

INDUSTRY

M&A Market Trends: What RIA Sellers Need to Know



By Charles Paikert
November 23, 2015

Thinking of selling an RIA firm? Make sure it's tech-savvy and up to speed on social media, digital platforms and automated investment advice.

"A key driver for M&A deals, especially at the regional level, is a need for new technology by acquiring firms," says David Selig, chief executive and founder of Advice Dynamics Partners, a San Francisco-based consulting firm specializing in mergers and acquisitions for RIAs. "We're finding that buyers are placing high strategic value on technology knowledge and innovation."

Selig has joined forces with New York-based investment banking firm Park Sutton Advisors, another M&A specialist, to form a strategic alliance allowing both firms to draw on the others' expertise and contacts to serve a wider range of clients across the country with between \$500 million and \$10 billion in assets.

In addition to an increased M&A emphasis on technology expertise, Park Sutton Principal Steven Levitt says he has been struck by the unusual number of large RIA deals so far this year.

"There have been at least 10 deals involving acquired firms with nearly \$4 billion in assets under management this year, while there was only one last year and just only four in 2013," Levitt says. "It's mind boggling."

**PRIVATE WEALTH TRANSACTIONS IN 2013, 2014 & 2015
FOR FIRMS WITH AUM OF \$4 BILLION OR MORE
(IN US \$ MILLIONS)**

Target AUM	Date	Target	Buyer
\$26,240	3/27/13	Genworth Wealth Management	Aquiline and Genstar
\$20,000	4/11/13	Atlantic Trust	CIBC
\$7,300	9/3/13	Bel Air Investment Advisors	Fiera Capital Corporation
\$4,000	8/19/13	Clarfeld Financial Advisors	AMG Wealth Partners
		Total Deal Count for 2013 – 4	
\$4,300	7/16/14	Banyan Partners	Boston Private Bank & Trust
		Total Deal Count for 2014 – 1	
\$15,000	10/12/15	Edelman Financial	Hellman & Friedman
\$9,800	11/5/15	The Mutual Fund Store	Financial Engines
\$7,200	9/15/15	WealthTrust	Lee Equity Partners
\$7,000	7/13/15	myCIO Wealth Partners	AMG Wealth Partners
\$6,100	6/17/15	Constellation Wealth Advisors	First Republic Bank
\$6,000	3/25/15	Mercer Advisors	Genstar Capital
\$6,000	1/27/15	Baker Street Advisors	AMG Wealth Partners
\$4,700	4/21/15	Wealth Enhancement Group	Lightyear Capital
\$4,000	9/25/15	Federal Street Advisors	Pathstone Family Office
\$3,800	5/11/15	Kibble & Prentice Private Investment Advisory Group	Columbia Pacific Wealth Management
		Total Deal Count for 2015 – 10	

Source: Park Sutton Advisors, LLC

A desire for firms to sell before the bull market ends and erodes valuations may have been a catalyst for the flurry of large deals this year. "They wanted to get the deal done," Levitt says.

The desirability of wealth management firms generating reliable cash flow, combined with considerable cash reserves of buyers, also contributed to the increase in outsized deals, he adds.

TECH PREMIUM

While the trend may not continue next year, especially if there is a market downturn, the premium being placed on smaller firms with highly advanced tech skills is here to stay, Selig says.

For example, Selig cited an advisory firm in northern California near Silicon Valley using social media "in a very innovative way" for branding, awareness and business development. That tech savvy, in turn, helped the firm "attract great next generation talent," Selig says.

While not the "primary driver" of the firm's sale, its tech skill set was a "key contributor" to its attractiveness, according to Selig. "The acquiring firm plans on using their social media strategy firm-wide on a much bigger scale," he says.

Selig also cited an RIA in the northeast being bought by a bank. The RIA had developed proprietary "robo-style portfolio construction," that the bank plans to use for its emerging affluent customers, Selig says. Selig declined to give specifics because of a pending deal.

