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Access to capital is table stakes but more is coming, RIA giants say

by Jake Martin for Citywire

Dynasty Financial Partners chief executive Shirl Penney and Mariner Wealth Advisors chief executive Marty Bicknell said deals are about more than capital and predicted more capital is coming.

The heads of two of the largest companies in the RIA industry are arguing that access to capital has become table stakes as the industry matures and as buyers and sellers alike wisen up to other factors involved in making good deals.

That's not to say anyone's turning off the money faucet anytime soon.

Mariner Wealth Advisors chief executive Marty Bicknell and Dynasty Financial Partners chief executive Shirl Penney spoke during an Advisor Growth Strategies webinar on how the mergers and acquisitions landscape has changed and what's in store for advisors in the near future.

But growing into a healthy company isn't all about dealmaking.

Penney said there are now roughly 675 RIAs with north of $1 billion in assets under management and that, for the most part, those practices have evolved into businesses through a combination of organic and inorganic growth.

'It's very difficult to grow for a sustained period of time at north of say, 20%, organically,' Penney said. Firms growing in the 10% to 12% range organically and that layer some M&A activity on top will continue to win at a disproportionate pace going forward, he added.

Bicknell said the lack of organic growth among firms in the industry is a real issue.

'There are very few firms that are growing beyond what the market is giving us for growth,' he said. 'Those firms that can demonstrate true organic growth ... are rare and are going to drive a higher valuation and probably attract a higher number of potential firms out looking to acquire them.'

According to Advisor Growth Strategies’ inaugural RIA Deal Room study, the largest RIAs are growing at roughly twice the annual rate of their smaller counterparts. Additionally, a barbell has formed in the industry, with 5.4% of firms controlling nearly 63.2% of assets under management as of the end of 2017.

Brandon Kawal, principal of Advisor Growth Strategies, said during the webinar that the ten largest acquiring brands did more than 42% of the deals from 2016 through 2018 examined for the study.

Meanwhile, 2019 has been a record-breaking year already in terms of the number of deals. More opportunities means more capital in play.

When it comes to the options now available to RIAs for financing and capital, Penney said there can be too much of a good thing.

'The good news for the RIA space, from a capital perspective, is the space is definitely discovered,' he said. 'There are more options now than ever, but that’s also part of the challenge. I really think people need to take the time to get educated.'

Penney predicted there will be more activity in the coming years by advisor-led and advisor-owned firms that are well capitalized -- not necessarily by private equity -- and focused on building a national brand.

He also said in the event of a market downturn, a handful of firms that have up to this point been 'very disciplined with capital' will open up their coffers and start making moves.

Similarly, Bicknell said he would expect upper-tier firms to take outside capital to fuel deals in the next two to three years, especially if there's a downturn. 'The pressure is there for growth and not all firms have the same access to capital as others,' he said.

According to the Advisor Growth Strategies study, prospective buyers face higher barriers to entry than ever before, as the average deal included nearly 50% cash consideration with 60% of that cash provided at closing.

‘Prospective buyers should be ready to put several million dollars down on a meaningful purchase, or they will not be competitive,’ the study said.

To see the M&A study, go here.