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The 2023 Wealth Management M&A Outlook

A data-driven analysis of M&A and valuation trends re-shaping the wealth management market

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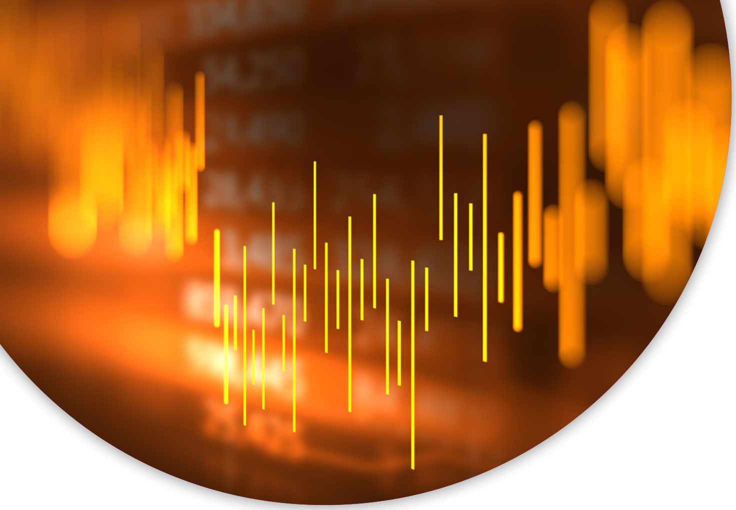
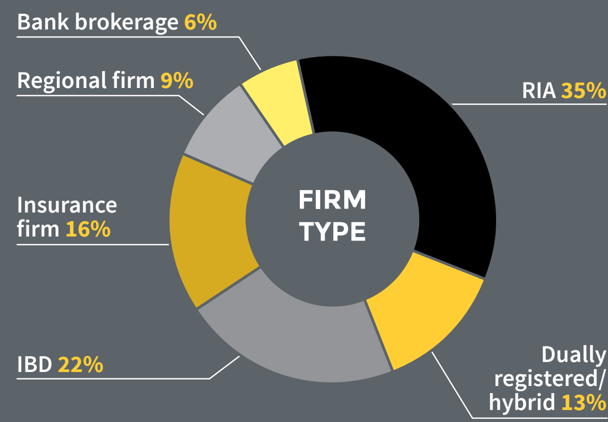


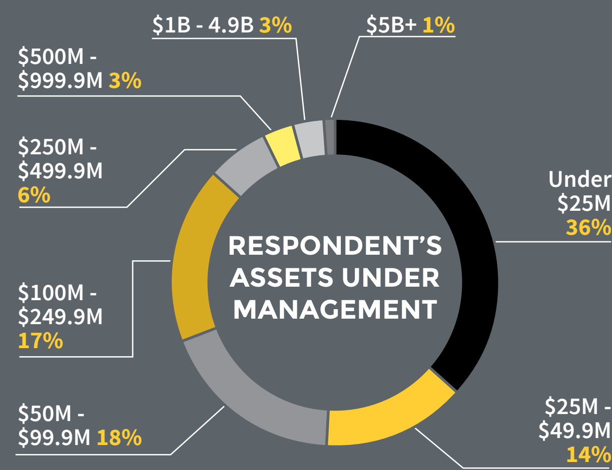
Optimism in the Face of Market Uncertainties

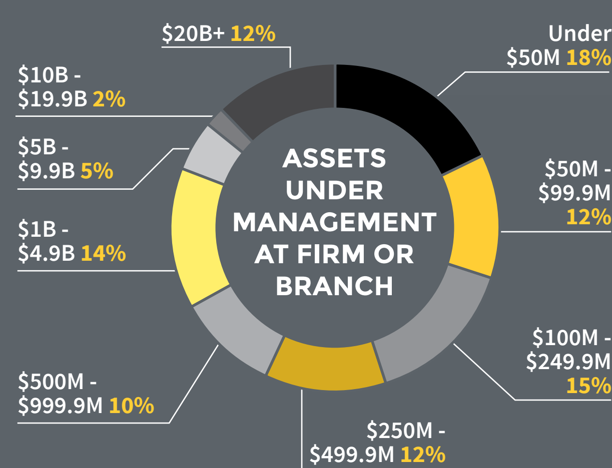
The market for advisory firms sizzled in 2022 but may cool in 2023. That is a key finding of a recent survey of advisors conducted by WealthManagement.com and Informa Engage in partnership with Bluespring Wealth Partners, Skyview Investment Advisors and Cambridge Investment Research. While advisors acknowledge the possibility that higher interest rates and market volatility will temper the recent torrid pace of merger and acquisition activity in the advice business, they nonetheless are optimistic about their firm's prospects and those of the advice business generally.

