



EPISODE TRANSCRIPT

One-On-One with Rudy Adolf: How Focus Financial Partners Revolutionized RIA M&A and Went Public in the Process

A conversation with Rudy Adolf, Founder, CEO, and Chairman of Focus Financial Partners.

Mindy Diamond:

Welcome to the latest episode of our podcast series for financial advisors. Today's episode is, One-On-One with Rudy Adolf: How Focus Financial Partners Revolutionized RIA M&A and Went Public in the Process. It's a conversation with the firm's Founder, CEO and Chairman. I'm Mindy Diamond, and this is Mindy Diamond on Independence.

Mindy Diamond:

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Mindy Diamond:

It's an American success story that started in Innsbruck, Austria, the birthplace of Rudy Adolf. As the son of the owner of a local CPA firm, Rudy learned early on the value of being an entrepreneur. After graduating from the University of Innsbruck with a Doctor and Magister of Jurisprudence degree, he began his career working with the family business. Then, in 1987, Rudy relocated to Munich, Germany to work for the global consulting firm, McKinsey & Company, and in 1990, he moved to the United States where he was named Partner. It's an 11-year tenure that Rudy fondly credits as an incredible learning experience. And it was a journey that evolved further when Rudy joined former McKinsey Partner Harvey Golub at American Express as the Senior Vice President of Strategy and Business Development, and later Senior Vice President and General Manager of the American Express global brokerage and banking division.

Mindy Diamond:

No doubt, it's a resume that reads like few others, but the real turning point in Rudy's career was when he and his partners Lenny Chang and Rajini Kodialam, American Express alumni as well, launched Focus Financial Partners in 2004. It was a vision that Rudy realized while working for a large organization like AMEX and learned about the shortcomings of how independent financial advisors access capital and monetize their life's work. That is, most RIAs were by comparison small. In order to access capital for scale and growth, it typically meant sacrificing their entrepreneurial spirit and culture. That is, selling their business and becoming employees. So, by the end of 2006, Focus had six partner firms in five states. Fast forward six years to 2012, and Focus expanded to 22 partner firms in over 30 locations plus a partner firm in the UK.



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Then, in July of 2018, Focus became a public company listed on the NASDAQ. Focus retains a commitment to preserving the autonomy of every partner firm who joins them, with a pledge to never turn a successful entrepreneur into an employee. It's an incredible journey that literally changed the independent wealth management space, and a story that only Rudy can share best. So, let's get to it.

Mindy Diamond:

Rudy, I am so grateful to have you with me today. Thank you so much for being here.

Rudy Adolf:

Mindy, thank you for your interest. We have known each other for many years.

Mindy Diamond:

Yes. So, I love your story and I would love it if you would, for perspective, share a little bit about your background and tell us about yourself.

Rudy Adolf:

Yeah, sure. Mindy, thanks of course for your interest. As you can tell from my accent I didn't grow up in Brooklyn, but I grew up in the mountains in Austria and in an entrepreneurial family. Well, everything is much smaller in Austria than it is in the States. I joined McKinsey in Munich; they shipped me over to New York about 30 years ago and what was supposedly my eight months' assignment, I guess is still going on here. After McKinsey I went to American Express and then we founded Focus.

Mindy Diamond:

So, what can you tell us about your time at American Express that informed your vision or might have been the basis for the vision at Focus?

Rudy Adolf:

So, I had the privilege to work with two of the great financial services CEOs, Harvey Golub, who hired me and then later Ken Chenault. And quite frankly, I learned a lot about leadership in a very large, complex organization – I think in my days AMEX had like 70,000 people or so – and it was just a terrific experience. Then I became the Head of Global Brokerage and Banking for AMEX, and there I did learn about, again, a large complex business but at the same time I learned about the shortcomings of the traditional suitability model. And here, Mindy, is actually when the Focus journey started. I'm convinced that the RIAs – as fiduciaries – they have the right model. They are close to the client. They operate under the highest standard of advice.



EPISODE TRANSCRIPT

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But unfortunately, most of these RIAs are small players. So, my two co-founders Rajini, Lenny and I, we really designed Focus to, on the one hand, provide value to partners and their clients, to be a permanent source of capital while protecting the entrepreneurial spirit and culture of our partners, and, quite frankly, this was a very unique model when we conceived it. And much of it was by learning both the strengths and weaknesses of a large financial institution like American Express.

Mindy Diamond:

To unpack that a little, at the time, pre-2004 before Focus was born, how would an RIA or an independent wealth management business owner have monetized his or her business?

Rudy Adolf:

There weren't really many options. In fact, I really believe, Mindy, we invented this industry of ultimately providing liquidity, providing – really a reward for the life's work of an RIA – and really using this as a platform to create significant industry consolidation. This was the journey that we set out on. Yeah, you are correct, before we started this people did not have many choices. Usually these were just internal buy sells at very modest valuations and putting really a lot of burden on the next generation. In fact, Mindy, the next generation had to mortgage their first, second, and third born to really facilitate these types of transactions before Focus came along.

Mindy Diamond:

Yeah, I can attest to that. So, you mentioned at the beginning that you and I have known each other a long time, so I'm in this business 25 years. And I can attest to the fact that Focus really invented this model or this industry of providing liquidity for a wealth management firm. And, while today there's lots of ways to do it, there wasn't 25 years ago or more, and so kudos to Focus. The other thing you said was you noticed while at American Express the shortcomings of the suitability model. So, talk to me a little bit about the advisors that were under the American Express umbrella, were independent business owners, but they were under a broker-dealer model? What did that look like?

Rudy Adolf:

Yeah, well, we had different platforms in my days, and most were – actually some were in a traditionally employee-brokerage model – and yes, others, you are correct, were independent but really operating under the license and the operating system of American Express financial advisors. And, on the one hand, of course, there is a balance sheet and there is significant scale. But you know what I've learned and what I just see every day, Mindy, the closeness, the breadth, the depth, the expertise that a truly independent fiduciary can ultimately provide is just night and day to what any monolithic, large-scale wirehouse can provide. So, this makes all the difference from a client perspective.



EPISODE TRANSCRIPT

One-On-One with Rudy Adolf: How Focus Financial Partners Revolutionized RIA M&A and Went Public in the Process

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Yes. So, we'll unpack that more in a little bit, but I'd love for you to tell us, as the CEO and founder of Focus, what is Focus's value proposition?

