Clashing Agendas Keep M&A In Check

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A recent spate of wealth-firm purchases has led some industry watchers to say we're on the cusp of a prerecession-style surge in such deals.

In the last half of July, Boston Private Financial Holdings, Cantor Fitzgerald's wealth-management unit, HighTower and NFP Advisor Services' subsidiary Washington Wealth Management bought or pledged to buy practices — sometimes at multiples reminiscent, at least to some, of headier times.

In fact, deal flow is subdued compared with 2007 and early 2008, says investment banker **Dan Seivert**. Further, the multiple that got people talking about a return to precrash price points — Boston Private's promise to pay nine times EBITDA for Banyan Partners — doesn't strike him as unusual.

Partly, these differences reflect who's out buying this time. Now, instead of banks, insurance companies and investment managers, today's headline buyers are purpose-built aggregators with a finer sense of what they want and how much they're willing to pay. In addition, firm owners aren't dying to sell just now. "Sure, they're over age 50 on average, and yes, they're open to discussing liquidity events," says **Seivert**, who runs **Echelon Partners**, a boutique investment bank in Los Angeles. "But with the market back, they're not exactly pining for the golf course. People forget advisors love the business they're in."

That's why they expect to be "dazzled" by their wooers — offered high prices and perhaps roles as "rainmakers" with few administrative responsibilities, according to **Seivert**.

James Poer, president of Austin, Texas-based NFP Advisor Services, says sellers' overblown expectations come from "pricing things emotionally" — a habit that is keeping deal flow in check and suggests that some may be seeing the M&A landscape through rose-colored glasses. "The reality is not what a lot of people think it is," he says.

Still, there are enough level heads out there to reward his firm's efforts to acquire wealth teams on reasonable terms. "For some, the cultural fit is more important than the up-front check amount," says Poer. In this context, Poer says "cultural fit" boils down to a shared desire for sustainable growth.

Stan Gregor, co-CEO of Cantor Fitzgerald Wealth Partners, agrees that finding common ground in a search for long-term growth is essential for getting practice owners to the table.

But Cantor has another bloom in its bouquet when courting wealth firms: brand power. Now that Wall Street firms are back in the investing public's graces, Gregor says the independents he meets are losing more business to the big boys. "What they're telling us is, 'I'm good, but I don't have the brand,'" he says. This makes a tie-in with Cantor Fitzgerald — a big name, even if it's new to the retail space — attractive to smaller wealth firms.

The company's wealth unit, which is less than a year old, has acquired six firms with, all told, more than $3 billion in assets under management.

Meanwhile, NFP's Poer says he and his colleagues are applying lessons learned from more than a decade acquiring private-client firms. Chiefly, he wants to move away from purely "economic" affiliations — typical of independent brokerage platforms and corporate RIAs — to "a far closer integration."

Right now, around $50 billion of NFP's $64 billion in wealth-management assets sits in its brokerage. Poer wants to minimize this lower-revenue support work and find RIAs and brokerage teams it can integrate as part of a single firm. From the buyer's perspective, "a purely economic model is problematic, because you're just the bad guy people have to write checks to," he says. "Integration leads to lower costs and better economics for everyone."

Among prominent wealth-firm buyers, Poer says United Capital Financial Advisers and HighTower rank as highly integrated models. Best-known among economic buyers, he says, is Focus Financial Partners, whose subsidiaries don't use its brand.

In sum, Poer says "the prohibitive costs" of meeting client expectations year in and year out make the advisor space "ripe for consolidation" — even if sellers still think they can hold out for dazzling offers.

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