REUTERS

UPDATE 3-Stifel to buy KBW in deal valued at $575 mln

Mon, Nov 5 2012

* Deal for $17.50 per share comprising $10 in cash, $7.50 in stock
* Deal to add 5-7 pct to Stifel EPS, after costs
* KBW CEO Thomas Michaud to stay head of KBW business unit

By Jessica Toonkel

Nov 5 (Reuters) - Stifel Financial Corp said on Monday it would buy smaller rival KBW Inc in a cash-and-stock deal valued at about $575 million, creating a middle-market investment bank focused on the financial services industry.

The combined company will provide investment banking, sales and trading, and research to financial services companies through KBW's Keefe, Bruyette & Woods broker-dealer unit.

Stifel has focused primarily on selling stock, bonds and financial advice to individual investors.

By expanding further into investment banking, as most of Wall Street is retreating, Stifel is making a bet that mergers and acquisitions in the middle-market financial space will grow, said Liz Nesvold, managing partner of Silver Lane Advisors, a New York-based boutique investment bank.

And while deal activity has been slow as of late, given the regulatory pressures it is likely that when it picks up it will be in the middle-market financial services area, said Sullivan & Cromwell LLP managing partner Rodgin Cohen, which represented KBW on the deal.

"Volume will still be relatively slow but I think where you will see deals is in this space," Cohen said.

Stifel spent most of the past decade expanding its retail brokerage empire, purchasing New Jersey-based Ryan Beck in 2006, hiring brokers from its former St. Louis rival A.G. Edwards and buying 56 branches with more than 300 brokers from UBS Financial Services in 2009.

In 2010 it bought San Francisco-based investment banking boutique Thomas Weisel Partners Group.

Stifel's revenue and profit continues to be driven by retail brokerage, but the KBW purchase is another bet that it can use niche investment banks to supplement income and possibly provide products, such as shares of initial public offerings, to its best brokerage clients.

KBW survived the loss of more than 60 employees, a co-chief executive, and five board members during the Sept. 11, 2001 attacks on the World Trade Center in New York.

Co-chief executive at the time, John Duffy, rebuilt the company and took it public in 2006. Like most small investment banks, KBW has been hit by weak commissions and lackluster merger volumes since the 2008 height of the financial crisis.

KBW has been suffering because it specializes in providing merger and capital-raising advice to middle-sized and small commercial banks, a sector that has been in the doldrums.

Duffy stepped down as CEO last year amid job cuts and mounting losses at the investment bank.

New York-based KBW reported a third-quarter loss on Monday and said it would exit the Asian markets by closing its Hong Kong and Tokyo offices by the end of this year.

KBW shareholders will receive $17.50 per share comprising $10 per share in cash and $7.50 per share in Stifel stock, a 7 percent premium to the stock's Friday close.

Stifel's shares were up 1.5 percent at $32.40 on the New York Stock Exchange in midday trading on Monday. KBW shares were trading close to the deal price, up 6.9 percent at $17.43.

Stifel would gain access to the $250 million in excess capital on KBW's balance sheet upon the close of the deal, which is expected to be accretive to shareholder value.

The deal is expected to boost Stifel's earnings per share by about 5 to 7 percent, after cost savings, the companies said on a conference call with analysts.

KBW Chief Executive Thomas Michaud will remain CEO of the KBW business unit and other key KBW employees have signed retention agreements, Stifel said.

Stifel also reported a 69 percent jump in third-quarter profit on Monday.