

RIA Edge

THE 2022 RIA EDGE STUDY

Chapter 3: Current M&A Activity



Produced by:

Wealth Management 

Strategic Partner:

thrivent[®]
Advisor Network

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ABOUT WMIQ

Wealth Management IQ is a dedicated division of Informa Connect that provides research, content creation and marketing services to the wealth and asset management communities.

WMIQ has a truly unique combination of:

- Deep research and analytical capabilities
- Extensive knowledge of the financial advice industry
- Content strategy and direct distribution to over 400K wealth management professionals

Our mission is to educate and inform financial advisors with our research content – and provide the companies that support and empower them with unparalleled access, intelligence and understanding of the wealth management market.

Through the audiences of **WealthManagement.com**, Trust & Estates and WMRE, WMIQ has the ability to tap into some of the most influential communities of financial advisors to conduct targeted surveys, focus groups and one-to-one interviews to inform our research projects. Our audiences of RIAs, IBDs and wirehouse advisors—and their affinity for our brands—positions WMIQ to access more engaged advisors than any other industry research provider. This reach across the entire wealth management ecosystem is a unique differentiator of WMIQ—and allows us to discover the true drivers of change, behaviors and influence throughout the industry.



ABOUT THRIVENT ADVISOR NETWORK

Thrivent Advisor Network is a registered investment adviser (RIA) and a wholly owned subsidiary of Thrivent – a diversified financial services organization with more than 100 years of service.

Launched in 2019, Thrivent Advisor Network consists of 20+ affiliate advisor businesses managing over **\$6 billion** in assets. Our community of independent-minded advisors are passionate about helping clients achieve financial clarity and value collaboration with other advisors who share a commitment to a greater purpose.

Thrivent Advisor Network provides a suite of comprehensive solutions designed to help advisors run profitable businesses that can improve people's lives and have a positive impact on society.

For more information, visit thriventadvisornetwork.com or find us on LinkedIn.

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OVERVIEW & METHODOLOGY

A Pulse poll – conducted by WealthManagement.com and Informa Engage, which oversaw its methodology, data collection and analysis – was fielded between July 28, and August 3, 2022. The poll generated 350 completed responses.

A variety of firm types are represented in the sample. Most common were registered investment advisers (RIAs) and independent broker-dealers (IBDs), at **28%** and **21%**, respectively. The other firm types represented in the sample were wirehouse firms (**6%**), insurance firms (**10%**), regional firms (**6%**), bank brokerages (**2%**) and others, at **14%**.

Several professional roles were represented in the sample. At RIAs and dually registered firms, **54%** of respondents identified themselves as a financial planner/ advisor or investment advisor. At firms of all types, **49%** of respondents so identified themselves. Also among all types of firms, **27%** identified themselves as owners, **8%** as registered representatives, **3%** as insurance brokers and **10%** as “other.”

The estimated mean age of respondents was 49. Among respondents overall, **10%** were under age 30, **15%** were between 30 and 49, **24%** between 40 and 49, **27%** between 50 and 59, **17%** between 60 and 69, and **8%** were 70 and older.

Among RIA and dually registered respondents, the estimated mean for assets under management (AUM) personally was \$251 million, with the estimated median at \$75 million. For all respondents, estimated mean AUM was \$192 million and estimated median AUM was \$33 million.



FOREWORD

This RIA Edge Update takes an in-depth look at inorganic growth through mergers and acquisitions.

As someone who has led multiple wealth management companies through complex transactions and consulted hundreds of RIAs on succession planning, this edition was of particular interest to me.


One of the key findings was the distinct importance that buyers and sellers place on cultural alignment when assessing an ideal partner. The survey found that more than half of the respondents rated “cultural fit and alignment” as the #1 factor when buying, selling or merging with another wealth manager. This aligns with my experience, and I have found that this is the most challenging part of any transaction because it’s not straightforward and requires a lot of introspection on the part of the seller.

The survey also found that over one-half of all respondents stated that they have a succession plan in place. While I would love to see that number higher, it indicates progress in our industry.

Thrivent Advisor Network is pleased to sponsor the RIA Edge Study. We hope you find valuable insights and practical takeaways in this report. Be on the lookout for future quarterly updates that will provide additional visibility into the evolving RIA industry.

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SECTION 1: MERGER & ACQUISITION ACTIVITY

Compared to those who responded to the question in the first quarter, third-quarter respondents were somewhat more likely to have reported participating in a merger, acquisition or other type of ownership transaction in the past two years.

This heightened level of activity serves to corroborate reports in the trade press of a high number of M&A transactions so far in 2022, although the pace of such transactions among RIA firms seems to be cooling.

Among all respondents, **28%** said they participated in an M&A transaction over the past two years versus the **22%** who responded similarly in the first quarter. Two-thirds of all third-quarter respondents (**67%**) said they had not participated in such transactions over the past two years, versus the three-quarters who said they hadn't in the first quarter. In addition, **5%** of respondents said they had not participated in an M&A transaction but had attempted to do so – close to the **4%** in the first quarter who said they had attempted to be involved.

