

RIA M&A Remains Strong, But Intensity Cools

The seller market catches its breath after a breathless 2021

2022 M&A activity has maintained a steady pace throughout the year, and Q3 was no exception. Four of the last five quarters have delivered ~68 transactions, and Q3 came in right on the money with 68 transactions. The mundane quarterly results are a stark contrast to the breakneck roller coaster of the last two years, as well as an eerie counterpoint to the chaos of the broader global and economic context.

Despite a perfect storm of factors that should be compressing valuations and dragging down M&A volume — stock market volatility, interest rate increases, looming or actual U.S. recession, employee turnover, and extreme global uncertainty — it is ‘business as usual’ in RIA M&A land, quarter after quarter of solid numbers.

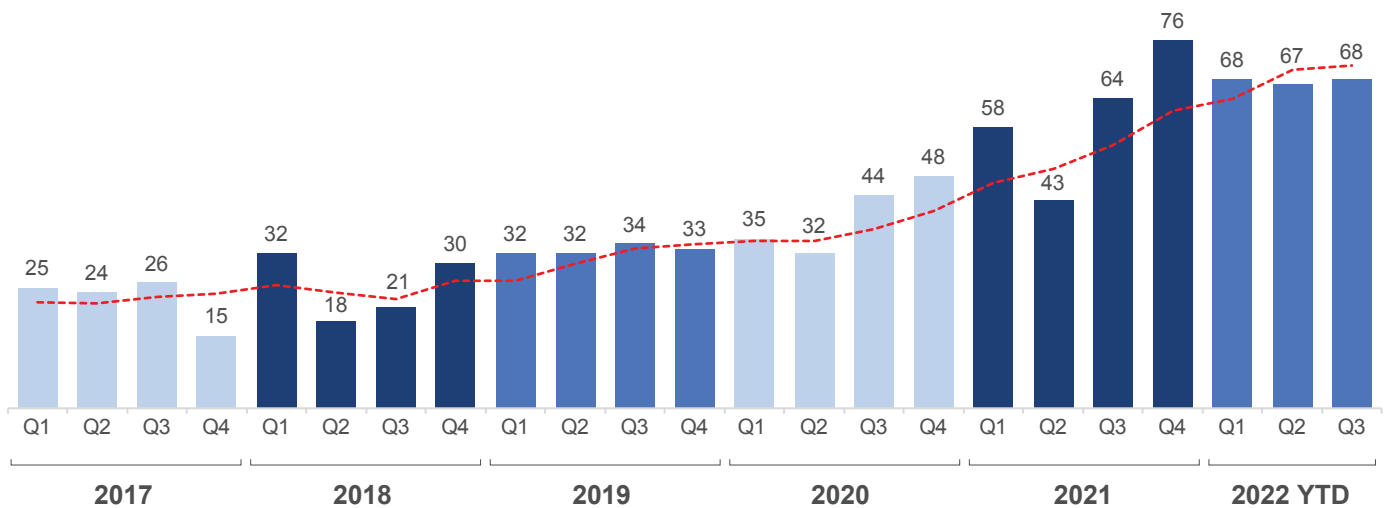
“2022 is on track to be yet another record year, albeit a relatively unexciting year from a volume perspective,” said David DeVoe, Founder and CEO, DeVoe & Company, at this year’s *M&A+ Succession Summit* at the end of September. “Although some interesting sub-trends continue to shift and evolve, the topline numbers have been steady throughout the year.”

Year-to-date, 203 transactions have been completed, up 23% from the lumpier first nine months of 2021. “Ten percent to 30% year-over-year increases are much healthier than the extreme clip of last year’s 50% increase,” said David DeVoe. DeVoe & Company forecasts total transactions by year-end will likely top last year’s total of 241 by a range of 12% to 20%.

