

## FOCUS FINANCIAL FILES FOR IPO TO RAISE \$100 MM WITH 'INTERESTING' TIMING

05/24/2018 Originally Published by Brooke Southall, RIABiz

Focus Financial Partners LLC filed the paperwork to complete an initial public offering to raise a \$100 million to pay down debt.

The New York-based roll-up, which recorded revenues of \$663 million in 2017, filed an S-1 form with the U.S. Securities and Exchange Commission. The Nasdaq symbol will be FOCS. No pricing information was given. The firm's adjusted EBITDA -- earnings before interest, taxes, depreciation and amortization -- was \$145 million and adjusted income was \$96.6 million.

It was only a year ago that Stone Point Capital LLC and Kohlberg Kravis Roberts & Co. LP acquired a majority stake in the firm in a deal that valued Focus at approximately \$2 billion.

The quick flip of Focus Financial may yield -- all things equal -- a valuation in the \$2.5 billion range considering that the liquidity premium of an IPO is typically in the 25% to 35% range, according to **Dan Seivert**, CEO of **ECHELON Partners**, a Manhattan Beach, Calif.-based investment bank largely for RIAs.

What may keep the valuation on the lower end of \$2.5 billion or lower is the fact that previous owners of Focus may well have known that Stone Point and KKR planned a roll-up flipping, hence the \$2 billion price may be inflated to account for that. The premium of 25% -- known as "pop" -- therefore may be better applied to a lower valuation than \$2 billion.

"Maybe they knew they'd take it public and they took some of the pop," Seivert says. The value of pop is that "owners can come and go with relative ease," he adds.

Stone Point is a Greenwich, Conn.-based investor of \$13 billion and KKR is the the iconic New York private equity firm and their cash last year quieted a drumbeat of reports of sellers desperate to cash out of Focus Financial including: Centerbridge Partners LP of New York; Summit Partners of Boston, Menlo Park, Calif. and London; Polaris Partners of Boston; and San Francisco and Dublin -- not to mention Focus advisors and employees.

### 'Interesting' and good

"It's interesting timing that they would IPO after they just recapitalized with KKR and Stone Point," says Louis Diamond, principal of Diamond Consultants in New York.

The move for a quick IPO makes sense, given the fact that Focus was founded in 2006 and some of the key managers are not the same young, energetic entrepreneurs that they were 12 years ago, according to Jamie McGlaughlin, principal of J. H. McLaughlin & Co. of Darien, Conn.

"I'd hasten to guess that Rudy and Rajini's ages come into play and market multiples are at extended highs. But it wasn't entirely their choice -- Stone Point and KKR are really driving the bus and they, too, see the bigger secular market trends and frothy multiples." Rajini Kodialam and Rudy Adolf were the founders.

For the three months ended March 31, Focus's run rate continued to climb, generating total revenues of \$196.2 million and adjusted EBITDA of \$44.2 million. Much of its growth can be tracked to its biggest holding Buckingham -- an M&A machine.

## Two lifetimes in PE years

Focus, under the leadership of CEO Rudy Adolf, has recently made a handful of acquisitions, too. The deals are done with little fanfare or disclosure -- a practice that is certain to change somewhat post-IPO.

"As a public company some of their secret sauce and flexibility does get eroded," Diamond says.

But should Focus execute the IPO, it has broader benefits, according to Shirl Penney, CEO of Dynasty Financial Partners LLC.

"It has been a sellers' market big time for a while now in RIA segment with lots of capital from PE, sovereign funds, family offices, and strategics coming into the space," he says.

"This is potentially, if successful, another example of the demand to own RIAs. Investors have had to play the RIA growth story indirectly through purchasing custodian stocks, or service providers like Envestnet. Focus would be another, and perhaps more direct way, to get a piece of a number of RIAs for investors that are controlled by the holding company."

Founded in 2006, Focus's 11 years of existence is like two lifetimes in the private equity world. Focus had other liquidity events and has filed for IPOs in the past that never came to fruition.

## RIA model validated

Off the record, M&A experts say that there were "rumblings" that Stone Point was anxious to get on with an IPO.

Big picture, RIA observers see the IPO as a "proxy" for the success of the emergence of the RIA business as a whole.

"It validates their story and the independent wealth management space as a whole," says a source. "[It] shows real investor interest in the RIA space as Focus can serve as the perfect proxy for the broader RIA segment."

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