DEVOE & COMPANY

# RIA M&A Red Hot in 2021

## *Another blockbuster year in the books*

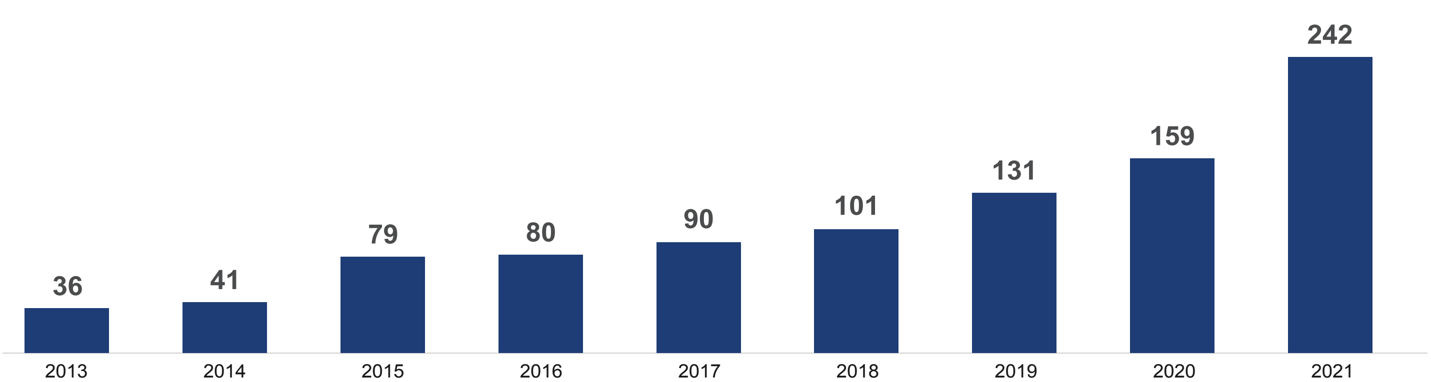
RIA merger and acquisition activity soared in 2021, establishing another record year in the process. The 242 transactions are a sharp spike above previous years and a 52% increase above the 159 transactions completed in 2020. With an eighth successive record year in the books, hitting another new annual high mark has become the norm — or perhaps even the expectation.

The final quarter of the year was red hot, too, as sellers sprinted to close deals by year-end. Seeking to avoid potential forthcoming tax changes, they pushed the quarterly number to a new all-time high. The 76 transactions in Q4 eclipsed the previous record of 65 set just three months before.

A confluence of overarching and short-term factors drove the torrid pace. The industry is going through a natural period of consolidation, pushed forward by the combination of aging founders and lack of succession planning. During the last four years, advisors have increasingly been attracted to the benefits of scale, joining larger organizations to gain access to broader service capabilities and eliminate administrative burdens. More recently, high valuations have been difficult to ignore for even the most independent advisors. And in 2021, two short-lived drivers contributed to an incremental surge: First, the looming tax changes accelerated decisions and actions for RIAs that were moving toward the 'sell zone.' Second, the life-and-death reality of COVID forced many to take serious inventory of their succession plans (or lack thereof) — and many decided that an external sale was a partial or full solution. As a result, sellers signed on the dotted line in such great numbers that the volume stretched the capacity of buyers.

Putting the year in perspective, activity nearly doubled the volume of two years ago and tripled the activity of 2016. "2021 M&A activity was hyperactive, with seller segments of all sizes surging," said Doug Johnson, Managing Director, DeVoe & Company. "A seasoned and expanding buyer pool was somewhat stretched to serve the 240+ sellers. DeVoe & Company rates the current M&A environment as *healthy*, but the health index would erode if the steep growth trajectory continued unabated."

