RIA M&A Breaks Another Record and Accelerates in 2019

M&A continues to trend higher as RIAs seek scale and solve for succession

RIA M&A broke yet another record in 2019—and did so with conviction. With a sixth successive record year of M&A activity, hitting another new record has essentially become the expectation. But with 132 transactions, a whopping 31% increase over the 101 deals in 2018, this year stands out. This activity level is not *more of the same*. 2019 deal velocity accelerated to nearly three times the historic annual increase of 10-15%.

Could this be the beginning of a broader wave that so many of us have been anticipating?

If so, then it is a good thing. A 30% year-over-year increase is a strong, but manageable increase. "This unprecedented level of activity is good for the industry," said David DeVoe, Managing Director at DeVoe & Company. "A steady ramp toward healthy levels of activity is better than a deluge of sellers flooding the market in a given year."

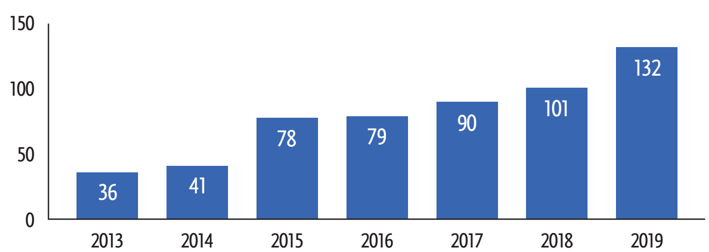
As reported in previous RIA Deal Books™, DeVoe & Company has calculated that the industry should be experiencing two to three times more transactions than the actual number executed each year. An industry with over 5,000 firms (i.e. SEC registered RIAs ~$100MM+ in AUM) theoretically should have 250 to 300 annual transactions—*just for succession planning alone*. And that doesn't include the gravitational force of *merging for scale,* which has driven half of the transactions during the last two years.

If the industry underwent a doubling or tripling of transactions in one given year—which is theoretically possible—it is likely that the volume would overwhelm the current pool of capable buyers. They would be challenged to execute so many deals, much less integrate so many firms. Valuations would drop. Many sellers would find themselves without a ready buyer. The transitions would be strained, yielding a spike in client defections. It would get ugly pretty quickly. So, a strong but steady increase in activity is better than this alternative.

The five straight quarters of 30+ transactions and steadily increasing volume also suggest the emergence of a *new normal*. There will be ebbs and flows of activity, but the evidence suggests that one might expect continued activity in the zone of ~30+ transactions per quarter, and perhaps a breakthrough into 40+ at some point in the new year.

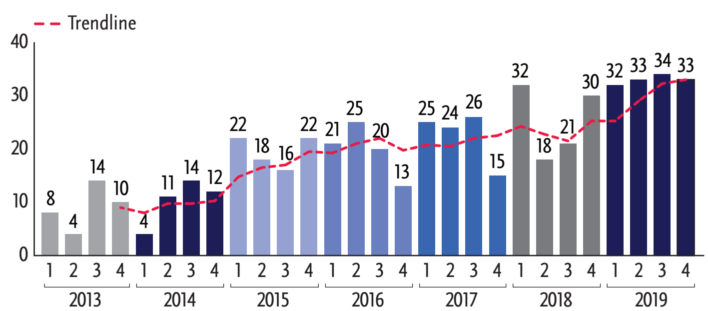
M&A Activity Sets Record for 6th Year in Row

Annual M&A activity



Strong Last Quarter of 2019 to Finish Record Year

Number of transactions executed per quarter



So, good news: M&A is hot. Like a pot of water on high heat, M&A is progressively getting hotter as it moves toward an anticipated level of normalcy. Perhaps today's M&A situation is reminiscent of that old scientific experiment with a frog sitting in a pot of water on its way to a boil. If you plan to sell, take note. Don't be the last one out of the pot.

