FINANCIAL ADVISOR IQ

M&A Deals: 'Anxiety is the Starting Point'

By Josh Azar   October 19, 2020

Advisors who have been through the wave of industry consolidation know that mergers and acquisitions can prove to be beneficial when done for the right reasons and with proper due diligence. But before they can get to the point of closing the deal, there can be a lot of stress, industry executives say.

That is especially true now, as the pandemic causes more advisors to assess their long-term business plans. In fact, more than half of advisors expect to acquire another business within the next two years, according to a survey of 128 RIAs conducted by consulting firm DeVoe & Co. between late May and late June. But only 32% of the advisors surveyed say they are open to selling an external stake in their company.

“I think anxiety is the starting point for advisors in these transactions,” says **Rich Steinmeier**, managing director of business development at **LPL Financial**. “That doesn’t mean it can’t be overcome.”

Steinmeier suggests advisors answer a checklist of questions, such as: Will an deal give the advisor access to better resources, service and technology? In what ways will the deal benefit the advisor's business and clients? Does the other firm care about the advisor or what's next in store for the advisor?

And the Covid-19 pandemic, understandably, may be adding to the anxiety, says Steinmeier.

“We are all facing concerns about our health and figuring out how to adapt to this new normal. When your business is facing a dramatic change as well, it is understandable that it could exacerbate the level of anxiety you feel about any change,” he says.

Advisors can mitigate any additional uncertainty by educating themselves, Steinmeier says.

“When it comes to Covid specifically, use the last six months as a case study to evaluate the resiliency and advisor focus of a firm,” he says.

There should be little disruption to clients

LPL's Steinmeier says there is no general rule for how M&A deals are done, and the reason for the deal can be an early indicator of how happy an advisor might be at the end of it.

If the impetus is purely financial, it's less likely advisors will end up satisfied, Steinmeier says. But if the reason for the deal is to improve capabilities and give the advisors more resources, they're more likely to be happy, he says.

When in doubt, the best bet for an advisor on the selling end of the negotiating table is to contact advisors at the acquiring firm and ask them about their experiences there, Steinmeier says.

"Ultimately, the name on the door, the whole brand? I think people think the brand is so, so important, and what I learned through that experience is it's not."

Kay Lynn Mayhue

Merit Financial Advisors

If done right, the impact of an M&A on clients should be minimal, according to Steinmeier. They may have a new web portal to log into to access their account, but ultimately, if they're still calling the same advisor, there shouldn't be much disruption, he says.

"Most clients are with an advisor for the advisor," Steinmeier says.

That's a lesson that Kay Lynn Mayhue, president of Merit Financial Advisors, learned firsthand.

Mayhue recounts spending many hours in preparation for a brand change following an M&A, drafting a Q&A for clients, and agonizing over the right email subject line for the announcement and the ideal time of day to send it. She expected a flood of worried phone calls. She received one call — alerting them to a typo in the Q&A.

"Ultimately, the name on the door, the whole brand? I think people think the brand is so, so important, and what I learned through that experience is it's not," Mayhue says.

Prior to being acquired by Merit in March 2018, Mayhue spent 18 years building advisory firm Botsford Financial Group with partner and founder Erin Botsford.

"This was her baby," Mayhue says. "And although this was exactly what she wanted, it was emotional. These clients were friends. The team members were mentees. And she had quite a bit of her identity wrapped up in this founder role of a firm that was going to no longer be known by the company name."

Her advisory team was naturally cautious at first, but the business was growing, and they needed new technology and marketing resources in order to scale up effectively. Mayhue explained to her team that a larger company could provide that.

'Culture, culture, culture'

Eddie Welch, principal at Captrust, believes in making sure the cultures of the buying and selling practices fit.

"In real estate, the three most important things are location, location, location. In the M&A world, the three most important words are culture, culture, culture," he says.

Welch joined Captrust in February of this year, after the firm acquired advisory firm Welch Hornsby, a business he co-founded in 1988.

It was "a little sad," he says.

Welch says he and other team members had spent three decades building the previous firm, and they knew things would change, but the change has been positive.

There were the expected benefits — dedicated marketing and research teams, better technology, and other tangible improvements, he says.

But there were also intangible benefits.

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"Captrust has real growth mentality. Candidly, it's been pretty exciting for our advisors," Welch says, noting he's also enjoyed being surrounded by other smart, dedicated peers.

"Iron sharpens iron," he says.

Welch notes that his previous firm's integration into Captrust was done during the pandemic.

"We did all this in the middle of the pandemic, and all the integration has been virtual. And that's actually worked out okay as well," he says. "You couldn't really draw up a worse-case scenario to do something like this, and even in spite of that, it's really gone remarkably well."