Rudy Adolf:

Yeah, so, Focus really was built on the foundation of the principle to never turn an entrepreneur into an employee. And this goes back to my childhood days. As I said, my dad was an entrepreneur and he couldn't work for anybody else, and by and large he never ever worked for anybody else. But he was a passionate entrepreneur, he was passionate about serving his clients, he had tremendous expertise, and most important Mindy, he had his heart in the right place. So, first Focus is built on the principle of entrepreneurship. But second, very important is – it is also about value added. Our ability to surround entrepreneurs with capabilities that are simply second to none in this industry is unique and highly differentiated. And then we combine this with permanent capital.

Rudy Adolf:

I really believe – you want to be an entrepreneur, you want to have access to tangible, real, value-added services, and you want permanent capital – Focus is the only game in town. There's nobody else who can credibly make this claim, and this is really the segment in the market that we dominate. And, of course, from an overall skill perspective we certainly are the largest in the States. Quite frankly, we're the largest in the world now in the space of independent wealth management.

Mindy Diamond:

So, I want to come back to who the competitors are because Focus might have been the only game in town in 2004, but it certainly isn't any more in terms of investors in the space. But tell us a little bit more first about the services – you talk about value-add services that Focus offers its partner firms. So, tell us a little bit about the kinds of partner firms you invest in and the kind of services you offer them.

Rudy Adolf:

Yeah, absolutely. So today, Mindy, well, we are up to 87 partner firms at this point, managing well over \$350 billion in client assets, still primarily in the US, but we are in the US, Canada, Australia, the UK and very recently we entered Switzerland with the Octogone deal. And all of these firms – all of these partners – have in common that they want to be entrepreneurial. They want to operate under their brand, they want to protect their culture, they want to protect what made them successful, and most importantly they want to be in charge of providing advice to clients. But they recognize that when you are managing \$3, \$5, \$10, \$30 billion or more, you are a significant entity in the RIA world or in the brokerage world. But in the greater financial services world, you are tiny business. So, in many ways, we provide the benefits and the power of scale to very successful RIAs and then basically help them grow.



EPISODE TRANSCRIPT

One-On-One with Rudy Adolf: How Focus Financial Partners Revolutionized RIA M&A and Went Public in the Process

A conversation with Rudy Adolf, Founder, CEO, and Chairman of Focus Financial Partners.

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How do we help them grow? We've got two types of programs. One set of programs is all around practice management. So that's operations, technology, marketing, risk management, recruiting, career pathing, and of course compliance. Everything that has to do with managing the business. The second set of programs – we call it Focus Client Solutions – is all about capabilities and services that ultimately benefit the end client. And these are access to alternatives, it's credit and cash, its trust, insurance, family office services, and others. And fundamentally, both of these types of programs take advantage of Focus's unique scale, unique expertise, the fact that we have 87 laboratories out there from which we can learn, and really, it's great for the end client because they are assured continuity of advice.

Rudy Adolf:

It's great for the partners because they can tap into these services and capabilities. They have a succession plan and of course, there's a liquidity event. And it's great for the staff in this RIAs because here they have the continuity of culture, they are assured that they are not getting sold to some evil bank or insurance company or asset manager, and they can really continue working in the organization they wanted to join. So, it's win-win – client, partner and employees.

Mindy Diamond:

And you mentioned the next generation doesn't have to mortgage their home in order to buy G1 out. Can you talk a little bit about how that works?

Rudy Adolf:

Yeah, sure. So, Mindy, in many ways we are in the intergenerational transfer of successful wealth management businesses. That's really what we are. And we have facilitated hundreds at this point, of partners – G1 who build up great businesses – and then ultimately, we bought part of their cash flows. And, really then through the transaction, empowered the next generation to become founders again and to operate these businesses like the founders, build up equity value themselves and really protect their entrepreneurial culture in business models. But now it's not just independence, we call it “independence plus” because you are not just running it like the G1 generation. But you now have all the access to the capabilities of the largest group in the world in this space. And this is very highly differentiating.

Mindy Diamond:

Yeah, so I want to unpack some of the things that really differentiates Focus in the marketplace. So, as we both agree, when Focus first began it was largely the only game in town but today there's many. And so, the bold claim of we are really the leader in that space, I think is fair, but I'd love to understand how and why. So, let's take some of the most popular ones. So, one would be a firm like Hightower. Hightower, in its current iteration that is, seems a lot like Focus. And the other would be private equity



EPISODE TRANSCRIPT

One-On-One with Rudy Adolf: How Focus Financial Partners Revolutionized RIA M&A and Went Public in the Process

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firms like KKR came in and invested in Beacon Pointe. So how does Focus differ from both of those scenarios?

Rudy Adolf:

Yeah, well, I never talk about specific competitors, that wouldn't be my place. But you're right, we really invented this business model, and we invented industrial scale consolidation in this industry. And this puts us years ahead of anybody else and we are operating at that unique scale as you know, well above \$2 billion in revenues at this point. What makes us absolutely unique is our commitment to entrepreneurship. You keep your brand, you keep your name, you're still making pretty much all the decisions here in terms of running the business. And we don't have so many of the controls and other things that private equity has. So of course, very important, private equity is temporary capital. They invest in you and then they sell you. And if they want to sell you to Northwestern Mutual, they can do that too, which is probably not in the interest of the clients and the partners or the employees.

Rudy Adolf:

So, it's very differentiated. We truly embrace entrepreneurship, but then – and this is a huge differentiator to private equity – there's no value added in the private equity world. But we have the expertise and depth, as I said, 87 laboratories with well over 5,000 people working in them and fundamentally doing the same thing. But we know what works. We know what doesn't work. We have the resources when we see things did work to double up and spread the news. And so it's really the collective wisdom, Mindy, of this organization that is our calling card. So, entrepreneurship, all these resources of the market leader and then permanent capital. So no, we are not selling you whenever our fund is up, which is very uncomfortable from a client perspective, particularly when you're in the ultra-high net worth space. That's very differentiated.

Rudy Adolf:

Finally, look at our operating history. Basically, we are executing the business plan, almost identically to what it was when we launched this business in 2006. You have seen us. We have been one straight line in terms of do what we say and say what we do, and really built the business in the right way. So, we didn't change our colors, whatever, 10 times in 10 years. So, it's the power of the value proposition, the consistency of execution, and of course, the quality of this now 87 partner firms that are our calling card. And Mindy, there's nobody even close to what we have.

