

Fast Start to 2022 RIA M&A Activity

World turmoil may create some slowing

RIA M&A activity started strong in 2022. 67 transactions were announced in the first three months of the year, a new high-water mark for RIA M&A activity in a first quarter. However, the deceleration of activity and recent global and national events create questions about future expectations.

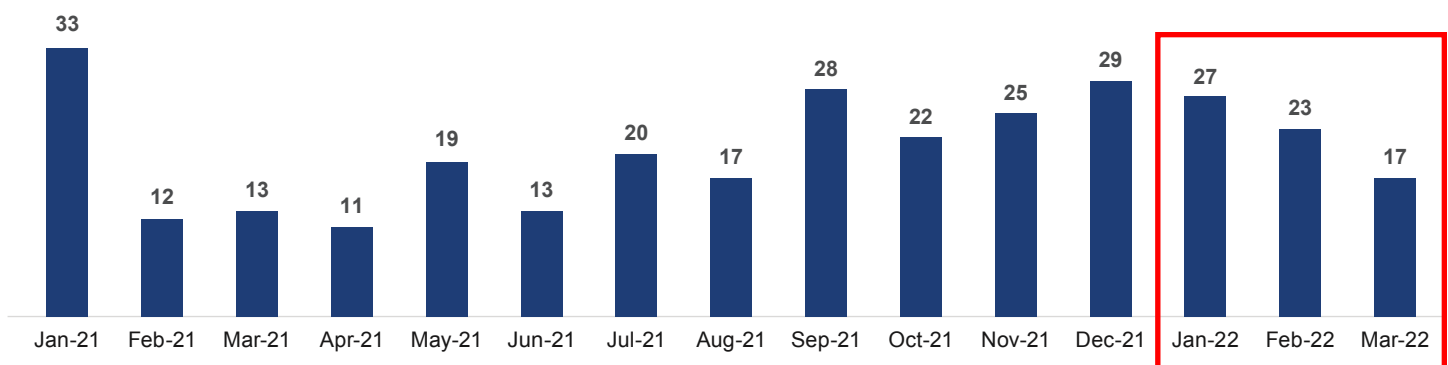
The record-setting year of 2021 fueled a strong start to 2022. Many late-year sales skidded past December 31 or were announced shortly thereafter, driving the January tally to 27 transactions. As a result, January was the fourth-strongest month on record. However, the pace in February and March then slowed to 23 and 17 transactions, respectively.

The sum of the three months resulted in the second-strongest quarter in DeVoe & Company’s history of tracking (perhaps no surprise: the highest quarter ever was Q4 2021).

Looking forward, does three successive months of decelerating M&A activity mean the industry has downshifted into a ‘new normal’? Should one expect monthly M&A activity to stay in the teens? Maybe. But most likely not. The narrow time period and extreme volatility of recent events should give one pause before claiming that a sustained decline has begun.

January 2022 Fourth-Strongest Month on Record

Monthly transactions January 2021–March 2022



Global, national and industry events impact M&A and can’t be ignored. As of this writing, the Russia-Ukraine conflict is not only a surreal tragedy but also is affecting oil prices and the global economy. Supply chain challenges continue to slow commerce and increase prices. Closer to home, interest rates are rising, and inflation is over 8%. The impact of the macro environment will be addressed in more detail in the conclusion, but there are both near- and mid-term implications.

