Most RIAs Unprepared to Strike an M&A Deal: Survey

Many advisors determine their firm's value based on anecdote information — and 21% just guess.

By Michael S. Fischer for ThinkAdvisor

A large swath of the RIA sector is not prepared to approach merger-and-acquisition deals from a position of strength, according to a new **survey** from Advisor Growth Strategies, a managing consulting and transaction advisory firm.

The survey results revealed an industry concerned about growth and next-generation talent, but intimidated by the complexity of the M&A landscape.

"We found the majority of RIAs want to build their own platforms and improve sustainability, preferring to outsource compliance, IT and due diligence," **Brandon Kawal**, principal of AGS, said in a statement. "But we see a lot of apprehension from advisors who don't feel they understand the market well enough to command favorable deals."

AGS conducted the survey in the spring among 96 fee-only and hybrid advisor firms with assets under management ranging from less than $100 million to more than $5 billion.

If Opportunity Knocks

Fifty-one percent of RIAs surveyed said they were unprepared to engage in M&A opportunities, and another 16% said they were only somewhat prepared.

Twenty-three percent of respondents said they had no idea how a deal would be financed, but in any case, 73% maintained that they were unlikely to seek external debt financing in the next 12 months.

The survey pointed to a seller's market. While a third of respondents said they were very likely to consider an acquisition, only 8% said they were just as likely to consider selling or merging with a partner.

Seventy-one percent of RIAs said finding the right partner was their chief barrier to acquiring another firm. And for 71% of firms considering a sale, their main hurdle was giving up control.

In other survey findings, 56% of survey participants said finding talent was their biggest challenge, followed by 32% that cited organic growth and 31% tech.

Asked their preference for a partner, 72% of advisors said they wanted to partner with a local or regional firm, while only 28% preferred a national partner (what AGS calls an "acquisition brand").

Yet a look at **2019's deals** shows that 16 acquisition brands made up 66% of M&A deals, completing multiple transactions.

According to the survey, many advisors rely on anecdotal information to determine their own value — 21% simply guess — yet they are close to the mark.

The average surveyed estimate was a 6.71 EBITDA multiplier, while the actual median adjusted EBITDA multiplier for 2019 deals was 6.6.

"M&A is not a silver bullet to solve every RIA's challenges," **John Furey**, AGS managing partner and founder and managing member of the **alliance for Registered Investment Advisors**, said in the statement.

"Advisors don't need to seek out deals to stay competitive, but education and an intentional approach will help them make the best choices, instead of someone else making those choices for them."