



## RIA M&A Advice Series

# How Much Is Your RIA Worth?

By Tyler D. Nunnally

*The aim of this RIA M&A Advice Series is to guide RIAs who are contemplating a potential sale or merger by proving practical insights to help you achieve the highest possible valuation.*

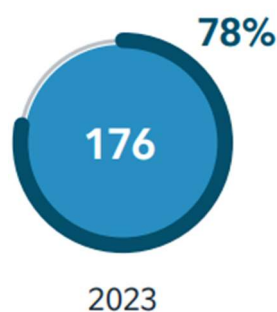
For the first time in a decade, the number of annual RIA mergers and acquisitions (M&A) transactions decreased in 2023. The decline in activity raises important questions. Has the market plateaued, and if so, will the cooling market have a negative impact on valuations?

### Demand and Demographics

Over the past couple years, valuation multiples have remained relatively stable. This follows a period of consistent price increases. The first decline in M&A activity in over a decade does not signal the beginning of the end of the vibrant market, but rather indicates its maturation. While valuations may flatten, key indicators suggest that the RIA M&A market will remain buoyant for the foreseeable future.

The demand for deals remains skewed, with a ratio of buyers to sellers estimated to be around 30:1. Numerous private equity-backed consolidators are aggressively pursuing deals, along with a multitude of small and large independent RIAs seeking acquisition opportunities.

Private equity-backed consolidators continue to dominate the M&A landscape, representing 78% of all transactions, according to Fidelity. Most folks reading



this report are likely being pursued by one or both types of entities.

The other key factor driving M&A is demographics. The wealth management industry consists largely of an aging population of RIA owners. This segment has historically fueled the RIA M&A market and will continue to do so for several reasons, mainly liquidity and succession planning.

### Liquidity and Succession

Lofty valuations have been beneficial for retiring RIA owners, with liquidity helping fund the retirement of many deserving founders. However, the NextGen faces challenges in this regard. According to a recent survey, only 1 in 5 RIA executives are confident that their NextGen can afford to buy them out. This should not come as a surprise if you read our recent report *The Stark Realities of Succession Planning*.

As the NextGen is priced out of the market, owners are compelled to seek external partners for succession. This bodes well for the overall M&A market. The competitive landscape provides sellers with a wide range of external succession options. With sustained demand, the issue for sellers is not finding a buyer - it's finding the right partner that will help you achieve your goals and needs.

### The Times They are A-Changin'

While many of the M&A market fundamentals remain constant, there are underlying shifts in the market that warrant attention. The most

notable change is that buyers are becoming increasingly selective.

Strategic acquirers are turning away opportunities that they would have pursued in previous years. There is a greater emphasis on fit and less focus on deal volume, which may partially explain the dip in activity observed in 2023.

This trend is anticipated to continue because strategic acquirers are keeping a closer eye on key performance indicators (KPIs) of the firms they are considering buying. Return on investment is increasingly important to their private equity backers. Several consolidators are nearing the end of their investment cycle and will be looking to exit or recapitalize.

### Tips to Make Your RIA More Valuable

If you are contemplating a sale or merger then you want to adopt a similar systematic value-driven approach as a private equity firm. The plan of action centers around positioning the business for a successful transaction to achieve the highest possible valuation.

### New Asset Growth

Sustained growth is a major differentiator. According to the Schwab 2023 RIA Benchmarking Study, median new asset growth for RIAs is less than 5%. Consistent new asset growth exceeding 10% can significantly improve the attractiveness of your business when it comes time for a sale and increase the valuation by 1x or more.

If your firm cannot demonstrate consistent past growth, then all is not lost. Many acquirers structure deals to incentivize future growth which can add significant upside consideration post-sale.

If your objective is to grow, then partnering with a larger RIA allows you to tap into the custodial referral networks that smaller firms do not have access to. This is a major competitive advantage given that around 75% of new clients come from referral sources.

### Talent

In addition to asset growth, talent is another crucial factor in maximizing valuation. Acquirers place a high value on firms with talented teams because they recognize the significance of human capital in driving future success. Retaining the key members of your team during the sale process is vital.

One of the most significant benefits of partnering with a larger RIA is that they can help recruit, development and retain talent. The fact that the industry is short on talent is no secret. Experienced advisors and staff are hard to come by, especially people who are capable of bringing in new business.

Many larger RIAs also have internal HR departments that recruit and train junior advisors. This is particularly advantageous for firms that do not have a bona fide successor. Better yet, they will pay for it.

### Engagement of M&A Advisor

The most practical and sensible way to achieve the highest possible valuation is to work with a M&A Advisor like Nunnally International, Inc. The benefits include:

- **Time savings:** Time is a limited resource. Use it wisely. Most RIA owners already juggle multiple responsibilities, and assuming the role of an internal M&A advisor while pursuing a transaction can detract from the initiatives that add value.
- **Risk reduction:** Seller's remorse is like buyer's remorse. By engaging an experienced M&A advisor, you can mitigate the risk of making decisions that you may regret later – like choosing the wrong partner you can't escape from.
- **Make more money:** By working with a M&A Advisor, you can generally expect to make **15% above** what you can get by negotiating a deal on your own. That covers the expense and then some. A no brainer.

## 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 in 2020 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 in England as an executive at Oxford Risk, a spin-off of Oxford University that specializes in behavioral finance.

Tyler 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. He has been a key relationship manager to strategic partners including Schwab, Fidelity, Redtail, Orion, eMoney, Fi360, MoneyGuidePro and SEI.

As an industry thought-leader, Tyler has been interviewed extensively by The Wall Street Journal, Bloomberg, CNBC, Smart Money, Kiplinger and InvestmentNews. He 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 Clients

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

### Option A – Seller Representation

RIA firms that want to sell or merge engage Nunnally International, Inc. through a Sale and Fee Agreement. We lead the M&A process all the way from initial introductions to close. Our fees consist of a success fee based on the closing price. We guide you through the M&A process by:

- Help define your strategic objectives.
- Identify shortlist of prospective M&A partners.
- Market your firm to prospective acquirers.
- Coordinate calls and meeting.
- Facilitate conversations and information flow.
- Solicit initial offers.
- Negotiate terms of sale and maximize valuation.
- Assist in preparation of necessary documentation.
- Conduct due diligence on prospective acquirers.
- Successfully close sale

### Option B – Referral Partner Network

Nunnally International, Inc. can introduce your firm to prospective buyers through our referral partner network. Our referral partners pay our fees, so there is no cost to you. We work with around 22 referral partners that are all differentiated in terms of what they bring to the table.

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 talks.

**For more information call us at 404.492.2152 or send an email to [tnunnally@NunnallyInternational.com](mailto:tnunnally@NunnallyInternational.com)**