

2021 RIA M&A Marches On

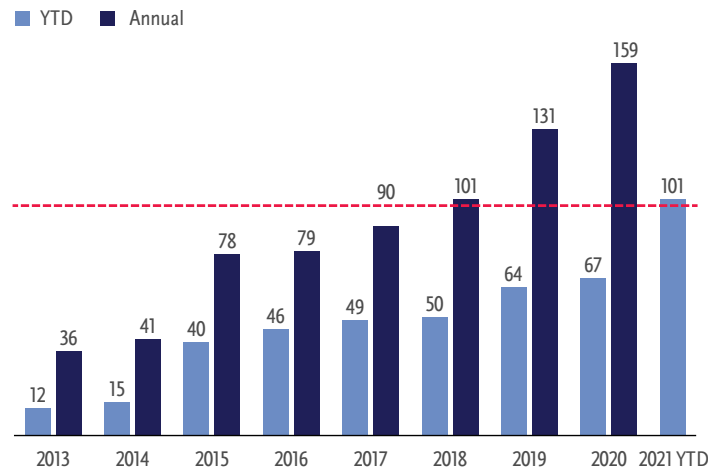
Record pace despite a slower second quarter

The century mark was broken less than six months into 2021. A few short years ago, 100 transactions had not occurred in an *entire year*; the last two years, the milestone was not crossed until September. Yet, in 2021, the first half of the year ended with 101 total transactions.

This high-water mark sets the stage for another record year of RIA M&A. The period is 51% above 2020, which corresponded with the initial stages of the COVID crisis. Many existing drivers yield confidence that 2021 will eclipse 2020's all-time high of 159 transactions.

RIA M&A Crosses 100 Milestone by Midpoint of 2021

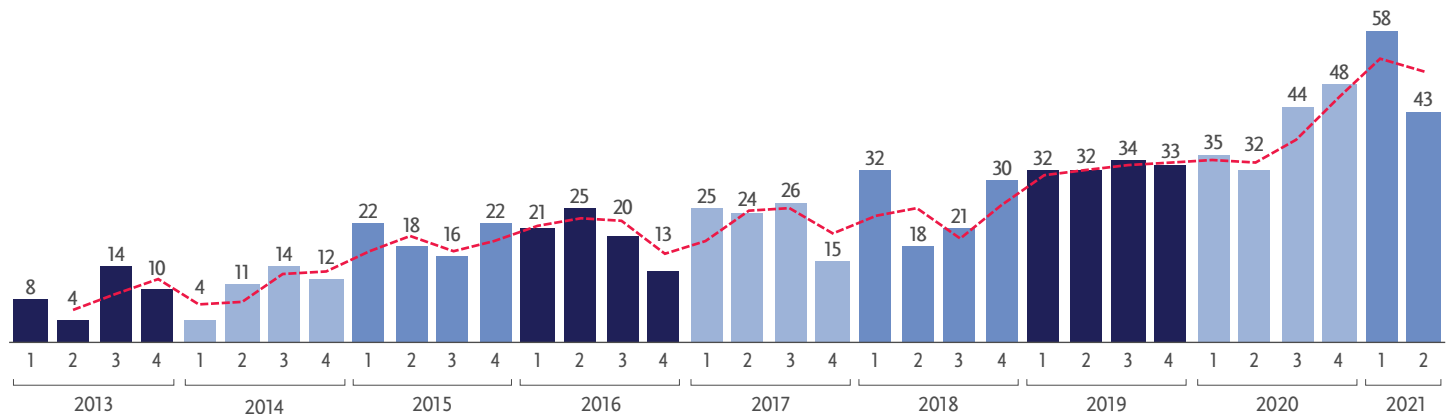
Six-month vs annual M&A activity



Q2 Rings in as Fourth Most Active Quarter on Record

Number of transactions executed per quarter

— Trailing four-quarter average

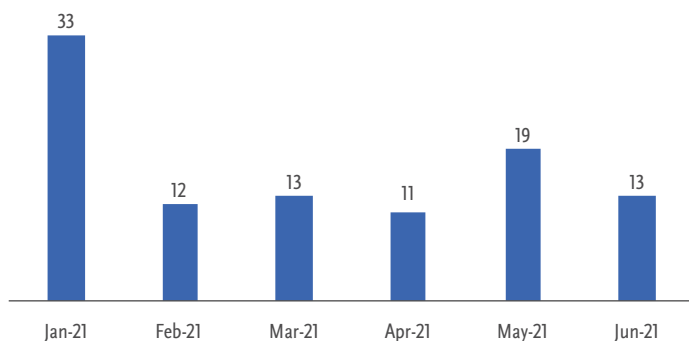


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January Activity Dominates First Half of 2021

