WHY THE M&A PARTY ISN'T BREAKING UP — YET

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All signs are pointing to a continued expansion of the RIA M&A boom.

At first glance, this could be a tall order, considering the highlights of the firm's RIA M&A DealBook for 2016, which include an all-time high in the number of transactions (138); the second-highest year of breakaway activity (430 moves); the continuing surge in billion dollar deals (42) and a record high for aggregate AUM of acquired RIAs ($144 billion).

But numerous factors are spurring deal growth, according to **Dan Seivert**, CEO of **Echelon Partners**, who has released a new, in-depth report on the topic.

"Macro trends such as an aging adviser population, an increase in succession planning and the impacts of new fiduciary requirements are setting up for a perfect storm of M&A activity for the wealth management industry," Seivert says. "We anticipate a significant increase in advisers looking to drive inorganic growth through an M&A strategy."

MORE BREAKAWAYS COMING

Breakaway momentum will also keep rolling, according to Seivert.

"We expect this trend to continue to expand dramatically," he says, "particularly as the many retention deals signed during the financial crisis are fully accrued and there are fewer limitations for leaving the wirehouse."

Indeed, the new year has gotten off to a strong start, with Colony Group adding Denver-based Jones Barclay Boston to its stable, following a major $1.3 billion pick-up by Focus Financial Partners and two smaller deals by serial acquirers Mercer Advisors and Beacon Pointe Wealth Advisors.

WHAT COULD GO WRONG

What could throw sand in the gears of runaway M&A growth?

"If it comes to light that a serial buyer or aggregator has done a fair deal for advisers, that will create a cloud for deal makers," Seivert says. "And if advisers are in a deal that hasn't worked out, they will be reluctant to speak out because of self-interest, and that in turn impacts the knowledge other sellers need to make a fair deal."

For now, however, it's full steam ahead. Based on trend data, Echelon's DealBook is projecting that deals this year will see transactions involving more than $190 billion in AUM, which would shatter last year's record of $144 billion.

DEAL ACTIVITY DRIVERS

What's driving the deal activity?

- Increased availability of financing.

  For decades, traditional lenders balked at the risk associated with advisers' lack of assets to foreclose on in the event of a default. In the process, Seivert points out, they overlooked the attractive recurring revenue streams that alternative finance companies have felt comfortable with for many years.

  But in the past four years, more savvy lenders who appreciate cash-flow have entered the industry. There are more than a dozen sources of deal financing, according to Echelon, although most of the activity is conducted by a few key players, each looking to do $100 million to $200 million in loans per year with an average loan size of $1 million.

- Increased number of peer-to-peer deals.

  "As the industry grows up and more advisers belong to study groups and attend conferences, more advisers know each other," Seivert points out. "That means when it comes time to do a deal, advisers can sometimes turn to someone they already know and trust."

  In such cases, due diligence tends to progress faster with fewer complications, resulting in a greater probability of the deal getting done and staying together. Expect more of these situations which help friendly peers with the complicated issues of valuation, deal structuring, financing and governance, Echelon says.

- Market cycle timing.

  The current bull market is the third longest expansion in over 100 years, Seivert notes. The market doesn't go up forever, and advisers know the clock is ticking.

  "If there's another downturn, it may be five years or more before an adviser can make up the lost AUM," Seivert says. "On net, we believe older advisers are factoring market cycles into timing the exit strategies."

- Increased deal assistance.

  Sellers have never had more assistance with deal activity in the history of the industry, Seivert notes. Investment bankers, lawyers, accountants, custodians, tech vendors, TAMPs, consultants, practice management advisers at IBDs, recruiters, financiers and executive search firms are all offering assistance with succession planning and the deal process.

  "All this help means more sellers are crossing the finish line and getting their deals done," Seivert says.

- Higher seller knowledge.

  Mergers and acquisitions are now thoroughly examined at conferences, in white papers and webinars and in the industry's trade press, Seivert points out. "Most entrepreneurial wealth managers know much more than they did 10 years ago," he says, "although they can still benefit from working with seasoned deal experts."

  One popular forum for learning more about RIA M&A has been Echelon's own Deals and Deal Makers conference, which this year is returning to Southern California in mid-September, Seivert says.

The full report is available on the firm’s website, www.RIADealBook.com.