

## IPO FILING COULD USHER IN NEW ERA OF LEGITIMACY FOR RIAs

06/02/2018 Originally Published by InvestmentNews

You would be forgiven if you skipped past the news that Focus Financial Partners filed for an initial public stock offering in the days leading up to Memorial Day weekend. The move, however, is something registered investment advisers will want to keep an eye on.

There is likely still a long road ahead from the May 24 filing to the date for the IPO. But the New York-based roll-up's plan to go public is already being heralded as an endorsement of the RIA space. The IPO filing provides a rare glimpse behind the curtain of this business, which has acquired 55 RIAs and is valued at more than \$2 billion, and it could offer heightened legitimacy to independent advisory firms.

As InvestmentNews reported, even Elliot Weissbluth, founder and chief executive of rival roll-up firm HighTower Advisors, didn't downplay the implications of the public equity market's getting its hands on a piece of the RIA business.

Mr. Weissbluth, who until October — when he sold a \$100 million piece of HighTower to private-equity investors — was generally viewed as the most likely to take his RIA brand public, expressed collegial support for Focus Financial's efforts.

"RIAs are now going to have their first national public reputation. That will convey tremendous credibility to a business model that has served clients for many, many years," he said.

The only other RIA pure play in the public markets is Silvercrest Asset Management Group.

Edelman Financial Group went public in 2010 only to be taken private two years later.

It should not be lost on the casual observer that a relatively recent private-equity partnership did not stand in the way of Focus' move toward the public markets. Focus Financial, which has been rolling through relationships with private-equity-owner for a dozen years, sold off a 70% ownership stake to PE firms Stone Point Capital and KKR just 13 months ago. Until now, a PE relationship was considered an alternative to going public, as the deep-pocketed private-equity funds pumped in cash and drove RIA growth and consolidation.

### No coincidence

It's not a coincidence that the PE industry's appetite for the RIA space has been growing for the past few years, virtually in stride with the growth and increasing institutionalization of the advice industry.

According to **ECHELON Partners**, more than five dozen PE firms are invested in the RIA space; \$3.3 billion was invested last year, up from \$3.1 billion in 2016 and \$2 billion five years ago.

As RIA firms continue to grow, it seems only natural that IPOs will be the next step, especially since most PE investors want liquidity within five to seven years of their initial investment. But regardless of the ultimate success of the Focus IPO, it won't spark a race to the public markets by smaller RIA shops and lifestyle firms.

It could, however, lead to even more appetite from private-equity investors if this IPO proves a quick and bountiful exit strategy.

And let's not overlook the upside of public valuations for an industry of business owners that has largely been at the mercy of sophisticated buyers.

Granted, the liquidity premium that comes with a publicly traded stock does skew the numbers slightly, but any increase in public stock valuations will be a welcome metric for owners perpetually wondering what their advisory practice is worth and what a sale could look like.

