

RIA M&A Decline Extends

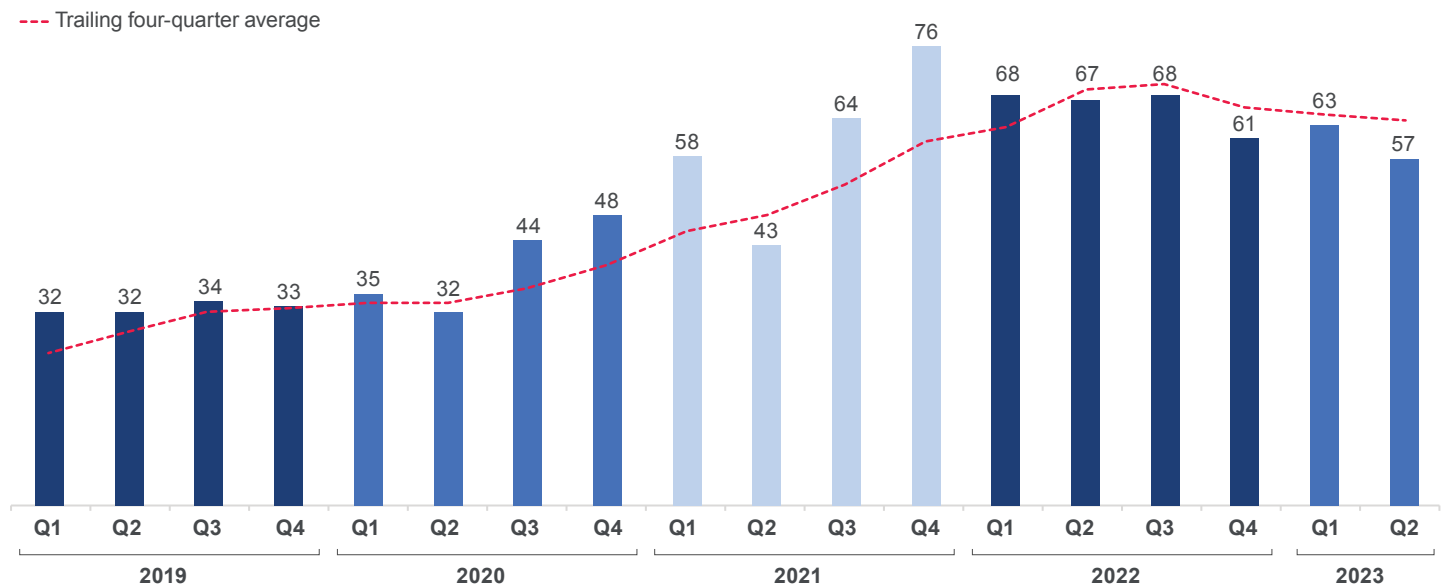
First down year in the making

RIA merger and acquisition (M&A) activity is in a period of decline. Over the last 18 months, the volume of transactions has slowly declined from over 70 transactions in a quarter to the high 50s. This compression follows nine successive record years of M&A activity. So, despite a slowdown, the RIA M&A marketplace is still extremely active.

A total of 57 transactions posted in the second quarter, a drop from the 67 for the same quarter last year. The 15% decline was due to an unusually light June, and was the third consecutive quarterly decline over the same quarter in the previous year.

Quarterly Activity Extends Its Decline

Number of transactions executed per quarter



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At the midpoint of 2023, M&A is down over 10% versus the same period last year. With total transactions at 120, the first six-month period of the year is 11% below the 135 recorded for the first half of 2022.

Both buyers and sellers are a bit more timid in the current market. The macroeconomic conditions of high inflation, continued high interest rates and long-standing uncertainty in the economy and financial markets are likely weighing on the industry’s M&A activity. Interest rates have steadily increased since the Federal Reserve began raising short-term rates from 0.25% in March 2022 to 5.25%

