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NEWS RELEASE

RECORD YEAR FOR RIA M&A AFTER GIANT FOURTH QUARTER, SCHWAB STUDY SAYS

Buyers and sellers both have strong motivations

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Originally Published By Brooke Southall, RIABiz



Dan Seivert: RIAs were competing with wirehouse brokers but now they're competing against super RIAs and they're feeling a little insecure.

Merger and acquisition activity exploded toward year end making 2010 the biggest year for RIA deals ever, according to a new report from Schwab Advisor Services.

There were 39 deals totaling \$71 billion of AUM transacted for the three months ended Dec. 31.

This resulted in a total of 109 deals representing approximately \$156 billion in total assets under management for all of 2010, compared to 70 deals and approximately \$103 billion in assets under management in 2009 – a jump of 51% in terms of assets under management.

Front burner

"We saw a significant uptick in M&A deal activity among RIAs in 2010, largely due to advisors putting these discussions back on the front burner after spending the bulk of 2009 helping clients navigate the volatile market environment and managing the day-to-day business of their firms," said David DeVoe, Schwab Advisor Services managing director of strategic business development.

The average transaction size in 2010 was approximately \$1.4 billion of AUM compared to approximately \$1.5 billion of AUM in 2009.

Industry experts say that the Schwab statistics are a good proxy for what they're observing in their offices.

"We see M&A activity at levels not seen since before the crash. A major factor is that valuations have crept back up, so sellers feel like they're on equal footing with buyers at the negotiation table. We're observing there are always two to three quality buyers for every seller. Another factor is that because valuations have crept back up, internal sales aren't as attractive as selling to an external buyer."

Driving high valuations are RIA firms who were the most common buyers among 2010 deals, accounting for 54% of acquisitions, a trend that has continued since 2007. It was 51% last year and 37% the year before.

Of the 109 deals tracked by Schwab in 2010, 58% of deals represented less than \$500 million in assets under management, 23% of deals were between \$500 million and \$2 billion, and 19% of deals were greater than \$2 billion.

There are a number of favorable trends driving the deals.

“Specific drivers of deal activity include advisors’ growing interest and sophistication in M&A and succession planning, continued interest of holding companies and private equity firms in RIAs, as well as advisor principal demographics.”

There may be some other factors at work that are creating a new sense of urgency to merge in the RIA business, according to **Dan Seivert**, CEO of **ECHELON Partners** in Manhattan Beach, Calif., an investment bank for advisory firms.

Esprit de corps

“I’m increasingly finding that entrepreneurial RIAs have done well and enjoyed the lack of frustration that comes with large partnerships but in the aftermath of the (meltdown in 2008), the pendulum is swinging the other way as advisors seek more collegiality and esprit de corps. I think they felt a little exposed in the last downturn; it’s me against the world. It’s nice to have a couple people to talk things through with.”

DeVoe agrees that the challenge of 2008-2009 may have prompted more advisors to do more of the kind of deep introspection that could lead to major initiatives like a sale or merger.

Seivert indicates that there may also be a shift underway in how RIAs perceive their competition – and that they’re taking actions accordingly.

“There’s definitely more interest in doing deals; there’s a new paradigm where RIAs were competing with wirehouse brokers but now they’re competing against super RIAs and they’re feeling a little insecure and that’s why (they’re interested in getting bigger).”

DeVoe says it’s too early to gauge how strong M&A activity among RIAs will be in 2011. He cautions that 2010 benefited from an unusual number of postponed deals in 2009 but closed in the following year.

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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