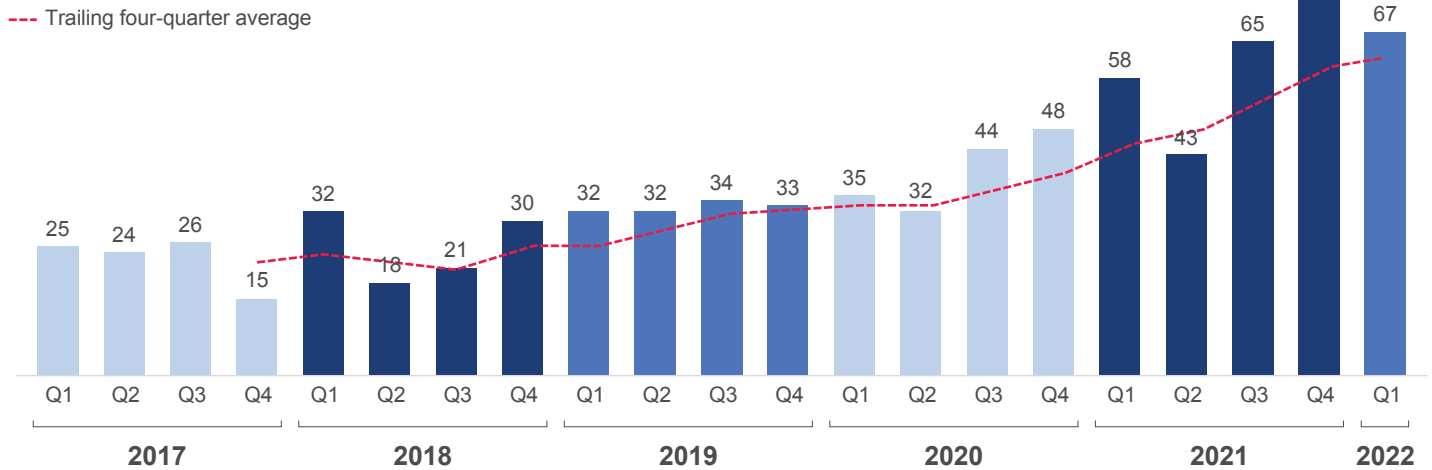
Some acquisition announcements have been delayed to avoid proclaiming a *good news merger* during times of global unrest and humanitarian crisis (Please note: During the last week of the quarter — four weeks into the Russia-Ukraine conflict — deal announcements have resumed to their pre-invasion pace). Furthermore, neither DeVoe & Company nor several key acquirers we recently spoke with have experienced a slowdown in interest or activity.

So, we can’t ignore the slowing pace, and we shouldn’t ignore the broader context. Consequently, the RIA M&A crystal ball is a bit cloudy at this time.

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

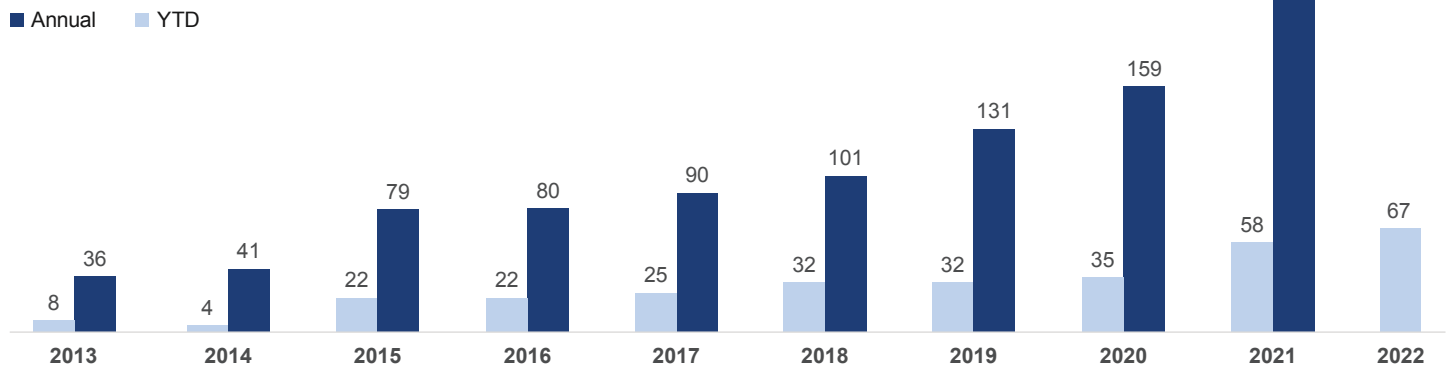
Q1 2022 Marks Second-Strongest Quarter Ever

Number of transactions executed per quarter



Record First Quarter Jump-Starts 2022

Year-to-date vs annual M&A activity



Mid-Size and Smaller Firms Surge as \$1B+ Sales Slow

Mid-size and smaller sellers spiked in the new year. Sellers with less than \$1B in AUM increased to comprise 70% of all transactions for the first quarter, a significant uptick from 59% in 2021.

Mid-size sellers (firms between \$501MM and \$1B) began picking up steam last year. Smaller firms (firms between \$100MM and \$500MM) have also recently increased their activity. The combined total volume drove a spike in sub-\$1B transactions, reversing the broader trend of the last several years.

This shift is part of a pattern that DeVoe forecast in early 2021. The domino effect of mega/large/medium/small RIAs selling in sequential waves has happened several times in the industry over the last two decades. Multiple drivers, including psychology, contribute to the sequence. Firms contemplating a sale gain confidence in the decision when they see their larger peers selling. This proof of concept provides a greater degree of conviction in the decision (and then smaller peers gain confidence in *their* decision).