Q3: Another 60+ Transaction Quarter

Number of transactions executed per quarter

--- Trailing four-quarter average



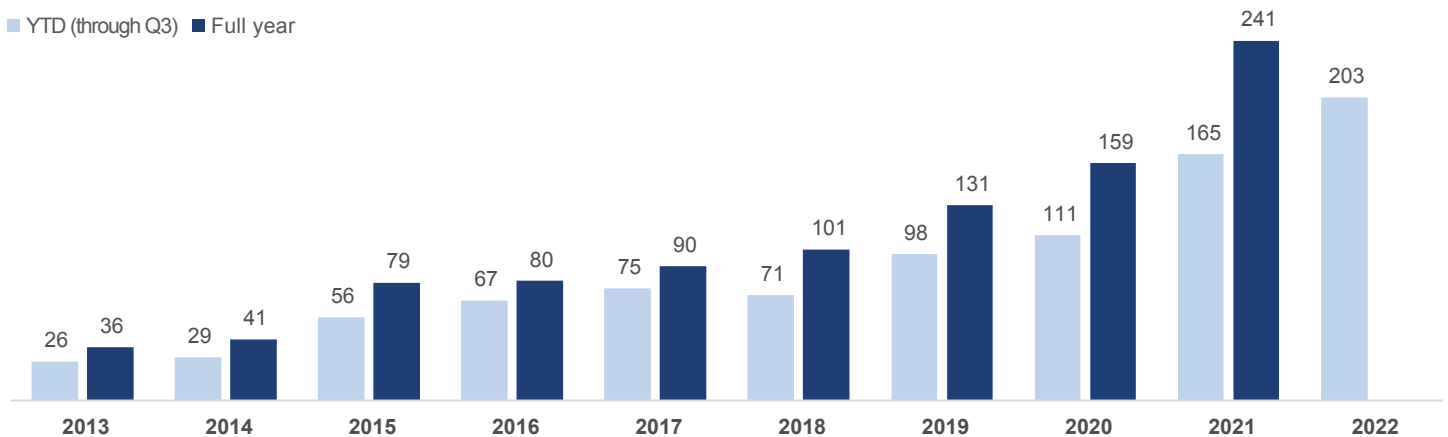
Investments are not FDIC-insured, nor are they deposits of or guaranteed by a bank or any other entity, so they may lose value.

For financial professionals only. Not for use with the public.

RIA M&A Volume Crossed 200 by End of Q3

Year-to-date vs annual M&A activity

■ YTD (through Q3) ■ Full year



Sub-\$1 Billion Sellers Surge

Small and mid-size firms are driving 2022's record volume. Activity by RIA sellers with less than \$1 billion in assets increased a whopping 54% from the same period a year ago. The transactions by this group spiked to 142 for the first three quarters of 2022, from 92 for the same period last year.

This surge in activity is partially due to 'delayed sales' from the COVID era. Firms under \$1B in AUM typically have a leadership team that still works with clients, and during COVID client service took precedence over strategic decisions like selling. As these advisors emerged from their COVID cocoons, they engaged with latent succession and external sale strategies, which are now reflected in the numbers. (We expect that current market gyrations will lower the curve of activity, as these advisors are yet again being pulled away from negotiation tables.) As a result, the sub-\$1B sellers account for about 70% of all transactions year-to-date, and 2022 is on track to potentially double the total number of transactions from 2020. This is a reversal of the trend the industry experienced over the past two years when larger firms (\$1B+) were the most active sellers.

Further analysis of 142 transactions to date in 2022 in the sub-\$1B group shows 93 transactions involved sellers with AUMs between \$100MM and \$500MM. Those firms

accounted for 46% of all RIA sales year-to-date, and more sales through the first nine months of this year than for the entire year of 2021. Sellers in the \$501MM to \$1B range accounted for 49 transactions, or 24% of total RIA sales, through the third quarter.

Larger seller activity has decelerated during 2022. After running at a sprint the last two years, sellers in the \$1B to \$5B range completed only 16 transactions in Q3, 30% lower than the high-water mark of 23 in Q3 2021. The 48 transactions by sellers between \$1B and \$5B in assets through the first three quarters of the year is an increase from previous years; however, the upward trajectory has flattened.

Only 6% of transactions through Q3 2022 involved firms with \$5B or more in AUM. Dropping nearly 50%, the 13 transactions completed through the third quarter is down from 21 in the same period last year.

