RIA Sellers are Leaving 'Tons of Money on the Table'

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NEWPORT BEACH, Calif. -- No, it really isn't a seller's market in the RIA M&A space. In fact, on the contrary, says **Dan Seivert**, CEO of **ECHELON Partners**, the M&A consultancy and investment banking firm.

Buyers are setting the deal terms and RIA sellers are "leaving tons of money on the table," says Seivert, speaking at the annual **Deals & Deal Makers Summit** hosted by ECHELON.

Advisors selling their firms have a "blind spot," Seivert says. "They think they know wealth management because they know corporate finance. But the two are very different. Sellers' firms are usually worth way more than the terms they agree to because advisors are just focused on what their firm is worth, not what the combined firms will be worth."

Industry veteran Mark Tibergien, CEO of Pershing Advisor Solutions, agrees with Seivert's assessment.

"Advisors who are selling aren't thinking about the strategic value to the buyer," Tibergien tells Financial Planning in an interview at the conference. "In any deal, it's important to know the motivation of the other side. Buyers have a financial incentive. Sellers are emotionally motivated. It's an easy play for the buyer – stroke the seller emotionally and give them a check."

There is a misconception that RIA M&A is a seller's market because there appears to be many more buyers than sellers, Seivert says.

In reality, many would-be sellers get cold feet for a variety of reasons, including unhappiness with the buyers who approach them. The number of buyers also is exaggerated, Seivert maintains, because so many firms that claim to be RIA buyers don't actually have the capital or wherewithal to get deals done.

When it comes to actual deal-making, RIAs with over $1 billion in AUM are in highest demand, but competition is fierce. Firms with AUM between $200 million and $600 million are in ample supply, according to Seivert, and "reasonably priced."

'THE VALLEY OF DOOM'

RIA sellers with between $600 million and $1 billion in AUM comprise what Seivert describes as "the valley of doom." These advisory firms, he contends, are often in transition, moving between a boutique model closer to a practice and a small business model becoming an enterprise.

As a result, many of the firms in this category have brought in C-suite level executives to run the business more professionally. While that is a necessary step to strengthen the firm, it also means "taking one step backward to be able to move one step forward."

The problem, he maintains, is that the new class of professional managers often clash with senior advisers over issues such as compensation, profit sharing, equity distribution and division of labor. "It can lead to way more turmoil than the firm has ever experienced," Seivert says.

In fact, margins at these firms can decrease by as much as 15%, he adds, which in turn impacts the RIA's M&A valuation. "The firms are doing what they need to do to get to the next level, but they're making less money," Seivert says.

KEY METRIC FOR BUYERS

A key metric for serious buyers, Seivert told the Deals & Deal Makers audience (who were mostly buyers), is that sellers have at least $3 million in profits.

"It's an insurance policy for buyers," Seivert says. "It means the business model is more stable, and is a good indicator that revenue will be around $10 million with a 30% margin. Buyers feel more protected if the firm loses key personnel or something goes wrong. $3 million in EBITDA means the business is a lot less risky."