The Case for a Permanent RIA Road Show

By John Furey for Barron's

It stands to reason that a global crisis like the Covid-19 pandemic, and its economic aftershocks, would slam the brakes on mergers and acquisitions in the RIA space. A recent Fidelity report highlights a stark reversal in deal flow: six RIA deals in March and April, compared to 20 in January and February, representing a 38% year-to-date decline against the same period in 2019. While buyers and sellers might turn to playing it safe during this volatile period, the fundamental needs that drive industry M&A have not gone away.

Time will not wait for firms in need of succession plans. They need resources and commitment to court the next generation of advisors and clients, and those resources must come from growth. We don't know how long the pandemic will impact the industry's appetite for M&A, but the good news is that RIAs can still do plenty of things, right now, to secure advantageous footing when we come through the crisis.

Do your homework. Take it from someone who has spent years studying the M&A landscape and the anatomy of successful deals: This is easier said than done. There is no shortcut here, no easy way to navigate how this pandemic will impact potential transaction partners, deal models, risk sharing and capital.

Whether you invest your own time or hire someone to do the legwork, learning about the M&A marketplace will -- and should -- be a significant use of your resources. You cannot position your firm for an ideal transaction (internal or external), in terms of value and transition, without knowing what's out there.

The road show never stops. When an RIA gets serious about M&A, they lavish extra attention on the components of their business, so they can secure a better valuation. What is stopping an advisor from always running their business like they were on an M&A road show? "The pandemic" isn't a good answer. If you wait until the market improves to look for ways to optimize your business, you will lag behind buyers and sellers who chose not to settle for "good enough."

When you treat your RIA like you're on a permanent M&A road show, it forces you to keep a sharp eye on your biggest assets and determinants of value: your people and your book of business. Any transaction partner you care to court will put the drivers of value under the magnifying glass, too. For example, if they find most of your clients are in decumulation, and your advisors are nearing retirement age, your AUM total is unlikely to impress them. If your team is no longer driving new clients, your business may be viewed as a spent oil well.

Real talk with your team. The RIA industry is starting to embrace the need for an investment in next-generation teams, tools and prospects to cement the longevity and valuation of their firms. But a big part of this investment, one that I seldom see discussed, is the need for internal transparency. Have you had a formal discussion with your team about their career trajectories? Do you know when older advisors want to retire, and when younger team members expect to take on more responsibility? Do teams even know founders might be looking for an M&A partner?

They should. If you and your team are not candid about your intentions and goals, they will have to come to their own conclusions. Younger advisors may walk if they see no future for themselves. More senior staff may blindside you with a retirement, putting your service capacity and a sizable chunk of your clientele at risk. Internal volatility like this will impact your attractiveness as an M&A candidate or the viability of transitioning equity internally. You can avoid it by simply keeping open lines of communication.

A final note on transparency: You need to show your team what's in it for them and for their clients from any potential M&A transition. That's particularly true for the folks who shoulder the biggest responsibility. It's hard to keep a deal intact when the principal needs to both appeal to a transaction partner and appease teammates who have no clarity.

The M&A market is not going away and transaction volume will certainly recapture its rise. The structure of deals to come may look much different than before the pandemic. But right now, RIAs who are counting on an internal or external transaction to transition their life's work to meet their objectives are far from powerless. The sweat equity you invest in your business and your team will yield a better practice -- and a better chance for a deal that works for everyone.

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