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NEWS RELEASE

RIA BUYER MAKES FOUR NEW ACQUISITIONS

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A buying spree by companies taking stakes in independent registered investment advisors (RIAs) remains in full swing this year. United Capital Financial Partners¹ is the latest firm to add to its network of wholly owned financial advisory firms with the acquisition of four new shops.

The four acquisitions brought \$6.5 billion in new client assets to United Capital, which is based in Newport Beach, Calif., and now has \$8 billion in assets overall. Several billion in assets came in the acquisition of PFE Group² of Southborough, Mass., a defined contribution and defined benefit plan advisory firm led by **Wayne Bogosian**, while the other three firms brought in several hundred million dollars each in high-net-worth client assets. Those three are **Spectrum Assets**, an RIA in Boca Raton, Fla., headed by **Clive Cholerton**; **Park Cities Financial Group**, a brokerage and investment advisory firm in Dallas led by **Fred Deaton III**; and **Sapient Wealth Management**, an advisory and wealth management firm in Stamford, Conn., led by **Thomas Garvey**.

The announcement follows similar acquisitions of independent RIAs by other "aggregator" firms in recent months. Focus Financial Partners³ of New York earlier this month added five firms with \$8 billion in client assets to grow its network of RIAs to \$25 billion in assets. Meanwhile, **Fiduciary Network** of Dallas bought a stake in a new firm last month to bring its partner firm assets to \$3.2 billion. It made all three of its deals this year.

Each firm uses different approaches. United Capital buys 100% of firms and tries to transform and standardize their business models. Focus buys 40% to 60% of firms and makes limited changes, seeking network-wide standards on reporting, compliance, and other functions while offering resources for marketing and best practices. Focus officials say it may one day go public. And Fiduciary Network buys passive stakes in RIA firms and largely leaves them to run the business.

In all three of those models, the underlying RIAs keep their names, lead officers, and identities.

But while those three companies are among the most active right now, they are not the only players in the RIA "roll-up" market, as the acquisition trend is generally called, says **Dan Seivert**, CEO and managing partner at Echelon Partners⁴, an investment banking and financial services consulting firm in Manhattan Beach, Calif. There are at least 20 other players, from larger advisory brokerages and asset managers that pluck RIAs into their organizations to companies such as **Private Wealth Management** of Greenwich, Conn., that has based its business on buying stakes in RIAs.

"Most people think there are only a handful," Seivert adds. "Advisors need to know that these aren't the only guys, and don't assume that size equals quality."

Seivert says the RIA acquisition world is likely to become busier still.

"I think you're going to see more people enter it," he adds. "It's probably been getting three new players a year for the last 10 years." However, many of those firms only last for one cycle of acquisitions before they fold because they are not equipped to manage operations at a larger scale and begin to lose credibility with potential RIA partners, he says.

In most cases, Seivert says, the RIAs in roll-up organizations will change many aspects of their own operations but probably still use a large custodian such as Charles Schwab⁵ or Fidelity Investments⁶ as well as keep platforms developed by turnkey asset management providers.

United Capital's model calls for significant transformation of the firms. They fully hand over the reins for back office operations such as technology, human resources, accounting, finance, and compliance functions, says **Jason Lahita**, marketing manager for the firm.

"It frees them up considerably to meet with more clients and meet more meaningfully with them," he adds. United Capital also runs an investment platform overseen by a committee that invites the heads of the acquired RIAs to take part. Those former firm leaders become managing directors of United Capital in the deals. The company identifies itself to clients as United Capital Financial Advisers.

United Capital had completed 10 deals prior to the recent transaction. It aims to eventually go public, probably around 2011, says **Joe Duran**, the company's CEO. It would be ready to go forward after it achieves a market capitalization of about \$500 million from \$5 billion to \$10 billion in high-net-worth assets and \$15 billion to \$25 billion in institutional plan assets, he says.

"We're a third of the way there," Duran adds.

The model is not a classic "roll-up," Duran says, because that term refers to companies that aggregate assets but don't make significant changes to the underlying RIA. "We'll never do an acquisition if we cannot add value to it," he adds.

Lahita says United Capital's data shows an average increase in revenue at acquired firms of 30% in the first year of operations.

Echelon's Seivert says that in general terms he questions whether the RIAs that are selling stakes into these acquisition companies are truly aware of the value of their firms. He says some of them are selling for less than they are worth, basing it on data that his firm collects because it conducts such valuation services for RIAs.

Duran says at United Capital, he and the RIAs jointly agree on a valuation of the firm for acquisition purposes. He says that the companies he is buying generally have limited value in their existing form and that United Capital adds the resources to make them more profitable.

"We create the value," he adds. "They're not doing it for a capital event today but to partner with us to create a valuable company tomorrow."

Either way, RIA firms appear to be willing to make the deals, with United Capital reporting three deals in the pipeline and Fiduciary Network with eight in the works, according to officials at each firm.

The attraction for the acquired firms is the chance to shed costs of compliance, insurance, employee benefits, technology, and other functions that are expensive on a smaller scale, says PFE's Bogosian, whose firm was part of the recent deal. He had been president of PFE, which will retain its name, and which focuses its practice on acting as a fiduciary advisor to DB and DC retirement plans, with an average client size of \$150 million in assets under advisement.

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.

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