Mindy Diamond:

So let me back up. I would agree with you that many private equity firms that have entered, or looking to enter this space, aren't capable of adding value-add services. They're able to capitalize a business but they're not able to add a whole lot more. So, would you say if you were defining Focus, would you define it as a private equity firm that is able to add value-add services?



EPISODE TRANSCRIPT

One-On-One with Rudy Adolf: How Focus Financial Partners Revolutionized RIA M&A and Went Public in the Process

A conversation with Rudy Adolf, Founder, CEO, and Chairman of Focus Financial Partners.

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Yeah, maybe private equity in a sense that we are an extremely focused supplier of capital, so very specialized. But I think we are just a unique business model that's never been done before. Of course, we have reached a very significant scale, but there are much more opportunities ahead. So, I think we are our own little business model here and its entrepreneurship, value added and permanent capital. And humble here, but the reality is we've been compared to Berkshire Hathaway many times. Let's be clear, I'm no Warren Buffet, but Berkshire's way of investing, Berkshire's very decentralized business model, but then being a powerful source of capital – people have called us the Berkshire Hathaway of the financial services industry. And I think there's some grains of truths to that.

Mindy Diamond:

I love it. So, talk to us a little bit more about some of these value-add services, meaning some examples. Like what are some of the services that you offer these 87 partner firms and how they benefit from the partnership?

Rudy Adolf:

Yeah, absolutely. And as I said before, Focus from day one was all about value-added services. It was all about changing the course of history for partner firms and helping these entrepreneurs move to a level that they just couldn't reach on their own. And, if we start on the practice management-oriented side, operations and technology. We are the largest client of just about everybody in this industry. We have a preferred relationship with just about every vendor in this space, and really use this scale and expertise to help our partners choose the right platforms, choose what is best for them. But we get [access to] these platforms, with excellent service from these providers, with pricing that probably they can't get anywhere else, and an ongoing relationship where each of these technology firms really knows that yes, they're dealing with an individual partner firm, but they're also at the same time dealing with 20 more of their customers. And all of this usually under an umbrella agreement with Focus so very, very attractive and, I think, very unique because what I do not believe in, Mindy, is one monolithic platform.

Rudy Adolf:

When somebody joins us, we are not saying, "Oh, it doesn't matter what your business model is. This is my platform; you have to use it." Now, that's how brokerage, the big wirehouses work. What we believe is there is such a rich, exciting, dynamic ecosystem of technology providers out there – by the way, we just had a conference where we had many of them presenting – and let's help our partners to tap the right provider, to get the best value from these providers and really collaborate, which we think is simply the business model that is superior to some monolithic platform model. And, well, I could go on and on but similar stories in marketing and with referral programs.



EPISODE TRANSCRIPT

One-On-One with Rudy Adolf: How Focus Financial Partners Revolutionized RIA M&A and Went Public in the Process

A conversation with Rudy Adolf, Founder, CEO, and Chairman of Focus Financial Partners.

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The second area that I'm very excited about, this is what I said before, Focus Client Solutions. So, these are things that touch the clients. The first program we launched, Mindy, was cash and credit. So, at this point we have 10 plus bankers who are credit specialists. They work for the holding company and their job is to help our partners to find highly competitive credit solutions for their clients. We have worked on, I guess, \$2.5 billion plus just on credit in the last 18 months or so, and this gives us enormous purchasing power, this gives us access to all the right lenders. So, what I'm really excited about, Mindy, is we have brought the concept of open architecture to the world of high-end private banking. It's never been done before, nobody can make this claim because ultimately, we work with, what is it? 50, 60 banks at this point.

Rudy Adolf:

You need some business lending. You need the real estate lending, domestic/international. We just did an art collection, or you're buying a yacht, or a jet, or you name it. Our credit specialists know exactly who the best banks are in these areas. They know exactly what the terms are, and they will be negotiating on your behalf or really ultimately the end client's behalf, which is highly differentiated and requires scale. None of our partner firms could do this on their own and importantly, as for all the services Focus provides, we never charge for them. So, it is purely a service that we provide to help our partners serve their clients in a better way.

Mindy Diamond:

So, game changer, I agree the notion of open architecture, the notion of being able to shop the Street and create competition for price and service is the definition of being an RIA and being a fiduciary. But are you saying that at other large RIAs or other investors in this space, they don't offer a similar open architecture? That you couldn't go out to different banks and shop loans?

Rudy Adolf:

No, impossible Mindy because one they don't have the expertise. There's a reason why we hired 11 sophisticated credit bankers who do nothing but that. That's their full-time job and that's their expertise, that's their career. Two, you are not relevant enough. Unless you place billions and billions of these types of loans, the reality is, "Hey, how many jet financings do you do a year?" And we, because of the scale, we do enough so we are very relevant, so we can go to the best lenders in the market and negotiate terms that are very distinctive. And as I said, very important, we don't charge for these services. These bankers for me are purely a cost, but what it is, it really helps our partners just move their game outside of their core.

Rudy Adolf:



EPISODE TRANSCRIPT

One-On-One with Rudy Adolf: How Focus Financial Partners Revolutionized RIA M&A and Went Public in the Process

A conversation with Rudy Adolf, Founder, CEO, and Chairman of Focus Financial Partners.

Of course, they all grew up as RIAs in the world of open architecture on the investment side. That's how this industry has been built. But what we have done is we took the same concept and moved it in the world of high-end private banking. We use a similar methodology for trust – terrific network of first-class trust banks. We are starting to use it in insurance. We'll use it in multi-family offices. And these programs – on top of another very important program which is access to alternatives – unless you are operating at very significant scale, Mindy, you're just not in the game. And there's just nobody even close to us.

Mindy Diamond:

Yeah. Well, that's game changing, and I agree with you that done right that is extraordinarily powerful. So, what would be incredibly helpful – maybe give us some examples of some of... Focus is probably the most prolific acquirer in the space. So can you highlight for us some of the biggest, or best, or the acquisitions you're most proud of, just to give us an example of acquisitions that were the most needle moving.

