Dynasty Adds New Capital Option to Fuel Breakaways, RIA Acquisitions

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Dynasty Financial Partners has rolled out a new liquidity program, offering up capital to registered investment advisors (RIAs) in exchange for revenue participation.

In the past, Dynasty, which has a network of 42 RIAs who collectively manage more than $20 billion, has just offered loans to its RIA partners. The revenue sharing program offers an additional option for Dynasty partner firms to create liquidity to fund events such as acquisitions or succession deals and for breakaway teams looking to raise capital to the launch an RIA, says Shirl Penney, president and CEO of Dynasty.

To support the additional liquidity options for partner firms, Dynasty has launched a new division called Dynasty Capital Strategies, which will oversee strategic advisory work for RIAs looking to access capital.

Dynasty is targeting purchases of between 5% and 10% of an RIA's annual revenue, at a five- or six-times multiple. For example, for an RIA producing $5 million in annual revenue, Dynasty would pay about $3 million to own 10% of the firm's revenue going forward. The arrangement doesn't involve Dynasty taking on an equity stake in the underlying firms.

"We have no say, no control… we don't have board seats," Penney says. "It's really meant to be friendly capital. It's meant to give them a first bite of liquidity that doesn't really take much of the economic upside off the table."

RIAs participating in the program will have an option to buy back the share of revenue they sold after a fixed term starting after three years. Those that opt to do so will pay some additional interest to Dynasty, but RIAs also have the option of keeping the capital permanently.

"It's designed to be permanent capital only if the RIA wants it to be," Penney says.

This comes in addition to Dynasty's existing financing programs which offer RIAs loans of up to 50% of a firm's revenue, according to information from the firm. Since Dynasty launched in 2010, about half of its partner firms have used its capital programs.

Dynasty's new revenue participation program is a unique offering in the space, says **Dan Seivert** CEO and managing partner of **ECHELON Partners**, an investment bank and consulting firm.

Most RIA financing options offered by RIA aggregators, networks or other providers, come in the form of loans or majority or minority equity stakes, Seivert explains. A traditional equity stake grants rights to distributions and to enterprise value if a company is sold. But Dynasty's offering is more of a revenue sharing agreement.

"Dynasty has put themselves in a favorable position relative to the capital structure in that they're not saying that they're going to take a share of the profits," Seivert says. "They're basically taking it right off the top."

RIAs have an average profitability of approximately 25%, Seivert says, so giving up 10% of revenue could be reasonable for many firms.

In addition, the option to buy back the revenue shares sold after a fixed period is "a really nice feature and that does make it different from most equity partners," Seivert says.

The new revenue participation program has been in development for about six months and was soft-launched internally about a month ago, says Penney. Several Dynasty partner firms have already signed up, he says.

The program may also help Dynasty lure in more teams, Penney says.

"It's thinks its one more arrow in the Dynasty quiver to attract legacy RIAs," Penney says. "They know we have a very friendly capital source, either on the debt or capital purchase side."

For breakaway teams launching an RIA for the first time, Dynasty offers a modified version of the program, which involves an up-front loan prior to the transition, and more capital after with adjustment after a twelve-month period based on actual revenue.

"There are breakaways that we've talked to in the past that have said, 'I really like the platform, I really like the ability to run my own business, but I wish there was a way for me to get a little bit more liquidity," Penney says.

This comes as Dynasty faces competition from a host of RIA aggregators, networks and other types of providers looking to provide them financing and services. Others targeting the space, with a varying business models, include Focus Financial, AMG Wealth Advisors, United Capital and HighTower.

The size of the RIA market is increasing, but there is fierce competition amongst firms that want to acquire, finance or otherwise work with them, says Bill Willis, president of advisor recruiting firm Willis Consulting.

"There's quite a bit of competition in this space," Willis says. "I would think this move by Dynasty suggests they're reacting to the competition to become more flexible and to appeal to a greater number of potential partners."