# Return to 'Normalcy'? An Unexciting Quarter is Actually Exciting

*After a year and a half of drama in the RIA M&A market, it is oddly comforting to return to a period of 'normalcy.' Across most metrics, the industry moved back to its historic norms.*

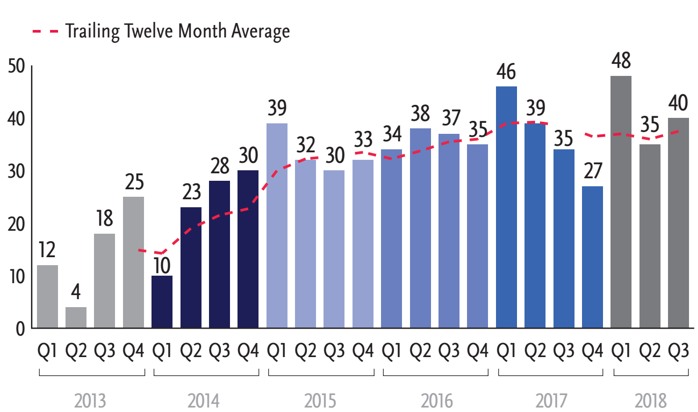
Quarterly data points were in line with expectations and the year-to-date data has settled close to that of 2017. This is all in stark contrast to the rollercoaster of activity that the industry experienced since the beginning of 2017: Record-breaking highs, followed by steep declines, followed by spikes, and then drops. The excitement had become a little exhausting.

The third quarter yielded 40 total transactions, which is just above the trailing twelve-month average of 36, according to research performed by DeVoe & Company. The key metric of *Established RIA* transactions was 22, spot on with its twelve-month average. And for the first three quarters of the year, 2018 has seen 123 transactions, just ahead of the 120 deals in 2017. Overall, one can expect that 2018 will be slightly above 2017 due to 2017's weak Q4, but a blockbuster year is unlikely.

## RIA M&A Activity Returns to Normal

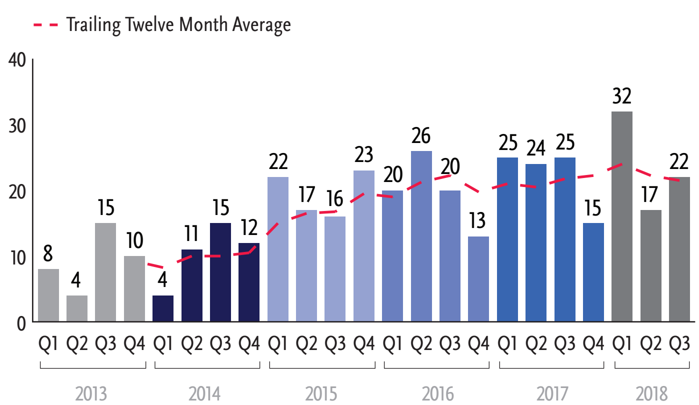
Number of transactions executed by quarter

### Quarterly M&A Activity — All Deals




## Established RIA Transactions Back to Average

### Quarterly M&A Activity — *Established RIAs*



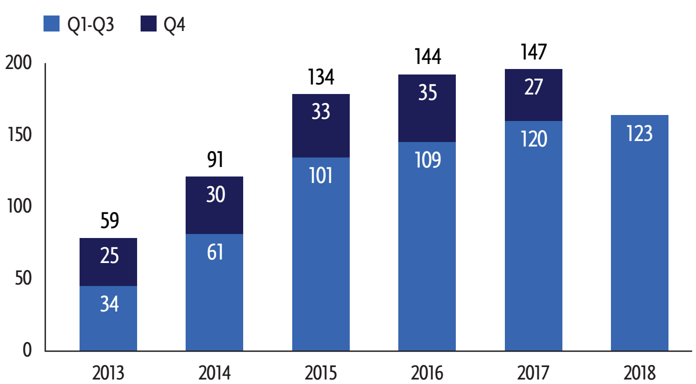

Despite this slowdown from a breakneck pace – *Established RIA* transaction volume increased 25% per year between 2013 and 2017 – DeVoe & Company has not changed its expectations on future M&A activity. "With no key structural changes to the underpinnings of M&A drivers, we still expect RIA M&A activity to increase *significantly* to *dramatically* over the next five to seven years," said David DeVoe, Managing Partner of DeVoe & Company. "Succession planning (or lack thereof) and the power of scale will continue to drive advisors to sell or merge."