RIAs and *Consolidators* Dominate, Continuing to Crowd Out Other Buyers

RIAs and *Consolidators* continued to be active buyers, representing 83% of all transactions for the year. Historically, these two categories have progressively increased their dominant positions as buyers of choice, adding 10 percentage points over the last four years. *RIA* buyers were responsible for 60 transactions, 45% of the total, in the calendar year, up from 41 transactions in 2018. *Consolidators* were not far behind with 49 transactions and 37% of the total, a slight decline in share from 42% of transactions for the prior year.

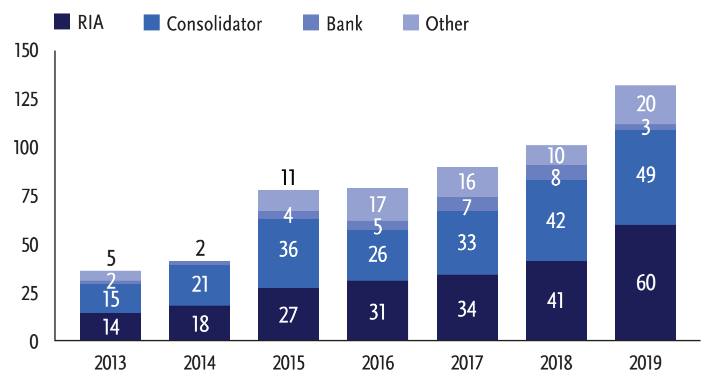
Over the last several years, *Banks* had started to make some inorganic inroads into the RIA space. *Banks* represented 8% of all transactions in both 2017 and 2018. They even had a surge of activity to 12% of all transactions in Q4 2018. During this time period, a few impressive banks that truly share cultural characteristics with RIAs were toe-dipping into the market. But bank RIA M&A activity came to a near halt this year, in part due to the psychological impact of a high-profile M&A bank deal disaster (see sidebar on page 3). Capturing an anemic 2% of the transactions this year, bank transactions dropped 75% from the previous year's market share.

The momentum of RIA/bank mergers has been such a continuous anomaly that predictions about the future are likely without value.

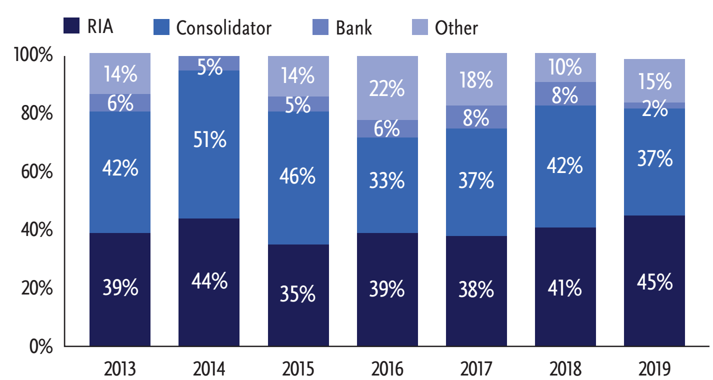
The *Other* buyer category – which comprises buyers that are not *RIAs*, *Consolidators* or *Banks*—rose to 15% of the volume in 2019, up from 10% for the year prior. A surge in late-year activity drove one of the largest half-year volumes that we've seen from this burgeoning group, spiking to 21% of transactions in Q3 and 24% in Q4. Private equity firms, broker/dealers and large financial institutions were the dominant players in this group.

RIAs and *Consolidators* Represent Majority of Buyers

Number of acquisitions by buyer category



Percentage of acquisitions by buyer category



Mega Deals and the Domino Effect

The largest transactions in 2019 sent waves across the industry, with the long-term ripple effects still to be determined. The Charles Schwab/TD Ameritrade proposed merger is causing some advisors to consider how their operations will be affected (we believe this potential pain-point is being overblown) and Goldman Sachs' acquisition of United Capital should be causing all advisors to assess the evolving competitive landscape (we believe this development and its implications are being under-blown).

