How Will a Focus IPO Impact RIAs?

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What would a Focus Financial IPO mean for the financial advisory business?

The 12-year old RIA aggregator, which controls more than 50 advisory firms around the country, has taken the first step in an initial public offering by filing an S-1 form with the SEC. Last year, the firm sold a majority stake to private equity firms Stone Point Capital and KKR in a deal valued at $2 billion.

A successful IPO would be "very significant" for the industry, says **Dan Seivert**, CEO for the M&A consultancy and research firm **ECHELON Partners**.

If the market embraces the offering, "it will validate that the IPO liquidity route for the 60-plus other private equity firms backing RIA-based investments," Seivert says. "This in turn would bring more private equity investors and dollars into the RIA and the wealth management industries."

As a result, more entrepreneurs would be likely to pursue the RIA business model and abandon the wirehouse and IBD models, Seivert contends. "This will put upward pressure on RIA valuations," he asserts.

Others, however, argue that because Focus is a holding company led by charismatic CEO Rudy Adolf, an IPO has less relevance for actual RIAs.

"I don't know if a Focus IPO will give a definitive answer to the feasibility of RIAs going public because of its unique business structure," says Brent Brodeski, CEO of Savant Capital Management, a $5 billion-plus independent advisory firm based in Rockford, Illinois. "It's one step removed from being an RIA."

Nonetheless, an RIA aggregator becoming a public company would surely impact the industry overall, and fast-growing Focus partner firms such as Buckingham Asset Management and Colony Group in particular.

Capital considerations, of course, are paramount.

Going public also introduces what industry consultant Jamie McLaughlin calls the “capital paradox” of a partnership structure.

"The capital source’s objectives are not always the same as the firm’s objectives and present an agency/principal conflict," McLaughlin said in an email. "This is not an unusual concept in any industry group, but when applied to Focus’s underlying RIAs who prize their putative independence and conflict-free business models, it’s crossing the Rubicon."

In addition to raising capital, other advantages for RIAs becoming publicly-traded companies include gaining liquidity, increasing public visibility and the ability to use equity for deals and compensation, ECHELON Partners states in its report, "Pros and Cons of Wealth Managers Going Public."

The downsides of going public, according to ECHELON, include increased transparency, which allows competitors to be alerted to strategic business moves and increased reporting requirements, which, the report says, can be "a distraction and efficiency drag."

In addition, Seivert says, raising capital as public company can cost as much as 5% to 7% of the amount of capital raised, while using equity for deals and compensation "only works if the company is growing."

The ECHELON report also cites the cautionary tales of three financial services companies that went public but later delisted: Edelman Financial, National Financial partners and RCS Capital.

RIAs should only consider going public, the report recommends, if they have at least $20 billion in AUM, $500 million in market capitalization, $200 million in revenue, $50 million in EBITDA and 20% to 30% annual growth. public in the U.S. so for this year, which is up 21% from 55 IPOs at the same point last year.