The good news is that this flattening may have been the positive outcome of historic succession planning efforts. DeVoe & Company, the major custodians and others have worked diligently for years to raise the succession alarm and help advisors put these needed plans in place. Perhaps these flat numbers are the quantified outcome of a few more advisors avoiding the need for an external sale because they put those important internal plans in place.

Unfortunately, our calculations indicate that the lack of succession planning is so strong (studies consistently indicated 70% of RIAs do not have a written plan), that the supply of firms that will simply *have* to sell externally will push M&A numbers up over the next five to seven years. Also, the importance of scale will naturally drive more and more transactions over time. The competitive landscape is evolving, and the mega-firms will be able to compete more effectively each year. Consequently, more and more firms will hook their cabooses to these fast-moving trains.

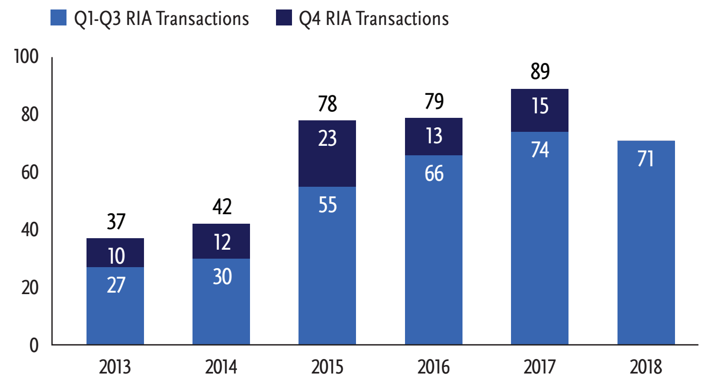
## 2018 M&A Activity Should Exceed 2017

### Annual M&A Activity: All Deals




## *Established RIAs* Still Experiencing a Slight Softening

### Annual M&A Activity: *Established RIAs*

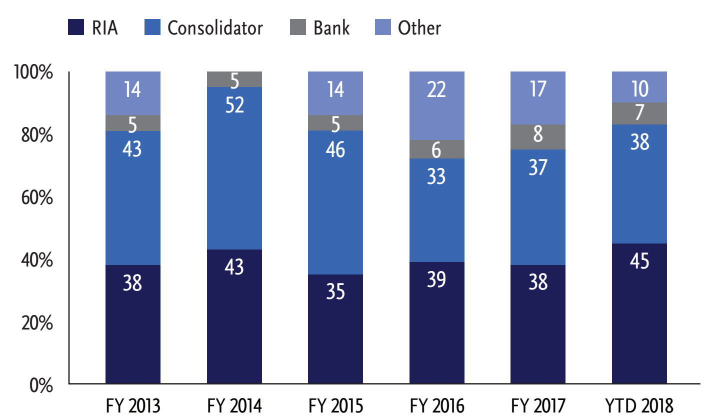



## The Power of Scale Can Take Many Forms

The scale of *Consolidators* continued to attract *Established RIAs*, as they maintained their 38% share of acquisitions. Most key players put one or several points on the board: Focus racked up a number of deals, Wealth Enhancement Group and CAPTRUST both scored doubles, while United Capital and Stratos also added firms. However, it was the *RIA Buyer Category* that made the biggest strides in 2018, shifting their share of RIA deals from 38% in 2017 to 45%. RMB's and EP Wealth's two deals each, as well as Private Ocean's acquisition of $620MM Mosaic (which DeVoe & Company was honored to support) are examples of the *RIA Buyer Category* flexing its muscle. The Banks continued to stay on the periphery, acquiring 7% of the *Established RIAs*.

