

FOCUS FINANCIAL FILES FOR IPO: REPORT

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An initial public offering (IPO) could potentially be on the horizon for Focus Financial Partners, one of the largest registered investment advisor (RIA) aggregators, according to a new report.

The Wall Street Journal reported on Sunday that Focus Financial Partners has confidentially filed for an initial IPO, that could potentially value the firm at \$1 billion, citing people familiar with the matter. A spokeswoman for Focus Financial declined to comment.

An IPO could be one way for Focus to create some liquidity for the RIAs in its network, and for its private equity and venture capital backers, says S. Craig Cagnetti, a partner at Grail Partners, who focuses on M&A execution and principal investing.

"I think over the next few years you will see more [IPOs like this] hit the public markets, just because a lot of these people have to get liquidity for the advisors and their shareholders," Cagnetti says.

Focus Financial, which has a network of about 40 RIAs, generally buys a minority stake in RIAs in exchange for a combination of cash and equity in Focus Financial, Cagnetti says. Focus has also raised capital in the private markets from venture capital and private equity firms including Polaris Venture Partners, Summit Partners and Centerbridge Partners.

Focus, which produces almost \$400 million in annual revenue according to an August press release from the firm, was reported to have filed under the 2012 Jumpstart Our Business Startups (JOBS) Act, which allows companies with less than \$1 billion in annual revenue to confidentially submit a draft IPO registration statement for review.

This step opens a window in which the company could move forward to undertake an IPO. But filing for an IPO doesn't necessarily mean one will happen. Companies that file can still opt to let the window lapse or pull their filing to pursue another option.

More RIA networks may also pursue IPOs as they look to provide pay-outs to advisors and private investors, **Daniel Seivert**, CEO and managing partner of **Echelon Partners**, a boutique investment bank and consulting firm focused on wealth and investment management firms.

Seivert says he expects firms such as United Capital and HighTower to consider raising capital through IPOs. For its part, HighTower last year said it was considering an IPO, according to a report by Reuters from that time. But HighTower has not yet moved forward with those plans.

Focus wouldn't be the first RIA aggregator to tap the public markets, Seivert says.

Seivert points to National Financial Partners, which last year rebranded to NFP, an RIA acquirer, which had an IPO in 2003. Affiliated Managers Group, a multi-boutique of investment managers, also went public in 1997, before more recently building-out a wealth management division that invests in RIAs.

An IPO could be one way for Focus to provide its venture capital and private equity backers to obtain liquidity, says Seivert.

"Private equity-backed companies at some point have a need to obtain liquidity and after a certain size, the public markets become a tempting option given the associated liquidity and valuation premiums that come with the liquidity," Seivert says in an email response to questions. "It's not the only option."

Going public could potentially make life a bit more complicated for Focus' RIAs, Seivert says.

For RIAs, private ownership can be a “beautiful thing,” Seivert says, since “public RIAs are destined to have more complicated lives and sometimes the pull to achieve great financial performance can run contrary to the best interests of the underlying investor, advisors and/or management team members,” he says.

If Focus finds success in the public market, it should result in attracting more capital to the RIA industry overall, including more private equity and venture capital, says John Furey, principal and founder of Advisor Growth Strategies LLC.

“If they move forward and they’re successful, it’s a net long term positive, because it speaks to the growth and maturity of the channel,” Furey says. “I think it would be good for the industry.”

Focus’ model is somewhat unique among RIA aggregator firms. Focus buys a material minority stake in RIAs, but grants them operating independence. That model appeals to many RIAs that want capital to grow, but want to retain control over their practice, Furey says.

“What it comes down to is [when] the larger RIA is looking for capital, they want the capital with the least possible strings attached to it,” Furey says.

Focus tends to compete most often with private equity firms, which have increasingly been buying direct minority stakes in large RIAs, Furey says. They compete less directly with other so-called RIA aggregator firms such as HighTower, United Capital and Dynasty, which operate under different models and appeal to different types of advisors, he says.