However, despite these name-brand mega-deals, the total AUM transacted shrank. AUM involved in the top 10 transactions was $233B, a steep 41% free-fall from the $391B in 2018. Of course, these smaller mega-deals also dragged down the total AUM volume. The total of $347B in AUM that changed hands in 2019 was down significantly from a peak of $494B in 2018 (the monster $170B Financial Engines transaction clearly impacted the 2018 numbers).

Private equity was no wallflower and danced with well-known consolidators, such as Mercer Advisors and Wealth Enhancement Group, as well as less-known players like Pathstone. Mercer and Wealth Enhancement Group wasted no time putting their new capital infusions to work—and had the benefit of drafting off momentum from earlier in the year. As shown in the table on the next page, these *Consolidators* joined the *five-plus transaction* club with HighTower, CAPTRUST and Wealth Partners Capital Group (through sub-acquisitions). A group of four other firms were just a transaction shy of striking five transactions. But it was Focus who stood tall as the most active acquirer. Between both direct deals and sub-acquisitions, Focus signed on nearly 20 firms in 2019.

"These experienced acquirers are benefitting from a virtuous cycle, related directly to their M&A success," said Vic Esclamado, Managing Director at DeVoe & Company. "Potential sellers are seeking the power of scale—which is directly related to size." Bigger firms offer greater breadth of services, business management resources, growth capabilities, technology expertise, and operational acumen—the list goes on. RIAs also are attracted to buyers that have M&A wear on their tires. Sellers commonly guide us to limit our buyer searches to buyers that have one, two, even five or more transactions under their belt, so that they have confidence that the client transitions and operational migrations will go well.

Luminous Capital/First Republic Transaction Still Reverberating

The banking community's recent retreat from RIA acquisitions is likely directly tied to 2019's colossal fragmentation of the 2012 Luminous Capital/First Republic Bank transaction. Spilling into the media in the second quarter, a staggering $17B of assets was torn away from First Republic, shortly after the provisions of the ill-fated transaction structure expired. The frightening magnitude of this outcome will likely have a chilling effect on banks' interest level in the space for years to come. Anecdotally, DeVoe & Company witnessed the unravelling of a $1B+ transaction that was being negotiated when the Luminous/First Republic split hit the headlines. A powerful strategic transaction capsized, as the bank/buyer's board of directors became spooked by the vivid image of every buyer's greatest fear.

The dissolution of this major deal is a cautionary tale to anyone contemplating M&A. Although M&A has the potential to be a game-changing event, successful RIA mergers can only be achieved with deep strategic underpinnings for the transaction and true alignment of business and personal/professional goals. Signing an agreement without these elements is the business equivalent to activating a ticking time bomb.

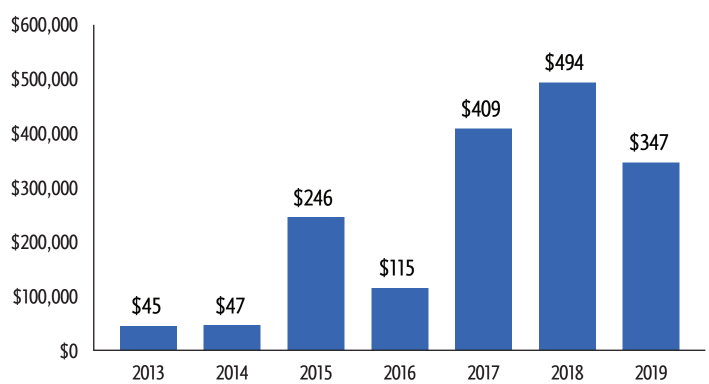
Large Players Top the List of Mega Deals