## Consolidators and RIAs Continue to Acquire

### Percentage of Total Acquisitions of *Established RIAs* by Buyer Category

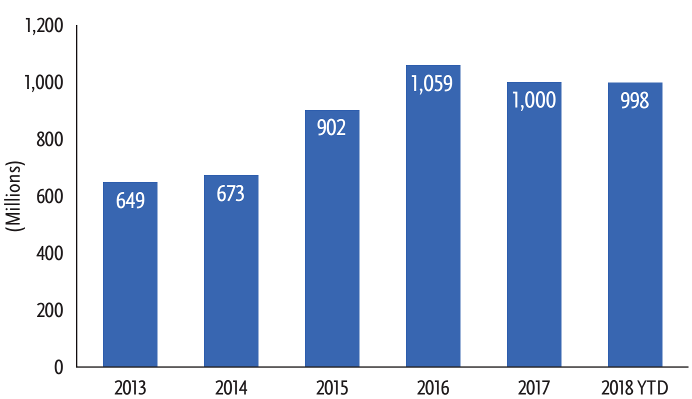


The year-to-date average deal size for *Established RIAs* (excluding deals above $5B for statistical consistency) remained near the $1B mark, as it has for the last several years. Larger transactions like Focus' acquisition of $3.5B Edge Capital and Fifth Third's deal with $2.2B Franklin Street were offset by a greater volume of deals within the $100MM to $1B AUM range. As scale becomes more important to success and the sub-acquisition machines gain more steam, there could be an increase of sub-$1B firms selling. "Should these trends continue their momentum, the average deal size would consequently compress," said Francine Miltenberger, Managing Director of DeVoe & Company. *Established RIA* sellers under $1B comprised 69% of the transactions first three quarters of 2018, compared to 64% for the full year of 2017.

The quarter also had some blockbuster transactions, well over the $5B AUM mark. For example, the mega-deal of Loring Ward ($17B AUM) joining Focus Financial Partners' affiliate BAM Advisor Services (nearly $20B AUM and AUA) creates a powerhouse TAMP. This combination creates not only one of the largest TAMPs in the country, but also yields a potential acquisition pipeline for Focus, as advisors on the Loring Ward platform now have a stronger set of succession options.

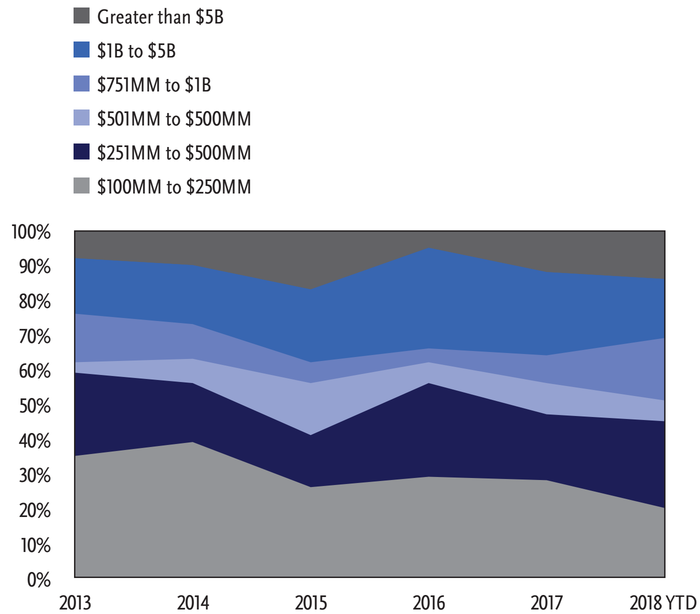
### Average AUM of *Established RIA* Sellers

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




### Under $1B Deals Starting to Increase Slightly

Percentage of *Established RIA* Deals by Seller AUM




### The Focus IPO – and Other Notable Transactions

It's a big deal. On July 30, 2018, the investing public gained the ability to make a 'pure play' investment in the RIA space. Focus Financial Partners (FOCS) completed their IPO, selling 26% of their common stock at a $2.1B market cap.

In addition to being another milestone on the path for Focus affiliates to liquefy the equity component of their consideration, the successful IPO is a *proof of concept* for other firms that are private equity-backed and/or have aspirations to go public (firms like United Capital, HighTower and others are often mentioned in this context).

And, more importantly to RIA principals, the information about the Focus stock creates yet another tile in the mosaic of information that drives RIA valuation. The P/E ratio of a publicly traded RIA puts a solid stake in the ground for what an RIA is worth – or in this case what a basket of RIAs is worth. Given the diversity of the basket, the liquidity of the equity and several other factors, this data point will act as a high ceiling from which valuations of smaller firms can then be 'sanity checked' on multiples. And the fact that FOCS is trading at 17x as of this writing versus the 14x that many of us had calculated from previous 'non-pure play' stocks, is another nod toward the increasing valuations in the industry.

