

Why bigger RIAs demand more equity when selling their practice

by Ian Wenik for Citywire

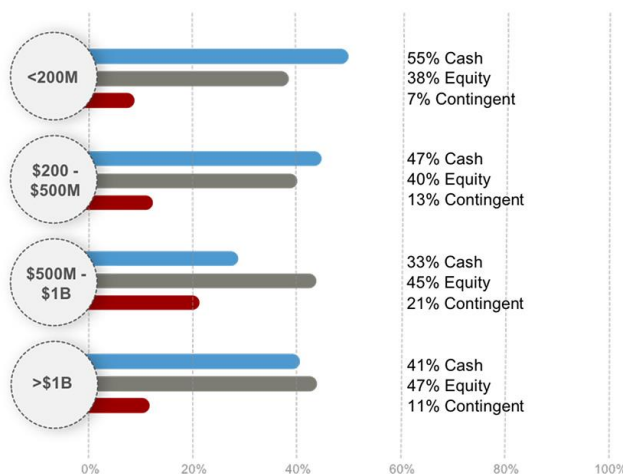
Not all advisor dealmaking is created equal.

According to a new report from RIA consultancy Advisor Growth Strategies, bigger RIAs are more likely to use equity when merging than their smaller counterparts.

Advisor Growth Strategies found that from 2015-2018, the total consideration in the average \$1 billion AUM-plus RIA deal consisted of around 47% equity. In contrast, the average sub-\$200 million AUM deal consisted of just 38% equity.



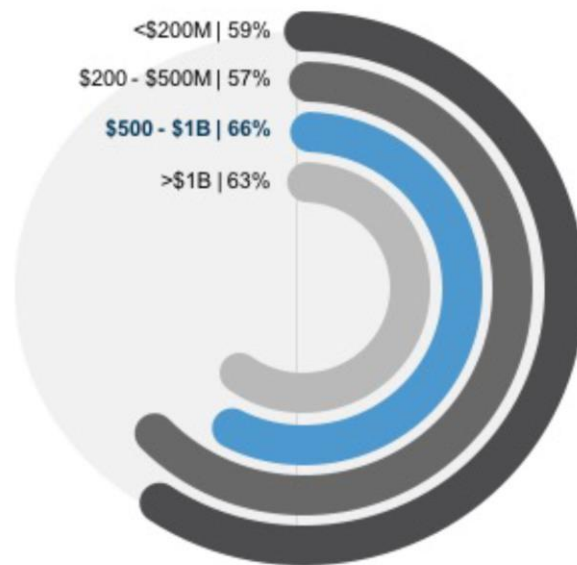
'As deal size grows, the use of equity becomes more common. Using equity and other long-term consideration emphasizes risk alignment and forces buyers and sellers to discuss how to achieve maximum success after the transaction,' wrote the report's authors, Brandon Kawal and John Furey (pictured above). 'The data show that larger transactions favor a higher percentage of equity and underscores that competing in today's M&A market requires an intentional approach to different segments of the market.'



The bigger RIA deals get, the less reliant advisors are on constructing a transaction around cash considerations. RIAs with less than \$200 million in assets received 55% of their compensation in cash, while RIAs with between \$500 million and \$1 billion in assets and RIAs with more than \$1 billion in assets received 33% and 41% of their compensation in cash, respectively.

However, the demand for cash upon closing remained relatively constant across RIAs of all sizes. RIAs with more than \$1 billion demanded around 63% of their cash consideration upon closing, while RIAs with less than \$200 million in assets demanded 59% of their consideration in cash.

Percentage Cash at Closing by AUM Segment



'Prospective buyers should be ready to put several million dollars down on a meaningful purchase, or they will not be competitive,' Kawal and Furey wrote.

You can see *Citywire's* interview with Furey at the *Citywire* RIA retreat in Austin, Texas [here](#).