

RIA M&A POPS

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Mergers and acquisitions might be crawling back to the top of RIA principals' to-do lists this year as the first quarter's numbers show record activity.

There were 24 M&A deals among RIAs during the first quarter of 2010. That's a record for any first quarter since as far back as 2003 when Schwab Advisor Services started tracking the data. Just nine deals were completed in the first quarter of 2009.

David DeVoe, managing director of the strategic business development group at Charles Schwab, says advisors are picking up where they left off back in 2008. "Many RIA principals are now re-engaging in the negotiations they stopped 18 months ago. M&A was put on the backburner and activity stalled as the market decline distracted advisors from deals they might have done," he says.

But as the market demonstrates some stability and gains strength, advisors have fewer anxious clients and more time to focus on their business strategies. Valuations are also rising. Over the last few years, valuations for a firm with \$100 million in revenue have ranged somewhere between about four to six times cash flow. In 2007, when deals were at their hottest, they were on the upper end of that range, DeVoe says. "In the immediate term, I think valuations are slowly returning to normal levels — somewhere between the extremes of 2007 and the lows of 2008."

As a result, DeVoe says, it's likely that M&A activity in the RIA space will continue its upward momentum, and that more records will be broken as they were in the four successive years leading into 2009. "There was certainly a stall in 2009 but now the activity will continue for another five or seven years," he says.

One difference with prior years is that now there are more small firms doing deals. Typically, a third of the deals involve firms with \$250 million in assets or less, another third involve firms with \$250 to \$1 billion in assets and the final third, firms with over \$1 billion. But in Q1 2010, 58 percent of deals involved firms with \$250 million or less. "That's a fairly big change," DeVoe says. He hesitates to make too much out of that statistic just yet, however. "We'll see if that continues in the next few quarters."

Two such deals include Bridgewater Wealth and Financial Management and Rowling, Dold & Associates. Bridgewater, a firm with about \$200 million in assets, was acquired by RIA consolidator Focus Financial in January. Rowling, Dold and its \$200 million in client assets was bought up by Moss Adams in the same month — the consulting firm's first acquisition in about ten years.

Firms are expected to be a bit more selective about the deals they do, as well, according to a January 2010 outlook report from **ECHELON Partners**, a Los Angeles-based M&A consulting firm. ECHELON predicted that it will take partners longer to negotiate deal structures, and that sellers will demand more upfront cash and guarantees instead of equity. A deal that might have taken five months to complete could take nine months, and a deal that would have been done in nine months could take up to 13 months. "The time it takes for these

deals to close will be longer because sellers will be doing more due diligence and more shopping around instead of selling to the highest bidder," said **Daniel Seivert**, CEO and managing partner of ECHELON Partners.

Lately the major RIA custodians like Schwab, Fidelity and TD Ameritrade have been rolling out tools to help their advisors value their businesses so the assets don't walk out the door when deals get made. TD Ameritrade Institutional rolled out a new online business valuation tool in April for the 4,000 financial advisors who custody assets with the firm; it's based on a valuation formula used by 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 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, white papers, 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.