



Stone Point CEO Chuck Davis has insurer DNA having served on the board of The Progressive Corp.

Focus Financial's 'extraordinary' purchase of \$16B-AUM SCS Capital and what Stone Point -- both buyer and seller in the deal -- may do to juice its investment

With Stone Point CEO Charles Davis now calling the shots, the RIA roll-up tacks to UHNW-directed RIAs, perhaps for their positioning in selling insurance

May 17, 2017 — 5:06 PM EDT by Brooke Southall



0 Comments

Brooke's Note: The bigger roll-up deals get the more I flashback to my reporter days covering banks and Wall Street firms. There is a direct correlation between the number of zeros involved in deal prices, the quality of silk in the dealmakers' neckties and the thickness of the fog around what's happening. While recognizing the right of firms like Focus Financial and Stone Point to obscure details about such deals and their intentions, I also recognize the need for those of us reporters on the RIA beat to fill in the expanding blanks as much as is feasibly possible. It was staggering enough that Stone Point and KKR came thundering into the RIA business by buying Focus Financial for between \$1.6 billion and \$2 billion. But it is arguably more gobsmacking that Focus has bought more AUM in the past few weeks than

in the past several years. We know that. The speculation in this article kicks in with regard to how Stone Point CEO Chuck Davis are playing all this. Two sources say he will play to his strength by using the RIA roll-up as a sort of dream platform for selling insurance with its high-ticket charges, high-profit margins and potential high-value add for UHNW people with fat estates. If that proves to be the case, RIA principals -- many of whom were weaned at wirehouses -- will also be having Wall Street flashbacks.

Focus Financial Partners LLC is rolling up advisors like its 2007 but sources say it may all be prelude to its new owner, Stone Point Capital LLC, upping the game and the ante with a shift in business model.

In the weeks since Stone Point Capital LLC and Kohlberg Kravis Roberts & Co. LP acquired a majority stake in the New York-based serial buyer from Centerbridge Partners LP, two deals were struck involving little-known, white-shoe RIAs SCS Capital Management LLC of Boston and Bordeaux Wealth Advisors LLC of Menlo Park, Calif. -- representing more than \$18.5 billion of assets.

In mid-April, Focus acquired Gelfand, Rennert & Feldman LLP, a full-service business management firm for "entertainers" headquartered in Los Angeles, and Lake Street Advisors of Boston, which manages \$2.7 billion. Both those firms target ultrahigh-net-worth investors with \$25 million or more in assets.

Charlie count

Focus Financial does not disclose AUM because it owns dozens of autonomous firms, each with their own ADV. Yet when Financial Planning's Charlie Paikert combed through the separate ADVs of the RIAs in the network in 2015, he counted AUM of about \$30 billion, and additional commission-based assets of about \$10 billion.

By that accounting, the deals increased ADV-based AUM under the Focus umbrella by 50% or more.

"This SCS deal is absolutely extraordinary," says Steve Levitt, principal of Park Sutton Advisors, LLC, a New York-based M&A shop for RIAs.

He adds that the sale price must have been in the \$500- to \$700-million range and that the fact that one Stone Point fund was the buyer, and a second one the seller doesn't diminish its importance. Levitt mentioned the \$800 million paid for \$15-billion-AUM Edelman Financial in 2015 as a rough comparable.

To put the \$500-million or \$700-million into perspective, media sources pegged the Focus Financial sale to Stone Point at about \$2 billion, although since then anonymous sources have deflated that amount to closer to \$1.6 billion.

Insurance play

The sudden spate of acquisitions comes after several years of low deal flow and a sense of futility as Focus filed for IPOs but was never able to pull the trigger. See: Report: Focus Financial is preparing SEC paperwork for its initial public offering -- but is it jumping the gun?

But the reason for Focus' loosened purse strings may relate to a modified vision that offers the chance for a sharp increase in revenues and profit margins, according to a source who asked not to be identified, but who has been in discussions with people at Stone Point.

In short, the source says Stone Point hopes to augment its ROI by introducing insurance sales to Focus advisors.

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The private equity giant would make the play out of an abundance of confidence based on its specialized experience in the insurance business -- and the success it observed and participated in with regard to upping the insurance component of the NFP roll-up.

A year ago, Stone Point acquired NFP Advisor Services, the broker-dealer arm of NFP Corp. with about 1,700 reps. It subsequently renamed it Kestra Financial Inc.