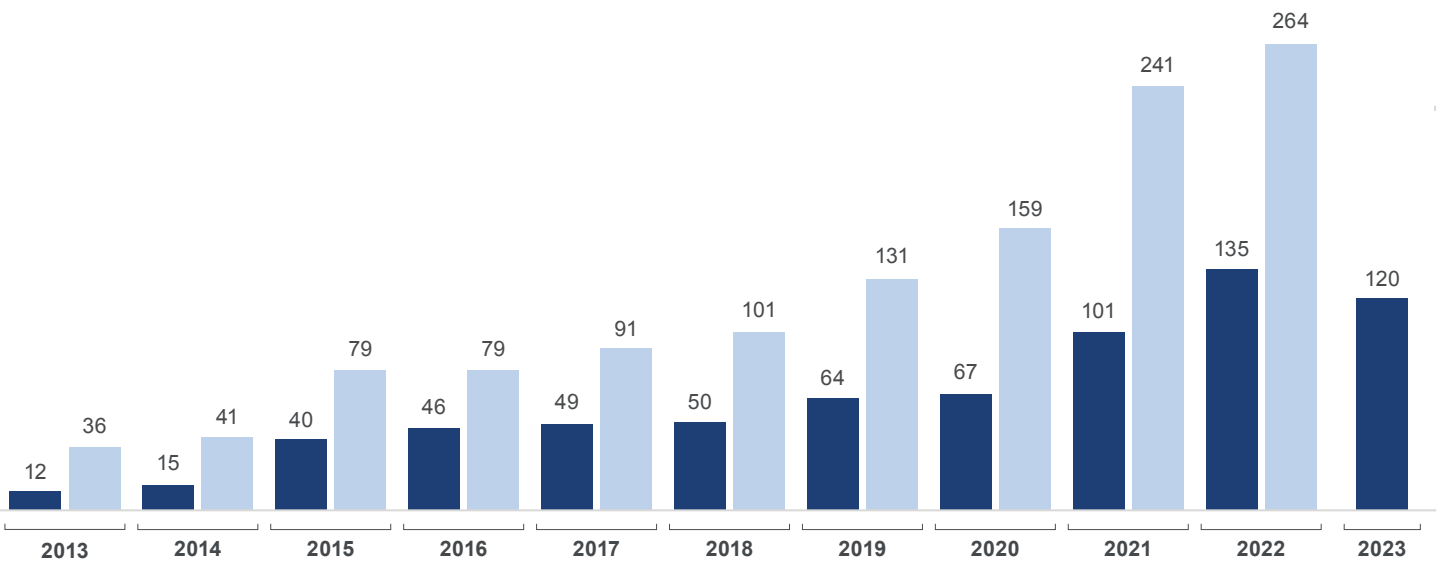
currently. Although the central bank refrained from raising rates again in June after 10 consecutive hikes, officials indicated the Fed could raise rates again later this year. Stock market volatility and a high/increasing cost of capital have a natural dampening effect on RIA M&A activity.

Given the slow start of M&A activity for the year and expected persistence of the macroeconomic conditions, it is unlikely that 2023 will be another blockbuster year. The first annual M&A decline in nearly a decade may be upon us.

2023: Tracking Toward a Down Year

Year-to-date vs annual M&A activity

■ First half ■ Full year



Active Pipelines, but Mixed Views About Future Expectations

The M&A marketplace is in a period of contraction, and both buyers and sellers are becoming more selective. At least that is what the CEOs of the industry’s most active acquirers indicate.

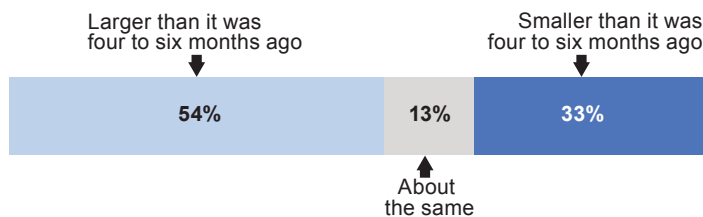
DeVoe & Company recently surveyed the CEOs / senior executives of the industry’s major acquirers about their acquisition pipelines and expectations. When we last polled them in late 2022, the group indicated that pipelines were neutral to expanding. Today, their responses have shifted.

Most notably, their pipelines have shrunk during the last several months. In the recent survey, 33% indicated that their pipelines were smaller than four to six months ago vs only 7% saying the same in December 2022. The pipelines of major acquirers are a leading indicator of transactions, so one might conclude that a further decline in activity is still to come. However, the sky isn’t falling: 54% of major acquirers indicated an expanding pipeline, an uptick from six months ago when 40% indicated the same.