Number of monthly transactions YTD



Despite Q2 being the fourth-strongest quarter on record, a softening has occurred. Transaction volume for the second quarter was down 26% relative to Q1 — and the breakneck pace of late 2020 has tapered off. As a matter of fact, following the blockbuster month of January, recent M&A could be considered *fairly strong but unimpressive*. The industry caught its collective breath in February and has slowly picked up speed.

The increasing pace is anticipated to accelerate. Like a runner stepping on the gas as they approach the finish line, M&A activity is now ramping up to a full sprint before year-end. Fear of pending tax changes is pumping adrenaline into the market, but several other factors are likely to drive up year-end activity:

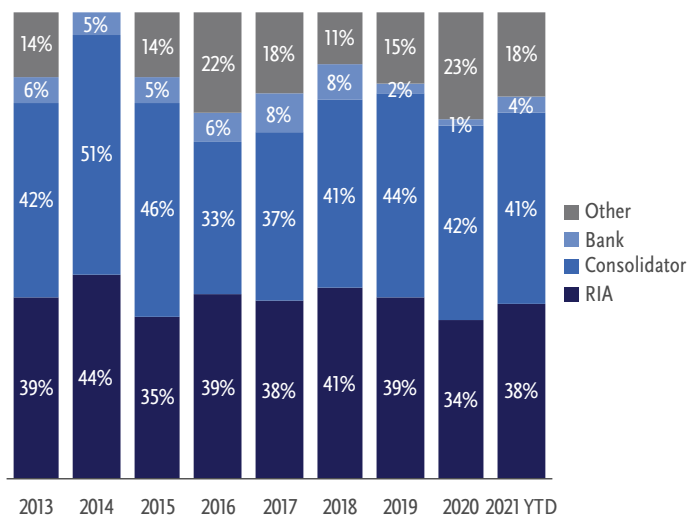
- Valuations are at an all-time high, attracting formerly reluctant sellers to the negotiating table
- Seasoned acquirers are attracting more sellers with strong value propositions
- COVID shocked many advisors into crafting succession plans, and many are realizing that an internal sale is not an option.

A Few Buyers Dominate, as New Entrants Test the Waters

Consolidators and *RIAs* continue to lead the pack among buyer categories, initiating about four out of every five transactions. The market share of activity between the two categories continues to be an arm-wrestling match. Meanwhile, new players may be testing the waters, as *Bank* buyers show renewed signs of life and more private equity investors enter the market.

RIAs and Consolidators Most Active While Banks Reenter the Market

Percentage of acquisitions by buyer category



Consolidators continue to be the dominant acquirer category in the industry. These companies accounted for 41% of announced transactions year to date, and there are a few firms in the leader group. It is a ‘winner take all’ environment, as five *Consolidators* captured 30 of the category’s 37 year-to-date acquisitions.

Mercer Advisors initiated the most transactions among *Consolidators*. Their company record of 10 announcements so far this year compares to seven total transactions for the firm in 2020. Other *Consolidators* with five or more transactions through the year’s first half included Beacon Pointe Advisors, CAPTRUST, Focus Financial Partners and Wealth Enhancement Group.

RIAs that occasionally or opportunistically acquire RIAs expanded their transaction share by four percentage points (to 38%) versus 2020. These buyers, which do not have M&A as a central plank of their business strategy, typically capture between 35% and 40% of transactions. And they have started the year strong, pushing their share from the low end of the range last year to the high end over the last six months. The following are among the more noteworthy RIA-RIA transactions announced in 2021 Q2:

