

## RIA M&A Sets New Records (Yet Again)

### *Sellers shake off world turmoil, a challenging economy and a declining stock market*

RIA M&A continues to demonstrate strength, despite consensus that M&A in the RIA space was slowing. Q2 2022 turned in the highest second quarter on record, just as Q1 had done for its period three months ago. In Q2, there were 66 transactions, a 53% increase from the same period a year ago. The numbers speak for themselves: M&A continues its hot streak.

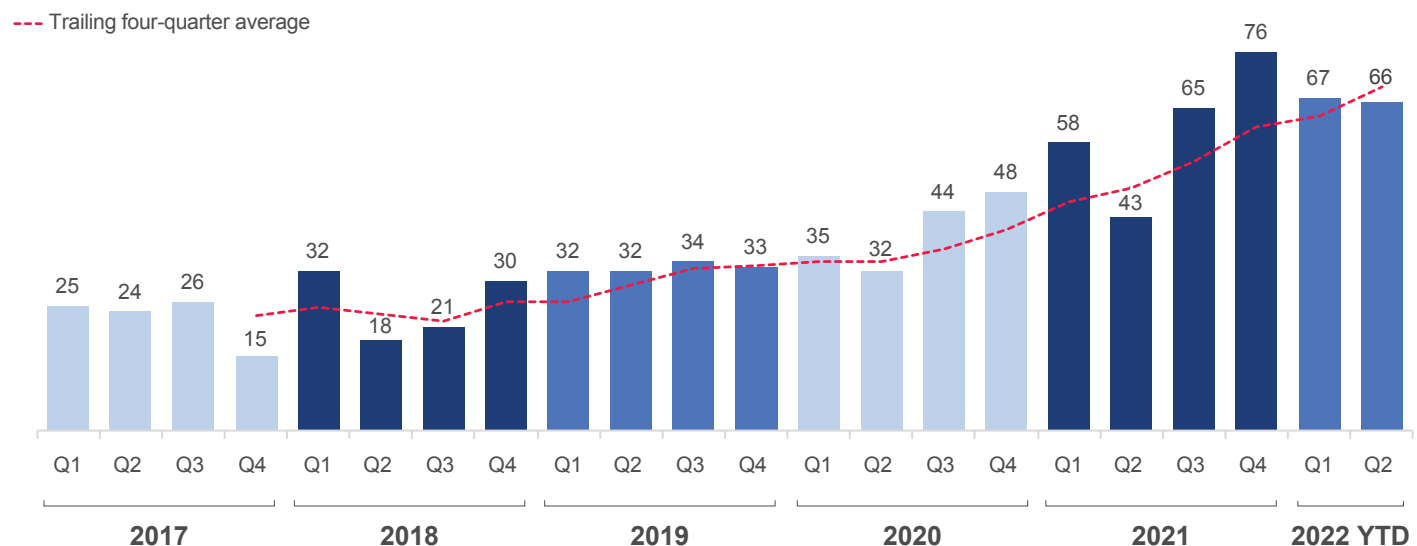
Looking at the year-to-date data, 133 transactions closed in the first six months of 2022. This volume is more than 30% greater than the record-setting number at the midpoint of 2021. More importantly, the industry has seemingly broken through to a ‘new normal’ of heightened transaction activity. Unfathomable just a few years ago, the transaction volume has steadily exceeded 60+ transactions per quarter for over a year — approximately twice the run rate of 2019.

Contextually, the heightened activity is a bit surprising. Given global political and economic instability, a looming U.S. recession and a declining stock market, advisors have their hands full. Historically, these challenges dominated advisors’ mindshare and calendar, deprioritizing complex strategic decisions like M&A. But recently RIA owners have clearly been making the time.

The industry’s steady movement toward professional management, as well as negotiations already in process, potentially contributed to continued momentum. But if history is an accurate guide, the industry may experience a lag in M&A volume soon. Although valuation multiples continue to be high, a natural compression of cash flow (due to lower revenues yielded by lower assets) will potentially drive down actual valuations. In turn, this could dampen seller enthusiasm.