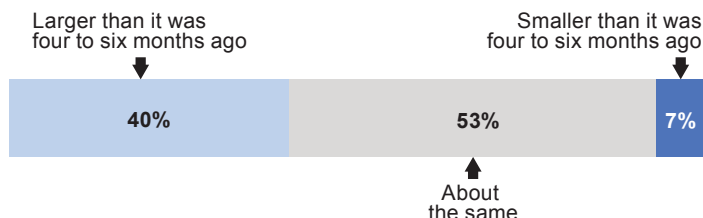
Many Buyer Pipelines Compress

Buyer pipelines: May 2023 vs December 2022

May 2023



December 2022

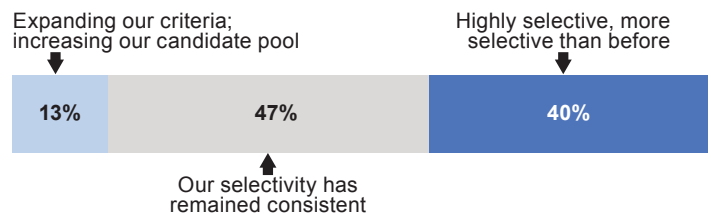


Interestingly, many active acquirers are narrowing their target profile criteria. 40% of respondents in the most recent survey vs 27% last December say they are more selective in their approach to considering firms to acquire. Buyers are continuing to refine their optimal target — which is good for everyone, as it saves all parties time and will contribute to stronger, more aligned organizations.

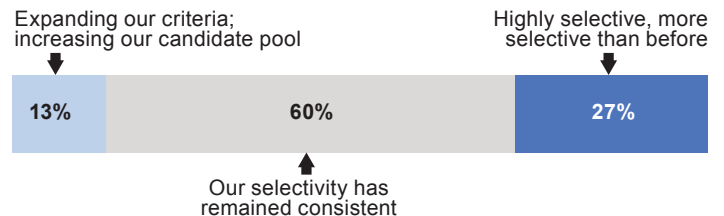
Buyers Are More Selective with Candidates

Selectivity: May 2023 vs December 2022

May 2023



December 2022



Despite these shifting perspectives, acquirers expect that their firms’ M&A activity will increase in the near future. Nearly all major acquirers are optimistic that they will either maintain (40%) or increase (53%) their historical number of transactions in the next six months. The remaining 7% indicated they plan to make fewer acquisitions.

In terms of valuations, 60% say the valuation multiples they are paying haven’t shifted, while the remainder report paying lower multiples. None of the surveyed buyers report they are paying more. These valuation decreases may be primarily with small RIAs or firms not represented by an investment banker, as DeVoe & Company is not seeing material decreases in valuations for transactions when we represent the seller.

More RIAs Are Becoming Buyers...

Three key buyer categories have emerged across the landscape: *Consolidators*, whose business models are focused on acquiring firms; *RIAs*, as a buyer category themselves; and *Other* buyers, a group that includes all other acquirers. These categories rarely shift dramatically from quarter to quarter, but a steady shift in *RIAs* taking share from *Consolidators* has developed over the last few years.

RIA buyers executed nearly 30% of transactions for the first six months of 2023. This is a significant uptick from the 23% share of transactions that these firms absorbed in calendar year 2021. Pathstone Advisors, AlphaCore Wealth Advisory, Larson Financial Holdings, and Waverly Advisors each made two acquisitions in the first half of 2023.

