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NEWS RELEASE

SMALL FIRM M&A STILL STRONG

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With the stocks of leading publicly traded consolidators like NFP and Boston Private down by more than 75% over the last year and bank lending for acquisitions slowing to a trickle, M&A activity in the RIA space has slowed significantly. However, sources say that among smaller and mid-sized firms, there is still lots of talking and there is more activity than one might think.

TD Ameritrade recently entered a partnership with **Echelon Partners** to provide advisors affiliated with the Omaha-based custodian advice on potential mergers and fold-in deals. And recently, I checked in with Pershing Advisor Solutions CEO Mark Tibergien, who spent the better part of two decades as a merger consultant, to get his take on the subject.

What follows is Tibergien's take. He writes:

There are some negotiations going on among larger firms, but 26% of the RIAs with more than \$1 billion of AUM are already owned by somebody. This means most buyers are going downstream a bit. This includes "tuck in" mergers of small advisory firms into larger ones. There is a real pickup in overtures by the larger firms to the smaller ones to do this, and I am aware of some mating dances going on between midsize firms.

There are several drivers of this discussion:

- 1. Economics are forcing people to figure out how to get to scale more quickly.*
- 2. Safety and trust issues are forcing firms to become larger in order to implement protocols on a cost-effective basis.*
- 3. Business continuity is even more paramount now that the age is in the mid-50s for the average advisory firm principal, and getting higher.*
- 4. Smaller firms are having a harder time recruiting, paying and retaining good talent.*

This is the natural evolution in an industry that is relatively young. People go from wanting total control to wanting to stay focused on clients and leave the management to others.

I think the changing dynamics also present an interesting challenge for the consolidators. Firms that offer a more synergistic play have demonstrated to advisors that they make more money once the deal is done. But others who take a preferred income (first cut) and are tying purchase-price terms to achieving high-growth goals (while not offering much in the way of economies or synergies) have a diminished value proposition—they are going to have to think of ways to appease their current stable of advisors who gave up cash flow in hopes of a big liquidity event that is probably deferred for some time. It looks a little like a viatical settlement in some cases. That said, there will be a few remaining consolidators, but it may be harder for low-capitalized firms late to the game to offer much as a differentiator.

As a result, I expect we will see a shift in acquirers, be it other advisory firms or synergistic buyers, away from pure financial buyers.

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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