

# Record RIA M&A Activity in First Half of 2017

RIA merger and acquisition activity started strong in the first half of 2017 and is on track to potentially achieve a third successive record year, according to research conducted by DeVoe & Company. The first six months yielded 82 transactions, a 15% increase over the 71 deals in the same period a year ago.

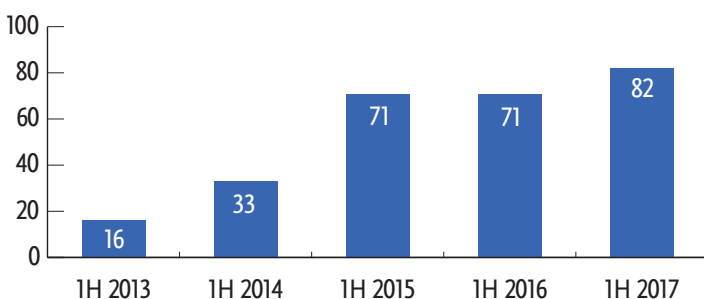
Mega-deals were back in Q2, pushing the AUM transacted to the rarified air of over \$100B in a three-month period. These

three \$5B+ AUM transactions contributed to a total of 38 deals, virtually matching the number executed during the same period in 2016. This was the fifth consecutive quarter of 35 or more transactions, and the 11th quarter of 30+ transactions. The sum of these data points indicates that the industry has moved to a new heightened level of sustained M&A activity.

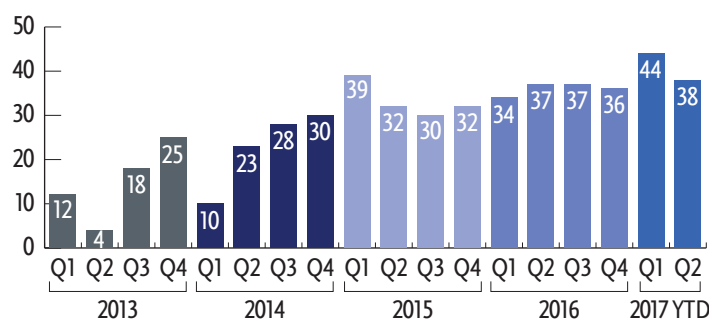
*“2017 is tracking toward yet another record year of M&A for RIAs,” said David DeVoe, Managing Director at DeVoe & Company. “And yet despite the heavy activity, DeVoe & Company still believes that the supply of sellers will continue to increase over the next several years.”*

