

2018 Starts with a Big Bang: RIA M&A Hits a Record

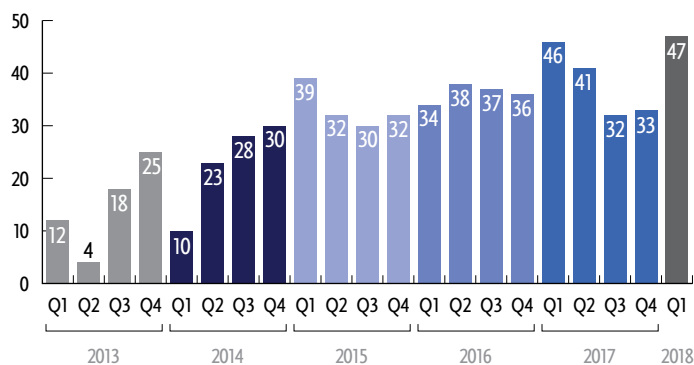
RIA Merger and Acquisition activity was off to a record start in the first quarter of 2018. Rebounding from a weak second half of 2017, the deal volume hit 47 transactions, making it the strongest quarter on record. The quarter was a 42% increase over the previous quarter and exceeded the quarterly record set one year ago (Q1 2017 had 46 transactions), according to research performed by DeVoe & Company.

“After the recent two quarters of uncharacteristically weak merger and acquisition volume, one couldn’t help but wonder if the industry was entering a softer period of activity,” said David DeVoe, Managing Partner of DeVoe & Company. “The record first quarter of 2018 indicates that RIAs maintain conviction that M&A can help achieve strategic and succession goals.”

This strong quarter comes on the heels of the fourth successive record year of RIA M&A volume. Although some pent-up supply from the anemic Q4 likely helped propel the quarter to such high levels, the industry is in the midst of a natural period of consolidation which will likely drive strong M&A numbers for years to come.

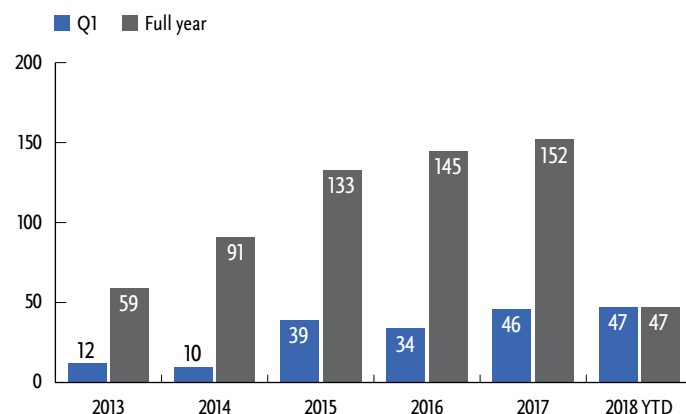
RIA M&A Activity Starts 2018 with a Record Quarter

Number of transactions executed by quarter



Q1 2018 was the Strongest Quarter on Record

Number of transactions executed per year by Q1 and year



Established RIA Activity Bounces Back

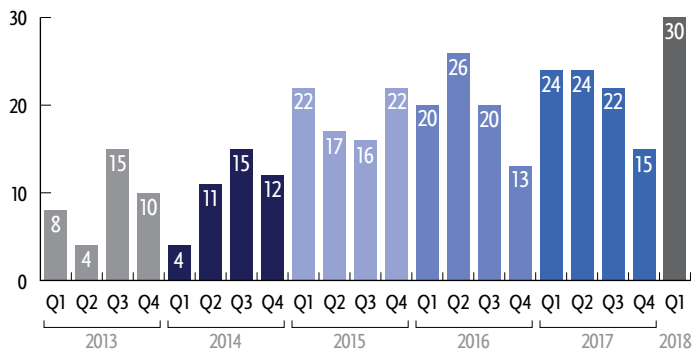
Sales of *Established* RIAs rebounded to a new record in the first quarter. The 30 transactions were double the volume of the weak previous quarter and a 25% increase over first quarter 2017. Driven by a combination of strategic and succession deals, this spike in activity drove *Established* RIAs to account for nearly two-thirds of the total transactions (64%) versus *Breakaway Advisor Joins*. (Defined as when an advisor with over \$100MM in AUM leaves a financial services company to join an RIA, *Breakaway Advisor Joins* typically account for about 45% of the total activity.) Mercer Advisors and Buckingham Strategic Wealth burned the midnight oil to post an impressive three transactions each during the first 90 days of 2018 (DeVoe & Company can relate: We acted as investment banker on three transactions ourselves).