- The Congress Wealth Management acquisition of \$2.4B Pinnacle Advisory Group was the quarter's largest RIA-RIA transaction. Congress, on the selling end of a transaction with CI Financial just over a year ago, credited its new parent for providing the resources that made the Pinnacle acquisition possible.
- Sequoia Financial Group merging in \$1.4B WEALTHSTONE ADVISORS ranked second for the quarter in size. The principals' rationale of "enhanced scale and durability" as key motivations for the transaction is indicative of the broader market — and the number-one reason RIAs are selling today. DeVoe & Company supported WEALTHSTONE on the transaction.
- The acquisition of Viridian Financial Advisors (\$826MM AUM) by Edelman Financial Engines (EFE) announced in May is a noteworthy move by the industry's largest RIA. Edelman Financial Engines is a quintessential *META-Firm*, described by DeVoe & Company in the Fourth Quarter 2020 Deal Book as *one of two dozen unique firms that will shape the industry*. The acquisition could be the first of a series of transactions: Larry Raffone, President and Chief Executive Officer, Edelman Financial Engines, said, "Viridian marks the beginning of a new chapter of growth for our business." DeVoe & Company supported EFE on the transaction.

Banks came off the sidelines in Q2. While *Bank* acquirers account for just 4% of transactions year to date, their four acquisitions in 2021 surpassed total annual bank volume for each of the past two years. Three of these four transactions were initiated in the second quarter. Bank acquisitions have historically had their challenges. Despite this, bank executives now look to be reconsidering and selectively focusing on the *right* transaction.

Buyers in the *Other* category — composed of private equity firms, asset managers and other non-RIAs — represented 18 transactions in the category so far this year. Three of the four different second-quarter private equity investors are newcomers to wealth management, another sign of the exploding ability of the industry to attract new capital. Whether it is direct investments or financing RIAs to conduct their own transactions, private equity investors continue to be a strong force in the wealth management M&A marketplace, accelerating sales activity across all size ranges of selling RIAs.

Another five transactions in the first six-month period were initiated by Canadian financial services conglomerate CI Financial. Since January 2020, the company is second only to Mercer Advisors in terms of the number of transactions announced across all buyer types.

Mid-Size Sellers Rise as the Next Active Group

Like progressively smaller dominoes falling in succession, mega firm sales surged in mid-2020, large firms followed in late 2020, and now mid-size firms are in motion. This pattern has occurred often in the past: Firms contemplating a sale gain greater conviction as they see their larger peers make the move.

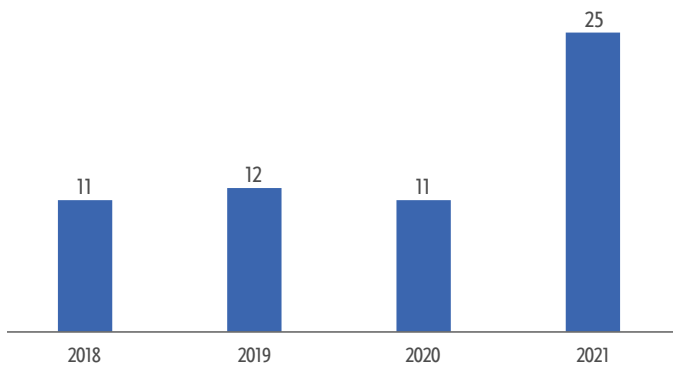
But COVID has made this sequence more pronounced. During the height of the pandemic, external sales activity for the industry's largest firms was mainly "business as usual." These firms had the scale, resources and professional management teams to keep transaction deliberations on track. Concurrently, management capacity was sufficient to also confront the business challenges brought about by COVID.

Mid-size and smaller firms, with little or no professional management, did not have that luxury. In addition to managing their firms through a challenging time, including the shifting dynamic around remote work, their executives are often juggling significant client relationship responsibilities. They were forced to put their M&A strategies on hold while dealing with COVID-related disruptions. The smaller the firm, the longer it will take to turn its attention back toward planning for a sale.

At this stage in the progression, *mid-size sellers*, firms between \$501MM and \$1B AUM, are getting their feet underneath them. This group is now more active than ever. The 25 transactions involving this segment through the first half of 2021 are more than double the 11 transactions for the same period a year ago. Mid-size sales accounted for one-quarter of all 2021 YTD transactions, their highest share since 2013 and a spike from 17% in all of 2020.

