



3 Questions to Ask Before Jumping Into the Bull Market for RIAs

Resolving these issues is a "must" before you start down the M&A path, says Mariner Wealth CEO Marty Bicknell.

By Jeff Berman for ThinkAdvisor

Despite the ongoing COVID-19 pandemic, many merger and acquisition opportunities in the RIA sector continue to emerge, according to several consultants and executives.

"Acquisition brands" — advisory firms that have done multiple transactions recently and have made M&A a key part of their growth objectives — are the ones to watch.

These firms "set the pace again in 2019" for M&A activity, said Brandon Kawal, principal of Advisor Growth Strategies, during a recent webcast.

Earlier, a high percentage of M&As — more than 40% — were being "completed by the same 10 firms," Kawal points out. That trend persisted last year. Recently, though, two-thirds of the transactions have been done by 16 acquisition brands, he explained.

There's "going to be a lot of opportunity for those that want to enter the market," driven largely by succession, and the industry's "going to actually need new participants to handle the need," he said. Plus, advisor retirements in the next 5-10 years will increase the market for RIA acquisitions.

Only about 20% of about 100 surveyed RIA firms said they were considering selling or partnering in the next 12 months, so "you're going to see a continued tension from succession that starts to continue to push the M&A market," Kawal added.

Top Questions to Ask

Before starting out in the M&A world, it's best to "take a step back" and answer a few important questions regarding your firm, according to Marty Bicknell, CEO and president of Mariner Wealth Advisors.

1. Why M&A?

"Why are you considering going down this route and making an acquisition?" Is it for geography, scale or talent? "Ultimately, what are you trying to have?" And "what are your non-negotiables going to be?" Bicknell asked.

2. What's the Combined CX?

A key focus should be on the client experience, or CX, and making sure that what clients experience with the two firms "fit together and makes the most sense," he said.

3. What's the Value Prop?

Firm owners shopping around for RIAs also must ask themselves: “What’s your value proposition for the seller? Why on earth would they want to join you and be a part of your organization?” Bicknell said.

“Being able to lay out all of those things, that’s a ‘must do’ before you even consider a conversation” with another firm about an M&A deal, he said.

Put another way, the seller should define exactly what the deal brings to the buyer: “What are you going to be able to do for them?” asked John Burns, CEO of Exencial Wealth Advisors.

It may be that your firm can help them grow organically, or that you provide a “superior advisory platform and client experience and advisor experience,” Burns said.

“There’s room for everybody,” he said. “You just need to know where you are, why you’re going to win, make sure to invest appropriately to continue to be able to do that, and then” figure out “who is likely to be the best fit for you” in an acquisition target.

M&A Momentum

Meanwhile, the “pure amount of capital being flooded into the space is going to continue to drive cash deals,” Bicknell predicted.

His firm has a five-person corporate development team that’s “out trying to locate opportunities” and “I personally have roughly 200 conversations a year,” he said.

“Last year was an outlier for us. We did 14 acquisitions. But on average we do two to four,” Bicknell explained.

The reasons why so few talks end up resulting in deals in a given year include competition from other firms looking to make acquisitions, non-negotiable issues that can’t be agreed on, and the fact that, “most of the time, it’s a two to three year process,” he said.

Overall, Bicknell predicted the following: “The number of RIAs isn’t going to go down, even though a significant number of them are going to be acquired; the number of new RIAs established every day, every week, every month from other channels is rapid, and that is going to fuel the acquisition channel for years” and event decades to come.

Other Deal Drives

The need for scale, meanwhile, is among the other industry forces driving M&A activity, according to John Furey, managing partner of Advisor Growth Strategies.

“There’ll still be plenty of room in the market and there’ll still be plenty of opportunity as you look out over the horizon maybe over a decade or so” when it comes to M&A opportunities, he predicted.

Over the past five years, the sector has “changed a lot” and has become a “pretty sophisticated marketplace,” according to Burns.

Exencial is “in the second or third inning of our story” and is looking for firms that want to be part of its “growth story and be a significant part of that,” he said.

Overall, the “number of deals, the number of transactions and the number of opportunities” will grow over the next few years, Bicknell predicted.

Despite the pandemic, his firm’s M&A “pipeline is stronger than it’s ever been, and our phone’s ringing off the hook,” he said. “The amount of inbound questions has never been like this. So there’s plenty of opportunity out there.”