RIA M&A Activity Growth Slows, But Still Healthy

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RIA transactions continued to increase in 2016, according to two recently released analyses, signaling a healthy, maturing industry.

In an analysis of RIA M&A activity by San Francisco-based Charles Schwab Advisor Services, total deal value increased to $136 billion in 2016 from $115 billion in 2015, a 17 percent increase. Over two years, deal value increased 186 percent from $47 billion in 2014.

“We see mergers and acquisitions as a subset and sub-story of the growth of the independent advisory industry in general -- as the RIA channel becomes more successful, M&A activity is going to follow suit,” says Jon Beatty of Schwab. “Advisors are merging for multiple reasons, whether it be demographics and succession, scale and efficiency, geographic strategies, or just building durability and a long-term business model.”

In the recent RIA DealBook pubished by Manhattan Beach, Calif.-based **ECHELON Partners**, $144 billion in RIA M&A activity was measured in 2016, up from $112 billion in 2015.

According to Schwab, 41 percent of 2016’s RIA acquisitions were conducted by other RIAs, with another 29 percent conducted by strategic acquiring firms -- indicating that succession is a primary driver of M&A activity, says Beatty. “If an advisor is looking for continuity in their business model, they’re more likely to seek a similarly minded operator for those purposes.”

ECHELON's analysis found 138 transactions in 2016, a number it believed to be low. Nevertheless, RIA M&A activity has grown by 10 percent over the year, from 125 transactions in 2015.

“The topline story is that while deals are at an all-time high, the numbers of deals are dramatically underreported; there’s at least four-to-five times more activity than we’re reporting,” says **Carolyn Armitage**, managing director at ECHELON Partners. “Still, activity has grown by around 16 percent annually over the last seven to eight years; moving forward, we believe steady growth averaging around 10 percent should continue.”

According to ECHELON, there should be approximately 160 reported deals in 2017, with the aging advisor workforce and advisor retirement in particular driving the rising levels of M&A activity.

Other factors contributing to the rise in transactions include an increased availability in financing, growth in peer-to-peer deals among advisors, market cycle timing, increased deal assistance and greater seller knowledge.

“There’s probably 5 percent of the overall marketplace that’s represented by professional buyers, the other 90 to 95 percent are unsophisticated and they’re kind of bumbling their way through the process,” Armitage says. “There are a lot more astute, knowledgeable sellers in the marketplace than most people understand, but they get discouraged by these buyers who are ‘tirekickers,’ who really don’t know what they’re doing, but want to acquire assets. For the sellers, it’s important to find the right fit, so they tend to be more invested in the process.”

ECHELON found that 42 percent of the total acquisitions were conducted by RIAs, with another 40 percent conducted by strategic acquirers or consolidators - -yet private equity firms were responsible for 40 percent, or $199 billion of the total AUM volume of deals in 2016.

In addition, ECHELON reported 19 transactions involving “wealthTECH” firms, financial technology firms oriented towards wealth management and financial planning, with many of these deals involving sales to traditional financial services companies. Almost half of the wealthTECH transactions in 2016 involved corporate purchases of or investments in robo-advisors.

"You're going to see many new entrants into fintech and wealthTECH as people find creative ways to digitally solve manual processes, and better ways to influence with clients," says Armitage. "There are a lot of opportunistic buyers and acquirers in this space beyond financial services. All of Wall Street has their eyes on the fintech sector. They see an opportunity to flip these acquisitions in a few years."

In total, Schwab reported on 94 deals in 2016, up 12 percent from 84 deals in 2014, and up 74 percent from 54 deals reported in 2014. In 2016, deal volume skewed heavily to the first quarter, when 31 transactions took place.

"Six out of the last eight quarters we've seen an average of at least 20 deals," says Beatty. "This new quarterly average seems to be sustainable moving forward. The long trend is an upward sloping line, which reflects demographics and the need for solutions to business challenges being felt within the industry."

The average annual deal size grew again from $1.37 billion in 2015 to $1.44 billion in 2016, a 5 percent increase. In two years, the average deal size has increased by 64 percent, from $878 million in 2014, according to Schwab.

In ECHELON's report, average AUM per deal increased from $897 million in 2015 to $1.05 billion in 2016.

Schwab found 28 transactions involving more than $1 billion in AUM, up 22 percent from 23 deals in 2015 and up 250 percent from 8 transactions in 2014.

ECHELON reported 43 deals involving wealth managers with more than $1 billion in 2016, 20 breakaways and 23 mergers and acquisitions – down from 52 total transactions involving more than $1 billion AUM in 2015. Ten of the deals in the 2016 analysis involved firms with $10 billion AUM or more – the largest being the purchase of AIG Advisor Group, with a reported $160 billion in AUM, by Lightyear Capital and PSP Investments.

"There are a ton of deals in this $250 million to $1 billion space, but the firms we hear about are usually the ones seeking $1 billion or more because they're driven by the acquisition of additional assets," Armitage says. "A lot of these larger firms don't want to bother with deals involving lower amounts of AUM, they don't want to build out from collecting several small books of business, that they don't take part in these deals -- so the firms that are involved in these smaller deals rarely advertise them. So many deals are under the radar, or under $1 billion, or internal transfers, there's no central repository for reporting M&A activity -- but we think that it's happening."

ECHELON believes that RIA M&A activity is extremely undercounted throughout the year and that the totals reported in their DealBook and elsewhere represent snapshots of a narrow portion of the industry. According to their "conservative" estimates, nearly 4 percent of the 300,000 advisors in the financial industry are involved in a deal of some sort each year -- meaning 12,000 advisors either change jobs or leave the business in any given year. ECHELON assumes an average firm size of five registered advisors, placing the real number of advisor transactions closer to 2,400 -- 800 of which involve RIAs whose primary business is wealth management.

Schwab's analysis reflected transactions involving primarily high-net-worth and endowment-focused RIAs with AUM exceeding $50 million.

ECHELON Partners RIA DealBook is an amalgamation of all mergers, majority equity sales/purchases, acquisitions, spin-offs, capital infusions, consolidations and restructurings involving SEC-registered RIAs with over $100 million in AUM.