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## NEWS RELEASE

### 8 MAJOR POINTS TO UNDERSTAND ABOUT THE M&A MARKET AT THE START OF 2010

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Originally Published By **Brooke Southall**, RIABiz



Dan Seivert: History is filled with firms that have sold themselves at high valuations to large companies only to buy themselves back at a fraction of the price

*Getting involved with a merger or acquisition is like getting married [though I'm not speaking from experience]. It might be even harder. With that in mind, the resolution-intensive New Year seems like the time to scrutinize the M&A landscape. Mergers take nothing if not resolve. Fortunately, while the rest of us were roasting chestnuts it appears that Dan Seivert, CEO of ECHELON Partners, found time to analyze the dynamic M&A market among RIAs. The result is thorough, thoughtful and timely outlook report for 2010 that he published on Monday. Here is my best effort to bring you an abridged version of what he wrote in "M&A Trends and Opportunities for Wealth Managers in 2010. If you also want to read the real report, Dan says to you can request one at [ajackman@echelon-group.com](mailto:ajackman@echelon-group.com).*

1.) As an important backdrop, Seivert writes that the amount of M&A activity happening among RIAs is more substantial than some industry reports suggest. His company estimates that as many as 250 deals have been executed per year rather than the 100 or so reported. These amounts are based on knowing that there are 12,000 RIA firms and 250,000 advice-giving professionals and that 2% to 4% of RIAs are likely to engage in deal-making and it is virtually impossible to track all of it. It is also likely that there are approximately 5,000 financial advisors in motion as opposed to the presumed 1,000 firms often reported, Seivert's report adds. Advisors in motion consist of those brokers that are breaking away, "pushed away" because they were not meeting minimum production standards, "going away" (i.e., leaving the business all together), and those that are hopping from one wirehouse to another, he says.

2.) Though the market environment may be imperfect for deals in general, 2010 may be the "perfect time" to buy back stock from friends, employees, investors and family. "Whether you sold your firm to a bank, insurance company, large financial institution, rollup firm etc, many of these players are looking to ... unload non-core business or ones that are meeting internal "hurdle rates". Seivert adds: "History is filled with firms that have sold themselves at high valuations to large companies only to buy themselves back at a fraction of the price."

3.) In the same vein, low valuations also make it a great time to sell equity to employees, partners and family members in cases where it is desirable to get shares into their hands and minimize gift taxes, the report states. Selling now may also help avoid capital gains taxes if those rates get raised, as many presume, in the future.

4.) The number of companies for sale or in motion is primed to increase in 2010. One reason: there is a “sea change” underway in the attitudes of wealth managers looking to sell their practices. “Many are increasingly coming to appreciate the attractiveness of a long-term hold of part of the equity in the firm with a simultaneous slow sell-off of shares to internal succession partners.” The importance of this trend is that it will diminish the pressure on sellers to make outright sales to external third parties, unless those third parties tolerate longer equity hold times by selling advisors. This trend is motivated by the fact the [long-term] proceeds from this type of sale far outweigh the ones from the traditional auction-style sale and advisors are beginning to realize this, Seivert writes.

5.) One counterintuitive point: wealth management firms remain a hot commodity despite the economic downturn. The bad news is that real buyer demand ebbed. “While buyer demand in 2010 will remain high, real demand will be off significantly. There will be fewer bids from buyers and more bids will be made where the deal is consummated by only the cash flows of the selling company.” There may be a silver lining to a trend where a buyer pays you with your own money. “Given that more sellers may want to hold equity longer, these deals may actually come into vogue,” Seivert writes.

6.) Rollups will continue to account for a small percentage of the total deals. They have accounted for about 5% of deals historically but seem to represent more because the deals are more likely to get publicized. Seivert anticipates that rollups will find favorable conditions but that the greater supply of sellers may be offset by more careful due diligence on the part of those sellers. The most powerful buyers will be the RIAs who survived — or even thrived — in the downturn.

7.) The old formula of putting 20% to 30% down in cash on a practice and paying the rest in two to four years was prevalent in 2003 to 2007 but will become far less common in the future. The good news is that the industry appears poised to finally shed some of its questionable formulas for valuation, which Seivert calls “folklore that has been passed down over the past 20 years.” He adds: “More often than not, it leads to where one party is overpaying and another party is underpaying.” The use of these formulas created “time bombs” in existing contracts that should be defused. “It is our hope that in 2010 the industry as a whole will begin to move closer to professional valuation standards,” the report adds.

8.) The one area of M&A where the stars are aligned for record deal-making in 2010 is with regard to breakaways starting new firms or moving to existing firms. Setting these advisors in motion are factors including: a.) the desire to escape from firms with brands that were tarnished by events that occurred during the downturn b.) disdain for onerous structures that tie clients more closely to the firm than to the advisor c.) the need to part ways with firms whose futures are suspect d.) frustration over firms where the old culture of trust has been replaced by a culture based on “numbers”, Seivert writes. In other words, wirehouse brokers are feeling fed up or unwelcome and they realize that there are better options to pursue.

## 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

**Tyler Resh**  
Principal  
tresh@echelon-group.com