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M&A Boutiques Foretell the Future for Wealth Advisory?

For wealth advisory boutiques that emerge, if the holy grail is anything similar to the success seen by this handful of M&A boutiques, it remains an attractive course indeed.

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As more and more disenchanted wirehouse financial advisors contemplate independence, many try to gage how much more value they might build as an owner in an independent boutique vs. working as an employee of a large financial services firm. For starters, they might look to another financial advisory business – mergers and acquisitions – traditionally the purview of big banks, yet where independent boutiques are thriving. Here is an advice business different in many ways from private wealth advisory, yet driven by remarkably similar dynamics. It's a marketplace where boutiques are succeeding beyond expectations for the very same reasons they are succeeding in private wealth advisory.

In the best year ever for M&A in the U.S., advisory boutiques are taking massive market share and fees away from the big banks. Several boutiques have gone public and are generating positive returns in the public markets, resulting in meaningful financial rewards for their owners. The demonstrated success of these independent advisors is a worthy precedent for private wealth boutiques and bodes well for the sophisticated players who can emerge in the independent private wealth advisory space.

Top Boutiques Grabbing Market Share

The world of successful M&A advisory boutiques includes a variety of firms, many established in the past 20 years. A few are now public companies.

Firm	Founded	Public
Evercore Partners Inc.	1996	yes
Greenhill & Co.	1996	yes
Centerview Partners LLC	2006	no
Perella Weinberg Partners LP	2006	no
Moelis & Co.	2007	yes
Qatalyst Partners	2008	no
LionTree Advisors LLC	2012	no
Zaoui & Co.	2013	no
PJT Partners	2013	no (IPO expected 2015)

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About Snowden Lane Partners

Snowden Lane is a client-focused, financial advisor-owned, and national branded independent wealth advisory firm. Through its open-architecture platform, Snowden Lane delivers wealth advisory services to high net worth individuals, families and foundations. For more information about Snowden lane, please visit www.snowdenlane.com.

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Arguably, the handful of now public M&A boutiques evidences a more mature market than the market for independent wealth advisors, yet in both worlds, new players continue to emerge. In the wealth advisory space, RIA and dually registered channels continue to expand, even as total advisor headcount declines; Cerulli estimates that RIA and hybrid market share will increase from 20% of total assets in 2013 to 28% in 2018. Similarly, M&A boutiques are performing very well in a highly competitive business. Boutiques took home around 30% of global M&A fees last year (according to Thomson Reuters Deals Intelligence), compared with around 15% percent in 2007. Six of the top 10 M&A transactions in the first half of 2015 had at least one boutique as an advisor (according to Dealogic's First Half 2015 Global M&A Review).

Why Boutiques?

So, what accounts for the emergence and success of M&A boutiques? Bottom line, over the past twenty years, talented M&A advisory professionals recognized that they could better serve clients outside of behemoth banks. Now, their clients understand this too. The enabling factors are very similar to what is driving growth in independent private wealth advisory.

- Freedom from conflicts of interest – Boutiques provide advice without the conflicts that weigh down bigger firms. In the world of M&A, conflicts often arise with big banks' other clients, with the overriding desire to obtain underwriting and lending mandates, and also in connection with sales and trading functions. Most importantly, like individuals, institutional clients appreciate that their interests are not best served by conflicted investment banks.

- Technology - Just as technology has 'democratized' analytics and tools for private wealth advisors, so too has it leveled the playing field for M&A advisory. Analytics that used to require teams of investment banking analysts are now done with off the shelf technology. Michael Zaoui, of Zaoui & Co., said, "So much of the analysis that used to require large teams is now available at the touch of a button." James Barty, strategy director at the British Bankers' Association, echoed "Advances in IT mean that the kind of stuff only bulge brackets could afford to do you can now buy off the shelf."

- Freedom to focus – Like private wealth advisors, M&A advisors do better outside the layered bureaucracies that are big banks. In small firms, deal makers are able to do what they do best – serve clients – without that bureaucracy. Free from distractions, they can focus more senior-level, personal attention on clients. Many private wealth advisors list this as *the* top reason they move to the independent channel.

  Attracting the best talent – As boutiques succeed at the highest level of finance, they are increasingly attracting the best and brightest from existing firms, as well as from colleges and business schools. Both groups can easily see the benefits of smart, agile and un-conflicted boutique structures, as well as the opportunity to play a more integral role in their firm as a whole. And, ultimately, the success of boutiques depends entirely on the talent they can bring to the table—rather than the brand name of their company or a vast expanse of resources. Talent is necessary to succeed in a boutique, and clients know this; they are attracted to the quality of advice they can expect from a successful M&A boutique.

M&A Boutique Valuations

Successful M&A boutiques are creating substantial wealth for their founders, partners and shareholders. The publicly listed group of Moelis & Co., Evercore Partners and Greenhill & Co. trade at p/e multiples ranging from around 17-32x, many times higher than their large bank rivals, some of which are trading below the value of the assets on their books. Over the past year, shares of bulge brackets returned around 4% year-over-year versus roughly 17% for the leading boutiques. Two of these three boutiques have market capitalizations around $1 billion+, with Evercore Partners exceeding $2 billion.

While no wealth advisory boutique has yet gone public, firms that can demonstrate quality and profitability may be welcomed by the public market. Arguably, the private wealth advisory business is more stable than M&A advisory, with more predictable, recurring revenue and strong players could command even higher multiples than their M&A brethren.

Differences and Similarities

Although driven by similar trends, few will confuse the M&A advisory and private wealth advisory businesses. For starters, at the high end, M&A advisory fees can be extraordinarily large. Likewise, profit margins are substantial as costs of providing advice are relatively low. M&A business is transactional and cyclical, with large deals sometimes few and far between. But the similarities are worth considering. Both businesses are highly relationship driven, and a relatively small number of top advisors capture the high end business. Big bank brands are no longer attractive to many institutional and private clients alike, and clients are following experienced and sophisticated advisors to un-conflicted boutiques. A number of high end boutiques are emerging in the private wealth advisory sphere, just as they continue to emerge in M&A advisory. Furthermore, the wealth advisory business can be profitable too, if managed well.

Complex Businesses

A growing similarity between the two businesses is complexity. High end M&A has always been a complex business, including strategic, anti-trust, legal, tax, regulatory and cross border considerations for big companies. High end private wealth advisory is becoming more complex, due to, among other things, increasing regulation, product commoditization and pressure on fees. Potentially the most burdensome and not yet appreciated new development is the Treasury Department's proposed anti-money laundering (AML) rules that will likely apply to large RIAs very soon. Add to that the potential for a new fiduciary standard, along with other proposals that would substantially increase costs and complexity (e.g., recruiting disclosure, RIA user fees to fund SEC exams), and it seems clear it will be an increasingly difficult landscape for boutiques to navigate.

A Handful of Winners?

M&A advisory business is highly competitive and the top boutiques have emerged from a much longer list of players. These standouts are highly sophisticated relationship managers and teams – the best of the best. And at the high end, private wealth advisory boutiques may be set to follow a similar course.

More than a few wirehouse financial advisors are attempting to set up and run 'high end' RIA boutiques – most in the hopes of realizing more value for their practices than they would going the traditional route. Most likely, a few will thrive. Those setting up firms would be well served to consider carefully the business and regulatory environment that awaits them. For the boutiques that emerge, if the holy grail is anything similar to the success seen by this handful of M&A boutiques, it remains an attractive course indeed.