



Is it the Right Time to Sell?

By Tyler D. Nunnally

5 MIN READ

Is it the right time to sell? You may be asking yourself the same question. It's no secret that the RIA merger and acquisition (M&A) market is red hot. 2019 was yet another record year for RIA M&A deals, marking the sixth consecutive record-breaking year. The recurring trend is expected to continue in 2020 and beyond.

Before we get to the answer of whether it's the right time to sell, let's first look at some of the reasons why the M&A market is so strong. Having a good grasp of market environment will give you a better perspective of the options available.

3 Factors Driving RIA M&A Market

Economics – The Need

Market dynamics have spawned a need for consolidation. The days of winning AUM by promising investors higher returns is over. It died with the rise of passive investing. The commodification of investment management has led to fee compression. And that's not a good thing if you operate a fee-based model.

As fees shrink there is a need to increase AUM in order to compensate for the corresponding lost revenues. Thus, the desire to acquire is driven in part by the need to gather assets to help scale.

AUM is also a key factor in how acquirers value RIAs which determines how much a buyer is prepared to pay for your business.

Demographics – The Supply

The wealth management industry is permeated by older males that serve as a key source of supply for RIA M&A deals. More than 20% of advisors are over the age of 60 while around half are older than 50.

This segment of advisors needs a liquidity event in order to capitalize on the value that they've created in building their RIA. This usually comes in the form of an outright sale of the business or internal succession whereby the next generation takes over ownership of the firm. The increased supply of sellers has helped fuel the RIA M&A market. The stats below reflect that trend:

92% of firms are considering internal succession

62% of firms continue to primarily be led by founders

38% of firms have a documented path to partnership

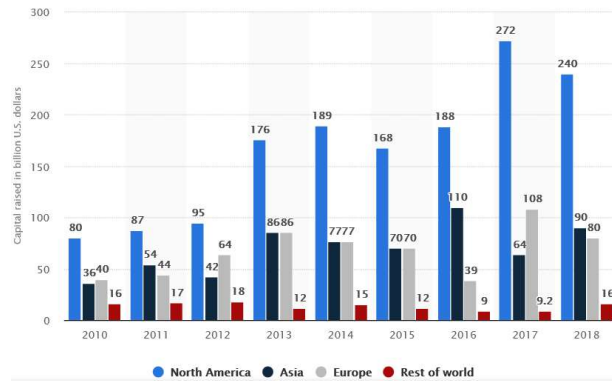
Source: 2019 RIA Benchmarking Study by Charles Schwab

Private Equity – The Demand

A massive influx of private equity capital is driving demand for RIA M&A deals. Several prominent PE firms own RIA "Consolidators". Consolidators acquire multiple RIAs and fold them under their umbrella.

In the graph below you can see the trend in the growth of private equity. It shows the value of capital raised by PE firms from 2010 to 2018 in different regions of the world (in USD billions). During that time span, nearly \$1.5

trillion dollars in PE funding was raised in North America alone.



Source: <https://www.statista.com/statistics/513780/private-equity-fundraising-by-region/>

Private equity, however, is not the only game in town. Other prominent groups of acquirers include some of the following:

- Independent RIAs that are in the hunt to buy like-minded firms in order to scale.
- Banks desiring to diversify into wealth management.
- Individual investors that are in it to milk the cash flows.

Collectively these groups have driven the demand for RIA M&A deals which has propelled the market to higher and higher heights. Consequently, the competition amongst them has driven-up valuations.

The Path to Growth

Now that you hopefully have a better understanding of what is driving demand, let’s turn our attention to your options.

Organic

You can grow organically by investing more into sales and marketing while also creating greater efficiencies through automation. This is certainly a viable option, but the downside is that it requires significant investment and takes a considerable amount of time for your efforts to pay-off.

Buy a book of business

Gaining scale by acquiring another advisor’s book of business is also a viable option, especially for smaller firms in the <\$100 million AUM range. This typically occurs when the seller is ready to retire or exit the business for other personal reasons.

Merger

In a merger, two or more companies combine under one corporate entity. It often involves a stock swap structure whereby the smaller RIA receives equity in the larger RIA. Finding the right merger partners can be challenging, particularly if you are concerned about retaining control.

Acquisition

Acquisition is an attractive option, especially if you’re exploring succession planning alternatives. It is currently a great time to sell given valuation multiples are at record highs.

A recent Schwab benchmarking study shows the scope at which firms with over \$250m AUM are employing M&A strategies.



Source: 2019 RIA Benchmarking Study by Charles Schwab

Conclusion

It goes without saying that maximizing the sale price of your business is a primary consideration. But there are other important measures as well. I’ll address these important issues over the coming weeks in Part II of this series: How much is my RIA worth?

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 don't 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 acquires.
- 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