



# The Future Fuel of M&A? RIA Business Management

***For buyers and sellers alike, the ability to stand out from the crowd will rest squarely on how well RIAs have built a story worth buying.***

By Brandon Kawal for Wealth Management

RIA M&A started strong in 2022. Fidelity Investments reported that 93 transactions were completed through May, representing a 29% increase over the same period in 2021. Conditions have evolved quickly, and turbulent markets and rising interest rates raise questions about how the industry moves forward. These headwinds spotlight the incumbent acquisition brands that have accounted for more than 69% of transactions over the past few years and the potential impact on buyer and seller preferences moving forward. RIA M&A activity will continue in earnest—the challenge now is standing out from the crowd.

The present RIA M&A market is multi-faceted and built on a foundation built by years of competitive evolution. The influence of institutional capital, absolute growth requirements and the race for unprecedented geographic reach has given rise to the acquisition brand that clarifies how value is created for all stakeholders. The 2022 RIA Deal Room noted that the influence of institutional capital has pushed demand and professionalization in the space. The result is an increased focus on differentiated operating models and effective value creation plans. Financial buyers, platform-driven investors, and integrators have clarified their targets and what they value in a seller. This has led to the rise of the systematic acquirer that balances near-term and future financial outcomes by emphasizing talent, capabilities and geographic expansion.

The RIA seller market developed considerably over the same period. Deal volumes increased, and the tailwinds driving supply remained constant. RIAs seeking growth capital, liquidity and infrastructure resources are testing a competitive market. Increased deal volumes are good for headlines, but they create a more crowded field for potential sellers to stand out.

## **Business Management: The True Differentiator**

RIA M&A started with a small set of acquisition brands with a size advantage and credible access to capital to establish a foothold. Today, access to capital and size are table stakes. With more than 20 acquisition brands completing multiple transactions in 2021, the competitive frontier has shifted to evolved business management practices that support an elevated client experience. Business management best practices are no longer only for those firms aspiring to remain free from outside money or partnership. Success in RIA M&A now depends less on quantitative metrics and more on three critical areas of business management.

- Talent – The ability to find, engage and retain next-generation talent with the right mix of career growth, compensation and ownership opportunities.
- Infrastructure – A history of investing in management, technology and process improvement infrastructure.
- Services and Channel Penetration – A credible track record of expanding end-investor service offerings or access to unique end-investor channels.

These three business management categories primarily point toward a buyer or seller adding measurable organic growth, efficiency and capacity to another organization. These areas also become tangible ways to differentiate the story an RIA tells the market. These areas have also become the difference between standing out from the crowd and not.

### **Buyers: Systematize Your Story, or Move Out of the Way**

Nearly all the buyers surveyed as part of the 2022 RIA Deal Room research indicated they planned to make as many acquisitions as in prior years. The AGS team expects acquisition brands with a systematic approach to remain active because these firms are much more likely to focus on deal structure and growth sharing as a method of balancing risks while executing the business plan. Since 2019, deal structures have reflected a flight to certainty driven by competition, cheap capital and strong market tailwinds. The near future will likely resemble years when deal structures were more balanced, and risk was shared more appropriately.

However, the new M&A foundation includes a highly competitive environment that requires buyers to differentiate. People, process and growth opportunities are at the forefront of the messaging, and systematic integrators highlight their business management depth to win acquisition opportunities. These platforms can highlight how they have implemented compensation, benefits, technology, expanded services and operational process to demonstrate how potential sellers can “skip to the front of the line” and avoid significant time and capital investments. Any firm aspiring to become more than an opportunistic buyer must look inward and systematize its story or risk losing to more developed platforms.

### **Sellers: Bulletproof Your Positioning, or Accept Average Outcomes**

Increased supply is evidenced by the consistent rise in the number of transactions in the RIA space. According to Fidelity Investments, 215 RIA transactions occurred in 2021 versus 131 in 2020. While this number is likely understated due to unreported transactions, it signals that more firms are interested in selling or merging than ever before. Succession, management fatigue and growth channels are all tailwinds driving RIAs to the market, and those tailwinds are primarily agnostic to market fluctuations. This implies that the pool of available sellers is likely to increase or remain steady.

What differentiates your firm from the dozens of other firms that acquisition brands are evaluating? Assuming buyer demand could plateau or at least become measured in current market conditions, differentiation becomes critical to achieving a top outcome. This must come from a combination of next-generation talent, specialized services or unique end-client channel penetration.

The increased demand among buyers and volume among sellers means that business management practices are more critical than ever. A cohesive platform story that includes how a wealth management firm adds value and engages people is required to stand out in a crowded buyer field. Those same business management practices are necessary for sellers to command a premium by showcasing strong talent, unique capabilities, or unique growth channels. The M&A foundation has been set in the RIA industry, and the ability to stand out from the crowd will rest squarely on how well RIAs have built a story worth buying.