The white paper that follows delves into the findings of that survey to understand the forces that are driving advisory firm M&A, the challenges the advisory businesses faces, and the importance of technology and human resources as factors shaping the delivery of advice. It concludes with takeaways and suggestions based on those findings.

Respondents at a Glance







Developments in 2022

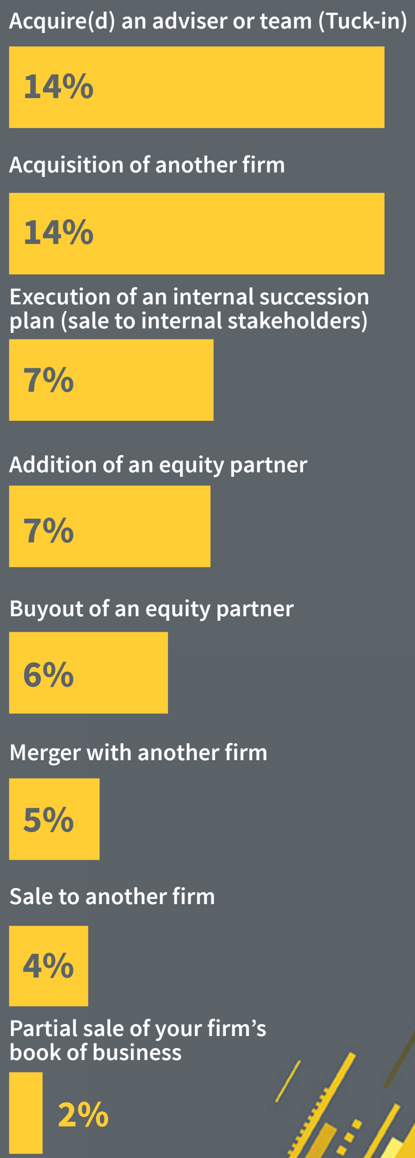
Perhaps the most notable statistic of the survey is one that underscores the level of activity in the market for advisory firms in 2022: some 70% of respondents said their firm explored an acquisition, sale or merger on some level.

An acquisition was the most popular transaction-type explored, with 40% of respondents saying their firm looked to acquire another firm or a book of business. Among firm types, 44% of those associated with a registered investment advisory business said their firm explored an acquisition in 2022. Second in popularity was a tuck-in or the acquisition of an advisor or a team, noted by 22% of respondents. Merging with another firm and executing on an internal succession plan with a sale to internal stakeholders each were noted by 16% of respondents. Only 10% said their firm considered selling itself to another advisory business, but 32% were approached by a potential buyer and an equal number said their firm approached another wealth manager about acquiring their firm or book of business.

If such active involvement in the M&A market wasn't noteworthy enough, the level of actual deal-making was eye-opening too. More than two-in-five respondents — 44% — said their firm executed an M&A deal in 2022. Acquisitions and tuck-ins tied for Number One, with 14% of respondents noting that their firm engaged in one of those types of transactions. Second in popularity were the addition of an equity partner and the execution of an internal succession plan, with 7% of respondents noting each of those choices.

Whether or not they were engaged in a transaction in 2022, 54% of respondents said they believed their firm was worth more at the end of the year than it was the year's start and just 20% said it was worth less. A sizeable 26% of respondents said their firm's value was unchanged over the course of the year. That level of optimism is significant coming as it does after many months of rising interest rates and volatile equity markets — developments that have slowed or halted the long-rising value of assets under management and the easy access to low-cost credit that fueled the pace of advisory firm dealmaking in recent years.

Types of transactions executed in 2022:



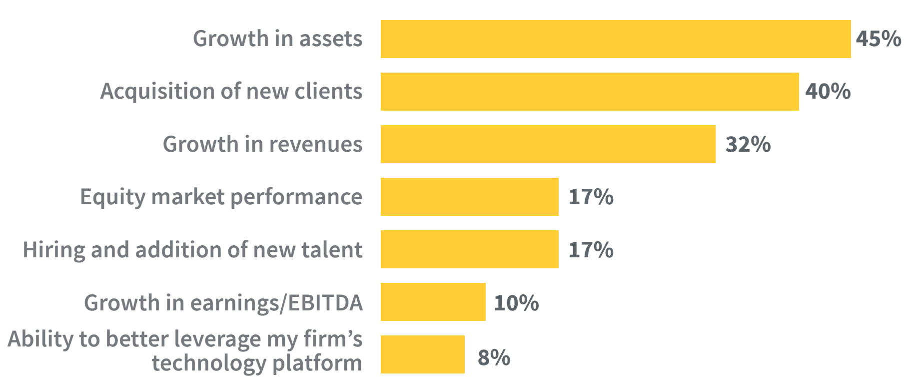
The Outlook for 2023

Reflecting the recent environment, survey participants view the outlook for M&A activity in 2023 with muted optimism. Two out of five respondents see activity levels increasing in the year ahead, which would continue a trend of record-level dealmaking. But an equal proportion — 40% — believe overall M&A activity levels will decline, while a fifth say they expect to see the same level of dealmaking as in 2022. More than half (54%) say the 2023 market will favor buyers, while 25% say it will favor sellers. The remaining 21% think/feel/etc neither side will have an edge, perhaps due to supply constraints — notably, a shrinking number of advisory businesses being available for sale — offsetting possibly lower valuations.

