EPISODE TRANSCRIPT

Investing in Growth: Exploring KKR's Attraction to $25B+ RIA Beacon

A conversation with Matt Cooper, President of Beacon Pointe and Sasank Chary, Managing Director of KKR

Mindy Diamond:

Welcome to the latest episode of our podcast series for financial advisors. Today's episode is investing in growth, exploring KKR's attraction to 25-billion-plus RIA, Beacon Pointe. It's a conversation with Matt Cooper, president of Beacon Pointe, and Sasank Chary, managing director of KKR. I'm Mindy Diamond, and this is Mindy Diamond on Independence.

Mindy Diamond:

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Mindy Diamond:

Some of the most successful independent firms are created from a collective vision derived from individual experiences and a desire to achieve something bigger and better than themselves. Beacon Pointe Advisors, for example, turned that formula into the nation's largest female-led RIA with over 25 billion in assets under management and advisement. In fact, over two decades, Beacon Pointe has grown their presence from coast to coast based on making the most of one key factor, opportunity.

Mindy Diamond:

It all started when the founding partners, Matt Cooper, a guest on this episode, met Shannon Eusey, Beacon Pointe CEO, and Garth Flint, all of whom joined forces based on each of their visions for what an RIA should be, and you might say that worked out quite well, making it attractive to one of the leading private equity firms in the world, KKR, who announced their investment in Beacon Pointe at the end of 2021. KKR's investment in Beacon Pointe certainly speaks to how hot Beacon Pointe is as a firm, but it also speaks volumes about how hot and frothy M&A is in the RIA space in general.

Mindy Diamond:

In this episode, we look at what drives investments like this with perspectives from both sides of the table. Louis Diamond, my partner, talks with Beacon Pointe President and Founding Partner Matt Cooper, along with Sasank Chary, managing director of KKR, to learn more about the complementary value that both firms derive from a deal like this, plus to learn more about Beacon Pointe's growth, what their thoughts are on M&A going forward, what makes an RIA attractive to an investor and much, much more. It's an information-packed episode, so let's get to it.

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A conversation with Matt Cooper, President of Beacon Pointe and Sasank Chary, Managing Director of KKR

Louis Diamond:

Matt, thank you so much for joining us today.

Matt Cooper:

Hey Louis, it's great to be here.

Louis Diamond:

Perfect. Sasank, we got a two-for-one special today, thank you very much for accompanying Matt as well.

Sasank Chary:

Thank you, Louis. It's a pleasure to be here.

Louis Diamond:

Excellent. Let's get started. Matt, let's start with you. Can you tell us a little bit about your background before starting Beacon Pointe in 2003?

Matt Cooper:

Sure. My background, I've only had two jobs, Beacon Pointe being one, and the one prior to that was when I first got out of college. I started in the life insurance business, and my days were effectively making cold calls to small privately held businesses to insure the owners and then, somewhere along that continuum between 1989 and 2001, the firm that I was with developed or put in place an RIA which was not spectacular, but it gave me the basic understanding of asset allocation and what we're ultimately going to do with Beacon Pointe.

Louis Diamond:

Excellent. How did this shape your vision for founding Beacon Pointe? You mentioned it briefly, but how did your time either growing up, going through college or in this first career, how did it impact what Beacon Pointe came to be?

Matt Cooper:

Well, it's interesting because I met my partners, Shannon Eusey and Garth Flint, in 2001, and it was when I was exploring leaving the firm that I was with to set up my own firm, which would've been an RIA doing asset allocation, investment management, financial planning. I had the opportunity to join forces with Garth and Shannon. Shannon happened to be writing the business plan for Beacon Pointe when she was in grad school, and so what you see in terms of Beacon Pointe today is not exactly what the business plan said back in the day, but she had the original vision. It just so happened that it just lined up with my vision and what I wanted to do in my career, so it was a fortuitous, dumb luck for me.

Louis Diamond:

If you look back at that business plan today just out of sheer curiosity, what percent of that vision do you think was put into reality?

Matt Cooper:

I think, at the start, nearly all of it. The premise was people want to have objective advice that's unbiased, un-conflicted, and we could allocate to the very best managers, investment managers in each asset class. That was 2002. By the time we got to 2008, we've become a planning-first, full-spectrum wealth management firm. Investments are still a very important part of what we do, but we lead with planning now.

Louis Diamond:

Great. Thanks for sharing.

Louis Diamond:

Sasank, let's hand the mic to you. Can you tell us about your background and journey leading to joining KKR as a managing director?

Sasank Chary:

Sure. I got into the financial services business coming out of school 20 years ago initially in the investment banking business and then moving over to private equity after a couple years. I didn't initially start in financial services as an industry focus. I actually started advising industrial businesses for a few years and then investing in consumer and retail businesses, so I got a pretty broad perspective on different business models, from highly cyclical to highly capital-intensive businesses and a broad range of different business models, as I said, and then during the financial crisis is where I cut my teeth in the financial services industry investing in failed and distressed banks across the country. As you know, that was the center of where the crisis hit in the US.

Sasank Chary:

What was interesting that came out of that was while, community banks, their main business was taking deposits and making loans, they were in the middle of a lot of other financial services, wealth management being one of them. That was my first foray investing indirectly at that point in time in the wealth management business, in the RIA business, and since then have been focused on financial services, investing broadly, wealth management being a big part of that.

