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NEWS RELEASE

MAPPING THIS YEAR'S M&A LANDSCAPE

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Mergers and acquisition activity among wealth management firms hit some speed bumps during the past two years as cash flows shrank, valuation multiples contracted and potential sellers remained on the sidelines.

The good news: The M&A environment for advisers in 2010 is experiencing "a healthy level of optimism," according to **Dan Seivert**, CEO of **Echelon Partners**, an investment bank and consulting firm that works with wealth managers. Dow Jones recently asked Seivert what the road ahead may look like for buyers and sellers of wealth management practices.

Q: What can advisers looking to buy, sell or merge expect this year?

A: There will be a step up in activity from the previous two years, but the opportunities will be more subtle and selective than they were from 2004 to 2007, when there was seemingly no shortage of options. The supply of sellers should increase significantly if financial markets are up 10% or more. If they're flat or down, supply will still be moderately higher than it was last year.

Q: What types of deals are we likely to see in that more selective environment?

A: There's a shift going on. Instead of looking only to third-party buyers, sellers are increasingly favoring a long-term hold of part of the equity in their firms, with a slow sell-off of shares to internal partners such as staff members the advisers have brought up through the ranks over the years. The reason is that total proceeds from that type of sale can be much higher than with a traditional sale.

So, for example, an adviser might transfer 60% of his practice to an internal party and hold on to 40% of the business for a number of years, during which time that stake might grow by 15% or 20% a year, which is the rate of growth of many wealth management firms these days. By contrast, if they sell their firms outright and invest the after-tax proceeds in the stock market, they might earn just 7% or so annually.

Q: And that type of deal only works when it's an internal succession plan?

A: Most third-party outside buyers wouldn't go for that approach and they're not as tolerant of long-term equity hold times by a seller. But if it's an insider, there's often a quid pro quo situation. The owner is essentially saying to the insider who's buying, "You rode on my coattails on the way up, now that you've got a bunch of equity in your hands, I'm going to ride on the coattails of your growth for a while."

Q: Valuations are still at somewhat low levels. Is that having an impact on how deals are getting done?

A: Not a lot of RIA firms want to sell due to depressed valuations. Instead, mergers are becoming more attractive to both potential buyers and sellers. Older advisers who are now thinking about retiring are putting together continuity plans by bringing in younger peers who could take over the firm. That continuity partner is typically in the pole position to buy out the adviser when the time comes. What's more, those younger advisers are having a hard time generating organic growth and accessing the capital needed to buy a firm outright. So they're also interested in merging with older, established advisers. They can avoid having to make an investment of capital today, but can potentially do an internal sale in a few years when the adviser is ready to retire.

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