Rudy Adolf:

Well, Mindy where do I start? We have done 250 deals since January 2006. The business really started in January 2006. Last year we did 38 deals, year to date this year we are approaching 14, 15 deals already and it's going to be a really terrific year from an M&A perspective again. But all the deals we have done are exciting and unique stories. But if you insist, of course your menu of the early partners who joined us – quite frankly they took quite a risk, because they were betting on an untested, revolutionary model. And that they ultimately trusted Rajini, Lenny and Rudy with really their life's work. And the one deal that really stands out there, and probably the deal that was our biggest leap forward was Buckingham in 2007. And I have to tell you, Rajini, Lenny and I, we are just eternally grateful to Bert Schweizer and his partners who had a fantastic business.

Rudy Adolf:

It was a \$7 billion business at this point already. And really betting on really a concept, the business that was only around for two years when we did the deal. So, it was a \$7 billion business in 2007, and today under the leadership of Adam Birenbaum, this business is well over \$60 billion. So just a tremendous growth story. And all the initial partners, including Bert, have subsequently retired. And Adam is leading a whole new team of partners and just did an unbelievable job in growing from the early days to building one of the hands-down largest RIAs in this industry. And there's just tremendous opportunity.

Mindy Diamond:

So amazing. And I am well familiar with Buckingham, and I think that's an awesome example. So, tell us a little bit about the work that Focus did to facilitate that growth, or support that growth, getting from \$7 billion to \$60 billion.



EPISODE TRANSCRIPT

One-On-One with Rudy Adolf: How Focus Financial Partners Revolutionized RIA M&A and Went Public in the Process

A conversation with Rudy Adolf, Founder, CEO, and Chairman of Focus Financial Partners.

Rudy Adolf:

Yeah. By the way, I should probably mention another very cool example, and it will follow the same principles, think of Colony Group which is under the leadership of Michael Nathanson. They joined us a little over 10 years ago and they had a billion dollars in client assets Mindy, and we bought out the original founder, Kirby Hamilton. Under Michael's leadership, Colony is now well over \$20 billion. It's a 20x in 10 years and just built one of the most exciting and successful stories in this industry. So, what was our contribution? So first and foremost, it's access to the expertise and access to the network. Both of these businesses did fundamental migrations on the technology side. We helped them pick and negotiate and supported them in the transition. We have been involved in many of the largest migrations in this industry – we are just working in a \$30 billion migration for one of our other partner firms – and really helped them rethink their business models, re-articulate their strategies, and just fundamentally move their businesses to another level.

Rudy Adolf:

And of course, very importantly for both of these firms... Actually, I'll never forget Bert, once we closed the Buckingham deal, he said, "Rudy, obviously excited we are partners now and so on and so forth, but you know what? Please never talk to me about doing a merger, buying another firm. We are so successful. We are so unique. We have such a good culture in this place. Just not something I'm interested in." They must have done like 25 or maybe 30 deals at this point. Obviously just a stunning story and of course same for Colony. And usually many of these targets we find, many of them they find. We usually structure and negotiate the transaction. We always supply the capital for these transactions And really help them then with kind of the initial steps, if you want, post-merger integration.

Rudy Adolf:

But then, of course, they're working with these new partners and they're integrating it. So, it's just a terrific collaboration. Neither one of these firms had done a single deal before they joined Focus and have ultimately grown their businesses organically very well. But then of course at the same time have just benefited from this industry consolidation of smaller firms that quite frankly is ongoing and is a very powerful trend.

Mindy Diamond:

So, what about a firm that might be a little smaller, say \$500 million to a billion under management? As you said, when Buckingham first came to you, no real interest in being acquisitive, really just interested in growing, hit a ceiling. Is that an appropriate target for Focus or partner for Focus?

Rudy Adolf:



EPISODE TRANSCRIPT

One-On-One with Rudy Adolf: How Focus Financial Partners Revolutionized RIA M&A and Went Public in the Process

A conversation with Rudy Adolf, Founder, CEO, and Chairman of Focus Financial Partners.

Yeah. Well, most of our deals are a billion plus but we have done smaller deals. In fact, let me take you back to 2006, one of our very early firms is a group called HoyleCohen in San Diego. And they were just a little over \$300 million, and Mark Delfino – he was not in the initial transaction but then he stepped in and became the leader of HoyleCohen. Today his firm is \$3 billion, again another 10x while they joined us in '06. And while Mark was not the initial founder of the business – in fact, both of the founders retired after our deal – but he's just done a phenomenal job moving the \$300 million firm to \$3 billion. And Mindy, when you are running a \$3 billion firm that's 10 times the size of when it was \$300 million, you are not really running a 10 times larger business. You're running a different business.

Rudy Adolf:

Now you have to ultimately think about the core capabilities, the business model, of course the leadership in a totally different way in a \$300 million firm. And the number of partners who made this transition from small to very large, is quite frankly Mindy, that's one of the things I'm most proud of in the Focus journey, and I certainly claim that there's just nobody who has this type of a track record in this industry today.

Mindy Diamond:

So, what about the reasons why the principal of a billion-dollar firm who is arguably successful, arguably done very well and profitable. What are some of the reasons why the principal of that firm may opt to sell at all? And then why would they opt to sell to Focus in a sea of a lot of competition?

Rudy Adolf:

Yeah. Well, first and that's really important, Mindy, we have to be very respectful of the magnitude of the decision for a founder or for principals. Ultimately, for most of them, this is their life's work and finding a good home, a good partner to grow is a very difficult task. You have to do it at their pace, you have to do it within the framework of how they're thinking about it. For most of these RIAs, or brokers when they leave a wirehouse, this is the largest economic decision in their life and as such you have to be very respectful about how they do this. Now scale matters in this industry and it's just a fact that larger firms service higher-end clients, they grow faster, and they operate at higher margins.

Rudy Adolf:

And we have demonstrated that we can help many firms multiply in size and increase their sophistication in the way they ultimately want to serve their clients. So, in many ways as a principal in a firm do you want to own 100% of a small business or 50% of a much, much larger firm that ultimately has access to the resources, expertise, and capabilities of the largest partnership in this industry. And of course, this combined with an attractive liquidity event. I've said it before – if you want to be an entrepreneur, and you want to have value added and you want permanent capital – then Focus is the only game in town. There's nobody who has our type of proposition here.