Mega sellers: Firms with over \$5B in AUM ended the quarter at just 7% of the total volume, which is below their average share of 11% over the last few years.

Large sellers: The decline in the overall \$1B+ segment is most striking within the large seller group, firms in the \$1B to \$5B range. Sellers with \$1B to \$5B experienced the largest percentage drop during Q1, from 29% in 2021 to 23% for the start of this year. This is likely just a natural pause after the group's intense activity level in 2021.

Mid-size sellers: This segment has taken center stage. Sellers with \$501MM to \$1B increased to 33% of all transactions — an uptick from 23% in 2021 and a steep increase from their historical share in the high teens. These sellers are red hot in their activity. The Q1 spike follows the doubling of activity by the segment in 2021.

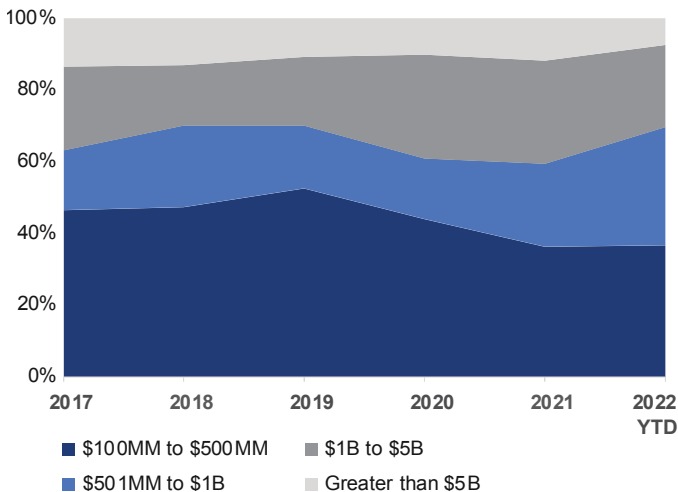
Small sellers: Sellers in the \$100MM to \$500MM range reversed their downward trendline that had been persistent for the last two years. Sales among this group had

plummeted from 53% of all transactions in 2019 to 36% in 2021. The freefall has now reached a plateau, with signs of renewed activity afoot. While the deals in this category remained relatively consistent on a percentage basis, the 25 transactions in the quarter were greater than the group's 2021 quarterly average of 22. DeVoe & Company anticipates an increase in activity among this group in the event of a prolonged market dislocation.

The average AUM of sellers for the first period of 2022 ended slightly under the \$1B milestone. The average seller size has been under \$1 billion for six months now. This is the effect of larger sales slowing and sub-\$1B sales rising since mid-2021. (Note: For data consistency, DeVoe & Company excludes sellers with greater than \$5B in AUM from the calculation, thereby eliminating the impact of outliers.)

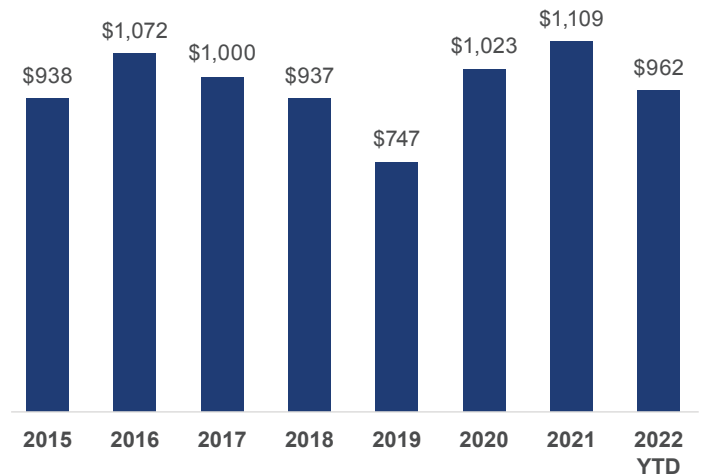
Sub-\$1B Sellers Surge in Early 2022

Percentage of total transactions by seller AUM



Seller Size Dips with Onset of Sub-\$1B Transactions Rise

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



Consolidators Dominate as Buyers, while RIA Buyers Are Crowded Out

Consolidators continue to be the primary buyers of RIAs. Their deep pockets and the wide range of business models continue to attract sellers and allow them to drive activity. DeVoe & Company defines *Consolidators* as companies whose business models are predicated on making RIA acquisitions, or active acquirers with ‘inorganic growth’ as a core plank in their business strategy. This pool has expanded dramatically over the last five years, as RIA management teams and private equity firms focused increased energy and investment on growing through acquisition.

