Lending Propelled RIA M&A Deals to Another Record in 2017

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Lenders continued to feel more comfortable working with registered investment advisors, helping drive merger and acquisition activity to another banner year in 2017.

Despite a slowdown in RIA deal volume during the third and fourth quarters, there was a record 168 transactions in 2017, up 21.7 percent from 2016, according to a report from **ECHELON Partners**, an investment banking and management consulting firm. The average deal size in 2017 was also valued at more than $1 billion for the second year in a row.

The RIA industry has steadily grown in recent years. As a result, it has attracted attention from outside wealth management and led to a variety of business types within it. Private equity firms are taking an increasing interest in RIAs and a number of strategic acquirers and consolidators have emerged.

But on ECHELON Partners' list of drivers that are increasing deal activity, one stands out: lender appetite for debt.

"This is really what began to thaw the M&A deal activity," said **Dan Seivert, CEO and managing partner** of ECHELON Partners.

In 2012, no commercial bank would lend in the space, according to Seivert. Large banks and custodians were largely uninterested, and the mezzanine lenders didn't know the space well enough. Then entered Live Oak Bank, a specialty lender that caught the attention of others six years ago. Since then, fears of risks associated with a lack of tangible assets at RIAs have decreased and a record number of transactions have been completed annually. Annual lending is approaching $500 million per year.

"It's great deal for the lenders and great deal for the industry," Seivert said.

The report noted if the trend continues as expected, the number of deals would reach 202 in 2018 and deal size would exceed $1.4 billion, translating to more than $280 billion changing hands.

The report also detailed a bump in the number of so-called breakaways, or advisors employed by a brokerage that leave to start or join an RIA. ECHELON attributed a 13 percent year-over-year increase in breakaways during the fourth quarter of 2017 to changes in membership to the Protocol for Broker Recruiting, a years-long arrangement that pared back litigation between brokerages when financial advisors left for another firm. There were 51 more breakaways in the fourth quarter of 2017 than the same quarter in 2016.

Seivert said a variety of factors are applying pressure on the number of wirehouse advisors leaving their firms. Fear of their firm leaving the protocol agreement, an unprecedented amount of resources to help them leave and the forgivable loans coming to term are some of reasons Seivert said the number is rising.

Meanwhile, the number leaving isn't higher because many wirehouse advisors are employed by firms that have already left the pact. Morgan Stanley and UBS—two of the largest brokerages with an aggregate of more than 20,000 advisors—were the first to leave.

Another reason they are staying put? Seivert said "times are good." Just check the earnings; markets and revenue are up and fee-based accounts, where more client assets are landing, are making firms (and advisors) more money.