EPISODE TRANSCRIPT

One-On-One with Rudy Adolf: How Focus Financial Partners Revolutionized RIA M&A and Went Public in the Process

A conversation with Rudy Adolf, Founder, CEO, and Chairman of Focus Financial Partners.

Mindy Diamond:

But you hit it on the head. We obviously talk to and work with many of these small business owners and it's not about Focus versus Hightower versus anybody else. It's more a question of getting past the notion that I built this business, I own 100% of it, I get to control all of the decisions, and getting comfortable with the notion of taking someone else's equity. Even when that equity is publicly traded, even when they're part of a proven commodity, how do they get comfortable with that? How do they get past that hurdle?

Rudy Adolf:

Yeah, just for the record, most of our deals is all cash.

Mindy Diamond:

But they didn't used to be before Focus became public, right? Much of the deals were-

Rudy Adolf:

You're right. In the good old days, Mindy, where I had very little cash and a lot of paper, every deal had to be 50% cash, 50% stock. And Mindy, we started this business at a \$1.42 and the many partners over the years got the stock at five, seven, 10 bucks a share. And today we are whatever close to \$40, Q4 last year we were almost \$70, and there are tax attributes that further increase these numbers. So those who did took the stock in the early days, they had just stunning multiples and stunning economic success in the transaction. But yeah, for a number of years now cash is very cheap to us. We like to use cash as much as possible. But in the occasional, it really ultimately is tax reasons, where we do use our stock, but on a very limited way. But I think the first point that you mentioned is the critical one.

Rudy Adolf:

We just worked on a deal where it would have been a very good deal, but ultimately this entrepreneur never had a partner in his life. He was always the king of the hill. It was a very small hill when he started obviously, but this thing grew into a mountain and it's a very successful business. But he has no successors. There's no succession because this is never how he built the team, and ultimately the deal didn't work out because he just could not change his approach to leadership, his approach to having members of the team participating in the critical decisions. And what would have been – when you just look at the numbers a very good business, very attractive business – when you look at the culture and social aspect of the business, Mindy, it was a deal we couldn't invest in. Nobody could invest in it because ultimately you don't invest in past cash flows as an investor. You invest in future cash flows.

Rudy Adolf:



EPISODE TRANSCRIPT

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And this is a fantastic industry we are operating in and it's a wonderful place. But it has this tragedy – and it is a tragedy – of not grooming enough talent, not having the leadership aspect in so many firms that unfortunately just never managed to build G2 and G3, and at one-point G1 looks back and says, “Hey it has been a great journey but there's no future.” Most importantly, when there's no future, you don't have an answer to your clients. Typically, of course, we are mainly in the ultra-high net worth space, and high net worth space, where you are ultimately managing multi-generational wealth. When you are, whatever, you are up there on the age curve and you don't have a G2 quite frankly you're not really doing your fiduciary duty, because it shouldn't be that a client – if something were to happen to the leader of a group like this – that the first thing the client has to do is to find a new advisor. That's not fair and as I said, it's not what the fiduciary advisor should be doing.

Mindy Diamond:

Yeah. Well, you're 100% right that the thing that sort of breaks the back for someone who has a hard time giving up control, is where that leader has spent the last number of years trying to identify a mini me. Trying to find G2 or G3 and unable to do it. And after trying for a couple of years, they often come around to the point, “Okay, so last year I was 64, now I'm 65, I still don't have a successor. My clients are starting to wonder how much longer I'm going to work.” And that's often what motivates a potential seller to really begin to take the notion of finding a partner seriously.

Rudy Adolf:

Yeah. And some can do it and some, Mindy, just simply will not be able to do it and it's very sad. Also, there's another dimension that I always get reminded on this point. So, I grew up professionally at McKinsey as we discussed before, and we hired all the best and brightest, smartest people from the greatest universities around the world. We still had to hire 10 people to create a single partner, 10 to one. It takes time. It takes investment. It is not easy to find mini-me. And this is where this industry unfortunately is lagging behind. By the way, we have a whole recruiting program that we manage through the holding company to support talent coming into this industry. Most certainly there are too many firms out there which have not thought about this strategically. The shoemakers' children have no shoes, and the planners have no plan, and that's not good.

Mindy Diamond:

Yeah. We tell people all the time, it is the most competitive market there is to be an acquirer and you know that. So, the principal of a billion-dollar firm is competing with every other billion-dollar firm that's looking to recruit their next generation, as well as firms like Focus that have the size and scale, as well as even wirehouse firms. Everybody's looking for the same talent and the more competition there is, the harder it is to identify that successor. And you're right, that's a sad truth of this industry. But I want to ask you a question. So, we're talking a little bit about why somebody would do this deal. Why somebody would choose to sell a portion of their firm to Focus. So, I'd love for clarity if you could walk us through



EPISODE TRANSCRIPT

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Focus's acquisition model. And I ask that because there's a real misconception in the marketplace that Focus acquires a minority share of the firms it partners with. But really what I know of the deals are that you buy 50% of a firm's cash flow, and 100% of the firm's operating company. So, what does that mean in actuality?

Rudy Adolf:

Yeah, one of the foundations of our business model and of course, really the implementation of our philosophy of never turning our successful entrepreneurs into employees. What we did is we decomposed the concept of ownership into four components. Legal – our partners own 100% of their management companies and they have full control over the operating companies that we own, that the holding company owns. Management – partners continue to make whatever 99% of all the decisions just like they did before, as I said, never turn the entrepreneur into employee. Compliance – our partners continue to be accountable in this area. I never wanted to centralize compliance, by the way a huge differentiator versus anybody else because ultimately in the final analysis, he or she who runs compliance runs the business. That's not the case in the business model of Focus – every one of our partners ultimately runs their own compliance programs. We provide a lot of value in this area but it's ultimately their final decision not ours.

Rudy Adolf:

And then Economics – yes, you are correct there. We typically acquire 40 to 60% of the cash flows of our partners. So again, very unique model, it has never been done before. Of course, we have 87 partner firms. We really consistently use this business model for holding company deals. It's very flexible if you do mergers or if you promote people. But this consistently applied business model and transaction model, is very much the reason for our success. As I said, well over 250 deals that we have done since January '06 when this thing started and like last year 38 deals. So, it clearly is resonating, and it protects the entrepreneur, on the one hand, in how they want to run the business, but it allows us to create tremendous value to them. But also, it allows us to have a pristine balance sheet and P&L that ultimately allows us to have probably the lowest cost of capital in this industry, which then again benefits our partners.

