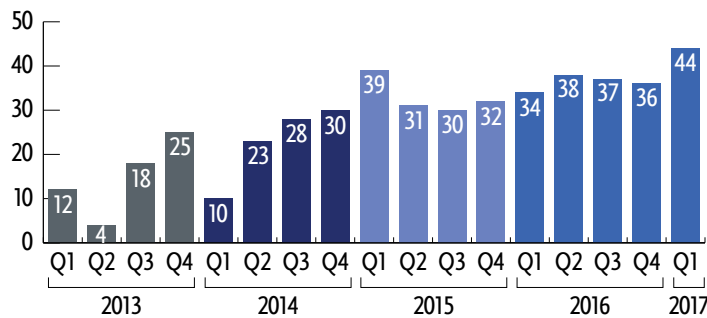


# 2017 Starts with a Record Quarter of RIA M&A Activity

RIA merger and acquisition activity got off to a record start this year with 44 transactions executed in the first quarter. The transaction volume was a steep 29% increase over the 34 deals tracked during the same period in 2016, according to research conducted by DeVoe & Company. “The first quarter of 2017 was the most active quarter *ever* of mergers and acquisitions in the RIA industry,” said David DeVoe, Managing Director at DeVoe & Company. “Advisors are selling and merging to gain the benefits of scale in an increasingly competitive marketplace.”

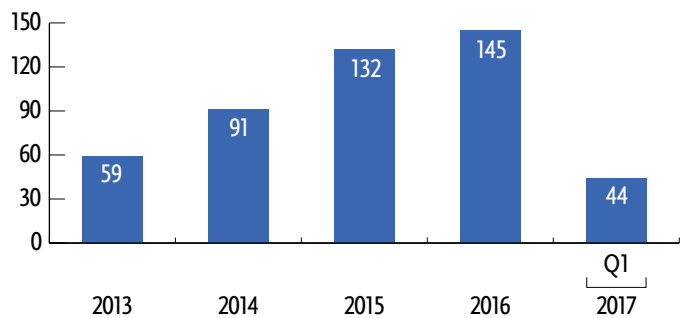
## RIA Mergers & Acquisitions Continue to Increase

RIA M&A Activity by Quarter



The heavy first quarter activity is an extension of the record levels of mergers and acquisitions during the last three years. The increase has occurred with both *Established RIAs* selling

RIA M&A Activity by Year

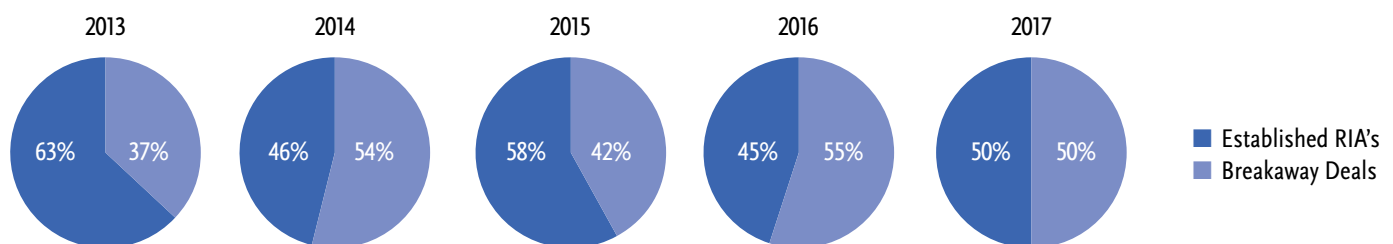


and the *Breakaway Advisors* joining RIAs, and has continued to be evenly split across the total transactions.

## Sellers Continue to be Evenly Divided between Established RIAs and Breakaway Advisors

Transaction by Seller Type

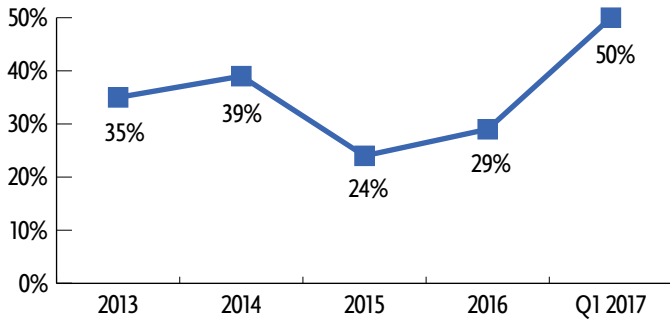
Breakdown of Transactions



RIA owners have recently shown a greater openness to give up degrees of control over their companies in exchange for the benefits of being part of a larger organization. Selling to a larger firm helps solve some of the ‘operational fatigue’ that many advisors feel, as they grapple with regulatory issues, technology and other non-core activities. The spike in advisors

with AUM of \$100MM to \$250MM selling in Q1 is related to this trend. These transactions – smaller RIAs selling to larger firms – comprised a full 50% of *Established RIA* sales of during the first quarter, an increase from the historical average of ~30%. Overall, advisors of all sizes across the industry are exploring sales and mergers to gain scale.

