5 Trends Driving Record M&A Activity for RIAs: Dan Seivert

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Echelon Partners debuted Wednesday its RIA M&A DealBook and website, with data showing that a record number of M&A deals closed in the advisor space last year — 138 transactions, or a 10% growth over 2015's record level. The firm said there has been a 16% compound annual growth rate in deals "since the business cycle trough in 2009" and that "M&A activity has increased in 6 of the 7 years leading up to 2016's record level."

Moreover, Echelon CEO **Dan Seivert** said in a statement that the advisor-focused investment bank and consultant anticipates a "significant increase in advisors looking to drive inorganic growth through an M&A strategy as well as an increase in deal activity." It's not only the number of deals that has risen: the size of the acquired firms has also increased. The number of acquisitions involving wealth managers with more than $1 billion in assets under management "more than doubled in 2015 and 2016 vs. 2013 and 2014," the report found.

In an interview Tuesday, Seivert presented the major trends — some surprising, or "contrarian," as Seivert calls them — that are driving this record growth deal activity beyond the traditional driver of the aging advisor workforce.

The Echelon site, RIADealBook.com, is meant to be a meeting place for, as the site proclaims, "DealMakers," and includes the M&A data for RIAs (called Wealth Management Deals), along with separate reports on "Breakaway Activity," "WealthTech" deals (covering fintech companies in the advisor space), and "Investment Management Deals' among asset management firms. In addition to the data, Seivert says that on the free site "we're putting up white papers, notifications of conferences, vendor partners" with whom Echelon has a "trusted relationship" in order to facilitate "dealmaking." Seivert says that of the partners on the site, "we're not really charging them; we help them, they help us."

One interesting note on the breakaway deals: "Having done a number of presentations with [Pershing Advisor Solutions CEO] Mark Tibergien," Seivert says, "I've come to the belief that 'breakaways' are broader than just wirehouses" and include "next-gen RIAs breaking away."

"It's an interesting phenomenon, driven by a lot of partners" in advisory firms "who've contributed to these firms" but, frozen out of profit-sharing and partnerships, "they're starting their own firms or joining other firms."

Returning to the drivers of M&A activity, Seivert focused on five trends.

1. The Increased Availability of Financing

Live Oak Bank started this trend by entering the advisor loan market in 2013, Seivert said, followed by other firms (Echelon, he said, advises on equity investing, and does not provide debt financing). There are now a number of lenders, he said, that have followed Live Oak's lead, and in some instances have moved beyond Live Oak's standard financing in the size of loans made and other terms.

"Live Oak would cap out at $5 million," he said, and also requires "owners to be out within one year" after a sale, which Seivert said was a Small Business Administration guideline. (Contacted about its loan terms, Jason Carroll of Live Oak said that while its SBA 7A loan program has a $5 million cap, since Live Oak went public in 2015 it has the ability to, in some cases, make loans larger than that amount using the bank's own capital. As for the SBA requirement on owners departing one year after selling, Carroll clarified that the SBA requires sellers to be removed from playing a "key person" role at the firm within a year but can serve as a consultant or referral source to the firm, or even an at-will employee, which he said often "alleviates and smooths the transition to new ownership.")

Other common loan terms have changed as well, Seivert reported. Previously, lenders would set a seven-year term for their loans, while others "wouldn't allow prepayments." Now, some lenders are "doing 10-15 year" loan terms. In addition, "interest rates are quite attractive" now for advisor M&A loans, often just "200-400 bps over LIBOR; so 6% to 8%." In sum, he said, there is "more diversity of deal terms."

2) Increased Number of Peer-to-Peer Deals

This driver is a reflection, Seivert says, of more communication among advisors, whether at industry conferences, on social media such as LinkedIn or in study groups. These days, he says, "there's more like 2 degrees of separation" between advisors who might share the same custodian, who might be a [Dimensional Fund Advisors] lover" or have the "same orientation toward growth" or where both "hate alts." That allows advisors pondering a deal to "sniff around each other," leading to "some preselection," which facilitates more transactions, often of a friendly nature.

3) Market Cycle Timing

"We're in the third-longest expansion in history," Seivert says, which makes the chances of a "turn in the cycle" higher. Knowing that likelihood, and that making a deal usually takes at least a year, there are some advisors who are more eager "to get a deal done" now rather than later.

Seivert likens it to the stock market. "When there are IPOs, people wade in and buy" that stock. So now, "when there's a lot of press about firms selling, that there's higher deal volume, they think 'Maybe I should be doing this too.'" While that might be a good approach for sellers — "to be more timing oriented; you don't sell in the trough," such as in 2009 — Echelon believes that approach is "not necessarily" optimal for buyers; "you should be buying throughout the cycle."

4) Increased Deal Assistance

Potential sellers, Seivert says, "have never had more assistance with deal activity in the history of the industry." Whether it's issues around the "human capital, legal, ops, tech, and finance" part of a transaction, advisors now have access to many professionals — custodians, broker-dealers, bankers, lawyers, etc. — who can help advisors implement a succession transaction.

Many of the completed deals arise from succession issues or are implemented by "smaller firms who can't seem to grow," Seivert says. He cautions that some of those professionals providing assistance don't "always offer good advice," and there are many ways to approach a transaction. "It's like a diet plan," he half-jokes, meaning that each owner should figure out "which plan works best" for them.

But advisor surveys show that only a small percentage of advisors have created written succession plans, usually around 20%. Doesn't that keep the number of transactions down? "I'm not so concerned about the 80% of advisors who don't have plans; it's the 20% I'm concerned about, because I know how flimsy those plans are." Those plans, Seivert says, are "like a three-ring binder that sits on the shelf rather than a financial plan that's living and breathing. The underlying legal parts of their plans and their financial metrics leaves them with something that more often than not could be problematic." Advisors with those plans, he suggested, should "change their mindsets."

5) Higher Seller Knowledge

The increased attention devoted to advisor M&A activity by everyone from conference organizers to the media may raise more questions among potential buyers and sellers than it does answers, Seivert admits. But that attention has also "brought down the fear factor," he says. What was for many advisors a "deep and wide chasm" over their M&A options has now become shallower, he argues, progress that can be helped by experts in advisor dealmaking.