The uptick in small and medium sellers, and the downtick of large and mega sellers, conspired to drag down the average seller size. The industry average AUM of sellers during the first nine months of 2022 was \$884MM, a 20% decline from the 2021 average of just over \$1.1B. (Note: For data consistency, DeVoe & Company excludes sellers with greater than \$5B in AUM from its average size calculation, thereby eliminating the impact of outliers.)

See accompanying charts on the following page.

RIA M&A Leaders Share Wisdom at the DeVoe M&A+ Succession Summit

Executives from the industry’s leading M&A firms made their annual pilgrimage to the *DeVoe M&A+ Succession Summit* in September to share wisdom and guidance with over 200 attendees. We’ve synthesized some of the key perspectives and highlights for our broader readership below:

Many sellers go to market prematurely: Many leaders observed a shift in the marketplace: an increase of would-be sellers not fully prepared to come to market. “We are seeing more sellers who are not ready. They don’t have a handle on their client data,” said Dave Barton, Vice Chairman, Mercer Advisors. “If you’re a seller, you need to know your numbers and your story well.”

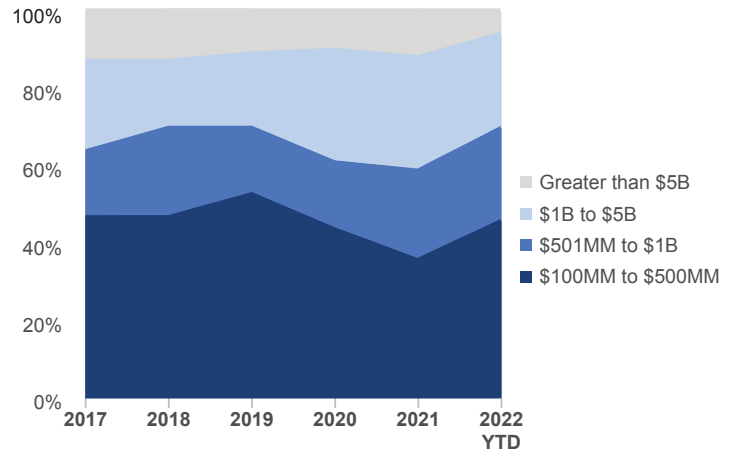
Allworth Financials’ Co-CEO Pat McClain added: “Know your business. Know the source of every new client, as well as the reason that any client leaves.”

Clear differentiation matters: Food analogies were used as key talking points, as experts highlighted the importance of differentiation. In a keynote discussion, Brian Parker, Co-Managing Director and Co-founder, EP Wealth Advisors, challenged the audience to “know your flavor and stay true to it,” elaborating on the importance of clarity. Other speakers commented that sellers have a robust choice when it comes to buyers. “It’s like the ice cream shop that used to have three flavors, now has 99 flavors,” said David DeVoe.

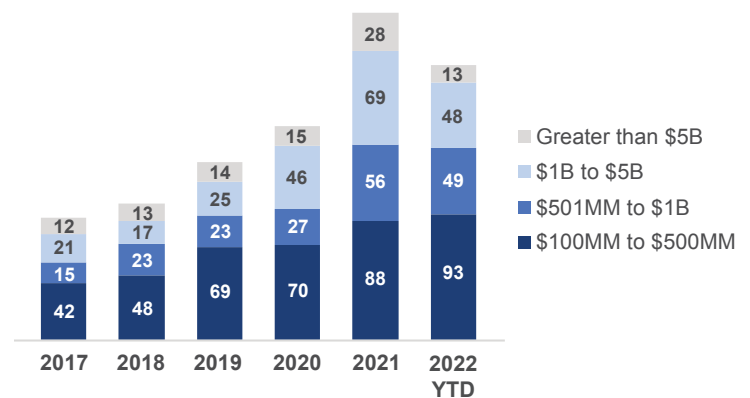
According to recent DeVoe & Company research, 52% of RIAs seek to become a buyer of other RIAs as part of their growth strategy. Some of these may be existing buyers, while others are new entrants. To compete, buyers will need to address the most common motivators or needs of sellers. Sellers often seek partners who have proven resources to help them accelerate organic growth, provide additional services such as tax and estate planning to clients, and offload administrative and functional responsibilities such as compliance and HR.