### Sellers with \$100-250MM as a Percentage of Total Established RIA Sales



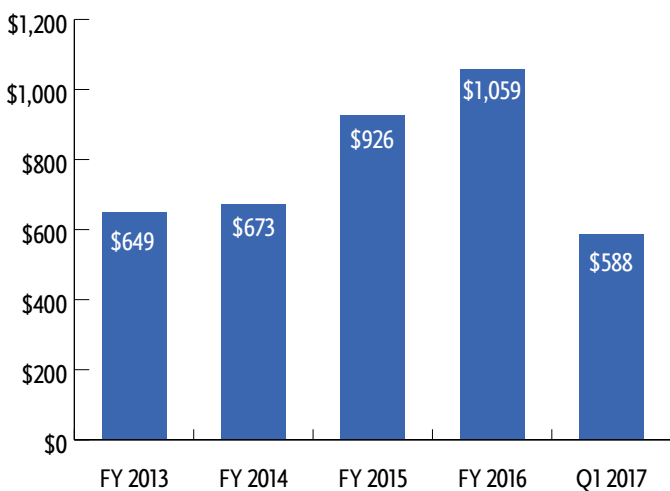
Breakaway Advisors joining RIAs also continued their upward momentum in the first quarter. The trend of advisors breaking away from wirehouses and joining RIAs has been driven by the expiration of forgivable loans that were written in great numbers following the stock market decline. Because these loans were ‘forgiven’ over the course of seven years – and seven years has ticked by – advisors who received these packages are now assessing their options. And in many cases, breakaways chose to leave and often joined an established RIA. The heightened activity due to this circumstance will likely continue for another year or more.

### Sales of Smaller Established RIAs Pulled the Average AUM Down Sharply

Overall, the increased number of smaller transactions across the industry dragged down the average AUM of sellers. During the period, the average sank to less than \$600MM from its steady increase to over \$1B in 2016 (excluding firms with over \$5B in AUM).

### Average AUM of Established RIA Sellers

(over \$100M and less than \$5B)

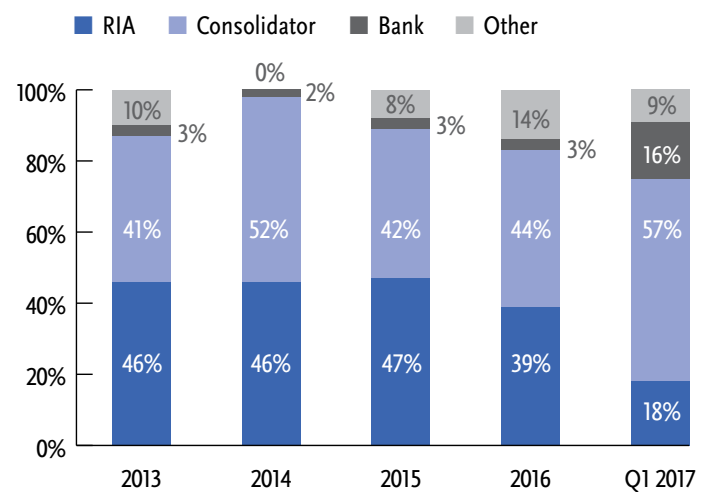


### Banks Come Off the Sidelines, While Consolidators Dominate the Quarter

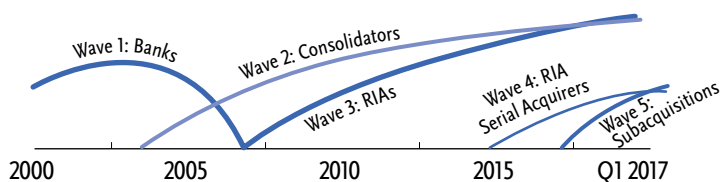
Apparently ‘acquire RIAs’ was a common strategic initiative for many Regional Banks’ 2017 business plans: This buyer segment quintupled their typical activity in the first quarter. Generally Banks comprise 2% to 3% of the transactions at any given time, but the activity recently spiked to 16%. First Republic, in particular, was very active with a total of three transactions, capturing \$2.25 billion of new AUM to the firm. Fifth Third Bank, First Midwest Bancorp, Meridian Bank and Midland States Bancorp also entered the market, acquiring RIAs with AUM between \$180MM to \$550MM. These regional banks are likely pursuing cross-sell strategies and are attracted to the deep client relationships RIAs have with their high-net-worth clients. “Because Banks typically pay higher valuations, sustained acquisition activity from this buyer group could put upward pressure on valuations across the industry,” said Francine Miltenberger, Managing Director at DeVoe & Company.

