3 Factors Key to RIA M&A Partnership Success

Strategic Objectives: Part I of III

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5 MIN READ

This is a Part 1 of a 3-part advice series dedicated to three factors that are critical to successful RIA M&A partnerships: Strategic Objections, Partnership Criteria & Firm Culture.

Part I of this RIA M&A advice series is dedicated to strategic objectives. The best way to think about strategic objectives in RIA M&A is to consider goals-based financial planning. Start with the most basic questions first when formulating your framework:

- What is your goal?
- What are your needs?
- What is the time horizon?

Let me start by saying that there are right and wrong reasons to consider buying, selling, and merging. If you are contemplating M&A because everyone else seems to be, then you may want to reconsider. While the fear of missing out is a strong incentive, it is not advisable if M&A is incompatible with your firm's overall business strategy. Be certain that it makes sense for your firm and ignore the noise if it doesn't.

What Is Your Goal?

While goals vary between firms, there are two factors that continue to be primary motivators in record RIA M&A deal volume:

- Firm owners exiting the business for retirement.
- Firms seeking competitive advantages.

In the first instance, it's no secret that the financial advisory industry consists of an aging demographic. More than 1 in 5 advisors are at or nearing retirement age. Selling the business is an attractive option as a succession plan. The monetization of the business is also a great way to help fund retirement. Retiring advisors are a major sell-side source for M&A deals and will continue to be motivated sellers for some time given the demographics.

Strategic M&A is another key driver of deal activity. A growing number of well-funded RIA consolidators (aka aggregators) have established regional and national footprints across the country. The consolidators are battling-it-out with other consolidators and independents for AUM market share. M&A represents an indispensable inorganic growth strategy in that quest.

There is something to be said for scale and strength in numbers if this is an option you are considering. Selling or merging into a larger RIA makes sense if the strategy helps achieve your goal. Then again, there is something to be said for independence if that is your preferred route. It's good to have choices.

As a M&A advisor to RIAs, Nunnally International has referral partnerships with around two dozen consolidators and independent RIAs, all of whom are acquiring or merging with compatible firms. The familiarity with various groups and business models provides a unique perspective into differentiators, one of which is deal structure.

What Are Your Needs?

A compatible buyer or merger partner will not only be a good fit culturally and philosophically, but they will also help you achieve your strategic objectives by agreeing to your desired terms of sale and be willing to structure the deal accordingly.

For instance, we worked with one particular RIA whose owner wanted to sell his share of the business and retire. His financial goals were as follows:

- Sell the firm to a buyer willing to pay 100% cash.
- Considerable portion paid upfront and the rest in a modest earnout.
- Did not want any equity consideration in the acquiring firm (which is somewhat atypical).
- Had a third-party appraisal done on the business to help guide valuation expectations.

In addition to those objectives, the seller did not want to pay fees to an investment banker or broker and so he needed an M&A advisor like Nunnally International that is familiar with the market to identify a suitable buyer and help facilitate the deal.

As part of the assignment, we developed a profile of the firm based on their partnership criteria and firm culture (topics to be addressed in Parts II and III of this series), as well as their strategic objectives and desired deal structure. We matched the profile to the most compatible buyer within our expansive referral partner network. Multiple interviews were then conducted with the prospective acquirer to make certain the seller fulfilled their partnership requirements, and that the desired deal structure was mutually acceptable.

While not all M&A advisors agree, we advocate for putting the valuation expectations and desired deal structure on the table from the get-go to avoid protracted talks that go nowhere because the parties cannot agree. In which case, a lot of time and resources are wasted that can set the M&A process back several months. That is where time horizon is such an important part of the plan.

What Is the Time Horizon?

Creating a time frame for achieving strategic objectives keeps you on track and focused on the goal. One of the difficulties that advisors typically face when pursuing M&A initiatives is that they wear too many hats and are therefore unable to dedicate the necessary resources to see it through.

Whether you are exiting the business or considering M&A for strategic reasons, keep in mind that it can take up to a year, and sometimes longer, to close a deal.

For those wishing to exit the business for retirement, it is important to understand that there are not many acquirers that want to purchase your RIA and then lead you to the door. Typically, they want you to stick around a while to maintain ongoing client relationships and ensure a smooth transition. That could be from anywhere one to three years depending on the complexity of the transition and terms of sale.

The final word of advice is do not try and time your objectives around the market. Focus on the things that you can control. Stick to the game plan, monitor the situation, and rebalance as necessary.

About Nunnally International, Inc.

Nunnally International, Inc. provides strategic M&A services to RIA firms that are looking to buy, sell or merge their business. The company was founded by Tyler D. Nunnally. Prior to entering M&A, Tyler served as a strategist to leading advisor technology providers – including FinaMetrica, which was acquired by Morningstar. He began his wealth management career as an executive at Oxford University spin-off consultancy Oxford Risk. During his career he has consulted hundreds of RIAs on matters of risk as a frequent speaker at industry conferences, host of countless webinars and proficient author of journal articles. Tyler has been a key relationship manager to strategic partners at prominent institutions including SEI Investments, TD Ameritrade, LPL, Fidelity and Schwab, as well as leading advisor technology companies such as Redtail, Orion Advisor Services, eMoney, MoneyGuidePro and Fi360. As an industry thought-leader, he has been interviewed extensively by The Wall Street Journal, Bloomberg, CNBC, Smart Money, Kiplinger and InvestmentNews. Tyler holds a B.A. from the University of Georgia and a Master's in International Business with Distinction from the University of St Andrews in Scotland.

How We Work With RIAs

Nunnally International, Inc. works with RIAs in two ways. You can choose whichever option best suits your unique circumstances.

Option #1 – Referral Partnership

Nunnally International, Inc. can introduce your firm to prospective buyers through our existing referral partnerships. Our referral partners pay our fees, so it won't cost you anything. We work with a select number of referral partners that are all differentiated in terms of what they bring to the table. We do not partner with anyone that we wouldn't have manage our own money. We employ our expertise in investor profiling to find the best fit based on your strategic objectives, partnership criteria and firm culture. Naturally, this is done in consultation with you. If you decide that you would like to pursue a conversation with a group that we recommend, then we make the initial introduction and help facilitate the talks.

Option #2 – Engagement Agreement

RIA firms that want to sell or merge retain Nunnally International, Inc. through an engagement agreement. We lead the M&A process all the way from initial introduction to close. Our fees consist of a monthly retainer for six months, plus a success fee based on the closing price. This is a standard M&A advisor model for buy-side and sell-side engagements. We guide you through the M&A process by:

- Help define your strategic objectives.
- Identify the right prospective acquisition partners.
- Make introductions to prospective acquirers and solicit bids.
- Assist in preparation of necessary documentation.
- Facilitate conversations and information flow.
- Conduct due diligence on prospective acquirers.
- Negotiating terms of sale and maximize valuation.
- Successfully close sale.

For more information call us at 404.492.2152 or send an email to tnunnally@NunnallyInternational.com