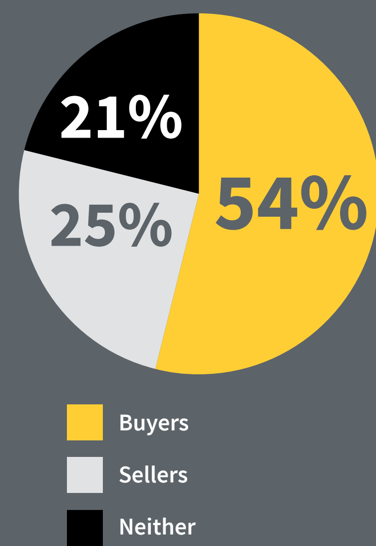
Driving a decline in M&A activity in 2023, according to half of the respondents, are rising interest rates. At the same time, 32% said higher rates won't have a material affect and 18% said they will lead to greater activity.

Whether due to higher rates or other factors, 45% of respondents see industrywide valuations declining in 2023 from 2022 levels, while about a fifth believe valuations will stay roughly the same and 36% predict they will increase. But that's the industrywide projection. As for their own firm, a resounding 89% of respondents said they see its value increasing in 2023, while just 9% said its value would stay the same and a miniscule 2% said it would decline. The leading factors in the rise in projected value were growth in assets, cited by 45% of respondents, followed by acquisition of new clients (40%), growth in revenues (32%), equity market performance (17%), the hiring and addition of new talent (17%), growth in earnings/EBITDA (10%), and the ability to better leverage the firm's technology platform (8%).

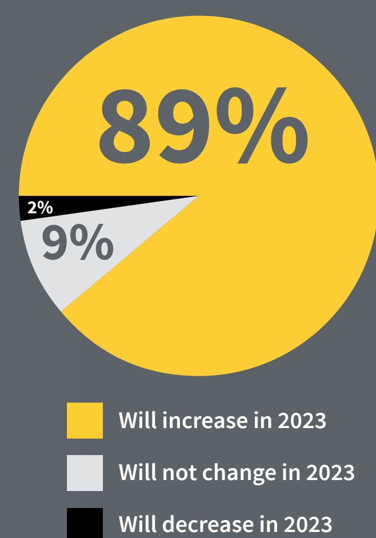
Factors with the Most Perceived Impact on Firm Value in 2023



Will the 2023 M&A Market Favor Buyers or Sellers?



Expected Change in Firm Value: 2023



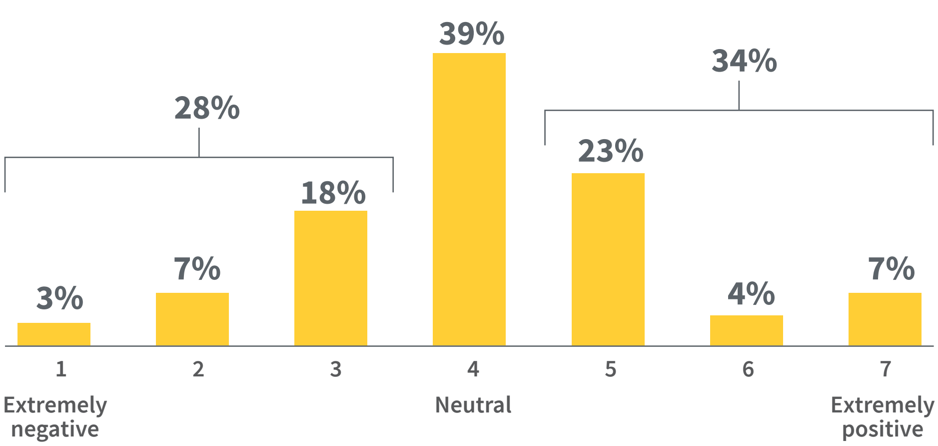
In outlining their firm's 2023 M&A plans, 37% said they foresaw no transactions in the cards. If those planning to execute a possible M&A transaction, 30% said they were looking to acquire another firm, 21% to acquire or tuck-in an advisor or a team, 12% plan to consider adding an equity partner and 9% are planning a sale to internal stakeholders. Just 8% are planning to merge with another firm in 2023, while 5% are considering the buyout of an equity partner, 4% considering a sale to another firm, and 2% considering the partial sale of a book of business.