Sasank Chary:

A year or so ago, I was talking to some people I know at KKR who I'd known over the years. I'd always admired the firm from afar. The stars aligned, and there was an opportunity to join our financial services and financial technology team to help lead our efforts here.

Louis Diamond:

I like it. You must have been very busy during that 2008, 2009 time span.

Sasank Chary:

I was very busy. It was a great learning experience, and I'm glad I went through it.

Louis Diamond:

Perfect, and then not that KKR needs an introduction, but can you just briefly describe what KKR does, its overall business model and full scope of operations?

Sasank Chary:

Yeah. Sure. It's a great question because KKR is obviously known for being a pioneer in the US private equity business, which is the business I sit in today, but it's grown into something much larger than that over time. It started 46 years ago in US private equity and then expanded geographically into Europe and then Asia over time. If you fast forward and look at the business today, we manage close to half a trillion dollars in assets globally across a variety of strategies spanning from private equity to real assets, so think real estate and infrastructure and credit across those three broad geographies.

Sasank Chary:

When you look at our investment businesses, we're supported by a suite of capabilities and resources, things such as an operations team, a public affairs team, macro, capital markets, and obviously a pretty broad network spanning the globe. It's a broad, global asset manager and really focused on alternative investments. I'd say the defining characteristic of our firm in addition to all those capabilities is one of collaboration. We really try to bring the best of our firm to the table and help the firms with which we partner.

Louis Diamond:

Yeah, it sounds that way. From reputation alone, of course, it's a very impressive organization. What I was most excited about to hear from you today, and we'll get to it in a bit, but just setting the table, is seeing the name like KKR investing in Beacon Pointe. To me, it was an amazing event for the RIA industry. People many times think of RIAs as just small businesses that aren't as sophisticated as a big bank or a wirehouse, but having the KKR imprimatur not just on Beacon Pointe, which is an amazing accomplishment for Matt and Shannon team, but also for the broader industry.

Louis Diamond:

I think we'll get to it a little bit later, but stay tuned for hearing more about how KKR thought about the RIA channel and why they wanted to deploy their capital in such a competitive space.

Louis Diamond:

Matt, let's flip back to you and to Beacon Pointe in particular. Describe Beacon Pointe today in terms of assets under management, number of employees and just the overall value proposition. How would you briefly describe what you're doing to advisors and clients alike?

Matt Cooper:

Yeah. Sure. Beacon Pointe today is now 25 billion plus in assets under management and advisement. There's about 350 employees in the firm across 37 offices nationwide. What we do for clients hasn't changed, and that's basically working with clients. We do everything client first, team second, owners last. If we keep it in that order, great things happen. We're focused on the client, delivering the most value we can for the client. That's really about helping them make very complex, emotionally complex decisions, financial decisions with their life, giving them the confidence to make the proper decisions so they have the best outcomes for them and their family long term.

Matt Cooper:

Nothing's really changed in the last 10 years. That's always the goal, but I think we're able to deliver even more value now through whether it's estate planning advisory or tax advisory or whatever we may be doing.

Louis Diamond:

Matt, can you also just describe the scale of the firm in terms of assets under management?

Matt Cooper:

Yeah. Today Beacon Pointe is more than 25 billion in assets under management and advisement, and we're continuing to grow.

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Louis Diamond:

That's some amazing growth, too. Just for perspective, how has the growth been the last few years at various milestones?

Matt Cooper:

Well, our growth has been really off the charts the last few years both inorganically and organically. Between March of 2020 and December 31st of '21, we did 19 M&A transactions. We've also completed three more this year in 2022, so it's been very, very active from an inorganic perspective, but our what we call same-store sales or the organic growth rates for each office have also been very impressive over that time period.

Louis Diamond:

Yeah. That's some mind-boggling numbers, to complete 19 transactions over that time period. I remember even just a couple of years ago, Beacon Pointe being two, three, 4 billion in assets, so it's amazing that the firm's grown that much. Like you said, it's not just the inorganic which is important, but it's also helping the firms that become partners and the advisors that join you grow organically. I think we'll hit on some of that in a little bit.

Louis Diamond:

Okay, so let's back up the train real quickly here. You talked a little bit about how you came to meet your partner, Shannon Eusey, back when Beacon Pointe was founded in 2002, but when Shannon started the firm in 2002 and you joined, did Beacon Pointe have any assets, and what were you starting with, and then how did you build it from there?

Matt Cooper:

Yeah. We literally had zero assets. I joined Shannon in 2001 before we even opened the doors. The plan was to roll a team out of another firm that was predominantly an institutional consulting firm. We were able to move about a billion one in client assets from that predecessor firm, and the reason for the move, that team, that prior firm had its own broker dealer. They would pick investment managers that would trade through their broker dealer or direct trades through their broker dealer. It was what was called a soft dollar shop. The team didn't want that conflict or even perceived conflict, and so we were able to bring that team to Beacon Pointe. Between myself and Shannon, we were able to call together about 60 million in private client assets to get going. Within the first six months, we had about a billion one in institutional consulting assets and about 60 million in private client assets.

Louis Diamond:

Yeah. Starting from zero, that's tough. A lot of advisors who listen to this show and certainly ones that we've had, they're at least starting a business with their base of assets. It's hard to start in any segment of the industry, but to start from zero and to build the infrastructure and have the conviction to keep investing your time and capital into a startup, clearly it was well-worth it, but hard work had to be a big part of the equation.

Matt Cooper:

It sure was.