The average AUM from *Established RIA* sellers continued its downward momentum from 2016. With only a few \$1–\$5B AUM deals in the first 90 days of the year, the average AUM sank to \$858MM from \$905MM in 2017, which was a decline from over \$1B the year before (excluding transactions involving sellers with more than \$5MM). The quarter saw hyperactivity in the \$750MM to \$1B seller range: The 10 transactions were nearly equal to the entire year of 2016 and 2017, combined. Focus Financial Partners and their affiliates did the heavy lifting, accounting for nearly half of these transactions.

The other size segments of sellers were in line with historical norms. The \$100MM–\$500MM AUM segment accounted for 14 of the 30 *Established RIA* deals. The largest firms (over \$1B in AUM) accounted for 17% of these transactions. “The trend of RIAs joining larger firms to gain access to back office operations, enhanced services and other benefits of scale was a key driver in seller decisions,” said Vic Esclamado, Managing Director at DeVoe & Company.

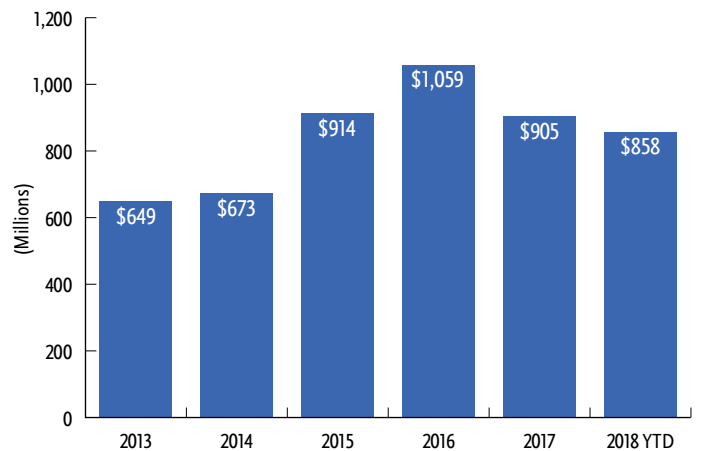
Strongest Quarter on Record for *Established RIAs Selling*

Quarterly M&A Activity: *Established RIAs*



Average AUM of *Established RIAs* Sellers

(with over \$100MM and less than \$5B)

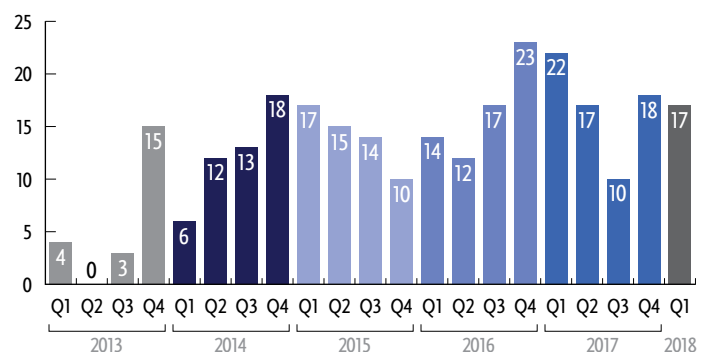


The Surge That Didn't Occur

Despite the expectation of a strong quarter, the *Breakaway Advisor Joins* activity was lukewarm. Many experts predicted that throngs of brokers would leave wirehouses out of fear that their wirehouse would exit the Broker Protocol, and DeVoe & Company expected that many would join an established RIA (which we would track as a transaction). However, the 17 “joins” during the quarter was right in line with the three-year average.

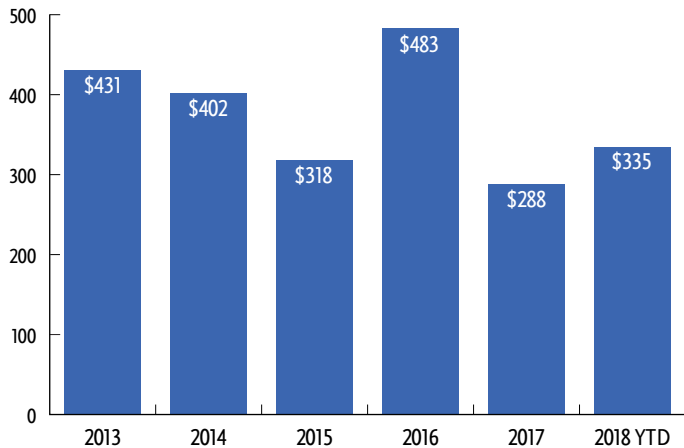
Breakaway Advisors Joining RIAs is In Line with Three-Year Average

Quarterly M&A Activity: *Breakaway Advisor Joins*



Average AUM of Breakaway Advisors Joining RIAs

(with over \$100MM and less than \$5B)



The teams that did leave to join an RIA were on the smaller side. *Breakaway Advisor Joins* with \$100MM–\$250MM AUM made up over 64% of the activity, and only a single transaction over \$750MM AUM was recorded. As a result, the average AUM of *Breakaway Advisor Joins* for the quarter crept up only slightly to \$335MM during the period — well off the high of \$483MM set in 2016.

