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M&A Activity Roars to Record Highs in the Wealth & Investment Management Industry yet Deal Reporting Still Misleading

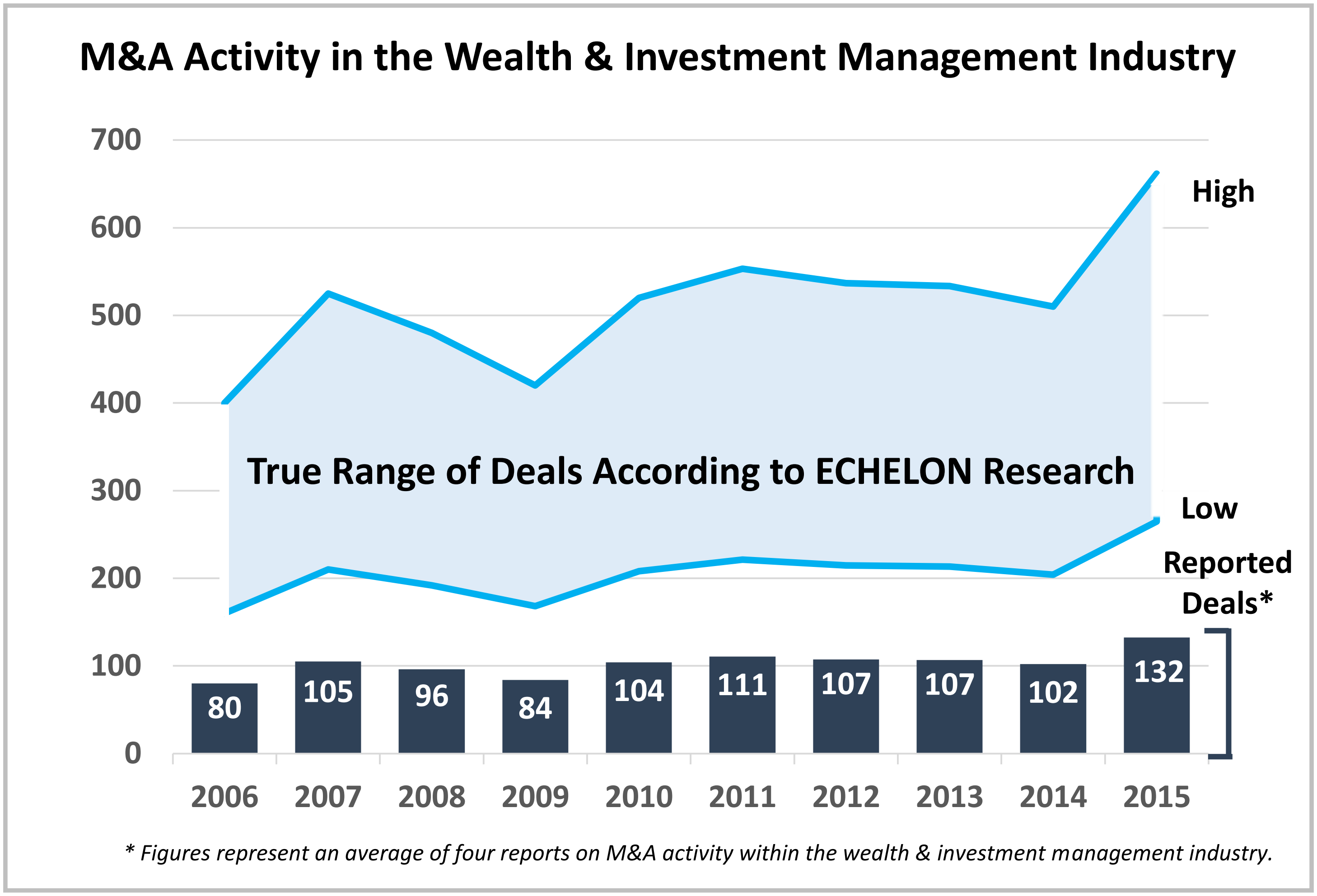
ECHELON Partners - M&A activity reached record highs in the wealth & investment management industry in 2015, with a reported total of 132 executed deals in the United States, a 23% increase over the previously reported figure of 102 deals in 2014.

True level of deal activity fundamentally misreported
However, the reported figure only exhibits a small portion of the true M&A activity taking place across the industry. According to proprietary research from ECHELON Partners, the actual number of transactions is three to five times higher than what has been formally reported.

The large discrepancy between reported deals and the number that actually occur can be attributed to a number of factors including; the media's approach to covering transactions, magnitude of the deal, and the type of transaction being executed (i.e. straight acquisitions, succession transactions with internal or external partners, mergers, various recruiting structures, and minor tuck-ins).

ECHELON's research points toward the third factor having the largest impact on the under-reporting of deals, as many transactions within the industry are small in terms of transaction value. Consider by comparison the attention garnered by a straight acquisition of an RIA by a large rollup firm, a deal-type that occurs at a modest rate, to a succession transaction in which an external next-gen partner purchases the equity of the firm from the founder. The latter transaction, which occurs regularly, may go unbeknownst to the media and industry, while the former transaction will generate ample coverage and surely be included in the reported transaction count.

However, for a true gauge of the M&A activity taking place within the wealth & investment management industry, and for a legitimate estimation of the levels of buyers and sellers present in the marketplace, it is paramount that transactions such as the latter be included in the total figure, as the former is.



Small but industry representative deals slip under the radar

ECHELON's research indicates that transactions amongst smaller firms, typically between RIAs with less than $300MM in AUM, continuously slip under the radar when it comes to the reported number of deals. These minor transactions often occur as acquisitions or mergers between two single-team firms looking to complement each other's expertise in a particular market segment, or tuck-ins made by relatively larger acquirers of smaller sellers. It is these transactions that represent the majority of the deal count within the industry, yet they receive little or no coverage in the media.

What the numbers say

Assuming the reported deals were a true representation of M&A activity within the industry, the deal count grew at an average annual rate of 6.9% from 2006 to 2015 and achieved a compound annual growth rate of 5.8%. It is interesting to note that the reported deal count decreased by three transactions from 2007, at 105 deals, to 2014, with 102 deals. The annual variation between those years is indicative of the peak and valley nature of M&A activity in the wealth and investment management industry, and also highlights the remarkable year that 2015 was.

Private equity dominates mega-transactions

Of the mega-transactions to take place, 2015 was highlighted by Blackstone Group's purchase of First Eagle Investment Management, a deal that valued the seller at $4BN including debt. The transaction was certainly large but also unique in that it was Blackstone's first acquisition of a traditional asset manager and a marked success for private equity share in the deal. Other transactions of note included Hellman & Friedman's investment in Edelman Financial Services, TA Associates' majority investment in North Star, First Republic's acquisition of Constellation Wealth Advisors, and Lightyear Capital's purchase of Wealth Enhancement Group. As evidenced by these selected transactions, private equity played an integral role in the M&A landscape in 2015, especially as it pertained to larger deals.

M&A surge expected to continue in 2016

Deal activity is expected to continue its surge in 2016 with a healthy supply of both buyers and sellers in the marketplace. As exhibited in the chart above, the number of transactions taking place in the wealth & investment management industry is significantly higher than the commonly reported total. This should continue in 2016 and beyond. For certain, there are many opportunities for inorganic growth strategies in a robust and growing industry.