 2007 "people probably said we looked sleepy." Raymond James looked pretty smart when it withstood the storm of 2008 better than most and amid renewed pressure on the financial industry, the firm remains content to stay on course. The strategy may be short on flash, but a record year speaks for itself. F