\$501MM to \$1B Transactions More Than Double

Number of \$501MM–\$1B transactions first six months 2018–2021



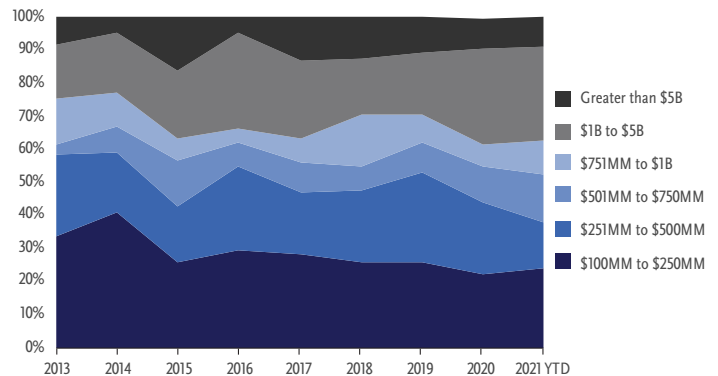
Firms below \$500MM have had less time or energy to refocus on M&A. From a peak of 27% of transactions in 2019, selling firms in the \$251MM to \$500MM segment dropped to a 14% share year to date. On an annualized basis, this is their lowest share since at least 2014. Buyer interest may also be playing a part, as acquirers that historically focused on this segment (e.g., Mercer and Wealth Enhancement Group) have shifted their strategy to target larger firms. We expect this segment to increase sale volume over the next quarter or two, as their owners shift their focus toward succession and external sales — and become the next “falling domino.”

Share of sellers in the smallest tier, ranging from \$100MM to \$250MM, are up slightly from 22% in 2020 versus 24% so far in 2021. Larger sellers above \$1B have shown no material change in share so far this year versus 2020.

Despite the fluctuating allocation of transactions by size, the overall average AUM of selling firms through the first half of 2021, at slightly over \$1 billion, was nearly identical to the average for all deals in 2020. (Note: DeVoe & Company average-size calculations exclude sellers greater than \$5B in AUM to eliminate the impact of outliers.)

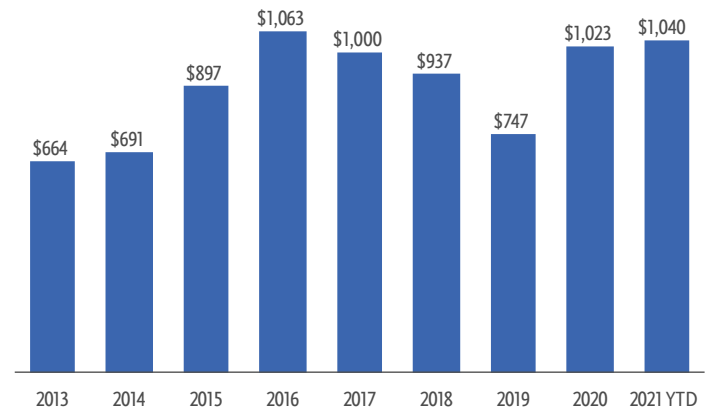
Share Expansion in the Mid-Range

Annual transactions by seller size as a percentage of total transactions



Average Seller Size Remains Consistent

Average AUM of sellers – in \$MM (over \$100MM and less than \$5B)



Shifting from an Aspirational Buyer to an Actual Buyer

Many of today's most active acquirers are RIAs that did their first deal just a few short years ago. MAI Capital Management, for example, has now initiated 10 transactions since 2019, with three acquisitions so far this year. A minority investment from Wealth Partners Capital Group helped jump-start the buying spree.

RIAs are often attracted to the fast-tracked growth that can result from acquiring another firm. The opportunity for RIAs to pursue an acquisition strategy is real. As noted in last quarter's Deal Book, the number of sellers has doubled over the last five years, while the number of active buyers has ticked up only 40%. This suggests that there is room for more buyers.

In addition, many of the more active acquirers are focusing on larger firms of \$500MM in AUM or more. This indicates overlooked opportunities for acquiring smaller firms. Further, an RIA negotiating a transaction with another like-minded RIA has a unique value proposition. From a seller standpoint, the RIA-RIA "merger of equals" or selling to another RIA is often perceived as less disruptive in terms of a cultural fit relative to teaming up with a different type of acquirer.

While many RIAs want to become acquirers, only a portion of aspiring buyers are qualified. Those select firms that are successful learn that executing the purchase of another business — from the initial plan through final signatures and full integration — is a long and challenging endeavor.

