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THE WALL STREET TRANSCRIPT

Questioning Market Leaders For Long Term Investors

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THE WALL STREET TRANSCRIPT

COMPANY INTERVIEW

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Stifel Financial Corp.

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COMPANY INTERVIEW

Stifel Financial Corp. (SF)

RONALD J. KRUSZEWSKI is Chairman, President, and Chief Executive Officer of Stifel Financial Corp., a publicly traded firm listed on the New York Stock Exchange. Its subsidiaries are engaged in general securities brokerage, investment banking and money management with locations in 17 states. Mr. Kruszewski has extensive experience in the investment banking and brokerage industry. Prior responsibilities have encompassed private client sales, asset management, corporate finance, trading, mergers and acquisitions, legal and compliance, operations, information technology, and finance. Mr. Kruszewski has also advised several financial institutions on strategic initiatives. Mr. Kruszewski serves on the Board of Directors of Angelica Corporation as well as the Advisory Board of SBI Incorporated and Southern Products, Inc. Recently, Mr. Kruszewski was elected to serve on the Board of Directors of the Securities Industry Association. Mr. Kruszewski is active in community affairs and serves as Chairman of the Board of Directors of Downtown Saint Louis Partnership, Inc. He serves on the Board of Trustees of Webster University and the St. Louis Science Center and serves on the Board of Directors of the St. Louis Regional Chamber and Growth Association. Mr. Kruszewski is a member of the Regional Business Council in St. Louis and is a member of the Saint Louis Chapter of the Young Presidents' Organization. Mr. Kruszewski is a graduate of Indiana University (BS, 1981) and holds a CPA designation.

SECTOR – FINANCIAL SERVICES (ZAX607) TWST: Please tell us about Stifel Financial and its structure.

Mr. Kruszewski: First of all, I'm pleased to have the opportunity to speak with you today about our firm. Before we get started, I would like to mention that what we cover here is subject to forward-looking statement disclosures, which can be found in our Form 10-Q. Also, Stifel Financial is the publicly traded holding company, whereas Stifel Nicolaus is the operating company. Therefore, for the rest of this interview, I'll refer to Stifel Nicolaus.

Stifel Nicolaus is a full-service, regional brokerage and investment banking firm, founded in 1890 and headquartered in St. Louis, Missouri. In fact, somewhat noteworthy, Stifel Nicolaus has been based on the same street in downtown St. Louis, Missouri, for almost 115 years. The firm operates in three basic businesses: private client services, which is the majority of the firm's revenue, approximately 70%; and then equity capital markets (about 20%); and fixed income capital markets (about 10%). Stifel operates 88 offices in 17 states, primarily in the Midwest — west to east from Colorado to the Carolinas, and north to south

Corporate Profile

Stifel Financial Corp.

Ticker (exchange) SF (NYSE)
Price close 1/19/05 20.25
12 Months Price Range 13.74 - 24.68

Corporate Headquarters
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James M. Zemlyak

Corporate Officers

Ronald J. Kruszewski
Chairman and CEO

James M. Zemlyak
SVP, Treasurer, and CFO

Scott B. McCuaig
Senior Vice President
President of Stifel Nicolaus

Corporate Business Description

Stifel Financial Corp. is the holding company for Stifel, Nicolaus & Company, Incorporated, a full-service regional brokerage and investment banking firm established in 1890 and headquartered in St. Louis, Missouri. The Company provides securities brokerage, investment banking, trading, investment advisory, and related financial services through its wholly owned subsidiaries, primarily Stifel Nicolaus, to individual investors, professional money managers, businesses, and municipalities.

