How - and Why - M&A Deals Are Getting Done Now

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NEWPORT BEACH, Calif. - Thinking of buying or selling an RIA? The advisory industry's impressive growth record -- and potential for continued success – likely makes this a great time to pull the trigger.

That was the takeaway from **Dan Seivert**, chief executive of **ECHELON Partners**, the investment bank specializing in mergers and acquisitions that sponsors the annual Deals and Deal Makers Summit, speaking at the conference's opening session.

Seivert pointed to an array of statistics detailing strong growth trends for professionally managed assets in the U.S. (estimated to double to $46 trillion in 14 years), assets per advisor (estimated to increase around 80% to $136 million by 2027) and number of millionaire households (up by 500,000 each year for the past three years).

The impact, he said, has been a "great backdrop for transactions."

NUMBER OF DEALS UNDERREPORTED?

Seivert estimated that the volume of deals publicly reported was anywhere from one-third to one-tenth less than those which are actually being done. According to Charles Schwab Advisor Services, 37 transactions were completed through June this year, up from 29 during the same period last year.

Many buyers are seeing impressive gains on their investments, according to Seivert, and some private equity firms that have invested in RIAs have seen internal rates of return of over 30%. Potential sellers are also benefitting from relatively strong markets and record revenues and profits. Many can continue to reap the rewards of a steady or growing cash flow, without pressure to sell, Seivert pointed out, or can take advantage of generally high valuations if they do decide to sell.

WHO'S BUYING?

The primary buyers of advisory firms are RIAs, banks and roll-up companies like Focus Financial and United Capital, according to Seivert. Buyer demand is less robust than commonly perceived, he maintained, and diluted by "a lot of pretenders."

Buyers are increasingly using "tuck-ins," or smaller deals where a larger advisory firm brings in either a solo practitioner or a small team from another RIA that can be on-boarded relatively easily.

"Bigger firms are growing rapidly and they have more slots they can fill and more money and they can spend or equity they can distribute," Seivert explained. "They also want to do tuck-ins to add new services to their offerings or to expand geographically."

WHERE THE SELLERS ARE

The supply of sellers at the high end of the market -- firms with over $1 billion in assets under management -- is very low, and mid-range RIAs with between $500 million and $1 billion in AUM for sale are also in short supply, according to Seivert. The supply of firms with between $100 million and $500 million in assets is "fair," he added, while small RIAs with less than $100 million in AUM are the most abundant.

Some owners want to take advantage of higher valuations from strong growth and have received an offer too good to pass up, Seivert said. Others sell because they don't have a suitable internal successor or don't want to do all the work required in a succession plan, he added. An increasing number of older advisors are looking carefully at the economic cycle, Seivert said. Many are fearful they may be caught short by a bear market, don't want to risk losing their high valuations or wait out a possible downturn.

VALUING FIRMS

For many deals, the tried and true metric of two times revenue is still used often, according to Seivert. "It might not be the best choice on the menu," he said, "but it's the one ordered most often."

Valuations based on multiples of EBITDA or cash flow and that include growth and the underlying quality of the firm are usually more realistic and are becoming more widespread, Seivert said. Some industry executives have advocated valuing firms by using discounted cash flow, but Seivert said that approach was problematic because "there's not a real good way to determine the appropriate discount rate for cash flow."