Mercer Advisors acquiring its way to national family office status

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For more than 20 years leading up to the 2008 financial crisis, the Mercer Advisors business model was simple, straight forward and working quite nicely.

A strict focus on the lucrative world of dental practice business consulting services provided an easy entry point into the management of the dentists' assets.

Even though the business model helped Mercer grow to seven offices and $3 billion under management, serving 3,000 clients, it wasn't strong enough to withstand the force of the Great Recession.

"Our client acquisition model was dental practice consulting, but dentistry was really hit hard by the recession," said David Barton, who took over as Mercer's chief executive officer in June 2008, just a few months before the financial crisis unfolded in earnest.

"Discretionary income dried up and dentists stopped coming to our workshops," he added.

While Mercer still manages assets for many of those original dental-industry clients, the dental consulting business was sold off as part of the transition to focus exclusively on registered investment advisers.

Mercer, which this month wrapped up its sixth RIA acquisition in 13 months, now manages $9.6 billion and serves 6,400 clients through 23 offices nationwide.

Referrals key

Part of the initial transition for the Santa Barbara, Calif.-based RIA was to secure referral relationships with Charles Schwab, TD Ameritrade and Scottrade.

Those relationships have produced a steady flow of organic growth, including the addition of 850 clients and $1 billion in new assets last year.

The current growth mode, however, kicked off in 2016 with three RIA acquisitions that added $2.4 billion to the assets under management.

Three more smaller deals this year added another $350 million, and have bolstered the confidence of Mr. Barton.The growth strategy focuses on "firms at an inflection point where either the owner is seeking an exit or they know they have to invest substantially to get to the next level," Mr. Barton said. "Fortunately, there's a wave of consolidation going on."

The firm's acquisition spree is being fueled by private equity firm Genstar Capital, which has a majority stake in Mercer, and involves targeting RIAs with between $100 million and $500 million to build what Mr. Barton describes as "the first truly national family office in the U.S."

Genstar acquired Mercer in 2015 from another middle-market private equity firm Lovell Minnick Partners, which bought Mercer in 2008 when the advisory firm had $4 billion under management.

Future uncertain?

For some, Mercer's ownership explains its growth trajectory. But it also raises questions about its long-term ownership.

"When private equity is on board you know there will be deals, and they've upped the responsibility for the people at Mercer to make that happen," said **Daniel Seivert**, chief executive at the investment bank **Echelon**

Partners. "But private equity ownership also creates a situation where you know there will be a change in ownership."

"So, if you're an adviser who keeps some equity in the deal it could pay off, but you never know who the new owner will be," he added.

Mr. Barton doesn't shy away from the fact that Genstar is unlikely to hold on to Mercer indefinately.

"Private equity firms typically have holding periods of being five and eight years," he said.

That would place the next Mercer ownership change at between 2021 and 2024. But, like Lovell Minnick before it, Genstar has already logged a respectable return on its investment, considering that Mercer's assets have already grown by 60% since Genstar acquired the business.

"Genstar will sell us at some point, and the next owner will likely be a strategic acquirer or another private equity firm," Mr. Barton said.

Echelon's Mr. Seivert doesn't think the revolving PE-firm ownership is something incoming RIA firms should be overly concerned about.

"It's in the best interest of Mercer and their PE partners to find somebody who is harmonic going forward," he said. "Even as the PE owner exits they will want it to work out well for the new owner because that helps create a success story into the future that they were involved in."

'Ideal' model

For Doug Fabian, who sold his $95 million Fabian Wealth Strategies advisory firm to Mercer in December, the model is ideal.

"I was primarily an asset manager, but I found myself trying to hunt down things like estate planning services, tax strategies, additional investment strategies for high-net-worth clients, and complex bond strategies," he said. "I was trying to quarterback a lot of different things, and it was especially difficult when it came to working with clients in other states."

The Mercer model moves everything under the Mercer brand, and creates a unique family office system that some might challenge as being family-office-light.

"Our business model is to take the family office paradigm and provide the core fundamental concepts of a family office," Mr. Barton said. "We use service models inside Mercer to provide estate planning, asset protection, tax return preparation and corporate trustee services to our clients. We wanted to bring the primary tenets of a family office to the mass affluent, so we've scaled those services."

Regardless of the fact that a family office is usually associated with clients in $10 million range, Mr. Barton said his model is aimed at a "sweet spot of clients with between $1 million and $5 million."

Smaller-sized acquisitions and smaller average account sizes might not be producing a traditional family office client base, but it is hitting the sweet spot for RIA acquisitions.

According to another California-based RIA acquirer, the $100 million to $300 million RIA market is where the shopping is most rewarding.

"There are more firms in the $100 million to $300 million range than there are above $1 billion," said Matt Cooper, president of private client services at Newport Beach-based Beacon Pointe, a $10 billion RIA that has made nine acquisitions since 2011.

"There are a significant number of RIAs that feel they haven't reached their full potential, and they don't want to just walk away from the business," he added.