Mindy Diamond:

Okay. So, what about for wirehouse advisors? So, I'm an advisor at Merrill Lynch, at Morgan Stanley, at UBS. I'm thinking about going independent. And obviously today there are many choices. There are many service providers. There are many ways to get from here to there. But one of the questions we're asked is, does it make sense to sell equity out of the gate? So, A) is Focus interested in wirehouse advisors? I know I did some of the early deals of Focus's first wirehouse deals. But are wirehouse advisors or traditional advisors still of interest to Focus, and why would a wirehouse advisor have interest in Focus?



EPISODE TRANSCRIPT

One-On-One with Rudy Adolf: How Focus Financial Partners Revolutionized RIA M&A and Went Public in the Process

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Rudy Adolf:

Yeah, absolutely. And you're right, I think you worked on our very first, actually a number of our early deals and subsequently. So first, what's critical is these advisors need to have the right mindset. Entrepreneurship-fiduciary is not for everybody. And we typically would work with large or very large and sophisticated teams, and at the holding company, smaller advisors – which we have done a number of – just joining existing Focus partner firms. And quite frankly, the same value proposition that resonates with the RIA resonates with those advisors who really want to be fiduciaries, and that's entrepreneurship, value-added, and permanent capital. You have seen it. There's just nothing more rewarding when you are in a wirehouse, when you are shackled down by all the dynamics of operating in these large entities, and you can transition to become an entrepreneur, you can transition to become a fiduciary. And it's not even a question that your clients will win because you have so many more capabilities and truly open architecture, the team will win, and the advisor will win.

Rudy Adolf:

But let's be clear, Mindy, this is not for the faint of heart. It is very important for those advisors in the wirehouses who want to make the transition that they choose the right partner, and they choose wisely. Not just for the transition, which has reasonably established playbook certainly for protocol transactions, but really for years to come thereafter. That's where I think we are very differentiated and that we can be an attractive partner.

Mindy Diamond:

And what about your interest in acquisitions going forward? I know Focus is now in four countries outside the US. And so wondering -- you recently bought a firm in Switzerland – and so wondering how the interest in being international, will that reduce the number of US acquisitions you do in order to grow the international?

Rudy Adolf:

This business will always be a US-centric business first and foremost because the US RIA market is a \$7 trillion market. And we have really barely scratched the surface. But all three of us, Focus has been founded by an Indian, a second generation but ultimately a Korean and an Austrian. And all three of us – our professional careers kind of have been US-centric – but we all did significant amount of work in international. And we simply like the opportunities and also the challenges in having a business model that goes way beyond the US. Now, what's particularly exciting is the US discovered the fiduciary model with the Advisors Act of 1940, which was truly a revolution in financial advice – it had just never been done anywhere before that.



EPISODE TRANSCRIPT

One-On-One with Rudy Adolf: How Focus Financial Partners Revolutionized RIA M&A and Went Public in the Process

A conversation with Rudy Adolf, Founder, CEO, and Chairman of Focus Financial Partners.

Rudy Adolf:

And of course, now many developed countries are working on upgrading their standards of advice and it's typically driven by regulators. And in all these cases, Mindy, – and just Switzerland most recently where this dynamic is happening – it creates a need for scale, and therefore it drives consolidation. And Focus is, we are the world champions of consolidation in this space, and this creates just wonderful opportunities for us. Whether I look into Australia, whether I look into Switzerland, now into Canada and then some of the other markets, and there are probably will be one or two markets that are on the drawing board on top of this, I just love to work in these markets because while what we do in the States is very differentiated, it is unheard of in these types of markets. Now, today only a little over \$100 million of our revenues are coming from international, a little over 5%.

Rudy Adolf:

And yet this number, our strategic objective, Mindy, is we need to get this to \$500 million or so over time and the market opportunity is there. We have the track record and yes, we will continue to be the largest investor in the US market for years to come, but no question, we see some just wonderful opportunities. And then of course there are lots of interfaces here, like the linkage between the Swiss market and the US market, and the Latin American markets, and the Asian markets, and the UK, Canada. This is such an interconnected world, and particularly when you're operating in the ultra-high net worth space, you're dealing with lots of cross-border type of opportunities. And there is just nobody who is better positioned than us.

Mindy Diamond:

Yeah. I want to pivot a little to the financial backing of Focus and then the public offering of Focus. So first and foremost, tell us a little bit about your investors; early ones like Summit and Polaris, and later ones like Stone Point in KKR.

Rudy Adolf:

Well, we had terrific partners throughout this journey. When we started in '06 at \$1.42 per share, really Focus was funded by my kids' college fund and by Summit partners. By the way, good news, all my kids went to school, all good. But this was really the beginning. And you mentioned KKR and Stone Point, they were two most recent investors. KKR exited last year with very good returns. Stone Point still owns about little less than 20% of Focus. And we have certainly benefited from a number of this private equity groups, and particularly Stone Point was instrumental in the process of taking this business public and very helpful in this. But again, as we said before, private equity is temporary capital – the business model of private equity. And so we went through many different vintages of private equity groups but of course, reality is we were always fortunate to have a very good balance of ownership between our partners and the private equity groups and of course management. And it was always a very nice kind of balance and value-added journey.



EPISODE TRANSCRIPT

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Mindy Diamond:

So, in July, of 2018, you took Focus public with an opening price of \$33 a share. I know you mentioned that it was as high as \$70, it's at \$40 today. But why was going public the right next step for Focus?

Rudy Adolf:

Yeah. By the way, particularly when we reached the \$69 it sounded like a really good idea. But reality is you cannot look at the share price in and out, this is not how you run a business – any business. But we didn't take this decision lightly at all. And ultimately we saw three advantages and they absolutely came through and will continue to be very powerful. First, this was the moment when we started to internationalize the business and having a complex, temporary capital, private equity structure was simply not conducive for that. In fact, very important, Mindy, ultimately when you are a supplier of permanent capital, you really want to have a permanent capital structure behind you and ultimately the only true permanent capital structure is being public. So, one that was very important was simply the credibility of being a US public company. And this is supporting our M&A business in so many ways.