### Strongest Q2 on Record

Number of transactions executed per quarter

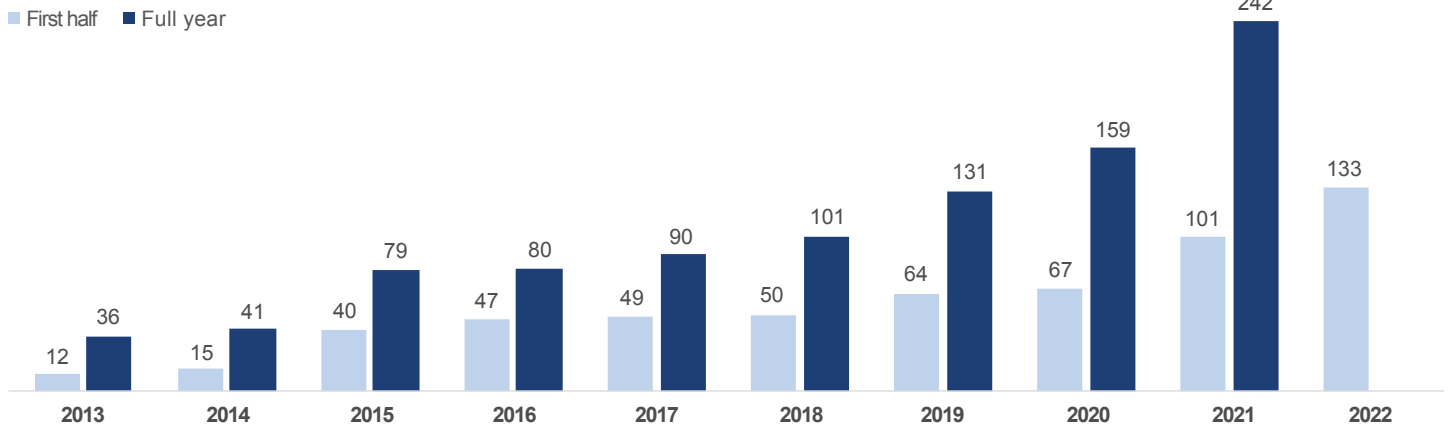


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## Most Active First Half on Record

Year-to-date vs. annual M&A activity



## RIA M&A and the Current Market and Economic Landscape

Neither the market sell-off, nor volatility during the first half of 2022, nor interest rate pressures are stopping RIA buyers and sellers from finding their match and pursuing partnerships. “There can be a lot of upside on acquisitions made in a down market,” said Francine Miltenberger, Managing Director, DeVoe & Company. “AUM pricing floats all boats as markets rise, pulling up cash flows and valuations with them.”

Some sellers may believe valuations recently peaked. They recall that it took 12 years for valuations to get back to the previous high after the 2008 financial crisis, and fear they may miss out on another high-water mark.

In reality, RIAs that can demonstrate true organic growth are in a stronger position to sell or merge, and they can still command elevated valuations. Anecdotally, this is proving true for transactions in process with DeVoe & Company.

Brad Grubb, Managing Director, DeVoe & Company explained: “RIAs that can demonstrate sustainable, above-average organic growth will continue to earn a premium to their valuations.”

Despite market and economic pressures, transactions will continue in the RIA space, and private equity firms, which are major buyers, will pursue more purchases. “Private equity firms in aggregate have huge reservoirs of dry powder — uninvested cash that isn’t making money for them unless invested,” Miltenberger said. Plus, they are buyers for the long term. They understand that advisor-client relationships are sticky and not usually undermined by market volatility. They see the upside of making long-term acquisitions in a down market.

## Consolidators Remain the Top Buyers

DeVoe & Company tracks four distinct buyer categories: *Consolidators*, *Banks*, *RIAs* and *Other* buyers.

*Consolidators* executed more than half of all RIA transactions in the first half of 2022. This buyer category, defined as companies whose business models are predicated on making RIA acquisitions, executed 53% of the industry’s transactions in the six-month period. Closing 71 transactions before the end of June, *Consolidators* completed more transactions within six months than they did in all of 2020. Most leading *Consolidators* execute multiple transactions every quarter. During the first six months of the year, a couple of the most aggressive *Consolidators* completed 10 or more transactions. (See the Top Acquirers table on the next page.)

The biggest surprise year-to-date has been the strength in the *Other* buyer category, which is comprised of any transactions that do not fall into one of the other three categories. During the first half of 2022, there were 33 transactions vs 19 in the same period for 2021. The group consequently jumped five points, from 20% of transactions in 2021 to 25% of transactions for the first half of 2022.

