

CUSTODIANS IN RACE TO ROLL OUT M&A TOOLS

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Banking on a wave of mergers in 2010, the major custodian firms are in a race to offer the best M&A tools to their RIAs so that the assets of selling firms don't walk out the door to a rival custodian. M&A in the RIA world had dried up but is starting to bounce back, say executives, as firms look for ways to cut costs and begin to grow again. Succession planning has also been a big issue in the financial advisory industry in the past few years, and will continue to be, as the average age in the industry is over 55.

TD Ameritrade Institutional is rolling out a new online business valuation tool next week. The tool will be free for the 4,000 financial advisors who custody assets with TD Ameritrade, and is based on a valuation formula used by investment bank **Echelon Partners**. The firm introduced an M&A guidebook series in August, and a matchmaking service for buyers and sellers called AdvisorLink in April.

In February of this year, Charles Schwab, the largest firm in the custody business, rolled out a series of reports aimed at helping its 6,000 RIAs create succession plans and value their businesses. Schwab has offered a free M&A listing service since 2004, and also provides access to a series of consultants, investment bankers, lawyers and accountants as well as articles, whitepapers, workshops, and webcasts. Meanwhile, Fidelity is building out an M&A consulting service for its RIAs, but has not announced a launch date. Pershing has produced a series of studies on M&A since 2006, first in conjunction with Moss Adams and now with FA Insight.

Where much of the M&A activity in the industry in recent years consisted of large holding companies buying up RIA firms, today there are more small RIAs joining forces to stay afloat or selling to other RIAs as their principals exit the business. Valuing an RIA isn't easy because they're all so different. The rule of thumb is often that a firm is worth around three times gross revenue, but actual deal prices vary greatly based on a number of different metrics.

Michael Watson, director of product management for TD Ameritrade Institutional, said the firm developed the idea for its M&A tools back in 2008, but then mergers and acquisitions dried up as the market crashed. Now it's coming back and advisors need help.

"Very few of them know how to value their businesses and it can be expensive," said Watson, director of product management for TD Ameritrade Institutional. "It can run \$10,000 to \$15,000 to do a valuation with an investment bank." It's the smaller firms this tool is meant to help. "We see the biggest application with smaller firms, those with less than \$50 million in revenues."

TD Ameritrade's online tool evaluates RIA businesses based on 10 different categories: financial performance, growth and scale, clients, employees, firm management, business model, transferability, marketing, productivity and economics. In each category, the advisor answers a series of questions to produce a final score of

between 200 and 1,000 points. And then the program spits out an approximate valuation, as well as a grid showing where the firm is weakest and where it is strongest.

The tool is not meant to provide a final number for a firm to use in a buy-sell agreement, but rather a frame of reference for the advisor who is thinking of selling or even for the advisor who just wants to look at where his firm could use some improvement. A firm would still need to hire an investment bank to broker the deal.

ABOUT ECHELON PARTNERS

ECHELON Partners (ECHELON) was formed in 2001 to offer investment banking and consulting to a subset of the financial services industry known as “investment product developers and distributors” (IPDADs). Since that time, ECHELON’s professionals have helped hundreds of senior executives envision, initiate, and execute a multitude of complex business strategies and transactions. ECHELON’s business is making companies more valuable through delivering advice and orchestrating transactions. Accordingly, ECHELON measures its success in the enterprise value it creates for its clients. Companies that strive to outperform their peers choose to work with ECHELON because we are as passionate about their results as they are.

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