Rudy Adolf:

There's not much secrets around this business. Every quarter you look at our filings and what's going on, so that definitely is very different than when you are just some complex private entity that does whatever it does, it's very different. Two, our balance sheet flexibility is second to none. Our debt, when you look at it, basically it trades close to investment grade. That gives us flexibilities in corporate finance, with a weighted average cost of capital that's superior to anybody else. Three, I don't want to get too technical about it, through structure that we have – the Up-C – we can facilitate very attractive transaction structures from a seller's perspective, that's also distinct and unique.

Rudy Adolf:

But yes, it feels great when you are trading really high. It feels less great when you're trading low. But that's just noise in the system, ultimately, we know we got a fantastic business and it's going to continue to do very well. And Mindy, if I have to say, for Lenny and Rajini and I, taking a business that we conceptualized on our kitchen tables a little over 10 years later public, the multibillion-dollar valuation is a very cool journey. And we are the only publicly traded business in this space and that is pretty unique.

Mindy Diamond:

Well, yea, and I want to ask what your thoughts are, or are others going to follow because there's no question that no matter who does, or what comes further, Focus's becoming a publicly traded company was good for the industry because it absolutely legitimizes and validates the space further and that's good for everyone. So, we talked about why going public was the right next step for Focus, but the next question is how was this a good step for your partner firms or your future partner firms? And I



EPISODE TRANSCRIPT

One-On-One with Rudy Adolf: How Focus Financial Partners Revolutionized RIA M&A and Went Public in the Process

A conversation with Rudy Adolf, Founder, CEO, and Chairman of Focus Financial Partners.

remember that before going public, when someone asked that question, “Why would I want to sell my upside to you?” The answer was, “Because we're going to take your growth to the public markets.” So, was that the right answer? Was it good for those firms? And what's the response to prospective firms now going forward thinking about selling to Focus?

Rudy Adolf:

Yeah. So, it wasn't just a fantastic outcome for so many of the partners, particularly in the days as we discussed before where it was 50% cash, 50% stock, they just did tremendously well and the effective multiples for some of these firms were 30x, 40x type of transactions, just stunningly successful. And by the way there was also very important moral obligation that I had, which was a driver of the IPO, which I always told these partners early on is, “Hey, I don't know when we are going to get liquidity on this stock but trust me, we will. And just give me – whatever – six, eight, 10 years and you will see tremendous value in the public.” And that's exactly what we did. So, we really fulfilled the promise. As I said, do what you say and say what you do, and this creates a good business and a good partnership.

Rudy Adolf:

So, from a prospective perspective, so one, just to reiterate, most of our deals are all cash. So of course, for partners who want to kind of manage their tax positions we can do tax-free exchanges, both for C Corps and for LLCs. That's very unique. I don't think anybody else can do it because you need the Up-C structure to do that. But most importantly, we do have, I firmly believe, the lowest cost of capital in this industry, which is not just to the benefit of the holding company but it's very much to the benefits of our partners. So, when one of our partners does a merger and we need \$20, \$30, \$50, or \$100 million, I can supply them with this capital because my cost of capital is so low. And that creates very good returns for the partners.

Rudy Adolf:

And of course, very good returns from an investor perspective. But also, the scale of the organization. Now there's nobody else with well over \$2 billion of run rate revenues and well over \$500 million in EBITA. We have the resources to invest and to help our partners that are very powerful and that's just part of our track record here.

Mindy Diamond:

So, was selling to Focus a better deal for those that got equity pre-IPO, than selling to Focus now where it's an all-cash deal?

Rudy Adolf:

Well, I'm not sure what better means because it's a risk-reward. It was all about risk-reward when Bert Schweizer took equity in 2007-



EPISODE TRANSCRIPT

One-On-One with Rudy Adolf: How Focus Financial Partners Revolutionized RIA M&A and Went Public in the Process

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Mindy Diamond:

It was a lottery ticket, right?

Rudy Adolf:

Well, I wouldn't say a lottery ticket. We did have a business plan attached to it and you don't have many lottery tickets with business plans, and we already had probably \$20 billion but yeah, they did very well. And the financial upside when you're in an early-stage venture is very different than when you're in a well-established company. But then on the flip side, and Bert would be the first to tell you, when we looked at so many of our value-added programs in '07, '08, the very early days, they were still work in progress. We didn't have the 87 labs and the experience and the capabilities we have today. And we talked about a number of these, what we have is so distinctive, is so revolutionary. We talked about the open architecture to high-end private banking and these types of approaches.

Rudy Adolf:

It is a much safer bet today from a value-added perspective because you have the track record of some of them, of course, the partner firms. And it's a so much safer a bet because we have 5,000 people that are basically operating in this space and have a track record. So, as always, it's a risk-return question, but I think we were terrific partners in the early days, '06 and '07, and we continue to be terrific partners in 2022 and beyond.

Mindy Diamond:

Yeah. So, what does the future look like for Focus as a public company? What's on the horizon?

Rudy Adolf:

Well, most certainly Mindy, you ain't seen nothing yet.

Mindy Diamond:

I love it.

Rudy Adolf:

I believe this is just in the US, it's a \$7 trillion industry going to \$10 trillion and beyond. Yeah, we are very proud of the scale that we have developed here, that we have built, but we have barely scratched the surface. And every time I get off the plane whether it's here in America or in any of these international markets, Mindy, all I see is opportunity.

Mindy Diamond:



EPISODE TRANSCRIPT

One-On-One with Rudy Adolf: How Focus Financial Partners Revolutionized RIA M&A and Went Public in the Process

A conversation with Rudy Adolf, Founder, CEO, and Chairman of Focus Financial Partners.

And how about what's in the lab that your partner firms or perspective partner firms can expect to see? Like this notion of bringing the concept of open architecture to high-end private banking is really interesting. What else is in the lab?

Rudy Adolf:

We have many things, but Mindy, I can't tell you about all of these things. But first it's all about depth, making all of these capabilities so much deeper and better, and just leveraging the scale and expertise. We just had a call before our little chat here, and I got an update on our insurance program. And again, same model as what I mentioned before for credit, we are working on like 50 complex high-tech insurance solutions which came up through the planning process, including premium finance and real state of the art stuff. It can be traditional trust where we just get better fees on behalf of our clients and better services and the right structures. But Mindy, there are things that are just life-changing. I just heard recently one of our partner's clients needed a special needs trust, and they just couldn't find one for one of their children.