...But Consolidators Still Dominate

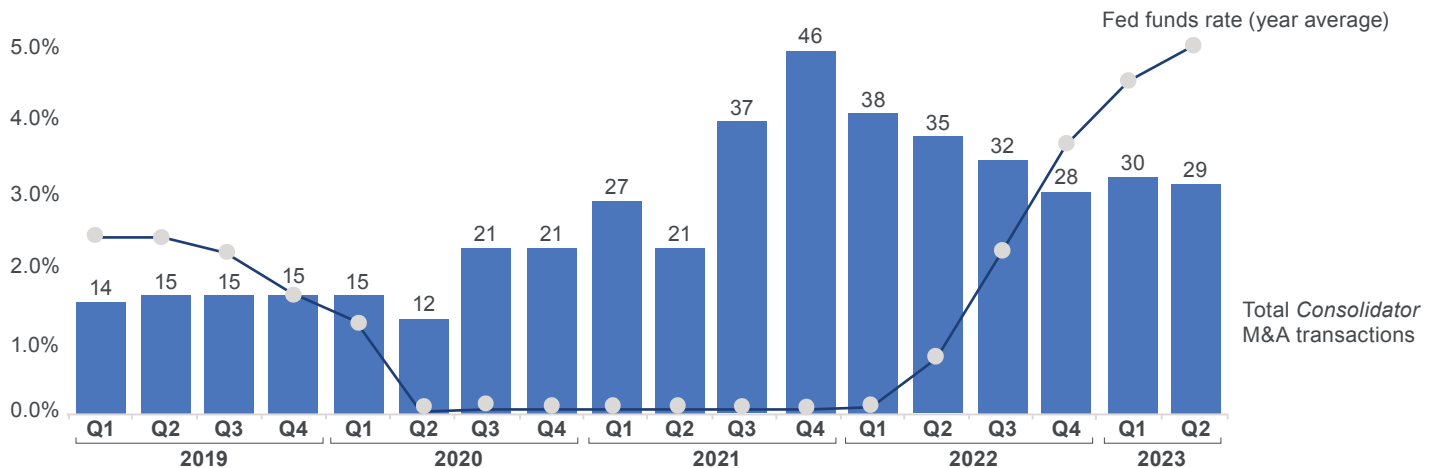
Consolidators continue to be the dominant buyers of RIAs, but their share of RIA acquisitions has been slowly eroding. For many in this category, the interest rate environment has affected their capital position and economic decisions, and consequently their pace of acquisitions. Others are spending more time on the due-diligence process, which results in transactions taking longer to complete.

These firms executed nearly half of the acquisitions in the first half of 2023. Their 49% share has been a slow, but steady, decline since 54% in 2021.

On a nominal basis, transactions by *Consolidators* in Q2 fell 17% to 29 transactions, from 35 in the same quarter last year. (They peaked at 46 for Q4 2021.) In the first half of 2023, they completed 59 transactions vs 73 in the first six months of 2022.

Consolidator Activity and Interest Rates: Inverse Relationship

RIA M&A transactions (*Consolidators*) vs interest rates



The Most Active Consolidators, First Half of 2023

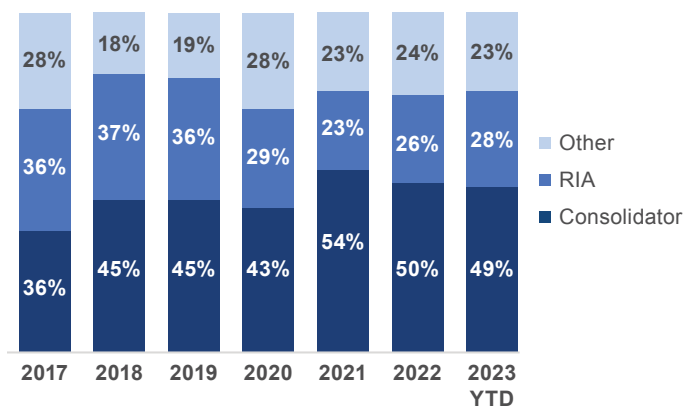
Firm Name	Number of Transactions
Wealth Enhancement Group	7
Merit Financial Advisors	6
CAPTRUST	5
Cerity Partners	5
Beacon Pointe Advisors	5
Hightower	5

Six firms with five or more transactions each accounted for more than half of the acquisitions made by *Consolidators* in the first half of the year. Wealth Enhancement Group topped the list with seven acquisitions, Merit Financial Advisors had six, and CAPTRUST, Cerity Partners, Beacon Pointe Advisors and Hightower each executed five acquisitions.

Buyers in the *Other* category accounted for the remaining 23% of transactions in the first half of 2023. The *Other* category includes private equity, insurance/benefit companies, diversified financial services, broker-dealers, asset managers, accounting firms and banks.

Consolidators' Share of Transactions Steady, while RIAs Increase

Percentage of acquisitions by buyer category

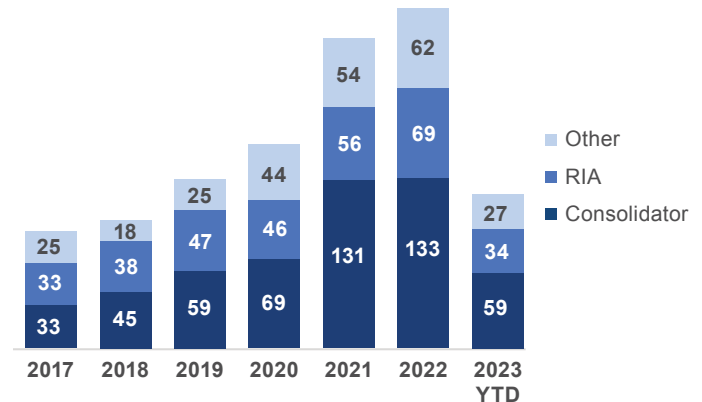


The *Other* buyer category ended the first half of 2023 with its lowest share of transactions since 2019, when the group's share was 23% of transactions.

