Seivert / Tibergien Debate

5.5.14 Originally Published by Timothy D. Welsh, RIABiz

Tub-thumping debate between Tibergien and Seivert ignites Deal Makers Summit in NYC and helps RIA succession medicine go down

With some seeing RIA M&A as an oxymoron, this Summit was transparent about its own sand in the gears

Mark Tibergien: "There is more talking about deals than actual deals being done."
Dan Seivert*: "The valuation paradigm for RIA sales is broken — they are based on folklore rather than the theory of finance."*

Such pronouncements in the course of muscular and thought-provoking debate between the Pershing Advisor Solutions chief executive and **ECHELON Partners** top dog **Dan Seivert** proved a highlight of a dynamic daylong event hosted by Seivert's firm. The give and take between dealmaker Seivert and practice management "dean" Tibergien illustrated one of the many challenges in the emerging RIA M&A marketplace.

The session — an M&A smack down if you will — was dubbed "Creating a Network of Deal Makers" and was designed to help RIAs better refine their approach to mergers, acquisitions and to grapple with the thorny subject of succession planning in a rapidly aging advisor industry.

It was part of the Deals and Deal Makers Summit that took place last week in New York City at the Westin in Times Square and sponsored by ECHELON, a leading investment bank and consulting firm to the wealth management industry based in Manhattan Beach, Calif. Seivert brought together noted industry experts to enlighten the crowd about the nuances of and strategies for doing successful deals and to clarify the often cloudy perception of advisors and the industry of the rationales, valuations, multiples and strategies for growing RIA firms via mergers and acquisitions.

Devil's advocates

Seivert and Tibergien — each at their own podium on opposite sides of the stage — held forth in front of about 60 attendees in a highly entertaining debate-style format, taking opposing positions that they chose ahead of time — not necessarily their real opinions — to provide their arguments and then let the audience decide who was right through interactive, live voting.

Top issues debated included, "Is there a misalignment in the supply and demand for buyers and sellers?" "What are the key valuation drivers?" "Will the trend of breakaway brokers slow or accelerate?" "Are the private equity bets on the roll-up firms the smart or dumb money?"

Tibergien and Seivert produced some compelling industry data and calculations that showed it was indeed a seller's market but not to the extreme currently perceived in the industry.

"Most of the deals happening are not publicly reported, particularly internal sales, so you can't rely on industry and media reports," noted Seivert. (Tibergien and Seivert gave their true opinions after arguing their assigned point of view).

On the subject of valuation drivers, Seivert passionately declared that that valuing firms based on revenue is "folklore" and valuation should be more tied to profitability, EBITDA and similar drivers. In the morning valuation session, Seivert illustrated that having a systematized marketing and growth capacity in a firm, streamlined operations through technology, and a good handle on the firm's finances are the most important considerations in driving RIA firm value.

Riled about roll-ups

The topic that spurred the most spirited debated was why private equity continues to bet on roll-up firms. Both Tibergien and Seivert pointed out how fragmented the RIA industry is and why that can be both a challenge and an opportunity for the success of roll-ups.

"To be successful, roll-up firms need to be well capitalized, have strong management and be able to get critical mass quickly," noted Tibergien. "They typically need to get to a liquidity event in five years to satisfy their PE investors, so being a first mover is critical."

The crowd was pretty much divided on whether the roll-up firms would work, with many in the audience noting that it has taken much longer than five years for these firms to gain momentum, with none having achieved any meaningful market share.

Netting your share

Another big mistake advisors make when doing deals is failing to consider the tax implications ahead of time and integrating those considerations into the negotiations.

"People sell their businesses and then go to the accountant, which makes no sense," said Al Zdenek, a CPA advisor with Princeton, NJ-based Traust Sollus Wealth Management, in his high-energy presentation on the very large impact that taxes play in deal structure.

"At that point, there's nothing we can do about it and both sides miss out on substantial savings that can run into the hundreds of thousands of dollars."

Structuring a deal as an asset sale or stock sale, or having a non-compete or consulting component, have implications for both buyer and seller as to whether proceeds are counted as ordinary income or capital gains. "It's the after tax returns that are paramount," Zdenek advised. "The gross price doesn't matter, rather it is the net amount that is key."

Zdenek's key takeaways were that upfront tax planning can increase value of the combined companies, can preserve or increase value to both buyers and sellers as well as provide a capacity and flexibility in negotiations to make the deal happen beyond the price. "The more you know about the tax issues the more choices you have and the better deals you will make," Zdenek concluded.

Culture trumps numbers

Providing inside information on the ingredients of a successful merger, Greg Friedman, chief executive of Private Ocean, walked the group through his experience in merging his firm as part of a succession planning strategy.

"The most important thing to take into account are the cultural and personal aspects, not the financial ones," advised Friedman. "Although financial issues are often the motivation behind the deal, it is also very important to really get to know your future partners and their views on areas that would appear to be straightforward, such as client service, but can actually vary widely once you drill down on what exactly each firm defines as a service model."

Friedman provided tantalizing details about his firm's merger with Salient Wealth Management in 2009.
"For example, take education. One firm valued life-long learning, and people being energetic to learn and take on more responsibility. The other firm valued people more from their pedigree or ivy league credentials, so this became an area of discussion. On the service front, one firm's definition of service was being pro-active in nature, anticipating the needs of the client, while the other firm had more of a "We'll return your call before the end of the day. Financial planning also had different meanings. One firm led with financial planning and

charged a separate fee, while the other firm would offer it more as an accommodation. Thus, when thinking through mergers, you really need to continue to drill down and uncover expectations, even on the most fundamental aspects of running a practice."

Valuable documents

Friedman, who is also the head of Junxure, the Raleigh, NC-based CRM firm, pointed out how technology can play a large role in firm valuations, particularly if one firm has better systems and more robust infrastructure. "We were able to negotiate a higher valuation because we had technology in place," he said.

Appropriately, technology also played a major theme at the conference. Presenting on how technology can impact valuation, Justin Wisz, chief executive of Vestorly, linked Seivert's marketing and growth message as a key to developing a "systematized growth engine to show how firms can use digital, automated, and personalized content services to quantify the digital communications footprint of their company."
Michael Laks, financial program strategist of Laserfiche based in Long Beach, Calif., presented industry research on how document management systems can drive significant savings and, when applied to business valuation multiples, can lead to hundreds of thousands, and even millions of dollars in increased business value.

Helluva town

Rounding out the conference was a networking reception and various "dine-arounds" with sponsors Junxure, Laserfiche, PPC Loan, Vestorly, Pershing Advisor Solutions and Orion Advisor Services, LLC in the bustling Times Square area of midtown Manhattan. Attendees enjoyed fine dining and opportunities to put their new deal-making skills into practice, even into the late evening as attendees tested the maximum capacity of passengers that one Uber-car can carry to hit the midtown night spots.
To learn more about what went on at the Deals and Deal Makers Summit, check out the many tweets under #EchelonRIA on Twitter.

Daniel Seivert

Managing Director

dseivert@echelon-group.com