Top 10 transactions of 2019

	Seller	Reported Seller AUM (in MM)	Acquirer
1	USAA Investment Management	$90,000	Charles Schwab
2	United Capital Financial Advisers	$25,000	Goldman Sachs
3	TD Ameritrade	$21,228	Charles Schwab
4	Mercer Advisors	$16,500	Oak Hill Capital
5	Foresters Financial	$15,439	Cetera
6	Pathstone	$15,400	Lovell Minnick Partners
7	Western International Securities	$13,000	Atria Wealth
8	FiduciaryVest	$13,000	CAPTRUST
9	Wealth Enhancement Group	$11,800	TA Associates
10	Ziegler Capital Management	$10,500	1251 Capital Group

AUM Transaction Volume is Strong but Slowing

Total assets transacted by year (in $B)



Firm	Total Acquisitions
Focus Financial Partners	19
Mercer Advisors	9
CAPTRUST	7
Wealth Partners Capital Group	7
HighTower Advisors	6
Wealth Enhancement Group	5
Mariner Wealth Advisors	4
Emigrant Partners	4
BlueSpring Wealth Partners	4
EP Wealth Advisors	4

Another Record Year for Sub-Acquisitions

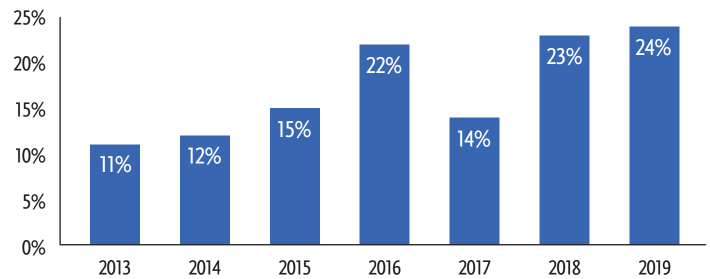
Sub-acquisitions—acquisitions made by firms that have themselves been acquired—have become a significant force in RIA M&A, ending the year with 31 transactions, a near 35% jump from 2018. Comprising nearly a quarter of the transactions, these deals are a key growth engine for *Consolidators* and provide a proven path for advisors running smaller firms to exit the business gracefully. The ability to leverage the parent firm's capital is another attraction for RIA sellers choosing *Consolidator* buyers.

The fourth quarter of 2019 was unexpectedly low, but this is not indicative of a slowing trend. Instead, the broader, upward trend will likely maintain momentum for years to come, as aggregators contribute capital, provide M&A know-how, and even source acquisition opportunities for firms in their network.

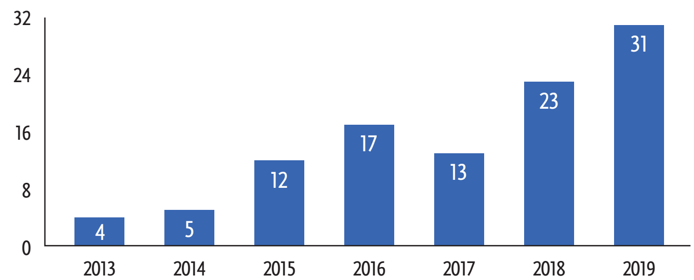
Focus has created a model, which will likely be replicated in greater numbers by other *Consolidators*. The capital and M&A acumen that a parent company can offer current and prospective affiliates are mutually beneficial. It is also good for the industry, as it will provide a standardized succession option for the thousands of sole practitioners who will have little choice but to sell externally.

Sub-Acquisitions Rise in 2019

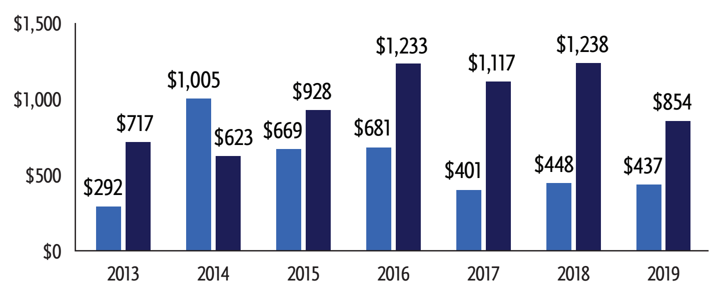
Sub-acquisitions as percentage of transactions



Number of sub-acquisitions by year



Average AUM of sub-acquisitions vs. all other acquisitions (less than $5B)



Declining Average AUM of Sellers: The House that Sub-Acquisitions Built

The average size of sellers declined for the third year in a row. The result has created a chart resembling a house, with an upward line from around $650MM to $1B, before steadily declining to today's approximately $750MM average. We expect that next year the chart may extend the roofline back to the 2013 starting point of $650MM.

