



2020 RIA SURVEY

Build, Outsource, or Partner?



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Big Findings

Build, Outsource or Partner – Strategies for Scale

M&A this year – are RIAs ready?

Valuation Estimates vs 2019 Deal Multiples



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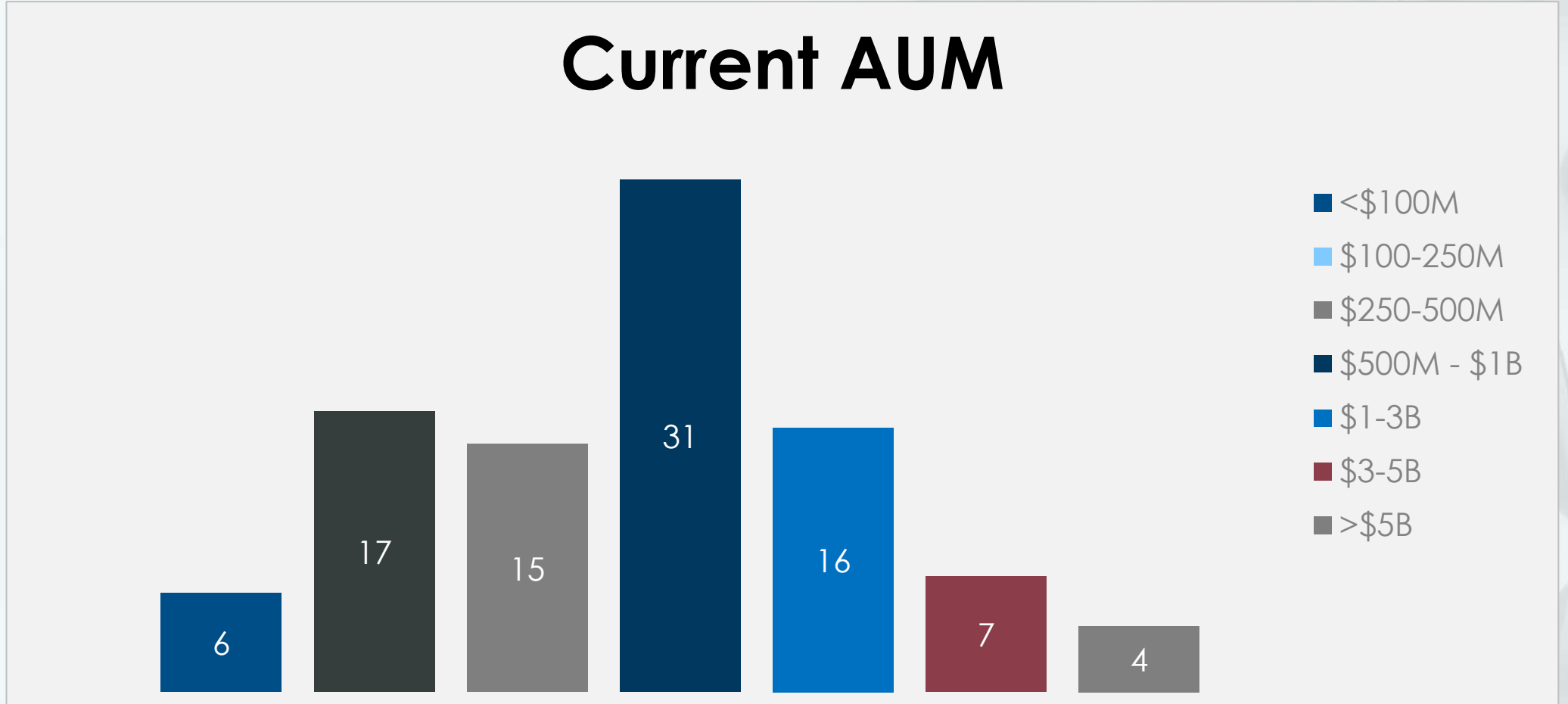
SURVEY RESULTS REPRESENT

73% Fee Only
22% Hybrid

96 Participants

32 U.S. States

Current AUM



Responses collected between March and May 2020

SURVEY REVEALS THREE KEY AREAS

Build

- Most firms are interested in building their own platform vs. outsourcing or M&A
- Preference for keeping functions internal with talent and growth being the biggest challenges

Outsource

- Varying degrees of outsourcing among survey participants – compliance, IT, and due diligence most common
- Advisors are looking for scale and outsourcing is providing ways to focus on highly valuable functions