Majority of Sales Are Sub-\$1B Firms

Percentage of total transactions by seller size

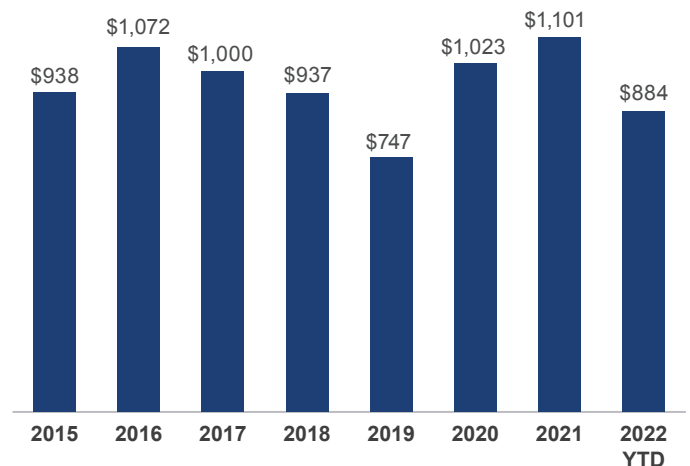


Number of transactions by seller AUM



Average Seller Size Dips

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



Focus on talent: Adding and developing talent is a top motivator for both buyers and sellers, according to DeVoe & Company research. But the industry has much room to improve in this area, several speakers shared. In his session, industry statesman Mark Tibergien encouraged RIAs, including seasoned acquirers, to step up their talent programs. “Try to become the employer of choice in your market,” he said at the recent *M&A+ Summit*. “RIAs are getting bigger, but there aren’t many firms today that are technically large businesses. The industry has work to do in the expansion phase,” he added.

Consolidators Are Still the #1 Buyers

DeVoe & Company categorizes RIA buyers into four distinct groups: *Consolidators*, *Banks*, *RIAs* and *Other* buyers. Years ago, *Consolidators* and *RIAs* would arm-wrestle each quarter and year for the dominant position. More recently, the *Consolidator* group has emerged as the dominant force. *Banks* have moved further to the sidelines, while the *Other* category expanded its position through hyperactive private equity investments. As has been the case for some time, *Consolidators* — firms whose business models are predicated on making RIA acquisitions — executed 52% of transactions through the first three quarters of 2022. Although they continue to execute more transactions than any other category, their dominance has recently waned.

Consolidators completed 32 transactions in the third quarter compared to 35 in Q2 and 37 in the third quarter of 2021. Over the prior four quarters, the average number of transactions in a quarter for this group was 39. Leaders of many *Consolidators* have informed DeVoe & Company that they are passing on more deals today than they did a year ago, citing a decline in the quality of firms coming to market.

Through the end of September, *Consolidators* closed 105 transactions, positioning the group to more than likely surpass its 131-transaction 2021 tally before year-end. Acquirers in this buyer category with three or more transactions in the third quarter were Mercer Advisors, Mariner Wealth Advisors, Merit Financial Advisors, and Wealth Enhancement Group.

RIA buyers completed 46 transactions during the first three quarters, more than the group’s total in 2020. RIAs have executed 23% of all transactions year-to-date, nearly flat to their 24% in the first three quarters of 2021.