Companies within *Other* executed only 27 deals in the six-month period and only 11 transactions in Q2. In comparison, there were 36 transactions executed by buyers within the *Other* category in the first half of 2022 and 14 in Q2 2022.

RIAs Have Strong Presence as Buyers YTD

Number of acquisitions by buyer category



New Private Equity Entrants

Within the *Other* buyer category, private equity continued to invest in the potential and growth of the RIA industry. For the first half of 2023, private equity firms executed nine transactions, representing 33% of transactions in the category and 8% of all transactions for this period. New entrants played an important role in the recent period.

The most notable private equity firm entrant into the RIA space is Altas Partners. Altas made its debut pure play into the RIA space with an investment in Mercer Advisors (\$48B) in June. The company previously invested in industry-adjacent HUB International, an insurance broker. Altas manages approximately \$10B from its offices in Toronto and New York.

Audax Group is another new entrant, investing in Congress Wealth Management, a \$5B RIA out of Boston.

New private equity entrants like Altas and Audax are indicators of 'smart money's' continued interest in the independent wealth management model.

Seller Size: Smaller Sellers Dominate

As the saying goes, good things come in small packages. Today's RIA M&A market is living up to that truism. For the last 18 months, small sellers have comprised nearly half of the seller volume.

This trend has maintained momentum in 2023, as this group of firms with \$100MM to \$500MM in AUM yielded 57 transactions over the last six months.

These smaller RIAs are likely to feel the greatest competitive pressure in the evolving marketplace and typically are selling to gain the benefits of scale. At the same time, interest in this segment from acquirers has increased, as smaller firms typically sell at lower multiples.

By contrast, mid-size firms stayed on the sidelines in Q2. The slower pattern for this group started a year ago. The 12 sales of firms with assets between \$501MM and \$1B were equal to the number in the same quarter last year. At 13% of transactions in the first six months of the year, the group is well below its 23% share for the last two calendar years.

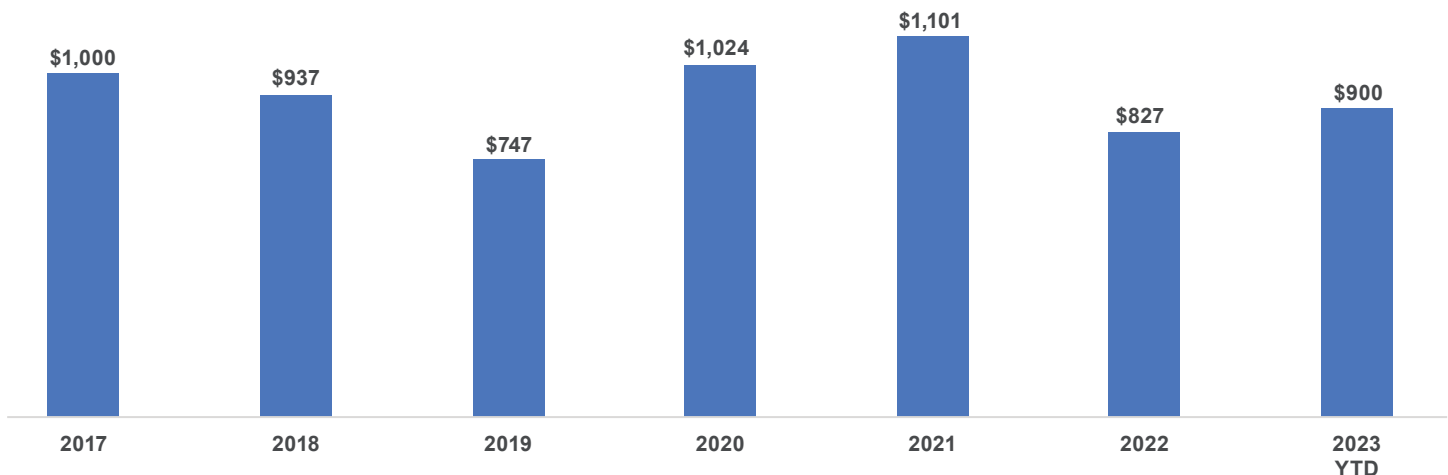
Larger firms in the \$1B to \$5B range accounted for 18 sales in Q1 and 34 in the first half, both upticks from their respective numbers in the comparable year-ago periods. Larger firms accounted for 28% of sales in Q2 2023 and 28% in the first half. The highwater mark for this group was 29% in both 2020 and 2021 calendar years. Their first-half sales of 34 were two more than the same period last year.

