6 Realities for RIA Buyers and Sellers in Today's Market

by Ginger Szala for ThinkAdvisor

What should buyers and sellers expect? Here are findings from an Advisor Growth Strategies' study that looked at 55 M&A deals.

M&A is all the rage these days — several specialists pointing out this year has had more than 100 deals in the financial advisory field to date. But what are some of the trends inside this development? A new study by Advisor Growth Strategies and sponsored by BlackRock found some interesting new demands on buyers and new realities for sellers.

The six new demands for each group are related but different:

1) With 5.4% of advisory firms controlling 63.2% of AUM at the end of 2017, the study found RIA buyers need to decide if they want to compete through scale and inorganic growth or stick to the boutique approach. On the flip-side are the sellers, in which not all multiples rose the same. The top 0.5-1% of firms by AUM in the industry are commanding premium multiples, but often they had to accept specific structured deals to achieve the transaction.

2) The largest buyers set the pace and deal sophistication heightened — in fact this group completed 42% of the transactions from 2016-18. For sellers, the big brands are offering "turnkey offerings." This also means these big brand buyers come with robust capabilities, target markets and deal model discipline. They also bring in "rational" expectations on price and structure, and sellers should expect this type of offer.

3) Cash is now king and buyers can now expect to deploy 60% of cash consideration at closing. This is a very high barrier to entry for buyers. But sellers, who may get that 60% cash infusion at closing, must also consider that liquidity impact on overall valuation. As the study notes, "Are sellers willing to trade cash for the highest possible valuation?"

4) Buyers must be able to compete in this cash-rich landscape, thus strike a balance between two things to close the deal: "price and terms based on the transaction's purpose

and a focus on broker transaction benefits.” For the seller, the median adjusted EBITDA multiple experience, states the study, was less than a 10% variation from 2015-2018. Therefore sellers should think of a long-term deal unless they want to enter “an auction process” and have to accept aggressive terms and structure.

5) More than 40% of the average price, states the study, consisted of the winning firm’s equity. That means, buyers need to illustrate a “path to liquidity, a repeatable growth engine scale, and platform” or they’ll lose out. Meanwhile, sellers face tradeoffs with any deal structure. The bigger deals favor equities while the smaller deals focus on cash. This means, sellers must study offers carefully and understand what they want out of the deal.

6) The race to buy means that the seller doesn’t have to shoulder all the risk. In fact, 70% of transactions are a balance of cash and equity, and buyers must understand this to succeed. Sellers need to know if they want to be prospective partners, and thus be prepared for a shared risk and understand where everyone stands when the transaction is done. Today, “sellers are saying yes to balanced purchases and integration acumen,” the study states.

The future for M&A in the advisor field? Although deal volume continues to increase, the authors don’t see multiples increasing much for 90% of the market without changes in terms and structures. Also, expect more private equity firms, advanced platforms, and flexible capital providers to force out traditional acquirers because of “built-in growth engines and tangible ways to drive value through competitive capital sourcing, creative deal structures, and creative exit strategies.

The study collected data on 55 transactions from 2018 to 2019. It included over $30B in sellers AUM, $550M in total valuation, and spanned over 20 unique acquiring firms.