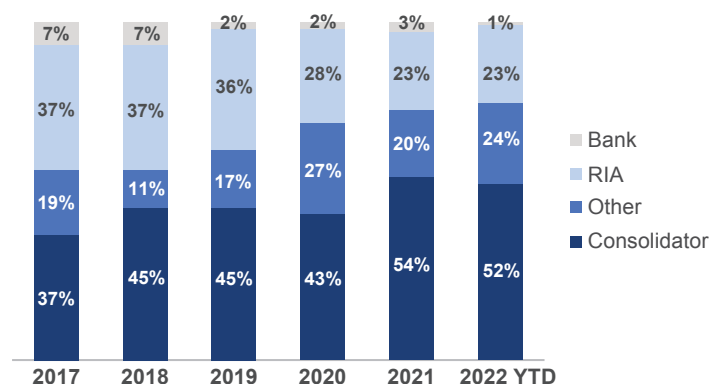
The *Other* buyer category, comprised of any transactions that do not fall into *Consolidator*, *RIA* or *Bank* categories, was the second-largest acquirer of RIAs year-to-date. This category accounted for approximately one-fourth of all transactions. New entrants and existing strongholds contributed to the group’s 50 transactions in the first three quarters of 2022. This represents a 43% increase over the 35 transactions executed in the same period last year. On a percentage basis, the group has increased over 2021, with 24% for the year-to-date period vs 21% for the same three quarters last year.

Within the *Other* category, LPL Financial purchased Boening & Scattergood, a \$5B RIA. LPL continues to be active in the breakaway, hybrid and independent categories. Kudu Investment Management, a New York-based firm, invested in GenTrust, a \$2.7B RIA. A new entrant to the RIA marketplace, Integrity Marketing acquired Gladstone Wealth Partners, a \$3.9B firm.

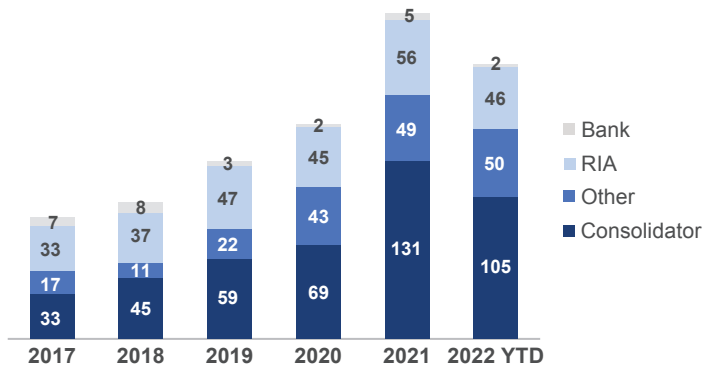
Meanwhile, *Banks* executed only one transaction in the third quarter, for a total of two year-to-date. Citizens Financial acquired Paladin Advisors (\$291MM in AUM), adding the Paladin team to its existing Citizens Private Wealth business. Location synergy played a role, as both buyer and seller are based in New Hampshire.

Consolidators Continue to Dominate

Percentage of acquisitions by buyer category



Number of acquisitions by buyer category



Sub-Acquisitions Surge After a COVID Decline

The 2022 surge in sub-acquisition activity continued its momentum. More sub-acquisitions occurred in the first three quarters of 2022 than in all of 2021. Forty sub-acquisitions were executed year-to-date, just north of the entire 2021 volume. The three-quarter comparison is even more dramatic. Sub-acquisitions through Q3 2022 were 90% higher than the 21 transactions completed by the end of the third quarter last year.

This category, defined as acquisitions by firms that were previously acquired themselves or have majority owners, has ebbed and flowed over the last several years. The tides are correlated with the activity of small and mid-size sellers for several reasons. With the wave of sub-\$1B sellers comes a wave of sub-acquisitions. Today, these deals have increased in seller market share to 20% of all transactions in the first three quarters from 16% in 2021, a recent low point. These affiliate buyers use the parent company's capital and/or its M&A expertise to support their own inorganic growth. With their strength and core competencies improving with each transaction, this group is likely to maintain continued momentum into the near future.