**M&A Activity Sets Record for Eighth Consecutive Year**
Annual M&A activity

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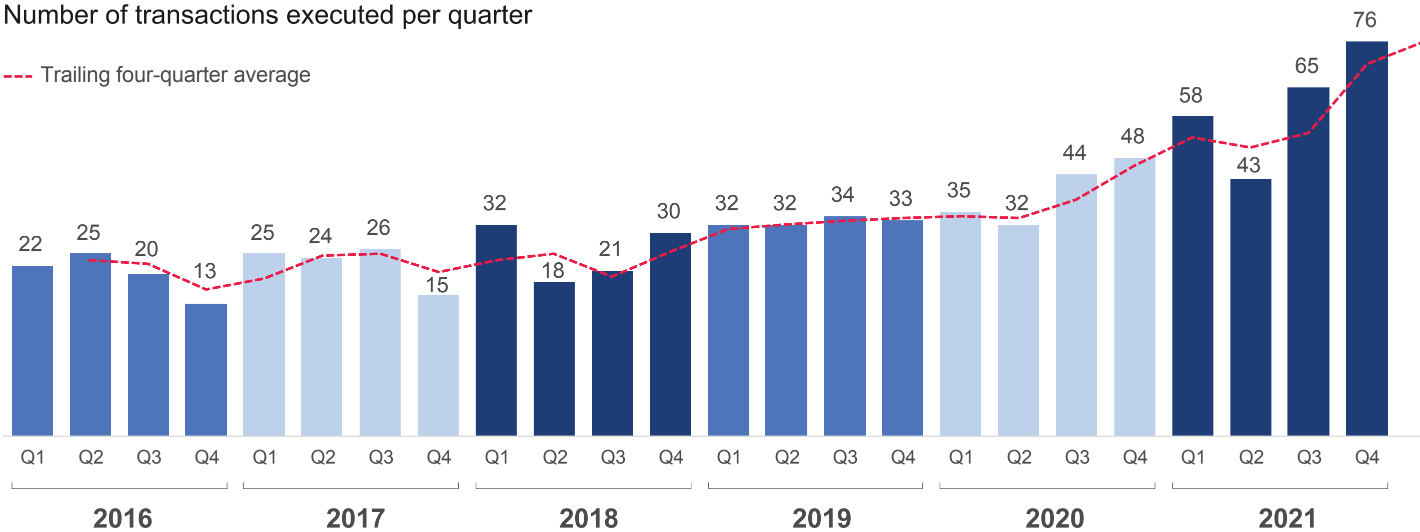
**Is 60 or More (transactions per quarter) the New Normal?**

Number of transactions executed per quarter




## Valuations Are High, But Cover a Broad Spectrum

RIA valuations reached their initial peak in early 2008, hit their nadir months later during the Great Recession, and have climbed steadily since. Nearly three years ago, valuations finally eclipsed the 2008 high. But unlike the 'bubble valuations' of yesteryear, the recent high valuations have been economically defensible. Many of today's buyers — mainly private equity-backed consolidators with sophisticated management teams — have carefully designed processes that can expand the profitability and accelerate the growth of acquired firms. If an acquirer has a profit-increasing, growth-driving machine, then they can pay more for firms that will benefit from these capabilities.

However, not all buyers can improve profits and growth. Consequently, not all buyers should buy firms at such extremely high valuations. A generic RIA down the street might bring a lot to the table (culture, certain synergies, better career paths, etc.), but they typically can't magically increase profits and growth. They don't have a robust centralized operations hub, don't spend millions on growth and marketing, and don't have elements that drive material profit or growth increases. Sellers should, therefore, not expect that these buyers can rationalize or pay multiples comparable to acquirers that *can* drive these results. That would be irresponsible.

Various buyers will offer a wide range of valuations for a given seller. And rightly so. Each buyer values a firm differently. Valuations at the high end of the range have never been higher, and the range has also never been wider. Interestingly, despite the record valuations, many advisors optimistically expect more upside. In DeVoe & Company's recent annual M&A Outlook survey, nearly 40% of advisors responded that they expect valuations will *increase* in 2022.

One of the effects of these high valuations is the growing inability for next-generation (G2) advisors to afford buying out their founders, which brings us to the Accelerating Mail Truck.

## The Accelerating Mail Truck

The current level of valuations is a good news/bad news story. The good news: Your firm has never been worth more. The bad news: It's less likely that your next generation can afford it.

The metaphor of the Accelerating Mail Truck is about whether the dog chasing the truck can catch it.