## Market Valuations Approaching All-Time Highs

Valuations have been increasing steadily over the last several years. They are now approaching, but are still short of, the industry's all-time highs. Whether the industry exceeds the high-water mark set in 2008 remains to be seen, but there is evidence that this is unlikely in today's marketplace.

DeVoe & Company's perspectives on RIA valuations started nearly 16 years ago. While launching and overseeing the RIA M&A / Succession platform at a major custodian, our company's founder began seeing a trend of increasing valuations. Both the data and input from leading experts indicated that valuations were increasing in the mid-2000s and more steeply accelerating in 2007 and early 2008. And for good reason: The stock market and economy were strong, the highly profitable RIA segment was growing aggressively, and there were a growing number of acquirers in the marketplace. Naturally, valuations were increasing.

However, it was the presence of eager bank buyers and certain consolidators that pushed valuations to extreme levels. Banks were generally willing to pay high premiums for RIA acquisitions because of their often overly optimistic expectation of cross-selling other services. And the sudden proliferation of Consolidators entering the space included many that did not have sophisticated valuation experts in house. Valuation is complex: If you aren't properly modeling the risks and economics, you can soon find yourself overpaying. And this is what happened with many Consolidators.

This confluence of factors conspired to drive valuations to extreme levels in late 2007 and early 2008. And then the stock market crashed — and RIA valuations crashed with it.

There are myriad elements that drive the valuation of an RIA. But every item falls into one of three categories: Growth, Profit or Risk. With the turmoil of the 2008 crash, all three of these factors moved dramatically in the wrong direction. RIA valuations dropped from their all-time highs to their all-time lows in a matter of weeks, and valuations remained low for several years.

Since then, the underpinnings for increasing valuations have been in place: The economy and stock markets recovered and have been strong, and RIAs' top-lines and bottom-lines have been growing. From the nadir of valuations in late 2008 through 2010, valuations steadily increased to today's near market highs.

## Conclusion

Will valuations exceed the records set back in 2008? Most likely not. Banks, which can often rationalize a premium price, are generally on the sidelines, and most buyers in the marketplace today are much more sophisticated than ten years ago. This new level of discipline will likely put up guardrails and limit the very top end of valuations.

Interestingly, DeVoe & Company has seen an increase of interest from firms whose principals prefer to sell in two to four years, but are concerned about the implications of another steep market decline. In their words, they are "contemplating whether to sell before another '2008' occurs or be forced to wait for several years for valuations to recover after it occurs." The psychological and economic scar tissue from the 2008 stock market decline still affects the industry today.

Ultimately, the decision to sell (or buy) should not be driven solely by the economics. Business, professional, and personal goals are more important. The benefits of clients and staff often eclipse the attractiveness of a higher valuation. And fortunately, over the long-term, advisors have significant influence over the company valuation. Your ability to increase growth and cashflow, and mitigate risks, will enable you to maximize the value for your firm.

# 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 160 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:

| |
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| Business Consulting |
| Investment Banking |
| Valuations |

### Who We Are

Founded and led by RIA thought-leader David DeVoe, our team has grown to eight professionals with 160 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.

### How We Do It

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

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

## From Nuveen

## 4Q 2018 Outlook: (Still) no signs of slowing

In Nuveen's fourth-quarter investment outlook (Still) no signs of slowing, we point out that the risks that seemed most pressing three months ago (the U.S. moving into a late-cycle expansion and worries about rising interest rates and inflation) have since given way to concerns about U.S. and global growth divergence and even greater uncertainty about trade.

We continue to have a **neutral-to-positive view toward stocks**, and see opportunities in the **U.S.** and in **emerging markets**. We generally favor **fixed income credit sectors**, but also note that as interest rates continue to rise, **some government bond markets are starting to look more attractive** from an income perspective. Supply/demand dynamics make **municipal bonds attractive**, especially in the high yield and longer-duration spaces. In other asset classes, we're focusing on **quality and value within real estate**, are seeing strong demand for **corporate deal activity that is driving private investments** and see multiple opportunities in **public and private real assets.**

**In addition to our regular quarterly and annual outlooks, you gain current market insights by receiving investment intelligence from our experts weekly.**
**Learn more.**

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