Most sub-acquisitions are smaller than the broader market, as the buyers are smaller themselves and target the digestible RIAs. Consequently, the success of this group contributed to the compression of the average seller size discussed earlier in this report. Specifically, the average size of a sub-acquisition in the first three quarters of 2022

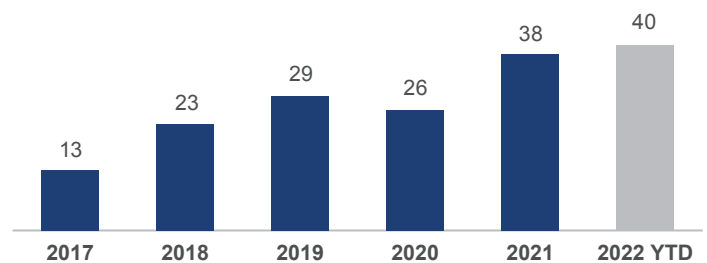
is \$538MM vs \$986MM for all other transactions year-to-date.

With the evolution of business models, the definition of sub-acquirer has taken on progressively lighter shades of gray. In this category, there are over a half-dozen parent companies that are currently active, including Wealth Partners Capital Group (WPCG), Focus Financial, Hightower, and Kestra Financial.

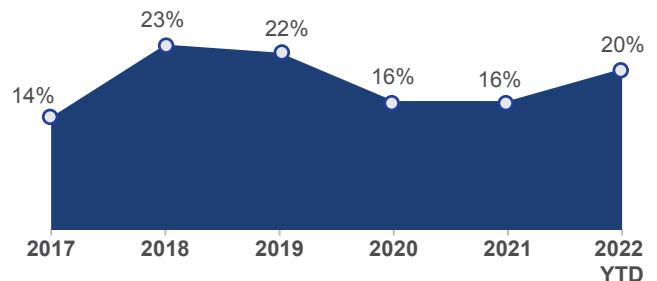
WPCG is a prominent investor and acquirer in the industry, and several of its partners have become active acquirers themselves. Four of its partner firms — MAI Capital Management, EP Wealth Advisors, Merit Financial Advisors, and Warren Averett Asset Management — are active in the RIA marketplace. With these four partners' recent RIA acquisitions, WPCG has doubled the number of sub-acquisitions it supported in just three years. Its partners executed nine transactions in 2020, 12 in 2021, and 16 through the end of Q3 2022, making WPCG the leading parent within the sub-acquisition category.

Sub-Acquisitions Top Annual Record

Number of sub-acquisitions by year



Sub-acquisitions as percentage of total transactions



The number of sub-acquisitions conducted through Kestra Financial, the parent company of Bluespring Wealth Partners, has also steadily increased in the last three years, from three in both 2020 and 2021 to six through the end of Q3 2022. (All but one of the Kestra transactions in that time period was conducted by Bluespring.) David Canter's recent appointment to president of Bluespring will provide a higher level of visibility. Canter's significant industry experience with RIA custodians Fidelity and Schwab provides Bluespring/Kestra with the potential to accelerate its RIA platform.

Number of Sub-Acquisitions by Parent, 2020–2022

Parent Company	2020–2022 YTD Sub-Acquisitions
Wealth Partners Capital Group	39
Focus Financial Partners	33
Kestra Financial	12
Hightower	7
NFP	4
CI Financial	3
Laird Norton Wealth Management	1
Merchant Investment Management	1
Symmetry Partners	1
Emigrant Partners	1
Protective Life Corporation	1
Summit Partners	1
Total	104

Conclusion

2022 M&A activity in the RIA space has been surprisingly consistent, given the backdrop of volatile national, global and market dynamics. Valuations and deal structures have shown similar resilience.

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.

For financial professionals only. Not for use with the public.

Although a deceleration in transaction volume has occurred, from a 50% year-over-year increase to 15%, M&A activity is still robust and nearly sure to break another record. At any given time, the confluence of so many volatile factors — U.S. interest rates, market volatility, labor market, supply chain challenges, slowing global growth and a U.S. recession — could affect the delicate balance of M&A supply and demand.

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 \$100 million or more in AUM. We limit our tracking to \$100MM+ RIAs to optimize the statistical accuracy of our reporting and 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

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.

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.



Can I do more today to prepare
for my clients tomorrow?

With RIA Insider,[™]

I can.

Stay two steps ahead with timely and informed insights to plan today's strategies for tomorrow's opportunities, as well as tools that can give you an edge in connecting with your clients.

Become an Insider at
RIAInsider.com