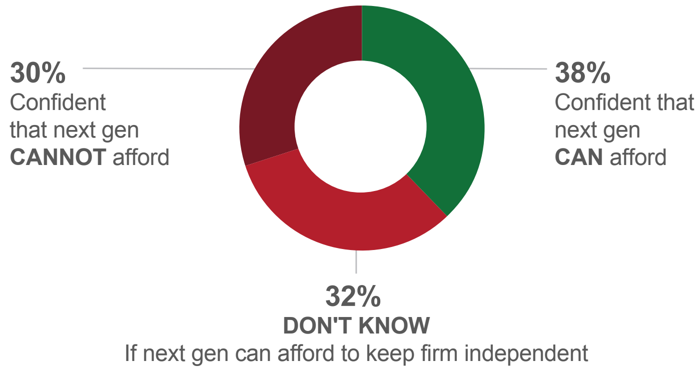
The mail truck is the value of your firm. The sprinting dog is the buying power of your next generation of leaders. The question is whether the valuation of your firm is so high or increasing so quickly that it is exceeding the grasp of your next generation to catch it.

According to DeVoe & Company research, only 38% of advisors are confident that the next gen can afford to buy out the founders of the firm. These advisors have crunched the numbers and have calculated *good* news. Another 30% have done the math — and unfortunately concluded that G2 *cannot* afford the firm. The remaining 32% of advisors simply don't know.

Gaining clarity on whether G2 can afford to buy out the founders or current owners is important. If you are in a gray area, quick action or creative thinking can ensure that the future goes according to plan. If the outcome is negative, then you can start thinking through plan B or C. Selling externally can be best for some firms, and selling minority stakes can be better for others. This dynamic is yet another driver of 2021's acceleration of RIA M&A, and particularly so for larger firms.

**Reality Check: G2 Buying Power**

Is the next gen of your RIA able to buy out the founders?




## All Boats Lift with Rising Tide

The rising M&A tide lifted all boats in 2021. Although some categories rose faster than others, external sales of small, medium and large firms increased across the board. The stair-step cycle that has occurred historically has reemerged: Mega firm sales surged in mid-2020, large firms followed in late 2020, and mid-size firms accelerated throughout 2021. This pattern has occurred often in the past: Firms contemplating a sale gain greater conviction as they see their larger peers make the move.

**Mega sellers:** Firms with over $5B in AUM continued their momentum, ticking up from 15 transactions in 2020 to 28 in 2021. Well-admired firms, such as Homrich Berg; Segall Bryant & Hamill; and Sullivan, Bruyette, Speros & Blayney made headlines as private equity and major consolidators continued to add to their growing résumés of acquisitions.

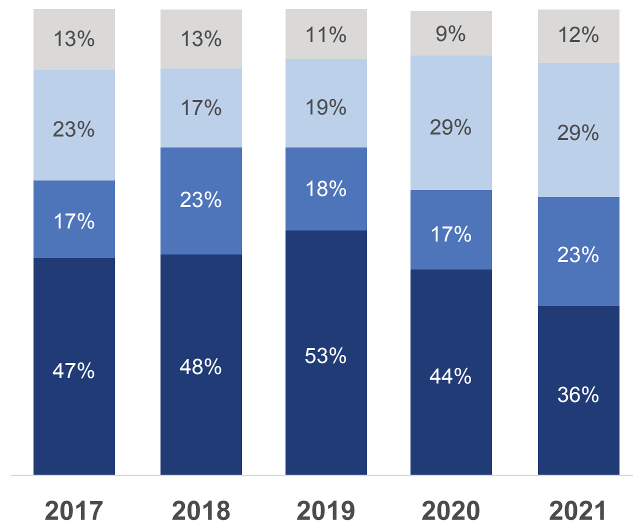
**Large sellers:** The $1B–$5B story continues to unfold in a dramatic way. Steadily experiencing 30%, 40% and 50% year-over-year increases since 2018, the segment has now reached 70 transactions in a single year. The competition for this group is intense, as many well-funded buyers are targeting this segment.

**Mid-size sellers:** The big story of 2021: Mid-size seller activity spiked. Nearly doubling in volume, 56 firms between $500MM and $1B sold externally. The category added six percentage points to comprise 23% of the transactions. Watching their larger peers sell, these advisors gained confidence to pull the trigger and join larger organizations.