During the six-month period, new entrants from adjacent financial sectors contributed to the spike. Examples include OneDigital, an insurance, financial services and HR consulting firm, which acquired \$3B TimeScale Financial; and Alera Group, a national insurance and financial services company that acquired \$3.5B Wharton Business Group. (DeVoe & Company supported both sellers.) Although both acquirers are relatively new to the RIA space, these private equity-backed, high-growth firms have demonstrated impressive success in adjacent markets and are expected to achieve accelerated success in the RIA space.

The growth was also driven by a surge in activity by Merchant Investment Management. Merchant's unique business model takes a minority stake in RIAs while offering them a suite of services to drive growth. Merchant acquired stakes in nine RIAs during the first half of 2022.

A scant 28 transactions by *RIA* buyers during the first half of the year yielded a decline, from 24% of transactions in 2021 to 21% in year-to-date 2022. Only three years ago, *RIAs* accounted for nearly twice the volume. The nearly 40% of transactions in 2019 by *RIAs* has been eroded primarily by *Consolidator* momentum. Another key contributor is a growing number of *RIAs* evolving their business models to become *Consolidators* themselves.

Meanwhile, *Banks* put a point on the board, posting a single deal by the midpoint of the year. The single transaction in the category was NBT Bancorp's acquisition of Cleveland Hauswirth Investment Management.

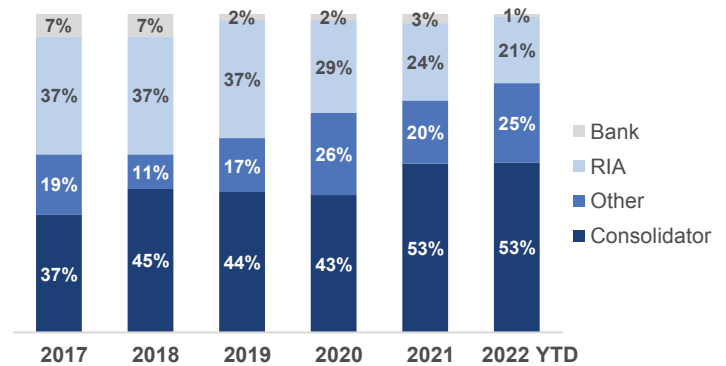
### Acquirers with Five or More Transactions in the First Half

Firm Name	Buyer Category	Number of Transactions
Creative Planning	Consolidator	11
Mercer Advisors	Consolidator	10
Merchant Investment Management	Other	9
Beacon Pointe Advisors	Consolidator	8
Mariner Wealth Advisors	Consolidator	6
Cerity Partners	Consolidator	6
Bluespring	Consolidator	5
Merit Financial Group	Consolidator	5
Wealth Enhancement Group	Consolidator	5

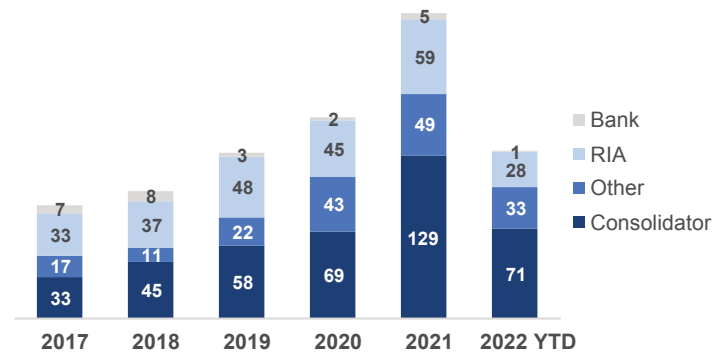
The top nine acquirers, all with five or more transactions, executed 49% (65) of all transactions in the first half of 2022.

### Consolidators Continue to Dominate

Percentage of acquisitions by buyer category



Number of acquisitions by buyer category



## Smaller RIAs Are the Leading Sellers

While big *Consolidators* lead the cadre of buyers in the RIA space, small and mid-size RIAs are the leading sellers. *RIA* sellers with under \$1B in AUM have surged over the last several quarters. Total sellers with \$100MM to \$500MM in assets jumped from 38 in 2021 to 58 in 2022, during the respective first halves of the year. On a percentage basis, the volume increased from 36% of transactions in 2021 to 44% for the first half of 2022. Firms with \$501MM to \$1B in assets increased from 25 sellers in the first half of 2021 to 34 for the same period in 2022.

The combined volume of these sellers in the sub-\$1B asset category spiked from 63 transactions in 2021 to 92 in 2022 during the first two quarters — a 46% spike over one year.

