Are Wealth-Firm Rollups Starting to Dry Up?

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Some RIA buyers are backing away from deals because sellers are asking too much, writes *InvestmentNews*. But, the newspaper adds, purchasers that fall into this category may be constrained by their business models to hold off where others are free to act.

InvestmentNews says serial RIA acquirer United Capital recently declined to meet the asking price of a firm with about $2 billion under management. The RIA, which wasn't named, wanted four times annual revenue when, according to the newspaper, two times revenue is more generally considered "a somewhat fair price" for such a business.

Meanwhile HighTower, a hybrid RIA-brokerage that targets wirehouse teams, tells *InvestmentNews* that certain buyers — banks mainly, attracted by apparently steady fees for private-client services — are driving prices up. "When a bank comes in and really decides they want something, and the price disconnects a little from the marketplace, it gets everyone's attention," HighTower CEO Elliot Weissbluth tells *InvestmentNews*.

In this view, wealth-practice aggregators can't function when markets are inflated — in part, as one United Capital executive says, because their basic business model is still in question. "I think the jury is still out on whether they can create shareholder value," *InvestmentNews* quotes him saying. In other words, their backers won't let them take the gambles other buyers don't shy from.

Meanwhile, rollups like United Capital also face competition from RIAs that are big enough to do their own acquiring. In so doing, these players can set terms for the exit and succession strategies at the heart of most M&A in the wealth arena.

Under such pressure, United Capital is putting more emphasis on organic growth through recruiting, writes *InvestmentNews*. Similarly, the newspaper adds, HighTower is putting the brakes on advice-team acquisition and instead looking to build out an outsourcing option for practitioners who don't want to become employees of the firm.

But investment banker **Daniel Seivert** tells the publication RIA valuations aren't so high, and "that consolidators aren't backing out because of the cost of capital." Rather, he says, they're simply having trouble "finding people who will take their deal terms and work for their organizations."

In other words, it may not be so much that the market's viability is faltering as that particular buyers' business models are encountering friction.