How Rob Francais is Convincing RIAs to Sign on the Dotted Line With Aspirant – No Money Down

2/19/16 Originally Published By Brooke Southall, RIABiz

Michael Glowacki liked the pitch he was hearing from Focus Financial Partners LLC — including aspects of a merger deal that another firm in contention, Aspiriant LLC, would not match.

For starters, a deal with the big New York-based roll-up meant that Glowacki could cash a check for essentially 50% of the value of The Glowacki Group, his Los Angeles-based RIA that manages $360 million of assets for 75 mostly ultra-high-net-worth clients.

A deal with Los Angeles-based Aspiriant, on the other hand, would include no cash and carry with it no hallowed "liquidity event."

Another sweetener from Focus: Glowacki could keep his standing as principal with a guarantee that if he brought in a $50-million client, the account was his.

By contrast, at Aspiriant he would be an employee and converted prospects would be Aspiriant customers — a hard swallow for a man who's owned his own firm since 1998.

But what Glowacki couldn't get past regarding a sale to Focus — or any other strategic buyer for that matter — was what message it would sent to his staff and his clients.

ECHELON Partners advised on the deal on behalf of The Glowacki Group, LLC.

Stigmata?

"[By merging with Aspiriant] I get to continue to relate to staff and clients and avoid the stigma of selling them," Glowacki says. "You say [to staff]: 'this is my succession plan' and they say 'you sold me.'"

A request for comment to Rudy Adolf, CEO of Focus Financial, went unreturned.

But Michael Kitces, publisher of Nerd's Eye View, questions whether a sale need carry with it such a stigma.

"At best selling to a roll-up only has a stigma amongst some advisors, but I'm not sure that's a universal view. Buckingham/BAM grew from $5 billion to $25 billion after doing a deal with Focus, and I don't think they've been 'stigmatized' for it!" he writes in an email.

Buys out

The key to understanding a certain class of advisor, says Aspiriant's CEO Rob Francais, is that selling to a roll-up not only carries a stain, it constitutes an out-and-out conflict of interest.

"The minute you have an owner not involved in service, there's a conflict of interest with the clients. I don't see what is in it for the client. There's no succession, no permanent capital. Somebody's going to want to cash out eventually. I don't believe acquisitions work."

Dan Seivert, CEO of **ECHELON Partners**, doesn't see such a profound difference between an Aspiriant merger and other mergers where liquidity events are down the line.

ECHELON, of Manhattan Beach, Calif., is the investment bank that advised The Glowacki Group on its merger.

Owners attached

But even passive ownership by ex-employees can cause a conflict of interest, Francais contends.

"It causes a disconnect. People working and people making money need to be in alignment."

Kitces agrees that "there's some validity to the idea that a good professional services business needs its owners involved in the business."

Sometimes, but not always.

"As RIAs grow larger and larger, I sincerely wonder if this becomes less of a concern," he writes. "Clearly an advisory firm with 99% absentee ownership risks having a very disengaged advisor base, who may not make the same client-centric decisions when it's not their ownership capital on the line. However, as advisory firms get larger, and big advisory firms get huge, you get to the point where every advisor in the firm can have a 'meaningful' (to them) ownership stake in the firm, and still have ample room in the capital structure for a roll-up to own a significant stake as well."

Aspiriant manages about $9 billion in assets for 1,300 client families, much of it aggregated inorganically by stock-for-stock transactions.

Time out

The Glowacki Group is the second independent wealth management firm in Southern California to join Aspiriant, following on the heels of a merger with San Diego-based Hokanson Associates with Aspiriant at year-end.

Neil Hokanson, 62, principal of Hokanson Associates, brought his $570 million in assets under management, 270 clients and 12 employees to Aspiriant. The deal, which closed Dec. 15, gives Aspiriant a significant San Diego presence; it already has offices in Los Angeles; San Francisco; Irvine, Calif.; New York; Boston; Cincinnati; Milwaukee; and Minneapolis.

If there is a downside doing deals with the Zen of partnership stock and lofty ideals — as opposed to deals fueled by private equity cash and culture of acquisition — it's that throughput is limited.

Before the Hokanson deal, Aspiriant went through a multiyear period of catching its breath after a series of six mergers with former offices of Deloitte Touche across the country — which followed the more monstrous merger with Kochis Fitz in 2007. "I basically called time out," Francais says.

Earn-out ups and downs

Glowacki allows that he didn't choose to merge his firm with Aspiriant just to keep things on the up-and-up with clients and staff. The deal ultimately was advantageous from a broader financial perspective. With Focus, payout is based on future earnings. While such an earn-out arrangement has unlimited upside, it also has an undeniable downside if earnings fail to meet projections.

And, according to Francais, Aspiriant stock will not necessarily diminish in value if clients opt to leave. He points shares that have been appreciating and that Aspiriant has been able to cash out partners when they leave. He says 75% of the shares are in the hands of the newer generations of employees.

Still, a strategy of broad limited ownership has natural limitations, according to Seivert.

"You can't have everyone running for the exits, i.e. seeking liquidity, at the same time. It's a delicate balance."

Glowacki says another plus about his deal with Aspiriant is that about a third of his firm's assets are managed for UHNW clients. Aspiriant is one of the few firms in Los Angeles set up to handle all the high-touch requirements for that trade.

But Seivert says that Glowacki will also bring a great level of expertise, roster of clients and ability to land UHNW clients. One way Glowacki does that is through his advanced expertise in life planning and coaching, he adds.

Back in hibernation

After adding Hokanson and Glowacki, Francais says Aspiriant has gone into another dealmaking time out that will likely last until the end of 2016.

But Francais says the long-term vision for the company expansion.

"When I started out in the late '90s, I thought: Why isn't there a national employee-owned firm? I don't mean hundreds of people. I mean hundreds of thousands of people."

He doesn't necessarily believe it will occur during his career, which he hopes will last another 20 years at Aspiriant. Right now, for instance, the firm isn't large enough to staff an internal transitions team — a capability that Francais contemplates down the road.