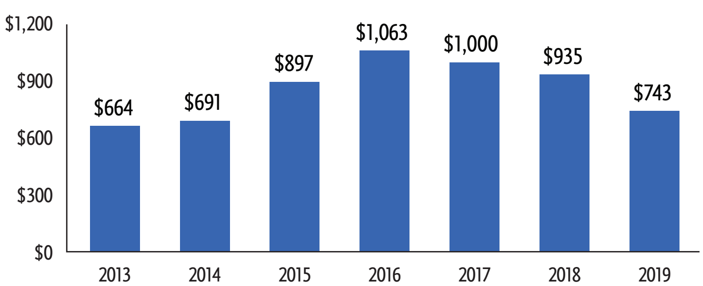
The sub-acquisition trend has helped architect this story. The average sub-acquisition typically ranges between $400MM and $450MM, about 50% of the non-sub-acquisition size in 2019. So, as sub-acquisitions have gained momentum, they have naturally dragged down the industry-wide average seller AUM.

At year-end 2019, the average seller size (for firms over $100MM and less than $5B) was $743MM. This is a 30% decline from the peak of more than $1B in 2016, and a 21% decline from the 2018 average seller size of $935MM. Reminder that we report on transactions of RIAs with $100 million or more and less than $5 billion in AUM for statistical accuracy and consistency.

Consolidators targeting advisors with less than $500MM have also contributed to this decline in size. Of all 132 transactions in 2019, a small majority of sellers—70—were in the sub-$500MM category. Of those, 36 transactions were in the $250MM-$500MM range. In 2019, there were more transactions in the $250MM-$500MM range than any other segment and more than the same segment last year, 27% in 2019 vs. 22% in 2018.

Seller Size Downward Slope

Average AUM of sellers (with over $100MM and less than $5B)



Seller size in the $1B-$5B segment also dampened from the year prior. The average transaction size within this group declined by 29% from $2.9B in 2018 to just over $2B in 2019. While transactions in this segment trended smaller, the pace increased slightly from 2018. There were 25 transactions in the $1B to $5B range in 2019 vs 17 in 2018. The largest transactions, those above $5B, stayed nearly the same year over year, with 14 transactions in 2019 and 13 the year prior.

The convergence of these trends–a greater number of smaller sellers, and a smaller size of bigger sellers–conspired to push the average seller size down.

The Canadians are Coming! The Canadians are Coming!

Back in the 1770s, the British were coming to suppress the fledgling United States' aspirations for independence. In 2019, the Canadians were coming with aspirations of capitalizing on the power of the independent advisor. While there has historically been interest from the North in the US market, activity spiked in the last six months. Several Canadian companies have indicated their interest in the US wealth management market in both word and deed.

Canadian Imperial Bank of Commerce (CIBC) made a strategic move in the third quarter with the addition of St. Louis-based Lowenhaupt Global Advisors ($1.8B). As part of a broader strategic focus on the US, this acquisition was not CIBC's first foray into the US RIA space. CIBC acquired Atlantic Trust in 2013 with $8B+ in AUM, The PrivateBank in 2016 and Geneva Advisors ($8.6B) in 2017.

Adding to the activity, CI Financial of Toronto announced two acquisitions in December: One Capital ($1.6B) and $370MM Surevest Wealth Management. CI Financial is a diversified investment and wealth management company that has been growing through acquisitions over the past decade. Bank of Nova Scotia is another looming acquirer. In November 2019, they announced that they plan to grow their US wealth management business through acquisitions.