Consolidators also entered the quarter with authority, putting a total of 25 acquisition points on the board and absorbing nearly 60% of the sellers. Although Consolidators are consistently a dominant buyer category, it has been nearly three years since they acquired a majority of the sellers in a given quarter. In addition to Focus, Hightower and Steward Partners each executing five transactions, Snowden Lane and Mercer closed two or more, while Bronfman E.L. Rothschild and CAPTRUST re-engaged with the market with one transaction each. This continued momentum, combined with the additional lift of the sub-acquisition model (discussed in the 2016 Nuveen / DeVoe RIA Deal Book™), clearly demonstrates that the Consolidator business models still resonate with advisors.

### Acquisitions of Established RIAs by Buyer Category



## The Five Waves of RIA M&A Activity



The RIA industry is currently experiencing the initial impact of two new waves of RIA acquisition activity, which will likely contribute to accelerated consolidation. Understanding the Five Waves of M&A Activity helps provide context for our current and future acquisition environment.

### Wave 1: Banks

Fifteen years ago, Banks dominated RIA M&A. Mellon, Wachovia, and others were acquiring 60% of the sellers – many of them \$1B+ RIAs. With incremental revenue modeled from extensive cross-selling expectations, RIA valuations increased and moved toward the industry’s record high in 2008. However, the mortgage and banking crises eliminated Banks from the buyer pool – and they have only recently begun to re-engage with the opportunity.

### Wave 2: Consolidators

After some false starts by Assante and NFP, the ‘Roll-Up’ model started to gain momentum in the mid-2000s. Consolidators like Focus, United Capital, and WealthTrust became acquisition machines, with refined business models and deep private equity pockets funding their efforts. From a peak of over 35 Consolidators in 2008, the group itself has consolidated. Some firms exited the business, others sold to broker-dealers or banks, and now some are being acquired by consolidators (HighTower announced they are acquiring WealthTrust). Consolidators are a dominant acquiring force in today’s market.

### Wave 3: RIAs

As Consolidators became the headline story, RIA firms realized the potential power of inorganic growth – especially given the backdrop of aging RIA owners. Many RIAs quickly became more sophisticated in M&A and capitalized on the attractive pitch of “sell to us – we are an RIA and understand you”. RIAs have since arm-wrestled with Consolidators on a quarterly and annual basis for the leading market share of sellers.

### Wave 4: Private Equity-Backed RIA Serial Acquirers

After years of backing the business plans of Consolidators, Private Equity has recently changed tack. During the last few years, Private Equity has cut out the middleman and made direct investments in multi-billion dollar AUM firms – with the explicit intention to grow the acquired firm through additional acquisitions. Mega-firms such as Mercer, Wealth Enhancement Group, Carson, and now Edelman not only now go to market with the deeper pockets and M&A expertise of their private equity partner, but they also can tell the “we grew to several billion in AUM – we can help you do the same” story.

### Wave 5: Sub-Acquisitions

Sub-Acquisitions have quadrupled since 2014 and now comprise 22% of all *Established RIA* transactions. Parent companies are providing their affiliates (previous acquisitions) with the capital and M&A expertise to become acquirers themselves. With well over 100 affiliates in the marketplace today – each of which can acquire mid- and small-firms that Consolidators would historically pass over, the potential impact of this wave may be profound.

### Today ... and Tomorrow

Amid a backdrop of change, RIA merger and acquisition activity continues to run at a record pace. Some advisors on the precipice of selling are reacting to the new administration, the uncertain regulatory environment and the eight-year bull market with a ‘wait and see’ approach – delaying their pending transaction. Others have read the tea leaves differently and are reacting by moving forward with the sale of their firm in advance of their initial plan.

At DeVoe & Company we urge RIA owners to take a balanced perspective. Critical decisions like mergers, sales or acquisitions need to be deeply rooted in both business and personal goals. Considering sale or merger options within the broader context of the company’s strategic and succession plans should be the foundation for any transition decision. With clarity and conviction behind the strategic context of the decision, it’s appropriate to consider the potential structural changes to the industry that may impact the organization. And then, methodically considering the risks and implications of the future environment rather than unintentionally seeking to ‘time the market’, the owner is best positioned to move forward on the path that is best for the company, its clients, the staff, and the individual owners.

## From Nuveen

The size and attributes of the **student housing sector** have attracted large institutional investors. Institutional interest and investment in the sector is growing as a result of:

- Favorable demographic trends
- Stable and recessionary-resistant demand
- Limited on-campus housing
- Highly-fragmented industry ownership, and
- The growing obsolescence of on-campus housing stock.

These factors are expected to bolster the sector into the future. Institutional investors are also attracted by the potential to provide diversification within the apartment sector and operational synergies with conventional apartment portfolios.

### MARKET INSIGHT – STUDENT HOUSING



### SHAPING A U.S. STUDENT HOUSING INVESTMENT STRATEGY



**If you'd like to learn more, please contact your Nuveen Advisor Consultant at 800.558.4487**

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## 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 a 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, 2017.

This report is for informational and educational purposes only. Certain information contained herein is based upon the opinions of Nuveen, and the data available at the time of publication of this report, and there is no assurance that any predicted results will actually occur. Information and opinions discussed in this commentary may be superseded and we do not undertake to update such information.

### 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](http://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](mailto: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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