Red Flags to Look For When Selling Your RIA

By Asia Martin for WealthManagement.com

Leaders in the RIA M&A space discussed some of the traps sellers should be aware of during a virtual roundtable by Advisor Growth Strategies.

As the Biden administration proposes to hike capital gains taxes, some advisory firms are jumping at the opportunity to sell their firms before any changes take effect. While it seems favorable to do so, some RIA executives warn of the potential traps sellers might face.

Rush Benton, senior director of GTCR-backed Captrust, advises selling firms to choose their partner wisely, he said during a recent virtual roundtable hosted by Advisor Growth Strategies, a management consulting and transaction advisory firm.

"One of the traps is if you take equity in a firm because you're trying to avoid paying taxes now, you better make sure you're doing a transaction with a firm that's got a strong equity position [and] they've got a safe balance sheet," said Benton.

He added that he still remembers when more-equity-than-cash deal structures didn't pan out too well.

Dave Barton, vice chairman of Oak Hill–backed Mercer Advisors, said the sellers who are rolling a percentage of the purchase price into the buyer's equity should ensure that the buyer is growing.

"Make sure that investment is going to accrete in value and not go down," he said.

Take CI Financial, for example. The Canadian firm has made headlines as one of the fastest acquirers in the industry since it launched its U.S. division in 2019. Within nearly two years, the firm has over $20 billion in assets.

"[CI Financial] is buying up every firm in sight and paying, frankly, unheard of multiples for these businesses. But if you look at their historical stock price, 2014, they were trading at $32 per share and this year they're trading at $17 per share," said Barton. "So, be careful what you're locking into with regards to your potential partner."

Barton also warns of buyers who take on too much debt to make the deal happen.

"You're going to be overleveraged, and the return on that investment that you're buying is going to take far longer to recover. I see it on the buyer side, and I also see it on the seller side," he said.