Partner

- RIAs still looking to acquire, but preparedness is modest
- Estimated value on average aligned with realized multiples from 2019 – “right fit” coming into focus
- Participants prefer local or regional activity versus alternatives



MOST PREFER BUILDING CORE FUNCTIONS

IT and elements of portfolio management are the most likely to be outsourced

Which of these functions do you perform internally?	
Portfolio Construction	79%
Investment Research	66%
Investment Due Diligence	67%
Trading and Rebalancing	78%
Compliance	63%
IT	34%
Marketing	74%
Sales/Lead Generation	75%



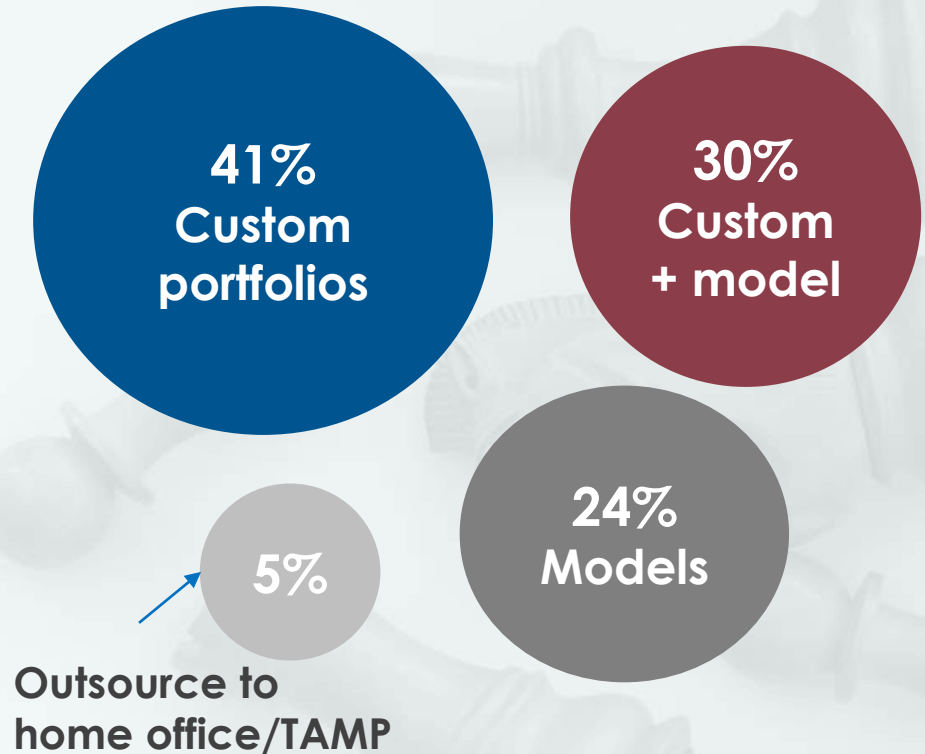
OUTSOURCING HAS MODEST ADOPTION

Creating infrastructure and portfolio scale seems to be top-of-mind

Which of the following functions do you currently leverage a third-party?

Portfolio Construction	16%
Model Portfolios	26%
Investment Research and Due Diligence	44%
Trading and Rebalancing	15%
Compliance	60%
IT	72%
Marketing	26%
Sales/Lead Generation	10%

What is your portfolio management style?



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THIRD-PARTY SUPPORT IS GAINING MOMENTUM

Modest interest in getting leverage from third-parties for non-core functions

Which of these functions are you interested in outsourcing in the next 12 months?	
Portfolio Construction	9%
Model Portfolios	15%
Investment Research and Due Diligence	8%
Trading and Rebalancing	16%
Compliance	31%
IT	39%
Marketing	38%
Sales/Lead Generation	27%

Most attractive for those with \$500m-\$1B AUM (23%)

