DOL Uncertainty Puts Third-Quarter Dent in Record M&A Year for RIAs

01/23/2018 Originally Published by Janice Kirkel, Citywire

ECHELON Partners report shows fourth-quarter pickup, though, as cracks in broker protocol spur some advisors to get out while the getting is good

Merger and acquisition activity involving RIAs rode a bit of a roller-coaster in the second half of 2017, with concerns about the fate of the Department of Labor (DOL) fiduciary rule causing a slowdown in the third quarter, and worries about the future of the broker protocol prompting a rise in fourth-quarter deals.

Those were the findings of the **fourth quarter RIA M&A deal report from ECHELON Partners**, a Los Angeles-based investment bank and consulting firm focused on the wealth management business.

The report showed 168 RIA deals for the year, up 22% from the 138 deals in 2016. The average deal size was above $1 billion for the second year in a row.

Strategic buyers and consolidators accounted for 44% of RIA purchases in 2017, contributing to a record 74 deals.

Once the largest buyers of RIAs, banks have been at the bottom of the charts since 2012, the report noted. However, in 2017, banks exhibited a revived interest in acquiring RIAs with 10% of total RIA acquisitions, up from 7% in 2016.

As the advisor protocol began to splinter with the departures of Morgan Stanley and UBS near year-end, the fourth quarter saw a rise in breakaways of 13% from the third quarter, with a total of 121.

'There was an increase in people moving in anticipation of their firms moving away from the protocol,' said **Dan Seivert, chief executive and founder** of ECHELON.

The fourth quarter overall deal count of 41, the report stated, was the fourth-highest quarter of deals over the past five years, with three of the highest quarters occurring in 2017. At the start of 2017, deal-making was active, with 47 in the first quarter and 45 in the second, two of the three highest quarterly deal totals since 2013. The third quarter, however, saw only 35 deals.

'As for the slowdown in the third quarter,' said Seivert, 'uncertainty about DOL caused some pause on the buyer side because the implementation of DOL would have a significant downward impact on economics for commission-based firms.'

That was partly responsible for the third-quarter dip, he said, 'but then we started to see early signs of tax changes, and also the first half was so busy that often times people can't reload that quickly. Almost any buyers we talked to with the exception of the top two or three were tired from the deal process.'

The report identified five drivers behind the overall increase in deals in 2017:

1. **Entrepreneurs capitalizing on a robust market:** With the Dow Jones closing over 26,000 and the recent tax law changes, sellers and buyers alike feel confident and as such are more inclined to enter and consummate transactions.

2. **Private equity firms seeking returns for limited partners:** With over 100 private equity firms already backing roll-ups, robo-advisors, and traditional wealth managers the industry is now teaming with professional financiers looking for deals and shooting for internal rates of return north of 20%. With over 25,000 firms there is a ton of room for more deals and deal makers.

3. **Lenders facilitating the appetite for debt:** Annual lending is approaching $500 million as more lenders enter the space based on the huge success of early entrants and their followers. Old fears of risks associated with the lack of tangible assets continue to decrease as lenders back more and more firm types and situations.

4. **Internal succession transactions finally bearing fruit:** With internal succession deals moving from 40% to 60% over the past 20 years, more next generation partners are signing long term deals with founders that yield attractive outcomes for both.

5. **More advisors for Needy advisors:** With more and more wealth managers realizing the prudence of forgoing the do-it-yourself path, they have increasingly turned to the wealth of resources offered by investment bankers, lawyers, accountants, consulting firms, executive search firms and practice management consultants.