Louis Diamond:

Matt, let's go back to the founding value proposition of Beacon Pointe. What was the gap in the market that you were looking to fill because, listening to what you described earlier, conflict-free, picking the best managers, it sounded somewhat similar to what others may say, but we know that any business has to be filling a gap that is not already filled by another business? What's your take on that line of thinking?

Matt Cooper:

Sure. Remember, that's 20 years ago and the un-conflicted RIA story, the fiduciary model was yet to become the predominant model. It was very wirehouse and independent broker dealer dominated. In addition to that, there were numerous asset managers that were claiming to be the overall solution to clients' needs with respect to investments, but they may only be a large cap growth back shop or a large cap value shop, and so our thought was can we deliver a fully diversified portfolio of the very best managers in a way that were only paid by the client and our only incentive is to do what's in the best interest of the client?

Matt Cooper:

That model was not widespread at that point. It was a fairly new concept. I have to tell you though, six or seven years later, everybody was saying they were un-conflicted and everybody was talking about being a fiduciary so, that, it became commoditized quite quickly. We were just lucky to get out of the gates and get rolling when we did.

Louis Diamond:

Yeah, it sounds that way. At what point did you feel like the business really hit a turning point and things started to take off, the growth was more sustainable, you're probably still working hard, still in startup mentality, where you can kind of take a deep breath and say, okay, I think we're on to something here, and this is something that has major value and will continue to grow over time?

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Matt Cooper:

I don't know if I ever stopped taking a deep breath. I have to tell you, we always did it with a smile on our face, but I mean we're still working just as hard today as we did 20 years ago, but we're having a great time doing it. I don't want that to sound cliche or trite or anything like that. I think it's in our DNA, but the turning point for the business really was in 2010. Shannon was on the TD Ameritrade institutional advisor panel and going off, and I was coming on.

Matt Cooper:

It was the only time, with respect to the TD advisor panel, where her and I were in the same room at the same time. There was a small panel presentation going on. It was Rudy Adolf, who's the CEO of Focus Financial, and Mark Hurley, who most people in the industry know he's one of the early investors in RIAs. They were essentially talking about the future of the business and the pressures on smaller RIAs because of the demographics of the founders, the demographics of the client base, the competition for talent, the evolution of technology and being able to stay current and relevant with respect to technology.

Matt Cooper:

I was sitting there. I thought maybe we can provide a solution to the industry. We've got excess capacity at Beacon Pointe. We already have an accounting function, an IT function and a marketing department and a great investment committee and a planning department. Maybe we can provide all the benefits of scale for smaller firms without those principals having to take the risks themselves. It just so happened early, the first quarter of 2011, so less than six months later, we did our first deal with a small $110 million firm in Scottsdale, Arizona, and the Beacon Pointe office all in is about two and a half billion dollars now.

Louis Diamond:

Wow. That's amazing. Yeah. I remember, maybe six or seven years ago, Beacon Pointe was always in the conversation as an acquirer in the space, obviously a different scale at that time than Focus and Fiduciary Network, which was Mark Hurley. It was even probably pre the deal run that the Mercer and Mariners have had, so you've had your foot in the M&A world for a while, but I believe the acquisition model was a little bit different. I may be wrong, but can you talk about, aside from delivering the scale of Beacon Pointe, what was the deal structure? How did you structure deals and, during that time period, what sort of success did you have in convincing standalone RIAs to come and partner with your firm?

Matt Cooper:

It's interesting. We did our first eight or nine deals in a different format than we have today. The original format was we set up a separate RIA called Beacon Pointe Wealth Advisors. To the marketplace, it looked exactly the same. The set of services, everything that we delivered to the client was the same exact thing. We used the same tech stack, the same compliance department, et cetera, but it was a different ownership structure.

Matt Cooper:

The reason for that was, number one, we weren't using any cash in deals. We were doing a hundred percent equity swaps and, number two, our original group of partners at Beacon Pointe was a little uneasy about diluting for something that they maybe weren't convinced was going to work. I just kept telling them it was going to work. Thank goodness, it worked.

Matt Cooper:

The basic story, Louis, was we'll own half of this RIA per acquisition and our partners that merge in will own the other half of the pie, and their equity on that side of the pie will adjust based on a three-year weighted average of their net income versus their peers as a part of Beacon Pointe Wealth Advisors. The idea was, look, this is several years ago, if smaller firms are trading at a multiple of four or five times and we can scale this entity up to be greater than a billion dollars or more, it would ultimately trade at 10 times plus in terms of a multiple of EBITDA.

Matt Cooper:

If you believe that story and you came in at four times and you believe the overall would trade at 10, it was instantly accretive to you 25%. They were getting an increase in the value of their equity. They were put in a position where they could grow much faster using the resources of Beacon Pointe and the best practices of Beacon Pointe, and they were able to create a lot more certainty for their clients, their team and themselves in terms of succession planning down the road.

Louis Diamond:

It's hard to believe, and I do remember when you were doing all equity and deals, but you must have met a decent amount of resistance that you're asking advisors who own their own business, they're the captains of their own ship to, hey, come take a chance and not just giving up control over some elements, which is tough for many people, but also doing it without taking chips off the table. Was your conversion rate you think was less back then than it is now where you can put all cash or have at least a vast amount more in deals versus a hundred percent equity?

Matt Cooper:

Well, by the time we did the first private equity transaction in March of 2020, that model was no longer going to be successful in the marketplace because we had so many new entrants that were using large amounts of cash and deals and much more creative structures. It worked really well in the beginning.