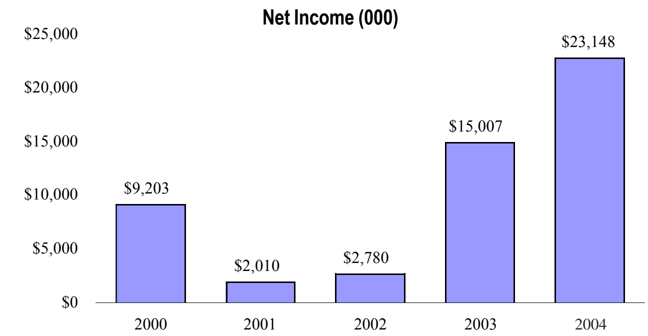
The Company operates in three major business segments: Private Client Group, Equity Capital Markets, and Fixed Income Capital Markets. The Private Client Group consists of approximately 450 Investment Executives in 85 offices located in 17 states, primarily in the Midwest, along with approximately 175 independent contractors affiliated with the Company's Century Securities Associates, Inc. subsidiary. The Equity Capital Markets Group encompasses corporate finance, institutional equity sales and trading, syndicate, and research. The Fixed Income Capital Markets Group includes public finance, institutional fixed income sales, and underwriting and trading.

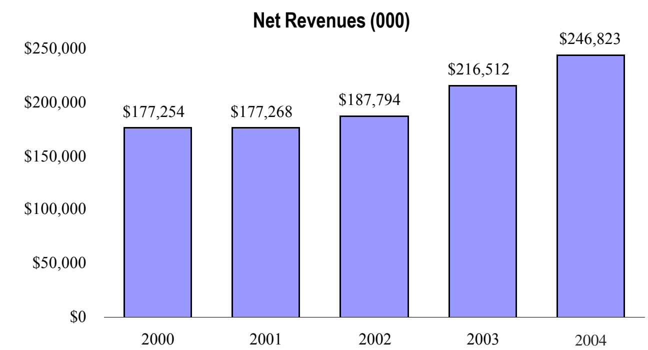
Company Highlights
- Approximately 1,300 associates
- 88 offices in 17 states
- $20.3 billion in client assets under management
- Equity capital of $131 million
- Joined the Russell 2000 Index in 2004

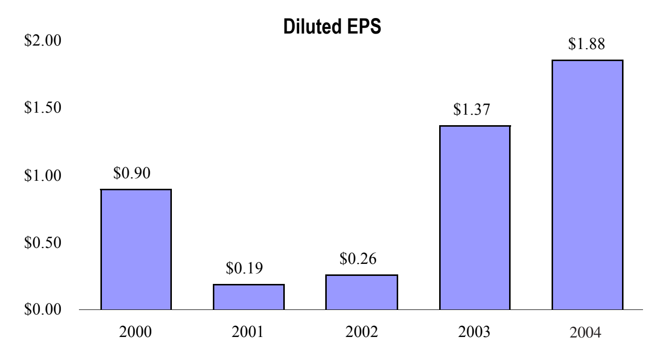
Investment Fundamentals
- Strong, regional investment firm
- 2004 marked ninth consecutive year of record net revenues
- The firm's stock price has outperformed the S&P 500 and a peer index* for the past five-, three-, and one-year time frames
- Ownership by Stifel associates is in excess of 50% of total shares and equivalents outstanding

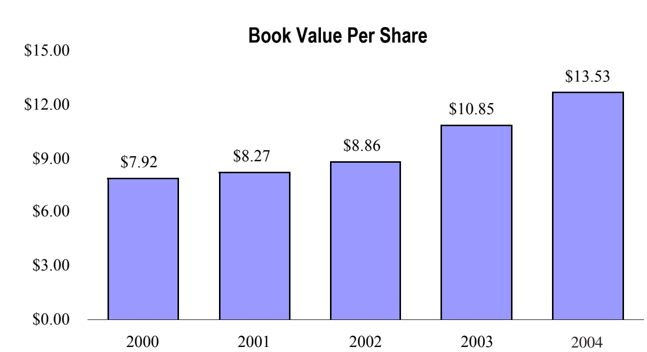
* Peer index consists of A.G. Edwards, First Albany, Oppenheimer Holdings, Piper Jaffray, Raymond James Financial, Sanders Morris Harris Group, and SWS Group

All information as of December 31, 2004 (unaudited)









from Minnesota to Texas. We have approximately 1,300 associates, of whom approximately 600 are Investment Executives.