Whatever M&A strategy respondents pursue in 2023, the primary reason for exploring it is to accelerate firm growth. That reason (respondents were asked to select up to three) was cited by 74% of respondents, followed by the acquisition of new talent (40%), succession planning (27%), accessing new capabilities to expand services for existing clients (24%), expanding career opportunities for current employees (20%), monetizing an equity stake for a partner or partners (13%) and acquiring new technology capabilities (10%).

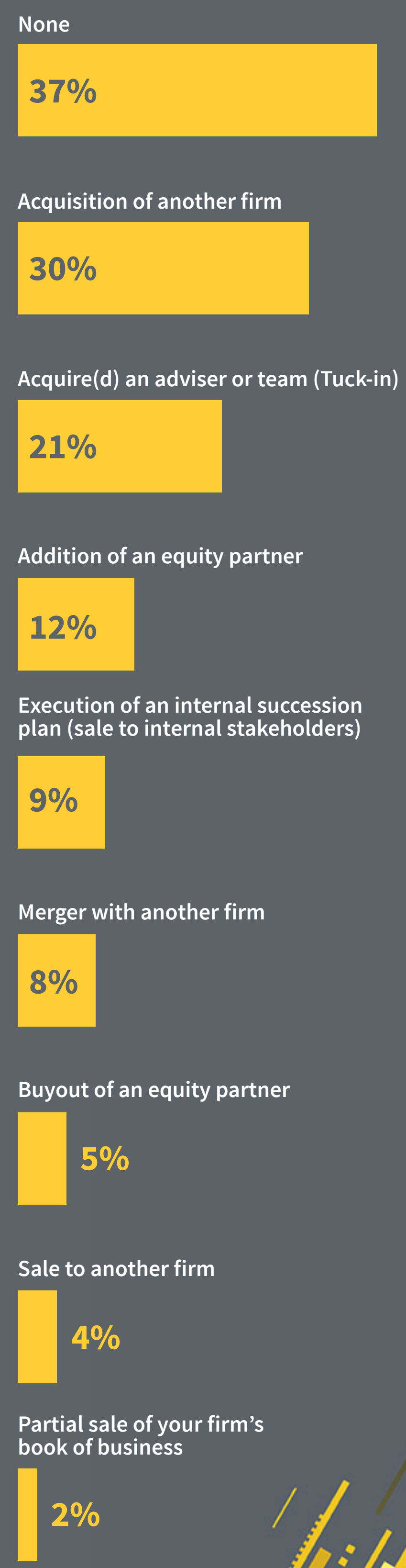
For any of those strategies to work, of course, any merger or acquisition must result in a successful outcome. When asked what they believe to be the most important element in M&A success , respondents overwhelmingly mentioned cultural alignment among the parties, which was cited by 63% of those responding. Ranking a distant second, cited by 21% of respondents, was an improvement in the services and a better quality of advice delivered to clients. Third, noted by 14%, was deal price.

Commenting on the impact the influx of capital from private equity companies has had on the wealth management industry in recent years, 39% said the impact was neutral. A somewhat smaller percentage of respondents, 34%, characterized the impact as positive in varying degrees, while 28% believed the impact was negative in varying degrees.

Impact of Influx of Capital from Private Equity in Recent Years



Transactions Planned for 2023



Takeaways and Suggestions

- After a very strong 2022, financial advisors are optimistic about the value of their firm and its growth prospects in 2023. At the same time, they recognize that higher interest rates and a decline in asset values may lower valuations generally and tilt the advantage to buyers.
- Acquiring another firm and tucking in an advisor or a team of advisors is the most popular way of growing an advisory business inorganically.
- Advisors recognize that cultural fit is the key element in a successful acquisition, which means that great care should be taken during the negotiation process to assure that true cultural alignment exists. Many times, enthusiasm over a transaction and attention to financial details can blind parties to differences in outlook, attitudes and expectations that will make themselves apparent — and hamper success — only after a transaction is completed.
- A significant driver of M&A activity is succession planning. For advisors thinking about their retirement, acquiring a firm with younger advisors or tucking in younger advisors is a key step in developing a viable succession plan. For younger advisors, merging with a firm headed by an older advisor or acquiring a book of business from an advisor looking to wind down can be a viable growth path.

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Bluespring Wealth Partners

Bluespring Wealth Partners was established with the express purpose of helping wealth management firms realize their full potential. You may or may not have a plan for the future of your business. Either way, competing in today's wealth management landscape means you'll need an operating partner with the resources, capital, and experience to help you grow and execute on your vision for the business—that's where we step in. We invest in registered investment advisor and wealth management firms, to create greater opportunity and growth, while preserving the core values you've built for your clients, employees, and yourself.
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- Deep research and analytical capabilities
- Extensive knowledge of the financial advice industry
- Content strategy and direct distribution to over 400K wealth management professionals

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