Matt Cooper:

It was interesting because we did take the model. I remember Shannon and I up meeting with the top guys at Schwab institutional, and then I went and met with Mike Durban when he was running Fidelity's RIA unit, as well as the Toms, Tom Bradley and Tom Nally, when they were running TD institutional, just walking them through the model. I'm not sure anybody was convinced that it would actually work. They also were leaning on the paradigm that this would be a great succession tool for older advisors.

Matt Cooper:

A couple of surprises, one, it did work, and it worked fabulously, and then, number two, the average age of the advisor that was willing to take a leap and merge in and take the Beacon Pointe Wealth Advisors' equity in exchange, the average age was in their mid-40's. It turned out to be a phenomenal growth model, not a succession model, but a real growth model.

Louis Diamond:

It sounds that way. The structure itself self-selects because the thinking I would assume is if you're using this as a succession plan and you're looking to retire or phase out, you want to be in a... You're trying to find something with more certainty, so likely the Focuses of the world probably did better on the succession side, but the good thing is you got younger advisors who were so growth-oriented and probably most of which are still part of your firm today.

Matt Cooper:

That's true. That's very true.

Louis Diamond:

How about today? Today, Beacon Pointe is one of the top deal makers in the industry consistently, as you mentioned in the beginning, the 19 deals over the last little bit, and you're always top of mind for firms who are interested in a potential sale or merger. Can you explain your current M&A approach and how maybe it's changed or adjusted over the years?

Matt Cooper:

Sure. When we realized that we weren't going to be able to continue really being successful by our definition of success with our old model, we knew that we'd have to bring capital into the firm and we knew that we needed to merge the two underlying RIAs together into one equity, and we needed to have perfect alignment amongst all of the shareholders. We were really close in the old model, but it started to get a little bit out of alignment as it got bigger.

Matt Cooper:

We also recognized that we had three partners that did want to retire or they wanted to take all of their equity off the table. These were three of the older players. In the end of 2019, we began a process to determine who our capital provider would be. We basically vetted 16 private equity firms down to one, and the one that we chose was Abry Partners. The primary reason for that was they were willing to be a common shareholder with no structure and own dramatically less than half of the business. We wanted a minority owner. We wanted to maintain control and we wanted to have that alignment between all the shareholders, and so we chose Abry.

Matt Cooper:

Now, the way that we do deals now is more traditional in that it's cash, equity, some earnouts for retention and possibly for growth, so we can be flexible and customize the solution for our potential partners within certain guardrails.

Louis Diamond:

It still sounds like equity is still a major part of the transaction. Why is that? Do you think it's central to your culture and to your overall value proposition?

Matt Cooper:

Yeah. Equity is always a part of a transaction, unless it's a senior founder. We have a G2 that's in place going forward. We'd still want the G2 to take equity, but the founder could retire on a hundred percent cash and move on. It's incredibly important for alignment purposes.

Matt Cooper:

We pride ourselves on being arguably the most collaborative group. When I say that, I mean all of the partners around the country who have taken that equity give us feedback and help us shape and steer the company longer term. We need them to be vested in the same outcome that we're vested in. We need them to be rowing in the same direction that we're rowing and at the same rhythm. It's really important that somebody is not only willing to take Beacon Pointe equity, but they understand it and they're excited about it because they understand what it represents.

Louis Diamond:

Right. If you're talking to a RIA owner, an independent advisor or really any future potential partner, what's the reasons you tell them why they should consider merging their equity with Beacon Pointe's?

Matt Cooper:

We talk to them about, look, if you can merge into Beacon Pointe, you're now diversifying your equity holding. You're owning shares in Beacon Pointe overall, so you're now diversified across 37 offices around the country. Something if happens to you and your office, the rest of your partners around the country are still working hard to drive your enterprise value or your equity value. The risk adjusted return is much greater. Larger firms will tend to have less volatility in the actual valuation multiples as well because they represent something that's most likely going to be around in five, 10 years as opposed to a smaller firm that a lot of things could happen that would affect the long-term outcome for that smaller firm.

Louis Diamond:

Yeah. That makes complete sense. I like that, the risk adjusted component when you're diversifying your own personal balance sheet. What about though some of the sacrifices that an advisor or firm owner would make as far as freedom and flexibility when selling? Even the most collaborative firms, you're still signing a purchase agreement, and there are still some things that you'll no longer be able to do or no longer have the complete discretion to handle it like you did before entering into a sale. What does an advisor give up, and what do they retain as far as day-to-day autonomy?

Matt Cooper:

Yeah. That's interesting. There are two big Es when we have these conversations. The first one is economics. That's easy. We can spreadsheet that. We can talk about risk, reward, trade-off, all that kind of thing. The other E is all around control, and this is where we spend most of our time because Beacon Pointe is a fully integrated model, which means a rebranded Beacon Pointe. They come on to our tech stack. They use our investment platform, which is very broad and deep, but it's still a change for them.

Matt Cooper:

The conversations that I have are around control and around understanding that, if we're able to give up a little bit of control over things that we think are so important in the short term, we're actually going to gain a lot more control about long-term outcomes and what's ultimately going to transpire over the next 5, 10, 15, 20 years, because the business and the industry is evolving so fast that you want to be in a larger format.

