Focus Financial Partners IPO Soars After Price Wobble

7/27/2018 Originally Published by Thomas Coyle, Financial Advisor IQ

The initial public offering of stock in RIA aggregator Focus Financial Partners was off to a good start on Thursday. But analysts say the IPO performance isn't as important as its management's ability to translate a pioneering move for a pure wealth management play into something that resonates with investors over the long run.

Late Wednesday, Focus' IPO priced at $33 a share, below its consensus range of $35 to $39. This came as no surprise to Kathleen Smith, a principal of research firm Renaissance Capital. After all, she says, three of the seven IPOs priced on Wednesday came in either under or on the low side of their estimate ranges.

When the issue finally opened for trading early afternoon Thursday — the delay perhaps linked to the participation of Goldman Sachs, one of Focus' book runners, in several other IPOs on Thursday — it quickly kicked through its starting price to rest in the $35.50 to $36.50 range for the next few hours.

For **Carolyn Armitage** of the Los Angeles-based investment bank **ECHELON Partners**, this early action was an indication the market was "assessing Focus' intrinsic value primarily based on expectations regarding cash flows, growth, and the perceived risks of these coming to fruition" coupled with "changes in investor perception of the risk- and profitability-related benefits of Focus' scale" as it became more clear "Focus is a roll-up rather than a giant RIA," she says in an email.

However, Focus' stock — Nasdaq ticker symbol TOCS — closed at $39.55, a jump of about 14% for the day.

That made it a good finish for the stock, according to Smith, who characterized its intraday performance as "a bit weak."

In any case, analysts say IPO performance isn't a long-term indicator of a stock's health. More important in this case is Focus management's ability to justify a per-share valuation that puts the company – a collection of independent fiduciary wealth and asset managers with combined sales of about $660 million last year – on par with discount brokerage TD Ameritrade, says Smith.

Fortunately, adds Smith, Focus — which invests in RIAs and helps large investment management teams leaving brokerage houses to start their own independent firms — "has a good story."

In this narrative, Focus is an attractive take on asset management — a fairly sluggish business these days — that's rooted in its connection to retail RIAs, fiduciaries with an obligation to put their clients' interests first that are taking wallet share from the still-dominant but non-fiduciary brokerages.

The trick will be for Focus to show that its orientation toward inorganic growth — buying firms is at the core of its mission — doesn't distort the picture, according to Smith. "They have to show they can grow and sustain" the business on a long-term basis, says Smith.

Focus co-founder and CEO Ruediger Adolf says his firm stands out as one of the few growth stocks in financial service.

"The market will decide" the stock's long-term fate, says Adolf. But for now, he adds, "I'm very pleased with where we are."

Meanwhile "the credibility of being a publicly traded company," stands to help Focus' ongoing efforts to attract RIAs to its standard, either by purchasing operating businesses or helping breakaways from the brokerage world.

An eventual IPO had been baked into the idea of Focus since it burst on the scene in 2006 as, if not the first RIA aggregator, then certainly the most ambitious and professionally-run outfit of its kind to date.

That makes it a standard-bearer for a cadre of firms — like United Capital, HighTower and Dynasty Financial Partners — that have similarly coalesced around building scale for independent and fiduciary financial advisors, according to Adolf.

"Even as I talk to you, I'm getting congratulations," Adolf tells FA-IQ. "We're representing the whole industry."