Can the Bull Market in RIA M&A Continue its Record Run?

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Expect the RIA For Sale signs to stay up.

Last year's record-setting deal activity for advisory firms shows no sign of slowing down, according to **Dan Seivert**, CEO for **ECHELON Partners**, the industry M&A consultant and investment banker.

"Very few industries are experiencing the same kind of growth and tailwinds as wealth management," says Seivert, whose firm hosts the annual Deals & Deal Makers Conference. "Firms are feeling good right now because they're experiencing more growth, higher profit margins and higher valuation multiples. Those are the big three drivers of M&A."

The volume of transactions rose 22% last year to reach a record 168 deals, according to the just released 2017 ECHELON RIA M&A Deal Report. The torrid pace should continue, Seivert predicts.

"We're hearing from firms who were planning to do a deal in five to seven years, but they've already hit their growth targets, so they're ready to go this year or next," Seivert says. "There have been plenty of interested buyers, but we've been waiting for the finicky sellers and now they're here."

There was a record 54 deals for RIAs with over $1 billion in 2017, according to the ECHELON report. Seivert expects that trend to continue as well.

"There's a new paradigm when a firm goes over $1 billion in AUM," he explains. "We tell sellers that are around $700 million or $800 million in AUM to wait. Buyers see less risk in firms when they are over $1 billion, and also like that they are run more like a business. So, I think you will continue to see healthy volume in that category."

Other factors driving RIA deal volume include increased availability of financing, more peer-to-peer deals, increasing private equity investments, more sophisticated sellers and breakaways bolting before more firms exit the Broker Protocol, according to the ECHELON report.

So what could derail the bull market for RIA M&A?

Since stock market gains, and the resulting rise in AUM and revenues, have been so pronounced over the past few years, a market correction would be an obvious deterrent for sustained deal volume, Seivert says.

But he thinks that scenario is unlikely.

"Downward pressure on markets is not too intense right now," Seivert says. "All signs appear to be positive for the next three quarters at least."

What Seivert calls "deal indigestion," that is, acquisitions financed primarily by stock offerings turning out badly, could be a potential, albeit unlikely, bump in the M&A road, he believes.

A big PE deal that doesn't turn out as well as expected could also put a crimp in the market, Seivert says.

"If an RIA isn't hitting its goals, a supercharged PE firm could climb all over management, with disputes about share of profit, assistance and investing in growth," he notes. "The result could be a mutiny by advisors."

Despite the frenzy of activity, many deals still never come to fruition.

While monetary deal terms are always critical, Seivert thinks governance issues also loom large as stumbling blocks.

"People are concerned about decision-making power," he says. "Who has a say about who stays on, who can be hired and fired and who has authority to issue stock and take on debt are all important."

And even though the current deal making frenzy is often characterized as a seller's market, Seivert thinks valuations can go still higher.

"There's a misalignment between multiples being paid and growth," he asserts. "Buyers are paying relatively low valuations for faster growing companies. They should be paying more."