

Is the wild ride for the RIA M&A market over?

By Charles Paikert

March 18, 2020, 2:51 p.m. EDT



As the coronavirus crisis impacts every aspect of financial services, how is the RIA M&A market, which less than three months ago set records for deal volume and dollars, holding up?

DEALS IN THE WORKS

Most deals nearing the finish line have, or are, being completed.

Captrust Advisors, one of the industry's most active acquirers, just closed a major deal, buying Welch Hornsby, a Montgomery, Alabama-based RIA with over \$5 billion in AUM.

White Paper Advisory Firms in 2030: The Innovation Imperative

Gain insight into how our profession is—and isn't—anticipating evolving client needs.

SPONSOR CONTENT FROM **SEI** New ways.
New answers.®

Another Captrust deal that's scheduled to close is "on track," says Rush Benton, the firm's h  of

FinancialPlanning

You have access to **1 more article** this month.

Financial Planning delivers actionable and insightful content their practices' investment performance and client service.

"No one has hit the pause button yet," he says.

Investment banker Park Sutton Advisors is also reporting a "pretty active market" for deals in the works, says managing director Steve Levitt. The firm just helped broker the sale of Lindner Capital Advisors, a Marietta, Georgia-based RIA with \$325 million in AUM, to Cardea Capital, a Europe-based asset manager.

"Buyers who are not that serious to begin with are kind of bailing," he says, "but other buyers are more interested, and some feel they can get a better deal now than ever before."

WHAT'S AHEAD

While negotiations that began before the pandemic may be going forward, newer talks are slowing down — if not grinding to a halt — executives say.

"As a buyer, I can say that now is not the time to initiate conversations," Benton says. "Advisors are taking care of their clients and putting strategic decisions on hold. Nothing new is going to get started until things calm down."

Major RIA M&A deals, March 1 - 16, 2020

Buyer	Seller	Seller AUM (approx.)
Captrust	Welch Hornsby, Montgomery Alabama	\$5.5 billion
Beacon Pointe	Ferrell Wealth Management, Orlando, Florida	\$460 million
Mariner Wealth Advisors	Wealth Health, Roseland, NJ	\$400 million
Cardea Capital	Lindner Capital Advisors Marietta, Georgia	\$325 million

Source: Company data, Fidelity Investments

Buyer interest remains high but sellers who aren't already in talks are calling timeouts, agrees David Grau Jr., CEO of Succession Resource Group, which specializes in facilitating M&A transactions for RIAs with less than \$500 million in AUM.

"I expect sellers to batten down the hatches for a while," Grau says.

CHANGES IN DEAL TERMS

The sellers' market for RIAs had led to more and larger upfront cash payments for advisory firms being sold.

That's going to change.

"We're going to see more restructuring of deal terms," says Park Sutton's Levitt. "Buyers will be

FinancialPlanning

You have access to **1 more article** this month.

Financial Planning delivers actionable and insightful content their practices' investment performance and client service.

"The crisis has heightened buyers' awareness of risk," says Scott Slater, vice president of practice management and consulting for Fidelity Clearing & Custody Solutions. "Buyers are now more in command and can negotiate more effective levels of upfront cash."

Grau agrees. "We saw some all-cash deals at closing in Q4," he says. "There was not a lot of risk. Now buyers are going to be more creative to mitigate that risk."

WHAT ABOUT VALUATIONS?

The "inherent value [of RIAs] is the same as one month ago," Levitt contends.

Discounted cash flow, the most commonly used metric for valuating advisory firms, may take a short-term hit but the value of a good firm in five or 10 years "won't change materially," he says.

CORONAVIRUS IMPACT: ADDITIONAL COVERAGE

- [1 Greed and fear collide: Wall Street calls traders back to office](#)
- [2 What keeps me calm for clients as markets gyrate](#)
- [3 CFP Board, FPA, FSI to Congress: Restore tax deductions for advice now](#)

Benton says that while the crisis and its attendant market downturn will depress absolute valuations because revenue is likely to decrease, he thinks there will only be "a small impact on multiples. The underlying factors that drove the market before, such as the need for scale and succession planning, are not going away," Benton says.

While some buyers may be tempted to make lowball offers, Grau says he would advise against it. "There's still a scarcity of sellers, and finding an actual seller is never easy," he points out. "I don't expect serious buyers will make lowball offers. They either stay on the sidelines or come to play."

With the 10-year Treasury yield hovering around 1%, interest rates have never been lower. Capital is cheaper for buyers and also helps sellers, Levitt points out, adding, "RIAs who took on debt can refinance and improve their cash flow in the face of lower revenues."

Lower interest rates may also help offset lower valuations as a result of decreased revenue, Benton says. A prolonged recession may mean sellers will get less for their business, he explains, but low rates make it "cheaper for buyers to pay more."