In 2013, PE firm Madison Dearborn took National Financial Partners Corp. private for \$1.3 billion. NFP owned a broker-dealer but its chief asset was an insurance broker and consultant with about 3,400 employees. Madison Dearborn held onto the stake but then sold a portion of it for \$750 million last February. Even after selling that stake to investment firm HPS Investment Partners LLC, NFP maintains a majority interest. At the valuation accorded NFP in its sale of a minority interest, NFP realized a 10-fold return on investment.

According to the source, NFP has gained so much value since 2013 because of its decision to move aggressively into selling property and casualty insurance and the takeaway is that Stone Point is almost certainly pondering adding an insurance-selling aspect to Focus



Financial. See: Quiet Northwestern Mutual may be ready to make a big noise with rerelease of LearnVest -- with Alexa von Tobel vowing that innovation and integration aren't mutually exclusive goals.

Trace DNA

Levitt of Park Sutton disagrees that Focus and Stone Point are basing their acquiring zeal on having RIAs moonlight in insurance sales.

Stone Point has not responded to a request for comment lodged earlier today.

But Dan Seivert, CEO Of ECHELON Group of Manhattan Beach, Calif., says he would not be so quick to dismiss what the off-the-record source contends about the insurance play.

"Whenever you make an investment, you look for some catalyst to ramp-up revenues to the next level," he says, adding that if it is true, the cross-selling plan has yet to be floated past the Focus partner RIA firms.

When contacted about this story, SCS Capital referred RIABiz to Focus Financial. Focus Financial did not respond to a request for comment.

It only takes a perusal of the Stone Point deal list to ascertain telltale insurance DNA, Seivert says. In addition, Stone Point's CEO Chuck Davis was formerly a director for giant auto insurer The Progressive Corp. and for Marsh & McLennan Cos. Inc., a giant insurance brokerage. See: A \$15-billion roll-up-like venture in Canada gets a US foothold with a Dynasty Financial deal -- and vice-versa.

Before joining Stone Point in 1998, Davis was with Goldman, Sachs & Co. for 23 years. He served as head of investment banking services worldwide, co-head of the Americas group, head of the financial services industry, was a member of the international executive committee and was a general partner.



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Repurposed advisors

The off-record source says it's likely that Focus advisors will be asked to sell property and casualty insurance. Seivert doesn't see that happening but could easily see those advisors selling life insurance. It would be a "powerful solution with high-ticket charges" for clients with estates of more than \$10 million, he says. See: How the SEC is poised to hand RIAs the keys to the \$1.3 trillion private placement market -- largely at the expense of stockbrokers.

There was no mention of cross-selling possibilities by Rudy Adolf, CEO of Focus, in the press release announcing the deal.

But he does say the firm he founded in 2006 is back into a kind of start-up mode under the ownership of legendary private equity firms.

"With the recently announced investment by Stone Point Capital and KKR, we are just starting an exciting new chapter in Focus' history," Adolf says.

SCS connection

In the SCS deal announced May 15, Stone Point showed up both as seller and buyer. It bought a big stake in SCS in 2013, when the Boston-based RIA had about \$8.3 billion of AUM. It will actually own a larger stake now as a result of its sale to Focus, which owns 100% of the company. See: Focus Financial bags \$3.1 billion, 50-person RIA and why it 'really is impressive'.

Seivert says the clients of SCS may be perfect prospects for insurance -- the firm handles UHNW clientele exclusively with a stated minimum of \$25 million.

In 2002, co-founders Pete Mattoon, Tony Abbiati and Doug Ederle established SCS. Joe McCuine, Ken Minklei and Steve Oristaglio have since become key executives in the organization, which employs more than 80 people. SCS was ranked as one of "America's Top 40 wealth management firms" by Barron's in 2014, 2015 and 2016.

Of SCS's \$16.5 billion of assets, about \$2.2 billion is in hedge funds of funds it manages.

👤 Dan Seivert | Rudy Adolf | Steve Levitt

🏢 ECHELON Partners | Stone Point | NFP Advisor Services Group | Chuck Davis | Focus Financial | Park Sutton Advisors



Rudy Adolf: With the recently announced investment by Stone Point Capital and KKR, we are just starting an exciting new chapter

Mentioned in this article:

Focus Financial Partners, LLC

Consolidator/Roll-up Firm

Top Executive: Rudy Adolf

Park Sutton Advisors, LLC

Mergers and Acquisition Firm

Top Executive: Steven Levitt



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