Consolidators and RIAs Push Forward, Banks and Private Equity Pull Back

Consolidator business models continue to resonate with advisors, as RIAs seek the power of scale associated with a multibillion-dollar organization. Consolidators maintained their leading position amongst other buyer categories by executing 49% of the acquisitions during the first quarter.

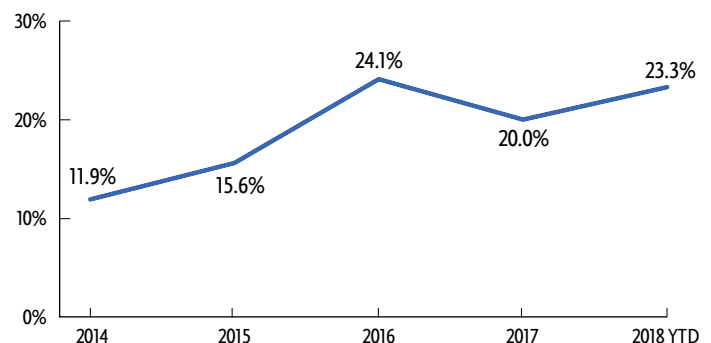
The Consolidators also benefitted from the acquisitions made by their affiliates. Sub-acquisitions (defined as a transaction executed by an RIA that had been previously acquired) accounted for nearly 25% of all the *Established RIA* transactions. Focus affiliates Buckingham Strategic Wealth executed three acquisitions and The Colony Group merged in two. No newcomer to M&A, Wealth Partners Capital Group’s EP Wealth also put a point on the board. “Sub-acquisitions are becoming a key facilitator of sub-\$250MM succession plans and transactions to gain scale in the future,” said Tim Forest, Managing Director of DeVoe & Company. “With a national footprint of over 100 consolidator affiliates across the country, the stage is set for steep acceleration of these types of transactions.”

RIAs themselves, as a buyer category, narrowed the gap versus Consolidators by posting 45% of acquisition activity, reversing a two-year slide. The affinity that many sellers have for selling to a peer was evident in the 21 transactions, exceeding the previous record of 20 set in both the fourth quarter 2014 and second quarter of 2015.

By contrast, the Banks moved back to the sidelines. After a year of new vigor and a spike of 13 transactions in 2017, they took a breather and only signed one deal in the first quarter. Private Equity also only executed a single transaction, but it was meaningful: Lightyear invested in the wealth management market yet again, acquiring \$7.4B HPM Partners (the largest deal during the period).

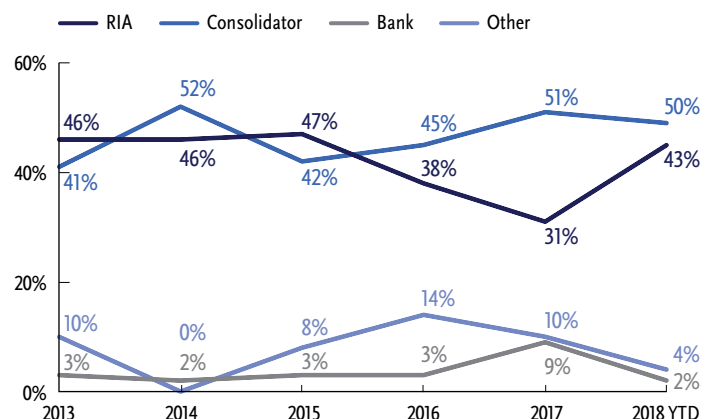
Sub-Acquisitions are Nearly a Quarter of Transactions

Percentage of *Established RIA* acquisitions categorized as sub-acquisitions



RIAs Acquire in Greater Numbers, While Consolidators Slow

Percentage of total acquisitions by Buyer category each year



Looking Forward

DeVoe & Company expects that RIA M&A activity will continue its upward trajectory for several years to come. The industry is going through a natural period of consolidation and the underpinnings of this trend remain unchanged.