Matt Cooper:

Scale is so important. You want to have a lot of other smart people around you and helping come up with the best answers. That's a good point. I mean, at Beacon Pointe, we would tell you we don't have all the answers. I mean, we have 20 years of mistakes that really help inform us, but what we do have are 40-plus really bright partners in the room with us along with a world-class partner in KKR that's helping us get to the right answer on things.

Louis Diamond:

Yeah. I like that, and it's humility, to know you don't know everything. I know from experience that an advisor does have a higher degree of day-to-day autonomy on your platform than many of the firms you're probably bidding against on deals. It has to be vetted out, but there's always a happy medium between being in a complete conformance model to just having a loose Confederation of affiliated advisors. I really think, from personal experience, that Beacon Pointe sits right in the middle for what it's worth.

Matt Cooper:

Thank you. I mean, it is one way of doing things at Beacon Pointe, but that one way has been generated by the collaboration of everybody in the firm. Everybody has a voice. Everybody's voice is heard. We don't act on every idea, but we do try to find the best ones and make them work for everybody.

Louis Diamond:

Excellent. Okay, so let's talk about the exciting stuff. You mentioned the initial relationship with Abry Partners where it was announced in the press in March of 2020 that Beacon Pointe was opting to sell minority interests to the firm. You hit on some of the thinking behind it about wanting to put cash in deal structures, buy out some retiring partners. What else though has external capital enabled you to do differently, because a lot of advisors who are probably listening grapple with keeping control and keeping longer-term economics for themselves, but weighing that against the benefits that a sophisticated third-party investor or capital partner might bring to the table?

Louis Diamond:

I'm curious, just your thinking at that time, was it just the need for capital to have cash and deals and to buy out partners or was there more to the thinking?

Matt Cooper:

There's definitely more to the thinking. I think that the cash is the obvious one and being able to invest where we need to invest in the business, but almost every firm in our space originated as some form of practice. It's a cottage industry, highly fragmented. We all grew up as advisors first. We weren't people that were former CEOs of large enterprise-scale businesses that are now coming into the RIA space. We knew that what got us from where we were to 9 billion or whatever it was when Abry came in, that kind of thinking, that linear thinking wasn't going to get us from 9 billion to 90 billion, so we wanted the additional brains in the room to help us think more at scale.

Matt Cooper:

I have to tell you, Abry was a great partner for the seven quarters that they were our partner. Obviously, the results speak for themselves, and that's why they were able to exit so early. KKR takes that thinking to a whole different level in terms of scaling the business.

Louis Diamond:

Right. That's a great segue to the next segment, which is much more focused on KKR and the future of Beacon Pointe. In November of 2021, KKR took out Abry or Avory as your private equity partner with Beacon Pointe still owning the majority of the equity. What led you to KKR at that time?

Matt Cooper:

There were a few reasons why we chose KKR, and there were 12 private equity firms in that process. Goldman Sachs ran a very orchestrated process. We met with everybody over fireside chats over the summer of last year. We reduced that original number down to six where we received bids, and then we had three finalists in the mix, KKR being the winner.

Matt Cooper:

What drew us to KKR were a few things. Number one, the team is great. I mean, it's a great group of people, Sasank being one of them, the willingness of KKR to be a common shareholder. When you hear about these top taking multiples in the marketplace, these 20-plus multiples for large platforms, they typically come with some amount of structure, sometimes a lot of structure, in terms of preferences for the private equity investor. KKR said, "No. We'll be a common investor in Beacon Pointe just like the rest of the shareholders," so they're in the same economics that we're in.

Matt Cooper:

Number two, when we went across the shareholder base and talked to everybody about how much liquidity they would want as a part of the KKR transaction versus how much equity they wanted to roll forward, virtually, to a person, with the exception of one person who retired, everybody else sold less than half of their interest. That resulted in KKR actually owning a little bit less than half of the business, and they were comfortable with that as well. In fact, they liked the idea that the Beacon Pointe team and everybody across the country was so fired up frankly about the future of the business.

Matt Cooper:

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Number three, they've got a group called Capstone that we can draw on the resources there in any vertical business. In particular, digital marketing happens to be a hot one for us right now, and so we're interacting with them and their group of resources there at KKR. Then, finally, we had the opportunity to talk to a KKR partner named Peter Stavros. He was in the Wall Street Journal I think five weeks ago for this particular initiative. What he had done and KKR had done leading the research on the wealth gap for people who own equity both in publicly traded companies as well as private companies, and so all the previous research on the wealth gap and society has been done on home ownership versus non-home ownership.

Matt Cooper:

KKR did the work on equity ownership in companies, both public and private, and what they determined was the wealth gap could be as much as 10 times greater for those who own or don't own equity in a privately held business. They began to promote broad-based employee ownership across their portfolio companies and take that thinking to the PE community at large and really, really push for broader ownership in companies. That was always something that was attractive to Shannon, myself and all the other partners at Beacon Pointe. They were those four things in general that led us to pick KKR.

Louis Diamond:

Yeah, it sounds like they kind of hit the nail on the head, too, with keeping alignment with the core part of the value proposition for Beacon Pointe, which was employee ownership, and also it's very interesting that you were still able to retain... or you and your advisor partners were still able to retain more of the economics than KKR was. Obviously, KKR is the brand in the private equity industry, or at least one of the top two or three, that someone might think of. As you've developed the relationship with the team, was there anything that you've been surprised by?