TWST: Let's first talk a little bit about what you see as some of the issues and trends that broker dealers are facing today and how those issues may impact your own goals and strategies inside the company.

Mr. Kruszewski: The securities business is but a thin slice of the financial services segment of business. As it relates to this thin slice of financial services, we believe that the biggest issue impacting the traditional brokerage firm, whether it is national or regional, is the consolidation that's occurring in the industry. The banks, including the large consolidated financial service providers such as Citigroup, certainly have been acquiring brokerage firms. These large banks have had a major impact on the traditional securities industry. So today, the banks like J.P. Morgan and Citigroup are formidable competitors, primarily due to their ability and willingness to use their balance sheets. As it relates to regional brokerage firms, the regional firms have substantially all been acquired by banks and so, from a competitive landscape, that's the biggest thing that I think has been occurring within the brokerage industry.

"The baby boomers' next big impact is going to be on the amount of savings or, in other words, the baby boomers' need to plan and save for retirement. The first of the baby boomer generation turned 58. So that entire group, as potential clients of a financial services firm such as ours, bodes very well for the overall prospects for this business over the next several years."

As it relates to Stifel Nicolaus, while there are numerous challenges, the primary challenges are twofold. First is managing or understanding investor expectations. Over the past several years, investors have developed high expectations with respect to market returns — higher than probably what can be expected. The second challenge is the regulatory framework that the industry is working under, which is very difficult.

TWST: What do you feel is the economic backdrop that would be most advantageous to your company at this point or what might be some of the risks in the economy that you would have to perhaps attend to more than others?

Mr. Kruszewski: In the short run, it's very difficult to anticipate what's going to happen, say, next year. The securities industry is very cyclical, in many ways a leading indicator type of industry in terms of economic activity. Therefore, I make it a practice to never try to predict any market moves one way or another or short-term moves in the economy. Stifel Nicolaus will, and the industry will, perform well in a good economy and not so well in a down economy, which generally relates to a good market or a bad market. However, if you lengthen your perspective out over the next couple of years, the long-term prospects for our industry are excellent. Simply, we believe the demographics are very positive. We've all read about the baby boomers and the consumption by baby boomers of homes and automobiles and other durable goods. We believe the baby boomers' next big impact is going to be on the amount of savings or, in other words, the baby boomers' need to plan and save for retirement. The first of the baby boomer generation turned 58. So that entire group, as potential clients of a financial services firm such as ours, bodes very well for the overall prospects for this business over the next several years. Furthermore, the barriers of entry into our business are very high. So we are in a growth market with high barriers of entry. While the competition is certainly intense, it's very difficult to start a brokerage firm and get it up to any kind of scale. Consequently, while I will not venture a guess about our business prospects over the next year, I am confident that over the long term, it's going to be a great next 10 years overall.

TWST: What do you have to do as far as capital resources, personnel resources and areas of expertise in order to meet that growth opportunity or at least address the market opportunity?

Mr. Kruszewski: The firm is very well capitalized. We have approximately $155 million of capital, which supports an asset base of around $400 million. As such, we are not an overly leveraged firm, and we have sufficient capital to finance our growth initiatives. However, taking advantage of the market opportunity requires an ability to attract and retain qualified people. We believe that our target market is best served not by technology or Web pages alone, but instead through trusted relationships. We are not looking at capturing the "do it yourself" segment of the market, i.e., the people who use the discounters or the online brokers. We are in the business of providing service to people who want comprehensive financial advice, and we deliver this service through our Investment Executives. Therefore, our ability to take advantage of the positive demographic trends over the next decade will be dependent on our ability to attract and retain quality Investment Executives. We have been successful at this in the past, and we remain confident about our ability to do so in the future.

TWST: What are the priorities for the next 12 to 24 months? What has to occur in order for that time frame to be a success?