Most attractive for those with \$100m-\$1B AUM

Consistent across AUM levels



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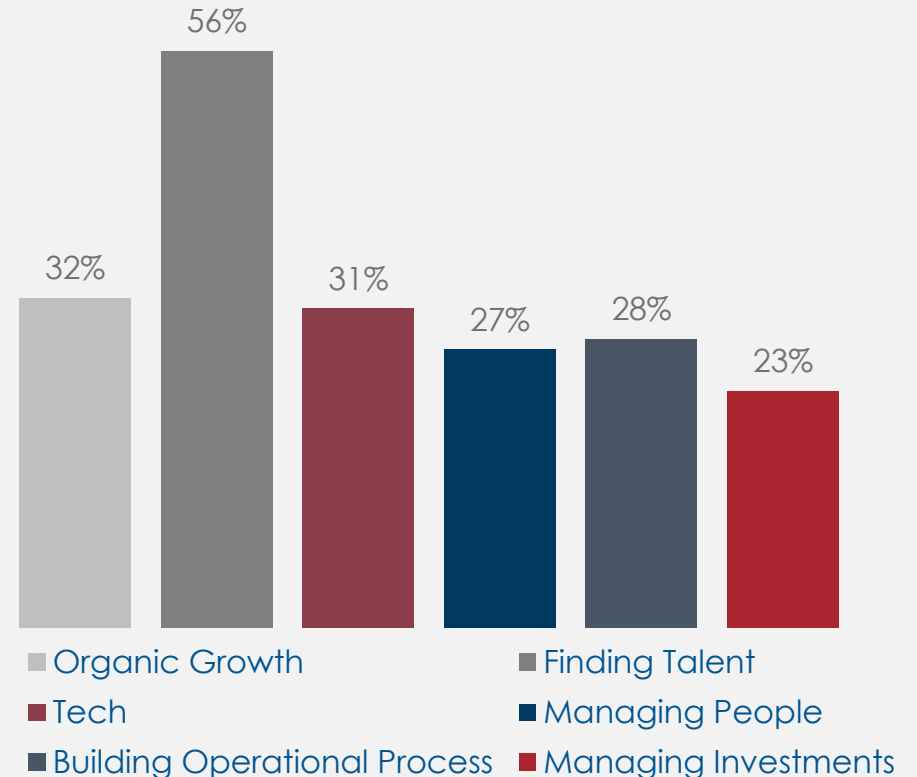
CHALLENGES FACING ADVISORY FIRMS

Organic growth and talent are the top concerns

Key Considerations:

- Growth and talent are driving most concerns.
- The top challenges are also driving the M&A market.
- Integration of operational systems, tech and investments is often a large project to undertake.
- Preferences for building internally to address challenges, except for IT

Which are a challenge for your RIA?



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ABILITY TO SCALE INFLUENCES M&A PREFERENCES

Robust internal systems allow for integration

66%

- Of those “very likely” to acquire in the next 12 months, 66% perform all functions internally except for IT

>25%

- Of those “very likely” to acquire, >25% face challenges with technology, managing people, building operational process, managing investments
- Those not likely to acquire find these to be much more challenging

50%

- Of those “very likely” to sell/merge in the next 12 months, 50% are already outsourcing investments, research, due diligence, and IT



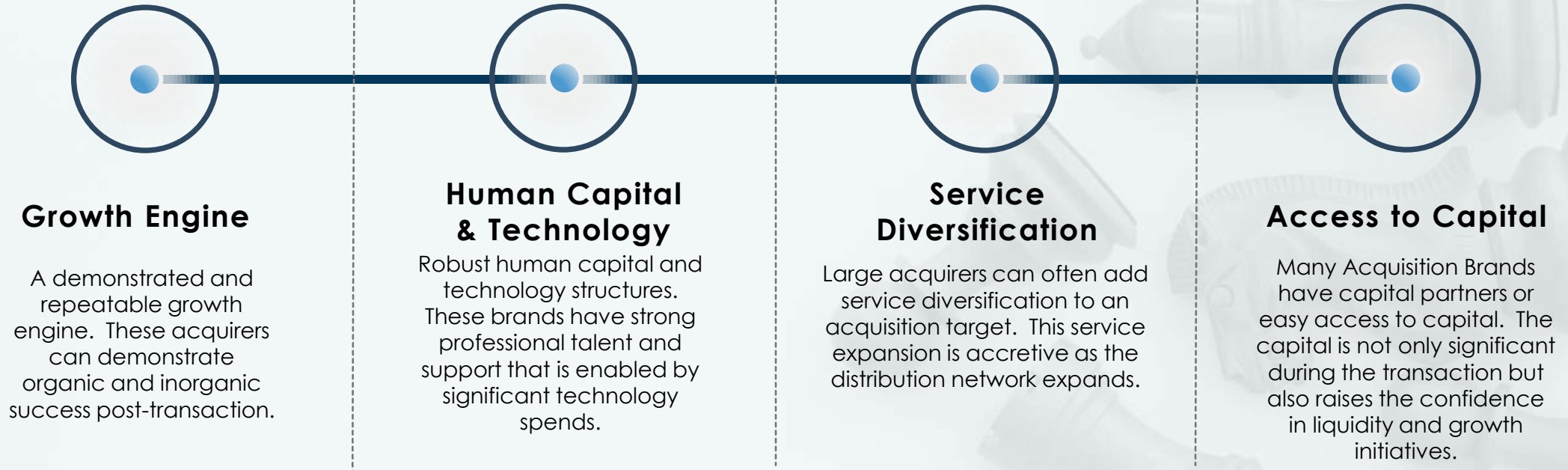
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LARGE ACQUIRERS ARE BUILDING CAPABILITIES BEYOND CAPITAL