The interest in the US independent advisory space from foreign companies further underscores the power of the RIA model. We expect to see the Canadian firms continue to expand into the US market.

Conclusion and Looking Ahead

Record High Valuations–with a Catch

RIA M&A is likely to continue to increase through much of the next decade. Ideally, it will follow a steady arc of accelerating activity, as this would minimize the potential disruption caused by steep peaks and valleys. Our crystal ball gets cloudy as we look several years out, but the near-term conditions indicate continued strong sales and mergers due to these factors:

Valuations: While overall valuations are at record highs, the range of prices paid has expanded. Many buyers have sophisticated models that are designed to increase margins and growth rates–and it is consequently reasonable for them to pay at the extreme end of valuations. However, sellers shouldn't expect the 'buyer next door' to write similar sized checks. Not all buyers can 'turbo charge' the growth or margins of an acquired business, and in those cases, extremely high valuations are unjustifiable and less likely to occur. Therefore, sellers can be confident that this is a good time to sell (at least from an economic perspective), but they should not assume that buyers are paying record valuations across the board.

Capital: RIAs have more capital options today than at any time in the past 30 years. The proliferation of capital and lending options may add some fuel to the M&A fire, particularly for the mid to large serial acquirer. These firms need to think through their capital stack and how to have dry powder over the longer term. However, capital has not been a key constraint to the overall M&A activity. Much more importantly, the increased capital options will surely help with internal succession planning–a pain point that threatens to become a full-blown crisis for the industry. Ultimately, the increase of capital will expand the range of succession options for more firms, which may release some pressure from the potential deluge of firms forced to sell.

Investment Bankers: Buying a firm is a critical decision. Selling your firm is potentially the most important business decision that you will make in your life. So, it's not surprising that advisors are using experts in greater numbers. The number of transactions that involved investment bankers has tripled since 2015, and currently stands at just over a quarter of all transactions. (DeVoe & Company, incidentally, was the most prolific investment banker in 2019 and was involved in nearly a third of all investment-banker led SEC-registered RIA transactions.) The increase in investment banking activity has likely contributed to the increase in M&A activity, but more importantly has affected deal structure.

Deal Structures: Deal structures have been improving over the last several years–an important development that has quietly existed in the shadow of the spotlight on high valuations. Although both parties typically benefit from the refined connection between the goals of the parties and the contingencies of the deal, the overall terms have tilted in the seller's favor during the last several years. Ironically, some of the consultants who are highlighting the power of deal structure are reporting what they see from the stands rather than the actual work being done on the playing field. Choose your partner wisely.

The Growing Power of Mega-Firms: The next decade will see the emergence and implications of RIA mega-firms. These firms will be characterized by their size, growth trajectory, use of technology, and business models that enable them to perform at higher levels than the rest of the industry. However, we don't expect the death of the mid- or small-sized RIA firm RIA firm. The low barriers to entry and excellent service and advice that RIAs provide to the investing public will enable smaller firms to continue to exist and thrive.

The 2020s will be a dynamic decade for the industry. We have just scratched the surface of some of the critical trends that will shape our industry over the next 10 years. An acute understanding of the emerging trends and implications of industry shifts will be critical to the success of leading advisors. But, ultimately a clear awareness of your goals and objectives is more important. Having clarity and conviction about what you seek for your business, your clients, your staff–and yourself–is paramount to any business decision, especially one that has such profound implications as mergers and acquisitions.

Our Methodology and the Focus of the RIA Deal Book™

The DeVoe RIA M&A Deal Book seeks to track and analyze the trends of RIA mergers and acquisitions. Leveraging our founder's experience tracking RIA M&A for over 16 years — longer than anyone in the industry—DeVoe & Company reports on activities and analyzes the trends to bring you deeper insight.