Mr. Kruszewski: I think it is instructive to understand our firm in that we do not set our goals only in quantitative measures. For example, if we would set a goal to hire 100 Investment Executives, we would do that. Or, if we've said we were going to do 100 investment banking deals, we could accomplish that. Quantitative goals, believe it or not, are relatively easy to achieve in this business. Quantitative goals are easy to measure, somewhat easy to attain, and are easy to mention in an interview like this. However, the true test is quality, not quantity. Therefore, we set goals qualitatively. We want to hire as many quality people and do as many quality transactions as we can, but to give you something that you could measure that on is very difficult to do. So, to not completely duck your question, we will continue to do what we have done in the past, which is grow and add as many quality people as we can. And in the past, we have grown from 250 investment executives to 450. In addition, we have another 175 independent contractors, so we've grown significantly the last few years, and we believe we'll continue to do so.

"The premise that the securities industry will grow faster than the economy as a whole because of the long-term demographics (i.e., the baby boomers becoming more focused on savings) bodes extremely well for our firm. Because of our unique position, being one of the few remaining independent regional firms, we believe we can outgrow the industry."

The real question, I think, is how are we able to grow and why. The answer to this question is that traditional brokerage firms like Stifel Nicolaus are few and far between. Most of our brethren have been acquired. There are few traditional firms like Stifel Nicolaus that have the culture we do and where people want to work. Simply, there are very few firms like ours left, and so we have a tremendous backlog of people who we are talking to who want to join our firm.

TWST: How strong financially are you? As you look at the top line and bottom line, what are the priorities there as far as items for improvement?

Mr. Kruszewski: Again, everything is relative. I have just given an internal talk to our associates, where I illustrated that, when comparing the industry performance for 2003 as compared to 2000, the industry's revenues were down between 35% and 40%, depending on whether you looked at gross or net revenues. However, at Stifel Nicolaus, revenues over that same time frame were up 15%. Pretax profits for the industry over that same time frame were down 25%, while our profitability almost doubled. Again, on a relative basis, we've performed very well as compared to the industry. Consequently, from a financial perspective, we've done quite well. Our return on equity over the last 12 months is approximately 20%, which compares very favorably even to the largest firms in our industry. Our margins are also very acceptable, with pretax margins of about 15%. So our financial performance has been very good, about any way you want to look at it.

"From a financial perspective, we've done quite well. Our return on equity over the last 12 months is approximately 20%, which compares very favorably even to the largest firms in our industry. Our margins are also very acceptable, with pretax margins of about 15%."

TWST: Introduce us to your top-level management team, two or three of the key individuals. Are there areas there that you are looking to augment?

Mr. Kruszewski: The President of Stifel Nicolaus is a gentleman by the name of Scott McCuaig. Scott has more than 25 years of experience in the securities industry. He was a broker and branch manager, so he understands this business at its core level. He has been in the management side for probably 20 years. Scott runs our private client group and is a very experienced and dedicated, hardworking individual. He is also co-Chief Operating Officer with Jim Zemlyak, who, in addition to being co-Chief Operating Officer, serves as Stifel's Chief Financial Officer. Jim has been in the securities business for approximately 20 years. So at the top level of the administrative side, we have very strong people. But the strength of the firm is how we view our functional organization chart. Clients, and the people who serve our clients, are at the top of our organizational chart. Because we serve our clients through our brokers, not around them, the broker is essentially the primary client of Stifel. This is probably the most significant differentiating feature of our firm. We also have a very experienced group of brokers. We do not have, nor do we want, a tremendous amount of bureaucracy between the brokers and the top management of the firm, and that's also true on the capital markets side.

TWST: What historically has been the shareholder base? Has that base undergone any changes or transition?

Mr. Kruszewski: It has. I joined the firm in 1997, and the company has been public since the early 1980s. In 1997, the associates of the firm owned about 20% of the firm. Today, the associates own 55% of the firm. So the most significant change has been the increased ownership of the firm by the insiders. At over 50%, this ownership stake is significant. The reasons we encourage a significant ownership by associates of the firm is because we believe that if you are going to be an outside investor in a securities firm, you want to invest alongside the insiders. You don't want a situation where the insiders don't own any equity and the outside shareholders supply the risk capital, because there's a natural conflict that occurs — risk versus compensation. In our case, a sizable portion of the net worth of the key people in this firm is invested in the common equity of Stifel Nicolaus. We believe this makes for a better run securities firm.