Capabilities are aimed at solving some of the biggest challenges facing advisory firms

Why are Acquisition Brands winning?



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EVALUATING M&A IN THE NEXT 12 MONTHS

Buyers are still evaluating deals, but seller preferences indicate modest supply

How likely are you to consider acquiring another RIA in the next 12 months?

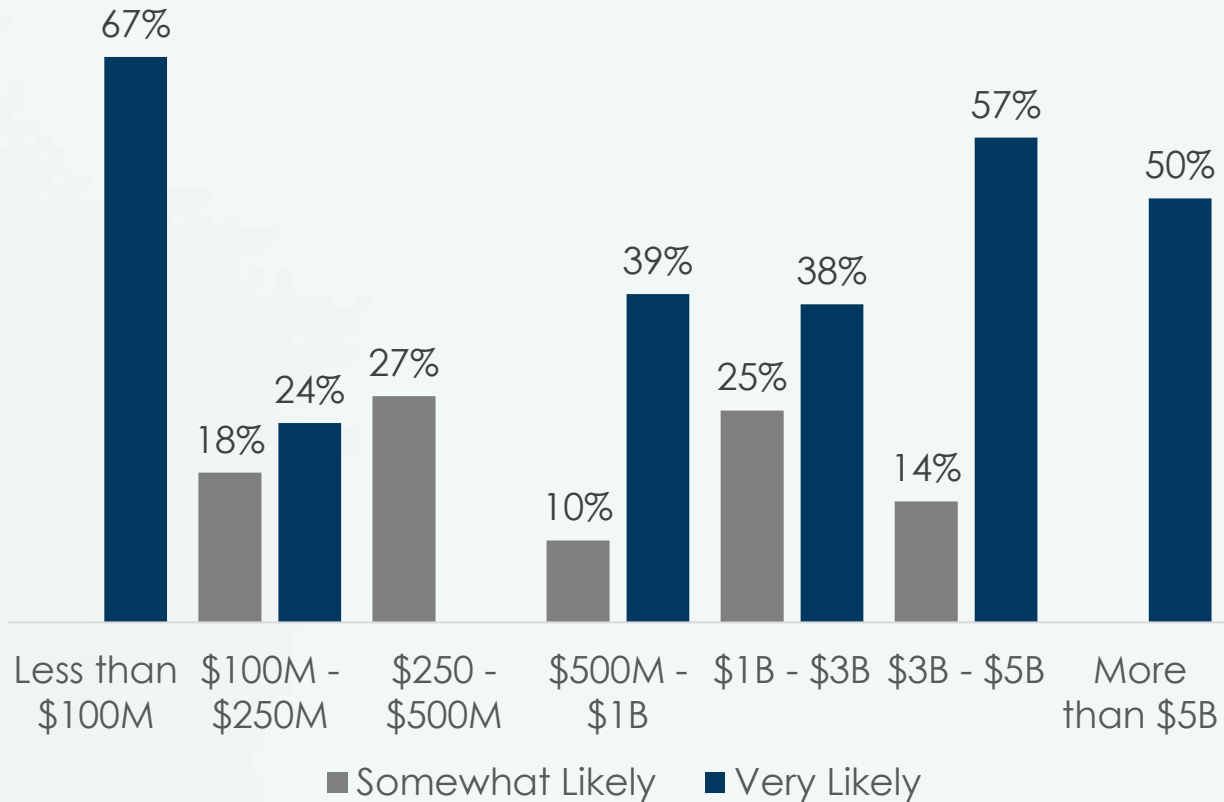
How likely are you to evaluate selling/merging your firm with another RIA in the next 12 months?



