

FOCUS FINANCIAL IPO COULD BE A SELL SIGNAL FOR RIAs

05/25/2018 Originally Published by Jeff Benjamin, InvestmentNews

The move by Focus Financial Partners to raise \$100 million through an initial public offering could be a cue to RIA owners that it may be time to sell.

Twelve years of private equity ownership is about to pay off for Focus Financial, which filed an initial public offering document just 13 months after its most recent private-equity investment.

The New York-based RIA-rollup business, which has acquired all or portions of 55 registered investment advisers since launching in 2006, is valued at about \$2.5 billion, according to its filing with the Securities and Exchange Commission.

In the RIA space, anything that sheds light on business valuations is appreciated, and there's nothing like a public stock sale when it comes to marking a valuation.

According to recent report from **ECHELON Partners**, there are less than 160 publicly-traded companies in the financial services industry, and only one pure-play in the RIA space, Silvercrest Asset Management Group (SAMG).

The Edelman Financial Group went public in 2010 but was taken private two years later.

The Focus Financial business model typically includes paying 50% of an RIA's value for 100% ownership and governance of the firm. The profits and the RIA's enterprise value are split between Focus and the operators of the acquired RIA.

Daniel Seivert, ECHELON chief executive, compared the relationship between Focus and the underlying RIAs to a hotel owner paying someone to manage the property.

As a business strategy, Mr. Seivert said, Focus is creating value with scale, because the valuations of the business are roughly double that of the underlying RIAs, which puts Focus in the catbird seat when any adviser wants to sell his or her share of the underlying firm's enterprise value to Focus as part of a succession plan.

"I would consider Focus Financial a pure-play RIA; it's really the closest thing we've seen going public for that business model," Mr. Seivert said.

Focus, which is valued at around \$2 billion, will see a 25% liquidity premium from the public stock offering, according to Mr. Seivert, pushing the company's value up to around \$2.5 billion.

That will represent a solid investment return for the host of private-equity investors that currently own a piece of Focus, including Stone Point Capital and KKR, which acquired a 70% ownership stake in April 2017.

The rest of Focus' ownership is spread out among the owners, some of the underlying financial advisers, and at least one other PE firm, Summit Partners.

According to the IPO filing, Focus Financial, which did not respond to a request for comment for this story, had revenues of \$196.2 million during the first three months of this year, and recorded a net loss of \$12.1 million.

In 2017, the full-year revenues were \$662.8 million, with a net loss of \$48.3 million.

The business generated a net gain of \$15.7 million in 2016 on \$485.4 million in revenues.

In 2015, the business earned \$9.3 million on \$382.3 million in revenues.

Elliot Weissbluth, founder and chief executive of HighTower Advisors apraised Focus Financial's IPO plans as "tremendously validating for the secular shift toward independence in the financial advisory space."

"There is no un-ringing of the bell as assets continue to shift toward independence," he said. "But, equally important is the fact that 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 added that the Focus IPO does not push his firm any closer to a public stock offering, despite the ongoing chatter along those lines.

"People have been asking me when we're going public ever since we started the firm, and my answer is still, 'Come back and ask me in a couple of years,'" Mr. Weissbluth said. "We're still active acquirers of practices, and still active growers of the business. HighTower is not looking at preparing for an IPO right now."

HighTower took some of the IPO buzz off the table in October when it sold a \$100 million ownership stake to private-equity firm Thomas H. Lee Partners.

The Focus Financial IPO date is not yet set, but so far 2018 has been bountiful for stock offerings, according to Josef Schuster, manager of the \$1.1 billion First Trust US Equity Opportunities ETF (FPX), a fund that invests in newly-public companies.

According to Mr. Schuster, 75 companies have gone public in the U.S. so far this year, which is up 21% from 55 IPOs at the same point last year.