**Small sellers:** The $100MM–$500MM segment retracted in market share compared to past years. Firms between $100MM and $500MM represented 36% of transactions in 2021, following a steep decline from 53% in 2019. On a nominal basis, this group executed 88 external sales in the year, for a meaningful increase from the prior year. The slowdown for the activity level among these firms is due the group's slower response to the impact of COVID, as well as buyers focusing primarily on larger firms.

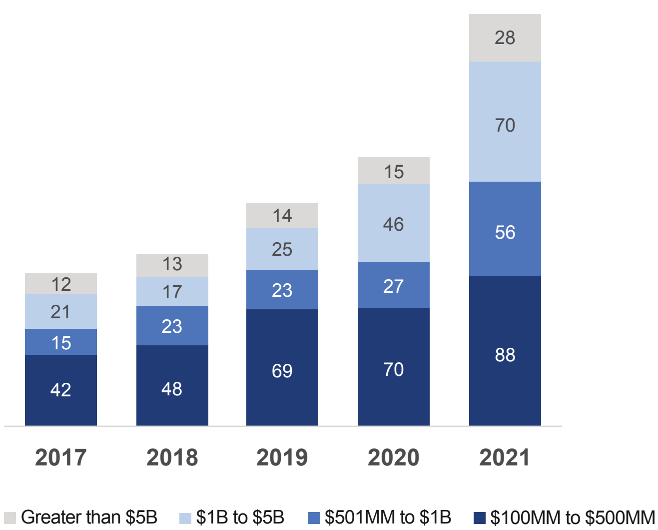
**$500MM+ Sellers Represent Two-Thirds of Transactions**

Percentage of total transactions by seller AUM




**All Seller Segments Increase Transactions**

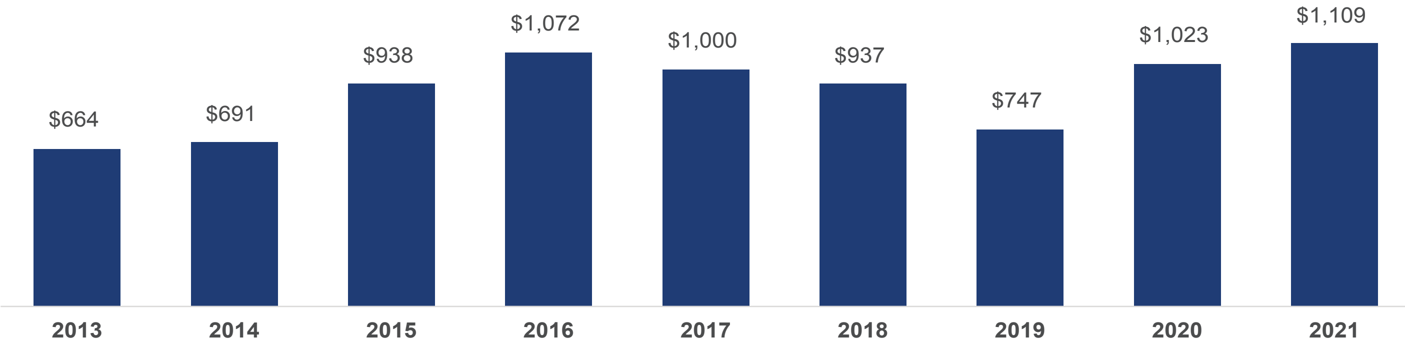
Number of transactions by seller AUM




**More record numbers:** The prominence of mid-size and larger sellers drove the average AUM of selling firms to $1.1B, the highest number this industry has ever had. (Note: For data consistency, DeVoe & Company excludes sellers with greater than $5B in AUM to eliminate the impact of outliers.) In aggregate, the total assets transacted also hit a new peak, ending the year at nearly $600 billion.