## RIA Mergers & Acquisitions Continue to Increase

RIA M&A First Six Months of 2017

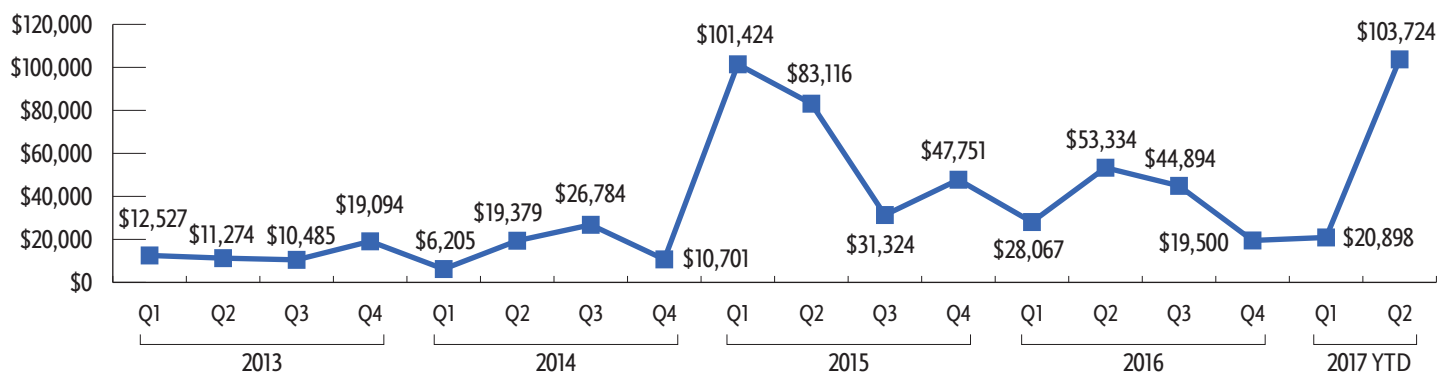


RIA M&A Activity by Quarter



## Quarterly M&A Activity: AUM Transacted

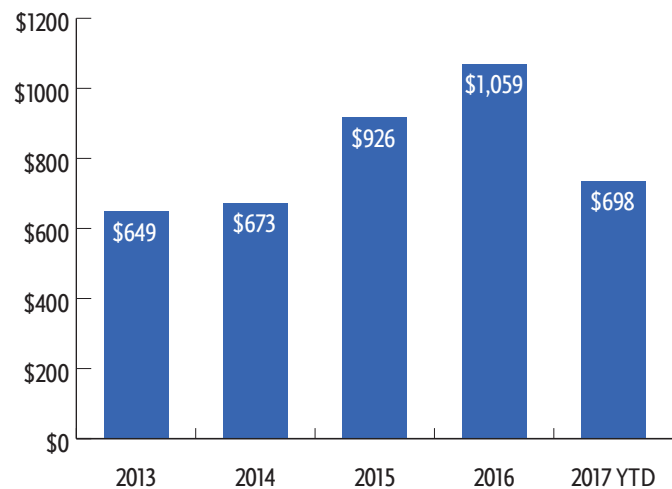
(in millions)



The average size of acquired Established RIAs (excluding firms with over \$5B) dropped over 30% during the first half of 2017. After a steady increase over the last four years to exceed \$1B, the average AUM decreased nearly \$400MM to \$698MM. The steep drop was driven by a spike in \$100-\$250MM transactions during the first six months – and a similar decline in \$1B to \$5B transactions.

### Average AUM of Established RIA Sellers

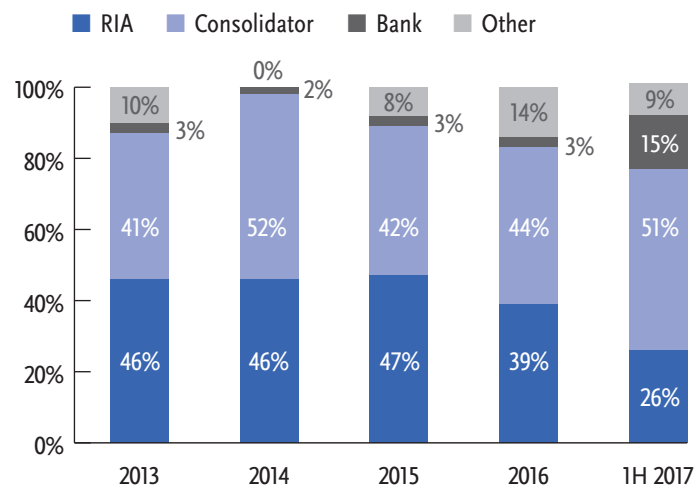
(with over \$100MM and less than \$5B)



### Banks Maintain Interest, While RIAs Take a Breather

The industry experienced an interesting shift in the composition of Buyer Categories as *Banks* sustained their newfound interest in acquisitions, and RIAs moved toward the sidelines. First Republic continued to acquire aggressively – adding two new teams – while three other banks also acquired RIAs. *Consolidators* significantly increased their share of acquisitions, as well. When the dust settled at the end of the first six months, *Banks* and *Consolidators* each increased their share of acquisitions by 10 points or more.

