Average valuation for RIA sale jumps to 6.6x Ebitda

A new study from Advisor Growth Strategies puts the industry's M&A frenzy into context.

by Ian Wenik for Citywire

RIA valuations soared in 2019, according to a new report from Advisor Growth Strategies.

The RIA consultancy found in a new study, 'The RIA Deal Room: The Next Generation of RIA M&A,' that the median average earnings before interest, taxation, depreciation and amortization (Ebitda) multiple paid for an advisory firm jumped 29% in 2019, from a median of 5.1x over the course of 2015-2018 to 6.6x in 2019.

'The aggregate valuation increase is likely the result of increasing competition among acquirers, RIA cash flow performance and a low cost of debt capital,' wrote the study's authors, John Furey (pictured) and Brandon Kawal. 'Predictions of future success presumably played a significant role in valuations. Many transactions appeared to price in strong future growth rate assumptions, leveraging forward-looking or run-rate financials.'

Advisor Growth Strategies' findings underscore the popular consensus that RIA dealmaking was reaching record levels before the coronavirus pandemic hit and slowed the pace of M&A activity in the space to a crawl.

The consultancy also found that transaction structures are changing rapidly as aging advisors look to exit the industry. The average RIA transaction in 2019 consisted of 70% cash, 22% equity and 8% contingent payments that extend out several years after a deal closes. From 2015-18, the average RIA transaction was a 47%-41% split between cash and equity, with contingent payments comprising 12% of total consideration.

'A growing appetite to deploy debt capital partially explains the shift in terms,' Kawal and Furey wrote. 'Cash was the low-cost currency and transaction data confirmed buyers and sellers favored the approach. Acquirers balked at leveraging equity in deal consideration structures as their valuations were much higher than their smaller counterparts on a relative basis.'

Kawal and Furey paint a picture of an industry in which buying power is consolidated in a handful of acquirers. The two found that 16 branded acquirers — firms such as Allworth Financial and Creative Planning — pulled off 66% of all transactions they tracked.

That may not be enough to contend with the impending wave of advisor retirements.

'The industry needs more acquirers to fill the potential void as more owners consider their exit plans,' they wrote.