Merger and Acquisition Activity for Investment Advisors

Why the right technology stack matters

THOUGHT LEADERSHIP FROM A TECHNOLOGY LEADER

Merger and acquisition activity in the wealth management industry is surging and even accelerating, thanks to macro trends, including retiring RIAs, a tighter regulatory environment, fee compression, the commoditization of investment management, and the rising expectations of clients who want faster reporting and a holistic view of their accounts.[1]

55%

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Where the rubber meets the road

To succeed in this space, scale is required, which makes consolidation a trend to understand for all advisors whether they might be buyers or sellers now or at some point in the future. More firms are looking to either acquire or sell practices: one advisor might be looking to gracefully make an exit after building a business over decades; while another might see the opportunity to grow by acquiring another advisor's business.

On the seller side, more firms are seeking succession plans as RIAs grow older. However, smaller firms without an obvious successor candidate are far less likely to have a plan. According to a recent TD Ameritrade Institutional report, only 19% of the smaller firms surveyed said they were prepared to deal with a succession event, as opposed to 100% of firms with $8 million or more in annual revenue.[2] Those without a succession plan—many sources say about 70% overall—should have one in order to avoid a big financial hit and risk disrupting the trust relationship with their clients. Further, many industry experts consider the fiduciary standard of care applying in the case of succession, compelling advisors to have a plan in place to ensure that the best interests of their clients are protected.

The good news for sellers? According to Matt Sonnen, CEO at consulting firm PFI Advisors, there are 10 buyers for every seller—so the tables have turned. "A successful buyer needs to be able to show off their technology," says Sonnen. "This is true for a regular RIA growing through acquisition as much as it is for larger, nationally recognized roll-ups or consolidators."

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It takes way more than a check. It's an infrastructure story today.

— **Matt Sonnen, CEO, PFI Advisors**

Bill Sowell, Chief Executive Office, Sowell Management Services, a Chicago-based RIA firm offering investment strategies and turnkey back-office solutions to financial advisors, couldn't agree more. "Making "the deal" is the easy part, a successful transition is where the rubber meets the road and that's truly where the right technology makes the difference," he says.

M&A and succession planning: Opportunities and challenges

M&A is one way to look at succession planning—as well as a growth strategy. Over the next decade, 55 percent of advisors expect the pace of consolidation to continue—and even grow.[3]

For advisors looking to sell, there are a variety of choices: They may sell internally to a junior partner groomed for succession, for instance, or sell externally to an aggregator or to a like-minded peer. No matter the choice, however, there are significant operational considerations for buyers and sellers to make sure clients transition smoothly and seamlessly.

Most importantly, client loyalty and cultural compatibility is essential for M&A success. According to a recent wealthmanagement.com survey on M&A activity in wealth management, 72% of advisors said delivering a superior customer experience is a key reason to join forces with another firm.[4]

Buyers clearly have the potential for great opportunity, to gather inorganic AUM through M&A, but only if they can attract the interest of advisors who have their pick of suitors.

Buyers must show sellers that they have technology that will elevate the client experience, says Sonnen. For example, can they produce client reports right after the end of the quarter, without a lot of effort? "It means having the right technology stack in place that integrates the technology of both firms post-sale, creates a smooth onboarding process, offers workflow automation, and provides a seamless experience to clients. It takes way more than a check. It's an infrastructure story today."

"We've found that advisors who are looking to grow through acquisitions are very interested in the Black Diamond Wealth Platform as part of that story," says Bob Conchiglia, Vice President, Advisory Sales, SS&C Advent. "Advisors have found, and sometimes the hard way, that a modern technology stack is truly a differentiator in M&A conversations."

Technology and infrastructure: Critical to M&A success

The right technology tools are a must for efficient M&A, say experts. According to the weatlhmanagement.com survey, 98% of respondents say having an efficient and scalable back office is very or extremely important when integrating firms.

