United Bucks Market on Acquisitions

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Despite the slowdown in mergers and acquisitions activity this year, the roll-up firm United Capital Financial Partners LLC is continuing to pursue an ambitious, though potentially perilous, expansion strategy.

United Capital has acquired nine RIA firms this year, with two other deals for firms in California and New Jersey expected to be completed by the end of the year. That would bring its roster of firms to 22.

And though venture capital has been hard to come by, United Capital has a $15 million investment from Bessemer Venture Partners in its pocket that it plans to use to fund more acquisitions next year in target markets including Atlanta, Minneapolis, Phoenix, Seattle, St. Louis, Portland, Ore., and Charlotte and Raleigh, N.C.

By contrast, the rest of the M&A market for registered investment advisers is expected to remain sluggish through the end of the year, according to David DeVoe, managing director of strategic business development for Schwab Advisor Services.

“The slowdown is being driven by a decline in valuations, reluctant sellers and principals of advisory firms spending more time with clients, leaving less time for deal making,” he said. “Owners are working through a lot of distractions right now.”

Although there were a record 88 mergers and acquisitions involving RIA firms last year, according to statistics compiled by Mr. DeVoe for Charles Schwab Institutional, there were only 36 in the first half this year.

What's more, the percentage of such deals made by roll-up firms, which buy independent advisory firms around the country in hopes of increasing their value by creating scale, also has declined. In 2007, such deals accounted for 44% of total assets under management, according to Mr. DeVoe. That figure slipped to 29% last year, although it had edged up to 36% as of June 30, he said.

United Capital contends that it is well-positioned to buck the trend.

Gary Roth, United Capital's chief operating and financial officer, said its goal is to create an “integrated national firm.”

“We see a huge demographic opportunity with retiring advisers and younger advisers with a good business who are disenchanted with working for a broker-dealer,” he said.

Industry observers give United Capital high marks for its initial progress but warn that achieving its ultimate vision of a national network is far from certain.

“United is focused on synergy and is achieving more clarity about who their optimal adviser partners should be,” said Mark Tibergien, chief executive of Pershing Advisor Solutions LLC. “They're starting to look like a broker-dealer in terms of a branch system, but with an RIA emphasis.”

"So far, United has been a good example of a holding company that has created a business model that creates value-added capabilities by centralizing functions like investment management, compliance and human resources," Mr. DeVoe said.

But industry experts also point out that no consolidator has been able to create a centrally controlled national network.

Roll-up firms using private capital also need to be able to "prime the pump," Mr. Tibergien said.

"The challenge a roll-up like United faces is, what kind of infrastructure do they have to invest in to support a far-flung network of offices?" he said.

United Capital's usual deal is a combination of cash and equity in a partnership that ultimately may be sold in a private sale or an initial public offering.

Partners can also profit as their firm grows in value over the years, and they can sell their shares internally.

Robert Wolfe, managing director of Miami-based Capital Planning Group LLC, which was acquired by United Capital on Sept. 1, said he expects the firms that were acquired to remain a partnership, and he does not expect them to be sold or spun off in an IPO.

"All three options are viable," said Mr. Wolfe, whose firm has about $300 million under management. "But I think we will gravitate towards a long-term-partnership model."

Don't bet on it, cautioned **Dan Seivert**, chief executive and managing partner for **Echelon Partners**, an investment-banking and consulting firm that plans to issue a research report on the roll-up market by yearend.

"Continuing as a partnership is unlikely when you have private-equity investing involved," Mr. Seivert said. "One of the downsides of selling to a roll-up is giving up things, including the freedom to control the timing and terms of a liquidity event."

But Mr. Wolfe said he has no regrets.

"United's mission is to become the first firm with a national footprint, and their value proposition is straightforward: They provide technical and operational synergies," he said. "But I think their greatest asset doesn't appear on the balance sheet, and that's being able to tap into the skills of the other advisers in the network."

Indeed, United Capital will be aggressive in pursuing more advisers who are either owners of an RIA or want to leave their current firm and join a United firm, said Matt Brinker, vice president of partnership development for the company.

"Our goal is dominant market position in warmer-weather markets where baby boomers are retiring," he said.

A decline in RIA valuations appears to be bolstering the firm's ambitions.

In 2007, RIAs tended to be valued at approximately six times cash flow, Mr. DeVoe said, while this year, the valuation has been closer to four times cash flow.

United Capital, which generally targets firms with assets ranging from $150 million to $1 billion, bases its valuations on a combination of recurring and non-recurring revenue, as well as other factors, such as a firm's structure, expenses and location, Mr. Roth said.

"A general re-pricing is taking place, with [valuations] up to one-third down, but we haven't changed our mindset," Mr. Roth said. "We lost out on deals in ''06 and ''07, but now the market has come back to where we've always been."

United Capital is also considering selecting a single name for its growing network as it pursues more firms such as Capital Planning and Houston-based Green/White Advisors, which it bought in May, Mr. Brinker said.

"We don't want to lose a firm's local identity," he said, "but the benefits of a unified brand are undeniable."

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