RIA M&A Poised to Shatter Record for Deals

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As M&A deals for advisory firms continue to increase in volume and size, 2017 is shaping up to shatter previous records, according to **ECHELON Partners'** 3rd Quarter Deal Report.

Although deal activities slowed in the third quarter, Echelon expects the total number of number of transactions for the full year to increase over 20% from last year, resulting in a fifth consecutive year of record gains.

RIA transactions averaged $1.1 billion through June 30, the highest of the past seven years, according to the report. In 2015 and 2016, the average deal size was $897 million and $1 billion respectively.

The heightened interest in M&A come as financing becomes easier for buyers, says **Dan Seivert**, ECHELON's founder and CEO. Meanwhile, peer-to-peer deals, in which advisers sell their practices to someone they know, surged. In these transactions, "the trust factor is high and there's a strong match," says Seivert.

Many RIA owners are taking advantage of the long-running bull stock market to sell, Seivert says. "If they wait longer, they have the risk that the cycle may turn and valuation goes down," he adds.

CONSOLIDATORS MOST ACTIVE BUYERS

Despite the high degree of interest in M&A, the biggest hurdle to get deals done is the inability of sellers to find satisfactory buyers, Seivert says. Many buyers — especially other RIA firms —have little or no experience in acquisitions and have no formal deal process. On the other hand, professional buyers design deals that are "very confusing" to advisers, who worry that the profit split is unfair, he maintains.

Consolidators, such as Focus Financial Partners and HighTower Advisors, have become the most prominent buyers, accounting for 53% of RIA purchases so far in 2017, 33% greater than in 2016, according to the report.

"They spend money to hire people to find deals and get deals done," says Seivert.

But consolidators also face pressure from their investors to generate high returns — often over 20% a year — which can only be achieved through acquisitions, Seivert notes. In the biggest transaction of the year to date, two private equity giants, KKR and Stonepoint Capital, took a majority stake in Focus.

Firms with over $1 billion in AUM are attracting the most attention, according to Seivert, because they are more enduring and less risky, providing a buffer against a market downturn or an exodus of advisors.

With the rise of consolidators, RIA buyers only represent 25% of deals so far this year, a slump from their 42% market share in 2016 and the lowest share since 2005. Armed with less capital, they target smaller firms with about $500 million in AUM or less, Seivert says.

RIAs ATTRACTING BREAKAWAYS

Wirehouse advisers continue to flock to RIAs, regional brokerages, or start their own practices amid decreasing wirehouse recruiting bonuses. The average size of wirehouse adviser breakaways rose to $318 million so far in 2017, compared with $280 million in 2016, the report says.

In the first three quarters this year, 302 breakaways from wirehouses occurred, with another 88 expected in the fourth quarter, the report forecasts.

The rising number of advisors reaching 60-year-old also accelerated the breakaways, as advisors seek for liquidation options. Joining an RIA or starting their own practices will allow them to be subject to lower taxes than staying at wirehouses.