The RIA Deal Book's purview is to focus primarily on the acquisitions and mergers of true RIAs, and only on transactions of $100 million or more in AUM. Our reporting draws the line at $100MM to optimize the statistical accuracy of our reporting. We seek to screen out the SEC-registered hedge funds, IBDs, mutual fund companies and other companies that aren't operating as traditional RIA firms. We also exclude the "advisors joining RIAs" category. We will touch on this category, when appropriate, but these transactions are not our focus.

There's a lot to cover with transaction events in the pool of 5,000+ RIAs managing $100MM+ or more. We hope you find valuable insights that drive your strategy.

About DeVoe & 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 consulting, M&A, and valuation services to help you accelerate the achievement of your business goals. Leveraging our team's 200 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:

- **Business Consulting**
- **Investment Banking**
- **Valuations**

Who We Are

Founded and led by RIA thought-leader David DeVoe, our team has grown to ten professionals with 200 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 500 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:

- *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.

Follow us on Twitter
@DavidDeVoe1 and @Devoeco

DeVoe & Company

From Nuveen

A geographical focus on farmland and real estate

Taking a global approach to diversify real asset exposures by geography and asset type infuses a portfolio with natural hedges that are increasingly necessary in the modern world. We also believe that deep research and localized knowledge of region-specific structural trends are essential in identifying value—as illustrated in the summaries below of our experience in South American farmland and European real estate,.

Brazil may be one of the few beneficiaries of the escalating global trade war. Soybean production in Brazil has grown from 20 million tons to 120 million tons in the last 30 years. This has helped Brazil sustain employment levels and the country's trade balance and our local farmland investment team believes Brazilian farmland is well positioned for future growth. As a result of higher tariffs and growing uncertainty, soybean prices fell in the U.S. in the second half of 2018, **but actually climbed in South America.**

Berlin benefits from a range of demographic and structural advantages. The city is experiencing strong population growth. Berlin offers a lower cost-of- living alternative to cities such as London and Paris, and is attracting workers from around the globe. This young and educated population creates a vibrant cultural scene filling theaters, bars, restaurants, galleries and nightclubs–and their housing and workspace accommodations must be met. Our five-year office rental growth forecast sees annualized growth rates of 3% in Berlin, presenting one of the most compelling opportunities in Europe.

Learn more about our focus on global farmland and real estate in Beyond diversification: a geographical focus on farmland and real estate. Contact your Nuveen Advisor Consultant if you'd like additional information, including investment data and information.

Nuveen RIA and Family Office Advisor Consultants

WEST		
Chad Givens MD, Advisor Consultant	415.595.5720	chad.givens@nuveen.com
Vincent Chiu AVP, Advisor Consultant	415.650.6780	vincent.chiu@nuveen.com
Ed Rhee AVP, Internal Advisor Consultant	312.917.8209	edward.rhee@nuveen.com
CENTRAL/MIDWEST		
Trey Anton MD, Advisor Consultant	949.331.2881	trey.anton@nuveen.com
Doug Gowski AVP, Advisor Consultant	646.483.3032	douglas.gowski@nuveen.com
Matt White, CAIA VP, Internal Advisor Consultant	312.917.8163	matthew.white@nuveen.com
MID-ATLANTIC & SOUTH		
Fred McAuley, CFA, CFP® MD, Advisor Consultant	404.343.1523	fred.mcauley@nuveen.com
Chase Komatz AVP, Internal Advisor Consultant	312.917.8301	chase.komatz@nuveen.com
NORTHEAST		
John Hauck, CIMA® MD, Advisor Consultant	617.512.8990	john.hauck@nuveen.com
Brett Pierson AVP, Advisor Consultant	847.691.7029	brett.pierson@nuveen.com
Mark Johnston AVP, Internal Advisor Consultant	312.917.6966	mark.johnston@nuveen.com
Andrew Abe Internal Advisor Consultant	312.917.8268	andrew.abe@nuveen.com

GFS-NWDEVOE-0120 GWP-1058892PF-Q0120X 11001_0120