Without an investment banker involved, a year or more is often required to complete a transaction. RIAs contemplating an acquisition will be well-served to conduct a careful analysis to determine whether the firm is in the right place, with the necessary resources and appetite, to move forward as a buyer.

What does it take to become a successful buyer? A partial list includes:

- **A strategic growth plan** that gives context for why M&A is important for the firm
- **A target profile** detailing the characteristics of the firm's optimal transaction partner
- **A value proposition** that clearly articulates what prospective sellers can gain from joining the firm
- **Expertise in all the fundamentals of M&A** that includes a deep understanding of sourcing candidates, valuation, deal structure, negotiation, integration plans and more, if this expertise is not provided from an investment banker
- **People and bandwidth** dedicated to the lengthy, complex M&A and integration processes
- **Access to capital** for the size of transaction the firm is targeting
- **Specialized support**, including the services of an attorney and tax advisor
- **A seamless integration strategy** for individuals and teams from the acquired RIA
- **A robust operational infrastructure** to support additional personnel, clients, accounts and assets

With these essentials in place, a firm can move ahead with greater assurance, successfully incorporating M&A as a vital component of its growth strategy.

DeVoe Survey Says: Succession Challenges Will Drive M&A

While a growing number of transactions tend to be growth motivated, succession planning continues to play a major role in driving M&A activity. Second-quarter sales involving Stewardship Financial Advisors, ET George Investment Management, and Integer Wealth Advisors, for example, all cited succession or continuity concerns as factors driving a transaction. The important influence of succession planning on M&A will likely remain for some time.

A soon-to-be-released industry DeVoe & Company survey shows that RIAs still struggle to develop next-gen leaders, and their level of succession preparedness shows no sign of improvement. Nearly half reported their firms had not successfully implemented a succession plan. Firms will be particularly challenged if the preference is for an internal transition. The survey found that 61% of respondents felt their firms were not capable of a smooth transition of leadership to the next generation.

Firms are clearly in need of solutions. The pandemic further heightened awareness of the need to “get affairs in order” in the event of the inevitable. Against the backdrop of the pandemic, many RIA owners — both older and younger — are reflecting on their own mortality and rethinking ambitions. Going forward, this will serve to further brighten the spotlight on the importance of succession planning and sustain interest in M&A as a potential solution.

Conclusion

Year-to-date activity speaks to a broader trend of accelerating M&A momentum. In no other year was the important, albeit psychological, century milestone for transactions reached in a shorter time span. M&A activity is on pace to finish 2021 well above last year’s record volume of 159 transactions.

The industry seems poised for a busy second half. A confluence of multiple key factors indicates that 2021 will be the strongest year for acquisitions on record.

Key dynamics and characteristics include:

- Aging owner demographics and lack of succession planning
- Psychological shifts such as greater interest in being part of a scaled organization
- Near-term fears (such as taxes) and aspirations (such as selling at record high valuations)

If you are a seller, get ready to move quickly and work a bit harder than your predecessors to hold the attention of buyers. If you are a soon-to-be buyer, there has never been a better time for you to enter (as long as you have the capital and the stomach to deploy capital at high valuations). If you are neither, then grab a bowl of popcorn and enjoy the show — it will likely be a very interesting time in our industry’s history.

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 18 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 limits our tracking to \$100MM+ RIAs 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, unless there are important developments.

Our goal is to provide the RIA community with the very best M&A data on the 5,000+ SEC-registered RIAs so that advisors like you can make more informed strategic decisions.

Statements contained herein are solely those of DeVoe & Company as of the date published, are based upon information they consider to be reliable and do not necessarily reflect the opinions of Capital Group or its affiliates. This information is intended to highlight issues and should not be considered advice, an endorsement or a recommendation.

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 300 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 300 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. Our team includes a McKinsey-trained management consultant and several former CEOs/COOs of \$1B to \$10B 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 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 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.

DeVoe & Company executed more than 500 engagements in the last several years, supporting firms managing \$50MM to over \$80B in AUM

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:

- *It’s Time for a Human Capital Revolution*
- *DeVoe RIA M&A Outlook Study*
- *Succession Planning: Planning Your Future*
- *Putting Strategic Context Around Your Succession Plan*
- *Tailor-Made Successor*
- *True Value: Learn to Focus on the Things that Drive Up the Value of Your Practice*

Engaging DeVoe & Company

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