During the last several weeks the stock market has experienced extreme moves, sometimes on a daily basis. Many experts predict this activity will likely continue. A sustained period of stock market volatility could have a short-term dampening effect on RIA mergers and acquisitions. During these times, the owners of RIAs generally shift their attention to calming client fears and are more engaged in investments. As a result, the non-urgent nature of M&A can take a back seat to the immediate needs of clients.

However, periods of extended volatility will sow the seeds of increased RIA sales. Principals, many of whom are moving toward retirement, can become fatigued by the intensity and emotional engagement, while others experience greater fear that correction is pending. These shifts can lead to advisors who have been on the precipice of making a decision to sell to take action.

Overall, it is a good time to be a seller — and a buyer. For sellers, RIA valuations are high, the number of buyer candidates is broad and there are clear benefits of scale. For buyers, RIAs are selling in record numbers and are genuinely curious about joining firms who can help them run better businesses. As a result, RIA M&A activity is likely to continue to increase for many years to come.

DeVoe & Company Overview

Providing business strategy and M&A consulting services to the wealth management and investment management community

About DeVoe and Company:

DeVoe & Company is a goal-based consulting firm and investment bank focused exclusively on guiding wealth management and investment management companies to a higher level of success. We provide comprehensive valuation, strategy and M&A advisory services to help you accelerate the achievement of your business goals. Leveraging our team's 100 years of combined experience in RIA business consulting and management, we develop solutions tailored to your unique goals, needs and situation.

The wealth and investment management industries are highly dynamic and evolving at a fast pace. DeVoe & Company can help you better understand your options, determine your optimal path, and craft an implementable plan for you to capitalize on the opportunities.

What We Do

Our mission is to help you achieve success on an accelerated basis. Our services fall into three broad categories:

Valuations

Business Consulting

Investment Banking

Who We Are

Founded and led by RIA thought-leader David DeVoe, our team has grown to seven professionals with 100 years of combined experience. Our consulting approach is a reflection of the team's background: An ideal balance of analytically rigorous theory and real world experience. Half our team is McKinsey-trained management consultants and the other half is former COO's of \$1B+ RIAs. As a result, we are positioned like no other consulting firm to provide you advice on any strategic challenge you may face. Our breadth of experience enables us to be your complete partner.

This report is brought to you by Nuveen in conjunction with DeVoe and Company. All data is attributable to DeVoe and Company as of March 31, 2018.

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How We Do It

DeVoe & Company creates transformational change for our clients through a unique, highly focused approach. Most engagements begin with our proprietary strategic planning process: StrategicContext™.

During the StrategicContext™ stage we gain a detailed understanding of your business, professional and personal goals. Through this methodical approach a strategic "North Star" for the engagement emerges. This North Star provides the management team with a consistent point of alignment for the myriad of the decisions throughout the process. As a result, the outcome will be deeply rooted in the company's core goals and integrated into a cohesive plan.

Our Insights

We regularly publish white papers, are quoted in financial publications and create other thought leadership pieces that we make available on our website at www.devoeandcompany.com.

A few of our most recent articles / white papers include:

- *DeVoe RIA Deal Book — The industry's leading quarterly RIA M&A deal tracker and fact book*
- *Succession Planning: Planning Your Future*
- *Putting Strategic Context Around Your Succession Plan*
- *M&A Surges: Why, and Will it Continue?*
- *Options, Options, Options*
- *Tailor-Made Successor*
- *True Value: Learn to Focus on the Things that Drive Up the Value of Your Practice*

Engaging DeVoe & Company

For more information or to engage our services call us at 415.813.5066 or send an email to info@devoeandcompany.com.



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DeVoe & Company executed more than 200 engagements in the last several years, supporting firms managing \$50MM to over \$8B in AUM

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From Nuveen

Tax Reform: The State of the States — It's SALT(y)

While the Tax Cuts and Jobs Act largely spared municipal investors from direct impacts, several measures may indirectly influence municipal issuers. **Perhaps chief among these is the \$10,000 cap on deductions for state and local taxes paid (SALT).** The cap, which limits deductions against federal tax liability for state and local taxes paid to \$10,000 annually, will have differential outcomes for state and local governments.

Nuveen's most recent paper, [A low sodium diet for municipal bonds](#), covers a number of factors germane to SALT and tax reform:

- Challenges state and local governments may face due to the cap
- Dispersion of SALT deductions across the 50 U.S. states
- States with the highest average SALT deduction
- Possible state policy responses to the cap
- The likelihood the SALT cap expires at its scheduled 2026 sunset

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