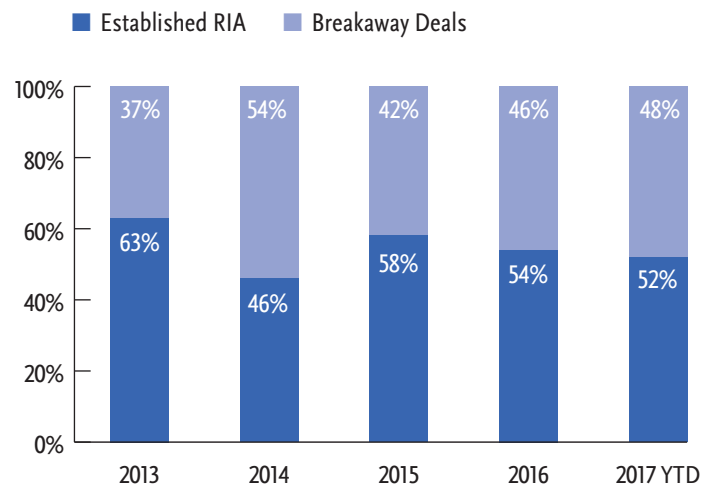
### Acquisitions of Established RIAs by Buyer Category



RIAs as a Buyer Category dropped from 29% of the acquisitions to an alarming low of 22% during the period – a surprising development given the number of RIAs who have capital and are focused on acquiring. Veteran acquirer RMB executed two deals, while M&A newcomers DiMeo Schneider, Massey Quick, and Coldstream each made their first forays into inorganic growth.

On the seller side, the number of *Established RIAs* selling and *Breakaway Advisors* joining RIAs continued to be fairly evenly split across the total transactions in 2017.

### Established RIAs versus Breakaway Advisors as Percentage of RIA M&A



## Consolidators are Consolidating – and Executing Mega-Deals

Over the last several years the industry has seen the ranks of *Consolidators* thin substantially, as many have sold, changed their business models, or gone bankrupt. iProOne and Mesa are now defunct, Boston Private and NFP have evolved their models, and players like Washington Wealth Management and WealthTrust have sold. “Ten years ago, there were over 30 consolidators in the marketplace,” said DeVoe & Company Managing Director, Vic Esclamado. “Today, the number has shrunk to less than a dozen core players, and we expect we will see additional changes in the future.”

In May, HighTower made the bold move of acquiring \$6.4B WealthTrust. The transaction was a loud declaration that HighTower is squarely in the RIA game, and their four initial RIA transactions were not a short-term strategy.

Initially run by deal-maker Rusty Benton (now at consolidator CapTrust), WealthTrust was one of the most active RIA acquirers in the early 2000’s. Their cash-hungry acquisition strategy led them to add both private equity and debt to the balance sheet, with the latter ultimately undermining their momentum. Although debt is perceived as ‘cheap capital’, credit comes with covenants – and when the covenants are broken, changes in ownership can be triggered. In WealthTrust’s case, when profitability dipped, debt-holder Falcon converted to majority shareholder – and pulled back the reins on acquisitions. Eventually private equity firm Lee Equity Partners, following up on their stake in Edelman, acquired WealthTrust. And after several quiet years, WealthTrust now has a new owner.

While HighTower was executing its mega-deal and its largest investment to date, Focus Financial Partners was also executing its own mega-deal and adding its largest investor to date. Blue chip private equity firm KKR – no stranger to using leveraged debt in its holdings – joined Stone Point Capital to buy a majority stake of the industry’s largest consolidator. With an estimated market cap of \$2 billion, Focus didn’t hesitate to deploy some of the new capital: Within a few weeks, Focus announced yet another mega-deal: the \$16B acquisition of SCS Capital.

Given the dynamics of the marketplace, one might expect that we haven’t seen the last of *Consolidators* selling, nor have we seen the last of these mega-deals.