Mega firms with more than \$5 billion in assets increased their activity compared to a year ago. Six firms sold in Q2 2023 and 13 for the first half of 2023, compared to four and nine for the same periods in 2022. Their 2023 representation of 11% is on par with their 10% average share of all transactions over the prior five years (2018–2022).

Given these shifting dynamics of the RIA seller market, the average AUM of sellers, excluding those with AUM above \$5B, rose slightly to \$900MM for the January to June period. This is just north of the 2022 average of \$827MM, but a material downtick from the \$1B+ averages of 2020 and 2021. DeVoe & Company excludes sellers with over \$5B from this calculation to eliminate the impact of outliers.

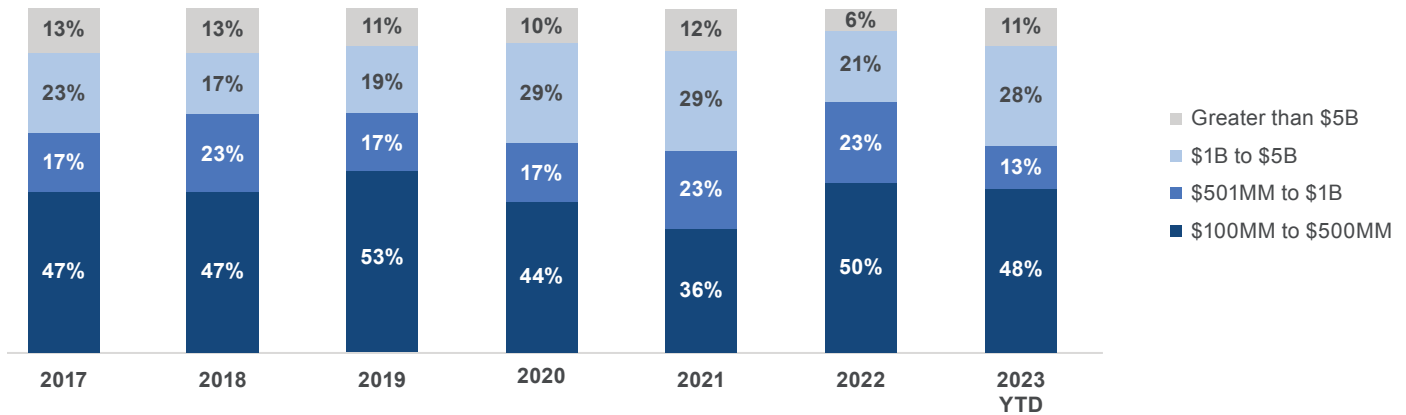
Average Seller Size Rests Below \$1B

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

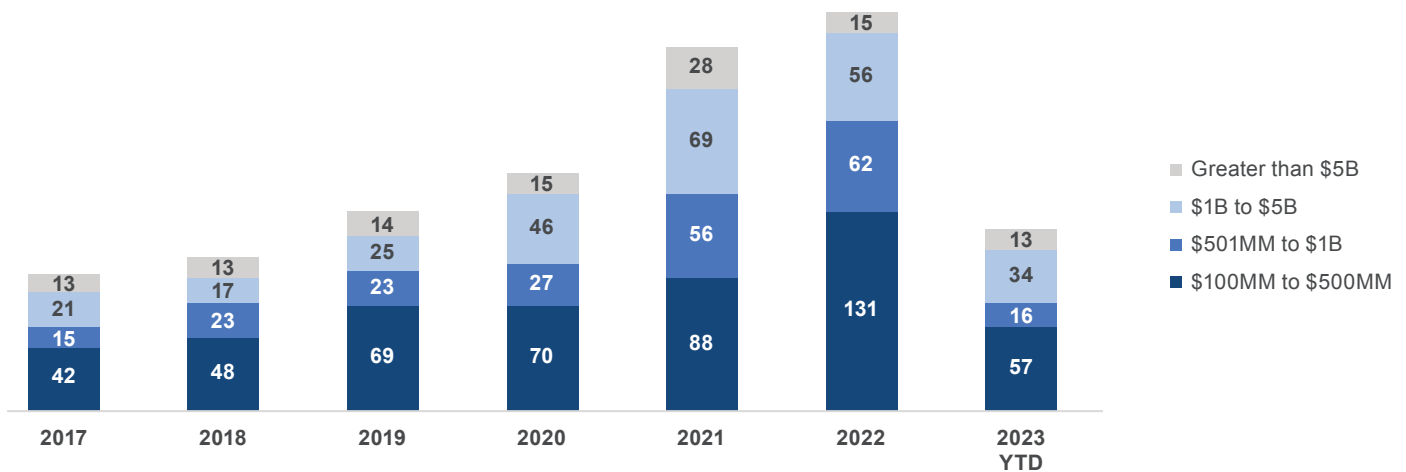


Smaller Sellers Comprise Nearly Half of All Transactions in 2023 YTD

Percentage of total transactions by seller AUM



Number of transactions by seller AUM



Sellers in Minnesota Top Geographic List

Acquirers are shifting their historical focus from the major money centers to secondary markets. While California, New York and Florida have long been hotbeds for wealth management firms, many consolidators are adding flagpoles in emerging centers of wealth.

Minnesota is hot — and a great example. Aside from a surge of three transactions in Q2 2022, the state has rarely had more than a single transaction in any given quarter. Then Q2 2023 happened: Seven Minnesota firms sold in the period. And the appeal is broad — only one buyer executed more than one transaction.

Massachusetts, with six sellers in the quarter, was a close second to Minnesota. Pennsylvania and Texas, both with five sellers in the quarter, round out the top four states.

Reinforcing this shift is the recent plight of California. Not only are residents and businesses leaving but the bloom at least temporarily came off the state's M&A rose. Dropping from 15 transactions in Q1, the state barely put two points on the board in the latest quarter.

What Should RIAs Do If Delaying a Sale?

