Financial Planning

PRACTICE

Grab Your Wallet: RIA Buyers And Sellers Gear Up for Busy 2016

By **Charles Paikert**
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MIAMI BEACH, Fla. – Buyers and sellers are gearing up for a busy year for deals as private equity buyers come off the sidelines, attracted by the strong-growth business and "strong" valuations.

Silver Lane managing principal Liz Nesvold (left) telling advisors at MarketCounsel why 2016 looks like a good year for more deals. Robert Thornton, president of First Republic Private Wealth is on her right.

"Buyers are still attracted to wealth management," said Elizabeth Nesvold, managing partner at Silver Lane Advisors, a prominent New York investment banking firm, speaking at the MarketCounsel Summit. "They see the average RIA growing at 15% plus in a minimally capital intensive business, and baby boomer demographics driving the need for financial and estate planning advice."

Liquidity, low interest rates and pent-up M&A demand are also driving the market, Nesvold said.

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In addition, there are a number of buyers, including private equity firms, who are "waiting on the sidelines to see if the market will hold before taking the plunge," Nesvold said in an interview with *Financial Planning.*

'A LOT OF PRIVATE EQUITY MONEY'

That observation was widely shared by industry executives at the conference.

In an earlier session featuring leading industry custodians, Raymond James president Bill Van Law said, "there is no lack of capital" for RIA mergers and acquisitions.

Pershing Advisor Solutions CEO Mark Tibergien agreed: "There's a lot of private equity money pursuing financial advisory firms at a reasonable price because there's so much growth opportunity," he told *Financial Planning.* "There's an oversupply of clients and an undersupply of advisors."

Buyers coming into the RIA market have varying degrees of capital, said Dan Seivert, CEO of Echelon Partners, the Newport Beach, Calif.-based M&A firm that puts on the annual Deals & Dealmakers conference. Those with the most capital and extensive deal experience drive the hardest bargains, he said, because "they have the buying power and can take a little bit more out of the hide of the sellers."

VALUATIONS HOLDING FIRM

Nonetheless, industry executives at the MarketCounsel conference said they expected valuations to remain at their current healthy levels.

"I think valuations are likely to continue to be strong," said David DeVoe, founder of DeVoe & Co., the M&A consulting firm in San

Francisco. “They’ve been steadily increasing over the last five years and there is no shortage of buyers now.”

Firms with less than $500 million in assets under management are being valued at approximately four to seven times cash flow, DeVoe said. Firms with between $500 million and $1 billion AUM are being valued at around five to eight times cash flow, and larger firms with more than $1 billion in assets are valued at approximately six to nine times cash flow, according to DeVoe.

Firms with less than $100 million in AUM tended to struggle the most with appropriate valuations because they relied too much on revenue as a metric, Seivert said. On the other end of the spectrum, he added, large firms with over $1 billion in assets tended to get lumped together, resulting in those with high growth rates often not getting enough of a premium.

Firms most likely to have “an appropriate valuation” usually had between $100 million and $1 billion in AUM, Seivert said.

BUYERS READY TO MAKE DEALS

Buyers at the conference said they anticipated an active year for deals.

Neil Simon, who earlier in 2015 sold his multi-billion dollar advisory firm to become chief executive of Bronfman E.L. Rothschild, said he expected to be a buyer in the coming year. John Burns, co-founder of Exencial Wealth Advisors, said his phone “has been ringing a lot” as many advisors were seriously thinking about “what they want to do next, or partner with.”

And Brent Brodeski, CEO of Savant Capital Management, said M&A opportunities “are bigger now than I thought six months ago.”

Two areas stand out, Brodeski said: firms with between $250 million and $500 million in assets because they had fewer buyers pursuing them and firms with between $500 million and $1.5 billion in AUM because they were “too big for the founders to sell to employees.”

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