"Our financial metrics, such as return on equity, are as good as any of the consolidated firms, and the reason for that is that economies of scale do not exist in our primary product. Our primary product, or our primary asset, is the client relationship. We service clients, not with computers, not with a Web page, but by personal touch."

TWST: What, if any, misperceptions do you encounter as you speak with the investment community?

Mr. Kruszewski: We don't speak much with the investment community. We don't have any analysts who follow our stock. Furthermore, we do not give earnings guidance. So maybe any misperceptions are caused, in part, by our lack of analyst coverage. That said, for the past several years, the biggest misperception was that people didn't understand the value in our stock. Instead, they looked at it as being not liquid. By the way, our stock is not very liquid. I think we probably average 10,000 shares a day. This lack of liquidity causes many people to miss the fundamental value of our firm. However, our lack of liquidity, caused in large part by the large insider ownership, provides the foundation for an excellent long-term investment. At least, I certainly hope so. We are not a stock you can trade in and out of very easily. However, in the past year, investors have begun to recognize the value inherent in our stock. At the beginning of 2004, our stock was approximately $13 per share. Recently, it's traded above $24.50. So that misperception in terms of valuation, I think, has been corrected somewhat. However, being a small-cap financial services firm, we do not receive the market multiples afforded our peers, unjustifiably so, in my opinion. That all said, we believe if we execute our business plan, the stock price will take care of itself.

TWST: How might mergers and acquisitions impact your own abilities to grow as you look perhaps to find acquisitions and where does that situate your company as far as its being attractive as an acquisition? There seems to be a trend toward bigger is better.

Mr. Kruszewski: First of all, we're a publicly traded company. Our stock trades on the New York Stock Exchange, and as a publicly traded company, we always will strive to maximize shareholder value. Of course, when, how, and what is truly maximizing shareholder value is always up for debate. But our goal is to maximize shareholder value. As I said, since the employees own the majority of the company, we all share that common goal. As it relates to acquisitions, we do not believe that bigger is better. If that were true, then economies of scale, which one would believe are driving the consolidation trend, should be a competitive advantage for the acquiring firms. You should have firms with much better financial performance. Yet I would argue that our financial metrics, such as return on equity, are as good as any of the consolidated firms, and the reason for that is that economies of scale do not exist in our primary product. Our primary product, or our primary asset, is the client relationship. We service clients, not with computers, not with a Web page, but by personal touch. It's almost the antithesis to the belief that you can improve a client relationship through economies of scale. In fact, we steadfastly believe that you cannot. If you try, you will diminish service, and you will diminish the value that the client perceives, almost by definition.

So the long-winded answer to your question is that we believe that we are ideally situated to continue to grow and outgrow the market by adding people who want to be part of this environment. We do not see a need to combine for economies of scale. However, if the right opportunity came along that would maximize shareholder value, we would certainly look at it. Also, we are always looking to acquire or merge with firms that share our culture and outlook.

TWST: What would compel investors to review Stifel, its performance to date, the opportunities ahead, but then include it in their longer-term investment strategies?

Mr. Kruszewski: If you were to pull a five-, three- and one-year chart on our stock, I think it would speak for itself. In terms of the reasons that you would own a company like ours, first is that we are a small-cap company. When you consider our fully diluted shares of approximately 12 million against our growth prospects and our ability to significantly grow faster than the industry, this alone makes Stifel a compelling investment opportunity. And the premise that the securities industry will grow faster than the economy as a whole because of the long-term demographics (i.e., the baby boomers becoming more focused on savings) bodes extremely well for our firm. Because of our unique position, being one of the few remaining independent regional firms, we believe we can outgrow the industry. And, if you put that all in a bowl and mix in some good luck and some market cooperation, investors can make their own determination. But I certainly believe that is the mix for an excellent investment.

TWST: Thank you. (DWA)

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