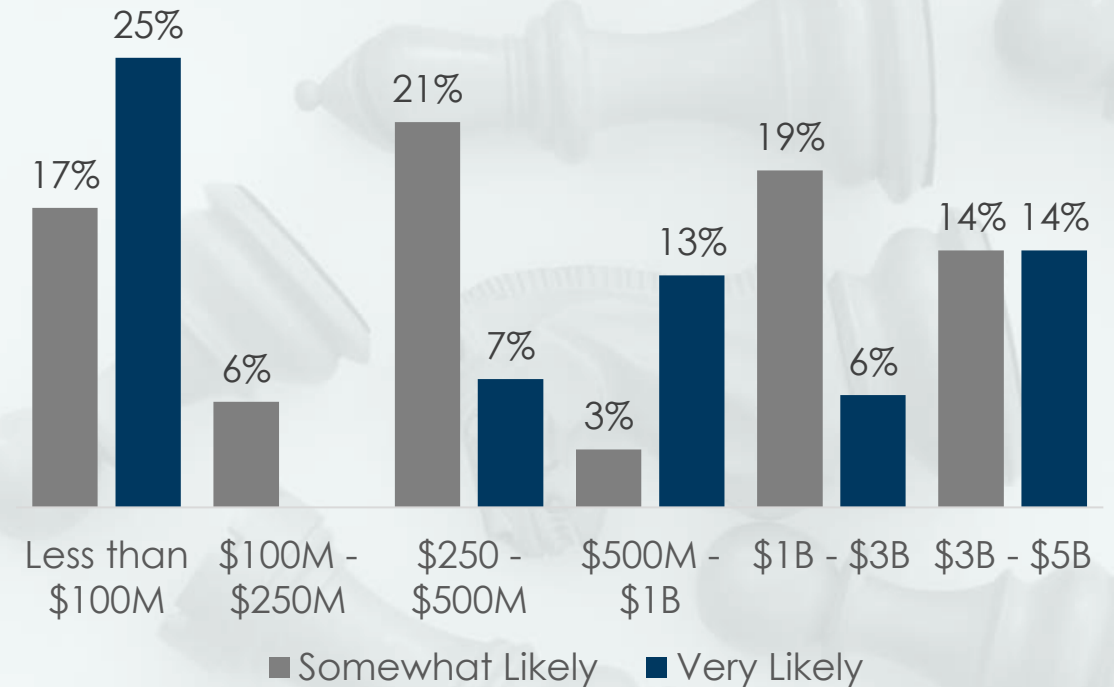
LARGE FIRMS ARE MOST LIKELY TO ACQUIRE

Smaller firms are undecided, and overconfident in their ability to execute on M&A

How likely are you to consider acquiring another RIA in the next 12 months?



How likely are you to evaluate selling/merging your firm with another RIA in the next 12 months?



FINDING A PARTNER IS A HUGE BARRIER

RIA firms have a unique opportunity to define “shared success”



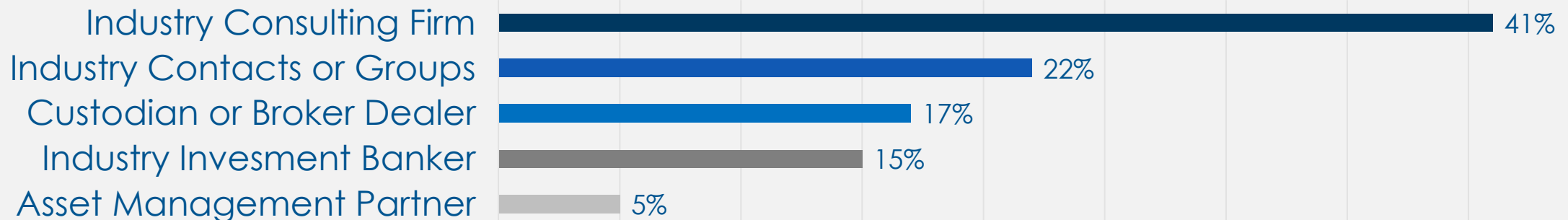
OUTSIDE OPINIONS CAN HELP REFINE LONG-TERM PLAN AND PARTNERSHIP STRATEGY

Define a strategy for M&A and ideal partner profile

Most RIAs cited finding the right partner as the main barrier to acquiring another firm and giving up control of the business the main barrier to selling a firm.