Rudy Adolf:

And based on our expertise and relationships and so on and so forth, we found a very good structure. And Mindy we really took probably the single biggest burden off the shoulders of this family by getting them a well-priced special needs trust for many years. And then when you find solutions to these types of challenges, you're a partner for life for these families. That's an exciting thing that we do.

Mindy Diamond:

It's the quintessential definition of value-add partner for sure. Rudy, do you think that IPOs are on the horizon for many other firms in the wealth management space?

Rudy Adolf:

No. Mindy, I can't think of really any other firm in this space today that has the professionalism, the scale, the financial capabilities to be ready to access a public market. It's not an easy journey and there are good examples of both the upsides and the challenges that you have with the volatility of the public markets. But unless you really have prepared for it – we were SOX compliant for years before we took the business public. It's hard work and it costs a lot of money. So no, I do not see a rush, or quite frankly even the ability, of just about anybody else to truly operate as a public company at this point.

Mindy Diamond:

Yeah. So, I want to ask you a question that we get asked all the time. It's no secret that it is a strong seller's market right now, and that M&A is as frothy as it's ever been, and that valuation multiples are at a high watermark. Just yesterday I spoke with a \$10 million wirehouse team that's thinking about going independent. They are certainly impressed and intrigued by the notion of the valuations now, but



EPISODE TRANSCRIPT

One-On-One with Rudy Adolf: How Focus Financial Partners Revolutionized RIA M&A and Went Public in the Process

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wondering, “How do I know that valuations will stay that way 10 years from now when I’m ready to sell? And how do I know who the buyers will be?” So, what do you predict about valuations going forward? And what do you predict about who buyers will be 10 years and 20 years into the future?

Rudy Adolf:

Well, Mindy, now we are stretching my expertise and wisdom, but even on valuations the professionals, the disciplined buyers – maybe it was a little bit up in the last couple of years – but you would be amazed, Mindy, by the consistency of valuations that we have had since 2006. Yes, particularly last year there were a bunch of, I call them drunken sailors out there that just paid insane valuations last year. And guess what? They’re all out of money and out of the market. It was just so predictable that these drunken sailors just can’t sustain these business models and that’s exactly what happened. They’re all gone now. And I’ve seen this again and again, this market is – on the surface so attractive – that sometimes dumb capital enters and ultimately out spends everybody else because they have no robust value proposition. Like in our case, the entrepreneurship, value added, and permanent capital.

Rudy Adolf:

When your only value proposition is money, yes, you can get a couple of deals done if you have the capital, but no matter how big you are you’ll run out of money very soon. You know this industry as well as I do, there has never been a bank or an insurance company or an asset manager or foreign buyer that was ever successful in this space. These were all the one-night successes and then lots of tears thereafter. So, I wouldn’t get overboard on valuation. But if there’s one thing my glass ball is telling you, quality businesses, Mindy, today get terrific valuations. They got them five years ago and they will get them in five and 10 years in the future as well. These are very stable, cash flowing businesses with relatively little volatility, and as long as the laws of corporate finance are not totally abolished, guess what? There will be buyers in the future and the one thing I can guarantee you, Focus will be one of them five and 10 years from now as well.

Mindy Diamond:

I love it. One last question. This has been a great opportunity for our listeners to hear from the quintessential breakaway entrepreneur. You were one of the first quintessential breakaway entrepreneurs. So, what words of wisdom can you share with our listeners? So, let’s say for two different constituencies. First for the wirehouse advisor, the traditional brokerage firm advisor who’s thinking about going independent. What would you say to them?

Rudy Adolf:

Well, Mindy, don’t give me too much credit. I’m not sure how much wisdom I can share with you. But if you allow me for a moment, when the ancient Greeks wanted to learn their destiny, they visited the temple of Apollo in Delphi. There was an inscription in Greek which says, “Know thyself.” So, you want



EPISODE TRANSCRIPT

One-On-One with Rudy Adolf: How Focus Financial Partners Revolutionized RIA M&A and Went Public in the Process

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to know the future, you have to start with understanding who you are. And I think there's so much wisdom in this principle. In reality is we are in an industry of just unlimited opportunities. This is a growth industry for years and years to come but "Know thyself." The fiduciary model entrepreneurship is not for everyone, but for those who can really embrace this world it's the only way to go. It's the only way those for whom it's the right to excel in life and in servicing their clients. And these are our partners, and firms who, and principals who know who they are, what they want and where they want to take their business – there is unlimited opportunity. And any of them, Mindy, please introduce us.

Mindy Diamond:

Okay. And one last question. So, what would you say to the already independent business owner, say someone managing let's say \$700 million or a billion in assets who has not sold their firm. What message would you share with them?

Rudy Adolf:

Well, I kind of said before, this is just a huge decision. For many this is the single biggest decision of their commercial life. And you have to be very respectful but it starts with what I just said. When we sit down with prospects, invariably, one of the first questions is, "What do you want to accomplish?" They're all very successful before we ever meet them. And we know just about everybody in this industry, but reality is where are you in your journey? Where are your partners in their journey? What makes you tick? What are your objectives? And where do you want to take the business? And for those who want to take their business really on a totally different level, we have quite a number of firms in this league. You want to be an entrepreneur, but you think you can benefit from some help here and there, well, you've got my phone number.

Mindy Diamond:

Well, thank you. Rudy, this has been absolutely delightful. It's always a pleasure. It's been a long time since you and I have gotten to chat and I'm honored and thrilled. And I'm so grateful for all of your wisdom and excited to see what the future holds for Focus.

Rudy Adolf:

Outstanding. Well, thank you for your interest.

Mindy Diamond:

You bet.

Rudy Adolf:

All the best, Mindy.



EPISODE TRANSCRIPT

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Mindy Diamond:

Rudy is a legend in the industry. One who earned his stripes by turning his vision into a reality and transformed the independent space. And based on his goals, you might say there's much more to come.

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. And if you're not a recipient of our weekly email, perspectives for advisors, click on the articles 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. 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 by 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:

And again, if you enjoyed this episode please feel free to share it with a colleague who might benefit from its content. If you're listening on the Apple Podcast app, I'd be grateful if you gave it a star rating and a review. It will let other advisors know it's a show worth their time to listen to. This is Mindy Diamond on Independence.

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