The right technology stack can help with a variety of functions that enable the business to continue operating seamlessly. The wealthmanagement.com study also revealed that the top technologies advisors desire during a merger and acquisition are workflow automation, document management, client communications, electronic signature and compliance tools.[5]

"Having the right technology platform is absolutely critical in every aspect of M&A transactions," says Sowell. "Our experience shows that the valuations of our acquisitions are immediately higher after implementing our technology because of the highly respected and industry recognized technology we utilize. That technology, coupled with the efficiency of integrating our technology partners into a seamless technology platform allows for greater efficiencies in our pre- and post-transition processing."

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Overall, client onboarding is an essential process to get right during M&A, says Sonnen. There may be a vast amount of new client data involved, and a fully-digital firm can help manage that far more efficiently and with more transparency. "If the firm's technology doesn't allow for a smooth onboarding process, then this gives clients a reason to go somewhere else," he says. "This leads to value decrease because the value of the firm is in the goodwill of the client base."

J.P. King Advisors, Inc., a $480 million RIA in the San Francisco Bay Area, also sees technology as part of their story when attracting the next generation of advisors. Principals, Scott Horton and Justin Dodson, were actively identifying younger advisors to join the firm, including recently completing the acquisition of an early 30s advisor. "Once she saw how powerful our back office was with Black Diamond and our processes, she was able to easily onboard her clients to the firm and can now spend her time on managing and growing relationships instead of preparing quarterly reports." says Dodson.

At the same time, Horton and Dodson also see retiring advisors as another target market. "We are now scalable to the point with Black Diamond that we can easily add bulk transfers of new clients, particularly for aging advisors who haven't necessarily planned," notes Horton. "No one wants to outlive their doctor or their advisor, so we can be the solution to provide an enhanced client experience for advisors looking for the next chapter in their careers."

The future of M&A integration

The M&A trend shows no signs of slowing down: the aforementioned survey found, for example, that nearly one in four advisors expects to be part of a merger or acquisition within the next two years. This means that post-sale integration will become more important than ever. Buyers will continue to scale by using technology to foster a seamless client transition and grow the business, while savvy sellers will seek to make sure the acquisition firm has the operational infrastructure in place to properly service their clients in a way that boosts loyalty.

Tech tips for a successful M&A integration

1. Make a plan.

Evolving your technology stack won't happen overnight. Before you're ready to woo sellers, make sure you leave plenty of time for technology overhauls and upgrades.

2. Get strategic.

Think through your current processes and look for streamlining opportunities as well as necessary additional digital capabilities. That will be a must-have foundation when you integrate through M&A.

3. Consider a unified platform.

A comprehensive and integrated wealth management platform can offer easy integration targeted to advisors that enhances client service and boosts efficiency.

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About the Black Diamond® Wealth Platform

With the Black Diamond Wealth Platform as the hub of your advisory business, you'll be able to leverage technology better to drive profitability, scale, and growth. In addition to performance reporting, rebalancing and client billing functionality, the platform encompasses daily reconciliation services, an award-winning client portal with mobile access, and integrations to several complementary solutions, including but not limited to financial planning, portfolio analytics, and CRM software, as well as access to traditional and alternative managed account strategies.

For more information

If you have questions about this paper, or would like to learn how the Black Diamond Wealth Platform can support your business, call **1-800-727-0605** or email **info@advent.com**. You can also visit **blackdiamond.advent.com**.

1 M&A Through the Operational Lens, wealthmanagement.com, June 28, 2018, https://www.wealthmanagement.com/white-papers/ma-through-operational-lens

2 "No succession plan? Why smaller firms are at risk," Financial-Planning.com, April 19, 2018, https://www.financial-planning.com/news/succession-plan-solutions-for-ria-owners

3 M&A Through the Operational Lens, wealthmanagement.com, June 28, 2018, https://www.wealthmanagement.com/white-papers/ma-through-operational-lens

4 Surfing the Wealth Management M&A Wave, wealthmanagement.com, June 28, 2018, https://www.wealthmanagement.com/technology/infographic-surfing-wealth-management-ma-wave

5 M&A Through the Operational Lens, wealthmanagement.com, June 28, 2018, https://www.wealthmanagement.com/white-papers/ma-through-operational-lens

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