Ultimately, the decline in M&A is driven by “likely sellers” deciding that they don’t want to sell, at least right now. For a variety of reasons, many RIA firm leaders are concluding that it is best to wait for a better time. A subset of this group is taking the initiative to improve their business in the interim.

“While our clients are invariably on cloud nine following a sale, most also tell us they regret that they hadn’t hired us a year earlier to help strengthen the business before they went to market,” said David DeVoe, Founder and CEO, DeVoe & Company.

It’s obvious in retrospect: Just as homeowners make various improvements — a fresh coat of paint, improvements to kitchens or bathrooms — to capture a premium when they put their home up for sale, RIA owners who invest in improving their business will likely reap the rewards when they sell. Regardless of whether you seek to optimize your value when you sell or stay independent, investing in improving the company benefits all constituents — including your employees and clients. For most firms, the best place to start is with either improving growth or optimizing human capital.

Improving growth: Growth is arguably the most sensitive factor in a valuation. For every 1% increase in an RIA’s sustained growth rate, its valuation can increase by 7%. And as importantly, strong growth is a key indicator of a healthy, vibrant firm.

So, what to do? Start by taking an honest inventory of the fundamentals. Do you have a documented value proposition? Is it clear? Do your advisors know it? Many of DeVoe’s growth consulting clients answer ‘yes’ to these questions, only to later sheepishly admit or realize that these building blocks are not as strong as they should be. A clear, differentiated and shared value proposition is foundational.

A target client profile is equally important. What are the characteristics of your ideal client? What segments emerge as you analyze your data? Quantifying the percentage of clients that fall into your key segments is insightful. It will not only help your collective team better understand the characteristics of your clients and help you refine your value proposition, but it often will also lead to re-evaluating what your core segments are.

Only with these elements in place can a firm create the path to sustained growth: a comprehensive and integrated growth strategy. Long-term growth requires a methodical plan and disciplined execution.