**New Seller Size Record Established**

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




## *Consolidators* Take Top Billing in Buyer Categories

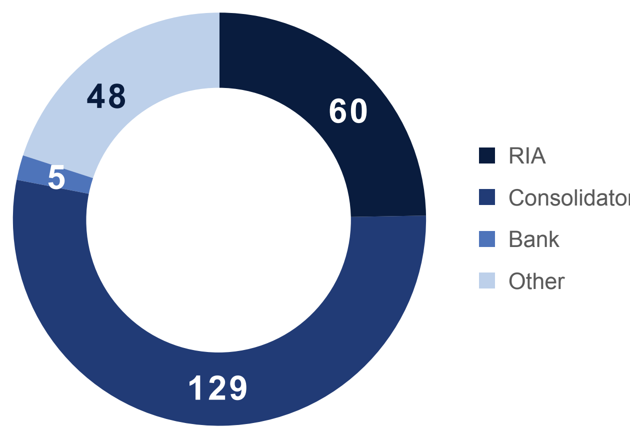
All buyer categories increased their number of transactions in 2021 vs the year prior. There were notable shifts in market share, with *Consolidators* ending the year accountable for more than half of the transactions.

*RIAs* as a buyer category for 2021 represented only 25% of transactions, their lowest share in the history of DeVoe & Company tracking. In the last five years alone, *RIAs* have seen a marked decline, from 38% to today's one-quarter share. On a nominal basis, *RIAs* completed 60 transactions vs 46 last year. Notable buyers in the *RIA* category include Cresset Asset Management (with two acquisitions on the year), Wealthspire Advisors (also with two; DeVoe & Company supported Private Capital Group in its sale to Wealthspire) and Aspiriant, which made its first acquisition since 2017 (DeVoe & Company was honored to support Hearthstone Private Wealth Management in said sale).

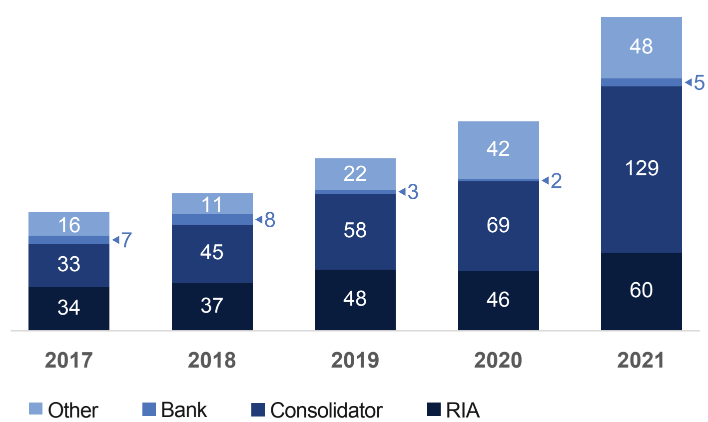
*Consolidators* executed 53% of transactions, a big uptick from their 43% share in 2020. These acquiring machines were running at full steam. The 21 firms in the *Consolidator* category executed 129 transactions — on average 6 transactions each. This activity dwarfs the 2016 numbers, when 11 *Consolidators* closed 26 transactions.

***Consolidators* Dominate Buyer Categories in 2021**

Number of transactions by buyer category




Number of transactions by buyer category



This momentum is the result of larger and more productive *Consolidator* M&A and integration teams. Another driver has been the proliferation of new entrants — often acquisitive *RIAs* that have shifted to become *Consolidators*. Once an RIA's business model becomes predicated on making acquisitions, DeVoe & Company will recategorize them as a *Consolidator*. As RIAs like Allworth Financial, MAI Capital Management, and The Colony Group evolved their business strategies and acquired more aggressively, they joined — and increased the transaction volume of — the *Consolidator* category.

*Banks* were quite sleepy, by contrast, ending the year with five transactions vs two in the previous year. Their steady, single-digit presence on the buyer category chart has now persisted for more than five years. The most notable transaction among *Banks* in 2021 was Silicon Valley Bank's acquisition of Boston Private ($13.3B) in January.

The *Other* category, which is comprised of buyers that don't fall into the three other buyer categories, lost share in 2021. The 20% market share for the group is a significant drop from 26% the year prior, but a return to the levels in years such as 2017 and 2019. Within this group, we can highlight three notable categories of buyers. First, private equity investors were active. KKR's investment in Beacon Pointe Advisors and New Mountain Capital's investment in Homrich Berg are examples (DeVoe & Company was honored to support New Mountain Capital in that transaction). Second, tax and accounting firms see the attractiveness of, and synergies related to, the adjacent wealth management business. DeVoe's client BDO USA's acquisition of Lowery Asset Consulting ($900MM) is one example; Marsh & McLennan's acquisition of a $14B RIA is another. Third, but possibly most notable, CI Financial, a diversified financial company, completed 12 transactions, representing 25% of the transactions within the *Other* category.

