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RIAs the Busy Beavers in M&A

Access to new markets, new capabilities, succession driving activity

By Dan Jamieson | *August 22, 2013 - 3:51 pm EST*

Registered investment advisory firms continue to be the most active players in the mergers-and-acquisitions game, according to Pershing Advisor Solutions LLC's latest analysis of M&A trends in the financial services industry.

RIAs' buying other RIAs accounted for 58% of deals so far in 2013, up from 37% last year, while aggregator firms were involved in just 25% of deals during the first half, down from 32% in the second half of 2012 and 28.9% for all of last year, according to the report.

The adviser unit of Pershing LLC tracks retail-focused RIA firms with $50 million or more in assets or $500,000 or more in annual revenues.

Driving RIA-RIA transactions is the desire to access to new markets, the Pershing research found, in addition to acquiring new capabilities and facilitating a succession in ownership.

RIA firms continue to be dominant buyers because they're "doing transactions to penetrate new markets, solve for succession and add talent capabilities," agrees David DeVoe, managing partner at DeVoe & Co. LLC, a consultant.

"RIA-to-RIA deals generally tell the 1+1 = 3 story," he said.

"RIAs are getting better at it, and more sophisticated about it," added **John Furey**, founder of **Advisor Growth Strategies LLC**, a consulting firm.

And "there are just more RIA buyers than consolidators," he said.

In addition, aggregators face some disadvantages in attracting acquisition candidates, said Mark Tibergien, chief executive officer of Pershing Advisor Solutions.

"This is a business that lends itself to active owners rather than passive owners," Mr. Tibergien said. "While there will always be consolidators and aggregators that do well, a lot of [RIA] sellers are reluctant to go that route" and give up income and possibly some control.

An earlier M&A analysis from Schwab Advisor Services found a similar trend toward all-RIA deals.

RIAs remained the dominant buyer category for the second straight quarter, according to Schwab, accounting for half of the deals this year through June. Aggregator firms, or strategic acquirers as Schwab calls them, accounted for 39% of transactions.

Since 2006, RIA firms and aggregators have each accounted for 30% to 40% of transactions, according to Schwab.

One reason for more RIA-to-RIA transactions might be that the RIA affiliates of the strategic acquirers are making acquisitions, which Schwab counts as separate RIA deals, Jonathan Beatty, senior vice president of sales and relationship management at Schwab Advisor Services, said through a spokeswoman.

In terms of numbers of transactions, activity is sluggish so far this year.

Pershing counted 12 transactions in the first half, down from the 16 in the comparable period last year.

The most recent six-month total was three fewer than occurred in the fourth quarter of 2012, when deals were rushed to completion in anticipation of more favorable tax treatment prior to potential rule changes, Pershing said.

Pershing found that RIA mergers tend to be driven by profitability — as financials improve, more deals get done. Transactions dipped in 2011 (32 deals) as RIA profit margins fell to 14.2%, but bounced back last year (38) as margins grew to 20.5%.

Schwab counted just 18 transactions in the first half, the lowest levels the firm has seen since the first half of 2008.

In an earlier interview, Mr. Beatty chalked up the slow deal pace to strong markets that have kept advisers busy focusing on organic growth over deal-making.

Smaller firms, the ones most likely to sell out, were especially hard hit by the financial crisis, Mr. Tibergien said, and see the current market cycle as “a great opportunity to recoup what lost … and show [a better] earnings history” for a potential buyer.

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