Investing in people: The future of any RIA firm is its next-gen advisors, those in line to be the future leaders. Martine Lellis, Chief Talent and Administration Officer of Mercer Advisors, spoke at DeVoe Elevate about the power in creating an industrial-strength talent management program.

She explained how RIA executives need to invest in talent engagement. This includes the detailed work of crafting intelligently designed incentive compensation plans and integrating them into methodical performance review structures. These elements can drive performance *and* mitigate attrition.

Advisors often don’t see that succession planning and an external sale can — and should — co-exist. The fact is an RIA has commanded a higher valuation when the firm has a next-gen leader or leadership group in place. Crafting the succession plan and the related career paths is another foundational element.

Interestingly, there is a clear connection between growth and people. A high-growth RIA typically creates better career paths, higher income for employees and fewer administrative headaches for all. But it will also help a company better serve clients. As you scale the company — whether through a downstroke of joining a bigger firm or growing your own — clients should win. Your best people have more leverage and there are more people to support client needs.

Conclusion

Although the industry is still in a heightened period of activity, 2023 is tracking toward the first down year for RIA M&A in nearly a decade. As today's RIA M&A dynamics are mainly being affected by the macroeconomic environment, DeVoe & Company expects that as the U.S. economy and stock market recover, and when interest rates decline, M&A will resume its upward climb.

The relatively steady state of transactions that has occurred over the last several quarters — especially as compared to the breakneck growth of the last nine years — has been a healthy development. Buyers have been and are able to digest acquisitions more effectively and have appropriately become more selective. Sellers can be more strategic in their decisions, as a degree of frenzy has subsided.

As always, DeVoe & Company encourages advisors to think carefully and strategically about buying or selling. These transactions can be transformational, but they don't come with exit clauses. Valuations are still high, but less likely to go higher. Today's buyers are strong companies, but 'life after signing' is quite different among them — and the deal structure terms even more so. So, even though it may seem like a seller's market, transactions are complex and have long-term implications. For all sellers and most buyers, engaging in a transaction is not only a critical business decision but it's also a major life decision.

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, independent broker-dealers, 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 400 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 over 20 professionals with 400 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 **700** engagements in the last several years, supporting firms managing **\$100MM** 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:

- *The Heart of the Deal: Understanding and Overcoming the Emotional Barriers of Selling Your RIA*
- *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.

Capital Group's commitment to the RIA industry



Business management

We recognize the challenges facing RIAs. We stand ready to assist you with our wealth strategy solutions, benchmarking and elite engagement services.



Investment management

From due-diligence consultations to portfolio analysis to the latest market insights – we can equip you with information and solutions to help meet your clients' financial goals.



Client communications

Leverage our proprietary research on clients' attitudes and preferences. We have insights, tools and specialists to help improve your client relationships.



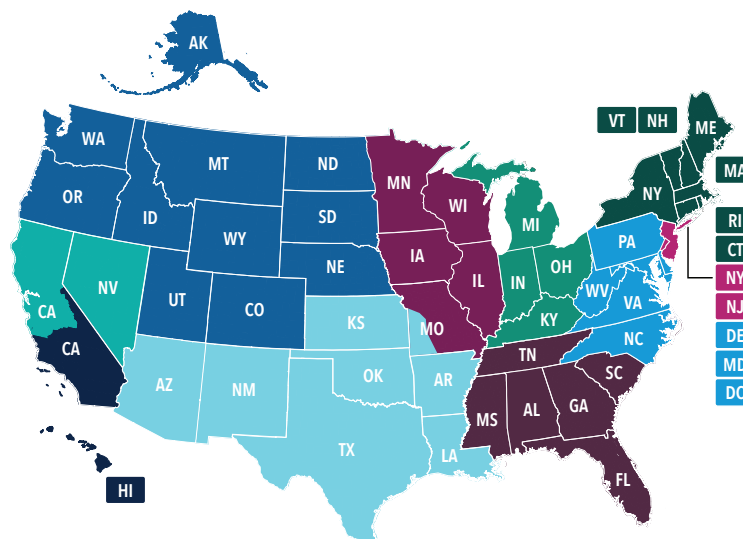
An online community exclusively for RIAs – RIAInsider.com

Enjoy curated insights and a community of peers and thought leaders. Access specialized tools relevant to RIAs, including advisor management platform Truelytics. And boost your brand with Marketing Lab, Capital Group's client-ready publishing tool.

A dedicated RIA team to collaborate with your practice

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