How Next-Gen RIA Talent is Stoking the Fiery M&A Market

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Don't let the dazzling dollar signs and valuation multiples in today's wealth management M&A market fool you. A great offer isn't easy to come by. In my years of combing through transaction data and deal structures, I have discovered that the greatest rewards go to sellers who understand that it's the people in their firms and the types of clients they serve that ultimately shape the answer to the question: "What makes your firm any different?"

This is particularly true today given the incoming tidal wave of advisors looking to step down from their practices and the massive, imminent transfer of generational wealth from baby boomers to their families. Large acquirers—those with the scale, platform strength, and financial firepower to account for 69% of all RIA M&A last year—see the value of talent acquisition, which has contributed to four consecutive annual increases in the median adjusted Ebitda valuations of such firms, according to Advisor Growth Strategies' 2022 The RIA Deal Room report.

According to that report, in 2021 the median valuation multiple for an independent advisory rose to 8.99 times its Ebitda—which means there is less room for error on the part of buyers. Successful sellers in today's M&A market will need to show they have next-generation talent with expertise in areas including wealth transfer, tax planning, and trust and estates to deliver on next-generation clients' service expectations.

Therefore, if you are the leader of a firm looking for a deal partner, a more useful way of hearing the question, "What makes you any different?" might be, "How well do you know the clients you serve, and how are you cultivating the talent to better serve them into the future?"

Showcasing 'below the line 'talent. One of the easiest ways to spotlight more junior staff is to include them in the decision-making process. Prospective deal partners sit up and take notice when they see younger team members contributing at a high level, even if they are not necessarily the shot-callers. Demonstrating the spirit of collaboration that lifts up younger team members starts with engaging next-generation talent in the firm's growth strategy—including a potential transaction. Engaging them in the process of defining a strategy and considering a potential partner creates a powerful spirit of collaboration.

It's important to note that this shouldn't just be a show put on for potential buyers. Even if you're not in the market for a deal, given today's market pressures, RIAs must constantly articulate what sets them apart from the advisor down the street—or from a prospect's next search result on Google.

The structure of an M&A deal can signal the value placed on next-generation talent. After all, what good is an acquisition when the people who made the firm succeed jump ship as soon as they can? The average deal in 2021 included 77% cash, 21% equity and 2% contingent payments, according to the RIA Deal Room report.

The average deal structure reflects a combination of certainty for the selling owners and upside opportunities through equity and contingent payments for key contributors. Although the growing share of cash in deals reflects great certainty between deal partners, equity and growth-sharing can create value for younger advisors who want increased participation in the shared success of the combined firm going forward.

I expect the hunt for new talent, new ideas, and new frontiers of the advisor-client relationship to dominate the M&A marketplace in 2022 and beyond. As RIA leaders look to pass the baton to their successors, the best will start with an emphasis on the key team members who can maximize their options with next-gen clients and create winning outcomes.