## Conclusion

With no recent developments that would likely dampen activity, RIA M&A seems positioned for continued strength or potential acceleration. Anecdotal data also points toward near-term increases: Consolidators and serial acquirers are upbeat as they discuss their pipelines, DeVoe & Company is currently representing more sellers than ever, and the industry’s low number of succession plans have not increased in any significant way.

More broadly, one wonders if the swollen balance sheets of private equity, banks and consolidators, and their interest in the independent space, could unleash a string of mega-deals and large acquisitions. As long as the stock market holds steady and the economy continues its momentum, DeVoe & Company expects that M&A will continue its upward trajectory.

## From Nuveen

At the midpoint in 2017, we look to two investment experts – Bob Doll and Brian Nick – for a critical review of the past six months and some important indicators for the remainder of the year:

## The Outlook Hinges on Earnings

**Bob Doll, CFA** *Senior Portfolio Manager and Chief Equity Strategist, Nuveen Asset Management*

- Stocks are likely to continue outperforming bonds and cash as economic growth accelerates, corporate earnings improve and interest rates rise.
- Volatility is likely to rise and gains may be more modest, making security selection critical.
- Focusing on credit sectors (including high yield) over government-related sectors makes sense, and we also see value in municipal bonds.
- Non-U.S. developed markets are starting to look more attractive and the long-term trend of U.S. outperformance appears to be drawing to a close.

## Time to Earn It

**Brian Nick** *Chief Investment Strategist, TIAA Investments*

- Our forecast for U.S. economic growth in 2017 is lower now due to Washington's lack of progress on key initiatives like tax reform.
- While U.S. equities may struggle to move much higher, non-U.S. developed and emerging markets are better-positioned to outperform on stronger earnings.
- With low yields on government bonds, emerging-market corporate and local currency bonds may offer better income opportunities.
- Global economic and market conditions are improving thanks, in part, to the weaker U.S. dollar.

**If you'd like to discuss Bob's and Brian's commentary – as well as any implications for asset allocation changes – please contact your Nuveen Advisor Consultant at 800.558.4487.**

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### Nuveen RIA and Family Office Advisor Consultants

■ WEST	<b>Chad Givens</b> MD, Advisor Consultant	415.595.5720	chad.givens@nuveen.com
	<b>Vincent Chiu</b> AVP, Advisor Consultant	415.650.6780	vincent.chiu@nuveen.com
	<b>Ed Rhee</b> AVP, Internal Advisor Consultant	312.917.8209	edward.rhee@nuveen.com
■ CENTRAL/WEST	<b>Trey Anton</b> MD, Advisor Consultant	949.331.2881	trey.anton@nuveen.com
	<b>Matt White</b> AVP, Internal Advisor Consultant	312.917.8163	matthew.white@nuveen.com
■ MIDWEST	<b>Dominick Trapasso, CPA</b> MD, Advisor Consultant	312.917.7755	dominick.trapasso@nuveen.com
	<b>Doug Gowski</b> AVP, Advisor Consultant	646.483.3032	douglas.gowski@nuveen.com
	<b>Julie McGuire</b> AVP, Internal Advisor Consultant	312.917.8095	julie.mcguire@nuveen.com
■ MID-ATLANTIC & SOUTH	<b>Fred McAuley, CFA, CFP®</b> MD, Advisor Consultant	404.343.1523	fred.mcauley@nuveen.com
	<b>John Hennessey</b> AVP, Advisor Consultant	312.917.7908	john.hennessey@nuveen.com
	<b>Jason Culver, CFA, CAIA</b> AVP, Internal Advisor Consultant	312.917.8362	jason.culver@nuveen.com
■ NORTHEAST	<b>John Hauck, CIMA®</b> MD, Advisor Consultant	617.512.8990	john.hauck@nuveen.com
	<b>Joe McCaffrey</b> AVP, Advisor Consultant	856.465.3115	joe.mccaffrey@nuveen.com
	<b>Mark Johnston</b> AVP, Internal Advisor Consultant	312.917.6966	mark.johnston@nuveen.com

## 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 June 30, 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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