The deal is a good example of an RIA "bringing best-of-breed, next-generation technology to the table" so that a buyer doesn't have to spend the money developing it themselves, he says. "[The bank] is going to incorporate the technology on their current platform and also deploy it for future acquisitions." Selig notes. "It's a very attractive proposition."

BUYERS READY TO POUNCE

M&A activity in the RIA market should remain strong, Selig says.

"There's a lot of capital on the sidelines waiting to be deployed, and I expect it eventually will be deployed," he explains. "Debt is still cheap and private equity and other buyers are ultimately chasing quality, cash flow and return on investment. Well-run wealth management firms can provide all three."

And expect the trend of RIAs acquiring or merging with other advisory firms to continue, Selig says.

Firms such as Savant Capital Management, Mariner Wealth Advisors, Aspiriant, Exencial Wealth Advisors and Captrust have all "cut their teeth on M&A and are getting quite good at it," Selig says. "They know how to get deals done and are laser-focused on what they're after. Success leads to more success, and I expect more regional firms to emerge and also pursue acquisitions."

RIGHT TIME TO COMBINE

Not coincidentally, Selig and Levitt are convinced that their alliance can prosper in a flourishing M&A market for RIAs.

"We thought this was the right time for us to take the next step," Levitt says. "It was really a no brainer. The financial industry has evolved rapidly since we both started our firms in 2008, and by merging our capabilities we can help our clients maximize their strategic initiatives.

A Park Sutton client with a complex succession plan, for example, may benefit from Advice Dynamics' expertise, Selig says, while one of his clients who needs outside capital could utilize Park Sutton's investment banking experience.

And by teaming up, he adds, clients and potential clients of both firms will gain access to "deep relationships" with four of the industry's top asset custodians: Schwab Advisor Services, Fidelity Institutional Wealth Services, Pershing Advisor Solutions and TD Ameritrade Institutional.

STIFF COMPETITION

But Selig and Levitt face stiff competition in a crowded field.

New York-based Silver Lane Advisors is well known for working on high profile deals, such as First Republic Bank's blockbuster 2012 acquisition of Luminous Capital and Canadian private equity firm Fiera Capital's purchase in 2013 of the \$7 billion Los Angeles RIA Bel Air Investment Advisors.

Two Silver Lane principals, Elizabeth Bloomer Nesvold and her husband Peter Nesvold, have just co-authored a book with Alexandra Reed Lajoux on "The Art of M&A Valuation and Modeling: A Guide to Corporate Valuation."

Former Schwab M&A expert, David DeVoe, heads the fast-growing San Francisco-based DeVoe & Company, which releases a quarterly report on RIA M&A activity and opened an office in Dallas in October, headed by Vic Esclamado, formerly COO of True North Advisors, a \$1.3 billion RIA.

Newport Beach-Calif.-based Echelon Partners, headed by Dan Seivert, has been an industry stalwart for years, and hosts the annual Deals and Deal Makers Summit, an influential M&A conference for RIA executives and others interested in the market.

TRANSITION HELP

The burgeoning M&A market has also opened the door for firms to offer up advisory services for smaller RIAs.

Such firms include FP Transitions, Succession Resource Group and 3xEquity, which specialize in valuations and succession plans.

FP Transitions is headed by David Grau, Sr., one of the industry's most senior and best known valuation experts. SRG is headed by his son, David Grau Jr. SRG helps RIAs find qualified buyers, as well as aids them in designing contingency plans in case of death, disability or loss of license.

3xEquity bills itself as an "online resource" for advisors. Earlier in November, it launched a new subscription service to match buyers and sellers, determine valuation, compare industry benchmarks and provide access to financing.

As long as the bull continues to run, expect plenty more deals, says 3x founder and chief executive, Jeff Crosby.

"It's been a great environment for RIA M&A," Crosby says. Based on the market continuing to be positive, we'll continue to see high M&A activity."

