How Aspiriant knocked out another all-stock deal for and $850 million AUM firm and why such pure-paper transactions don't grow on trees

by Janice Kirkel RIABiz

Stanford had done its own succession spade work and its principals were willing to become workers in a Deloitte-cultured firm

Brooke's Note: A billion here, a billion there ... sooner or later you're talking real billions. Aspiriant, with $10 billion or more in AUM, is what roll-ups aspire to be -- an RIA that serially acquires other big RIAs, or even smaller ones, at will. It does so by swapping its stocks for theirs. This financial engineering has significant benefits, including a lowered need for reliance on financial engineers. When you swap stock, you'd better get along and to some extent that seems to be what has happened thus far for Aspiriant. Still, David Selig cautions that stock-swapping isn't for everyone or for every situation -- not even close. What Aspiriant makes look easy it did by doing things the hard way for many years.

The Honda Civic perennially topped the list of “Cars We Hate” compiled by Click and Clack, AKA Tom and Ray Magliozzi, car mechanics and hosts of NPR's late “Car Talk" radio program. The car was so boringly reliable, they would say, it gave them nothing to talk about.

Aspiriant LLC continues to rack up assets by channeling the RIA version of reassuringly uneventful reliability by bringing remnants of its Deloitte & Touche culture as it exchanges paper for assets.

On Dec. 12, the Los Angeles-based firm announced it would add Stanford Investment Group of Mountain View, Calif., with $850 million in AUM, in a stock-for-stock deal, bringing Aspiriant's AUM to $10.5 billion. See: How Rob Francais combined two giant RIAs and then added the assets of Deloitte Investment Advisors.

Notably, the deal went down during a period that Aspiriant CEO Rob Francais, who spent 11 years as a tax partner in its Los Angeles headquarters, had set aside for digesting earlier deals. But Stanford's allure combined with the capital burning a hole in Francais's pocket in the form of Aspiriant stock made the transaction too tempting to pass up. With this merger, Aspiriant will have added $1.7 billion in assets and approximately 600 clients as a result of mergers with other independent wealth management firms over the past year. See: How Rob Francais is convincing RIAs to sign on the dotted line with Aspiriant -- no money down

No need to sell

Despite the ease with which Aspiriant seems to do stock deals, David Selig, CEO of Advice Dynamics Partners LLC in Mill Valley, Calif., says that many stars had to align make them happen.

"Structuring deals this way may be great from a cash outlay standpoint, but the acquirer must completely rule out doing 'retirement deals,' which make up the vast majority of M&A transactions," he says. Such deals limit the potential target universe by a wide margin.

Indeed, one thing Francais loved about Stanford was that it didn't need to sell.

"Stanford is already in its second generation of management. It was founded in the early 1980s -- 1982 to be exact," says 50-year-old Francais. "They're 34 years in, they've had a full founder transition. The owner group has an average age of 50. There's no need for them to sell out, they have another 15 years to work in the business." See: How a top Royal Alliance advisor is selling his practice to young staffers.

Dave Selig: Make stock available once both sides agree there's a long-term fit. This can take a few years.

Two other other impediments also tend to stop stock deals for RIAs in their tracks, according to John Furey, principal at [Advisor Growth Strategies, LLC] in Phoenix. "One is unwillingness to share control and the feeling that they're doing so well as an independent firm," he says. "And the other is the counterparty may have zero experience with this and think the firm is worth more than it is, put forth unreasonable terms."

Think twice, offer once

Francais, though, wonders how else the industry *would* combine. "You're not gonna consolidate with financial capital or strategic dealmaking," he says. "A true acquisition roll-up strategy introduces a force into the equation that doesn't align with the clients' best interests. If you introduce private equity money you have to pay a 15% to 20% return, and to do that you either have to raise prices, sell more product or pay people less to make it work." See: In the control-freak world of family offices, cutting the private equity firm out of the deal has an alluring logic -- and pitfalls

Selig says roll-ups are extremely active right now, citing regional RIAs such as Los Angeles-based EP Wealth Advisors; Savant Capital Management of Rockford, Ill.; and Exencial Wealth Advisors of Oklahoma City, Okla. Furey further cites Beacon Pointe of Newport Beach, Calif. as well as Mariner Wealth Advisors and Creative Planning Advisor Services LLC, both of of Leawood, Kan. See: How United Capital's unconventional rolling up of a $2 billion RIAs reveals how close the roll-up model is to extinction.

Members of Stanford will become employees of Aspiriant, with five becoming shareholders.

Selig warns those contemplating such deals to think twice before handing out stock at the outset.

"We see many transactions that use a combination of cash, debt and equity in various proportions," he says. "We advise our clients to be very careful when using stock because bringing on new partner-owners in a deal requires very careful thinking. Sometimes it makes more sense to offer cash in the immediate term, but make stock available once both sides agree there's a long-term fit. This can take a few years."

Layering season

Aside from getting-to-know-you problems, Furey reminds everyone that new partner-owners make the pie slices smaller for all partner-owners. But the pie, hopefully, is getting bigger.

"In Stanford, for example, $850 million gets contributed to the partnership of Aspiriant. Existing shareholders have less but the implied value of shares in Aspiriant likely goes up."

What is also likely to go up is the number of employees at Aspiriant as the complexity of the firm increases with each deal.

"Aspiriant is known to have a 'flat' organization," says Selig. "Meaning, very few layers of management. This enables a lot of professionals to have voices on decision-making committees. At some point, however, for a firm to scale, it needs to add layers of professional management to keep the organization moving forward and for decisions to be made more efficiently." See: Focus Financial bags $3.1 billion, 50-person RIAs and why it 'really is impressive.'

Furey agrees, especially when a firm has topped $10 billion AUM. “Usually you see a firm start building functional expertise -- a tech team, a head of human resources and a CFO to track compensation, a chief compliance officer, and so on.”

Pause, unpause

With Aspiriant, we may see that sooner rather than later. Francais puts 90% odds on as many as two deals emerging in the next six months, one in the Orange County vicinity of California and one in the Midwest.

“This is typically a year to year-and-a-half process,” he says. “They’re not done deals but we’ve been in conversations with a level of confidence that they will come together.”


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Before Aspiriant began ticking off deals, it built a foundation that included a series of six mergers with former offices of Deloitte, a culture characterized by a flat hierarchy, none of them trying to be a superstar. The result is a high level of trust-engendering predictability, transforming Aspiriant stock into an acquisition currency rare among small wealth managers. See: How Rob Francais is convincing RIAs to sign on the dotted line with Aspiriant -- no money down

Aspiriant emerged from the 2007 merger of Kochis Fitz Tracy Fitzhugh & Gott Inc. and Quintile Wealth Management LLC. See: Ex-RIA chief: 'How I learned more in a month as an Aspiriant client than in 20 years as Kochis CEO'

“It was the kind of watershed transaction that sets you on a course," says Furey. "The first deal is the hardest, but then it feeds on itself.”

Following the Deloitte mergers in 2010, Francais called a timeout. Then, after adding Hokanson Assoc. at the end of 2015 and The Glowacki Group in early 2016, Francais again said Aspiriant would take another dealmaking pause, likely until the end of 2016. See: Aspiriant sets the stage for its next big buy — and only RIAs with more than $1 billion in assets need apply.

Yes, more Aspiriant deals are likely in 2017 where the spoils don't go to the bankers.