Lack of Succession Plan Hurts RIAs Long-Term

By Murray Coleman October 13, 2016
Financial Advisor IQ

The march towards heightened M&A activity might not be ready to fade anytime soon. But any such mergers and acquisitions frenzy by RIAs, say experts, is likely to be in large part driven by succession planning issues as much as competitive economic pressure.

A prime case in point is a recent move by **Savant Capital** in Rockford, Ill. The 30-year-old regional giant among wealth managers has used M&A as a growth strategy over the past four years to push assets under management past $5 billion.

Savant has raised $53 million through recent fundraising efforts that brought into the fold investors like industry heavyweights **Carson Group** chairman **Ron Carson** and **Charlie Johnston**, the ex-president of Morgan Stanley Smith Barney.

"This infusion essentially gives Savant more flexibility. They can now pursue attractive deals via cash, equity or debt," says **John Furey**, founder of Phoenix-based consultancy **Advisor Growth Strategies**.

An expanded equity structure, he adds, should solidify Savant as a "top five" wealth competitor in the Midwest. But Furey also sees the firm moving into other parts of the country, particularly in the East and Southeast.

"I do think that $50 billion in AUM is achievable now for this company," says Furey, who doubles as a director of industry think-tank **aRIA**.

Plans to ratchet up the firm's commitment to deal-making follow a decision by co-founder **Tom Muldowney** to retire, according to Savant chief executive **Brent Brodeski**.


Brent Brodeski

"This renewed focus on M&A coincides with an increasing emphasis by our board on the succession planning process," he says.

In all, the 21 outsiders taking part in Savant's recent round of financing now control less than 23% of the company's total equity, Brodeski notes. The remainder is divided among 47 different key insiders, he adds. Savant currently lists a payroll of about 145 total employees.

"While we've decided to open up our capital structure to more outsiders," Brodeski says, "we still plan to remain independent by creating more opportunities for our employees to become equity owners."

Along those lines, he points out that a dedicated succession plan put into place in 2012 has resulted in the firm's partnership ranks swelling from its three founding partners to 19 heading into the September 30 cash infusion.

In the past four years, Brodeski figures a multi-pronged approach to growth that includes M&A in tandem with a broader path to partnership has boosted Savant's employee-ownership base from about 4% to almost a third of the company's overall staff.

"We've been very focused on not only how to retain and attract top talent but also how to grow our value proposition to our advisors," he says. "And it's all related to continuing to provide best-in-class service to our clients as our book of business expands."

In 2012, Savant made its first acquisition by purchasing a Washington, D.C.-area wealth manager with about $500 million in AUM. "We've done roughly $1 billion in M&A-related transactions over the past four years to increase our base of managed assets by about 20%," Brodeski says.

The new infusion of capital will help Savant negotiate with bigger tuck-ins and outside firms, he adds. His expectation is that in a typical year, the firm will cut deals to bring aboard advisor teams and RIAs managing a total of about $1 billion in new assets.

Some of the markets he tells FA-IQ he's eyeing include Atlanta, Salt Lake City, Cincinnati, Houston and San Diego.

"The exact locations are going to be less important than finding partners who are culturally aligned with our way of doing business," Brodeski says.

Indeed, Savant has shown a strong track record of using M&A as a strategy to build infrastructure, "not just as a way to beat its chest and build more assets," says **Michael Bilotta**, managing director at **Gladstone Associates** in suburban Philadelphia.

Like a lot of other independent RIAs these days, the M&A consultant believes Savant is finding that melding a "highly selective" acquisitions strategy can make a lot of sense when paired with strategic succession planning.

"Savant," Bilotta says, "is the latest example of a leading RIA which is dealing with an aging demographic by combining a highly-focused M&A strategy with a long-term growth plan that includes passing the baton to a new generation of advisors and clients."