This shift in seller composition continues the domino pattern that DeVoe had forecast in early 2021 ([see Q1 2021 Deal Book](#)) as the dominant seller size decreased in sequential waves from mega to large firms, then mid-size to small firms. It's a pattern that has repeated several times over the last two decades as a given firm, contemplating a sale, gains greater conviction when they see their larger peers doing so. This domino effect has been more pronounced in the most recent period, as the implications of COVID contributed to the pattern. Specifically, larger firms (with professional management) continued to move forward with M&A through the height of COVID, while smaller firms (whose leaders may have been more focused on clients) delayed transactions.

**Small sellers:** Sellers in the \$100MM to \$500MM AUM range have come back to life and may now be a red-hot category. This category accounted for some 53% of all sales in 2019, but had dipped to only 36% by 2021. During the first half of 2022, they represented 44% of all transactions. DeVoe & Company accurately forecast an increase in activity among this group in the event of a prolonged market dislocation ([see Q1 2022 Deal Book](#)).

Digging deeper into the data, sales by *RIAs* in the \$251MM to \$500MM AUM range jumped to 30% of all transactions

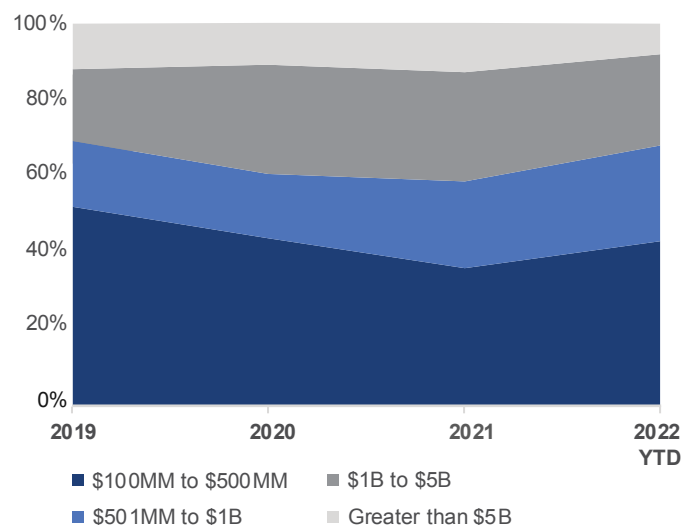
in Q2 2022 compared to 16% in Q2 2021. Even more impressive, these RIA firms accounted for 34 transactions in the first half, a substantial increase from the number executed by firms of this size in the first half of 2021 (14) and first half of 2020 (17).

**Mid-size sellers:** While sales by firms with AUM in the \$501MM to \$1B range declined from 22 in Q1 2022 to 12 in Q2 2022, the group is still increasing activity based on a broader time horizon. The 34 transactions posted in the first half is higher than both the first half of 2021 (25) and calendar year 2020 (27).

**Large sellers:** On a percentage basis, sellers with \$1B to \$5B in AUM continued their recent decline, from 29% in calendar year 2021 to 24% for the first six-month period of 2022. On a numeric basis, the group's 70 transactions in 2021 was a significant climb from prior years (25 in 2019 and 46 in 2020). The group posted 32 sales in the first half of this year, which puts them on track to reach last year's record volume. DeVoe & Company has recently advised several sellers in this segment: Resource Management (\$1.9B), which joined Creative Planning; Kings Point

### Sub-\$1B Firm Sales Surge

Percentage of total transactions by seller size



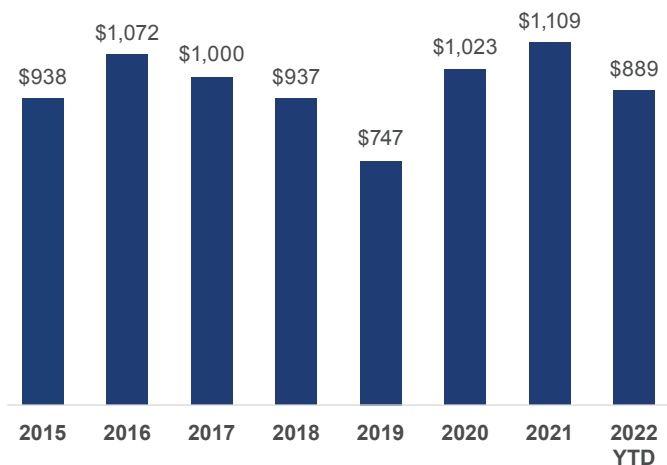
Capital Management (\$1.7B) joining Wealth Enhancement Group; TimeScale Financial (\$3B) merging with OneDigital; and Wharton Business Group (\$3.5B) joining Alera.