Matt Cooper:

Really no. They're extremely thoughtful. I can tell you, when we're reviewing a potential M&A transaction, Abry had their typical questions, three or four or five questions, and let's just say KKR may have seven or eight, but they're interesting. They make me stop and go, "Wait a minute. I didn't even think of that. I don't know. I'll get the answer." They're making us better, but in a very soft, positive way. Now, it's early. It's very early in the relationship, but I mean we've seen nothing but just great indicators throughout the way.

Louis Diamond:

Last question for you before we flip it over to Sasank. What are some things that KKR is helping you achieve that wouldn't have been possible otherwise?

Investing in Growth: Exploring KKR's Attraction to $25B+ RIA Beacon

A conversation with Matt Cooper, President of Beacon Pointe and Sasank Chary, Managing Director of KKR

Matt Cooper:

KKR's thoughts are around how do we scale this business from a $25 billion business to a $250 billion business? What needs to happen along the way to get there? The same way that we give our clients confidence to make decisions around the business, they give us confidence to make decisions around certain hires that we need to make, investments in technology that we need to make.

Matt Cooper:

When you grow a business from zero assets to where we did and you bootstrap it from 2002 until 2020 in the process by reinvesting your capital back in the business over and over again, you get into a pattern of making decisions that's really cost-focused as opposed to investment-focused. They're giving us the confidence to really make the investments where we need to make the investments at an even faster pace than we ever have in the past.

Louis Diamond:

That's some lofty ambitions you got there, Matt. You better end this podcast early so you can get back to work.

Matt Cooper:

Thank you.

Louis Diamond:

All right. Sasank, thank you for hanging with us here. Let's turn the line of questioning over to you. We'd love to hear about KKR's thoughts on the RIA space in general. I know, a number of years ago, KKR was one of the investors in Focus Financial Partners, so maybe that's part of it, but we'd love to hear just overall broad thinking on the attractiveness or the thesis behind the RIA space, and then we'll turn it to what you saw in Beacon Pointe in particular.

Sasank Chary:

Yeah. Sure. As you alluded to, it's a space we've invested in over time both here in the US, and not the RIA space exactly because the regulatory model are different across the globe, but wealth management in general is something that has been a theme for us globally, in Australia and Europe and, of course, here in the US. There's a lot of parallels across the globe that drive our interest. The client need is real. The demographic trends are real. I don't need to rehash it for this audience. You guys are all quite aware of it. The market opportunity is just tremendous.

Sasank Chary:

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When you think about the value chain of asset and wealth management and where the most important work is happening, the most valuable work for the client, it is at that relationship that an advisor has with the client, maybe leveraging technology, but that relationship advisor has with the client. You can find this across a number of channels, but I think it's in its purest form in the RIA channel, and then, when you layer on top of that the fragmentation of the market and the opportunity for smart, value-added consolidation, it's even more attractive. A combination of tremendous tailwinds plus a consolidation opportunity is what draws us to the space.

Sasank Chary:

When you think about the RIA business and you look at the metrics that all investors look at, it's hard to think of a better business in terms of client retention, net organic growth from existing clients so you have 98-plus percent retention largely driven because you're solving problems for clients and beyond just investments, but around planning and advice, et cetera, and increasing wallet share, growing not only with the market, but beyond that, and that translates into great financial performance as well.

Louis Diamond:

Yeah. It's very, very interesting to hear your perspective, but what about risk factors? Anything that steered you away from the RIA space, or do you have to have the pros and cons list before you're entering a relatively new market segment for the firm?

Sasank Chary:

Yeah. Not necessarily a new segment for the firm, but there certainly are risk factors in every business. When we think about the RIA industry, the key risk that we do focus on is making sure firms don't get complacent. The RIA space will need to continue to evolve, will need to continue to deliver more and better solutions for their clients, will need to continue to adopt and leverage technology to do that and maintain the privilege position that they have with clients.

Sasank Chary:

I mean, there are certainly other risks around the market can go up, it can go down, but we're long-term investors and it's on our mind, but we're much more focused on continuing to deliver a good product and service for the client to maintain that advantage position.

Louis Diamond:

Exactly. You picked your partner in Beacon Pointe, so can you talk about what your team found attractive about investing in Beacon Pointe? I'm sure you've looked at hundreds and hundreds of potential platforms to partner with. Obviously, it has to be a good match both on the buy side and the sell side, but, given KKR's standing in the marketplace, Beacon Pointe couldn't have been the first firm that came across your desk. What was it that led you to jump with both feet in into a partnership with Matt and Shannon and their team at Beacon Pointe?

Sasank Chary:

It's a few factors. I mean, the first time we met Matt and Shannon and the team, there was definitely an alignment around just the way we saw the industry and the growth mindset. You heard Matt talk about their aspirations for the business over time. We love the industry, and we were looking to find a firm to partner with that had a similar vision of what the future could look like, and we're delighted to have the opportunity to partner with Beacon Pointe. Then, if you get under the hood and look specifically at what are those ingredients that we think make Beacon Pointe a great firm to partner with that can be one of the winners, one of the real national platforms in the RIA space, clearly, three pieces, and it really goes back in our mind to some of the history that Matt provided.

Sasank Chary:

The firm's been around for 20 years, most of that time without outside capital, which I think created a need for them to really hone in on the culture, hone in on the platform and the technology so they had a real value proposition to offer to advisors. The first piece is the platform, a centralized approach with the appropriate amount of flexibility around it that you were alluding to before, but a centralized approach and operations and technology that will help advisors do their job better, grow more quickly.

