Are RIA Firms Really too Happy to Sell Out?

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Persistently good markets have made potential sellers hesitant to get out while they enjoy strong cash flow from their businesses, said **Dan Seivert**, chief executive of **ECHELON Partners**, a mergers and acquisitions consultant.

"The sentiment is extremely positive right now … but I fear it rolls over to 'cash cowing'" among advisory firms that see no reason to sell, Seivert said late Wednesday at the opening of ECHELON's annual **Deals and Deal Makers Summit** in Newport Beach, Calif.

Close to half of firms say they are doing better than ever, according to research from Pershing Advisor Solutions, he added.

The supply of firms with more than $500 million in assets that are open to a deal is limited, Seivert said. Candidates with $100 million to $500 million in assets are more plentiful, but he warned that many of these are boutiques enjoying what they do so much that they really don't want to sell.

On the other hand, buyers will find a good supply of smaller shops under $100 million. But Seivert warned about overpaying: Smaller firms are commonly valued at about two times revenue, but a more accurate evaluation based on cash flow will usually produce a lower number.

Despite some challenges in finding buyout candidates, the supply of willing firms is better than commonly perceived. The number of deals taking place is three to 10 times more than the numbers of publicly announced transactions tracked by custodians.

Seivert estimates that 1.5 percent to 5 percent of industry assets are transacting each year. About 6,000 out of a total population of 300,000 advisors retire or depart the industry annually.

Commercial banks, RIA firms and roll-up firms are the majority of buyers currently.

ECHELON is also starting to see more "hand-placed" deals where buyers and sellers get to know each other long before doing a deal. "It's where a well-connected advisor picks a partner," Seivert said. "The trust factor is really high, [which] makes it easier."

Private equity firms will remain active in financing deals given the abnormally high profits -- assuming they can find large enough firms to make deals worthwhile.

"The internal rate of returns for buyers that we're seeing would make most PE firms crazy," Seivert said, noting that profits are north of 30 percent annualized.

"Sellers may be leaving money on the table," Seivert warned, because PE firms and other buyers may not appreciate that large RIA firms' growth potential might be superior to that of other types of financial companies.

More than 50 PE firms have invested in 25 RIA aggregators, according to ECHELON. And 60 PE firms have invested $350 million in the red-hot robo-advisor channel during the last year.