

INVESTOR'S BUSINESS DAILY

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Q&A

Investment Bank CEO Puts Focus On Service

BY MARILYN MUCH

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Ronald Kruszewski doesn't move with the rest of the pack in the brokerage field.

Kruszewski is chief executive of Stifel Financial^{SF}, the holding company for Stifel, Nicolaus & Co., a regional investment banking and brokerage firm with 86 offices in 16 states, mainly in the Midwest.

Soon after taking the helm in 1997, Kruszewski crafted a strategy aimed at distinguishing Stifel from its peers. He figured the way to stand out in the brokerage business is to attract a top quality team to serve clients.

As securities firms went through big layoffs during the market downturn earlier in the decade, Stifel continued to add brokers and investment bankers.

Kruszewski has nurtured a culture that lets brokers be independent — something they're not likely to find at a large firm, he says.

The strategy didn't prevent Stifel from struggling in 2001, when the weak economy pushed down the company's sales and earnings.

Since then, it's pumped out steady financial growth. Its second-quarter earnings this year rose 78% from 2003 to 41 cents a share. Total revenue rose 13% to \$60.5 million.



Ronald Kruszewski,
CEO, Stifel Financial

"In the late 1990s, people scoffed at us when the fad was you delivered

these (service) options through the Internet. We didn't believe that then, nor do we believe that now."

"A rising tide is lifting all boats," said Robert Hansen, a Standard & Poor's equity analyst who follows the brokerage industry. He does not follow Stifel.

Hansen says the strong equity market over the past 18 months has created a lot of operating leverage and opportunities for the brokerage industry.

CEO Kruszewski offers a similar view. He recently spoke to IBD.

IBD: *What besides the upturn in the equity market has been fueling Stifel's growth?*

Kruszewski: (It) goes back to our initial strategy. We believe that our objective is to provide financial advice and solutions to a variety of clients: individuals, corporations and municipalities. The way to deliver is through quality people.

In the late 1990s, people scoffed at us a little when the fad was you delivered

Stifel Financial Corp. stifel.com

Ticker	SF
Share price	Near 20
12-month sales	\$252 mil
5-year profit growth rate	9%

IBD SmartSelect Corporate Ratings

Earnings Per Share	91
Relative Price Strength	90
Industry Group Relative Strength	C
Sales+Profit Margins+ROE	A
Accumulation/Distribution	C+

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these (service) options through the Internet. We didn't believe that then, nor do we believe that now. People do these things. We've stuck to that (strategy) to consistently add people.

A lot of people measure market share by the number of clients they serve. The way we gain market share is by gaining brokers.

IBD: *How do you attract talent?*

Kruszewski: The consolidation that's occurred in our industry has wiped out the regional firm as a place for brokers to work. The regional firms around (today) are parts of banks.

We provide the platform and culture the brokers like. Brokers are an independent lot, and we allow them to be independent. We consider the broker our client. They in turn serve their clients.

We don't tell brokers what to do or what to sell. We believe they're fully capable of

managing their clients' (financial) affairs. That differentiates us from our competition. The larger the (company), the more the tendency is to tell the brokers what to do.

We have people calling us (for brokerage jobs). We don't advertise. We consider the broker as our brand. That's an attractive philosophy to brokers.

IBD: *Do you intend to stay independent?*

Kruszewski: One reason we're independent is the employees own over 50% of the firm.

We will conduct ourselves with shareholder value always in mind. Financial services mergers are (based) on economies of scales. One of our main advantages (has to do with) the brokers' relationships with their clients.

We don't believe economies of scale exist with client relationships.

IBD: *How have you fared amid the soft trading volume this summer?*

Kruszewski: We're in a cyclical industry. The trend has been slow here as well as everywhere.

The way we look at it is (how we perform) on a relative basis. If the industry trading (volume) is down 20% and we're down 15%, we think we're performing well relative to the industry.

The industry is very choppy. We think our long-term game plan is well in place. While it's been slow, our recruitment of (brokers) has been robust and our pipeline of new people we've talked to is as crowded as ever.

(Continued)

IBD: *What's the key driver of your business?*

Kruszewski: Most of the business is driven by retail brokerage. About 70% of the business is retail.

We believe in balanced growth. While we've made investments in (the retail business) we've made the same investments in investment banking. We added talented (people) to the investment banking (team). The total number of our investment bankers went from 15 in 1998 to 60 today.

IBD: *How are you dealing with increasing regulatory requirements?*

Kruszewski: There's no question the increased regulatory environment has been a burden, primarily on management.

On the other hand, all these initiatives have the objective of increasing investor confidence and the fairness of our markets. (That's) the most important thing going on.

The regulations, while burdensome, are important in

improving investor confidence. That will improve the business environment for firms like ours.

IBD: *What's your growth strategy?*

Kruszewski: To continue to do what we've done in the past. For example, from March 2000 through March 2003, when the industry shrank in terms of employment and revenue declined ... we didn't have layoffs. We added people and grew (our) revenue in that time frame.

We (believe we can) continue to grow through all market cycles. That's what we've done in the past. The industry just came out of a (depressed period) and we continued to invest in (adding people) and will do that in the future.

IBD: *What's the climate for your business?*

Kruszewski: The business climate is subdued. A lot of uncertainties, from the election to geopolitical concerns, are weighing on the investor's subconscious.