

## A SELLER'S MARKET FOR SHARP ADVISORS

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### Deal making among RIAs expected to be strong in the months ahead, say experts

The latest move by Boston Private Bank & Trust Co. into the investment advice space — a plan to buy a \$4.3 billion Florida registered investment adviser — should be enough to alert well-run advisory firms that it's a seller's market.

The \$60 million Boston Private is paying for Banyan Partners is considered a premium price point, according to consolidation experts, and says plenty about valuation levels in the current market cycle.

"I think we're in the early stages of acquisitions for the RIA space —maybe the third inning," said Joe Duran, chief executive of United Capital, which has acquired 50 RIA firms over the past 10 years.

"These kinds of cycles typically last three to five years," Mr. Duran added.

The latest data from Intralinks Holdings Inc. show that 2014 merger-and-acquisition activity is on track for its first year-over-year increase since 2010.

The total of announced deals this year could be up as much as 10% from 2013, according to Matt Porzio, vice president of strategy and product marketing at Intralinks, a company that monitors due-diligence research to help forecast future M&A activity.

### FINALLY UP

"Now that we're halfway through the year, we can see what the announced deals are likely to look like," Mr. Porzio said. "The M&A market has been pretty much flat or down since the end of the financial crisis, but finally the announced deals will be up."

What most impressed Mr. Duran about Boston Private's announcement Wednesday was that it is paying an estimated nine times the RIA's EBITDA value, which is earnings before interest, taxes, depreciation and amortization.

"Typically, we've seen RIAs go for between five times EBITDA and maybe eight times on the high end," he said.

There are a lot of constants that will drive consolidation in the RIA space, not the least of which is an aging adviser community.

"There are three macro trends driving consolidation: advisers are old and getting older, the onerous notion of regulations, and the complexity of investment choices is getting tougher and tougher to manage," said Jim Patrick, executive vice president of adviser managed solutions at Envestnet Inc.

## NEED FOR SCALE

"I think you're going to see more scale required," he added. "It feels to me like there are nontraditional players looking to get into the business, and I think a lot of banks, asset managers and others feel like RIAs could be diversifiers."

One thing that likely will make the current market cycle unique is the price of the deals, according to Mr. Duran.

"RIAs are good transactions for banks because they like the recurring revenue streams, and money is cheap, so they can afford to start buying," he said. "Banks tend to drive up multiples, and if your cost of capital is high, you can't compete with a bank and get into a bidding war."

In terms of financing and affording RIA acquisitions, it would be tough to compete with a bank's balance sheet right now, with interest rates near zero and yield spreads tight.

But that doesn't necessarily mean the price is right from the bank's perspective.

"Conventional wisdom would suggest that a good time to buy is when the business cycle is at a trough and valuations are low and there's a big supply," said **Dan Seivert**, founder of **ECHELON Partners**, an investment banking firm in the wealth management space.

"Right now, we're not in a business cycle low, valuations are not low, and there are not a bunch of properties for sale," he added. "If you look at all the metrics on a conventional grid, now is not a good time to buy."

**Mr. Seivert** also acknowledged the RIA industry's reality of 300,000 advice-providing professionals, with an estimated 5% nearing retirement annually.

Boston Private's purchase of Banyan Partners, in many respects, sums up the current state the RIA acquisition market.

"Growth and scale are the most significant variables and Banyan had both, with close to \$5 billion under advisement," **Mr. Seivert** said. "And in terms of growth, they're probably growing EBITDA by 25% a year."

As with most banks, the appeal for Boston Private is likely the steady income from all those assets under advisement, said Hugh Ferry, senior vice president of business development at Voya Investment Management.

"Right now, wealth management is important across the board to everybody because you have that annuitized revenue stream," he added.

Boston Private will combine its existing wealth management unit with Banyan's to form a subsidiary with around \$9 billion in assets under management, the firm said. Banyan's founder and chief executive, Peter Raimondi, will be head of the new group.

"There's a time to be a buyer and a time to be a seller," said Mr. Duran. "And anyone who hasn't done a deal yet in this market might end up being priced out by the banks."

## ABOUT ECHELON PARTNERS

ECHELON Partners (ECHELON) was formed in 2001 to offer investment banking and consulting to a subset of the financial services industry known as "investment product developers and distributors" (IPDADs). Since that time, ECHELON's professionals have helped hundreds of senior executives envision, initiate, and execute a multitude of complex business strategies and transactions. ECHELON's business is making companies more valuable through delivering advice and orchestrating transactions. Accordingly, ECHELON measures its success in the enterprise value it creates for its clients. Companies that strive to outperform their peers choose to work with ECHELON because we are as passionate about their results as they are.

**Daniel Seivert**

Managing Director

dseivert@echelon-group.com