Focus Financial Lining Up New Capital Infusion

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Focus Financial Partners LLC, which calls itself the largest partnership of wealth management firms in the world, is securing a new capital infusion to help it service outstanding bank debt and continue its business of acquiring stakes in large registered-investment-advisory firms.

Focus, launched in 2006 with $35 million in backing from private-equity firm Summit Partners, is getting an investment from Polaris Venture Partners, which has been involved primarily in backing information technology and life science businesses, according to investors close to Focus.

Another private-equity firm also is expected to participate in the recapitalization.

The new capital comes at a crucial time for Focus, which has acquired stakes in 16 firms with a combined total of more than $20 billion in managed assets since its founding. Focus hasn't announced a partnership deal since July 2008, though its website says that the company seeks to acquire two to four “quality firms” every year in order to generate steadily growing revenue and pave the way for an initial public offering or other “liquidity event” for the firm's partners and other investors.

“It's little premature to talk about [the capital infusion], but we can talk soon,” Kevin Mohan, a managing director of Summit Partners, said when asked about the Polaris commitment.

The amount of the investment couldn't be determined, but the firms will be buying equity units in Focus at a substantial discount to previous equity sales and receiving a return in the high teens on the debt that they are lending, according to another investor, who requested anonymity.

“We explore all options, but I can't talk about the details of our debt or equity,” said Jennifer Geoghegan, vice president of marketing and public relations at Focus. “We cannot announce anything until, if and when, things are completed.”

Partners at Polaris didn't return calls for comment.

For so-called roll-up firms such as Focus, cash flow to fuel new deals has been slowed over the past year by declining profitability at some partner firms and by the need to service debt that helped finance rich pricing on some initial deals, according to investment bankers and consultants specializing in the wealth management industry. Some firms have been forced to draw on bank lines of credit with increasingly onerous terms, they said.

Focus has a line of credit from a bank group led by Bank of America Corp., according to its website.

Ruediger “Rudy” Adolf, Focus's chief executive, said in an interview last month that the firm is profitable and “in a very strong financial position.”

He dismissed a rumor that it has $110 million in bank debt coming due soon, but he did say that Focus “may be interested in adding capital” from a new investor.

In lieu of acquisitions, Focus in the past year has been encouraging its affiliates to recruit advisers from brokerage firms or to “subacquire” small RIA firms to drive revenue.

But it also is putting the finishing touches on acquiring a big stake in a fairly large wealth management firm, according to several executives in the Focus network. They declined to name the firm, which is thought to be in New York.

Ms. Geoghegan said that Focus, which on Nov. 8 convened a semiannual meeting of its partners in Atlanta, would neither confirm nor deny a pending deal.

Although issuance of new equity to outside investors and new partners could dilute existing partners' stakes, some are hopeful that it will help accelerate the way to an IPO.

“I don't know of any partners that are expecting to get out tomorrow, though I'd like to,” said Robert Kresek, managing partner of Founders Financial Network, an RIA with about $500 million in assets under management. Founders was one of the original firms in the Focus network.

Focus typically buys 40% to 70% of an advisory firm's earnings stream — before interest, taxes, depreciation and amortization — in exchange for equity units in the parent firm and cash, or a promissory note tied to meeting growth targets over a number of years.

Deals today usually involve deferred payments tied to profitability over about six years, Mr. Kresek and others said.

In dangling the prospect of an IPO or some other capital event that would allow aging RIAs to “monetize” their stakes, Focus and other roll-up firms have created additional pressures on themselves, some bankers said.

“There's an "aha' moment occurring for some of the guys who sold into the roll-ups,” said **Daniel Seivert**, chief executive of **Echelon Partners LLC**, an investment-banking boutique. “They may be realizing that they don't control the liquidity event, and there are going to be some that want to buy themselves back.”

That in turn would tarnish the revenue growth story that roll-ups hope to present to a mass market of investors whom they hope to lure into an IPO or recapitalization.

Several affiliates of National Financial Partners Corp. and Boston Private Financial Holdings Inc., roll-ups that went public only to see their stock prices plunge in recent years, have repurchased their firms in the past 12 months.

Experts said that it is in the best interests of Focus' partners to express confidence in the firm, and many do.

“It's worked out better for me than I originally thought it would,” said Dick Smith, the founder of Capital Advisory Group Inc., an RIA that joined as an original Focus partner in January 2006. “I have heard investment bankers say Rudy [Adolf] should have given up a year ago, but he is smart and determined.”

Many advisors – particularly ones accustomed to selling commission-based product – still like the idea of folding into a bank. Having had their assets reduced in this market downturn, they believe banks are best positioned to funnel them referrals to rebuild assets under management.