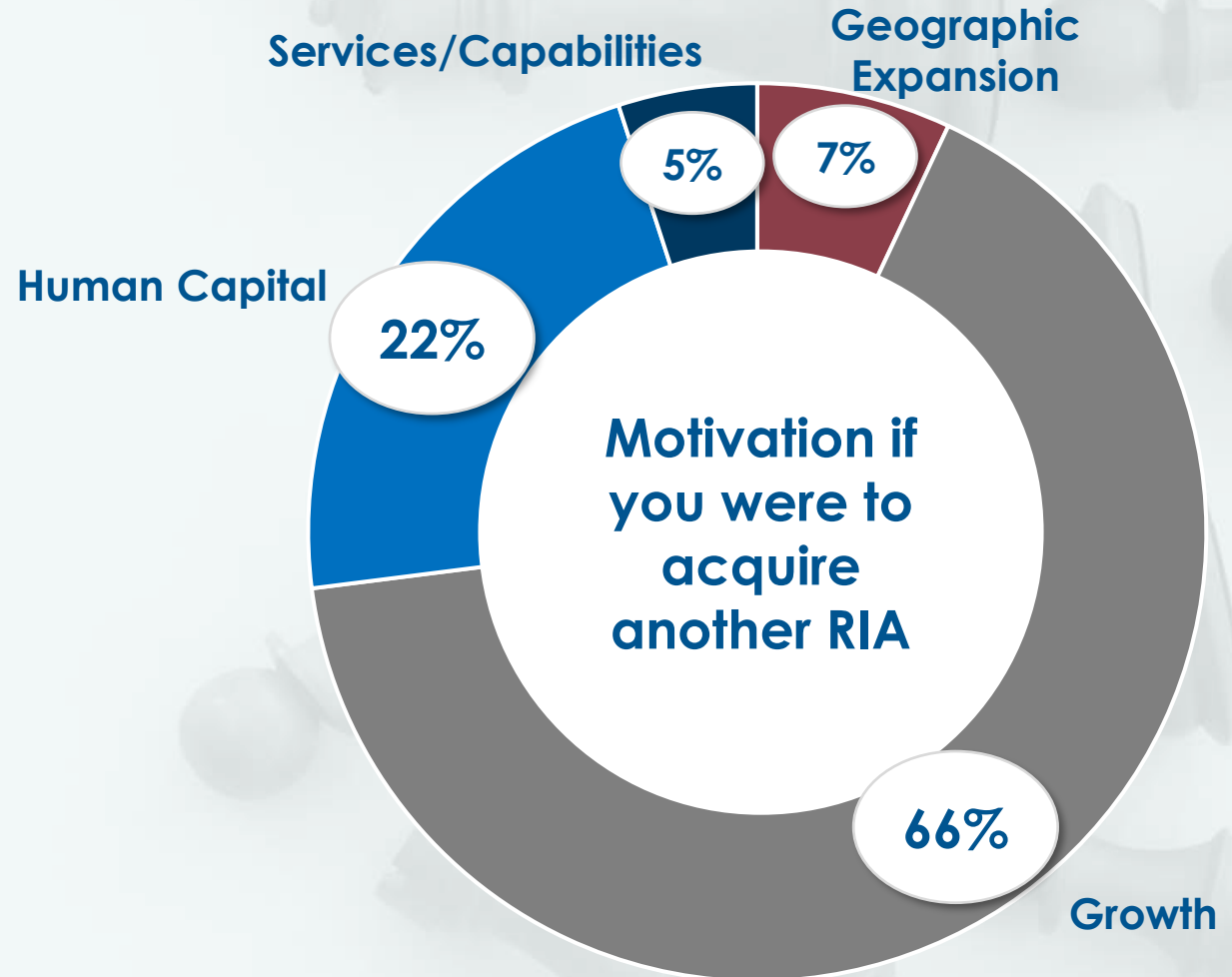
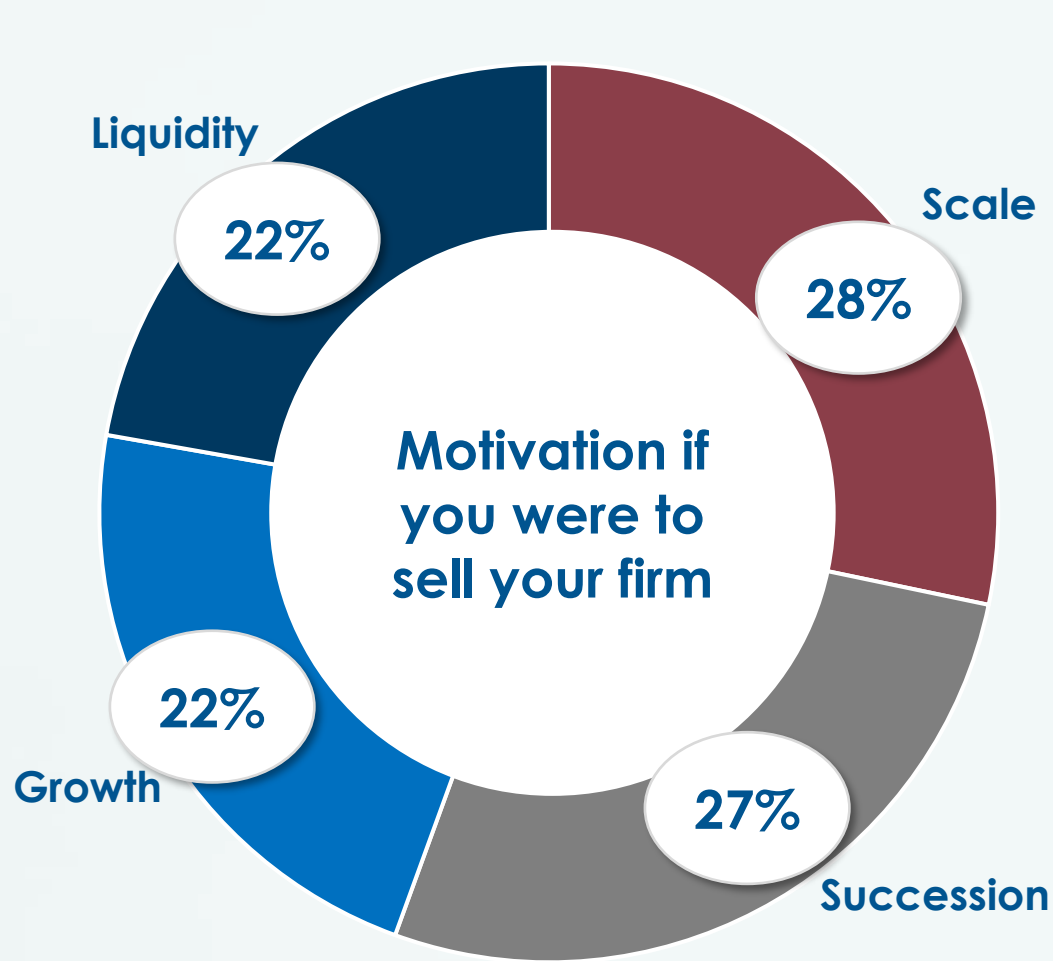
Reasons to pursue a deal evenly split across categories:
Growth, Liquidity, Succession, Scale