Sasank Chary:

The second piece is the organic growth track record. Beacon Pointe has grown double digits organically, meaning, excluding the benefit of market for a long time across geographies. That was important to us as well to see it across geographies because you'll often find a firm that, in one market, they've done very well over time, but they haven't gotten to the point where they've replicated it across multiple markets in the country. Beacon Pointe has certainly done that.

Sasank Chary:

The third piece is M&A. Matt gave you a little bit of the background around their M&A model going back over a decade, but there's a real track record of success, a real process around vetting candidates or potential firms to partner with and bringing them in and incorporating them into the Beacon Pointe model in a really effective way. That combination of platform, organic growth, M&A growth and the culture of the organization and the growth mindset of the organization creates in our mind a pretty interesting, virtuous cycle of success that can get accelerated over the next five to 10 years.

Louis Diamond:

Well said. I love that. Thank you very much for sharing. Okay. Sasank, we'd love to get your thoughts on just valuations. Right now, as we're recording this episode in the end of this second quarter of 2022, valuations for RIAs are certainly high. Markets are going through a bit of a rough patch, but we've definitely seen a pretty large uptick in valuations for well-run, registered investment advisory firms. I'm curious, where do we go from here? Any thoughts on this segment being in bubble territory, or do you see valuations still having some room to run?

Sasank Chary:

Yeah, it's a good question. First, to address the bubble territory part of the question, a bubble implies something is going to burst. Bubbles I think historically are created in environments where there's no fundamental supporting the valuation so, when we look at this space, none of those dynamics exist. The fundamentals are tremendous. There's too few advisors relative to the demand for advice. The business characteristics I alluded to before are phenomenal. We think valuations for the wealth management space will always be at a premium relative to the average business certainly.

Sasank Chary:

Where valuations are going specifically, I'm not sure I know or we know exactly. Certainly, we've been in an environment where valuations for all sectors have been higher than historical averages as a result of perennially low interest rates and other factors, and that can certainly ebb and flow, but when you think about the business model itself, like I said, we believe it's one that will always command a premium valuation because of the fundamentals of the business and because of the market opportunity.

Louis Diamond:

Yeah. I like that line of thinking, and I think you're right. No one has that crystal ball, but you look at the fundamentals of the industry and, as long as those continue to stay true, then that's the answer.

Louis Diamond:

Let's talk about some of the... and I have air quotes up... you can't see me... but the perils of private equity in the industry. It's probably a somewhat misunderstood type of investor. When advisors often hear private equity, they think cost cutting and corporate raiders and more like the Michael Douglas character in Wall Street versus less of a partner that Matt described earlier. What would you tell to an advisor who's considering selling their business to a company like Beacon Pointe or to another private equity-backed firm? How would you either counteract that claim or maybe validate their thinking?

Sasank Chary:

Yeah. I think there is a perception of private equity that exists that you alluded to, but the reality is we are in the business of investing in great businesses and trying to find ways to help and make them even greater over time, and that is really driven largely through growth particularly in a market like wealth management where there is such a tremendous opportunity.

Sasank Chary:

A company like Beacon Pointe that's at an inflection point where this is the time to invest in growth so there's very much a growth orientation, the types of things we talk to Matt and Shannon and the team about all relate to, and some of these Matt alluded to, things like how do we build the best data infrastructure possible so we have a real-time pulse on what's going on and the business can make better decisions? How do we invest in digital marketing? How do we invest in certain client segments or in products and services that serve certain client segments?

Sasank Chary:

We as a firm will try to leverage learnings that we have across other industries and other portfolio companies that may be relevant or, if we can help, we can certainly try to point the team in the right direction or bring some other expertise to the table from outside of KKR. That's our mindset.

Sasank Chary:

In terms of advice though, I'd say that an advisor or a firm thinking about selling to Beacon Pointe or another PE-backed firm should do due diligence and really talk to other advisors who are there and understand what the culture is like, what it's like to have PE ownership and get a real feel for it. I think, if they do that certainly at Beacon Pointe, they'd find an organization that is not focused on what the Michael Douglas character would be focused on, but much more focused on building the best national RIA platform that we could possibly be.

Louis Diamond:

Yeah. I like that answer, and I agree with you. You have to talk to others that have done it. Like with anything, you can make broad generalizations about brokers or RIAs. There probably is maybe some firms that may be like the Michael Douglas character, but others like KKR it seems that aren't about controlling the business or extracting cost energies. It's much more about how do we grow this business. Like with anything, advisors have to pick their partners wisely and align with those who think in a similar way and who are trying to get to a similar spot that they are.

Louis Diamond:

Matt, let's bring you back into the conversation. I just have two more questions before we wrap today. A ton of firms and even advisors that aren't independent yet, but they're thinking about their business plan of going independent, have the goal of acquiring firms, but very, very few are able to pull it off. For every, probably, just a guess, three that endeavor to be an acquirer, maybe one is able to even pull off one deal. What would be your advice to advisors or independents who have the goal of acquiring? What's one or two things you'd share with them? Not that you want to create new competitors, but in the spirit of abundance and helping the industry, what would you say to that?

Matt Cooper:

I would say that it's not a hobby. It looks good on paper. It makes sense. The economics are accretive, but it's something that requires an immense amount of focus and requires focus from the senior-most people in the firm. An RIA owner likes to be approached by another RIA owner when they start talking about selling their life's work to another firm. You really have to dedicate the right people, and they have to have a focus on it.