However, he says, "Money was already cheap, this just makes it cheaper. It won't make us more aggressive in what we pay."

COST OF THE MISSING HANDSHAKE

Travel restrictions during the coronavirus outbreak have halted personal interactions between buyers and sellers — an essential component of any M&A deal not easily replaced.

"Online dating is a good starting point, but before you get married you do want to meet the other person," says Grau by way of analogy. "Not having face-to-face meetings will slow down the speed of closings and volume of M&A deals in 2020 for sure."

Benton goes further: "Sellers shouldn't even consider an offer without meeting the buyer."

"If I were a seller, and a buyer wanted to go ahead and make a transaction without meeting first, I wouldn't walk away, I'd run away," he says. "That's telling you that culture doesn't matter and the deal is just about money, which is a bad sign."

WHY ARE M&A EXECUTIVES SO CONFIDENT?

The long-term prospects for RIAs remain bright, executives maintain.

and there's still a lot of capital attracted to the advisory industry."

What's more, they say, RIAs' rapid recovery after the Great Recession of 2008-09 bodes well for the industry's future.

Not that the initial fall from market highs will be trauma-free.

"Some sellers may be in different stages of grief because they missed the top of the market," says Matt Cooper, president of Beacon Pointe Wealth Advisors, which recently recapitalized with a private equity partner and bought Ferrell Wealth Management, an Orlando, Florida-based RIA with around \$460 million in AUM.

"Initially there will be some emotional denial and pullback," Cooper says. "But over the next six to 18 months, RIAs will look at their fixed costs and realize the benefits of economies of scale. And advisors will realize we have no choice but to cuddle up next to each other."

Charles Paikert Senior Editor, Financial Planning  



 **REPRINT**

For reprint and licensing requests for this article, [click here](#).

Coronavirus

M&A

RIAs

Private equity

Steve Levitt

Rush Benton

Matt Cooper

Fidelity Clearing & Custody Solutions

Captrust Financial Advisors

Beacon Pointe



FinancialPlanning

You have access to **1 more article** this month.

Financial Planning delivers actionable and insightful content their practices' investment performance and client service.

TRENDING

PRACTICE MANAGEMENT RESOURCE CENTER

Trust(ing) your client retention

Adding trust services to your offering may help you create a differentiated offering and extend your client relationships.

FUND PERFORMANCE

Bond funds with the biggest net flows YTD

"Ideally, you would like clients to try not to make really short-term decisions, however this is an unprecedented

FinancialPlanning

You have access to **1 more article** this month.

Financial Planning delivers actionable and insightful content their practices' investment performance and client service.

What will coronavirus uncertainty mean for the Schwab-TD deal?

Since the all-stock purchase was announced, TD Ameritrade's valuation has plummeted and both firms are now operating with most, if not all, staff working remotely.

By Jessica Mathews April 6

MORE FROM FINANCIAL PLANNING

Trust(ing) your client retention

Adding trust services to your offering may help you create a differentiated offering and extend your client relationships.

SPONSOR CONTENT FROM SEI

IRS

10 things to know about IRS operations during the coronavirus pandemic

By Jim Buttonow April 6

FinancialPlanning

You have access to **1 more article** this month.

Financial Planning delivers actionable and insightful content their practices' investment performance and client service.

RETIREMENT SCAN

What to do if your clients' employer stops matching

By Paola Peralta April 3

FinancialPlanning

You have access to **1 more article** this month.

Financial Planning delivers actionable and insightful content their practices' investment performance and client service.

INDEPENDENT BDS

Advisor Group's Ladenburg ramp to go on as deliberately as planned

By Tobias Salinger April 3

FinancialPlanning

You have access to **1 more article** this month.

Financial Planning delivers actionable and insightful content their practices' investment performance and client service.

ETFs

The case for low-volatility ETFs in high-anxiety times

By Joseph Lisanti April 3

FinancialPlanning

You have access to **1 more article** this month.

Financial Planning delivers actionable and insightful content their practices' investment performance and client service.

RETIREMENT SCAN

Is retiring in a year from now still possible for your clients?

By Paola Peralta April 2

Best Fintechs to work for

FinancialPlanning

You have access to **1 more article** this month.

Financial Planning delivers actionable and insightful content their practices' investment performance and client service.

[About Us](#)

[Contact Us](#)

[Financial Planning Magazine](#)

[CE Quiz](#)

[Content Licensing/Reprints](#)

[Advertising/Marketing Services](#)

[Site Map](#)

[RSS Feed](#)

[Privacy Policy](#)

[Subscription Agreement](#)



© 2020 Arizent. All rights reserved.

FinancialPlanning

You have access to **1 more article** this month.

Financial Planning delivers actionable and insightful content their practices' investment performance and client service.