Where would you go for information before pursuing M&A?



GROWTH AND HUMAN CAPITAL ARE MOTIVATORS

Long-term accretion is as important as episodic growth or liquidity



READINESS FOR TRANSACTIONS

Financing, ideal partner, strategy all need definition before undertaking a deal

Key Considerations:

- **Education is critical first step in M&A.**
- **M&A isn't required to compete, but it does highlight industry dynamics and what buyers are valuing.**
- **Upfront financing is a crucial part of many 2019 deals – cash required at closing.**
- **The majority are not considering debt financing in the next 12-months. P&L discipline is likely the focus.**

51% of surveyed firms are not prepared to engage in an M&A opportunity.



23% unsure how a potential deal would be financed



73% unlikely to explore external debt in next 12 months



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VALUATION ESTIMATES CLOSE TO MEDIAN LEVELS

A large amount of information is anecdotal

What is the basis of your valuation estimate?

Peer Discussion, 29%

Appraisal Results, 23%

Guessing, 21%

Involved in M&A
Transaction, 19%

Conference, 7%

6.71x

Average Survey Estimated
Valuation Multiple

6.6x

2019 Actual Median Adjusted
EBITDA Multiple



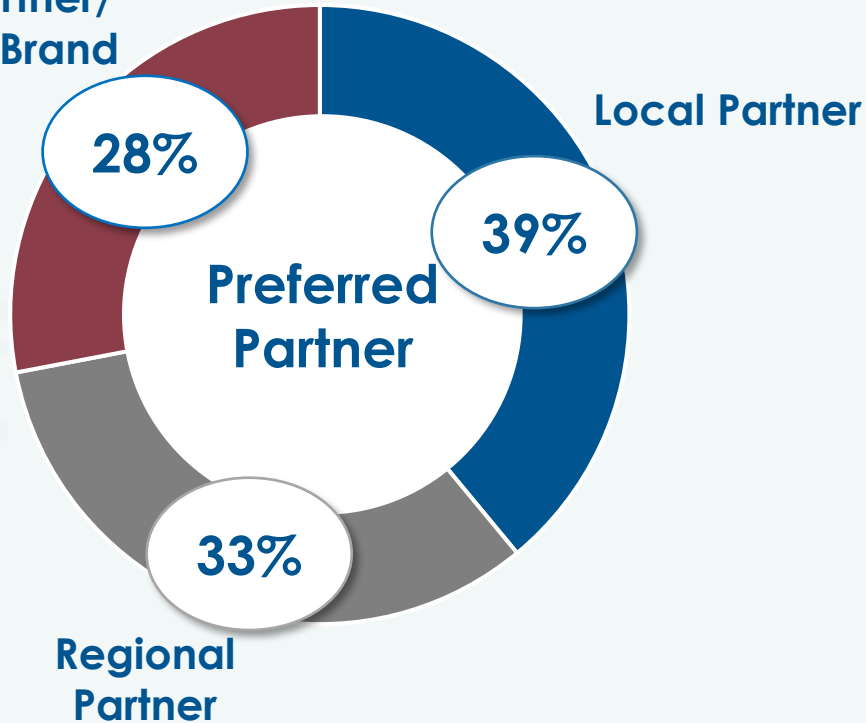
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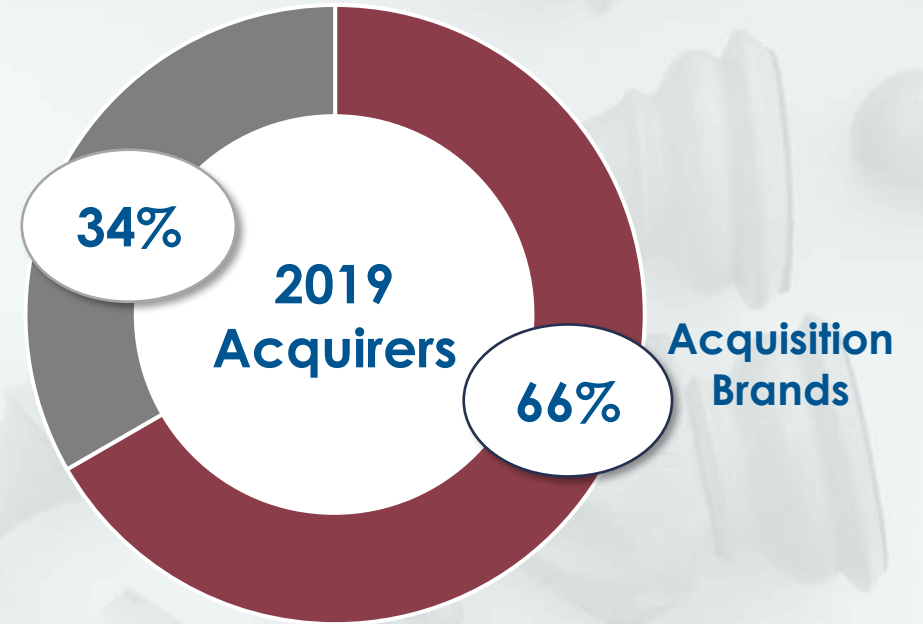
PREFERENCE FOR LOCAL OR REGIONAL PARTNER

Acquisition brands still dominating – where is the disconnect?

National Partner/
Acquisition Brand



Non-
Acquisition
Brands



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HERE TO HELP NAVIGATE STRATEGIC OPTIONS

AGS consulting model is flexible to meet the needs of our clients

AGS is in the business of business management

Our team has worked through four market events

How you can leverage our decade of experience working with leading firms:

- Strategic planning
- M&A readiness and deal consulting
- P&L management
- Capital structure
- Budgeting and net capital analyses
- Recalibration or redesign of compensation and equity plans



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THE RIA DEAL ROOM 2020

The Next Generation of RIA M&A



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