Most Transactions by Consolidators, Q1 2022

Firm Name	No. Transactions
Beacon Pointe Advisors	6
Creative Planning	5*
Mercer Advisors	5
Mariner Wealth Advisors	4
Cerity Partners	3
Wealth Enhancement Group	3

*Emery Howard and JBJ Invest were supported by DeVoe & Company.

Consolidators acquired 55% of RIA sellers in Q1, a slight uptick from 2021. The most active *Consolidators* are now able to absorb multiple transactions per quarter.

Transactions in the *Other* category increased to 33% from 20% in 2021. The *Other* category is comprised of any acquirer that doesn’t meet the definition of a *Consolidator*, *Bank* or *RIA*. The group is typically composed of private equity firms, asset managers, insurance/benefit companies and other non-RIAs. Merchant Investment Management, a unique model that takes a minority stake in RIAs while encouraging them to use their ecosystem of acquired support companies, announced a whopping seven transactions in the quarter. They are part of a broader movement of special-purpose companies acquiring

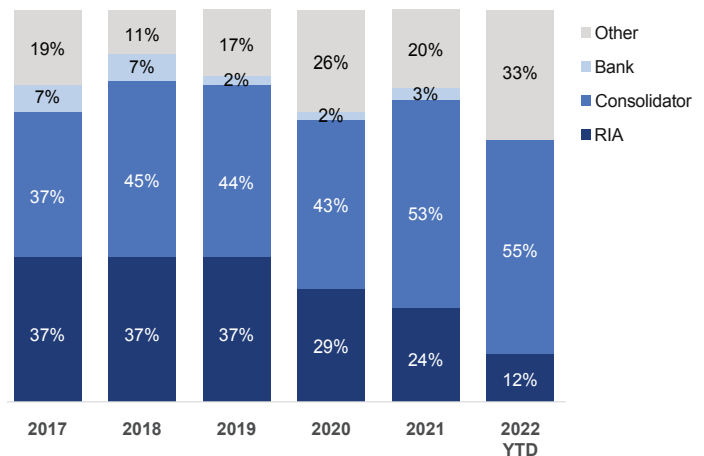
minority stakes in RIAs. OneDigital, an employee benefits and retirement plan services company, announced three RIA acquisitions.

Transactions in the *RIA* buyer category dropped to 12%, the group’s lowest share in the history of DeVoe & Company’s tracking. The category’s steady decline from 37% in 2018 is the result of the proliferation and success of *Consolidators*, and the fact that many RIAs eventually lean into the inorganic strategy and become *Consolidators* themselves (EP Wealth, Allworth and Mercer are just a few examples).

Meanwhile, *Banks* did not post a single transaction. Although banks used to execute nearly 10% of the transactions several years ago, their activity has dwindled to low single digits.

Consolidators Continue to Dominate Q1 2022

Percentage of acquisitions by buyer category



Conclusion

M&A activity in 2022 started with a strong first quarter, but the numbers stair-stepped down each month. This decline may be a trend that sustains itself. There may be additional months of declining activity or a new normal of monthly activity in the mid-teens. However, the more likely scenario is that this slowdown is an illusion created by temporary marketing decisions. Celebrating signed deals during a global crisis is not the best PR move. DeVoe & Company itself has a number of transactions that our clients have delayed announcing. We expect there are more out there in the same waiting mode.

Over the next several quarters, the implications of Russia's invasion of Ukraine will continue to unfold in the global economy and affect the U.S. stock market. This has the potential to slow RIA M&A. Steep stock market declines or extended periods of volatility have a dampening effect on transition decisions for advisors. Taking care of clients is job #1. So, any RIA owner who is splitting their time between running the company and overseeing clients will focus on the latter. Transactions will be put on the backburner as needed. Buyers can also rationalize lower valuations, as AUM and revenue compress and risks increase.

Over the mid-term, RIA M&A is likely to continue to increase. The next five years or more will likely see heightened M&A activity, primarily due to the benefits of scale and the lack of succession planning.

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.

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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

INVESTMENT BANKING

VALUATIONS

Who We Are

Founded and led by RIA thought-leader David DeVoe, our team has grown to 17 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.



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