DOL, March of Time Spur Recent Advisory M&A

By Thomas Coyle April 14, 2016

The pace of mergers and acquisitions among wealth management firms is up, with so-called strategic acquirers leading the buy-side charge among sellers who are in part motivated by the prospect of having to tackle significant regulatory changes.

That's **Fidelity Investments**' topline view on such activity in 2015 and through January this year, as outlined in its latest "Wealth Management M&A Transaction Report."

Activity in the first month of 2016 is particularly significant in terms of deal flow, according to **David Canter**, practice management chief for Fidelity's RIA-support business.

"January is typically a quiet month when it comes to M&A, but this year we noticed an uptick in transactions, with 22 taking place in January," says Canter. "That's one indicator that we may see the pace of M&A deals quicken this year."

For sellers, the prospect of **Department of Labor**-induced compliance headaches is a main driver.

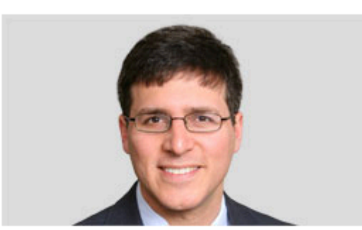
The DOL's fiduciary rule around retirement-account advice — released last week but in the works for over a year — "has prompted firms to evaluate their business models," says Canter. "Smaller and larger firms have told us they're focused on how they can scale and grow in light of a more complex regulatory environment."

In turn, DOL changes are forcing "many firm owners to consider their succession plans," Canter adds.

Investment banker **Elizabeth Nesvold** says wealth firms likeliest to find good buyers have characteristics such as "strong organic growth, size, scalable platform, profitability."

Meanwhile firms likely to have a harder time closing advantageous deals "demonstrate little flexibility around post-closing changes" to their business and their roles in it, says Nesvold, who runs **Silver Lane Advisors**, a dealmaker for financial companies.

Firm owners with "perceptions of premium pricing, unless they've earned that right with the business they've built," may also have a hard time finding buyers.



David Canter

Canter agrees – and further cautions firm owners against thinking of selling "as a liquidity event for retirement." Rather, he adds, they "should have a long-term outlook and start preparing now to increase the value of their firm."

But — with industry sources saying half of all FAs are north of 50 years old — this sort of discipline might prove challenging for some firm owners, who skew older than the average.

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Fidelity compiled data on 138 transactions involving SEC-registered RIAs with between $100 million and $20 billion in assets.

The total also includes FAs who joined existing wealth managers expecting to bring at least $100 million because "a transition of this size would likely include remuneration," Fidelity says in its writeup of the data.

The second criterion is what gets firms like **Raymond James** and **Dynasty Financial Partners** on the list. Though neither are technically acquirers — any more than, say, **Merrill Lynch** or Fidelity itself are — they provide enough infrastructure to count as destinations for standalone RIAs.

Further, Dynasty is a background player in M&A because some of its network members "want to grow not just organically but inorganically via acquisition," says **Shirl Penney**, Dynasty's CEO and, like Nesvold, one of 15 wealth management industry leaders Fidelity consulted on its M&A report. "So we help them identify opportunities, do financial analysis, cultural analysis, get ready for purchase or tuck-in, do the transition work, and finance it by putting up deal capital in form of loan."

Besides Dynasty, buyers in Fidelity's "strategic acquirer" category — which accounted for 67 of deals the custody firm tracked — include **United Capital**, **Focus Financial Partners** and **HighTower Advisors**.

The next busiest category in the report was peer-to-peer activity (49) — deals like **Keel Point**'s purchase of **DeMoss Capital**, and **Mercer Advisors**' takeover of **Spruce Hill Capital**.

The third-most active bunch was "others" (18). This includes private-equity buyers, which figured in several high-profile acquisitions last year. Among them were **Hellman & Friedman**'s purchase of **Edelman Financial Services**, and **Lightyear Capital**'s move on **Wealth Enhancement Group**.

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