

NEW WEALTH PLAYER SEEKS TO ROLL UP RIAs

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A new player in the wealth management market aims to gather up independent investment advisors under its umbrella.

The newly-formed Focus Financial Partners based in New York City has teamed up with private equity and venture capital firm Summit Partners to create a national registered investment advisor (RIA) company by investing in small, profitable firms across the country.

Ruediger Adolf, a former partner at McKinsey & Co. and a senior executive at American Express, is leading the effort as founder and CEO of Focus. Summit Partners is investing \$35 million in the venture.

Already, Focus has four independent RIA firms under its belt: Richmond, Va.-based Capital Advisory Group, Founders Financial Network out of Northern California, New York-based Geller Group and Strategic Point Holdings in Providence, R.I. Together, the four firms represent about \$3.5 billion in client assets.

"[Adolf and Summit] have worked on this for awhile and Rudy has put a compelling plan together," says Elizabeth Nesvold, managing director at investment bank Berkshire Capital Securities. "Summit is a very credible partner. Such a linkage demonstrates a thoroughly vetted initiative that passes muster. And getting four deals done simultaneously is one tremendous accomplishment."

"This idea came about in response to the frustration with the traditional model of wealth management. The fundamental model is broken," says Adolf. "We want smaller firms that put client interests as the primary focus and bring them together on a national level to compete more effectively against the bigger, national firms." He believes that conflicts of interest at larger firms and recent regulatory scandals are causing more high net worth clients to look for independent advice.

As an investor, Summit hopes to capitalize on the growing independent RIA segment in the wealth management sector. "More than 2.3 million households have more than \$1 million in assets. And that segment is growing and looking for independent advice," says Kevin Mohan, a general partner at Summit.

Mohan says that the partners of the four firms already onboard demonstrate "a good entrepreneurial spirit and are leaders in their smaller markets."

Focus is in talks with an undisclosed number of firms to join the collective and expects more to join in the next few months. The holding company already has a bicoastal presence, but intends to expand to include every major market. It is targeting leading firms in geographical markets that share the same principles.

Adolf's ultimate goal is to become the largest independent wealth management firm in the country. With \$3.5 billion in assets, it already ranks among the top ten by some industry rankings.

The model allows participating firms to keep a 40% to 60% ownership interest and autonomous operations, while

Focus takes the remaining stake. Focus then offers a national presence that is often too costly in capital and manpower for individual firms to achieve by themselves.

"With a small firm, it's costly to allocate sufficient human and capital resources to back-office administration, HR, technology and compliance work," notes Berkshire's Nesvold. "By offloading some of this, the professionals can more easily focus their time on their highest and best use -- clients and business development."

Adolf also points out that the roll-up partners are able to share prospectuses, marketing and public relations. Others may be able to implement technology platforms that were once too costly on a one-on-one basis. The firms will continue to use their existing investment platforms, but will be able to share best practices and experiences across the group. Most importantly, according to Adolf, being a part of Focus will be considered a standard that clients recognize.

Although the roll-up strategy is not a unique concept - the idea has been around since at least the 1980s - few work out successfully, according to Nesvold and Daniel Seivert, managing director at merchant bank and consultancy 3C Financial Partners.

Affiliated Managers Group, Convergent Capital, High Net Worth Trust and National Financial Partners are examples of success stories for roll-up firms, but none of these focused on the RIA marketplace.

"Most rollups in the RIA marketplace are under the radar," Seivert says. "When RIAs evaluate partnering with an aggregator, they need to look beyond the aggregators' promises to the strategies and tactics that will drive their attainment [of those goals]."

Seivert suggests that these RIA firms should conduct thorough research on their prospective partners and how they can grow their bottom lines, top lines and enterprise value. In the best case scenario, an RIA can obtain an enterprise valuation multiple (for part of their practice) that is much higher than it could attain on its own. This comes as a result of one or more of the following: scale, increased liquidity in going from a private to a public entity, growing in excess of industry average rates of growth, and/or attaining more stable cash flows.

"However, the most elusive advantage is growing the top line. Most roll-ups are big on expense cutting and relatively ineffective with respect to helping entrepreneurs grow the top line," says Seivert. "Typically, this is where these types of firms over promise and under deliver." Regarding Focus specifically, Nesvold is curious about the long-term plan and how it will affect the participating firms. "With a private equity sponsor, their exit is generally within a three to five year band, so the end game remains somewhat in question. Will it be an IPO or strategic buyer?" Nesvold says. Adolf and Mohan acknowledge that the company will have many options down the road, but decline to comment on specific long-term plans. "We have just announced the company's formation and Summit Partners' investment," both Adolf and Mohan wrote in a joint email. "It's too early to speculate on an exit."

ABOUT ECHELON PARTNERS

ECHELON Partners (ECHELON) was formed in 2001 to offer investment banking and consulting to a subset of the financial services industry known as "investment product developers and distributors" (IPDADs). Since that time, ECHELON's professionals have helped hundreds of senior executives envision, initiate, and execute a multitude of complex business strategies and transactions. ECHELON's business is making companies more valuable through delivering advice and orchestrating transactions. Accordingly, ECHELON measures its success in the enterprise value it creates for its clients. Companies that strive to outperform their peers choose to work with ECHELON because we are as passionate about their results as they are.

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