**Top 10 Acquirers Absorb 46% of Annual Transactions**

Acquirers by number of transactions announced

| Firm Name | No. Transactions |
|---|---|
| Wealth Enhancement Group | **17** |
| Mercer Advisors | **16** |
| CI Financial | **13** |
| Focus Financial Partners | **12** |
| Mariner Wealth Advisors | **12** |
| Beacon Pointe Advisors | **11** |
| Hightower | **9** |
| CAPTRUST | **8** |
| MAI Capital Management | **8** |
| Allworth Financial | **6** |

## Private Equity Changing the Landscape

RIA advisors passionately believe that the independent business model is the best way to help the U.S. investing public manage their wealth. And good news: that is how ‘smart money,’ the name private equity is often called, thinks about this industry. Private equity firms — from blue chip to boutique — are intensely analyzing the space and competing for investments. DeVoe & Company knows this, because they often hire us to help them develop their business cases, craft their strategies and even target opportunities. This intense focus is a good thing. You have some of the smartest people on the planet voting for the RIA model with their pocketbooks.

Their interest is also evident in the accelerating trend. The number of private equity investments in the RIA sector is more than double today what it was five years ago. And their investments are performing extremely well — and in many cases the private equity funds are monetizing their investment well ahead of the typical ‘five-to-seven-year period.’ For example, DeVoe & Company introduced Abry Partners to Beacon Pointe Advisors less than two years ago. Their investment yielded such strong returns during the following 18 months that Abry liquidated a portion of their investment, as Beacon Pointe has raised even more capital to achieve bigger goals.

Private equity is not just making headlines with direct investments in these serial acquirers — they are also shaping the space through their portfolio company’s activity. In addition to direct private equity investment, virtually all the leading acquirers are private equity backed. Over half of 2021’s transactions (58% of the 242 total transactions) were private equity driven, either directly through investments in consolidators and RIAs, or indirectly through their portfolio companies’ acquisitions. Of the Top 10 Acquirers (on page 6), eight are private-equity-backed firms. Examples include Mercer Advisors (Oak Hill Capital and Genstar Capital), Beacon Pointe Advisors (KKR), and CAPTRUST (GTCR).

The impact of private equity investments in the RIA industry is profound. It is not only the volume of transactions that have resulted from their interest but also their boardroom presence that is shaping the industry. Edelman would likely not have merged with Financial Engines to create the largest RIA in the country without private equity creating the path. Marriages of other enterprise-level organizations would not have occurred without private equity nudges. Unnamed consolidators would likely not have shifted their business model without insights from private equity partners.

Private equity investment in the space is bustling, and there are few indicators that it will slow down soon.

## Conclusion

Despite the eighth consecutive record year of M&A activity behind us, there is still momentum and pent-up supply in the marketplace. DeVoe & Company's technical analysis yields that 2022 will likely maintain the strength of 2021, but the momentum will decelerate. The industry's structural underpinnings related to M&A will be sustained for the medium term, driving 250+ transactions per year. The two additional accelerants from 2021 have likely run their course — the window to potentially avoid tax rate increases has likely expired and the surge of 'post-COVID succession focus' may also be behind us.

The current landscape indicates a 'new normal' of ~60 transactions per quarter. However, the 50% year-over-year increase in M&A activity is unlikely to occur. That is good: A sustained state of 40%+ compounded growth could create an imbalance between supply and demand.

January 2022 is likely to be a strong month, as a rash of December transactions are announced (DeVoe & Company itself has five in this category), and some deals that were targeted to close by year-end experienced delays or complexities and skidded them into the new year. Expect the year to start with a bang and then plateau for a period.

Each year, a variety of factors emerge and impact the activity for periods of time. Regardless of how near-term trends and drivers affect 2022, RIA M&A will continue to bend upward for the next seven or more years — and will be an important industry dynamic for years to come.

## 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.

## 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 350 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 major 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 350 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 $200B 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 **600** engagements in the last several years, supporting firms managing **$100MM** to over **$250B** 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 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:

- *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*

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