**Mega sellers:** Firms with over \$5B in AUM ended the six-month period at just 7% of the total volume, below their average share of 11% over the last few years. Still, transactions with strong synergies are still attractive in this category. For example, Meristem Family Wealth (\$5.4B) joined Cresset Asset Management, as both have substantial family office services.

Following the increase in smaller size transactions, the average AUM of sellers for the first half of 2022 was \$889MM, a 20% decline from the 2021 average. The average seller size has remained below \$1B for nearly a year as sales of larger firms slowed and sales by sub-\$1B firms rose. (Note: For data consistency, DeVoe & Company excludes sellers with greater than \$5B in AUM from its calculations, thereby eliminating the impact of outliers.)

### Average Seller Size Declines as Smaller Transactions Rise

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



## Sub-Acquisitions on Track for Fifth Consecutive Record Year

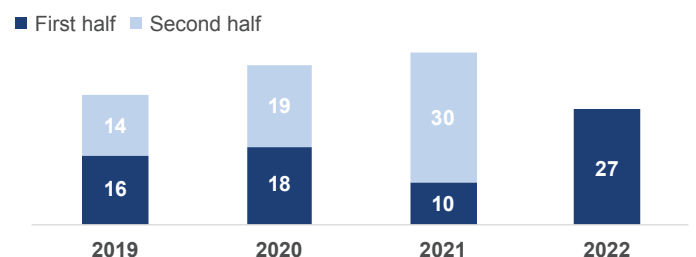
Sub-acquisitions are surging. This DeVoe & Company-coined transaction type is defined as acquisitions executed by firms that were acquired by *RIAs* or *Consolidators* themselves. The affiliates often use the parent company's capital and/or M&A expertise to support their own inorganic growth. Sub-acquisitions had steadily increased from 14% of all transactions in 2017 to 23% in 2020. When COVID hit, they dropped significantly as their parents concentrated on larger deals and affiliate sweet-spot targets were focused on supporting their clients through the pandemic. The volume has returned as smaller sellers have increased their activity. 2022 is setting records for sub-acquisitions and on track for an annual record. The 27 sub-acquisitions posted in the first half of this year are a striking 170% increase from the 10 transactions in the first half of 2021.

Buckingham Strategic Wealth is the perfect example of a successful sub-acquirer. The company, part of Focus Financial Partners, has now executed over 30 mergers, including Grecu Capital Management (\$192MM) in June. Another example is InterOcean Capital Group, another Focus partner firm, merging in Henry+Horne Wealth Management (\$740MM).

This surge in activity is part of the anticipated recent increase of small and mid-size firm sales noted on the prior page. The average size of sub-acquisitions is roughly half the size of other transactions, contributing to the downshift in the overall average seller size in the first half of 2022 discussed earlier.

### Sub-acquisitions Outpacing Recent Years

Sub-acquisitions by year



## Conclusion

M&A activity in the RIA space has experienced unusual resilience through a volatile market and challenging global and economic environment. Typically, periods of uncertainty can be an appropriate distraction to RIA owners and M&A is deprioritized. There is a potential for M&A activity to eventually be impacted by these factors, creating a slowdown for a quarter or two.

Despite the headwinds, the wealth management sector remains attractive to private equity and other financial services buyers. Key players are voting with their wallets that the RIA model is the best way to serve the investing public. This continued interest, complemented by the increasing interest of RIA firms to sell externally, will likely sustain strong M&A activity for years to come.

Although DeVoe & Company expects 2022 to be yet another record year, the velocity will decrease. The 40% year-over-year increase of 2020, which was followed by the 50% increase of 2021, will likely give way to a more reasonable 20–30% year-over-year increase. This is a ‘healthier’ trajectory for optimal M&A. Ultimately, the ‘best match’ is the most important aspect of a merger, and a ‘healthy’ amount of M&A optimizes the likelihood that these transactions will continue to yield successful outcomes.

## 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 RIAs, and only on transactions of \$100MM 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.

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## 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

M&A GUIDANCE

VALUATIONS

## Who We Are

Founded and led by RIA thought-leader David DeVoe, our team has grown to 18 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 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 **600** engagements in the last several years, supporting firms managing **\$100M** to over **\$250B** 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](http://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

For more information or to engage our services call us at 415.813.5066 or send an email to [info@devoe-co.com](mailto:info@devoe-co.com).



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