Dan Seivert's Tips for Wealth Management Firms Looking to Sell

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Wealth managers interested in selling their firms should not believe the hype about a strong seller's market, says **Dan Seivert**, CEO of **ECHELON Partners**, a leading investment banking firm for the industry.

"Everyone thinks it's a sellers' market now. If that were true valuations would be really high, but they're moderate," said Seivert, who spoke at this week's Investment Advisor Forum sponsored by the Investments and Wealth Institute in New York City.

"There's a dearth of attractive buyers but a lot of sellers," said Seivert, adding that deal terms favor buyers.

Still, the number of deals in 2017 involving firms with more than $100 million in AUM surged to 154 in 2017, capping a 16% compound annual growth rate since 2009.

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Increased availability of financing has been a big driver of deal activity. In addition, sellers have more access to assistance in deal making and to sales to other wealth management firms, and they have more knowledge about dealmaking, according to Seivert.

For those firms interested in selling, Seivert stressed that "growth is the single most important variable in valuing a well management firm. Growth signals quality, validates a business model, affords financing, allows for both internal succession and sales to external buyers," said Seivert.

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He recommends that potential sellers know how fast or slow they're growing in order to assess their valuation, set a strategy for growth and check if their firm is taking an aggressive enough approach to pursuing growth opportunities.

Since 2010, revenues of wealth management firms have grown at a compounded annual rate of 15%, with rates ranging from a low of 8% in 2015 to a high of 24% in 2011, according to Seivert. (The 2017 growth rate was 20%.) Their assets have been rising while their numbers have been declining.

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Scale is another important consideration for sellers. Seivert divides the wealth management universe into three scale models: small businesses with more than $1 billion in assets; boutiques with $200 million to $1 billion AUM and practices with less than $200 million in assets. "The valuation paradigm is different for each firm."

Buyers are most attracted to firms with meeting these key thresholds: $1 billion AUM, $10 million in revenues and $3 million in profits, according to Seivert. Few firms currently for sale meet those criteria, according to ECHELON Partners. Just 3% have $1 billion in AUM and none have $10 million in revenues. Moreover, three-quarters of wealth managers for sale have less than $200 million in assets and less than $1 million in revenues.

In 2017, RIAs accounted for 39% of buyers of wealth managers, and strategic buyers or consolidators had a 42% market share. Bankers, once the largest buyers of wealth managers, now account for just 7% of purchasers ("other" accounted for the remaining 12%).

Looking ahead, Seivert said wealth management firms should expect a decline in valuations of as much as 35% after the bull market, about to enter its tenth year in March, ends. It could then take six to seven years for valuations to recover.