Matt Cooper:

Now, that said, it creates a tremendous opportunity cost if you're not successful because, when you think about the lifetime value of a client, when you bring in a client that generate revenues which results in EBITDA and has a multiple applied to it all, the time that you spend out there trying to do M&A, if you're not successful, that's time that could have been spent bringing in individual clients because, typically, the senior principals are the best rainmakers. I would say, if you're going to do it, understand the risk that you're taking and the potential trade-off if you're not successful, but if you're going to do it, focus on it and have the right people focused on it.

Louis Diamond:

Yeah. In other words, all in or all out.

Matt Cooper:

Yeah.

Louis Diamond:

Sasank, how about you, advice for a firm looking to be an acquirer? Thinking through your playbook for evaluating the next Beacon Pointe, what are ways that a firm can set themselves up or go to market that would make them a potential partner of yours in the future?

Sasank Chary:

Yeah, it's a great question. To piggyback a little bit on what Matt said, it's not being a tourist and having a real process and team around it. We invest in really two types of businesses that can be acquisitive. One is a business that occasionally makes an acquisition that's highly strategic every couple of years and, in that case, that's often managed out of a corporate development function who, amongst other things, will focus on M&A.

Sasank Chary:

The other one is like Beacon Pointe where M&A is part of the business model. To do that effectively, the company really needs to own it and have a process around it, a process around sourcing, a process around vetting, a process around integration, and really treat it as a business line because it is one. That would be my advice in this industry and other similar industries, to treat it like anything else. Organic growth requires a certain level of focus and attention, so does M&A.

Louis Diamond:

All right, so last line of questioning here, let's call on Matt for this one. Five years from now, what do you think Beacon Pointe looks like? You talked about the vision of getting to 250 billion. Is that where you're at in five years, and how does the business change over that time to where it's going to be in the year 2027 or so?

Matt Cooper:

I use the number 250 billion because that would be 10 X where we currently are, and that's the way I like to think about things. I'd be perfectly happy if it was 249 billion. I think it's going to be remarkably larger. We'd we'd like to be in every primary and secondary market across the country, but we're not going to do that at the expense of the people or the culture. I mean, Beacon Pointe, our first three screens when we're talking to a potential partner are no jerks allowed, no jerks allowed, no jerks allowed. That applies in everything we do.

Matt Cooper:

To the extent that we can continue to find great people, great partners that are accretive to the firm beyond the economics, we'll keep going. So far so good, it's still a big blue ocean. There's a ton of opportunity out there. We're optimistic, and I think we can approach those numbers that I threw out there, the 250 billion, but we have to work hard. We have to be focused and we can't lower our standards.

Louis Diamond:

Yeah, and is the eventual goal to have an IPO or, in an ideal world, will you stay private for the long run?

Matt Cooper:

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There's a range of outcomes over the next five to seven years. I don't know that IPO is the one that we're focused on. I mean, that's a complete unknown to us. It may be a different sponsor, maybe another sponsor alongside of KKR. KKR could roll us into a different longer-dated fund of theirs or there's a potential IPO, but I don't think we know that until we get there, Louis. I mean, Sasank might have some thoughts on that as well.

Louis Diamond:

Sasank, a similar question to you, and just to build on it, what would signify a successful investment for KKR other than a really nice financial return?

Sasank Chary:

This relates to the question around IPO as well, which is our focus is to help build the best business we can. In this case, what would signify success? Not only a business that's significantly larger, but is doing more and better for its clients. The industry will continue to evolve, as I alluded to before, and I think Beacon Pointe hopefully will be a leader in that in providing additional products and services and capabilities and leveraging technology to do that better. That would define success.

Sasank Chary:

If people think about what is a great national RIA success would be, Beacon Pointe is one of the top names that comes to mind. If we're able to do that, that'll lead to financial success as well. It will also lead to tremendous optionality on whatever the right liquidity event is. We like to invest in businesses that have a lot of optionality, that have the scale, have the market opportunity, have the continued growth potential at exit, if you will, so the next investor, whether that's another fund of KKR or a new investor, or the public markets see this tremendous opportunity ahead, and that will drive a great financial outcome.

Louis Diamond:

Well said. I like it. That's good advice for anyone is preserving optionality is never a bad thing. I want to thank you both for being very generous with your time today, sharing your insights and both being patient, too. I know I tilted the conversation toward one of you each time, but, here, we're both partners, and hopefully it was time well spent for you, too. Thank you again.

Matt Cooper:

Thank you very much.

Sasank Chary:

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Thanks, Louis.

Mindy Diamond:

The definition of success is different for every firm, yet, as Sasank shared, businesses that have optionality and scale and are focused on driving positive outcomes not just for the firm itself, but for the clients they serve are those that are destined to succeed.

Mindy Diamond:

I thank you for listening, and I encourage you to visit our website, diamond-consultants.com, and click on the tools and resources link for valuable content. You'll also find a link to subscribe for regular updates to the series. If you're not a recipient of our weekly email, Perspectives for Advisors, click on the article's link to browse recent topics. These written pieces are an ideal way of staying informed about what's going on in the wealth management space without expending the energy that full-on exploration requires.

Mindy Diamond:

You can feel free to email or call me if you have specific questions. I can be reached at 973-476-8578, which is my cell, or my email, mdiamond@diamond-consultants.com. Please note that all requests are handled with complete discretion and confidentiality, and keep in mind that our services are available without cost to the advisor. You can see our website for more information.

Mindy Diamond:

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