Among RIA firms and dually registered firms, however, just **22%** of respondents in the third quarter said they had been involved in an M&A transaction over the past two years, down from **30%** in the first quarter. Correspondingly, **73%** said they had not been involved in such transactions, down from **62%** in the first quarter, and **5%** said they had attempted to become involved in an M&A transaction, down from **8%**.



Among all respondents, 28% said they participated in an M&A transaction over the past two years versus the 22% who responded similarly in the first quarter.

A blue-tinted photograph of a pen and a stack of coins on a document. The pen is on the left, pointing towards the center. The stack of coins is on the right. The background is a document with horizontal lines.

SECTION 2: TRANSACTIONS IN DETAIL

While the number of respondents reporting having been involved in an M&A transaction over the past two years rose only slightly in the third quarter, each type of possible M&A arrangement in which those positive respondents were involved saw an increase — save for partial sale of a book of business or, in the case of RIA and dually registered firms, selling to internal stakeholders.

For example, **52%** of all respondents and **51%** of RIA/dually registered firms who were involved in an M&A transaction reported acquiring another firm over the past two years, up from 47% and **43%**, respectively, who reported such involvement in the first quarter.

Similarly, **24%** of all respondents and **37%** of RIAs/duals who had been involved in deals said they acquired another advisor or team over the past two years, versus **19%** and **26%**, respectively, in the first quarter. Thirty percent of all respondents and **32%** of RIAs/duals merged with another firm (versus **24%** and **19%**, respectively), while **26%** of all firms and **27%** of RIAs/duals sold to another firm, versus **18%** and **14%**, respectively.

Looking ahead to the remainder of 2022, a majority of respondents — **68%** of RIAs/duals and **59%** of all respondents — said they would be exploring the possibility of an M&A transaction. This level of interest is significantly greater than in the first quarter when **53%** of RIAs/duals and **43%** of all respondents said they would be considering a transaction. Among the types of transactions being considered, the acquisition of another firm was the most popular choice, being considered by **28%** of RIAs/duals and **23%** of all firms, up from **22%** and **17%**, respectively, in the first quarter. The second-most popular choice was acquiring an advisor or a team, cited by **24%** of RIAs/duals and **20%** of all respondents.

When considering the most important characteristics of an ideal transaction partner, respondents representing firms that were buyers in the last two years report valuing cultural fit and alignment significantly more than did sellers. Respondents representing firms that were sellers

report valuing client synergies much more than did buyers. In their ranking of characteristics, however, buyers and sellers on the relative importance of the following: cultural fit and alignment is most important, followed by strong and stable financials, synergies in client types and needs, and recent growth and growth potential. Other characteristics — strong leadership and management, having new or innovative tech tools, maintaining a founder’s legacy and presenting new career opportunities and growth for employees — were relatively minor considerations.

Buyers and sellers also were in general agreement about the most important elements of a successful deal, viewing the delivery of better service and support to customers as key. Buyers saw generating growth in the combined firms’ asset and client base as the second most important element in a deal, while sellers felt cultural alignment and growth opportunities for employees came second. Buyers felt the latter issue came third, while sellers felt future growth prospects came third. In addition, **28%** of sellers also said that ensuring business continuity was the fourth most important element in a successful while just **4%** of buyers said that element was important. The fourth-most important element for buyers, cited by **31%**, was improving overall profitability and scale, which **20%** of sellers cited as important.



24% of all respondents and 37% of RIAs/duals who had been involved in deals said they acquired another advisor or team over the past two years



SECTION 3: SUCCESSION PLANNING AND TRENDS IN FIRM VALUE

Unlike many advisors, **51%** of RIAs/duals and **51%** of all respondents to the Pulse third-quarter survey said they had a succession plan. Interestingly, **31%** of respondents at RIA/dual firms and **34%** of all respondents said they weren't sure whether their firm had a succession plan in place.

Just over half of respondents – **53%** of RIAs/duals and **54%** of respondents overall – said their firms are most likely to transition or sell to internal employees once its succession plan is executed. One in five are not sure what will transpire. Smaller percentages foresaw a sale to an external buyer or a merger with a similar firm type.

While respondents continue to be optimistic about the changing value of their firms over the last 12 months, sentiment is slightly less bullish than it was earlier in the year with **86%** of RIAs/duals saying the value of their firm will increase, compared with **93%** who expressed that view in the first quarter. Among all respondents, **84%** believed the value of their firm would increase, compared with **89%** who felt that way earlier in the year. The percentage of respondents who felt their firm value would remain about the same rose to **13%** from **3%** in the case of RIAs/duals

and **6%** for all respondents, the percentage of those saying firm value would decline fell to **1%** and **3%**, respectively.

Looking ahead, **86%** of RIAs/duals and **84%** of all respondents expect to see continued value growth for their firms over the next 12 months. Just **13%** saw firm values staying the same heading into 2023, while **1%** of RIAs/duals and **3%** of all respondents believed firm values would decline.



53% of RIAs/duals and 54% of respondents overall – said their firms are most likely to transition or sell to internal employees once its succession plan is executed.

